



# **Russel Metals**



## **Second Quarter Report for the period ended June 30, 2007**

Report to Shareholders.....	1
Management's Report to Shareholders .....	4
Consolidated Financial Statements .....	5
Management's Discussion and Analysis .....	15

**RUSSEL METALS INC.**  
**REPORT TO SHAREHOLDERS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

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At the end of the first quarter of 2007, margins began to strengthen in both our metals service centers and steel distributors segments due to higher steel pricing levels. During the same period, our concerns over the weakness in conventional exploration and drilling activities in Western Canada were offset by the strength in the U.S. line pipe and Canadian oil sands related activities in our energy tubular products segment. These business conditions continued well into the second quarter of 2007. The margins improved in both our metals service centers and steel distributors segments quarter over quarter as the mill price increases from late in the first quarter held until late in the second quarter of 2007. Demand levels firmed up late in the first quarter and were stable throughout the second quarter in our metals service centers. Our energy tubular products segment operating profits were lower due to seasonality but matched the 2006 second quarter due to higher revenue and lower margins. The lower drilling activities in Alberta negatively affected our down-hole pipe business however this decline was offset by our Comco Pipe and Pioneer Pipe operations, which both produced very strong results.

Our net earnings of \$29 million or \$0.47 per common share for the second quarter of 2007, were above our first quarter earnings per common share of \$0.46 but below the 2006 second quarter results of \$46 million or \$0.74 per common share. Revenues for the second quarter 2007 were \$653 million, a decline from both the second quarter of 2006 revenues of \$686 million and the \$684 million reported in the first quarter of 2007.

Our metals service centers segment results strengthened from the first quarter of 2007 due to price increases late in the first quarter of 2007, which resulted in improved second quarter margins. Operating profits for the metals service centers segment in the second quarter of 2007 were \$31 million, or 8.5% of revenues of \$370 million. Revenues, while below the second quarter of 2006, improved slightly from the first quarter of 2007.

Our steel distributors segment, which sells primarily to third party service centers and large manufacturers, had second quarter 2007 operating profits of \$12 million, or 10.7% of revenues of \$112 million. Operating profits and margins improved over the first quarter of 2007, but were below the same quarter last year. Our revenues declined as North American service centers, who are our customers, continued to reduce inventory levels.

Our energy tubular products segment revenues were \$167 million for the second quarter of 2007, up from \$122 million in the second quarter of 2006. An abundance of product and low drilling activity put downward pressure on margins. Operating profits were \$11 million or 6.6% of revenues compared to \$11 million or 9.0% of revenues in the second quarter of 2006. Drilling activity is expected to improve but high inventory levels will continue to exert margin pressures during 2007.

Corporate expenses for the second quarter of 2007 increased by \$2.3 million over the second quarter of 2006 and \$2.6 million over the first quarter of 2007 due to the expense related to stock options issued in the quarter. In the second quarter of 2007, we recognized \$3.1 million of non-cash stock option expense, which reduced overall earnings by \$0.05 per common share. In both the second quarter of 2006 and the first quarter of 2007, our stock option expense was \$0.8 million. Stock option expense is expected to be \$0.5 million in each of the next two quarters, a reduction of \$2.6 million from this quarter.

Our net earnings for the six months ended June 30, 2007 were \$58 million or \$0.93 per common share versus \$84 million or \$1.45 per common share for the comparable period in 2006. Revenues declined to \$1.3 billion for the first six months of 2007 compared with \$1.4 billion for the same period in 2006. Operating profits were \$95 million for the first six months of 2007 versus \$131 million in the same period in 2006. Common shares outstanding at June 30, 2007 were 63.1 million and the year to date average shares outstanding were 62.8 million versus 57.4 million for the same period last year.

Our inventory balances, while unchanged on the balance sheet versus the end of the first quarter, increased by \$13 million before the impact of foreign exchange caused by the stronger Canadian dollar. Cash generated from operating activities was \$26 million in the quarter and \$49 million for the six months ended June 30, 2007. Long-term debt declined to \$181 million as a result of the lower exchange rate. Cash balances were unchanged at \$207 million.

The Board of Directors approved a quarterly dividend of \$0.45 per common share payable September 15, 2007 to shareholders of record as of August 17, 2007.

## **Outlook**

The steel sector in North America continues to be plagued by too much inventory, which has created pressure on operating margins primarily in carbon steel products. We are doing our utmost to align our inventories with our perception of forward demand. During the last two quarters, this has been a challenge as demand has fluctuated not only within geographical areas but also within specific products. This has resulted in an inventory imbalance, especially in energy tubular products. We are actively working on rebalancing inventories and expect an improvement over the last half of 2007.

Although the strong Canadian dollar has not had a material impact on our results to date, we are cognizant of the fact that the strong dollar will continue to have a negative impact on the manufacturing sector in Canada, particularly in Ontario and Quebec. In addition, our 2007 third quarter results for our U.S. operations will be translated at lower exchange rates, reducing our revenues and segment operating profits in Canadian dollars.

We, like everybody else in the industry, are currently experiencing some softness in both steel pricing and demand levels. Although we expect this to be temporary, the magnitude and timing of the recovery is uncertain. We anticipate an improvement in energy tubular products as the drilling activity and infrastructure build should lead to increased business activity in the oil patch.

A handwritten signature in black ink, appearing to read 'E.M. Siegel, Jr.', with a stylized, cursive script.

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

Dated July 30, 2007

## 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 June 30, 2007, 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, management's discussion and analysis and report to shareholders within reasonable limits of materiality 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.

Dated July 30, 2007



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



B. R. Hedges  
Executive Vice President and  
Chief Financial Officer

**RUSSEL METALS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(UNAUDITED)

<i>(millions)</i>	<b>June 30, 2007</b>	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 206.7	\$ 209.9
Accounts receivable	361.3	329.0
Inventories	639.5	664.0
Prepaid expenses and other assets	7.3	7.4
Income taxes	2.9	2.1
	<b>1,217.7</b>	1,212.4
<b>Property, Plant and Equipment</b>	<b>187.1</b>	189.5
<b>Deferred Financing Charges</b>	-	6.8
<b>Future Income Tax Assets</b>	<b>0.2</b>	0.4
<b>Other Assets</b>	<b>4.2</b>	3.9
<b>Goodwill</b>	<b>9.2</b>	9.2
	<b>\$ 1,418.4</b>	\$ 1,422.2
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 297.3	\$ 283.9
Income taxes payable	3.5	15.0
	<b>300.8</b>	298.9
<b>Other Accrued Liabilities</b>	-	15.4
<b>Derivatives (Note 2)</b>	<b>35.7</b>	-
<b>Long-Term Debt</b>	<b>181.0</b>	203.9
<b>Pensions and Benefits</b>	<b>1.4</b>	2.6
<b>Future Income Tax Liabilities</b>	<b>5.0</b>	6.8
	<b>523.9</b>	527.6
<b>Shareholders' Equity (Note 8)</b>	<b>894.5</b>	894.6
	<b>\$ 1,418.4</b>	\$ 1,422.2

