UNITED STATES STEEL CORP
Form 10-K
February 27, 2007
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2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2006

Commission file number 1-16811

(Exact name of registrant as specified in its charter)

Delaware	**25-1897152**
(State of Incorporation)	(I.R.S. Employer Identification No.)

600 Grant Street, Pittsburgh, PA 15219-2800

(Address of principal executive offices)

Tel. No. (412) 433-1121

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	**Name of Exchange on which Registered**

United States Steel Corporation

Common Stock, par value $1.00	**New York Stock Exchange, Chicago Stock Exchange**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ü__ No ______

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ______ No __ü__

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for at least the past 90 days. Yes __ü__ No ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer __ü__ Accelerated filer ______ Non-accelerated filer ______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ______ No __ü__

Aggregate market value of Common Stock held by non-affiliates as of June 30, 2006 (the last business day of the registrant s most recently completed second fiscal quarter): $8.6 billion. The amount shown is based on the closing price of the registrant s Common Stock on the New York Stock Exchange composite tape on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 under the Securities Act of 1933.

There were 118,487,727 shares of U. S. Steel Corporation Common Stock outstanding as of February 26, 2007.

Documents Incorporated By Reference:

Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated into Part III.

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FORWARD-LOOKING STATEMENTS

Certain sections of the Annual Report of United States Steel Corporation (U. S. Steel) on Form 10-K, particularly Item 1. Business, Item 3. Legal Proceedings, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures About Market Risk, include forward-looking statements concerning trends or events potentially affecting U. S. Steel. These statements typically contain words such as anticipates, believes, estimates, expects or similar words indicating that future outcomes are uncertain. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in forward-looking statements. For additional factors affecting the businesses of U. S. Steel, see Item 1A. Risk Factors and Supplementary Data Disclosures About Forward-Looking Statements. References in this Annual Report on Form 10-K to U. S. Steel , the Company , we , us and o refer to U. S. Steel and its consolidated subsidiaries, unless otherwise indicated by the context.

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PART I

Item 1. BUSINESS

U. S. Steel is an integrated steel producer with major production operations in the United States (U.S.) and Central Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. U. S. Steel has annual raw steel production capability of 19.4 million net tons (tons) in the U.S. and 7.4 million tons in Central Europe. U. S. Steel is also engaged in several other business activities, most of which are related to steel manufacturing. These include the production of coke in both the United States and Central Europe; and the production of iron ore pellets from taconite, transportation services (railroad and barge operations) and real estate operations in the U.S.

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Segments

During 2006, U. S. Steel had three reportable operating segments: Flat-rolled Products (Flat-rolled), U. S. Steel Europe (USSE) and Tubular Products (Tubular). The results of several operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

The Flat-rolled segment includes the operating results of U. S. Steel s North American integrated steel mills and equity investees involved in the production of sheet, tin mill products, strip mill plate and rounds for Tubular, as well as all coke production facilities in the U.S. These operations are principally located in the United States and primarily serve domestic customers in the service center, conversion, transportation (including automotive), container, construction and appliance markets.

Flat-rolled has annual raw steel production capability of 19.4 million tons. Raw steel production was 16.4 million tons in 2006, 15.3 million tons in 2005 and 17.3 million tons in 2004. Raw steel production averaged 84 percent of capability in 2006, 79 percent of capability in 2005 and 89 percent of capability in 2004. All steel produced by U. S. Steel in the U.S. is continuous cast.

The USSE segment includes the operating results of U. S. Steel Ko ice (USSK), U. S. Steel s integrated steel mill in Slovakia; and U. S. Steel Balkan (USSB), U. S. Steel s integrated steel mill and other facilities in Serbia. USSE primarily serves customers in the central, western and southern European construction, conversion, service center, appliance, container, transportation (including automotive), and oil, gas and petrochemical markets. USSE produces and sells sheet, strip mill plate, tin mill and tubular products, as well as heating radiators and refractories.

USSE has annual raw steel production capability of 7.4 million tons. USSE s raw steel production was 7.1 million tons in 2006, 5.9 million tons in 2005 and 5.7 million tons in 2004. USSE s raw steel production averaged 95 percent of capability in 2006, 80 percent of capability in 2005 and 77 percent of capability in 2004. All steel produced in U. S. Steel s European facilities is continuous cast.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities in the U.S. These operations produce and sell both seamless and electric resistance welded tubular products and primarily serve customers in the oil, gas and petrochemical markets. Tubular has the annual capability to produce 1.8 million tons of products.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses are involved in the production and sale of iron ore pellets, transportation services and the management and development of real estate.

The transfer value of steel rounds and bands supplied to Tubular by Flat-rolled and the transfer value of iron ore pellets supplied to Flat-rolled by Other Businesses are set at the beginning of the year based on expected total production costs and may be adjusted quarterly if actual production costs warrant.

For further information, see Note 3 to the Financial Statements.

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Financial and Operational Highlights

Net Sales by Segment

Includes National Steel facilities from the date of acquisition on May 20,

2003, and USSB from the date of acquisition on September 12, 2003.

The following table sets forth the total net sales of U. S. Steel by segment for each of the last three years.

(Dollars in millions, excluding intersegment sales)	**2006**	**2005**	**2004**
Flat-rolled	**$ 9,607**	$ 8,813	$ 9,827
USSE	**3,968**	3,336	2,839
Tubular	**1,798**	1,546	941
Total sales from reportable segments	**15,373**	13,695	13,607
Other Businesses	**342**	344	368
Net sales	**$ 15,715**	$ 14,039	$ 13,975

Income (Loss) from Operations

Includes National Steel facilities from the date of acquisition on May 20,

2003, and USSB from the date of acquisition on September 12, 2003.

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Income from Operations by Segment[(a)]

The following table sets forth income from operations by segment for each of the last three years.

	Year Ended December 31,		
(Dollars in Millions)	**2006**	**2005**	**2004**
Flat-rolled	**$ 600**	$ 602	$ 1,185
USSE	**714**	502	439
Tubular	**631**	528	197
Total income from reportable segments	**1,945**	1,632	1,821
Other Businesses	**129**	43	58
Segment income from operations	**2,074**	1,675	1,879
Retiree benefit expenses	**(243)**	(267)	(257)
Other items not allocated to segments:			
Workforce reduction charges	**(21)**	(20)	(17)
Out of period adjustments	**(15)**		
Asset impairment charge	**(5)**		
(Loss)/gain from sale of certain assets	**(5)**		43
Environmental remediation at previously sold facility		(20)	
Stock appreciation rights		1	(23)
Property tax settlement gain		70	
Total income from operations	**$ 1,785**	$ 1,439	$ 1,625

(a) See Note 3 to the Financial Statements for reconciliations and other disclosures required by Statement of Financial Accounting Standards No. 131.

Steel Shipments

Includes National Steel facilities from the date of acquisition on May 20,

2003, and USSB from the date of acquisition on September 12, 2003.

