

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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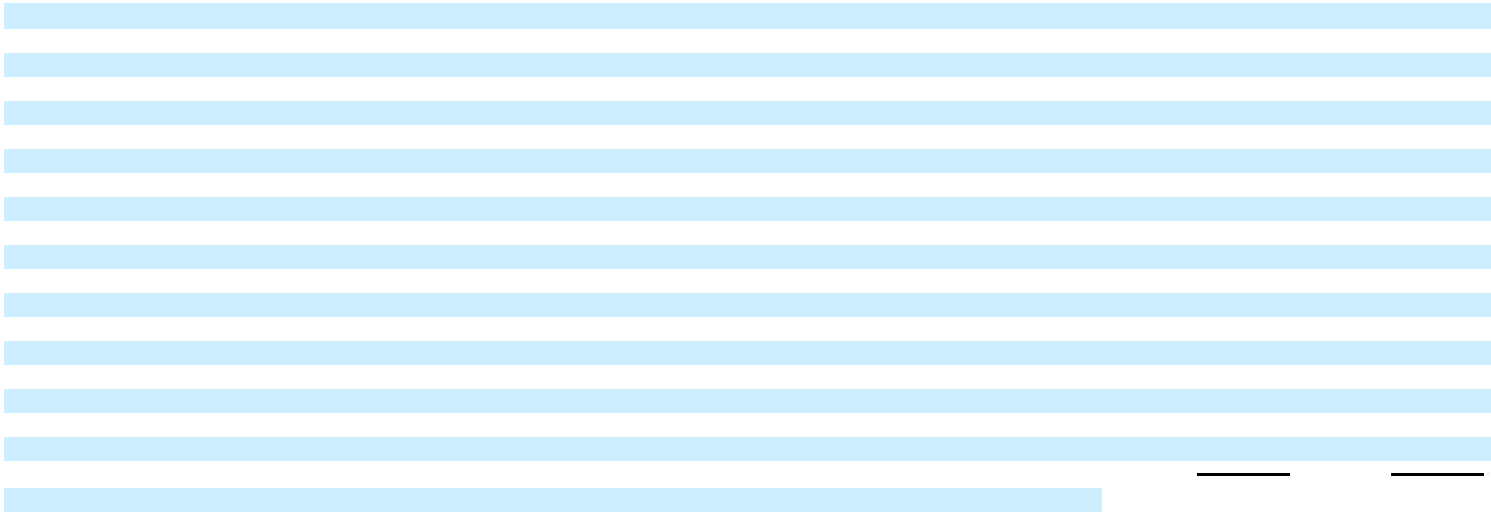
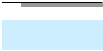
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## Notes to Consolidated Financial Statements

### 1. Basis of Presentation

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United States Steel Corporation (U. S. Steel) is engaged domestically in the production, sale and transportation of steel mill products, coke and iron ore pellets; the management and development of real estate; engineering and consulting services and, through U. S. Steel Kosice (USSK) and U. S. Steel Balkan (USSB), in the Slovak Republic and Serbia, respectively, in the production and sale of steel mill products.

The information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair statement of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications of prior year data have been made to conform to 2005 classifications including income from investees, net gains on disposal of assets and other income which are now part of operating expenses rather than part of revenues and other income (now referred to as net sales). This change was made so that U. S. Steel's statement of operations is more comparable to those of its competitors and other manufacturing companies. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2004.

