



**Russel Metals**

**INFORMATION PACKAGE**

**FOR**

**INVESTOR CONFERENCE CALL**

**NOVEMBER 5, 2014**



**INFORMATION PACKAGE FOR  
INVESTOR CONFERENCE CALL  
November 5, 2014**

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## CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Certain statements made on this conference call constitute forward-looking statements or information within the meaning of applicable securities laws, including statements as to our outlook, future events or our future performance. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by us, inherently involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Our actual results could differ materially from those anticipated in our forward-looking statements including as a result of the risk factors described below, in our MD&A and in our Annual Information Form.

While we believe that the expectations reflected in our forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct, and our forward-looking statements included in this call should not be unduly relied upon. These statements speak only as of the date of this call and, except as required by law, we do not assume any obligation to update our forward-looking statements.

**Risk Factors** - Such risks and uncertainties include, but are not limited to: the current economic climate; volatility in metal prices; volatility in oil and natural gas prices; cyclical nature of the metals industry and the industries that purchase our products; lack of credit availability that may limit the ability of our customers to obtain credit or expand their businesses; significant competition that could reduce our market share; any interruption in sources of metals supply; the integration of future acquisitions, including successfully adapting to a public company control environment and retaining key acquisition management personnel; failure to renegotiate any of our collective agreements and work stoppages; disruption in our customer or suppliers' operations due to labour disruptions or the existence of events or circumstances that cause a force majeure; environmental liabilities; environmental concerns or changes in government regulations in general, and those related to oil sands production, shale fracking or oil distribution in particular; changes in government regulations relating to workplace safety and worker health; currency exchange risk, particularly between the Canadian and U.S. dollar; the failure of our key computer-based systems, including our enterprise resource and planning systems; the failure to implement new technologies; the loss of key individuals; the inability to access affordable financing, capital or insurance; interest rate risk; dilution; and change of control.

# NOTES

In this Information Package we use certain financial measures that do not comply with Canadian generally accepted accounting principles (GAAP) or have standardized meanings, and thus, may not be comparable to similar measures presented by other issuers, for example EBIT and EBITDA and Other Information in the Financial Summary. Management believes that EBIT and EBITDA may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. EBIT and EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with Canadian GAAP. EBIT, EBITDA and a number of the ratios provided under Other Information are used by debt and equity analysts to compare our performance against other public companies.

## Definitions

**Adjusted EBIT and EBITDA** – EBIT and EBITDA adjusted to exclude the 2013 asset impairment, 2010 inventory reversal of \$1.9 million and plant closure costs of \$2.6 million.

**Basic Earnings Per Common Share** - Earnings divided by Average common shares outstanding in period.

**Book Value Per Share** - Equity value divided by ending common shares outstanding.

**Debt as % of Capitalization** - Total interest bearing debt excluding cash divided by common shareholders' equity plus interest bearing debt excluding cash.

**Dividend Per Share** - The current quarterly dividend annualized.

**Dividend Yield** - The dividend per share divided by the period end common share price.

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

**EBIT** - Earnings from operations before deduction of interest and income taxes.

**EBITDA** - Earnings from operations before deduction of interest, income taxes, depreciation and amortization.

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

**Interest Bearing Debt to EBITDA** - Total interest bearing debt excluding cash on hand divided by EBITDA.

**Market Capitalization** - Outstanding common shares times market price of a common share at period end.

**Net Assets Employed** - Assets less liabilities excluding debt and cash.

**Return on Capital Employed** - EBIT for period annualized over net assets employed.



## COMMENTS RE MARKET CONDITIONS NOVEMBER 2014

1. Demand stable. Q3 2014 volumes up 6% over Q3 2013 and consistent with Q2 2014. Stronger than industry.
2. Metal service center selling prices up 8% Q3 2014 over Q3 2013. Price increases reversing in Q4 2014.
3. Drilling activity up in Western Canada and U.S. Uncertainty due to lower oil prices.
4. Steel Distributor volumes and selling prices up.



## HIGHLIGHTS

### 2014 THIRD QUARTER RESULTS

1. QTR-3 2014 - Earnings \$33 million, EPS \$0.54  
QTR-3 2013 - Earnings \$19 million, EPS \$0.31  
QTR-2 2014 - Earnings \$31 million, EPS \$0.50
2. Nine months September 30, 2014 - Earnings \$93 million, EPS \$1.51  
Nine months September 30, 2013 - Earnings \$61 million, EPS \$1.00
3. Strong Apex operating income resulted in an additional earnout accrual which reduced EPS \$0.06 in Q3 and \$0.09 year to date.
4. Free Cash Flow  
(cash from operations before working capital changes less capital expenditures)  
Nine months September 30, 2014 - \$96 million or \$1.57 per share  
Nine months September 30, 2013 - \$73 million or \$1.20 per share
5. Return on Equity – 13%
6. Cash and cash equivalents - \$28 million.

**Russel Metals Inc.**

**FINANCIAL HIGHLIGHTS**

	<-----9 Months----->		<-----Years ended----->			
	September 2014	September 2013	2013	2012	2011	2010
<b>OPERATING RESULTS (millions)</b>						
Revenues	\$2,856.1	\$2,376.7	\$3,187.8	\$3,000.1	\$2,693.3	\$2,178.0
Net earnings	92.5	60.5	83.3	97.9 <sup>(2)</sup>	118.3	57.3
EBIT	173.3	113.0	146.0	175.3 <sup>(2)</sup>	197.5	110.8
Adjusted EBIT (Note)	173.3	118.2	151.2 <sup>(1)</sup>	175.3 <sup>(2)</sup>	197.5	111.5 <sup>(1)</sup>
Adjusted EBIT as a % of revenue	6.1%	5.0%	4.7%	5.8%	7.3%	5.1%
Adjusted EBITDA (Note)	199.3	143.4	184.8 <sup>(1)</sup>	200.8	221.0	136.8 <sup>(1)</sup>
EBITDA as a % of revenue	7.0%	6.0%	5.8%	6.7%	8.2%	6.3%
Basic earnings per common share (\$)	\$1.51	\$1.00	\$1.37	\$1.63 <sup>(2)</sup>	\$1.97	\$0.96
<b>BALANCE SHEET INFORMATION (millions)</b>						
<b>Metals</b>						
Accounts receivable	\$621.1	\$460.1	\$455.9	\$455.6	\$381.7	\$300.5
Inventories	872.1	733.9	766.3	764.0	645.6	544.1
Prepaid expenses and other assets	9.4	8.3	5.9	7.1	4.3	2.9
Accounts payable and accruals	(489.6)	(359.4)	(383.7)	(381.5)	(343.6)	(259.8)
Net working capital - Metals	1,013.0	842.9	844.4	845.2	688.0	587.7
Fixed assets	244.5	225.6	228.4	225.3	184.1	187.2
Goodwill, intangibles and other	219.6	193.4	218.7	192.1	24.7	24.9
Net assets employed in metals operations	1,477.1	1,261.9	1,291.5	1,262.6	896.8	799.8
Other operating assets	11.2	10.5	10.1	16.0	17.1	17.6
Net income tax assets (liabilities)	(23.4)	(7.1)	(11.3)	(8.2)	(12.0)	(11.5)
Pension and benefit assets (liabilities)	(31.4)	(30.3)	(23.1)	(38.7)	(33.3)	(17.2)
Other corporate assets and liabilities	(60.1)	(39.4)	(42.6)	(47.3)	(22.1)	(11.9)
Total net assets employed	\$1,373.4	\$1,195.6	\$1,224.6	\$1,184.4	\$846.5	\$776.8
<b>CAPITALIZATION (millions)</b>						
Bank indebtedness, net of (cash)	(\$27.6)	(\$124.6)	(\$116.2)	(\$100.8)	(\$270.7)	(\$323.7)
Long-term debt (incl. current portion)	460.2	457.6	458.4	455.8	297.8	319.7
Total interest bearing debt, net of (cash)	432.6	333.0	342.2	355.0	27.1	(4.0)
Market capitalization	2,130.6	1,662.3	1,913.1	1,662.2	1,346.8	1,373.5
Total firm value	\$2,563.2	\$1,995.3	\$2,255.3	\$2,017.2	\$1,373.9	\$1,369.5
<b>OTHER INFORMATION (Notes)</b>						
Shareholders' equity (millions)	\$940.8	\$862.6	\$882.4	\$829.4	\$819.4	\$772.8
Book value per share (\$)	\$15.26	\$14.17	\$14.48	\$13.78	\$13.64	\$12.88
Free cash flow (millions)	\$96.1	\$72.8	\$91.9	\$99.4	\$129.5	\$85.7
Capital expenditures (millions)	\$37.3	\$19.6	\$27.2	\$33.7	\$18.1	\$11.6
Depreciation and amortization (millions)	\$26.0	\$25.2	\$33.6	\$25.5	\$23.5	\$25.3
Earnings multiple	17.2	20.5	22.9	16.9	11.4	23.9
Firm value as a multiple of EBIT	11.1	12.7	14.9	11.5	7.0	12.3 <sup>(1)</sup>
Firm value as a multiple of EBITDA	9.6	10.4	12.2	10.0	6.2	10.0 <sup>(1)</sup>
Interest bearing debt/EBITDA	1.7	2.4	2.5	2.3	1.3	2.3 <sup>(1)</sup>
Debt as a % of capitalization	33%	35%	34%	35%	27%	29%
Market capitalization as a % of book value	226%	193%	217%	200%	164%	178%
Return on equity	13%	9%	9%	12%	14%	7%
Return on capital employed	17%	13%	12%	15%	23%	14% <sup>(1)</sup>
<b>COMMON SHARE INFORMATION</b>						
Ending outstanding common shares	61,632,896	60,890,252	60,946,393	60,204,636	60,071,698	59,978,173
Average outstanding common shares	61,210,064	60,737,101	60,780,520	60,128,534	60,043,222	59,717,629
Dividend yield	4.4%	5.1%	4.5%	5.1%	5.4%	4.8%
Dividend per share	\$1.52	\$1.40	\$1.40	\$1.40	\$1.20	\$1.10
Share price - High	\$37.63	\$29.59	\$31.62	\$28.97	\$27.75	\$23.94
Share price - Low	\$27.78	\$23.23	\$23.23	\$22.52	\$18.90	\$16.25
Share price - Ending	\$34.57	\$27.30	\$31.39	\$27.61	\$22.42	\$22.90

Notes:

(1) Adjusted EBIT excludes the asset impairment charge in 2013 of \$5.2 million and the inventory reversal of \$1.9 million and plant closure costs of \$2.6 million in 2010.