ON BEHALF OF THE BOARD,



A. Benedetti  
Director



L. Lachapelle  
Director

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

<i>(millions, except per share data)</i>	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Revenues</b>	<b>\$ 652.8</b>	\$ 685.9	<b>\$ 1,336.5</b>	\$ 1,426.6
Cost of sales and operating expenses	<b>603.9</b>	615.9	<b>1,241.6</b>	1,295.4
<b>Earnings before the following</b>	<b>48.9</b>	70.0	<b>94.9</b>	131.2
Restructuring	-	1.2	-	1.2
Interest expense, net (Note 4)	<b>(1.6)</b>	(1.2)	<b>(3.4)</b>	(4.4)
<b>Earnings before income taxes</b>	<b>47.3</b>	70.0	<b>91.5</b>	128.0
Provision for income taxes	<b>(18.0)</b>	(23.8)	<b>(33.5)</b>	(44.5)
<b>Net earnings for the period</b>	<b>\$ 29.3</b>	\$ 46.2	<b>\$ 58.0</b>	\$ 83.5
<b>Basic earnings per common share</b>	<b>\$ 0.47</b>	\$ 0.74	<b>\$ 0.93</b>	\$ 1.45
<b>Diluted earnings per common share</b>	<b>\$ 0.47</b>	\$ 0.74	<b>\$ 0.92</b>	\$ 1.44

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

<i>(millions)</i>	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Retained earnings, beginning of the period, as previously reported</b>	<b>\$ 414.3</b>	\$ 361.3	<b>\$ 411.1</b>	\$ 341.8
Transitional adjustment - financial instruments (Note 2)	-	-	<b>(0.5)</b>	-
Retained earnings, beginning of the period, as restated	<b>414.3</b>	361.3	<b>410.6</b>	341.8
Net earnings for the period	<b>29.3</b>	46.2	<b>58.0</b>	83.5
Dividends on common shares	<b>(28.3)</b>	(21.8)	<b>(53.3)</b>	(39.6)
<b>Retained earnings, end of the period</b>	<b>\$ 415.3</b>	\$ 385.7	<b>\$ 415.3</b>	\$ 385.7

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

<i>(millions)</i>	<b>Quarter ended June 30, 2007</b>	<b>Six months ended June 30, 2007</b>
<b>Net earnings for the period</b>	<b>\$ 29.3</b>	<b>\$ 58.0</b>
Other comprehensive income		
Unrealized foreign exchange gains and losses on translating financial statements of self sustaining foreign operations	<b>(16.2)</b>	<b>(18.5)</b>
Gains and losses on items designated as net investment hedges	<b>5.6</b>	<b>6.4</b>
Gains and losses on items designated as cash flow hedges	<b>1.4</b>	<b>2.3</b>
Other comprehensive income	<b>(9.2)</b>	<b>(9.8)</b>
<b>Comprehensive income</b>	<b>\$ 20.1</b>	<b>\$ 48.2</b>

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

<i>(millions)</i>	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Operating activities</b>				
Earnings from continuing operations	\$ 29.3	\$ 46.2	\$ 58.0	\$ 83.5
Depreciation and amortization	5.0	4.8	9.9	9.6
Future income taxes	1.5	(0.8)	1.9	0.3
Loss (gain) on sale of fixed assets and assets held for sale	0.1	(1.4)	(0.6)	(1.4)
Stock-based compensation	3.1	0.9	3.9	1.8
Pension expense (funding) (Note 7)	0.3	0.7	(1.3)	(6.2)
Other	0.1	-	0.3	-
<b>Cash from operating activities before working capital</b>	<b>39.4</b>	50.4	<b>72.1</b>	87.6
<b>Changes in non-cash working capital items</b>				
Accounts receivable	18.4	6.1	(38.6)	(46.2)
Inventories	(12.7)	(41.4)	9.6	(86.6)
Accounts payable and accrued liabilities	(14.2)	22.0	18.8	37.6
Current income taxes	(4.1)	1.7	(12.7)	5.5
Other	(0.8)	(0.4)	0.1	0.3
<b>Change in non-cash working capital</b>	<b>(13.4)</b>	(12.0)	<b>(22.8)</b>	(89.4)
<b>Cash from (used in) operating activities</b>	<b>26.0</b>	38.4	<b>49.3</b>	(1.8)
<b>Financing activities</b>				
Increase (decrease) in bank borrowing	-	-	-	(2.1)
Issue of common shares - public issue	-	-	-	271.4
Issue of common shares - options exercised	10.0	0.6	10.8	5.4
Dividends on common shares	(28.3)	(21.8)	(53.3)	(39.6)
Deferred financing costs	-	(0.9)	-	(0.9)
<b>Cash from (used in) financing activities</b>	<b>(18.3)</b>	(22.1)	<b>(42.5)</b>	234.2
<b>Investing activities</b>				
Purchase of fixed assets	(4.9)	(6.9)	(8.6)	(13.5)
Proceeds on sale of fixed assets	-	1.4	1.3	1.5
Proceeds from assets held for sale	-	6.2	-	6.2
Other	(0.5)	(0.3)	0.2	(1.3)
<b>Cash from (used in) investing activities</b>	<b>(5.4)</b>	0.4	<b>(7.1)</b>	(7.1)
<b>Effect of exchange rates on cash</b>	<b>(2.7)</b>	(1.3)	<b>(2.9)</b>	(1.5)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(0.4)</b>	15.4	<b>(3.2)</b>	223.8
Cash and cash equivalents, beginning of the period	207.1	255.5	209.9	47.1
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 206.7</b>	\$ 270.9	<b>\$ 206.7</b>	\$ 270.9

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2007**  
(UNAUDITED)

1. Basis of Presentation

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 2006 annual consolidated financial statements except as disclosed in Note 2. These interim consolidated financial statements should be read in conjunction with the 2006 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. Change in Accounting Policies