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Steel Shipments by Product

Steel Shipments by Product and Segment

The following table displays steel shipment data for U. S. Steel by segment and product for 2006, 2005 and 2004. Such data does not include shipments by joint ventures and other equity investees of U. S. Steel.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Product 2006				
Hot-rolled Sheets	**4,195**	**2,327**		**6,522**
Cold-rolled Sheets	**4,479**	**1,535**		**6,014**
Coated Sheets	**4,083**	**415**		**4,498**
Tin Mill Products	**1,318**	**587**		**1,905**
Tubular		**150**	**1,191**	**1,341**
Semi-finished and Plates	**105**	**1,247**		**1,352**
TOTAL	**14,180**	**6,261**	**1,191**	**21,632**
Product 2005				
Hot-rolled Sheets	3,779	1,960		5,739
Cold-rolled Sheets	4,343	1,383		5,726
Coated Sheets	3,657	405		4,062
Tin Mill Products	1,388	561		1,949
Tubular		140	1,156	1,296
Semi-finished and Plates	129	762		891
TOTAL	13,296	5,211	1,156	19,663
Product 2004				
Hot-rolled Sheets	5,164	2,215		7,379
Cold-rolled Sheets	4,587	1,172		5,759
Coated Sheets	4,286	396		4,682
Tin Mill Products	1,443	510		1,953
Tubular		158	1,092	1,250
Semi-finished and Plates	155	589		744
TOTAL	15,635	5,040	1,092	21,767

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Steel Shipments by Market

Steel Shipments by Market and Segment

The following table displays steel shipment data for U. S. Steel by segment and major market for 2006, 2005 and 2004. Such data does not include shipments by joint ventures and other equity investees of U. S. Steel. No single customer accounted for more than 10 percent of gross annual revenues; however, Tubular has one customer that accounts for more than 10 percent of segment revenues.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Major Market 2006				
Steel Service Centers	**3,241**	**1,367**	**1**	**4,609**
Further Conversion Trade Customers	**1,820**	**1,267**	**1**	**3,088**
Joint Ventures	**1,808**			**1,808**
Transportation (Including Automotive)	**2,517**	**439**	**1**	**2,957**
Construction and Construction Products	**1,263**	**1,526**		**2,789**
Containers	**1,317**	**566**		**1,883**
Appliances and Electrical Equipment	**1,198**	**512**		**1,710**
Oil, Gas and Petrochemicals		**41**	**1,073**	**1,114**
Export	**628**		**115**	**743**
All Other	**388**	**543**		**931**
TOTAL	**14,180**	**6,261**	**1,191**	**21,632**
Major Market 2005				
Steel Service Centers	3,172	807	4	3,983
Further Conversion Trade Customers	1,638	1,302	1	2,941
Joint Ventures	1,744			1,744
Transportation (Including Automotive)	2,449	372	2	2,823
Construction and Construction Products	1,079	1,109		2,188
Containers	1,297	531		1,828
Appliances and Electrical Equipment	1,031	402		1,433
Oil, Gas and Petrochemicals		33	1,055	1,088
Export	515		94	609
All Other	371	655		1,026
TOTAL	13,296	5,211	1,156	19,663
Major Market 2004				
Steel Service Centers	4,270	1,050	6	5,326
Further Conversion Trade Customers	1,952	1,060	1	3,013
Joint Ventures	2,017			2,017
Transportation (Including Automotive)	2,557	314	2	2,873
Construction and Construction Products	1,774	1,090		2,864

Containers	1,361	456		1,817
Appliances and Electrical Equipment	829	328		1,157
Oil, Gas and Petrochemicals		40	987	1,027
Export	531		96	627
All Other	344	702		1,046
TOTAL	15,635	5,040	1,092	21,767

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Business Strategy

U. S. Steel s strategy is based on our stated aspiration to be a responsible company that generates a competitive return on capital and meets our financial and stakeholder obligations. Within this value framework, our business strategy is to continue to increase our value-added product mix; to expand our global business platform; to improve our capital structure and strengthen our balance sheet; to improve our reliability and cost competitiveness; to become a world leader in safety and environmental performance; and to attract and retain a diverse workforce with the talent and skills needed for our long-term success.

In North America, we are focused on providing value-added steel products to our target markets where we believe that our leadership position, production and processing capabilities and technical service provide a competitive advantage. These products include advanced high strength steel and coated sheets for the automotive and appliance industries, sheets for the manufacture of motors and electrical equipment, galvanized and Galvalume® sheets for the construction industry, improved tin mill products for the container industry and oil country tubular goods.

In Europe, our strategy is to be a leading steel producer and a prime supplier of steel to growing European markets, to expand our customer base by providing reliable delivery of high-quality steel and to invest in value-added facilities, including an automotive hot-dip galvanizing line at USSK that started up in February 2007.

We will assess U.S. and international expansion opportunities, including raw material facilities, in light of changing global steel market conditions and long-term customer needs in order to maximize shareholder value. We may consider 100 percent acquisition opportunities, joint ventures and other means.

We have taken a balanced approach to allocation of our capital resources and free cash flow. We have increased our capital expenditures in order to enhance our infrastructure as well as to take advantage of cost reduction and value-added market opportunities, reduced our debt, voluntarily funded our employee benefit obligations, increased our common stock dividends, repurchased our common stock and enhanced our liquidity.

For example, we have more than doubled our average annual capital spending over the 2003 level, focusing on investments such as dynamo and automotive galvanizing facilities at USSK; major blast furnace projects at Gary Works, Granite City Works, USSK and USSB; refurbishing the steelmaking shop at USSB; upgrades to our ironmaking and cokemaking facilities in the U.S. and several significant environmental projects. In 2004, we redeemed $259 million of certain senior notes with the proceeds from an equity offering of eight million common shares and retired $281 million of USSK long-term debt. In late 2006 and early 2007, we purchased $328 million of our 10 3/4% Senior Notes due August 1, 2008 and redeemed $49 million of our 10% Senior Quarterly Income Debt Securities due 2031 with available cash. These debt reductions have enhanced our balance sheet, reduced our interest cost and improved our maturity schedule. Over the last three years, we made voluntary contributions of $565 million to our main domestic defined benefit pension plan and $136 million to our trusts for retiree health care and life insurance. We increased our quarterly common stock dividend four times over the last two years, quadrupling it from 5 cents per share to 20 cents per share. We have repurchased 13.1 million shares of common stock for $696 million since our stock repurchase program was initially authorized in July 2005. Finally, we improved our liquidity by approximately $1.4 billion since the National Steel and USSB acquisitions in 2003.

The acquisition of the National Steel facilities and the 2003 labor agreements with the United Steelworkers (USW) covering all of our production facilities in the U.S. enabled us to achieve a major productivity-oriented improvement in the cost structure of our U.S. business. We completed voluntary workforce reduction programs in the U.S. in 2003 and at USSK in 2005, and began one at USSB in 2006. The first phase of the USSB program will be completed in the first quarter of 2007. The second phase of the program, which will be implemented in the first half of 2007, is expected to result in a reduction of no more than five percent of the workforce. Other ongoing cost improvement efforts include logistics and supply chain management improvements, global procurement initiatives, centralized processed products management and maintenance supplies management.

We are currently pursuing the potential company-wide benefits of implementing an enterprise resource planning (ERP) system to help us operate more efficiently. The implementation of an ERP system would provide the opportunity to streamline, standardize and centralize business processes in order to maximize cost effectiveness, efficiency and control across our global operations.

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The foregoing statements of belief are forward-looking statements. Predictions regarding future cost savings are subject to uncertainties. Factors that may affect the amount of cost savings include the availability of a trained and optimally-sized workforce to operate our businesses and our ability to implement and maintain our cost reduction strategies. Actual results could differ materially from those expressed in these forward-looking statements.