(2) Restated due to adoption of IAS 19 (Amended 2011)

(3) This chart includes certain financial measures that are not prescribed by Canadian generally accepted accounting principles (GAAP) or have standardized meanings, and thus, may not be comparable to similar measures presented by other companies, for example EBIT and EBITDA and Other Information. Management believes that EBIT and EBITDA may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. EBIT and EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data. EBIT, EBITDA and a number of the ratios provided under Other Information are used by debt and equity analysts to compare our performance against other public companies. This terminology is defined on the inside back cover. See financial statements for GAAP earnings.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

<i>(in millions of Canadian dollars, except per share data)</i>	Quarters ended		Nine months ended	
	2014	September 30 2013	2014	September 30 2013
<b>Revenues</b>	\$ 1,038.8	\$ 796.8	\$ 2,856.1	\$ 2,376.7
Cost of materials	854.9	656.5	2,327.7	1,955.2
Employee expenses	73.3	63.2	215.2	184.0
Other operating expenses	47.2	40.6	139.9	119.3
Asset impairment	-	5.2	-	5.2
<b>Earnings before interest, finance expense and provision for income taxes</b>	<b>63.4</b>	31.3	<b>173.3</b>	113.0
Interest expense	9.3	9.1	27.4	27.1
Interest income	-	(0.3)	-	(0.4)
Other finance expense (income)	5.5	(2.8)	10.3	0.3
<b>Earnings before provision for income taxes</b>	<b>48.6</b>	25.3	<b>135.6</b>	86.0
Provision for income taxes	15.6	6.4	43.1	25.5
<b>Net earnings for the period</b>	<b>\$ 33.0</b>	\$ 18.9	<b>\$ 92.5</b>	\$ 60.5
<b>Net earnings attributed to:</b>				
Equity holders	\$ 32.9	\$ 18.9	\$ 92.4	\$ 60.4
Non-controlling interest	0.1	-	0.1	0.1
	<b>\$ 33.0</b>	\$ 18.9	<b>\$ 92.5</b>	\$ 60.5
<b>Basic earnings per common share</b>	<b>\$ 0.54</b>	\$ 0.31	<b>\$ 1.51</b>	\$ 1.00
<b>Diluted earnings per common share</b>	<b>\$ 0.52</b>	\$ 0.31	<b>\$ 1.46</b>	\$ 0.99

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended		Nine months ended	
	2014	September 30 2013	2014	September 30 2013
<b>Net earnings for the period</b>	<b>\$ 33.0</b>	\$ 18.9	<b>\$ 92.5</b>	\$ 60.5
Other comprehensive income (loss), net of tax				
<b>Items that may be reclassified to earnings</b>				
Unrealized foreign exchange gains (losses) on translation foreign operations	19.4	(7.9)	20.4	11.1
<b>Items that may not be reclassified to earnings</b>				
Actuarial (losses) gains on pension and similar obligations, net of taxes	(3.8)	1.4	(6.5)	6.8
Other comprehensive income (loss)	15.6	(6.5)	13.9	17.9
<b>Total comprehensive income</b>	<b>\$ 48.6</b>	\$ 12.4	<b>\$ 106.4</b>	\$ 78.4

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(UNAUDITED)*

<i>(in millions of Canadian dollars)</i>	<b>September 30 2014</b>	December 31 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 27.6	\$ 116.2
Accounts receivable	622.7	456.2
Inventories	872.1	766.3
Prepaid expenses	9.4	5.9
Income taxes receivable	2.7	6.3
Assets held for sale	8.2	-
	<b>1,542.7</b>	1,350.9
<b>Property, Plant and Equipment</b>	<b>254.6</b>	238.9
<b>Deferred Income Tax Assets</b>	<b>1.3</b>	3.0
<b>Pension and Benefits</b>	<b>0.1</b>	0.2
<b>Financial and Other Assets</b>	<b>5.9</b>	6.1
<b>Goodwill and Intangibles</b>	<b>215.2</b>	218.7
	<b>\$ 2,019.8</b>	\$ 1,817.8
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 513.8	\$ 384.1
Income taxes payable	10.7	0.2
Current portion long-term debt	0.5	1.2
Liabilities associated with assets held for sale	3.8	-
	<b>528.8</b>	385.5
<b>Long-Term Debt</b>	<b>459.7</b>	457.2
<b>Pensions and Benefits</b>	<b>31.4</b>	23.3
<b>Deferred Income Tax Liabilities</b>	<b>16.6</b>	20.5
<b>Provisions and Other Non-Current Liabilities</b>	<b>42.5</b>	48.9
	<b>1,079.0</b>	935.4
<b>Shareholders' Equity</b>		
Common shares	530.1	509.5
Retained earnings	334.4	314.6
Contributed surplus	13.8	16.2
Accumulated other comprehensive income	32.4	12.0
Equity component of convertible debentures	28.7	28.7
<b>Total Shareholders' Equity Attributable to Equity Holders</b>	<b>939.4</b>	881.0
Non-controlling interest	1.4	1.4
<b>Total Shareholders' Equity</b>	<b>940.8</b>	882.4
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,019.8</b>	\$ 1,817.8

## CONDENSED CONSOLIDATED STATEMENTS OF CASHFLOW (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended		Nine months ended	
	2014	September 30 2013	2014	September 30 2013
<b>Operating activities</b>				
Net earnings for the period	\$ 33.0	\$ 18.9	\$ 92.5	\$ 60.5
Depreciation and amortization	8.8	8.8	26.0	25.2
Deferred income taxes	0.3	(3.5)	(0.2)	(4.1)
(Gain) loss on sale of property, plant and equipment	(0.3)	0.1	0.7	(0.5)
Stock-based compensation	0.4	0.7	1.2	1.9
Difference between pension expense and amount funded	(0.3)	0.2	(0.7)	0.8
Asset impairment	-	5.2	-	5.2
Debt accretion, amortization and other	1.2	1.0	3.6	3.1
Change in fair value of contingent consideration	5.5	(2.8)	10.3	0.3
<b>Cash from operating activities before non-cash working capital</b>	<b>48.6</b>	<b>28.6</b>	<b>133.4</b>	<b>92.4</b>
<b>Changes in non-cash working capital items</b>				
Accounts receivable	(108.5)	(42.4)	(163.7)	1.6
Inventories	(1.4)	35.7	(95.8)	41.7
Accounts payable and accrued liabilities	59.2	(0.8)	113.9	(35.0)
Income tax receivable/payable	8.1	(2.5)	14.8	-
Other	0.8	1.2	(3.6)	(1.2)
<b>Change in non-cash working capital</b>	<b>(41.8)</b>	<b>(8.8)</b>	<b>(134.4)</b>	<b>7.1</b>
<b>Cash from (used in) operating activities</b>	<b>6.8</b>	<b>19.8</b>	<b>(1.0)</b>	<b>99.5</b>
<b>Financing activities</b>				
Decrease in bank borrowings	-	(6.7)	-	(0.3)
Issue of common shares	5.6	0.3	16.9	16.8
Dividends on common shares	(23.3)	(21.3)	(66.1)	(63.9)
Issuance of long-term debt	-	0.8	-	0.8
Repayment of long-term debt	(0.4)	(0.8)	(0.9)	(2.0)
Deferred financing	-	(1.3)	-	(1.3)
<b>Cash used in financing activities</b>	<b>(18.1)</b>	<b>(29.0)</b>	<b>(50.1)</b>	<b>(49.9)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(21.7)	(5.6)	(37.2)	(19.6)
Proceeds on sale of property, plant and equipment	0.5	-	1.1	2.3
Payment of contingent consideration	-	-	(4.1)	-
Purchase of business	(0.7)	(10.5)	(0.7)	(10.5)
<b>Cash used in investing activities</b>	<b>(21.9)</b>	<b>(16.1)</b>	<b>(40.9)</b>	<b>(27.8)</b>
<b>Effect of exchange rates</b>	<b>8.6</b>	<b>3.8</b>	<b>3.4</b>	<b>2.2</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(24.6)</b>	<b>(21.5)</b>	<b>(88.6)</b>	<b>24.0</b>
Cash and cash equivalents, beginning of the period	52.2	160.6	116.2	115.1
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 27.6</b>	<b>\$ 139.1</b>	<b>\$ 27.6</b>	<b>\$ 139.1</b>
<b>Supplemental cash flow information:</b>				
Income taxes paid	\$ 6.8	\$ 12.4	\$ 27.8	\$ 30.4
Interest paid (net)	\$ 8.3	\$ 7.4	\$ 26.3	\$ 25.9

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(UNAUDITED)*

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Equity Component of Convertible Debentures	Non- Controlling Interest	Total
<b>Balance, January 1, 2014</b>	\$ 509.5	\$ 314.6	\$ 16.2	\$ 12.0	\$ 28.7	\$ 1.4	\$ 882.4
Payment of dividends	-	(66.1)	-	-	-	-	(66.1)
Net earnings for the period	-	92.4	-	-	-	0.1	92.5
Other comprehensive income for the period	-	-	-	13.9	-	-	13.9
Recognition of stock-based compensation	-	-	1.2	-	-	-	1.2
Stock options exercised	20.5	-	(3.6)	-	-	-	16.9
Conversion of debenture	0.1	-	-	-	-	-	0.1
Transfer of net actuarial losses on defined benefit plans	-	(6.5)	-	6.5	-	-	-
Change in non-controlling interest	-	-	-	-	-	(0.1)	(0.1)
<b>Balance, September 30, 2014</b>	\$ 530.1	\$ 334.4	\$ 13.8	\$ 32.4	\$ 28.7	\$ 1.4	\$ 940.8

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Equity Component of Convertible Debentures	Non- Controlling Interest	Total
<b>Balance, January 1, 2013</b>	\$ 487.9	\$ 305.3	\$ 17.3	\$ (11.2)	\$ 28.7	\$ 1.4	\$ 829.4
Payment of dividends	-	(63.9)	-	-	-	-	(63.9)
Net earnings for the period	-	60.4	-	-	-	0.1	60.5
Other comprehensive income for the period	-	-	-	17.9	-	-	17.9
Recognition of stock-based compensation	-	-	1.9	-	-	-	1.9
Stock options exercised	20.1	-	(3.3)	-	-	-	16.8
Conversion of debentures	0.1	-	-	-	-	-	0.1
Transfer of net actuarial gains on defined benefit plans	-	6.8	-	(6.8)	-	-	-
Change in non-controlling interest	-	-	-	-	-	(0.1)	(0.1)
<b>Balance, September 30, 2013</b>	\$ 508.1	\$ 308.6	\$ 15.9	\$ (0.1)	\$ 28.7	\$ 1.4	\$ 862.6

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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The accompanying condensed consolidated financial statements, Management's Discussion and Analysis of Financial Condition have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition within reasonable limits of materiality.

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 International Financial Reporting Standards. 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 condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition. The Audit Committee reports its findings to the Board of Directors for consideration in approving the condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition for presentation to the shareholders.

November 4, 2014

(signed) B. R. Hedges  
President and  
Chief Executive Officer

(signed) M. E. Britton  
Executive Vice President and  
Chief Financial Officer

# **RUSSEL METALS INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

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This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the condensed consolidated financial statements for the nine months ended September 30, 2014 including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2013, including the notes thereto. In the opinion of management, such condensed 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. All dollar references in this report are in Canadian dollars unless otherwise stated.

Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at [www.sedar.com](http://www.sedar.com) or on our website at [www.russelmetals.com](http://www.russelmetals.com).

Unless otherwise stated, the discussion and analysis contained in this MD&A are as of November 4, 2014.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements or information within the meaning of applicable securities laws, including statements as to our future capital expenditures, our outlook, the availability of future financing and our ability to pay dividends. Forward-looking statements relate to future events or our future performance. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by us, inherently involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, including the factors described below.

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, including the risks and uncertainties listed below, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: the current economic climate; volatility in metal prices; volatility in oil and natural gas prices; cyclicity of the metals industry and the industries that purchase our products; lack of credit availability that may limit the ability of our customers to obtain credit or expand their businesses; significant competition that could reduce our market share; the interruption in sources of metals supply; the integration of future acquisitions, including successfully adapting to a public company control environment and retaining key acquisition management personnel; failure to renegotiate any of our collective agreements and work stoppages; disruption in our customer or suppliers' operations due to labour disruptions or the existence of events or circumstances that cause a force majeure; environmental liabilities; environmental concerns or changes in government regulations in general, and those related to oil sands production, shale fracking or oil distribution in particular; changes in government regulations relating to workplace safety and worker health; currency exchange risk, particularly between the Canadian and U.S. dollar; the failure of our key computer-based systems, including our enterprise resource and planning systems; the failure to implement new technologies; the loss of key individuals; the inability to access affordable financing, capital or insurance; interest rate risk; dilution; and change of control.