### 2. Stock – Based Compensation

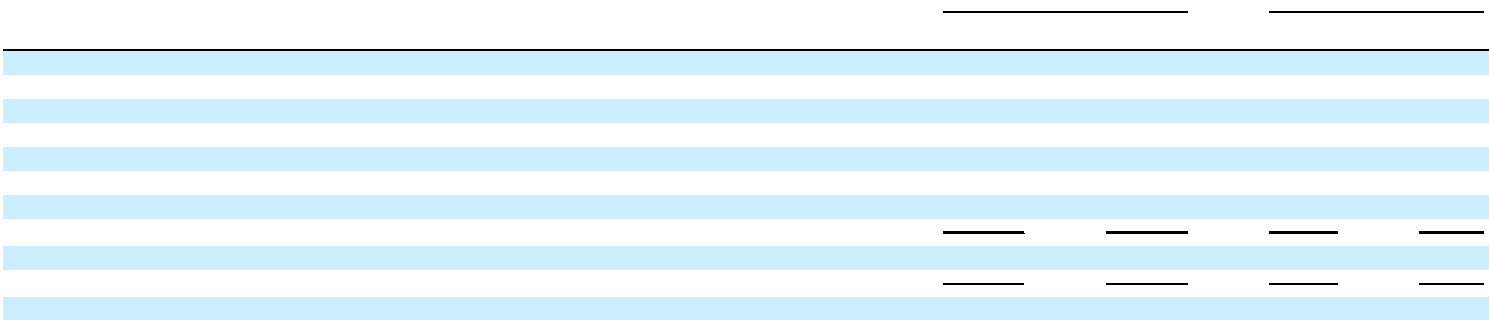
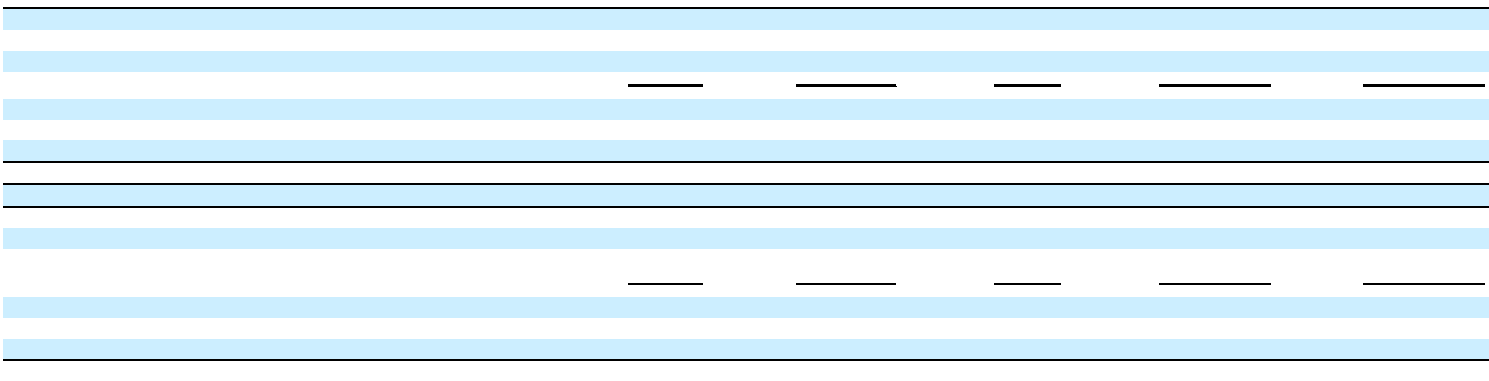
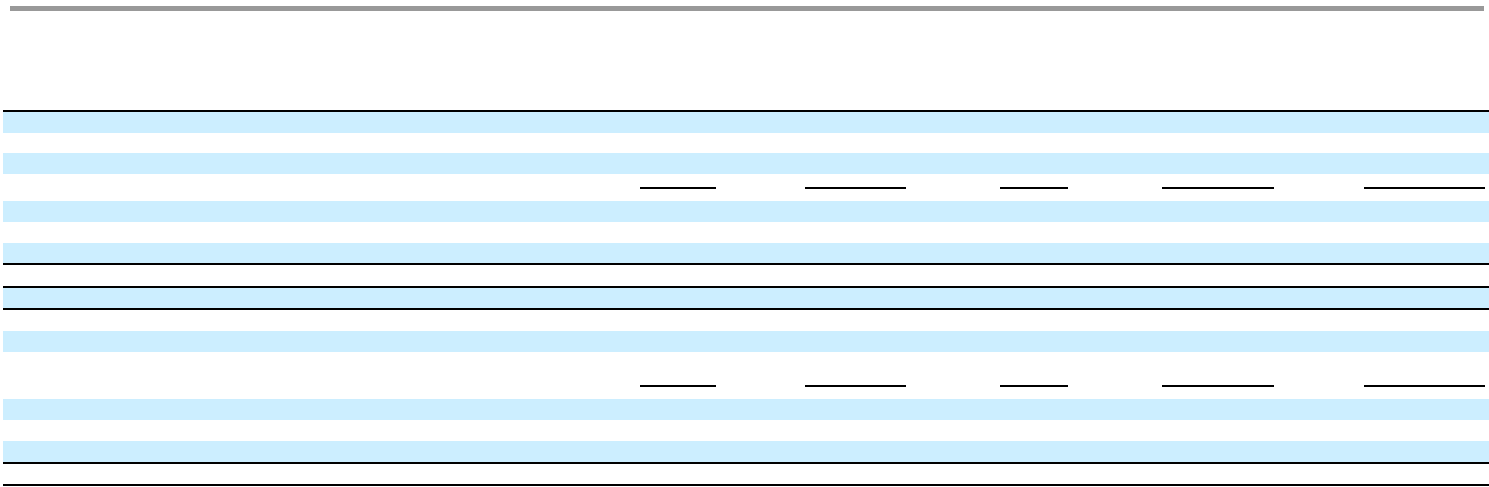
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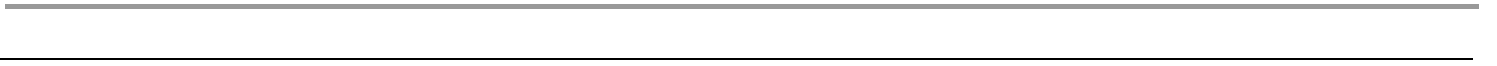
U. S. Steel has various stock