We significantly improved our safety performance in 2006. On a global basis our OSHA recordable rate improved by 30 percent and we achieved a 26 percent reduction in the days away from work cases compared to 2005.

Given the large number of employees eligible for retirement in the near future (see Risk Factors Other Risk Factors applicable to U. S. Steel), recruiting, developing and retaining a diverse workforce and a world-class leadership team are crucial to the long-term success of our company.

We have also entered into a number of joint ventures with domestic and international partners to take advantage of market or manufacturing opportunities.

Steel Industry Background and Competition

The global steel industry is cyclical, highly competitive and has historically been characterized by overcapacity.

U. S. Steel is the sixth largest steel producer in the world, the second largest integrated steel producer in North America and one of the largest integrated flat-rolled producers in Central Europe. U. S. Steel competes with many U.S. and international steel producers. Competitors include integrated producers which, like U. S. Steel, use iron ore and coke as primary raw materials for steel production, and mini-mills, which primarily use steel scrap and, increasingly, iron-bearing feedstocks as raw materials.

Mini-mills typically require lower capital expenditures for construction of facilities and may have lower total employment costs; however, these competitive advantages may be more than offset by the cost of scrap when scrap prices are high. Some mini-mills utilize thin slab casting technology to produce flat-rolled products and are increasingly able to compete directly with integrated producers of flat-rolled products, who are able to manufacture a broader range of products. U. S. Steel provides defined benefit pension and/or other postretirement benefits to approximately 88,000 retirees and beneficiaries. Mini-mills and most of our other competitors do not have comparable fixed retiree obligations.

Also, international competitors may have lower labor costs than U.S. producers and some are owned, controlled or subsidized by their governments, allowing their production and pricing decisions to be influenced by political and economic policy considerations, as well as prevailing market conditions. We also face competition in many markets from producers of materials such as aluminum, cement, composites, glass, plastics and wood.

Due primarily to growth in worldwide steel production, especially in China, prices for steelmaking commodities such as steel scrap, coal, coke and iron ore escalated to unprecedented levels in 2004 and these commodities remain very expensive. Our balanced raw materials position in the U.S. and limited dependence on purchased steel scrap has helped the competitive position of our U.S. operations.

Steel imports to the United States, which reached all-time highs in 2006, accounted for an estimated 31 percent of the U.S. steel market in 2006, 25 percent in 2005 and 26 percent in 2004. Increases in future levels of imported steel could reduce future market prices and demand levels for steel produced in our U.S. facilities.

The U.S. Department of Commerce (DOC) and the U.S. International Trade Commission (ITC) recently completed their five-year sunset reviews of existing trade relief pertaining to Corrosion-Resistant Carbon Steel Flat Products (Corrosion-Resistant) and Carbon Cut to Length Plate (Cut to Length Plate).

The Corrosion-Resistant proceeding involved anti-dumping orders against product from Australia, Canada, France, Germany, Japan and South Korea; and countervailing duty orders against product from France and South Korea, all of which were put in place in 1993. The DOC had found that dumping and subsidization would be likely to continue or recur if any of these orders is revoked. On December 14, 2006, the ITC rendered its decision that material injury to the domestic industry would be likely to continue or recur if any of the orders from Germany or

South Korea were to be revoked. It also found that material injury would not be likely to continue or recur upon revocation of any of the other orders. Thus, the orders from Germany and South Korea remain in place, while the other orders have been revoked. We are appealing the ITC s determinations regarding Australia, Canada, France and Japan.

The Cut to Length Plate proceeding involves both anti-dumping and countervailing duty orders against product from Belgium, Brazil, Mexico, Spain, Sweden, and the United Kingdom; and antidumping orders against Finland, Germany, Poland, Romania and Taiwan, most of which were put in place in 1993, with the exception of Taiwan which has been in place since 1979. The DOC had found that dumping would be likely to continue or recur if any of these orders is revoked. On December 14, 2006, the ITC rendered its decision that material injury to the domestic industry would not be likely to continue or recur upon revocation of any of the orders. Thus, all the orders have been revoked.

The DOC and the ITC are currently conducting five year sunset reviews of other existing trade relief of interest to U. S. Steel: Seamless Pipe, Oil Country Tubular Goods (OCTG), Hot-Rolled Steel Products (Hot-Rolled) and Welded Large Diameter Line Pipe (Line Pipe).

The Seamless Pipe proceeding involves anti-dumping orders against product from Argentina, Brazil and Germany. The OCTG proceeding involves anti-dumping orders against product from Argentina, Italy, Japan, Korea and Mexico. All of these orders were imposed in 1995. The ITC conducted an injury hearing on seamless pipe on February 8, 2007 and the OCTG proceeding is scheduled for April 12, 2007. The ITC votes on these cases are scheduled for April 19, 2007 and May 31, 2007, respectively. The orders against OCTG from Argentina and Mexico are subject to various challenges and appeals before the U.S. Court of International Trade, NAFTA binational panels and a World Trade Organization review panel. Adverse decisions in these cases could cause those orders to be prematurely terminated.

The Hot-Rolled proceeding involves anti-dumping orders against product from Argentina, China, India, Indonesia, Kazakhstan, Netherlands, Romania, South Africa, Taiwan, Thailand and Ukraine; and countervailing duty orders against product from Argentina, India, Indonesia, South Africa and Thailand. These orders were imposed in 2001. The DOC is engaged in investigations to determine whether dumping would be likely to continue or recur if any of the orders is revoked. The ITC will hold its injury hearing on September 19 and September 20, 2007, and will vote on November 15, 2007.

The Line Pipe proceeding involves antidumping orders against product from Japan and Mexico. These orders were imposed in December 2001 and February 2002, respectively. The DOC is engaged in investigations to determine whether dumping would be likely to continue or recur if any of the orders is revoked. The ITC will hold its injury hearing in the second half of 2007.

We cannot predict the impact of these rulings on future levels of imported steel or on our financial results. We expect to continue to experience high levels of competition from imports and will continue to monitor imports closely and file anti-dumping and countervailing duty petitions if unfairly traded imports adversely impact, or threaten to adversely impact, financial results.

U. S. Steel s businesses in the U.S. are subject to numerous federal, state and local laws and regulations relating to the storage, handling, emission and discharge of environmentally sensitive materials. U. S. Steel believes that our major domestic and many European integrated steel competitors are confronted by substantially similar conditions and thus does not believe that our relative position with regard to such competitors is materially affected by the impact of environmental laws and regulations. However, the costs and operating restrictions necessary for compliance with environmental laws and regulations may have an adverse effect on

U. S. Steel s competitive position with regard to domestic mini-mills, some foreign steel producers and producers of materials which compete with steel, all of which may not be required to undertake equivalent costs in their operations. In addition, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to our prior disposal of environmentally sensitive materials. Most of our competitors have fewer historic liabilities. For further information, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

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USSK and USSB conduct business primarily in central, western and southern Europe and are subject to market conditions in those areas which are influenced by many of the same factors that affect domestic markets, as well as matters specific to international markets such as quotas and tariffs. USSK and USSB are affected by worldwide overcapacity in the steel industry, the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions. In particular, USSK and USSB are subject to economic conditions, environmental regulations and political factors in Europe, which if changed could negatively affect results of operations and cash flow. These economic conditions, environmental regulations and political factors include, but are not limited to, taxation, nationalization, inflation, currency fluctuations, increased regulation, limits on emissions (see Environmental Matters for a discussion regarding carbon dioxide emissions limits, which are applicable to European Union member countries), limits on production, and quotas, tariffs and other protectionist measures. USSK and USSB are affected by the volatility of raw materials prices, and USSB has been affected by curtailments of natural gas available from the one pipeline that supplies Serbia. USSE is also subject to foreign currency exchange risks because its revenues are primarily in euros and its costs are primarily in U.S. dollars, Slovak koruna and Serbian dinars.