While we believe that the expectations reflected in our forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct, and our forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A and, except as required by law, we do not assume any obligation to update our forward-looking statements. Our actual results could differ materially from those anticipated in our forward-looking statements including as a result of the risk factors described above and under the heading "Risk" later in this MD&A, and in our filings with securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Specific reference is made to our most recent Annual Information Form for a further discussion of some of the factors underlying our forward-looking statements.

## **NON-GAAP MEASURES**

This MD&A includes a number of measures that are not prescribed by Canadian 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.

## **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 products; and steel distributors.

Our basic earnings per share was \$0.54 for the quarter ended September 30, 2014 compared to \$0.31 for the same quarter of 2013.

Our earnings increase was driven by an increase in revenues in our metals service centers segment of 14%, in our energy products segment of 41% and in our steel distributors segment of 65% in the third quarter of 2014 compared to the third quarter of 2013. Higher volumes in all segments were the largest contributor; however, stronger margins were achieved in both the energy products and steel distributor segments resulting in a 74% increase in operating profits.

For the nine months ended September 30, 2014, our basic earnings per share was \$1.51 compared to \$1.00 for the same period in 2013. This increase was a result of higher volumes and metal prices compared to 2013.

## RESULTS OF OPERATIONS

The following table provides operating profits before interest, other finance income or expense, asset impairment and income 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 table shows the segments as they are reported to management and are consistent with the segment reporting in the condensed consolidated financial statements.

	Quarters Ended September 30			Nine Months Ended September 30		
	2014	2013	change as a % of 2013	2014	2013	change as a % of 2013
<i>(millions, except percentages)</i>						
<b>Segment Revenues</b>						
Metals service centers	\$ 416.9	\$ 366.9	14%	\$ 1,227.8	\$ 1,103.7	11%
Energy products	497.2	353.4	41%	1,308.0	1,055.5	24%
Steel distributors	122.5	74.1	65%	316.1	212.8	49%
Other	2.2	2.4		4.2	4.7	
	<b>\$ 1,038.8</b>	<b>\$ 796.8</b>	<b>30%</b>	<b>\$ 2,856.1</b>	<b>\$ 2,376.7</b>	<b>20%</b>
<b>Segment Operating Profits</b>						
Metals service centers	\$ 22.1	\$ 19.8	12%	\$ 68.7	\$ 58.3	18%
Energy products	32.7	16.3	101%	92.5	57.8	60%
Steel distributors	11.8	4.9	141%	26.7	14.7	82%
Corporate expenses	(4.9)	(5.2)	6%	(15.3)	(12.3)	(24%)
Other	1.7	0.7		0.7	(0.3)	
Operating profits	<b>\$ 63.4</b>	<b>\$ 36.5</b>	<b>74%</b>	<b>\$ 173.3</b>	<b>\$ 118.2</b>	<b>47%</b>
<b>Segment Gross Margin as a % of Revenues</b>						
Metals service centers	20.2%	20.7%		20.9%	20.6%	
Energy products	15.9%	15.0%		17.0%	15.4%	
Steel distributors	15.0%	11.9%		14.1%	12.5%	
Total operations	17.7%	17.6%		18.5%	17.7%	
<b>Segment Operating Profits as a % of Revenues</b>						
Metals service centers	5.3%	5.4%		5.6%	5.3%	
Energy products	6.6%	4.6%		7.1%	5.5%	
Steel distributors	9.6%	6.7%		8.4%	7.0%	
Total operations	6.1%	4.6%		6.1%	5.0%	

## **METALS SERVICE CENTERS**

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

We provide processing and distribution services to a broad base of approximately 39,000 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, Alberta Industrial Metals, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel, Siemens Laserworks and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

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

The following is a general discussion of the significant factors affecting the results of our metals service centers. More specific information on how these factors impacted the third quarter of 2014 and 2013 is found in the sections that follow.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices are influenced by overall demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Steel prices have increased during 2014 and plateaued in the 2014 third quarter. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affects product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America.

Demand for our product is significantly affected by economic cycles. Revenues and operating profits fluctuate with the level of general business activity in the markets served. We are most impacted by the manufacturing, resource and construction segments of the Canadian economy.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and diverse customer base of approximately 22,000 Canadian customers mean that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 17,000 customers, are impacted by the local economic conditions in the regions that they serve.

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. Movement in the Canadian dollar has a short-term impact on inventory prices.

The decline of the Canadian dollar during 2014 versus the same period in 2013 increased revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for the nine months ended September 30, 2014 were converted at \$1.0944 per US\$1 compared to \$1.0236 per US\$1 for the same period of 2013. The exchange rate at September 30, 2014 used to translate the balance sheet was \$1.1208 per US\$1 versus \$1.0636 per US\$1 at December 31, 2013.

### **c) *Metals service centers segment results -- Three Months Ended September 30, 2014 Compared to September 30, 2013***

Revenues for the three months ended September 30, 2014, increased 14% to \$417 million compared to the same period in 2013. Tons shipped in the metals service centers segment in the third quarter of 2014 were approximately 6% higher than the third quarter of 2013 and consistent with the second quarter of 2014. The average selling price of metal for the three months ended September 30, 2014 was approximately 8% higher than the average selling price for the three months ended September 30, 2013 and 1% higher than the second quarter of 2014. Consistent with the 2014 second quarter, the increase in tons shipped was primarily generated by higher volumes in Alberta and at our U.S. operations. In the 2014 third quarter higher volumes compared to the 2013 third quarter were also experienced in Quebec. In both our results and the Metals Service Center Institute (MSCI) industry statistics the U.S. market was stronger than the Canadian market. Based on the MSCI data, our growth exceeded the industry as we continue to capture market share.

Gross margin dollars for the third quarter of 2014 were \$8 million higher than the third quarter of 2013 due to both stronger volumes and higher selling prices. Gross margin as a percentage of revenues decreased to 20.2% for the three months ended September 30, 2014 compared to 20.7% in the third quarter of 2013 and decreased from 20.9% in the 2014 second quarter. Rising metal prices have been offset by competitive pressures resulting in lower gross margins.

Operating expenses in the third quarter of 2014 were up by \$6 million or 11% higher than in the third quarter of 2013, mainly related to the increase in activity, the increase in foreign exchange on U.S. metals service centers and variable compensation.

Metals service centers operating profit for the three months ended September 30, 2014 of \$22 million compares to \$20 million for the same period in 2013 and reflects the improved market conditions.

**d) *Metals service centers segment results -- Nine Months Ended September 30, 2014 Compared to September 30, 2013***

Revenues for the nine months ended September 30, 2014 were \$1.2 billion compared to \$1.1 billion for the same period in 2013. Tons shipped in the metals service centers segment in the nine months ended September 30, 2014 were approximately 6% higher than the same period in 2013. The average selling price of metal for the nine months ended September 30, 2014 was approximately 6% higher than the selling price for the nine months ended September 30, 2013.

Gross margin as a percentage of revenues was 20.9% for the nine months ended September 30, 2014 compared to 20.6% for the same period in 2013 mainly due to rising metal prices in the first half of 2014.

Operating expenses for the nine months ended September 30, 2014 increased 11% compared to the same period in 2013, mainly related to increased activity, higher variable compensation, the increase in foreign exchange on U.S. metals service centers and the ERP system analysis carried out during 2014.

Metals service centers operating profit for the nine months ended September 30, 2014 increased to \$69 million compared to \$58 million for the same period in 2013 a result of higher metal prices and volumes.

## **ENERGY PRODUCTS**

**a) *Description of operations***

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. A significant portion of our business units are clustered in Alberta in Canada, and in the U.S., in Colorado and Texas. A large portion of our inventories are located in third party yards ready for distribution to customers throughout North America. In addition, we operate from 59 Canadian and 18 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores which form the Apex Distribution network. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valve and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Remington, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

**b) *Factors affecting results***

The following is a general discussion of the factors affecting the operations in our energy products segment. More specific information on how these factors impacted the third quarter of 2014 and 2013 is found in the sections that follow.

The price of natural gas and oil can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. The prices of oil and gas strengthened in 2014 resulting in stronger 2014 rig activity in the first nine months. Oil and gas prices fell at the end of the 2014 third quarter leading to uncertainty entering into the 2014 fourth quarter and first quarter of 2015. Activity in Western Canada is also dependent on Canadian oil prices which are below U.S. oil prices due to additional refining requirements and a shortage of pipeline capacity. Fracking technology, applied to horizontal drilling, enables producers to economically drill in the oil and gas-rich shale fields and remains the focus of our OCTG sales efforts.

Prices for pipe products are influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and reduce imports of these products. The U.S. government has reviewed pipe from a number of countries and in July 2014 announced additional duties. Prices of valves and fittings are not as sensitive to steel price fluctuations because they are highly engineered value-added products.

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

Drilling related to oil and natural gas in Western Canada historically peaks during the period from October to March.

**c) *Energy products segment results -- Three Months Ended September 30, 2014 Compared to September 30, 2013***

Revenues in our energy products segment increased 41% to \$497 million for the third quarter of 2014 compared to the same period in 2013 due to increased activity in the sector. Revenues from our Canadian operations servicing oil and gas drilling activity increased 74% compared to the third quarter of 2013 due to increased activity. Our other operations in this segment were also up a combined 23% on a same store basis.

Gross margin as a percentage of revenues for the three months ended September 30, 2014 was 15.9% compared to 15.0% for the same period in 2013 due to higher margins at most of our energy products operations partially offset by increased inventory obsolescence provisions of \$5 million primarily at our U.S. line pipe operation. Margins improved due to increased revenues at our operations selling valves and fittings which have higher margins than our pipe operations.

Operating expenses increased 26% compared to the third quarter of 2013 due to increased activity, higher variable compensation, the increase in foreign exchange on our U.S. operations and the addition of Apex Monarch in December 2013. Operating expense as a percentage of revenue improved to 9.3% from 10.3%.

This segment generated an operating profit of \$33 million for the three months ended September 30, 2014, double the \$16 million reported for the same period in 2013. Operating profits were up due to the significant increase in activity in energy resulting in increased revenues. Strong results at our newest acquisition, Apex Monarch, and improvements at the U.S. operation, Apex Remington, contributed significantly to this increase.

**d) *Energy products segment results -- Nine Months Ended September 30, 2014 Compared to September 30, 2013***

Revenues increased 24% to \$1.3 billion for the nine months ended September 30, 2014 compared to the same period in 2013. Revenues from our Canadian operations servicing oil and gas drilling activity increased 60% compared to 2013. Our other operations were also up a combined 8% on a same store basis.

Gross margin as a percentage of revenues for the nine months ended September 30, 2014 was 17.0% compared to 15.4% for the same period in 2013 due to product mix and the impact of the increased revenues in the Apex Distribution group which have higher margins.

Operating expenses increased 26% compared to 2013 due to increased activity, higher variable compensation, the increase in foreign exchange on our U.S. operations and the addition of Apex Monarch.

Operating profit was \$93 million for the nine months ended September 30, 2014, a 60% increase compared to \$58 million for the nine months ended September 30, 2013.

