Office and Plant:
2800 South 61st Court
Cicero, Illinois 60804-3091

(708) 735-8000
(800) 323-2750

STEEL COMPANY

Mailing Address:
P.O. Box 5137
Chicago, Illinois 60680-5137

Facsimile:
(708) 735-8100

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TAKING STOCK

At year's end, with Thanksgiving a few weeks ago and Christmas soon upon us, it is a time for taking stock. We live in a tumultuous period for our businesses, but we should remember that those matters rest in a far broader context of world events that now seem almost tectonic. Our economy is being shaped very much by the unexpected and unwanted costs of fighting terrorists. A revision of the balance of international economic power is underway, shown most vividly by the emergence of China. The value of the dollar is in question, more so than in decades.

Many of these global upheavals have affected world steel trade and our domestic steel industry. A review of our communications with you over the past eleven months shows how chaotic so much of our market has been, with scrap, pig iron, coke, freight, natural gas, metallics and currency values vacillating wildly, mostly on the upward side.

For us at Corey Steel, much of these concerns has been tempered by our comfort with our ability to make excellent products and a customer base that appreciates what we do. We are aware of how much we owe to your loyalty and to your willingness to work with us to meet our mutual needs. While expressing these sentiments is particularly appropriate in the holiday season, we want you to know that they are with us throughout the year.

Turning to some specific issues, it appears that Santa has already answered some of our wishes. In many cases, costs are down somewhat and the competitive position of the domestic industry has improved:

- Scrap. After reaching an astounding $435 per mt last month, #1 Busheling (Chicago) retreated to $390 in December. (No. 1 Dealer Bundles also declined to $395 from $430.) Shortages have been reported in Europe and India, but US export prices have declined.

- Pig Iron. The Brazilian spot price for pig iron declined by $15 to $350 per mt (CIF New Orleans). Apparently, the decline is due to a slowdown in production at least in part caused by imports from China and India.

- Coke. It has been reported that China plans to release at least 14 million tons of coke in 2005, up from 13 million tons this year, but still below 2003. India and other countries are expanding production, so world supplies may be greater next year. However, Arcelor has stated that its costs for coking coal will increase in 2005.

- Ocean Rates. This is one area where price moderation is not occurring. The Baltic Capesize Index shot up again in early December to 8562, over 1400 points higher than last month, to about eight times what it was a little over three years ago. The world breakbulk fleet is now at full capacity, and current orders for new vessels are only at about 5% of the existing capacity. Thus, little price relief on this front is in sight, barring a significant decline in shipments of steel products and other breakbulk items. (On this issue, EU exports of steel products to the U.S. during the first nine months of 2004 were up 55% over the same period in 2003.)

- Natural Gas. Again reflecting the recent drop in crude oil prices, natural gas declined in December by $1.34 per mcf to $7.41.

- Exchange rates. In this area as well, values experienced major changes. The Canadian dollar has continued on its upward path to 84¢. This represents a nine cent increase since last August. The Euro is now around $1.34, up fourteen cents since last August. And the pound sterling is now $1.94, an increase of sixteen cents since September.

- Consolidation. It now looks as if Stelco, which entered bankruptcy in Canada, will be purchased by another steelmaker, perhaps USS. The Ontario court overseeing the proceedings has approved a bid by Deutsche Bank to recapitalize Stelco, and that bid is viewed as the benchmark against which other offers will be measured. Russian steelmaker Cherepovets has also been mentioned as a potential buyer.

- Pricing. ISG, Nucor and Ipsco have all announced $30 increases on plate, effective January 1. AK has boosted prices on flat rolled by $50, also effective January 1. And ISG increased its surcharge by $15 for December.

In closing this final letter for 2004, we at Corey want to thank you for your steady support and to express our hopes that you, your employees and their families will have a warm and joyous holiday season and a healthy, safe and prosperous New Year.