The following table illustrates the effect on net income and earnings per share if U. S. Steel had applied









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6. Depreciation, t ci

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estimates based on changes in various factors such as prices, shipments, product mix, plant operating performance and cost estimates, including labor, raw materials, energy and pension and other postretirement benefits. To the extent that actual pretax results for domestic and foreign income in 2005 vary from forecast estimates applied at the end of the most recent interim period, the actual tax provision recognized in 2005 could be materially different from the forecast annual tax provision as of the end of the second quarter.

As of June 30, 2005, the amount of net foreign deferred tax assets recorded was \$36 million, net of an established valuation allowance of \$66 million. As of December 31, 2004, the amount of net foreign deferred tax assets recorded was \$36 million, net of an established valuation allowance of \$48 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the Slovak koruna and Serbian dinar. A full valuation allowance is recorded for Serbian deferred tax assets due to the cumulative losses experienced since the acquisition of USSB. If USSB generates sufficient income, the valuation allowance of \$42 million for Serbian tax assets could be partially or fully reversed at such time that it is more likely than not that the related deferred tax assets will be realized.

As of June 30, 2005, the net domestic deferred tax liability was \$535 million compared to \$375 million at December 31, 2004.

The Slovak Income Tax Act provides an income tax credit which is available to USSK if certain conditions are met. In order to claim the tax credit in any year, 60 percent of USSK's sales must be export sales and USSK must reinvest the tax credits claimed in qualifying capital expenditures during the five years following the year in which the tax credit is claimed. See Note 18 for a discussion of the capital improvement program commitments to the Slovak government. The provisions of the Slovak Income Tax Act permit USSK to claim a tax credit of 100 percent of USSK's tax liability for years 2000 through 2004 and 50 percent of the current statutory rate of 19 percent for the years 2005 through 2009. The Slovak government has concluded audits for the years 2000 and 2001 and issued a favorable protocol indicating that USSK has complied with the tax credit agreements. Management believes that USSK has also fulfilled all of the necessary conditions for claiming the tax credit for 2002 through 2004. As a result of claiming tax credits of 100 percent of USSK's tax liability and management's intent to reinvest earnings in foreign operations, virtually no current income tax provision, except for the two \$16 million tax payments discussed below, was recorded for USSK income for 2000 through 2004. During the first six months of 2005, a current income tax provision was booked for USSK because the tax credit is limited to 50 percent of the statutory rate for the years 2005 through 2009.