On January 1, 2007, the Company adopted four new accounting standards: CICA Handbook section 1530, Comprehensive Income; CICA Handbook section 3855, Financial Instruments – Recognition and Measurement; CICA Handbook section 3865, Hedges; and CICA Handbook section 3251, Equity. These new standards require the Company to classify all financial instruments resulting in certain financial instruments being valued at fair value on the balance sheet. As permitted by the standard, the Company chose January 1, 2003 as the transition date for the search for embedded derivatives. The impact of this change in accounting policy is presented as a transitional adjustment in opening retained earnings and opening accumulated other comprehensive income as appropriate. In compliance with the standard, prior periods are not restated, except for the cumulative translation adjustment which has been reclassified to accumulated other comprehensive income.

a) *Comprehensive Income*

This standard provides guidance on the presentation of comprehensive income which is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is comprised of net earnings and other comprehensive income (OCI). OCI includes certain gains and losses that are recognized outside of net earnings. The major components of the Company's OCI are the cumulative translation adjustment and the effective portion of cash flow hedges including the fixed for fixed cross currency swaps which are designated as a cash flow hedge of a portion of our U.S. Note. Our consolidated financial statements include a new Statement of Comprehensive Income. The accumulated OCI, which includes the Company's cumulative translation adjustment, is presented as a new category of Shareholders' Equity in our Consolidated Balance Sheets and in accordance with the Equity standard, the Company has disclosed its components (Note 8).

b) *Financial Instruments – Recognition and Measurement*

This standard provides guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives which are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities not classified as held-for-sale are measured at amortized cost using the effective interest method.

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value as Other Assets, Accrued Liabilities or Derivatives. Changes in fair value are recognized in net income except for derivatives designated as cash flow hedges, whose change in fair value is recognized in OCI. Fair values were determined using quoted market values for similar instruments or other third party information.

Available-for-sale financial assets are measured at fair value. Unrealized gains and losses on available-for-sale financial assets and derivatives designated as cash flow hedges are recorded through OCI.

The standard provides an accounting policy choice on the treatment of transactions costs. The Company's accounting policy is to capitalize transaction costs to the carrying amount of the associated debt and to amortize them to net interest expense using the effective interest method.

c) *Hedges*

This standard replaces existing hedge accounting guidance in CICA Handbook section 1650, Foreign Currency Translation, and accounting guideline AcG-13, Hedging Relationships, and provides requirements for the designation, documentation, accounting and disclosure of qualifying hedge relationships. The Company's cash flow hedges on a portion of its US\$175 million Senior Notes are recorded at fair value on the balance sheet with gains and losses recorded through OCI until realized. The adoption of the hedging standard has not had a material effect on the Company's results of operations or cash flows; however, the effective portion of the cash flow hedges is recorded as a component of OCI.

d) *Transitional Adjustment*

The transitional adjustments relating to financial instruments, including embedded derivatives, are recorded in opening retained earnings as at January 1, 2007. These adjustments include (i) financial instruments classified as held-for-trading that were not previously recorded at fair value, and (ii) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards.

Adjustments arising as a result of re-measuring hedging instruments designated as cash flow hedges are recognized in the opening balance of accumulated OCI.

Transitional adjustments are as follows:

<i>(millions)</i>	January 1, 2007
Financial instruments classified as held-for-trading, net of tax of \$0.6	\$ (1.0)
Deferred gain on discontinued hedging relations, net of tax of \$0.3	0.5
Transitional adjustment - retained earnings	\$ (0.5)
Fair value of cash flow hedges, net of tax of \$4.4	\$ (9.3)
Transitional adjustment - accumulated other comprehensive income	\$ (9.3)

The fair value of the cash flow hedges, which includes amounts previously recorded as other accrued liabilities, are recorded as derivatives on the consolidated balance sheet.

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. Interest Expense, net

<i>(millions)</i>	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Interest on long-term debt	\$ 3.8	\$ 3.7	\$ 7.7	\$ 7.4
Other interest income, net	(2.2)	(2.5)	(4.3)	(3.0)
Total interest	\$ 1.6	\$ 1.2	\$ 3.4	\$ 4.4

Interest paid in the quarter ended June 30, 2007 was \$nil (2006: \$nil) and in the six months ended was \$7.6 million (2006: \$7.5 million).

5. Stock-based Compensation

During the quarter ended June 30, 2007, the Company issued 845,500 stock options (2006: 201,666) at an exercise price of \$33.81 per share. In 2006, the Company issued 663,334 stock options during the quarter ended March 31, 2006 and 201,666 during the quarter ended June 30, 2006. The assumptions used in the Black-Scholes option-pricing model are consistent with those disclosed in Note 11 to the 2006 consolidated financial statements except for the expected volatility of 28% and the risk-free rate of return of 4% resulting in a fair value of \$5.99 per option granted. The following is a continuity of the Company's stock options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2007	2006	2007	2006
Balance, January 1	2,014,033	1,869,466	\$ 18.09	\$ 11.12
Granted	-	663,334	-	25.75
Exercised	(81,700)	(546,000)	9.83	8.81
Forfeited	(2,600)	-	18.11	-
Balance, March 31	1,929,733	1,986,800	\$ 18.44	\$ 16.64
Granted	845,500	201,666	33.81	26.30
Exercised	(610,200)	(59,933)	16.34	10.61
Forfeited	(1,000)	-	21.79	-
Balance, June 30	2,164,033	2,128,533	\$ 25.03	\$ 17.73
Exercisable	458,833	431,333	\$ 23.99	\$ 17.95

6. Segmented Information

<i>(millions)</i>	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Segment Revenues</b>				
Metals service centers	\$ 370.0	\$ 406.7	\$ 732.6	\$ 795.3
Energy tubular products	167.0	121.7	346.0	307.9
Steel distributors	111.7	153.8	252.0	318.3
	<b>648.7</b>	682.2	<b>1,330.6</b>	1,421.5
Other	4.1	3.7	5.9	5.1
	<b>\$ 652.8</b>	\$ 685.9	<b>\$ 1,336.5</b>	\$ 1,426.6
<b>Segment Operating Profits</b>				
Metals service centers	\$ 31.4	\$ 37.9	\$ 56.2	\$ 69.6
Energy tubular products	11.0	11.0	25.8	29.4
Steel distributors	11.9	24.4	23.4	42.5
	<b>54.3</b>	73.3	<b>105.4</b>	141.5
Corporate expenses	(7.3)	(5.0)	(12.0)	(10.6)
Other	1.9	1.7	1.5	0.3
	<b>\$ 48.9</b>	\$ 70.0	<b>\$ 94.9</b>	\$ 131.2