Facilities and Locations

Flat-rolled

With the exception of the Fairfield pipe mill, the operating results of all the facilities within U. S. Steel s integrated steel mills in the U.S. are included in Flat-rolled. These facilities include Gary Works, Great Lakes Works, Mon Valley Works, Granite City Works and Fairfield Works.

Gary Works, located in Gary, Indiana, has annual raw steel production capability of 7.5 million tons. Gary Works has three coke batteries, four blast furnaces, six steelmaking vessels, a vacuum degassing unit and four continuous slab casters. In January 2006, we completed a major repair and rebuild of our largest blast furnace, which is located at Gary Works. Gary Works generally consumes all the coke it produces and sells several coke by-products. Finishing facilities include a hot strip mill, two pickling lines, two cold reduction mills, three temper mills, a double cold reduction line, two tin coating lines, an electrolytic galvanizing line and a hot dip galvanizing line. Principal products include hot-rolled, cold-rolled and coated sheets and tin mill products. Gary Works also produces strip mill plate. The Midwest Plant and East Chicago Tin are operated as part of Gary Works.

The Midwest Plant, located in Portage, Indiana, finishes primarily hot-rolled bands. Midwest facilities include a pickling line, two cold reduction mills, two temper mills, a double cold reduction mill, two hot dip galvanizing lines, a tin coating line and a tin-free steel line. Principal products include tin mill products and hot dip galvanized, cold-rolled and electrical lamination sheets.

East Chicago Tin is located in East Chicago, Indiana. Facilities include a pickling line, a cold reduction mill, a temper mill, a tin coating line and a tin-free steel line.

Great Lakes Works, located in Ecorse and River Rouge, Michigan, has annual raw steel production capability of 3.8 million tons. Great Lakes facilities include three blast furnaces, two steelmaking vessels, a vacuum degassing unit, two slab casters, a hot strip mill, a pickling line, a tandem cold reduction mill, a temper mill, an electrolytic galvanizing line and a hot dip galvanizing line. Principal products include hot-rolled, cold-rolled and coated sheets.

Mon Valley Works consists of the Edgar Thomson Plant, located in Braddock, Pennsylvania; the Irvin Plant, located in West Mifflin, Pennsylvania; the Fairless Plant, located in Fairless Hills, Pennsylvania; and Clairton Works, located in Clairton, Pennsylvania. Mon Valley Works has annual raw steel production capability of 2.9 million tons. Facilities at the Edgar Thomson Plant include two blast furnaces, two steelmaking vessels, a vacuum degassing unit and a slab caster. Irvin Plant facilities include a hot strip mill, two pickling lines, a cold reduction mill, a temper mill, a hot dip galvanizing line and a hot dip galvanizing/Galvalume® line. The Fairless Plant operates a hot dip galvanizing line. Principal products from Mon Valley Works include hot-rolled, cold-rolled and coated sheets, as well as coke and coke by-products produced at Clairton Works.

Clairton Works is comprised of twelve coke batteries, two of which are operated for the Clairton 1314B Partnership (1314B Partnership), which is discussed below. Approximately 79 percent of 2006 production (including the 1314B Partnership) was consumed by U. S. Steel facilities and the remainder was sold to or swapped with other domestic steel producers. Several coke by-products are sold to the chemicals and raw materials industries.

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U. S. Steel is the sole general partner of and owns an equity interest in the 1314B Partnership. As general partner, U. S. Steel is responsible for operating and selling coke and coke by-products from the partnership s two coke batteries. U. S. Steel s share of profits during 2006 was 45.75 percent. U. S. Steel consolidates the results of the 1314B Partnership in our financial statements.

Granite City Works, located in Granite City, Illinois, has annual raw steel production capability of 2.8 million tons. Granite City s facilities include two coke batteries, two blast furnaces, two steelmaking vessels, two slab casters, a hot strip mill, a pickling line, a tandem cold reduction mill, a hot dip galvanizing line and a hot dip galvanizing/Galvalume® line. Granite City Works generally consumes all the coke it produces and sells several coke by-products. Principal products include hot-rolled and coated sheets.

Fairfield Works, located in Fairfield, Alabama, has annual raw steel production capability of 2.4 million tons. Fairfield Works facilities included in Flat-rolled are a blast furnace, three steelmaking vessels, a vacuum degassing unit, a slab caster, a rounds caster, a hot strip mill, a pickling line, a cold reduction mill, two temper/skin pass mills, a hot dip galvanizing line and a hot dip galvanizing/Galvalume® line. Principal products include hot-rolled, cold-rolled and coated sheets, and steel rounds for Tubular.

ProCoil Company LLC, a wholly owned subsidiary located in Canton, Michigan, slits, cuts to length and press blanks steel coils to desired specifications, provides laser welding services and warehouses material to service automotive customers.

U. S. Steel participates in a number of joint ventures which are included in Flat-rolled, most of which are conducted through subsidiaries or other separate legal entities. All such joint ventures are accounted for under the equity method. The significant joint ventures and other investments are described below, all of which are 50 percent owned except Feralloy Processing Company and Acero Prime, S.R.L. de C.V. (Acero Prime), in which U. S. Steel holds 49 percent and 40 percent interests, respectively. For financial information regarding joint ventures and other investments, see Note 10 to the Financial Statements.

U. S. Steel and Pohang Iron & Steel Co., Ltd. (POSCO) of South Korea participate in a joint venture, USS-POSCO Industries (USS-POSCO), located in Pittsburg, California. The joint venture markets high quality sheet and tin mill products, principally in the western United States. USS-POSCO produces cold-rolled sheets, galvanized sheets, tin plate and tin-free steel from hot bands principally provided by U. S. Steel and POSCO, which each provide about 50 percent of its requirements. Total shipments by USS-POSCO were 1.4 million tons in 2006, 1.2 million tons in 2005 and 1.4 million tons in 2004.

U. S. Steel and Kobe Steel, Ltd. of Japan participate in a joint venture, PRO-TEC Coating Company (PRO-TEC). PRO-TEC owns and operates two hot-dip galvanizing lines in Leipsic, Ohio, which primarily serve the automotive industry. PRO-TEC s annual capability is approximately 1.2 million tons. U. S. Steel supplies PRO-TEC with all of its requirements of cold-rolled sheets and markets all of its products. Total shipments by PRO-TEC were 1.2 million tons in 2006, 1.1 million tons in 2005 and 1.2 million tons in 2004.

U. S. Steel and Severstal North America, Inc. participate in Double Eagle Steel Coating Company (DESCO), a joint venture which operates an electrogalvanizing facility located in Dearborn, Michigan. The facility can coat both sides of sheet steel with free zinc or zinc alloy coatings, primarily for use in the automotive industry. DESCO processes steel supplied by each partner and each partner markets its share of the output. In 2006, 2005 and 2004, DESCO s total production was 645 thousand tons, 693 thousand tons and 650 thousand tons, respectively.

