

CHARLOTTE

PIPE AND FOUNDRY COMPANY

February 1, 2008

TO: Distributors and Our Valued Contractor Customers

SUBJECT: PVC and ABS Raw Material Costs

In an effort to keep the lines of communication open with our customers, we want to give you our forecast for economic and plastic raw material market conditions for first quarter 2008 and beyond.

Obviously the economy entered 2008 in a seriously weakened condition. The housing sector exerted a strong drag on economic growth throughout the year. Total housing starts declined 25% to 1.354 million in 2007, the largest annual decline since 1980, according to the National Association of Home Builders. Building permits were also off by 25%, to 1.376 million units. Further reductions in home sales and housing starts are inevitable in 2008 – NAHB is currently forecasting a 20% decline in total housing starts this year.

The impact of the economy on the domestic PVC market, however, has been mixed. Overall demand for PVC resin in the U.S. was down only 5% in 2007 compared to 2006, remarkably resilient in light of the dramatic housing downturn, mostly due to strong global demand. U.S. PVC resin exports increased 40% over 2006 and as a result, demand for PVC feedstocks remains elevated, keeping prices high. For example, the price of chlorine, a primary feedstock in resin production, has increased 360% in the last 6 years. The price of ethylene, another key ingredient, has gone up more than 220% over that same period.

Persistently high energy prices also contribute to increasing production and transportation costs. Production of PVC resins and our finished goods rely heavily on natural gas, the cost of which has gone from a low of just over \$4.00 per million BTUs in November 2006 to \$7.50 this January – an 87.5% increase. Crude oil prices have tripled since September 2003, driving the cost of gasoline to more than \$3.00 a gallon, increasing our freight and operating costs. And since ABS is petroleum-based, costs for our ABS resins have increased at a commensurate rate. As a result of these macroeconomic pressures, our recent PVC and ABS pipe and fittings price increases in the market have not begun to keep pace with these rising raw material and energy costs, and additional price increases are likely.

We hope this information regarding our view of market conditions is helpful to you. If you have any questions, please contact your Charlotte Pipe Regional Sales Manager or local Charlotte Pipe Sales Representative. Thank you for your business.

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