<i>(millions)</i>	June 30, 2007	December 31, 2006
<b>Identifiable assets</b>		
Metals service centers	\$ 664.3	\$ 618.7
Energy tubular products	349.5	359.3
Steel distributors	166.3	195.3
Identifiable assets by segment	<b>1,180.1</b>	1,173.3
Assets not included in segments		
Cash and cash equivalents	206.7	209.9
Income tax assets	3.1	2.5
Deferred financing charges	-	6.8
Other assets	3.2	3.2
Corporate and other operating assets	25.3	26.5
Total assets	<b>\$ 1,418.4</b>	\$ 1,422.2

## 7. Pension and Benefits

In the second quarter of 2007, the Company contributed \$0.5 million to its pension plans. During the six months ended June 30, 2007, the Company contributed \$2.6 million which included \$2 million for prior service costs. During the first quarter of 2006, the Company contributed \$7.6 million to its pension plans. These contributions represented the minimum required annual contributions and \$4.1 million for prior service costs. The Company did not contribute to its plans during the second quarter of 2006. For the quarter ended June 30, 2007 the total benefit cost from the defined benefit pension plans relating to employee future benefits was \$0.5 million (2006: \$0.7 million) and for the six months ended June 30, 2007 the cost was \$1.0 million (2006: \$1.4 million).

## 8. Shareholders' Equity

The components of shareholders' equity are as follows:

<i>(millions)</i>	<b>June 30, 2007</b>	December 31, 2006
Common shares	<b>\$ 504.1</b>	\$ 491.2
Contributed surplus	<b>5.4</b>	3.5
Retained earnings	<b>415.3</b>	411.1
	<b>924.8</b>	905.8
Accumulated other comprehensive income		
Transitional adjustment	<b>(9.3)</b>	-
Unrealized foreign currency translation gains and losses	<b>(29.7)</b>	(11.2)
Gains and losses on cash flow and net investment hedges	<b>8.7</b>	-
	<b>(30.3)</b>	(11.2)
	<b>\$ 894.5</b>	\$ 894.6

The continuity of accumulated other comprehensive income is as follows:

<i>(millions)</i>	<b>June 30, 2007</b>
Accumulated net unrealized foreign currency translation gains and losses	
Balance, beginning of period	<b>\$ (11.2)</b>
Net unrealized loss on translation of net investment in foreign operations	<b>(18.5)</b>
Balance, end of period	<b>(29.7)</b>
Accumulated net unrealized loss on cash flow and net investment hedges	
Balance, beginning of period	-
Transitional adjustment (Note 2)	<b>(9.3)</b>
Unrealized gains on items designated as net investment hedges (net of tax of \$1.2)	<b>6.4</b>
Unrealized gains on items designated as cash flow hedges (net of tax of \$1.1)	<b>2.3</b>
Balance, end of period	<b>(0.6)</b>
Total accumulated other comprehensive income	<b>\$ (30.3)</b>

Ineffectiveness recorded in net income during the quarter and six months ended June 30, 2007 relating to cash flow hedges was insignificant.

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

	Number of Shares	Amount (millions)
Balance December 31, 2006	62,366,842	\$ 491.2
Stock options exercised	81,700	1.0
Balance March 31, 2007	62,448,542	\$ 492.2
Stock options exercised	610,200	11.9
Balance June 30, 2007	63,058,742	\$ 504.1

	Quarters ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Average shares outstanding				
Basic	<b>62,806,841</b>	62,233,336	<b>62,603,445</b>	57,407,864
Diluted	<b>63,237,490</b>	62,744,307	<b>63,089,180</b>	58,119,853

#### 9. Supplemental Cash Flow Information

Income tax paid in the quarter ended June 30, 2007 was \$21.6 million (2006: \$23.4 million) and the six months ended June 30, 2007 was \$44.9 million (2006: \$39.4 million).

**RUSSEL METALS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

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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 six months ended June 30, 2007 and 2006, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2006, including the notes thereto, contained in our fiscal 2006 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 \$0.47 for the three months ended June 30, 2007 are lower than those reported for the three months ended June 30, 2006 of \$0.74 per share. Lower volumes in the metals service centers and steel distributors segments compared to the second quarter of 2006 were the most significant factors for this decline. Price increases by our steel suppliers in the quarter resulted in overall margins improving during the second quarter of 2007 compared to the first quarter of 2007. Demand remains consistent with the first quarter of 2007 but not as strong as the second quarter of 2006.

## 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 table shows the segments as they are reported to management and they are consistent with the segmented reporting in the consolidated financial statements.

<i>(in millions of dollars, except percentages)</i>	Quarters Ended June 30,			Six Months Ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<i>Segment Revenues</i>						
Metals service centers	\$ 370.0	\$ 406.7	(9.0%)	\$ 732.6	\$ 795.3	(7.9%)
Energy tubular products	167.0	121.7	37.2%	346.0	307.9	12.4%
Steel distributors	111.7	153.8	(27.4%)	252.0	318.3	(20.8%)
Other	4.1	3.7		5.9	5.1	
	\$ 652.8	\$ 685.9	(4.8%)	\$ 1,336.5	\$ 1,426.6	(6.3%)
<i>Segment Operating Profits</i>						
Metals service centers	\$ 31.4	\$ 37.9	(17.2%)	\$ 56.2	\$ 69.6	(19.3%)
Energy tubular products	11.0	11.0	-	25.8	29.4	(12.2%)
Steel distributors	11.9	24.4	(51.2%)	23.4	42.5	(44.9%)
Corporate expenses	(7.3)	(5.0)	(46.0%)	(12.0)	(10.6)	(13.2%)
Other	1.9	1.7		1.5	0.3	
Operating profits	\$ 48.9	\$ 70.0	(30.1%)	\$ 94.9	\$ 131.2	(27.7%)
<i>Segment Gross Margin as a % of Revenues</i>						
Metals service centers	24.9%	25.1%		24.4%	24.9%	
Energy tubular products	13.2%	16.3%		13.9%	15.4%	
Steel distributors	15.0%	19.0%		13.7%	17.6%	
Total operations	20.5%	22.4%		19.9%	21.3%	
<i>Segment Operating Profits as a % of Revenues</i>						
Metals service centers	8.5%	9.3%		7.7%	8.8%	
Energy tubular products	6.6%	9.0%		7.5%	9.5%	
Steel distributors	10.7%	15.9%		9.3%	13.4%	
Total operations	7.5%	10.2%		7.1%	9.2%	

## *Metals service centers*

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

We provide processing and distribution services to a broad base of approximately 19,000 end users through a network of 52 Canadian locations and 4 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 Midwest region 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, McCabe Steel and York-Ennis. Our U.S. service center operations are conducted under the names Russel Metals Williams Bahcall and Baldwin International. Our Williams Bahcall operations focus primarily on the distribution of general line carbon products through three facilities located in Wisconsin. 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 2007 and 2006 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the business 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. Steel prices continue to be volatile; however, they remain at levels above historical norms at all points in the cycle.