U. S. Steel and Mittal Steel Co. NV participate in the Double G Coatings Company, L.P. (Double G) joint venture, a hot dip galvanizing and Galvalume® facility located near Jackson, Mississippi, which primarily serves the construction industry. Double G s production was 286 thousand tons in 2006, 234 thousand tons in 2005 and 316 thousand tons in 2004.

U. S. Steel and Worthington Industries, Inc. participate in a joint venture known as Worthington Specialty Processing, which operates a steel processing facility in Jackson, Michigan. The plant is operated by Worthington Industries, Inc. The facility is capable of processing master steel coils into both slit coils and sheared first operation blanks including rectangles, trapezoids, parallelograms and chevrons. It is designed to meet specifications for the

automotive, appliance, furniture and metal door industries. In 2006, 2005 and 2004, Worthington Specialty Processing shipments were 271 thousand tons, 342 thousand tons and 326 thousand tons, respectively.

Feralloy Processing Company (FPC), a joint venture between U. S. Steel and Feralloy Corporation, converts coiled hot strip mill plate into sheared and flattened plates for shipment to customers. The plant, located in Portage, Indiana, has a temper mill linked to a cut-to-length leveling line. The line provides stress-free, leveled product with a superior surface finish. FPC provides processing services to the joint venture partners and other steel consumers and service centers. FPC had annual revenues of $8.9 million in 2006, $6.6 million in 2005 and $5.1 million in 2004.

Chrome Deposit Corporation (CDC), a joint venture between U. S. Steel and Court Holdings, reconditions finishing work rolls, which require grinding, chrome plating, and/or texturing. The rolls are used on rolling mills to provide superior finishes on steel sheets. CDC has seven locations across the United States, with all locations near major steel mills. In 2006, 2005, and 2004, CDC had annual revenues of $19.9 million, $18.3 million and $19.9 million, respectively.

U. S. Steel, along with Feralloy Mexico, S.R.L. de C.V. and Mitsui Development Co., Inc., participates in a joint venture, Acero Prime. Acero Prime operates in Mexico with facilities in San Luis Potosi and Ramos Arizpe, and a leased warehouse in Toluca. Acero Prime provides slitting, warehousing and logistical services.

U. S. Steel owns a Research and Technology Center located in Munhall, Pennsylvania where we carry out a wide range of applied research, development and technical support functions.

U. S. Steel also owns an automotive technical center in Troy, Michigan. This facility brings automotive sales, service, distribution and logistics services, product technology and applications research into one location. Much of U. S. Steel s work in developing new grades of steel to meet the demands of automakers for high-strength, light-weight and formable materials is carried out at this location.

USSE

USSE consists of USSK, USSB and several subsidiaries of each.

USSK is headquartered at its integrated facility in Ko ice, Slovakia, which has annual raw steel production capability of 5.0 million tons. This facility has two coke batteries, three blast furnaces, four steelmaking vessels, a vacuum degassing unit, two dual strand casters, a hot strip mill, two pickling lines, two cold reduction mills, a temper mill, a temper/double cold reduction mill, two hot dip galvanizing lines, two tin coating lines, three dynamo lines and a color coating line. Construction of an automotive quality hot-dip galvanizing line was completed in February 2007 and start-up is progressing. USSK also has facilities for manufacturing heating radiators, spiral welded pipe and refractories.

In addition, USSK has a full service research laboratory. In conjunction with our research facility in Munhall, Pennsylvania, the USSK lab supports Centers of Excellence specialty efforts in cokemaking, electrical steels, design and instrumentation, and ecology.

USSB has an integrated plant in Smederevo, Serbia which has annual raw steel production capability of 2.4 million tons. Facilities at this plant include two blast furnaces, three steelmaking vessels, two slab casters, a hot strip mill, a pickling line, a cold reduction mill, a temper mill and a temper/double cold reduction mill. Other facilities include a tin mill in Sabac, a limestone mine in Kucevo and a river port in Smederevo, all located in Serbia.

Tubular

Seamless products are produced on a mill located at Fairfield Works in Fairfield, Alabama, and on two mills located in Lorain, Ohio. The Fairfield mill has annual production capability of 750 thousand tons and is supplied with steel rounds exclusively from Fairfield Works. The Lorain mills have combined annual production capability of 780 thousand tons and purchase steel rounds from Fairfield Works and other external sources. Electric resistance welded products are produced on a mill located in McKeesport, Pennsylvania, which is operated by Camp-Hill Corporation. The McKeesport mill has annual production capability of 315 thousand tons and purchases flat-rolled products from Mon Valley Works and other U. S. Steel locations.

Other Businesses

U. S. Steel s Other Businesses are involved in the production and sale of iron-bearing taconite pellets, transportation services and the management and development of real estate.

U. S. Steel s iron ore pellet operations are located at Mt. Iron (Minntac) and Keewatin (Keetac), Minnesota. During 2006, 2005 and 2004, these operations produced 22.1 million, 22.3 million and 22.9 million tons of iron ore pellets, respectively.

U. S. Steel owns 100 percent of Transtar, Inc. Transtar and its subsidiaries (the Elgin, Joliet and Eastern Railway Company in Illinois and Indiana; the Lake Terminal Railroad Company in Ohio; Union Railroad Company and McKeesport Connecting Railroad Company in Pennsylvania; the Birmingham Southern Railroad Company, Fairfield Southern Company, Inc., Mobile River Terminal Company, and Warrior and Gulf Navigation Company, all located in Alabama; and Delray Connecting Railroad Company in Michigan) comprise U. S. Steel s transportation business.

U. S Steel owns, develops and manages various real estate assets, which include approximately 200,000 acres of surface rights primarily in Alabama, Maryland, Michigan, Minnesota and Pennsylvania. In addition, U. S. Steel participates in joint ventures that are developing real estate projects in Alabama, Illinois and Maryland.

Raw Materials and Energy

Historically, supplies of raw materials and energy used to produce steel have been more than sufficient and costs were relatively stable. In the past several years there has been a tightening of raw material availability and substantial increases in costs. As an integrated producer, U. S. Steel s primary raw materials are iron units in the form of iron ore or taconite, carbon units in the form of coal and coke (which is produced from coal) and steel scrap. The amounts of such raw materials needed to produce a ton of steel will fluctuate based upon the specifications of the final steel products, the quality of raw materials and, to a lesser extent, differences among steel producing equipment. In broad terms, U. S. Steel estimates that it consumes about 1.4 tons of coal to produce one ton of coke and that it consumes over 1.2 tons of iron ore pellets and a little less than 0.4 tons of coke for each ton of raw steel produced. While we believe that these estimates are useful for planning purposes, substantial variations occur. They are presented in order to give a general sense of raw material consumption related to steel production.

Iron Ore

With the iron ore facilities at Minntac and Keetac, which contain an estimated 786 million short tons of recoverable reserves, U. S. Steel has the capability of being completely self-sufficient for iron ore requirements to support blast furnace production in the

U.S. Recoverable tons means the tons of product that can be used internally or delivered to a customer after considering mining and beneficiation or preparation losses. Any surplus pellet production is sold to domestic and foreign consumers, including USSE. Depending on market conditions and transportation costs, internal iron ore requirements may be satisfied by the purchase of pellets from third parties, permitting the sale of additional pellets on the open market.