In connection with Slovakia joining the European Union (EU), the total tax credit granted to USSK for the period 2000 through 2009 was limited to \$430 million. USSK recorded a tax charge of \$32 million in the first quarter of 2004 to account for the effects of this agreement and made tax payments of \$16 million in 2004 and 2005. Also, additional conditions for claiming the tax credit were established. These new conditions limit USSK's annual production of flat-rolled products and its sales of all products into the 15 countries that were members of the EU prior to Slovakia and nine other nations joining the EU in May 2004. Despite a 2003 lowering of the Slovak income tax rate, the future impact of these tax credit limitations could be material due to recent strong earnings at USSK. Management does not believe that the production and sales limits are materially burdensome.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. U. S. Steel expects the net effect of the

phase-out of the ETI and the phase-in of this new deduction to result in a decrease in the effective tax rate for fiscal years 2005 and 2006 of less than 1 percentage-point, based on current earnings levels. In the long-term, U. S. Steel expects that the new deduction will result in a decrease of the annual effective tax rate of approximately 2 percentage-points based on current earnings levels. Under the guidance in FSP FAS 109-1, the deduction will be treated as a "special deduction" as described in FAS 109. As such, the special deduction will have no effect on deferred tax assets and liabilities existing as of the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on U. S. Steel's tax return.

The Act also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. U. S. Steel is not yet in a position to decide on whether, and to what extent, U. S. Steel might repatriate foreign earnings that have not yet been remitted to the U.S. Based on the analysis to date, however, it is reasonably possible that U. S. Steel may repatriate some qualified dividend amount between \$0 to \$500 million, with the respective tax liability ranging from \$0 to \$26 million. U. S. Steel expects to be in a position to finalize its assessment by the fourth quarter of 2005.

While U. S. Steel is currently studying the impact of these one-time favorable foreign dividend provisions, as of June 30, 2005, and based on the tax laws in effect at that time, it remains U. S. Steel's intention to continue to indefinitely reinvest undistributed foreign earnings and, accordingly, no deferred tax liability has been recorded in connection therewith. Undistributed earnings of certain consolidated foreign subsidiaries at June 30, 2005, amounted to \$1.27 billion. If such earnings were not permanently reinvested, a U.S. deferred tax liability of approximately \$400 million would have been required.

## 10. Income Per Common Share

Basic net income per common share was calculated by adjusting net income for dividend requirements of preferred stock and is based on the weighted average number of common shares outstanding during the quarter.

Diluted net income per common share assumes the exercise of stock options and restricted stock and the conversion of preferred stock, provided in each case the effect is dilutive. For the second quarter and six months ended June 30, 2005 and 2004, 16,423,898 shares and 16,560,874 shares, 16,541,423 shares and 16,759,713 shares, respectively, of common stock related to employee options, restricted stock and the conversion of preferred stock have been included in the computation of diluted net income because their effect was dilutive. Net income has not been adjusted for preferred stock dividend requirements since their conversion is assumed.

## 11. Inventories

Inventories are carried at the lower of cost or market. At June 30, 2005 and December 31, 2004, the last-in, first-out (LIFO) method accounted for 83 percent of total inventory values.

(In millions)	June 30, 2005	December 31, 2004
Raw materials	\$ 418	\$ 253
Semi-finished products	601	562
Finished products	347	309
Supplies and sundry items	62	73
Total	\$ 1,428	\$ 1,197

Current acquisition costs were estimated to exceed the above inventory values by \$830 million at June 30, 2005 and by \$770 million at December 31, 2004. Cost of sales was increased by \$34 million and \$16 million in the second quarter of 2005 and 2004, respectively, and reduced by \$27 million and \$9 million in the first six months of 2005 and 2004, respectively, as a result of liquidations of LIFO inventories.

Supplies and sundry items inventory in the table above includes \$45 million of land held for residential/commercial development as of June 30, 2005, and \$46 million as of December 31, 2004.

