



*“Best and Safest Choice ...  
Quality You Can Trust Since 1886”*

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President & Chief  
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To Our Customers:

When oil prices were rising at unprecedented rates earlier this year, asphalt prices followed. In recent weeks, however, the price of crude oil has dropped resulting in lower prices at the pump. So why aren't shingles declining in price, as well? Can we expect prices to drop? These are fair questions, so let me try to address current shingle market conditions and offer a perspective.

In the short term, we believe asphalt prices, and as a result shingle prices, are likely to remain high, despite recent 50-60% declines in crude oil prices. Simply put, it is a matter of supply and demand:

- First, the demand for asphalt is currently strong in the roofing and paving/road maintenance markets, and recent storm activity has further strained the limited supply.
- Second, supply. Alternative, more profitable uses of petroleum-based products—such as fuel—have limited the amount of asphalt produced.
- Third are other factors, such as the cost of diesel fuel which remains abnormally high and has led suppliers to keep their fuel surcharges in place.

Another supply factor has been the decline in smaller and medium-sized refineries—the primary source of asphalt. There were about 325 such refineries in 1980, compared with about 125 today. The larger refineries—which are invested in equipment that converts oil into fuel—are doing just that because it's more profitable than asphalt. In the past, about 40 percent of a barrel of oil would be turned into asphalt products—today, it's around 10 percent. News reports say that the U.S. is currently undersupplied by about 24,000 barrels of asphalt a day, or 5 percent of daily demand, and the number is expected to jump to 257,000 barrels a day by 2012.

It is because of these facts and circumstances that the historical relationship between oil and asphalt prices has become so distorted. While we do not foresee the resumption of the normal relationship in the short term, I want to reassure you that GAF recognizes your concerns and will act in a deliberate and thoughtful way in our approach to managing existing shingle inventory and pricing. Moreover, we want to continue to hear from you, if you have questions or concerns about current market conditions.

Our suppliers have committed to keeping us informed about price changes, and we commit to do the same with you. As always, GAF will maintain competitive pricing and will work hard to ensure that we remain your best and safest choice.

Best regards,