**STEEL DISTRIBUTORS**

**a) *Description of operations***

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation has a cut-to-length facility in Houston, Texas where it processes coil for its customers. Our steel distributors source their steel both domestically and off shore.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America. Our steel distributors operate under the names 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 third quarter of 2014 and 2013 is found in the sections that follow.

Steel prices are influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade actions currently exist on plate and pipe from specified countries. Steel imports are affected both by mill capacity by product line in North America, as well as international supply and demand. In addition, these factors significantly affect product availability in North America. The increase in economic activity in the metals service center sector has led to increased activity at steel distributors.

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

Our Canadian operations source product outside of Canada that is priced in U.S. dollars and is therefore impacted by movement in the Canadian dollar.

**c) Steel distributors segment results -- Three Months Ended September 30, 2014 Compared to September 30, 2013**

Steel distributors, revenues increased 65% to \$123 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 due to higher volumes and prices. The increase related to higher steel prices and more competitively priced off shore product offerings.

Gross margin as a percentage of revenues was 15.0% for the three months ended September 30, 2014 compared to 11.9% for the three months ended September 30, 2013.

Operating expenses were \$7 million in the third quarter of 2014 compared to \$4 million in the 2013 third quarter due to higher variable compensation and the increase in foreign exchange on U.S. operations.

Operating profit for the three months ended September 30, 2014 was \$12 million, more than double the \$5 million for the three months ended September 30, 2013, reflecting higher volumes and selling prices.

**d) Steel distributors segment results -- Nine Months Ended September 30, 2014 Compared to September 30, 2013**

Revenues for the nine months ended September 30, 2014 increased 49% to \$316 million compared to the nine months ended September 30, 2013 due to stronger demand in both Canada and the U.S.

Gross margin as a percentage of revenues increased to 14.1% for the nine months ended September 30, 2014 compared to 12.5% for the same period in 2013.

Operating expenses were \$18 million for the nine months ended September 30, 2014 compared to \$12 million for the same period in 2013 mainly related to higher variable compensation and the increase in foreign exchange on U.S. operations.

Operating profit for the nine months ended September 30, 2014 was \$27 million compared to \$15 million for the nine months ended September 30, 2013 as a result of increased demand and selling prices.

### ***Corporate Expenses -- Three and Nine Months Ended September 30, 2014 Compared to September 30, 2013***

Corporate expenses were \$5 million for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014 corporate expenses of \$15 million were higher than the \$12 million for the nine months ended September 30, 2013. Corporate expenses for 2014 were higher mainly due to higher variable compensation related to stronger earnings and an increase in stock-based compensation as a result of share price increases.

### ***Consolidated Results -- Three and Nine Months Ended September 30, 2014 Compared to September 30, 2013***

Operating profits were \$63 million for the three months ended September 30, 2014, 74% higher than the \$37 million for the three months ended September 30, 2013. Volume increases in all three segments was the most significant factor. Operating profits for the nine months ended September 30, 2014 were \$173 million compared to \$118 million for the same period in 2013 due to volume and price increases.

### **ASSET IMPAIRMENT**

During the 2013 third quarter we recorded an asset impairment charge of \$5 million related to our bulk handling terminal in Thunder Bay, Ontario. During 2014 no further impairments or reversals of the previous impairment were recorded. During the 2014 third quarter we received a positive outcome to our property tax appeal resulting in additional operating profit of \$1 million.

### **INTEREST EXPENSE AND INCOME**

Net interest expense was \$9 million for the three months ended September 30, 2014 and 2013. Net interest expense was \$27 million for the nine months ended September 30, 2014 and 2013.

### **OTHER FINANCE EXPENSE**

Other finance expense was \$5 million for the three months ended September 30, 2014 and \$10 million for the nine months ended September 30, 2014. Other finance expense relates to the fair value of the contingent consideration associated with the Apex Distribution and Apex Monarch acquisitions. The fair value adjustment related to imputed interest on the expected future contingent consideration payments of \$1 million (2013: \$1 million) and an increase of \$4 million (2013: (\$4 million)) in the estimated future payments related to stronger results recorded in the 2014 third quarter. The change in the total expected future payments related to the Apex Distribution and Apex Monarch acquisitions was due to the strong operating results of those operations in 2014.

### **INCOME TAXES**

We recorded a provision for income taxes of \$16 million for the third quarter of 2014. Our effective income tax rate for the three months ended September 30, 2014 and for the nine months ended September 30, 2014 was 32%. Our effective income tax rate for the three months ended September 30, 2013 was 25% and for the nine months ended September 30, 2013 was 30%. The change in fair value of the contingent consideration was not tax effected which resulted in a change in our effective tax rate in 2014 compared to 2013.

### **NET EARNINGS**

Net earnings for the third quarter of 2014 were \$33 million compared to \$19 million in the third quarter of 2013. Basic earnings per share for the third quarter of 2014 was \$0.54 per share compared to \$0.31 per share for the third quarter of 2013. Basic earnings per share for the nine months ended September 30, 2014 was \$1.51 per share compared to \$1.00 for the same period last year.

### **SHARES OUTSTANDING AND DIVIDENDS**

The weighted average number of common shares outstanding for third quarter of 2014 was 61,497,827 compared to 60,872,628 for the third quarter of 2013. The weighted average number of common shares outstanding for the nine months ended September 30, 2014 was 61,210,064 compared to 60,737,101 for the nine months ended September 30, 2013. As at September 30, 2014 and November 4, 2014, we had 61,632,896 common shares outstanding. The number of common shares outstanding increased as a result of options exercised in 2013 and 2014. Our options outstanding have declined from 3,055,428 at January 1, 2013 to 2,043,942 at September 30, 2014.

We paid common share dividends of \$23 million or \$0.38 per share in the third quarter of 2014 as compared to \$21 million or \$0.35 per share in the third quarter of 2013. On November 4, 2014 the Board of Directors approved a quarterly dividend for the 2014 fourth quarter of \$0.38.

We have \$175 million of 7.75% Convertible Unsecured Subordinated Debentures outstanding which mature on September 30, 2016. Each debenture is convertible into common shares at the option of the holder at any time on or prior to the business day immediately preceding (i) the maturity date, or (ii) the date specified for redemption of the Convertible Debentures, at a conversion price of \$25.75 per share being a conversion rate of 38.8350 common shares per \$1,000 principal amount of Convertible Debentures.

We have \$300 million of 6.0% Senior Notes due April 19, 2022. The indenture for our Senior Notes treats quarterly dividends above \$0.35 per share as restricted payments. We currently have a basket of approximately \$214 million or \$3.47 per share available for restricted payments, which is adjusted for 50% of our net earnings or losses on a quarterly basis. This basket is available for increased dividend payments.

Under our syndicated bank facility, the payment of dividends is subject to excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay a dividend as our borrowing base, which is based on percentages of accounts receivable and inventories, has traditionally been in excess of borrowings plus four times the current dividend. In addition, we believe we would be able to finance our short-term cash requirements with alternate financing structures and pay the dividend.

## EBITDA

The following table shows the reconciliation of net earnings to adjusted EBITDA:

<i>(millions)</i>	Quarters Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net earnings for the period	\$ 33.0	\$ 18.9	\$ 92.5	\$ 60.5
Provision for income taxes	15.6	6.4	43.1	25.5
Interest and finance expense, net	14.7	6.0	37.7	27.0
Asset impairment charges	-	5.2	-	5.2
Adjusted earnings before interest, finance and income taxes	63.3	36.5	173.3	118.2
Depreciation and amortization	8.8	8.8	26.0	25.2
Adjusted earnings before interest, finance, income taxes, depreciation and amortization (adjusted EBITDA)	\$ 72.1	\$ 45.3	\$ 199.3	\$ 143.4

We believe that adjusted EBITDA, a non-GAAP measure, 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 adjusted EBITDA are significant in assessing our operating results and liquidity. Therefore, adjusted 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 \$37 million for the nine months ended September 30, 2014 compared to \$20 million in the same period of 2013. During the 2014 third quarter \$12 million was expended to purchase land for the expansion of our Edmonton, Alberta metals service center facilities. Depreciation expense was \$21 million for the nine months ended September 30, 2014 and September 30, 2013. We expect capital expenditures to exceed depreciation in the short term due to the purchase of additional processing equipment, the relocation and expansion of service center locations and planned upgrades of our computer systems.

## LIQUIDITY

At September 30, 2014, we had cash of \$28 million compared to \$116 million at December 31, 2013.

We generated \$133 million from operations in the nine months ended September 30, 2014 and utilized \$134 million in working capital to support our growth as well as \$37 million for capital expenditures and \$66 million for dividends to shareholders.

To support revenue levels we experience significant swings in working capital which impact cash flow. Our recent strong revenue growth has resulted in increased working capital requirements. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks. Our customers are impacted by the economic climate and thus it is possible to experience additional bad debts and increased days outstanding for accounts receivable, which may affect the timing of collections.

Total assets were \$2.0 billion at September 30, 2014 compared to \$1.8 billion at December 31, 2013. At September 30, 2014, current assets excluding cash represented 76% of our total assets excluding cash, versus 73% at December 31, 2013.

Increases in inventory utilized cash of \$96 million in the nine months ended September 30, 2014. This inventory increase was primarily a result of increased activity at our steel distributors in support of increased activity for the quarter. Inventories represented 43% of our total assets at September 30, 2014 and 42% at December 31, 2013.

<i>Inventory by Segment</i>	<b>Sept. 30 2014</b>	June 30 2014	Mar. 31 2014	Dec. 31 2013	Sept. 30 2013
Metals service centers	\$ 301	\$ 265	\$ 275	\$ 259	\$ 247
Energy products	418	455	412	433	420
Steel distributors	153	142	86	74	67
<b>Total operations</b>	<b>\$ 872</b>	<b>\$ 862</b>	<b>\$ 773</b>	<b>\$ 766</b>	<b>\$ 734</b>

<i>Inventory Turns by Segment</i>	Quarters Ended				
	<b>Sept. 30 2014</b>	June 30 2014	Mar. 31 2014	Dec. 31 2013	Sept. 30 2013
Metals service centers	4.4	5.0	4.5	4.3	4.7
Energy products	4.0	2.6	3.6	3.0	2.9
Steel distributors	2.7	2.6	3.5	3.3	3.9
<b>Total operations</b>	<b>3.9</b>	<b>3.3</b>	<b>3.9</b>	<b>3.5</b>	<b>3.6</b>

At September 30, 2014, our metals service centers had higher inventory tons priced at higher values compared to December 31, 2013.

Our energy products operations had lower inventory at September 30, 2014 than December 31, 2013 due to strong sales relating to the higher level of activity in the Canadian oil patch. A combination of lower inventory and strong revenues improved turns to 4.0.

At September 30, 2014, our steel distributors segment doubled its inventory levels compared to December 31, 2013 as strong sales activity led to increased purchases to support higher revenues in the segment.

Accounts receivable utilized cash of \$164 million in the nine months ended September 30, 2014 due to increased revenues in 2014. Accounts receivable represented 31% of our total assets at September 30, 2014 compared to 25% of our total assets at December 31, 2013 reflecting the significant increase in revenues in the 2014 third quarter.

During the nine months ended September 30, 2014, we made income tax payments of \$28 million compared to payments of \$30 million for the nine months ended September 30, 2013.