Demand is significantly affected by economic cycles with revenues and operating profit fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing (excluding automotive), resource and construction segments of the Canadian economy. Demand has been relatively stable over the last several years with some softening in the fourth quarter of 2006. Although tons shipped for the second quarter of 2007 are consistent with the first quarter of 2007 they are 15% below the second quarter of 2006.

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 19,000 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.

**c) Metals service centers segment results --  
Three Months Ended June 30, 2007  
Compared to Three Months Ended June 30, 2006**

Revenues for the three months ended June 30, 2007 decreased by \$36.7 million, or 9.0% compared to the three months ended June 30, 2006. Overall tons shipped for the three months ended June 30, 2007 were approximately 15% lower than those shipped in the same period in 2006. Tons shipped declined in all regions with Ontario representing the largest decline in tons shipped. Tons shipped in all regions for the second quarter of 2007 approximate tons shipped in the first quarter of 2007.

The average selling price of metal for the three months ended June 30, 2007 was approximately 7% higher compared to the selling price for the three months ended June 30, 2006. The average selling price of metal for the second quarter of 2007 has increased slightly compared to the first quarter of 2007.

Gross margin as a percentage of revenues at 24.9% for the three months ended June 30, 2007 represents a slight decline compared to the three months ended June 30, 2006 of 25.1%. Our average selling price was higher than that in the second quarter of 2006; however, higher inventory costs resulted in slightly lower gross margins.

We believe that the Canadian dollar strength in the second half of 2006 and the first half of 2007 adversely impacted those of our customers in Ontario and Quebec who sell finished products outside of Canada and consequently we had reduced volumes in these regions. To date, the change in the Canadian dollar versus the U.S. dollar has not been a significant factor in the metals service centers in relation to inventory costs as inventory is purchased for our Canadian operations from Canadian or U.S. suppliers based on the landed cost at the specific location in Canada. The strength in the Canadian dollar at the end of the second quarter of 2007 has reduced the replacement cost for certain products sourced from the U.S. which is putting pressure on selling prices and gross margins as customers expect this to be factored in the price they pay for metal.

Operating expenses in our metals service centers segment decreased by \$3.3 million, or 5%, for the second quarter of 2007 compared to the same period in 2006. This was primarily due to lower compensation expense. Our compensation plans are based on pay for performance and our compensation expenses declined with the lower profits in our operations.

Metals service centers operating profits for the three months ended June 30, 2007 of \$31.4 million were \$6.5 million lower than the same period in 2006, mainly related to lower volumes and gross margins partially offset by lower operating expenses.

**d) Metals service centers segment results --  
Six Months Ended June 30, 2007  
Compared to Six Months Ended June 30, 2006**

Revenues for the six months ended June 30, 2007 at \$732.6 million were 7.9% less than revenues for the six months ended June 30, 2006. Tons shipped decreased approximately 13% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. We estimate that the average selling price per ton, for our product mix in the service center segment was approximately 6% higher for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The average selling price has been relatively constant for the last twelve months.

Gross margin as a percentage of revenues declined from 24.9% for the six months ended June 30, 2006 to 24.4% for the six months ended June 30, 2007 due to higher inventory costs.

Operating expenses for the six months ended June 30, 2007 were \$5.8 million lower than for the same period in 2006 due to lower compensation expense and lower bad debt expense. A large bad debt charge was recorded in the first quarter of 2006 related to a specific customer and was not indicative of a general deterioration of accounts receivable. Our compensation expense declined with the lower profits in our operations.

Metals service centers operating profits in the six months ended June 30, 2007 decreased \$13.4 million or 19.3% compared to the six months ended June 30, 2006, primarily related to lower volumes and lower gross margins partially offset by lower operating expenses.

### ***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 2007 and 2006 is found in the sections that follow.

Oil and gas prices, which is one of the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, has the ability to significantly affect demand for our product. Rig activity is significantly lower in 2007 versus 2006. Rig activity in 2007 has declined to levels lower than those experienced in the last ten years. Oil and gas prices dropped during 2006 and have shown modest improvement in 2007.

Oil and gas drilling in Western Canada usually peaks during the period from October to March; thus revenues and operating profits have historically been higher during these two quarters. Oil and gas drilling in Western Canada is significantly lower in 2007; however, activity in the oil sands of northern Alberta and line pipe volumes in the U.S. have offset this decline in the second quarter of 2007.

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. While pricing has impacted our earnings more significantly, the appreciation of the Canadian dollar has also contributed by reducing our average cost of metal.

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 have not been a factor for pipe products during the reported periods.

**c) Energy tubular products segment results --  
Three Months Ended June 30, 2007  
Compared to Three Months Ended June 30, 2006**

Revenues increased 37.2% to \$167.0 million in the three months ended June 30, 2007 compared to the three months ended June 30, 2006. The increase in revenues in 2007 is related to higher volumes in our U.S. operations and our Canadian operations that service the oil sands of northern Alberta, which were partially offset by lower volumes sold to the oil and gas drilling industry in Western Canada. The reported revenues are a record for the second quarter, which is normally seasonally lower than other quarters. A portion of the increase relates to one large transaction by one of our U.S. operations.

Gross margin as a percentage of revenues was 13.2% for the three months ended June 30, 2007, a decrease from 16.3% for the three months ended June 30, 2006. The lower margin mainly relates to the increased cost of goods sold resulting from higher tubing and casing prices and lower margins on large transactions in 2007.

Operating expenses were higher by \$2.3 million for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 due to higher delivery costs related to our U.S. operations and higher employee costs in those of our operations which had higher volumes.

Operating profits were \$11.0 million for the second quarter of 2007 and the second quarter of 2006. The higher volumes in 2007, which resulted in higher gross margin dollars, were offset by higher expenses providing the same operating profit as 2006.

**d) Energy tubular products segment results --  
Six Months Ended June 30, 2007  
Compared to Six Months Ended June 30, 2006**

Revenues increased 12.4% in the six months ended June 30, 2007, compared to the six months ended June 30, 2006. The year-to-date increased volume is a result of the volume increases in the second quarter explained above.

Lower oil and gas pricing, warmer weather and the high cost of manpower all contributed to lower rig activity in the first half of 2007 impacting demand for our products in Western Canada.

Gross margin percentages for the six months ended June 30, 2007 declined to 13.9% from 15.4% for the same period in 2006. The lower margin mainly relates to the increased cost of inventory and selling price pressure caused by excess inventory positions in the industry.