USSE purchases most of its iron ore requirements from third parties, but has also purchased iron ore from U. S. Steel s iron ore facilities in the U.S. We believe that supplies of iron ore, adequate to meet USSE s needs, are available at competitive market prices. The main sources of iron ore for USSE are Russia and Ukraine, with supplemental supplies coming from Slovakia, Venezuela and Brazil.

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Coal

All of U. S. Steel s coal requirements in the U.S. are purchased from third parties. We believe that supplies of coal adequate to meet our domestic needs are available from third parties at competitive market prices. Coal supplies were disrupted throughout 2004 largely due to the declarations of force majeure by several of U. S. Steel s major coal suppliers, and in early 2005 due to river lock closures resulting from flooding. U. S. Steel has entered into contracts at competitive market prices for our domestic coal requirements in 2007.

USSK s coal requirements are purchased from third parties. We believe that supplies of coal adequate to meet USSK s needs are available from third parties at competitive market prices. The main sources of coal for USSK include Poland, the Czech Republic, the United States, Russia and Ukraine. USSK has entered into contracts at competitive market prices for its coal requirements in 2007. USSB, which purchases coke, does not currently require coal to support its operations.

Coke

In the U.S., U. S. Steel operates cokemaking facilities at our Clairton, Pennsylvania; Gary, Indiana; and Granite City, Illinois locations. These facilities have the capability to supply the majority of U. S. Steel s metallurgical coke requirements for blast furnace production in the U.S. Blast furnace coal injection processes at Gary Works, Great Lakes Works and Fairfield Works reduce U. S. Steel s domestic coke requirements. We routinely sell or swap a portion of the coke production from our Clairton facility. To the extent that it is necessary or appropriate considering existing needs and/or applicable transportation costs, coke is purchased from or swapped with U.S. and international suppliers or other end-users. We are evaluating alternatives to add cokemaking facilities and to enhance energy recoveries.

USSK operates a cokemaking facility that primarily serves the steelmaking operations at USSK. Depending on market conditions and operational schedules, USSK may purchase coke on the open market and may occasionally supply a portion of USSB s needs. Blast furnace coal injection processes at USSK reduce its coke requirements. USSB sources substantially all of its coke requirements from third party suppliers. We believe that supplies of coke, adequate to meet USSK s and USSB s needs, are available at competitive market prices. The main sources of coke for USSK and USSB in 2007 are expected to be Poland, Ukraine, Russia, Bosnia, Hungary, China and the Czech Republic.

Limestone

All limestone requirements in the U.S. are purchased from third parties. We believe that supplies of limestone adequate to meet our domestic needs are readily available from third parties at competitive market prices.

All limestone requirements for USSK are purchased from a third party under a long-term contract. We source approximately 50 percent of USSB s limestone requirements from third party suppliers with the balance coming from a limestone mine under our direct control. We believe that supplies of limestone adequate to meet USSB s needs are available from third parties at competitive market prices.

Zinc and Tin

We believe that supplies of zinc and tin required to fulfill our requirements for U.S. and European operations are available from third parties at competitive market prices.

Scrap and Other Materials

We believe that supplies of steel scrap and other alloying and coating materials required to fulfill our requirements for U.S. and European operations are available from third parties at competitive market prices. Generally, approximately 40 percent of our scrap requirements is internally generated through normal operations.

Natural Gas

We purchase all of our natural gas requirements from third parties. We believe that supplies of natural gas adequate to meet our U.S. needs are available from third parties at competitive market prices. About 60 percent of our domestic natural gas purchases are based on solicited bids, on a monthly basis, from various vendors; approximately 15 percent are made through long-term contracts; and the remainder are made daily or with physical forward positions. We have executed physical forward positions consistent with anticipated domestic business needs for natural gas because of the volatility of natural gas markets. As shown in the graph, domestic natural gas prices have increased significantly over the last several years.

We believe that supplies of natural gas, adequate to meet USSE s needs, are normally available from third parties at competitive market prices. Natural gas prices in Slovakia and Serbia have been less volatile than in the U.S.; however, prices increased in 2005 and 2006 and are expected to increase again in 2007. We experienced curtailments of natural gas supplies at USSB in early 2006. Serbia relies upon a single pipeline system for its natural gas, making USSB and other industrial customers in Serbia vulnerable to disruptions in this system.

Commercial Sales of Product

U. S. Steel characterizes our sales as contract if sold pursuant to an agreement with defined pricing and a one year or longer duration, and as spot if sold pursuant to a shorter term contract. In 2006 approximately 50 percent, 25 percent and 5 percent of sales by Flat-rolled, USSE and Tubular, respectively, were contract sales. U. S. Steel does not consider sales backlog to be a meaningful measure since volume commitments in most contracts are based on each customer s specific monthly orders.

Environmental Matters

U. S. Steel maintains a comprehensive environmental policy overseen by the Corporate Governance and Public Policy Committee of the U. S. Steel Board of Directors. The Environmental Affairs organization has the responsibility to ensure that U. S. Steel s operating organizations maintain environmental compliance systems that are in accordance with applicable laws and regulations. The Executive Environmental Committee, which is comprised of officers of U. S. Steel, is charged with reviewing our overall performance with various environmental compliance programs. Also, U. S. Steel, largely through the American Iron and Steel Institute and the International Iron and Steel Institute, is involved in the development of various air, water and waste regulations

with federal, state and local governments and international stakeholders concerning the implementation of cost effective environmental strategies.

U. S. Steel s businesses in the U.S. are subject to numerous federal, state and local laws and regulations relating to the protection of the environment. These environmental laws and regulations include the Clean Air Act (CAA)

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with respect to air emissions; the Clean Water Act (CWA) with respect to water discharges; the Resource Conservation and Recovery Act (RCRA) with respect to solid and hazardous waste treatment, storage and disposal; and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) with respect to releases and remediation of hazardous substances. In addition, all states where U. S. Steel operates have similar laws dealing with the same matters. These laws are constantly evolving and becoming increasingly stringent. The ultimate impact of complying with existing laws and regulations is not always clearly known or determinable due in part to the fact that certain implementing regulations for laws such as RCRA and the CAA have not yet been promulgated and in certain instances are undergoing revision. These environmental laws and regulations, particularly the CAA, could result in substantially increased capital, operating and compliance costs.

U. S. Steel has incurred and will continue to incur substantial capital, operating and maintenance, and remediation expenditures as a result of environmental laws and regulations. In recent years, these expenditures have been mainly for process changes in order to meet CAA obligations and similar obligations in Europe, although ongoing compliance costs have also been significant. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of U. S. Steel s products and services, operating results will be reduced. U. S. Steel believes that our major domestic and many European integrated steel competitors are confronted by substantially similar conditions and thus does not believe that its relative position with regard to such competitors is materially affected by the impact of environmental laws and regulations. However, the costs and operating restrictions necessary for compliance with environmental laws and regulations may have an adverse effect on our competitive position with regard to domestic mini-mills, some foreign steel producers and producers of materials which compete with steel, all of which may not be required to undertake equivalent costs in their operations. In addition, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to our prior disposal of environmentally sensitive materials. Most of our competitors have fewer historic liabilities.

USSK is subject to the environmental laws of Slovakia and the European Union (EU). The environmental requirements of Slovakia and the EU are comparable to environmental standards in the U.S. There are no legal proceedings pending against USSK involving environmental matters. USSK has a current compliance project for a primary dedusting system at Steel Shop No. 2 to meet air emission standards for particulates. The Slovak government has established November 30, 2007 as a new deadline for USSK to meet compliance standards at Steel Shop No. 2, and USSK anticipates meeting these standards prior to the deadline.