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

## FREE CASH FLOW

<i>(millions)</i>	Quarters Ended		Nine Months Ended	
	2014	September 30 2013	2014	September 30 2013
Cash from operating activities before non-cash working capital	\$ 48.9	\$ 28.6	\$ 133.6	\$ 92.4
Purchase of property, plant and equipment	(21.7)	(5.6)	(37.3)	(19.6)
	\$ 27.2	\$ 23.0	\$ 96.3	\$ 72.8

We believe that 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

<i>(millions)</i>	September 30	December 31
	2014	2013
Long-Term Debt		
6.0% \$300 million Senior Notes due April 19, 2022	\$ 294	\$ 294
7.75% \$175 million Convertible Debentures due September 30, 2016	165	161
Finance lease obligations, maturing 2014 to 2017	1	3
	460	458
Current portion	-	(1)
	\$ 460	\$ 457

Our Convertible Debentures have been split between debt and equity. The debt allocated to equity is accreted as a charge through interest expense over the life of the debentures. The amount allocated to equity represented the valuation of the holders' option to convert the Convertible Debentures into common shares. Based on current share prices we would expect the Convertible Debentures to be converted to equity at redemption or maturity which would result in 6,787,456 common shares being issued.

## Cash and Bank Credit Facilities

<i>As at September 30, 2014 (millions)</i>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ -	\$ -	\$ -
Cash net of outstanding cheques	26	2	28
Net cash (borrowings)	26	2	28
Letters of credit	(97)	(4)	(101)
	\$ (71)	\$ (2)	\$ (73)
Facilities			
Borrowings and letters of credit	\$ 275	\$ 45	\$ 320
Letters of credit	50	-	50
Facilities availability	\$ 325	\$ 45	\$ 370
Available line based on borrowing base	\$ 325	\$ 45	\$ 370

We have a credit facility with a syndicate of Canadian and U.S. banks totaling \$325 million which expires June 24, 2017. The syndicated facility consists of availability of \$275 million under Tranche I to be utilized for borrowings and letters of credit, and \$50 million under Tranche II to be utilized only for letters of credit. Letters of credit are issued under Tranche II first and additional needs are met under Tranche I. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of \$325 million. As of September 30, 2014, we were entitled to borrow and issue letters of credit totaling \$325 million under this facility. At September 30, 2014, we had no borrowings under this facility (December 31, 2013: \$nil). At September 30, 2014 we had letters of credit outstanding of \$98 million compared to \$24 million at December 31, 2013.

The maximum borrowings under our U.S. subsidiary facility, including letters of credit, are US\$40 million. This facility was increased to US\$40 million from US\$20 million on September 5, 2014. At September 30, 2014, our U.S. subsidiary had no borrowings under this facility and had letters of credit of US\$4 million. At December 31, 2013, this subsidiary had no borrowings under this facility and had letters of credit of US\$4 million.

As at September 30, 2014, the Company was in compliance with its financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$296 million of cash based on our September 30, 2014 balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases. These lines may be used to support increased working capital needs when volumes and steel prices increase.

## CONTRACTUAL OBLIGATIONS

As at September 30, 2014, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i>	Payments due in				Total
	2014	2015 and 2016	2017 and 2018	2019 and thereafter	
<i>(millions)</i>					
Accounts payable	\$ 514	\$ -	\$ -	\$ -	\$ 514
Debt	-	175	-	300	475
Long-term debt interest	6	63	36	64	169
Finance lease obligations	-	1	1	-	2
Operating leases	5	35	23	32	95
Total	\$ 525	\$ 274	\$ 60	\$ 396	\$ 1,255

As part of the purchase consideration for Apex Distribution and Apex Monarch we agreed to pay additional cash consideration during the five years ending 2017 and 2018, respectively, based on earnings before interest and taxes and return on net assets. During the quarter ending March 31, 2014, we paid \$4 million in satisfaction of the Apex Distribution obligation for 2013. The obligation was increased by \$5 million in the third quarter of 2014 related to the change in fair value due to imputed interest of \$1 million and an increase in the expected payment of \$4 million. The fair value of the contingent consideration was \$51 million at September 30, 2014. The amount is reviewed quarterly and adjusted through income for increases or decreases in the liability.

We have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 15 of our 2013 consolidated financial statements. During the nine months ended September 30, 2014, we contributed \$4 million to these plans. We expect to contribute approximately \$5 million during the remainder of the year. The defined benefit obligations reported in the financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our reported funding obligations would increase by \$6 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a change in the discount rate on the solvency obligation would be similar to that disclosed in Note 15 of our 2013 consolidated financial statements.

We have disclosed our obligations related to environmental litigation, regulatory actions and remediation in our Annual Information Form under the heading "Environmental Regulation". These obligations relate to previously divested or discontinued operations and do not relate to the metals distribution business.

## **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 obligations table.

## **ACCOUNTING ESTIMATES**

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

Our most significant assets are accounts receivable and inventories.

### *Accounts Receivable*

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at September 30, 2014 approximates our reserve at December 31, 2013. Bad debt expense for the nine months ended September 30, 2014 as a percentage of revenue approximates that of 2013.

### *Inventories*

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at September 30, 2014 was approximately \$3 million higher than the level at December 31, 2013 due to increased reserves at one of our U.S. energy operations for obsolete pipe inventory.

Other areas involving significant estimates and judgements include:

#### *Income Taxes*

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

#### *Business Combinations*

For each acquisition, we review the fair value of assets acquired. Where we deem it appropriate we hire outside business valuers to assist in the assessment of the fair value of property, plant, equipment and intangibles and contingent consideration of acquired businesses. The assessment of fair values for contingent consideration is completed quarterly and requires significant judgement.

#### *Employee Benefit Plans*

Our actuaries perform a valuation, at least every three years, for each defined benefit plan to determine the actuarial present value of the benefits. The valuation uses management's assumptions for the interest rate, rate of compensation increase, rate of increase in government benefits and expected average remaining years of service of employees. While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plan costs. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance immediately in other comprehensive income.

We had approximately \$101 million in plan assets for our defined benefit plans at September 30, 2014, an increase of \$8 million over December 31, 2013. The discount rate used on the employee benefit plan obligation for the quarter ended September 30, 2014 was 4.0% which is 0.75% lower than the interest rate at December 31, 2013 resulting in an increase in our accrued benefit obligation of \$9 million.

## **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 Executive 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. The design and evaluation of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in our disclosure controls and procedures or our internal controls over financial reporting during the third quarter of 2014 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 by both manufacturers and end users has grown over the last decade.

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. 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 a cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management believes that this strategy will result in higher profits throughout a cycle and we will have average earnings over the full range of the cycle in the top deciles of the industry.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in metals businesses that have strong market niches or provide mass to our existing operations. New acquisitions could be either major stand-alone operations or ones that complement our existing operations. We made acquisitions in both 2012 and 2013. We continue to review opportunities for acquisitions.

We believe that the steel-based pricing cycle will continue to be short and volatile, 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 our 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 metal revenues to end users, allowing for increased growth within the sector.

## **RISK**

The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry and modest capacity utilization rates for North American steel producers.

Our acquisitions in 2012 and 2013 increased our exposure to the Western Canadian oil and gas segment. We believe that this continues to be an area of growth long term; however, our exposure to the cyclicity of oil and gas pricing has increased. Management believes the acquisition of the oil field operations of Apex Distribution provides a more stable stream of revenues and earnings for the energy products segment. Our Annual Information Form includes a summary of risks related to our business.

## **OUTLOOK**

The prices of plate and flat rolled products began to soften at the end of the third quarter. The recent decline in oil prices will likely cause a decrease in activity levels in the energy sector. Despite these challenges we expect the fourth quarter to be stronger than the comparable 2013 fourth quarter.