## 12. Debt

(In millions)	Interest Rates %	Maturity	June 30, 2005	Dec. 31, 2004
Senior Notes	9 <sup>3</sup> / <sub>4</sub>	2010	\$ 378	\$ 378
Senior Notes	10 <sup>3</sup> / <sub>4</sub>	2008	348	348
Senior Quarterly Income Debt Securities	10	2031	49	49
Obligations relating to Industrial Development and Environmental Improvement Bonds and Notes	4 <sup>3</sup> / <sub>4</sub> - 6 <sup>7</sup> / <sub>8</sub>	2009 - 2033	472	472
Inventory Facility		2009	-	-
Fairfield Gaster Lease	0% - 8%	2005 - 2012	66	71
Other capital leases and all other obligations		2005 - 2014	52	55
USSK credit facilities		<del>2008</del>	-	-
USSB credit facility		2005	-	-
Total			<u>1,365</u>	<u>1,373</u>
Less unamortized discount			2	2
Less long-term debt due within one year			<u>8</u>	<u>8</u>
Long-term debt, less unamortized disco				



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**16. Comprehensive Income**

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The following table reflects comprehensive income for the second quarter and six months ended June 30, 2005 and 2004:

(In millions)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income	\$ 245	\$ 211	\$ 700	\$ 269
Other comprehensive income:				
Minimum pension liability	2	-	hs 2	-
Changes in foreign currency translation adjustments (net of tax):	(3)			
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U. S. Steel is the subject of, or party to, a number of legal actions and commitments of matters, including laws and regulations relating to environmental matters. The ultimate resolution of contingencies could, individually or in the aggregate, have a material effect on our consolidated financial statements. Management believes that the contingencies described below are probable, but not reasonably certain, to remain a viable and competitive enterprise even if the contingencies described below are resolved unfavorably.

U. S. Steel accrues for estimated costs of environmental lawsuits, remediation and process control that it will incur in the future.

— U. S. Steel is a defendant in approximately 48 cases filed by plaintiffs against U. S. Steel. U. S. Steel was a defendant in approximately 500 actions involving approximately 500 plaintiffs. In these cases, U. S. Steel is typically a defendant in approximately 100, or more, actions. In approximately 1,900, jper





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provisions have not dealt with environmental issues, there have been transactions in which U. S. Steel indemnified the buyer for non-compliance with past, current and future environmental laws related to existing conditions. Most recent indemnifications and cost sharing agreements are of a limited nature only applying to non-compliance with past and/or current laws. Some indemnifications and cost sharing agreements only run for a specified period of time after the transactions close and others run indefinitely. In addition, current owi issues, ditowi in Hr

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– See description of the partnership in Note 13



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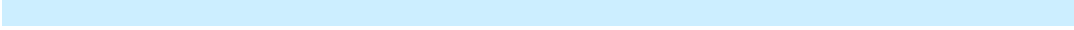
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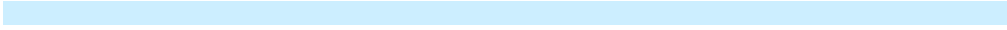






















**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**COMMODITY PRICE RISK AND RELATED RISK**

Sensitivity analyses of the incremental effects on pretax income of hypothetical 10 percent and 25 percent decreases in commodity prices for open derivative commodity instruments as of June 30, 2005, are provided in the following table<sup>(a)</sup>:

(Dollars in millions)	Incremental Decrease in Income Before Income Taxes Assuming a Hypothetical Price Decrease of:	
	10%	25%
<b>Commodity-Based Derivative Instruments</b>		
Zinc	\$ 1.0	\$ 2.5

(a) Amounts reflect the estimated incremental effects on pretax income of hypothetical 10 percent and 25 percent decreases in closing commodity prices for each open contract position at June 30, 2005. Management evaluates the portfolio of derivative commodity instruments on an ongoing basis and adjusts strategies to reflect anticipated market conditions, changes in risk profiles and overall business objectives. Changes to the portfolio subsequent to June 30, 2005, may cause future pretax income effects to differ from those presented in the table.