While the United States has not ratified the 1997 Kyoto Protocol to the United Nations Framework Convention on Climate Change, the European Commission (EC) establishes its own CO_2 limits for every EU member state. In 2004, the EC approved a national allocation plan (NAP I) for Slovakia that reduced Slovakia s originally proposed CO_2 allocation by approximately 14 percent, and following that decision the Slovak Ministry of the Environment (Ministry) imposed an 8 percent reduction to the amount of CO_2 allowances originally requested by USSK. Subsequently, USSK filed legal actions against the EC and the Ministry challenging these reductions. USSK is purchasing CO_2 allowances needed to cover its anticipated shortfall for the NAP I allocation period (2005 through 2007). Based on the value of purchased credits and current market value of CO_2 allowances remaining to be purchased for the anticipated shortfall related to production through December 31, 2007, a long-term other liability of $7 million was recognized on the balance sheet as of December 31, 2006. On November 29, 2006, the EC issued a decision that Slovakia would be granted 25 percent fewer CO_2 allowances than were requested in Slovakia´s NAP II, for the allocation period 2008 through 2012. Both Slovakia and USSK have filed legal actions against the EC to challenge this decision. The Ministry has not yet allocated Slovakia s CO_2 allowances to companies within Slovakia for the NAP II period. The potential financial and/or operational impacts of NAP II are not currently determinable.

While ratification of the Kyoto Protocol in the U.S. has not occurred, there remains the possibility that limitations on greenhouse gases may be imposed. The impact on our domestic operations cannot be estimated at this time.

USSB is subject to the environmental laws of Serbia. These laws are currently less restrictive than either the EU or U.S. standards, but this is expected to change over the next several years in anticipation of possible EU accession. Under the terms of the acquisition, USSB will be responsible for only those costs and liabilities associated with environmental events occurring subsequent to the completion of an environmental baseline study. The study was completed in June 2004 and submitted to the Government of Serbia.

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For further information, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Air

The CAA imposes stringent limits on air emissions with a federally mandated operating permit program and civil and criminal enforcement sanctions. The principal impact of the CAA on U. S. Steel is on the cokemaking and primary steelmaking operations, as described in this section.

The CAA requires the regulation of hazardous air pollutants and development and promulgation of Maximum Achievable Control Technology (MACT) Standards. The U.S. Environmental Protection Agency (EPA) MACT standards for integrated iron and steel plants required compliance by May 22, 2006. The taconite iron ore processing MACT required compliance by October 30, 2006. U. S. Steel added emissions control equipment to comply with the taconite iron ore processing MACT at Minntac. Keetac has installed an air scrubber for that purpose. Costs associated with compliance with these MACT standards are included in the capital expenditures disclosed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

The CAA specifically addressed the regulation and control of coke oven batteries. U. S. Steel has elected to comply with the Lowest Achievable Emission Rate (LAER) standards. The LAER standards are expected to be further revised in 2010 and additional health risk-based standards are expected to be adopted in 2020. The Phase II Coke MACT for pushing, quenching and battery stacks required compliance by April 14, 2006. The EPA is developing regulations to address Regional Haze, the impact of which could be significant to U. S. Steel, but the cost cannot be reasonably estimated until the final regulations are promulgated and, more importantly, the states implement their State Implementation Plans covering their standards. For additional information regarding significant enforcement actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

In July 1997, EPA announced a new standard for fine particulate matter (PM2.5) under the CAA National Ambient Air Quality Standards. At the same time, it promulgated the new eight-hour ozone standard. It is anticipated that these programs could result in significant cost to U. S. Steel, however it is impossible to estimate the magnitude of these costs at this time as the programs are beginning to be developed and implementation is not expected until between 2010 and 2020.

Water

U. S. Steel maintains discharge permits as required under the National Pollutant Discharge Elimination System program of the CWA, and conducts our operations to be in compliance with such permits. For additional information regarding enforcement actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Solid Waste

U. S. Steel continues to seek methods to minimize the generation of hazardous wastes in our operations. RCRA establishes standards for the management of solid and hazardous wastes. Besides affecting current waste disposal practices, RCRA also addresses the environmental effects of certain past waste disposal operations, the recycling of wastes and the regulation of storage tanks. Corrective action under RCRA related to past waste disposal activities is discussed below under Remediation. For additional information regarding significant enforcement actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Remediation

A significant portion of U. S. Steel s currently identified environmental remediation projects relate to the remediation of former and present operating locations. A number of these locations were sold by U. S. Steel and

are subject to cost-sharing and remediation provisions in the sales agreements. Projects include completion of the remediation of the Grand Calumet River, remediation of the former Geneva Works and the closure and remediation of permitted hazardous and non-hazardous waste landfills.

U. S. Steel is also involved in a number of remedial actions under CERCLA, RCRA and other federal and state statutes, particularly third party waste disposal sites where disposal of U. S. Steel-generated material occurred, and it is possible that additional matters may come to our attention which may require remediation. For additional information regarding remedial actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Property, Plant and Equipment Additions

For property, plant and equipment additions, including capital leases, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Cash Flows and Notes 11 and 20 to the Financial Statements.

Employees

As of December 31, 2006, U. S. Steel had approximately 22,000 employees in the United States and approximately 22,000 in Europe. Most hourly employees of U. S. Steel s steel, coke and iron ore pellet facilities in the U.S. are covered by a collective bargaining agreement with the USW, which expires in September 2008 and contains a no-strike provision. At Granite City Works, employees who work in the cokemaking and blast furnace operations are represented by the International Chemical Workers Union; and a small number of employees are represented by the Bricklayers and Laborers International unions. Agreements with these unions expire in November and December 2008, and also contain no-strike provisions. Hourly employees engaged in transportation activities in the U.S. are represented by the USW and other unions and are covered by collective bargaining agreements with varying expiration dates. In Europe, most represented employees at USSK are represented by the OZ Metalurg union and are covered by an agreement that expires in December 2007. Represented employees at USSB are covered by a three-year collective bargaining agreement that expires in November 2009. Wage increases have been agreed to for all three years; therefore, there will be no annual wage negotiations.

Available Information

U. S. Steel s Internet address is ***www.ussteel.com***. We post our annual report on Form 10-K, our quarterly reports on Form 10-Q and our proxy statement to our web site as soon as reasonably practicable after such reports are filed with the Securities and Exchange Commission (SEC). We also post all press releases and earnings releases to our web site.

All other filings with the SEC are available via a direct link on the U. S. Steel web site to the SEC s web site, *www.sec.gov*.

Also available on the U. S. Steel web site are U. S. Steel s Corporate Governance Principles, our Code of Ethical Business Conduct and the charters of the Audit & Finance Committee, Compensation & Organization Committee and Corporate Governance & Public Policy Committee of the Board of Directors. These documents and the Annual Report on Form 10-K are also available in print to any shareholder who requests them. Such requests should be sent to the Office of the Corporate Secretary, United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania 15219-2800 (telephone: 412-433-4801).

U. S. Steel does not intend to incorporate the contents of any web site into this document.

Other Information

Information on net sales, depreciation, capital expenditures and income by reportable segments and for Other Businesses and on net sales and assets by geographic area are set forth in Note 3 to the Financial Statements.