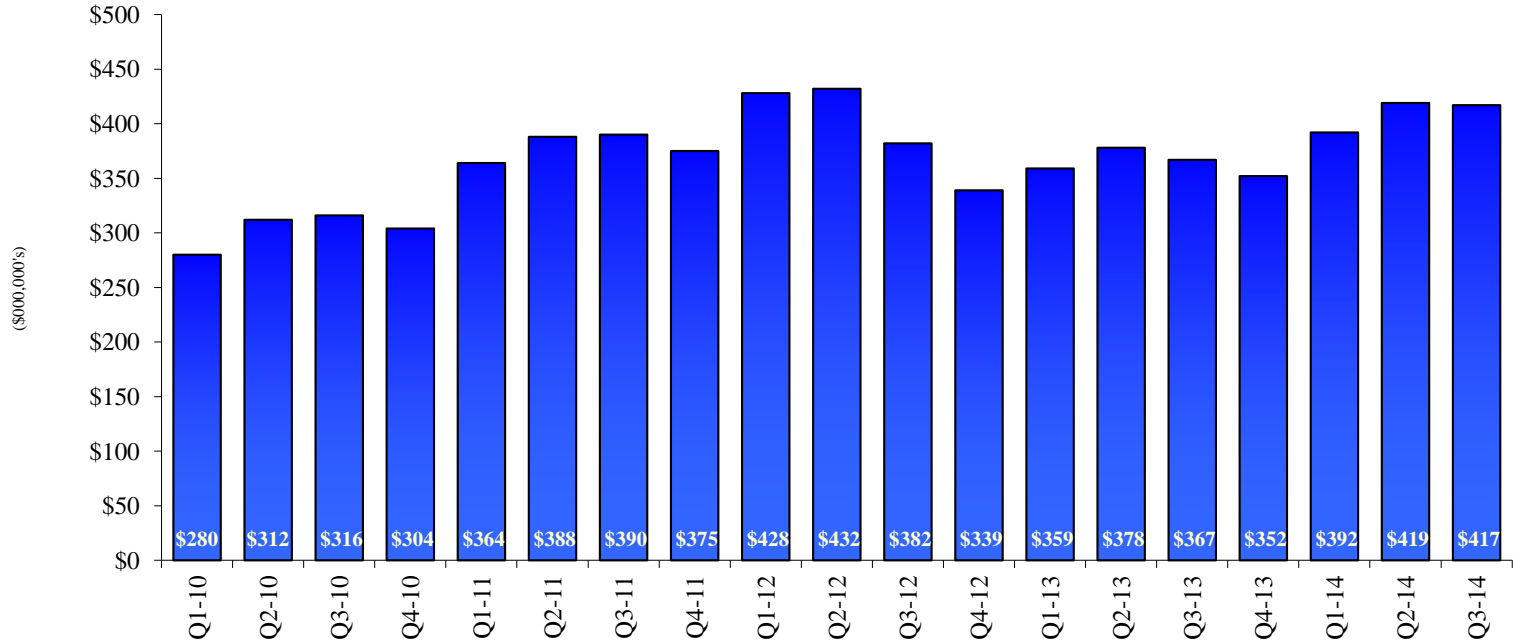
**RUSSEL METALS INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(\$ millions)	2014	2014	2014	2013	2013	2013	2013	2012	2012	2012	2012	2011	2011	2011	2011	2010	2010	2010	2010
<b>METALS SERVICE CENTERS</b>																			
Revenue	416.9	419.4	391.5	351.9	366.9	377.8	359.0	338.5	382.3	432.3	428.0	375.1	390.4	387.9	363.8	304.3	315.7	312.2	280.0
Cost of goods sold	332.7	331.6	306.7	280.7	290.9	300.9	284.1	270.2	305.3	344.0	337.8	299.8	310.1	296.1	272.8	243.4	249.3	241.9	217.1
Operating expenses	62.1	62.4	63.6	57.8	56.2	56.4	56.9	51.4	54.5	57.7	58.1	54.0	56.1	58.4	54.7	48.0	50.4	50.8	47.8
<b>EBIT</b>	<b>22.1</b>	<b>25.4</b>	<b>21.2</b>	<b>13.4</b>	<b>19.8</b>	<b>20.5</b>	<b>18.0</b>	<b>16.9</b>	<b>22.5</b>	<b>30.6</b>	<b>32.1</b>	<b>21.3</b>	<b>24.2</b>	<b>33.4</b>	<b>36.3</b>	<b>12.9</b>	<b>16.0</b>	<b>19.5</b>	<b>15.1</b>
Depreciation & amortization	5.8	5.7	5.6	5.6	5.4	5.4	5.7	5.5	5.3	4.8	4.9	4.8	4.9	5.0	5.1	5.2	5.1	5.2	5.2
<b>EBITDA</b>	<b>27.9</b>	<b>31.1</b>	<b>26.8</b>	<b>19.0</b>	<b>25.6</b>	<b>25.9</b>	<b>23.7</b>	<b>22.4</b>	<b>28.0</b>	<b>35.9</b>	<b>36.9</b>	<b>26.2</b>	<b>29.0</b>	<b>38.3</b>	<b>41.3</b>	<b>18.0</b>	<b>21.2</b>	<b>24.6</b>	<b>20.3</b>
Cost of goods sold	79.8%	79.1%	78.3%	79.8%	79.3%	79.6%	79.1%	79.8%	79.9%	79.6%	78.9%	79.9%	79.4%	76.3%	75.0%	80.0%	79.0%	77.5%	77.5%
Operating expenses	14.9%	14.9%	16.2%	16.4%	15.3%	14.9%	15.8%	15.2%	14.3%	13.3%	13.6%	14.4%	14.4%	15.1%	15.0%	15.8%	16.0%	16.3%	17.1%
Depreciation & amortization	1.4%	1.4%	1.4%	1.6%	1.6%	1.4%	1.6%	1.6%	1.4%	1.2%	1.1%	1.3%	1.2%	1.3%	1.4%	1.7%	1.6%	1.6%	1.9%
EBIT	5.3%	6.1%	5.4%	3.8%	5.4%	5.4%	5.0%	5.0%	5.9%	7.1%	7.5%	5.7%	6.2%	8.6%	10.0%	4.2%	5.1%	6.2%	5.4%
EBITDA	6.7%	7.4%	6.8%	5.4%	7.0%	6.9%	6.6%	6.6%	7.3%	8.3%	8.6%	7.0%	7.4%	9.9%	11.4%	5.9%	6.7%	7.9%	7.3%
<b>ENERGY PRODUCTS</b>																			
Revenue	497.2	365.7	445.1	387.3	353.4	312.9	389.2	344.4	249.3	191.7	274.8	233.5	223.3	145.4	224.0	193.1	187.4	129.2	194.6
Cost of goods sold	418.1	297.8	369.3	327.1	300.4	263.3	329.5	299.3	216.0	165.0	237.1	200.7	191.4	121.9	190.2	163.5	160.8	109.0	171.6
Operating expenses	46.4	40.8	43.1	38.7	36.7	32.6	35.2	27.1	17.5	16.2	18.8	15.9	16.8	12.9	16.0	13.0	12.1	11.4	11.8
<b>EBIT</b>	<b>32.7</b>	<b>27.1</b>	<b>32.7</b>	<b>21.5</b>	<b>16.3</b>	<b>17.0</b>	<b>24.5</b>	<b>18.0</b>	<b>15.8</b>	<b>10.5</b>	<b>18.9</b>	<b>16.9</b>	<b>15.1</b>	<b>10.6</b>	<b>17.8</b>	<b>16.6</b>	<b>14.5</b>	<b>8.8</b>	<b>11.2</b>
Depreciation & amortization	2.8	2.6	2.6	2.5	2.4	2.2	2.3	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
<b>EBITDA</b>	<b>35.5</b>	<b>29.7</b>	<b>35.3</b>	<b>24.0</b>	<b>18.7</b>	<b>19.2</b>	<b>26.8</b>	<b>19.5</b>	<b>16.3</b>	<b>10.9</b>	<b>19.3</b>	<b>17.3</b>	<b>15.5</b>	<b>11.0</b>	<b>18.2</b>	<b>17.0</b>	<b>14.9</b>	<b>9.2</b>	<b>11.7</b>
Cost of goods sold	84.1%	81.4%	83.0%	84.5%	85.0%	84.1%	84.7%	86.9%	86.6%	86.1%	86.3%	86.0%	85.7%	83.8%	84.9%	84.7%	85.8%	84.4%	88.2%
Operating expenses	9.3%	11.2%	9.7%	10.0%	10.4%	10.4%	9.0%	7.9%	7.0%	8.5%	6.8%	6.8%	7.5%	8.9%	7.1%	6.7%	6.5%	8.8%	6.1%
Depreciation & amortization	0.6%	0.7%	0.6%	0.6%	0.7%	0.7%	0.6%	0.4%	0.2%	0.2%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%	0.3%
EBIT	6.6%	7.4%	7.3%	5.6%	4.6%	5.4%	6.3%	5.2%	6.3%	5.5%	6.9%	7.2%	6.8%	7.3%	7.9%	8.6%	7.7%	6.8%	5.8%
EBITDA	7.1%	8.1%	7.9%	6.2%	5.3%	6.1%	6.9%	5.7%	6.5%	5.7%	7.0%	7.4%	6.9%	7.6%	8.1%	8.8%	8.0%	7.1%	6.0%
<b>STEEL DISTRIBUTORS</b>																			
Revenue	122.5	106.3	87.3	70.4	74.1	65.1	73.6	81.3	78.4	92.0	99.4	101.0	89.5	82.6	69.8	61.1	75.5	61.3	49.9
Cost of goods sold	104.1	91.7	75.8	61.7	65.3	56.5	64.3	70.6	68.2	79.2	84.1	85.2	76.5	67.1	56.2	52.0	66.0	49.9	42.3
Operating expenses	6.6	6.0	5.2	4.4	3.9	3.6	4.5	4.1	4.3	4.7	5.6	4.7	4.9	5.1	4.8	4.3	4.5	4.7	3.2
<b>EBIT</b>	<b>11.8</b>	<b>8.6</b>	<b>6.3</b>	<b>4.3</b>	<b>4.9</b>	<b>5.0</b>	<b>4.8</b>	<b>6.6</b>	<b>5.9</b>	<b>8.1</b>	<b>9.7</b>	<b>11.1</b>	<b>8.1</b>	<b>10.4</b>	<b>8.8</b>	<b>4.8</b>	<b>5.0</b>	<b>6.7</b>	<b>4.4</b>
Depreciation & amortization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>EBITDA</b>	<b>11.9</b>	<b>8.7</b>	<b>6.4</b>	<b>4.4</b>	<b>5.0</b>	<b>5.1</b>	<b>4.8</b>	<b>6.7</b>	<b>5.9</b>	<b>8.1</b>	<b>9.8</b>	<b>11.2</b>	<b>8.2</b>	<b>10.5</b>	<b>8.9</b>	<b>4.9</b>	<b>5.1</b>	<b>6.8</b>	<b>4.5</b>
Cost of goods sold	85.0%	86.3%	86.8%	87.6%	88.1%	86.8%	87.4%	86.8%	87.0%	86.1%	84.6%	84.4%	85.5%	81.2%	80.5%	85.1%	87.4%	81.4%	84.8%
Operating expenses	5.4%	5.6%	6.0%	6.3%	5.3%	5.5%	6.1%	5.0%	5.5%	5.1%	5.6%	4.7%	5.5%	6.2%	6.9%	7.0%	6.0%	7.7%	6.4%
Depreciation & amortization	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	0.2%
EBIT	9.6%	8.1%	7.2%	6.1%	6.6%	7.7%	6.5%	8.1%	7.5%	8.8%	9.8%	11.0%	9.1%	12.6%	12.6%	7.9%	6.6%	10.9%	8.8%
EBITDA	9.7%	8.2%	7.3%	6.2%	6.7%	7.8%	6.5%	8.2%	7.5%	8.8%	9.9%	11.1%	9.2%	12.7%	12.8%	8.0%	6.8%	11.1%	9.0%
<b>TBTL</b>																			
Revenue	2.2	1.9	0.1	1.5	2.4	2.3	1.7	2.6	2.7	0.7	2.0	2.2	2.7	0.1	3.0	3.3	3.4	1.4	1.4
Cost of goods sold	-	-	(0.1)	(0.1)	0.1	-	-	-	-	-	0.1	-	(0.2)	0.1	-	-	-	-	-
Operating expenses	0.5	1.4	1.7	2.3	1.6	1.8	1.5	2.6	1.7	1.5	1.4	1.5	1.6	1.7	1.3	1.7	1.9	1.9	1.9
<b>EBIT</b>	<b>1.7</b>	<b>0.5</b>	<b>(1.5)</b>	<b>(0.7)</b>	<b>0.7</b>	<b>0.5</b>	<b>(1.5)</b>	<b>(0.9)</b>	<b>0.9</b>	<b>1.2</b>	<b>(0.7)</b>	<b>0.4</b>	<b>0.6</b>	<b>1.2</b>	<b>(1.7)</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>(0.5)</b>
Depreciation & amortization	0.1	0.1	0.2	0.1	0.2	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.3	0.2
<b>EBITDA</b>	<b>1.8</b>	<b>0.6</b>	<b>(1.3)</b>	<b>(0.6)</b>	<b>0.9</b>	<b>0.8</b>	<b>(1.3)</b>	<b>(0.7)</b>	<b>1.1</b>	<b>1.5</b>	<b>(0.5)</b>	<b>0.7</b>	<b>0.8</b>	<b>1.5</b>	<b>(1.5)</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>(0.3)</b>
<b>CORPORATE</b>																			
Expenses	4.9	5.1	5.1	5.3	5.0	2.6	4.3	4.1	4.7	3.9	6.7	3.3	2.8	3.3	6.7	3.7	3.6	3.3	3.6
Depreciation & amortization	-	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.3	0.2	0.3	0.4	0.4	0.3	0.3
<b>EBIT</b>	<b>(4.9)</b>	<b>(5.2)</b>	<b>(5.2)</b>	<b>(5.5)</b>	<b>(5.2)</b>	<b>(2.8)</b>	<b>(4.3)</b>	<b>(4.2)</b>	<b>(4.8)</b>	<b>(4.0)</b>	<b>(6.9)</b>	<b>(3.4)</b>	<b>(3.1)</b>	<b>(3.5)</b>	<b>(7.0)</b>	<b>(4.1)</b>	<b>(4.0)</b>	<b>(3.6)</b>	<b>(3.9)</b>
<b>EBITDA</b>	<b>(4.9)</b>	<b>(5.1)</b>	<b>(5.1)</b>	<b>(5.3)</b>	<b>(5.0)</b>	<b>(2.6)</b>	<b>(4.3)</b>	<b>(4.1)</b>	<b>(4.7)</b>	<b>(3.9)</b>	<b>(6.7)</b>	<b>(3.3)</b>	<b>(2.8)</b>	<b>(3.3)</b>	<b>(6.7)</b>	<b>(3.7)</b>	<b>(3.6)</b>	<b>(3.3)</b>	<b>(3.6)</b>
Expenses	0.5%	0.6%	0.6%	0.7%	0.6%	0.3%	0.5%	0.5%	0.7%	0.5%	0.8%	0.5%	0.4%	0.5%	1.0%	0.7%	0.6%	0.7%	0.7%
Depreciation & amortization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Operating EBIT</b>	<b>\$ 63.4</b>	<b>\$ 56.4</b>	<b>\$ 53.5</b>	<b>\$ 33.0</b>	<b>\$ 36.5</b>	<b>\$ 40.2</b>	<b>\$ 41.5</b>	<b>\$ 36.4</b>	<b>\$ 40.3</b>	<b>\$ 46.4</b>	<b>\$ 53.1</b>	<b>\$ 46.3</b>	<b>\$ 44.9</b>	<b>\$ 52.1</b>	<b>\$ 54.2</b>	<b>\$ 31.9</b>	<b>\$ 33.1</b>	<b>\$ 32.9</b>	<b>\$ 26.3</b>
<b>Operating EBITDA</b>	<b>\$ 72.2</b>	<b>\$ 65.0</b>	<b>\$ 62.1</b>	<b>\$ 41.5</b>	<b>\$ 45.2</b>	<b>\$ 48.4</b>	<b>\$ 49.7</b>	<b>\$ 43.8</b>	<b>\$ 46.6</b>	<b>\$ 52.5</b>	<b>\$ 58.8</b>	<b>\$ 52.1</b>	<b>\$ 50.7</b>	<b>\$ 58.0</b>	<b>\$ 60.2</b>	<b>\$ 38.1</b>	<b>\$ 39.4</b>	<b>\$ 39.1</b>	<b>\$ 32.6</b>
<b>Operating EBIT</b>	6.1%	6.3%	5.8%	4.1%	4.6%	5.3%	5.0%	4.8%	5.7%	6.5%	6.6%	6.5%	6.4%	8.4%	8.2%	5.7%	5.7%	6.5%	5.0%
<b>Operating EBITDA</b>	7.0%	7.3%	6.7%	5.1%	5.7%	6.4%	6.0%	5.7%	6.5%	7.3%	7.3%	7.3%	7.2%	9.4%	9.2%	6.8%	6.8%	7.7%	6.2%