Operating expenses were higher by \$4.3 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, due to higher delivery costs related to our U.S. operations and higher employee costs in our operations with higher volumes.

Operating profits decreased by \$3.6 million or 12.2% in the six months ended June 30, 2007, compared to the six months ended June 30, 2006. This decrease was mainly due to higher expenses.

## *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 2007 and 2006 is found in the sections that follow.

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability.

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 due to overstock of inventory at service centers.

Movement in the U.S. dollar has had some effect on our Canadian steel distributor operations since inventory is purchased mainly in U.S. dollars. Steel is predominantly transacted in U.S. dollars and the Canadian mills adjust the price accordingly. The strengthening Canadian dollar at the end of the second quarter of 2007 is putting pressure on current selling prices.

### **c) Steel distributors segment results -- Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006**

Steel distributors revenues decreased 27.4% to \$111.7 million for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. Lower volumes accounted for most of the decrease in revenues. Volumes were lower due to decreased demand for steel at both our Canadian and U.S. operations caused by excess inventory in the service center industry and strong international pricing which resulted in material flowing to areas outside North America.

Gross margin as a percentage of revenues at 15.0% for the three months ended June 30, 2007 declined from 19.0% for the three months ended June 30, 2006. Strong demand for our products in 2006 resulted in higher metal pricing in the second quarter of 2006 compared to the second quarter of 2007.

Operating profits for the three months ended June 30, 2007 were \$11.9 million, which is \$12.5 million lower than the three months ended June 30, 2006, mainly related to lower volumes and gross margins.

**d) Steel distributors segment results --  
Six Months Ended June 30, 2007  
Compared to the Six Months Ended June 30, 2006**

Steel distributors revenues decreased 20.8% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. Revenues in the six months ended June 30, 2007 were lower than the six months ended June 30, 2006 mainly due to lower volumes.

Gross margin as a percentage of revenues for the six months ended June 30, 2007 declined to 13.7% compared to 17.6% for the same period in 2006.

Operating expenses were \$2.3 million lower for the six months ended June 30, 2007 compared to the same period in 2006, mainly due to variable compensation related to lower profitability.

Operating profits for the six months ended June 30, 2007 of \$23.4 million were \$19.1 million lower than the six months ended June 30, 2006, mainly related to lower volumes and gross margins.

***Corporate Expenses -- Three Months and Six Months Ended June 30, 2007  
Compared to Three Months and Six Months Ended June 30, 2006***

Corporate expenses increased in the second quarter and for the six months ended June 30, 2007 compared to the same periods in 2006 primarily due to the issuance of share options in the second quarter of 2007. The expense related to stock options issued has increased due to the higher stock price and also due to EIC-162, adopted in 2006, which requires us to recognize immediately or accelerate any expense related to options issued to employees who are eligible to retire during the vesting period. Based on this requirement our expense related to stock-based compensation for the second quarter of 2007 was \$2.6 million higher than we expect it will be in the next two quarters.

***Other -- Three Months and Six Months Ended June 30, 2007  
Compared to Three Months and Six Months Ended June 30, 2006***

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for the six months ended June 30, 2007 have improved primarily related to higher volumes handled in 2007 and the absence of severance costs relating to downsizing recorded in the first quarter of 2006.

***Consolidated Results -- Three Months and Six Months Ended June 30, 2007  
Compared to Three Months and Six Months Ended June 30, 2006***

Operating profits from operations before other costs or income for the three months ended June 30, 2007 were \$48.9 million, which was \$21.1 million lower than for the three months ended June 30, 2006. Lower volumes in the metals service centers and steel distributors segments account for this decline. Weaker results for the first two quarters of 2007 resulted in operating earnings for the first half of 2007 for each of our three segments being lower than the results for the first half of 2006.

## *Interest Expense*

The following table shows the components of our interest expense.

<i>(in millions)</i>	Quarters Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Interest on long-term debt				
6.375% Senior Notes	\$ 3.8	\$ 3.7	\$ 7.7	\$ 7.4
Other interest income, net	(2.2)	(2.5)	(4.3)	(3.0)
Total interest	\$ 1.6	\$ 1.2	\$ 3.4	\$ 4.4

Consolidated interest expense for the six months ended June 30, 2007 decreased by \$1.0 million to \$3.4 million compared to the six months ended June 30, 2006. We have had cash on hand and correspondingly interest income since March 2006, when we issued 11 million common shares. Interest for the three months ended June 30, 2007 increased \$0.4 million compared to the three months ended June 30, 2006, mainly related to higher net assets in 2007.

## *Restructuring*

In May 2006, we sold our Milton, Ontario facility, which was closed during 2005. The gain on sale before income taxes was approximately \$1.2 million.

## *Income Taxes*

Our provision for income taxes for the second quarter of 2007 was \$18.0 million, which was \$5.8 million lower than the second quarter of 2006, related to lower earnings. For the three months ended June 30, 2007, our income tax rate was 38.0%, which is higher than our normalized effective income tax rate due to non-deductible expenses related to stock options issued in the second quarter of 2007. Our income tax rate for the six months ended June 30, 2007 was 36.5%. We estimate our normalized effective income tax rate to be 35.0%.

Our income tax rate for 2006 was favourably impacted, as we were able to utilize unrecorded capital losses against a one-time capital gain on the sale of our Milton facility, resulting in lower income tax expense on the transaction. During the second quarter of 2006, the Canadian Federal budget, which proposed rate reductions in 2008 to 2010, was enacted. This change reduced our future tax liabilities by approximately \$0.5 million resulting in lower tax expense in the second quarter of 2006. Our income tax rate was negatively impacted by non-deductible expenses related to stock options issued in the first and second quarter of 2006. For the six months ended June 30, 2006, the income tax rate was 34.7%.

## *Net Earnings*

Net earnings for the second quarter of 2007 were \$29.3 million compared to \$46.2 million for the second quarter of 2006. Basic earnings per common share for the second quarter of 2007 were \$0.47 compared to \$0.74 for the second quarter of 2006. Net earnings for the six months ended June 30, 2007 were \$58.0 million compared to \$83.5 million for the same period in 2006. Basic earnings per common share for the six months ended June 30, 2007 were \$0.93 compared to \$1.45 for the six months ended June 30, 2006.

