



August 7, 2007

**To: The Customers of Central Moloney, Inc.**

**Subject: Raw Material Commodity Update**

With the **volatility in commodity markets** showing no sign of easing, we are already hearing rumbles of higher pricing and less allocation of raw material in 2008. The price spikes in raw materials like copper, oil, aluminum, stainless steel, mild steel, core steel and others over the past few years are an unsettling reminder of the magnitude of the challenges Central Moloney faces in managing volatile prices and scarce supplies.

Some of these materials have stabilized in 2007. Copper is trading in the \$3.60 to \$3.70 per pound range; Aluminum is hovering in the \$1.20 to \$1.25 per pound range. **Others that have not stabilized are oil, stainless steel parts and grain oriented electrical core steel.** Crude oil is at an all time high of \$78.00 a barrel. The surcharge alone on 304 stainless steel has gone from \$1.29/lb. in January 2007 to \$2.01/lb. in June 2007.

As global demand booms, **the laws of supply and demand are settling in.** China is turning into one of the world's largest consumers of raw materials as the country focuses on strong infrastructure led growth and prepares for Olympics 2008. And even if China's consumption plateaus, India's emerging economy and growth will more than pick up the slack.

**As in 2007, grain oriented electrical core steel will be our number one concern going into 2008.** As you can see from the attached letter from A.K. Steel, our grain oriented electrical core steel supplier, we are going to see a 20% reduction in actual supply in 2008, and we will see an increase in price in the range of 30% to 40%. This decrease in supply is because they have not been able to meet their commitments in the current year. A. K. Steel has attempted to run at 100% capacity, which has not been attainable. With no end to these pressures in sight, we will have no choice but to go to the overseas export markets and purchase material at substantially higher prices, assuming that it is available.

**Again, we are not alone in this problem.** All of our competition is seeing the same type of reduced availability and price increases. In 2008 and going forward, there will be more and more demand for the higher-grade grain oriented electrical core steel because of the Department of Energy's (DOE) implementation of higher efficiency standards for distribution transformers. Additional capacity of the higher-grade grain oriented electrical core steel will have to come on-line to support these new higher efficiency standards.

**Central Moloney** will continue our pledge to our customers to do whatever it takes to assure we are not put in a non-competitive position when it comes to raw materials.

With oil and grain oriented electrical core steel continuing to increase in price and the limited availability, we have no choice but to pass these commodities increases on to our customers in the form of higher prices. **Effective January 1, 2008, transformer prices are expected to increase 18% to 25%.** Because many of you will be preparing 2008 budgets soon, we wanted to provide this information to you now.



**The Customers of Central Moloney, Inc.**  
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Central Moloney takes seriously our obligation to provide competitive prices, high reliability and superior service to our customers. All of us at **Central Moloney, Inc.** thank you for your business and we look forward to strengthening our relationship with you and your company.

Sincerely,

Patrick Colclasure  
Central Region Sales Manager

Dennis VanVeckhoven  
Eastern Region Sales Manager

Karen Barnett  
Western Region Sales Manager

cc: Bo Siever  
Ed Copeland  
CM Staff  
CM Sales & Marketing  
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Rip Psyck  
GENERAL MANAGER  
ELECTRICAL STEEL SALES

July 25, 2007

Mr. Dan Edwards,  
Vice-President Materials  
Central Moloney  
P.O. Box 6608  
Pine Bluff, AR 71611

Dear Dan:

Please let this letter confirm the discussions held during AK Steel's visit on July 10, 2007. As was discussed, for 2008 AK steel will not be able to support the levels of business that Central Moloney wishes to place with us for Grain Oriented Electrical Steels. For the past two years we have been operating at our maximum capacity level and have consistently been unable to satisfy the full level of order demand that is being placed upon us. Further, during that same period, we have been unable to maintain the on-time delivery performance that our customers as well as we at AK Steel expect of us.

Due to this ongoing demand and our unacceptable delivery performance, we will continue to maintain limits on the amount of orders we can accept on a weekly basis. For 2008 we are instituting a weekly order limit on our 9 mil M-3 grade that is approximately 20% below both the weekly target and the actual amount we have been able to ship you in 2007.

This will also confirm the change in pricing for our Grain Oriented Electrical Steels in 2008. Our prices for 2008 will increase in the range of 30% to 40% depending on the grade.

We understand that Central Moloney would like to purchase additional Grain Oriented Electrical Steel from AK Steel in 2008, and we hope that we will be able to accommodate those orders as the year proceeds.

Sincerely,  
AK STEEL CORPORATION

A handwritten signature in black ink, appearing to read 'R. I. Psyck', written over a light-colored background.

R. I. Psyck  
General Manager  
Electrical Steel Sales