**SUMMARY**  
**RUSSEL METALS INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

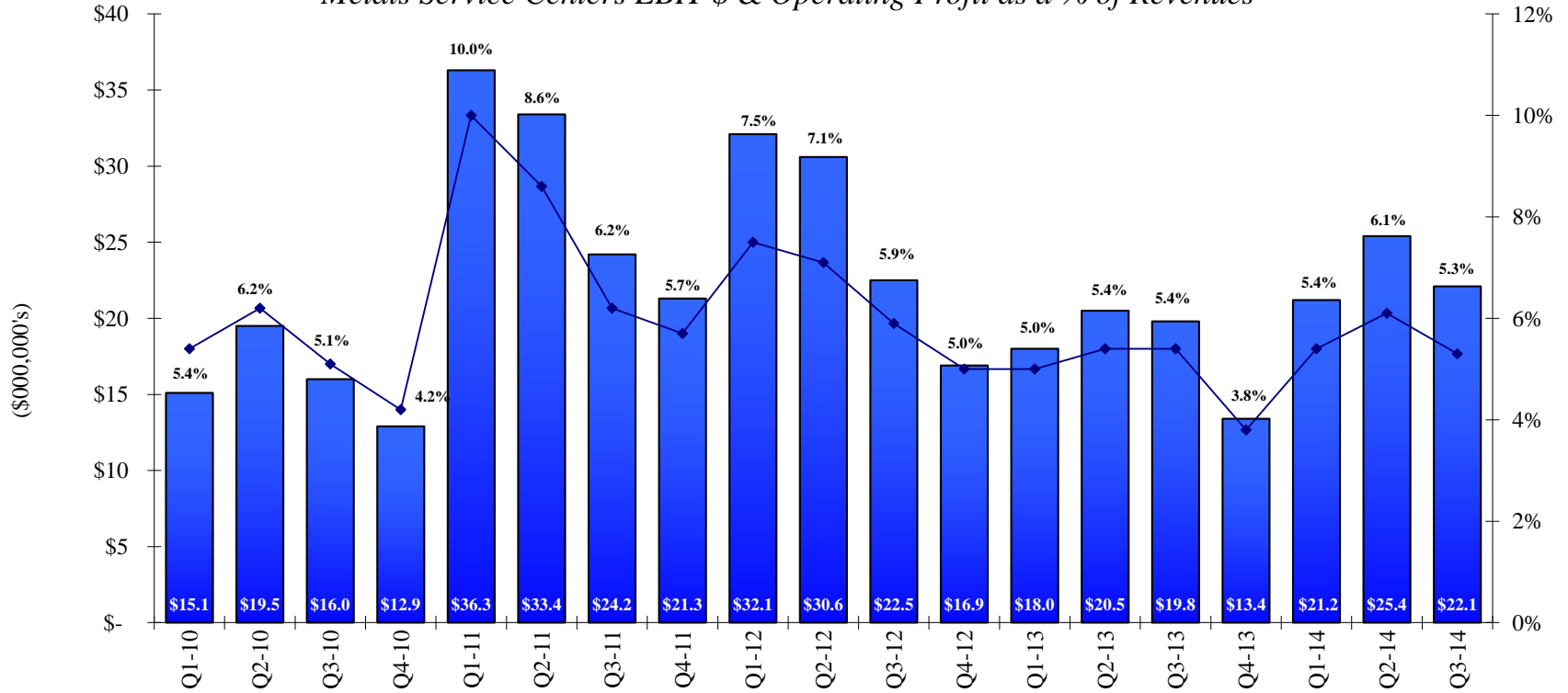
(\$ millions)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2014	2014	2014	2013	2013	2013	2013	2012	2012	2012	2012	2011	2011	2011	2011	2010	2010	2010	2010
<b>Quarter ended:</b>																			
Revenue	1,038.8	893.3	924.0	811.1	796.8	758.1	821.8	765.9	712.6	718.7	802.9	711.6	705.4	618.6	657.7	561.5	581.9	506.1	525.9
Cost of goods sold	854.9	721.1	751.7	669.4	656.7	620.7	677.9	640.1	589.5	588.2	659.0	585.8	578.0	484.9	519.3	458.9	476.1	400.8	431.0
Operating expenses	115.6	110.6	113.6	103.2	98.4	94.4	98.1	85.2	78.0	80.1	83.9	76.1	79.4	78.1	77.2	66.6	68.7	68.8	64.7
Corp. Expenses	4.9	5.2	5.2	5.5	5.2	2.8	4.3	4.2	4.8	4.0	6.9	3.4	3.1	3.5	7.0	4.1	4.0	3.6	3.9
<b>Operating EBIT</b>	<b>63.4</b>	<b>56.4</b>	<b>53.5</b>	<b>33.0</b>	<b>36.5</b>	<b>40.2</b>	<b>41.5</b>	<b>36.4</b>	<b>40.3</b>	<b>46.4</b>	<b>53.1</b>	<b>46.3</b>	<b>44.9</b>	<b>52.1</b>	<b>54.2</b>	<b>31.9</b>	<b>33.1</b>	<b>32.9</b>	<b>26.3</b>
Depreciation & amortization	8.8	8.6	8.6	8.5	8.7	8.2	8.2	7.4	6.3	6.1	5.7	5.8	5.8	5.9	6.0	6.2	6.3	6.2	6.3
<b>Operating EBITDA</b>	<b>72.2</b>	<b>65.0</b>	<b>62.1</b>	<b>41.5</b>	<b>45.2</b>	<b>48.4</b>	<b>49.7</b>	<b>43.8</b>	<b>46.6</b>	<b>52.5</b>	<b>58.8</b>	<b>52.1</b>	<b>50.7</b>	<b>58.0</b>	<b>60.2</b>	<b>38.1</b>	<b>39.4</b>	<b>39.1</b>	<b>32.6</b>
Gain on sale of asset	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBIT</b>	<b>63.4</b>	<b>56.4</b>	<b>53.5</b>	<b>33.0</b>	<b>36.5</b>	<b>40.2</b>	<b>41.5</b>	<b>36.4</b>	<b>40.3</b>	<b>46.4</b>	<b>53.1</b>	<b>46.3</b>	<b>44.9</b>	<b>52.1</b>	<b>54.2</b>	<b>31.9</b>	<b>33.1</b>	<b>32.9</b>	<b>26.3</b>
<b>EBITDA</b>	<b>72.2</b>	<b>65.0</b>	<b>62.1</b>	<b>41.5</b>	<b>45.2</b>	<b>48.4</b>	<b>49.7</b>	<b>43.8</b>	<b>46.6</b>	<b>52.5</b>	<b>58.8</b>	<b>52.1</b>	<b>50.7</b>	<b>58.0</b>	<b>60.2</b>	<b>38.1</b>	<b>39.4</b>	<b>39.1</b>	<b>32.6</b>
<b>Twelve months ended:</b>																			
Revenue	3,667.2	3,425.2	3,290.0	3,187.8	3,142.6	3,058.4	3,019.0	3,000.1	2,945.8	2,938.6	2,838.5	2,693.3	2,543.2	2,419.7	2,307.2	2,175.4	2,046.6	1,899.0	1,855.4
Cost of goods sold	2,997.1	2,798.9	2,698.5	2,624.7	2,595.4	2,528.2	2,495.7	2,476.8	2,422.5	2,411.0	2,307.7	2,168.0	2,041.1	1,939.2	1,855.1	1,766.8	1,671.6	1,544.2	1,527.8
Operating expenses	463.8	446.9	428.3	411.9	392.6	371.8	358.7	347.1	337.2	336.9	334.4	327.8	319.0	309.2	300.0	284.4	274.9	262.6	256.3
<b>Operating EBIT</b>	<b>206.3</b>	<b>179.4</b>	<b>163.2</b>	<b>151.2</b>	<b>154.6</b>	<b>158.4</b>	<b>164.6</b>	<b>176.2</b>	<b>186.1</b>	<b>190.7</b>	<b>196.4</b>	<b>197.5</b>	<b>183.1</b>	<b>171.3</b>	<b>152.1</b>	<b>124.2</b>	<b>100.1</b>	<b>92.2</b>	<b>71.3</b>
Gain on sale of asset	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4.3)
<b>EBIT</b>	<b>206.3</b>	<b>179.4</b>	<b>163.2</b>	<b>151.2</b>	<b>154.6</b>	<b>158.4</b>	<b>164.6</b>	<b>176.2</b>	<b>186.1</b>	<b>190.7</b>	<b>196.4</b>	<b>197.5</b>	<b>183.1</b>	<b>171.3</b>	<b>152.1</b>	<b>124.2</b>	<b>100.1</b>	<b>92.2</b>	<b>75.6</b>
Depreciation & amortization	34.5	34.4	34.0	33.6	32.5	30.1	28.0	25.5	23.9	23.4	23.2	23.5	23.9	24.4	24.7	25.0	24.9	25.2	25.5
<b>EBITDA</b>	<b>240.8</b>	<b>213.8</b>	<b>197.2</b>	<b>184.8</b>	<b>187.1</b>	<b>188.5</b>	<b>192.6</b>	<b>201.7</b>	<b>210.0</b>	<b>214.1</b>	<b>219.6</b>	<b>221.0</b>	<b>207.0</b>	<b>195.7</b>	<b>176.8</b>	<b>149.2</b>	<b>125.0</b>	<b>117.4</b>	<b>101.1</b>