## *Shares Outstanding and Dividends*

The weighted average number of common shares outstanding for the second quarter of 2007 was 62,806,841 compared to 62,233,336 for the second quarter of 2006. The weighted average number of common shares outstanding for the six months ended June 30, 2007 was 62,603,445 compared to 57,407,864 for the six months ended June 30, 2006. The increase related to the 11 million common shares issued in March 2006 under a public offering and employee stock options exercised. As at June 30, 2007, we had 63,058,742 common shares outstanding and at July 30, 2007 we had 63,059,542 common shares outstanding.

We returned a portion of our earnings to our shareholders by paying common share dividends of \$28.3 million in the second quarter of 2007 compared to \$21.8 million in the second quarter of 2006. The cash dividend paid was \$0.45 per share for the second quarter of 2007 and \$0.35 per share for the second quarter of 2006.

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 approximately \$426 million available for restricted payments.

## *EBITDA*

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

<i>(in millions)</i>	<b>Quarters</b>		<b>Twelve Months</b>	
	<b>Ended June 30, 2007</b>	<b>2006</b>	<b>Ended June 30, 2007</b>	<b>2006</b>
Net earnings	\$ 29.3	\$ 46.2	\$ 133.1	\$ 151.1
Provision for income taxes	18.0	23.8	73.8	71.8
Interest expense, net	1.6	1.2	5.8	11.6
Earnings before interest and income taxes (EBIT)	48.9	71.2	212.7	234.5
Depreciation and amortization	5.0	4.8	20.3	19.3
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	\$ 53.9	\$ 76.0	\$ 233.0	\$ 253.8

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 \$8.6 million for the six months ended June 30, 2007 compared to \$13.5 million for the six months ended June 30, 2006. We are currently expanding some of our locations and adding laser burning equipment to certain of our metals service center operations and thus anticipate capital expenditures in the second half of 2007 to be higher than our depreciation expense.

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 be at levels higher than depreciation expense over a period of years due to the construction of larger facilities in growing markets and the expansion of product lines and processing capabilities.

Depreciation expense was \$9.3 million for the six months ended June 30, 2007 and \$8.9 million for the six months ended June 30, 2006.

### ***Liquidity***

We stress working capital management to ensure that working capital is minimized and leverage reduced over the economic cycle. The 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 June 30, 2007, current assets represented 86% of our total assets versus 85% at December 31, 2006. Total assets were \$1.4 billion at December 31, 2006 and at June 30, 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.

Overall inventory turns declined for the second quarter of 2007 compared to the first quarter of 2007 due to lower cost of sales in the second quarter of 2007. Overall inventory balances declined \$24.5 million from December 31, 2006, related to a reduced exchange rate on inventories held in the U.S. and a reduction in actual inventories generating cash of \$9.6 million year-to-date. This decline in inventories improved inventory turns for the second quarter of 2007 compared to the fourth quarter of 2006. Although sales volumes remain strong, we intend to reduce inventory levels in our energy tubular products segment over the next several quarters. Our goal is to ensure that we keep our inventory levels as low as possible while still satisfying the needs of our customers in order to minimize inventory valuation risk.

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>Quarters Ended</b>				
	<b>June 30 2007</b>	<b>Mar. 31 2007</b>	<b>Dec. 31 2006</b>	<b>Sept. 30 2006</b>	<b>June 30 2006</b>
Metals service centers	<b>4.0</b>	<b>3.9</b>	<b>3.8</b>	<b>3.7</b>	4.6
Energy tubular products	<b>2.4</b>	<b>2.7</b>	<b>2.3</b>	<b>2.7</b>	2.5
Steel distributors	<b>3.3</b>	<b>4.5</b>	<b>2.2</b>	<b>4.1</b>	4.7
Total operations	<b>3.3</b>	<b>3.6</b>	<b>2.9</b>	<b>3.4</b>	3.9

Metals service centers inventory turns improved slightly during the second quarter of 2007 due to higher volumes of shipments and a small reduction in inventories compared to the first quarter of 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 June 30, 2007 was 3.8 turns and the average for Canadian based companies was 3.0 turns.

The energy tubular products segment had significantly more inventory at June 30, 2007 compared to June 30, 2006. These inventories were to support anticipated sales in the first quarter of 2007, which did not materialize. Inventory turns declined from the first quarter of 2007, even though a small reduction in inventory occurred as the cost of sales in the second quarter of 2007 are seasonally lower than the first quarter of 2007.

The decline in turns in our steel distributors segment relates to increased inventories and lower cost of sales during the second quarter of 2007 compared to the first quarter of 2007.

The other major components of working capital are accounts receivable and accounts payable. Accounts receivable as at June 30, 2007, increased \$38.6 million since December 31, 2006, as a result of higher revenues compared to the fourth quarter of 2006. Accounts payable increased \$18.8 million in the first half of 2007, which mainly relates to higher trade payables.

During the six months ended June 30, 2007, we made income tax payments of \$44.9 million compared to payments of \$39.4 million for the six months ended June 30, 2006.

During the six months ended June 30, 2007, we utilized cash of \$8.6 million on capital expenditures and \$53.3 million on common share dividends. During the six months ended June 30, 2006, we utilized cash of \$13.5 million on capital expenditures and \$39.6 million on common share dividends.

## Free Cash Flow

<i>(in millions)</i>	Quarters Ended		Six Months Ended	
	2007	June 30, 2006	2007	June 30, 2006
Cash from operating activities before working capital	\$ 39.4	\$ 50.4	\$ 72.1	\$ 87.6
Purchase of fixed assets	(4.9)	(6.9)	(8.6)	(13.5)
Proceeds on sale of fixed assets	-	1.4	1.3	1.5
Proceeds from assets held for sale	-	6.2	-	6.2
	<b>\$ 34.5</b>	<b>\$ 51.1</b>	<b>\$ 64.8</b>	<b>\$ 81.8</b>

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 June 30, 2007, we had cash and cash equivalents, net of outstanding cheques, of \$206.7 million. In March 2006, we issued 11 million common shares resulting in excess cash, which has been invested in short-term investments until a suitable acquisition or other use of cash occurs.

The application of the new accounting standards related to Financial Instruments and Hedges (see section on Changes in Accounting Policies) requires all derivatives to be recorded at their fair values and the deferred costs to be netted against the applicable liability. The following table details the changes related to long-term debt.