**INTEREST RATE RISK**

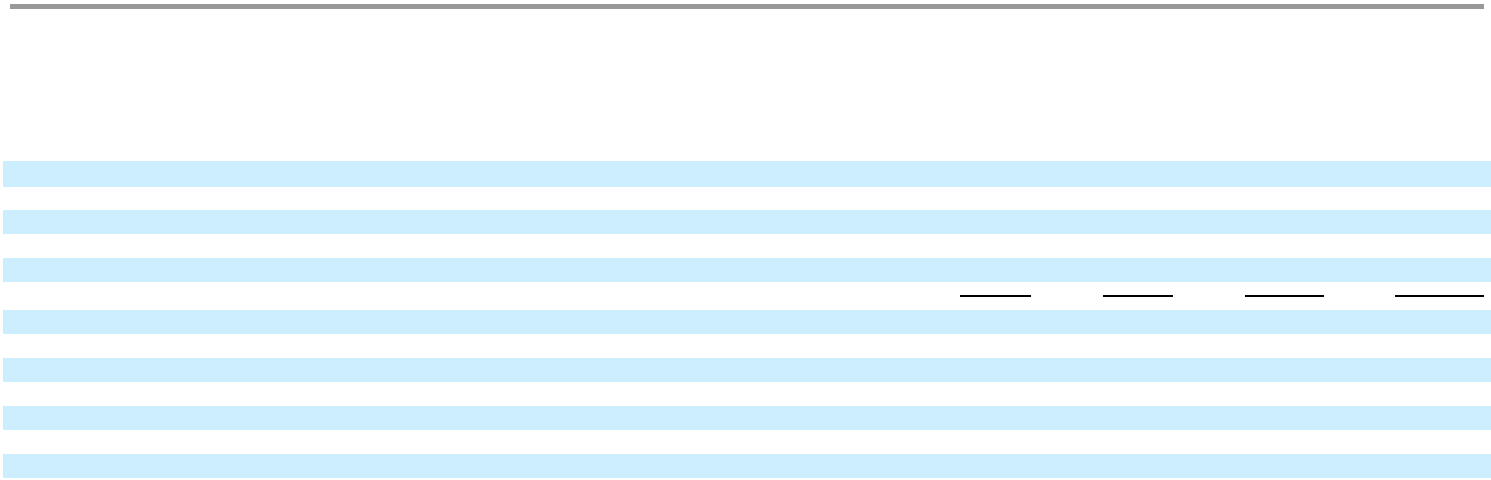
U. S. Steel is subject to the effects of interest rate fluctuations on certain of its non-derivative financial instruments. A sensitivity analysis of the projected incremental effect of a hypothetical 10 percent increase/decrease in June 30, 2005 interest rates on the fair value of the U. S. Steel's non-derivative financial assets/liabilities is provided in the following table:

(Dollars in millions)	Fair Value	Incremental Increase in Fair Value (b)
<b>Non-Derivative Financial Instruments (a)</b>		
Financial assets:		
Investments and long-term receivables	\$14	\$-
Financial liabilities:		
Long-term debt (c) (d)	\$1,371	\$50

- (a) Fair values of cash and cash equivalents, receivables, notes payable, accounts payable and accrued interest approximate carrying value and are relatively insensitive to changes in interest rates due to the short-term maturity of the instruments. Accordingly, these instruments are excluded from the table.
- (b) Reflects the estimated incremental effect of a hypothetical 10 percent increase/decrease in interest rates at June 30, 2005, on the fair value of U. S. Steel's non-derivative financial assets/liabilities. For financial liabilities, this assumes a 10 percent decrease in the weighted average yield to maturity of U. S. Steel's long-term debt at June 30, 2005.
- (c) Includes amounts due within one year and excludes capital leases.
- (d) Fair value was based on market prices where available, or estimated borrowing rates for financings with similar maturities.

At June 30, 2005, U. S. Steel's portfolio of long-term debt was comprised primarily of fixed-rate instruments. Therefore, the fair value of the portfolio is relatively sensitive to effects of interest rate fluctuations. This sensitivity is illustrated by the \$50 million increase in the fair value of long-term debt assuming a hypothetical 10 percent decrease in interest rates. However, U. S. Steel's sensitivity to





**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

**ENVIRONMENTAL PROCEEDINGS**

Granite City Works received two Notices of Violations (NOVs), dated February 20, 2004 and March 25, 2004 for air violations at the coke batteries, the blast furnace and the steel shop. All of the issues have been resolved except for an issue relating to air emissions that occur when coke is pushed out of the ovens for which a compliance plan has been submitted to the Illinois Environmental Protection Agency (IEPA). The IEPA referred the two NOVs to the Illinois Attorney General's Office for enforcement. The case is anticipated to be resolved by entering into a Consent Order in early 2006, which will include a revised pushing compliance plan and a penalty. IEPA has proposed a civil penalty of \$175,000 and is willing to consider Supplemental Environmental Projects (SEPs) to offset some of the penalty. U. S. Steel is reviewing IEPA's proposed penalty and the possibility of SEPs.