**RUSSEL METALS INC.**  
*Metals Service Centers Revenues*



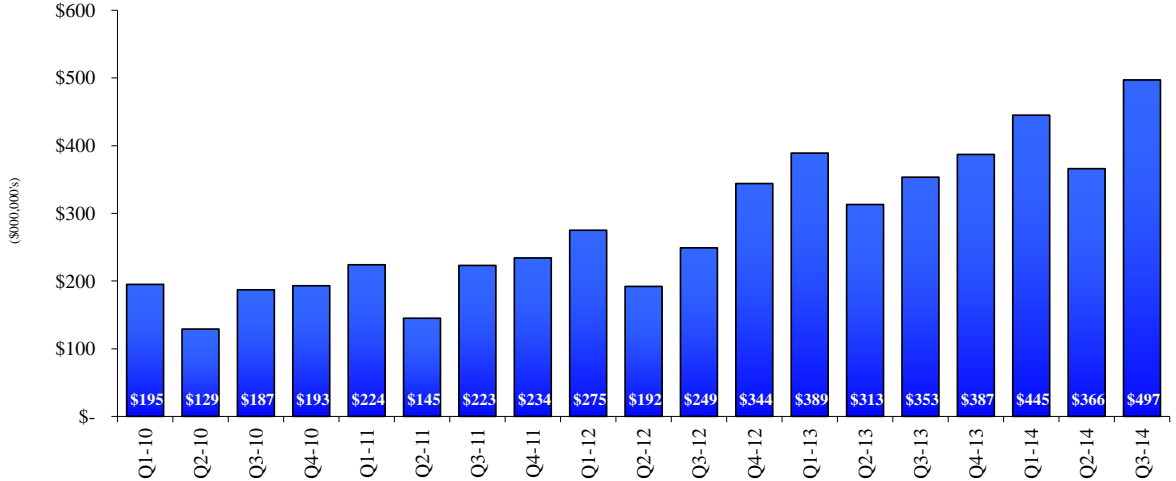
# RUSSEL METALS INC.

## *Metals Service Centers EBIT \$ & Operating Profit as a % of Revenues*



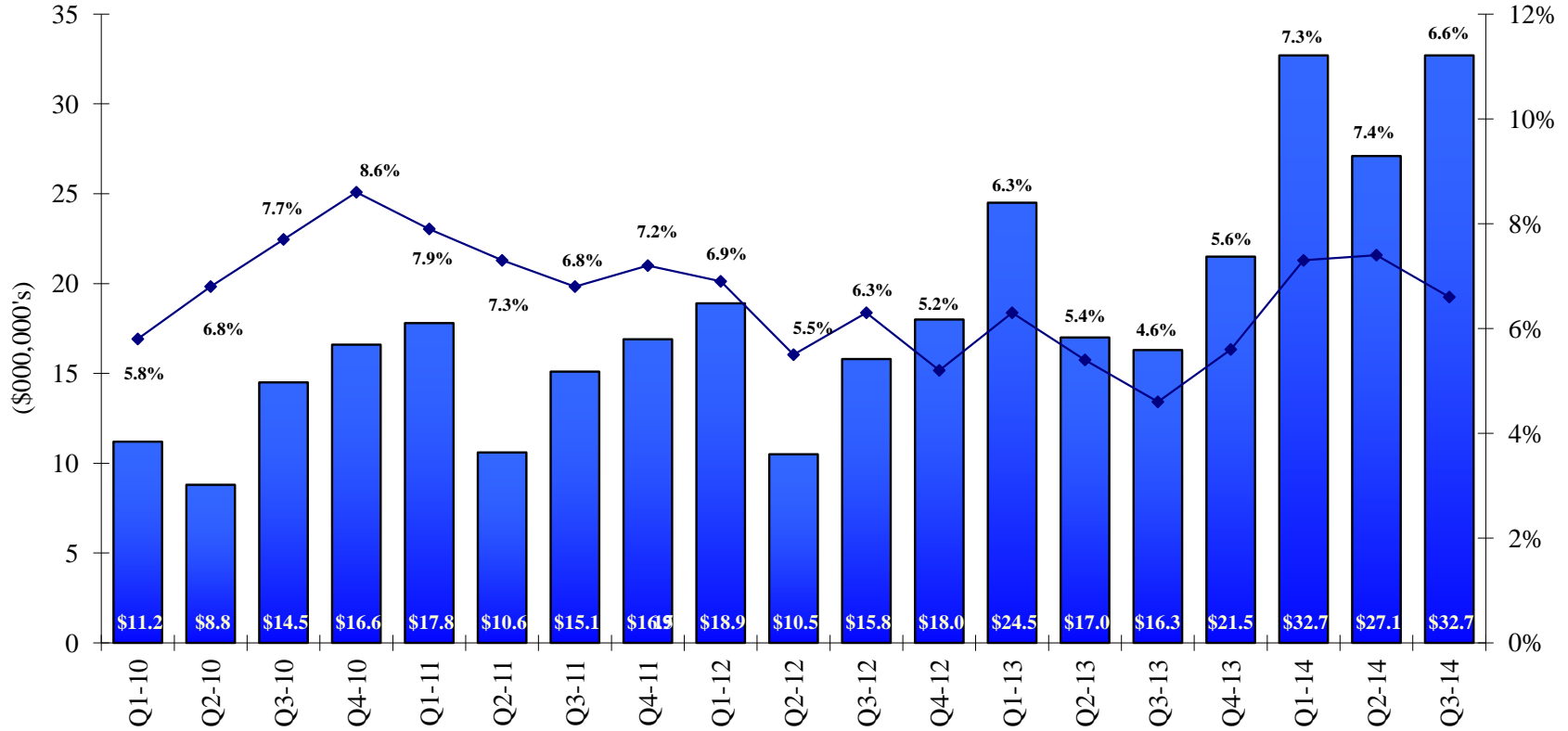
# RUSSEL METALS INC.

## *Energy Products Revenues*

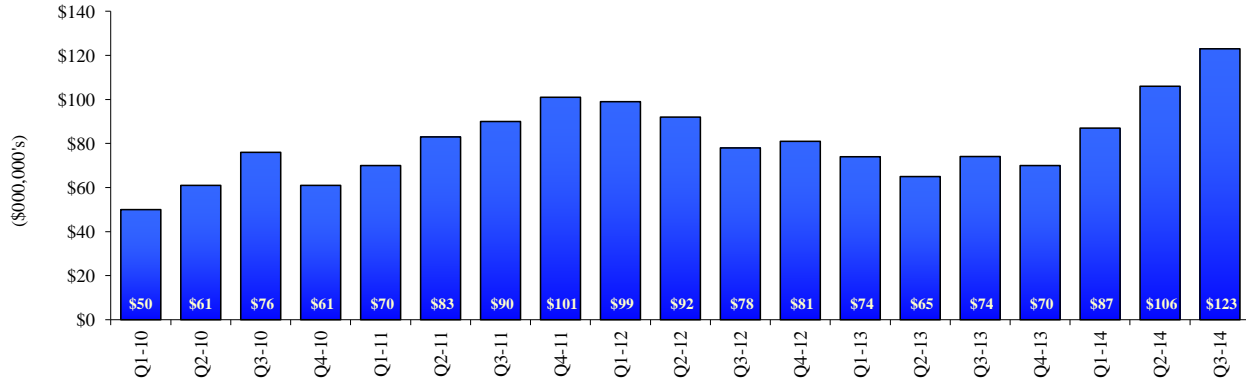


## RUSSEL METALS INC.

*Energy Products EBIT \$ & Operating Profit as a % of Revenues*

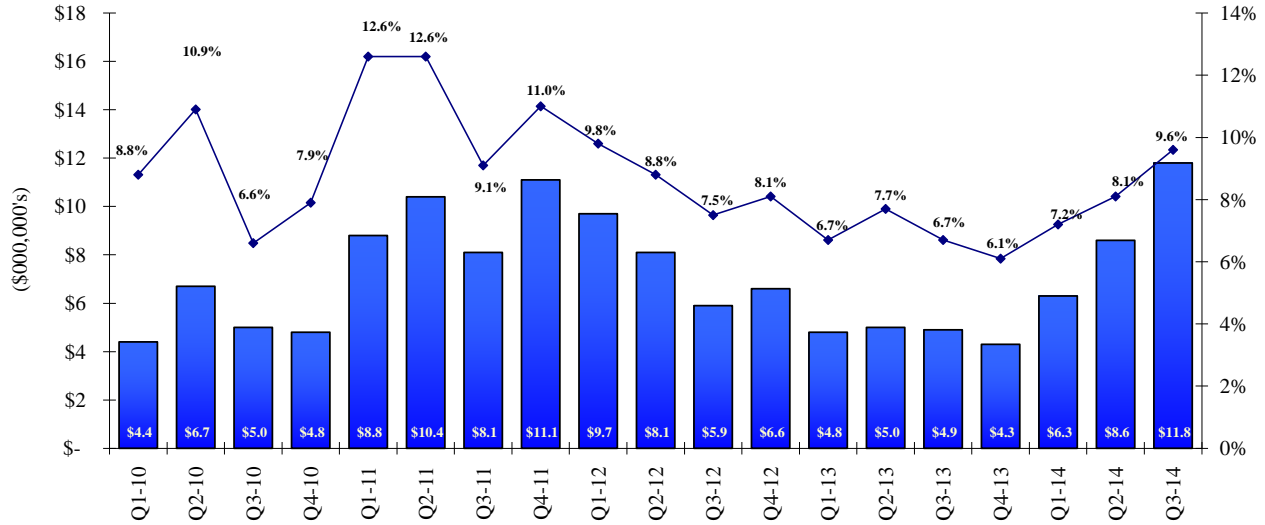


**RUSSEL METALS INC.**  
*Steel Distributors Revenues*

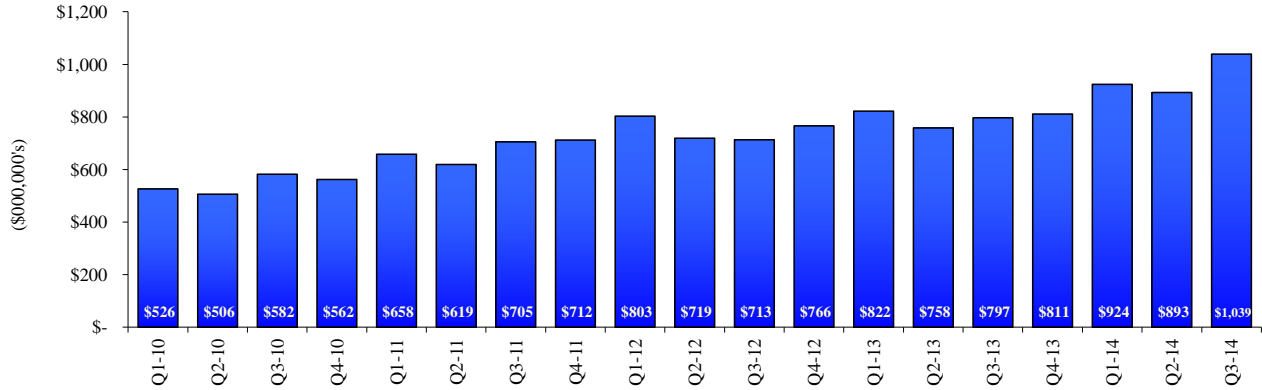


## RUSSEL METALS INC.

*Steel Distributors EBIT \$ & Operating Profit as a % of Revenues*



**RUSSEL METALS INC.**  
*Total Revenues*



## RUSSEL METALS INC.

*Total Operating EBIT \$ & Operating EBIT as a % of Revenues*