<i>(in millions)</i>	Fair Value as at June 30, 2007	Balance as at December 31, 2006
Long-Term Debt		
6.375% US\$175 million Senior Notes due March 1, 2014	\$ 186.1	\$ 203.9
Amortized costs related to debt issuance (\$5.9 million included in Deferred Financing Charges at December 31, 2006)	5.1	-
	<b>\$ 181.0</b>	<b>\$ 203.9</b>
Obligations under Cross Currency Swaps		
Foreign exchange difference on US\$100 million (recorded as Other Accrued Liabilities at December 31, 2006)	\$ 25.5	\$ 15.4
Additional fair value of cash flows to terminate swap (not recorded on balance sheet in 2006)	10.2	-
	<b>\$ 35.7</b>	<b>\$ 15.4</b>

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

*Cash and Bank Credit Facilities*

<i>As at June 30, 2007 (in millions)</i>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ -	\$ -	\$ -
Cash net of outstanding cheques	192.7	14.0	206.7
Cash	192.7	14.0	206.7
Facilities availability	200.0	53.2	253.2
Letters of credit	50.6	27.9	78.5
Undrawn facilities	149.4	25.3	174.7
Total cash and undrawn facilities	\$ 342.1	\$ 39.3	\$ 381.4

We have a facility, with a syndicate of Canadian and U.S. banks, for a revolving loan of \$200 million, including letters of credit, which expires on October 29, 2009. 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 June 30, 2007, we had no borrowings and had letters of credit of \$50.6 million. At June 30, 2006, we had no borrowings and had letters of credit of \$55.9 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 June 30, 2007 is US\$50 million. At June 30, 2007, this subsidiary had no borrowings and had letters of credit of US\$26.2 million. At June 30, 2006, this subsidiary had no borrowings and had letters of credit of US\$38.9 million.

Cash generated from operating activities before working capital changes was \$72.1 million for the six months ended June 30, 2007 and was \$87.6 million for the six months ended June 30, 2006.

Based on cash and our bank facilities, we have access to approximately \$381 million of cash availability based on our June 30, 2007 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 June 30, 2007, we were contractually obligated to make payments under our long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods. The long-term debt interest and lease obligations represent annual amounts to December 31 of the noted year.

<i>(in millions)</i>	Long-Term Debt Maturities	Cross Currency Swaps	Long-Term Debt Interest	Lease Obligations	Total
2007	\$ -	\$ -	\$ 15.0	\$ 10.8	\$ 25.8
2008	-	-	14.5	9.0	23.5
2009	-	-	14.5	8.5	23.0
2010	-	-	14.5	7.8	22.3
2011	-	-	14.5	6.1	20.6
2012 and beyond	186.1	25.5	31.4	11.9	254.9
Total	\$ 186.1	\$ 25.5	\$ 104.4	\$ 54.1	\$ 370.1

The long-term debt interest in the table includes the impact of our swaps. Actual long-term debt interest has been estimated based on current exchange rates for the portion not hedged.

### ***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 June 30, 2007 exchange rate, we would incur an obligation of \$25.5 million in addition to our long-term debt obligation of \$186.1 million. The fair value of our swaps includes an additional obligation of \$10.2 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at June 30, 2007.

### ***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 14 to our 2006 annual consolidated financial statements. In the first half of 2007, we contributed approximately \$2.6 million to these plans. We expect additional contributions of approximately \$2.9 million during the remainder of the year

## *Accounting Policies and Estimates*

### **a) Change in Accounting Policies in 2007**

Effective January 1, 2007, as required by Canadian accounting standards, we adopted three new accounting standards - Financial Instruments - Recognition and Measurement, Hedges and Comprehensive Income. The principal impacts of the standards are:

- (i) Other comprehensive income is a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income has been added to our consolidated financial statements.
- (ii) Financial assets and liabilities are classified as available for sale, held to maturity, trading, other liabilities or loans and receivables.
- (iii) Items classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income until the item is sold. Other loans and receivables and other liabilities are measured at amortized cost using the effective interest method.
- (iv) Derivative instruments including hedges are recorded on the balance sheet at fair value.
- (v) This new hedging standard replaces our previous policy and the swaps which hedge our Senior Notes are recorded at fair value on the balance sheet with any gains or losses recorded in other comprehensive income until the hedged items are recognized in the consolidated statement of income.

Our available for sale assets include short-term investments. We currently do not have any assets classified as held to maturity. Our trading assets include bank accounts, forward exchange contracts and embedded derivatives in inventory purchases. Our accounts receivable are classified under loans and receivables and accounts payables and long-term debt are classified as other financial liabilities.

The impact on our financial statements is that changes in foreign exchange related to open purchase orders and forward exchange contracts have been reported in income for 2007. As metal is transacted mainly in U.S dollars worldwide, the majority of the entries relate to U.S. versus Canadian dollar movements. These derivatives have been fair valued at June 30, 2007 and January 1, 2007 and changes are reported in income for the six months ended June 30, 2007. The net impact of these items year-to-date in 2007 was not significant. Any transitional adjustment related to the January 1, 2007 fair value of like items has been included in retained earnings.

In addition, our long-term debt and the related swaps are recorded at fair value on the balance sheet. See details under Cash, Debt and Credit Facilities.

## **b) Accounting Estimates**

The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory obsolescence, useful lives of fixed assets, asset retirement obligations, income taxes, restructuring costs, pensions and other post-retirement benefits, fair values, guarantees, environmental obligations, contingencies and litigation. 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, which 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 June 30, 2007 is consistent with the level at December 31, 2006.

### *Inventories*

We review our inventory for obsolescence, slow moving product and to ensure that the cost of inventory is not in excess of its estimated market value. Inventory reserves or write-downs are recorded when cost exceeds the market value and when product is determined slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at June 30, 2007 is consistent with the level at December 31, 2006.

Other areas involving significant estimates and judgements include:

### *Income Taxes*

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

## *Employee Benefit Plans*

We perform a valuation, at least every three years, for each 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.

## *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 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 half of 2007 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.

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***

The steel sector in North America continues to be plagued by too much inventory, which has created pressure on operating margins primarily in carbon steel products. We are doing our utmost to align our inventories with our perception of forward demand. During the last two quarters, this has been a challenge as demand has fluctuated not only within geographical areas but also within specific products. This has resulted in an inventory imbalance, especially in energy tubular products. We are actively working on rebalancing inventories and expect an improvement over the last half of 2007.

Although the strong Canadian dollar has not had a material impact on our results to date, we are cognizant of the fact that the strong dollar will continue to have a negative impact on the manufacturing sector in Canada, particularly in Ontario and Quebec. In addition, our 2007 third quarter results for our U.S. operations will be translated at lower exchange rates, reducing our revenues and segment operating profits in Canadian dollars.

We, like everybody else in the industry, are currently experiencing some softness in both steel pricing and demand levels. Although we expect this to be temporary, the magnitude and timing of the recovery is uncertain. We anticipate an improvement in energy tubular products as the drilling activity and infrastructure build should lead to increased business activity in the oil patch.

July 30, 2007