On January 26, 1998, pursuant to an action filed by the U.S. Environmental Protection Agency (EPA) in the United States District Court for the Northern District of Indiana titled United States of America v. USX, U. S. Steel entered into a consent decree with EPA which resolved alleged violations of the Clean Water Act National Pollutant Discharge Elimination System (NPDES) permit at Gary Works and provides for a sedimentation system. U. S. Steel is reviewing the consent decree and the possibility of a sedimentation system.







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These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 160 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma. In many such cases in which claims have been asserted against U. S. Steel, the plaintiffs have been unable to establish any causal relationship to U. S. Steel or its products or premises. In addition, in many asbestos cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all; that any injuries that they have incurred did in fact result from alleged exposure to asbestos; or that such alleged exposure was in any way related to U. S. Steel or its products or premises.

In every asbestos case in which U. S. Steel is named as a plaintiff<sup>ss</sup>


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**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The annual meeting of shareholders was held on April 26, 2005. The following matters were acted upon.

**ELECTION OF DIRECTORS**

Richard A. Gephardt, Dr. Shirley Ann Jackson, Dan D. Sandman and Douglas C. Yearley were elected to serve three-year terms as Class I directors by the following votes:

Nominee	Votes For	Votes Withheld
Richard A. Gephardt	101,884,278	1,199,561
Dr. Shirley Ann Jackson	101,269,841	1,813,998
Dan D. Sandman	102,067,405	1,016,434
Douglas C. Yearley	101,389,182	1,694,657

Continuing as Class II directors for a term expiring in 2006 are J. Gary Cooper, Frank J. Lucchino, Seth E. Schofield and John P. Surma. Continuing as Class III directors for a term expiring in 2007 are Robert J. Darnall, John G. Drosdick and Charles R. Lee. Thomas J. Usher was elected to serve as a Class III director by the following votes:

Nominee	Votes For	Votes Withheld
Thomas J. Usher	100,261,210	2,822,629

**ELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

PricewaterhouseCoopers LLP (PwC) was elected as the independent registered public accounting firm by the following votes:

Votes For	Votes Against	Abstain
102,048,727	328,337	706,775

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**Item 6. EXHIBITS**

- 10.1 The Non-Employee Director Stock Program of the 2005 Stock Incentive Plan, approved by the Board of Directors on May 24, 2005 - incorporated by reference to Exhibit 10.1 to United States Steel Corporation's Form 8-K dated May 31, 2005, Commission File Number 1-16811.
- 10.2 Performance Restricted Stock Grant Form under the 2002 Stock Plan with vesting on the first anniversary of the grant date, approved by the Compensation & Organization Committee of the Board of Directors on May 24, 2005 - incorporated by reference to Exhibit 10.2 to United States Steel Corporation's Form 8-K dated May 31, 2005, Commission File Number 1-16811.
- 10.3 Performance Restricted Stock Grant Form under the 2002 Stock Plan with vesting one-half on the second anniversary of the grant date and one-half on the third anniversary of the grant date, approved by the Compensation & Organization Committee of the Board of Directors on May 24, 2005 - incorporated by reference to Exhibit 10.3 to United States Steel Corporation's Form 8-K dated May 31, 2005, Commission File Number 1-16811.
- 12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 12.2 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002











CHIEF FINANCIAL OFFICER CERTIFICATE

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CHIEF FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

I, Gretchen R. Haggerty, Executive Vice President and Chief Financial Officer of United States Steel Corporation, certify that:

- (1) The Quarterly Report on Form 10-Q of United States Steel Corporation for the period ending June 30, 2005, fully complies with the requirements of sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the foregoing report fairly presents, in all material respects, the financial condition and results of operations of United States Steel Corporation.

/s/ Gretchen R. Haggerty

~~United States Steel Corporation.~~

Gretchen R. Haggerty  
Executive Vice President and  
Chief Financial Officer

Filed 02/05/05, 10:00 AM. Original response.