For significant operating data for U. S. Steel for each of the last five years, see Five-Year Operating Summary on pages F-53 and F-54.

Item 1A. RISK FACTORS

Risk Factors Concerning the Steel Industry

Steel consumption is cyclical and worldwide overcapacity in the steel industry and the availability of alternative products have resulted in intense competition, which may have an adverse effect on profitability and cash flow.

Steel consumption is highly cyclical and generally follows general economic and industrial conditions both worldwide and in various smaller geographic areas. The steel industry has historically been characterized by excess world supply, which has led to substantial price decreases during periods of economic weakness. Future economic downturns could decrease the demand for our products. Substitute materials are increasingly available for many steel products, which further reduces demand for steel.

Rapidly growing supply in China and other developing economies, which may increase faster than increases in demand, may result in additional excess worldwide capacity and falling steel prices.

Over the last several years, steel consumption in China and other developing economies has increased at a rapid pace. Steel companies have responded by developing plans to rapidly increase steel production capability in these countries. Steel production, especially in China, has been expanding rapidly and appears to be well in excess of Chinese demand. Because China is now the largest worldwide steel producer by a significant margin, any significant excess Chinese capacity could have a major impact on world steel trade and prices if this excess production is exported to other markets.

Increased imports of steel products into the U.S. could negatively affect domestic steel prices and demand levels and reduce profitability of domestic producers.

Steel imports to the United States accounted for an estimated 31 percent of the domestic steel market in 2006, 25 percent in 2005 and 26 percent in 2004. Foreign competitors may have lower labor costs, and some are owned, controlled or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Increases in future levels of imported steel could reduce future market prices and demand levels for domestic steel. The recent expiration of a number of antidumping and countervailing duty orders may facilitate additional imports. Several more antidumping and countervailing duty orders applicable to steel products are currently under review by the relevant government agencies. Expiration of these orders could result in even greater import levels.

Increases in prices and limited availability of raw materials and energy may constrain operating levels and reduce profit margins.

Steel producers require large amounts of raw materials iron ore or other iron containing material, steel scrap, coke, coal and zinc for integrated producers such as U. S. Steel, and scrap and zinc for mini-mill producers. Both integrated and mini-mill producers consume large amounts of energy. Over the last several years, prices for raw materials and energy, in particular natural gas and zinc, have increased significantly. In many cases these price increases have been a greater percentage than price increases for the sale of steel products. U. S. Steel and other steel producers have periodically been faced with problems in obtaining sufficient raw materials and energy in a timely manner, resulting in production curtailments. USSB is dependent upon availability of natural gas in Serbia, which is dependent upon a single pipeline. Serbia has experienced major curtailments during periods of peak demand in Eastern Europe and Russia. These production curtailments and escalated costs have reduced profit margins and may continue to do so in the future.

Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.

Steel producers in the U.S. are subject to numerous federal, state and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The

ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Environmental laws and regulations, particularly the Clean Air Act, could result in substantially increased capital, operating and compliance costs.

International environmental requirements vary. While standards in the European Union (EU) and Japan are generally comparable to U.S. standards, other nations have substantially lesser requirements that may give competitors in such nations a competitive advantage.

Unplanned equipment outages and other unforeseen disruptions may reduce our results of operations.

Our steel production depends on the operation of critical pieces of equipment, such as blast furnaces, casters and hot strip mills. It is possible that we could experience prolonged periods of reduced production due to equipment failures at our facilities or those of our key suppliers. It is also possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. Availability of raw materials and delivery of products to customers could be affected by logistical disruptions (such as shortages of barges, rail cars or trucks). To the extent that lost production could not be compensated for at unaffected facilities and depending on the length of the outage, our sales and our unit production costs could be adversely affected.

Risk Factors Concerning U. S. Steel Legacy Obligations

Many lawsuits have been filed against U. S. Steel involving asbestos-related injuries, which could have a material adverse effect on our financial position, results of operation and cash flow.

U. S. Steel is a defendant in a large number of cases in which approximately 3,700 claimants actively allege a variety of respiratory and other diseases based on alleged exposure to asbestos. It is possible that we may experience large judgments against us in the future that could have an impact upon the number of future claims filed against us and on the amount of future settlements, which would have an adverse impact on our profitability and cash flow.

Our retiree employee health care and retiree life insurance plan costs, most of which are unfunded obligations, and our pension plan costs in the U.S. are higher than those of many of our competitors. These plans create a competitive disadvantage and negatively affect our profitability and cash flow.

We maintain defined benefit retiree health care and life insurance and defined benefit and defined contribution pension plans covering most of our U.S. employees and former employees upon their retirement. As of December 31, 2006, approximately 109,000 current employees, retirees and beneficiaries are participating in the plans to receive pension and/or medical benefits. U. S. Steel s underfunded benefit obligations for retiree medical and life insurance (other benefits) were $2.2 billion at year-end 2006. Most of our other benefits and pension benefits are subject to collective bargaining agreements with unionized workforces and will be subject to future negotiations. Minimum contributions to the main qualified pension plan are controlled under ERISA and other government regulations. Substantial cash contributions will be required to fund other benefits and pension benefits. Total costs for pension plans and other benefits are expected to be approximately $237 million in 2007.

Many domestic and international competitors do not provide defined benefit retiree health care and life insurance and pension plans, and other international competitors operate in jurisdictions with government sponsored health care plans that may offer them a cost advantage. Several domestic competitors provide defined contribution health care and pension plans with contributions increased based upon profitability. This will provide these competitors with a significant competitive advantage during periods of low profits.

U. S. Steel contributes to a multiemployer plan covering pensions for unionized workers. We have legal and contractual requirements for future funding of this plan, which will have a negative effect on our cash flows. In addition, funding requirements for participants could increase as a result of any underfunding of this plan.

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We have higher environmental remediation costs than our competitors. This creates a competitive disadvantage and negatively affects our profitability and cash flow.

U. S. Steel is currently involved in numerous remediation projects at currently operating facilities, facilities that have been closed or sold to third parties and other sites where material generated by U. S. Steel was deposited. In addition, there are numerous other former operating or disposal sites that could become the subject of remediation.

Environmental remediation costs and related cash requirements of many of our competitors may be substantially less than ours. Many international competitors do not face similar laws in the jurisdictions where they operate. Numerous U.S. competitors have substantially shorter operating histories than we do, resulting in less exposure for environmental remediation. U.S. competitors that have obtained relief under the Bankruptcy Code may have been released from certain environmental obligations that existed prior to the bankruptcy filing.

Other Risk Factors Applicable to U. S. Steel

We may be unable to recover cost increases as we supply customers with steel under long-term fixed price sales contracts.

Historically approximately 50 percent of U. S. Steel s flat-rolled product sales in the United States have been based on sales contracts with durations of at least one year. These contracts generally have a fixed price or a price that will fluctuate with changes in a defined index. To the extent that raw materials, energy, labor or other costs increase over the terms of the various contracts, U. S. Steel may not be able to recover these cost increases from customers with fixed price agreements. U. S. Steel currently enters into forward purchases to establish future prices for a portion of our required natural gas and zinc needs; however, we remain at risk for our remaining requirements. We are also at risk in the event that future prices decline below the prices that the forward purchases have established.

Customer payment defaults could have an adverse effect on our financial condition and results of operations.

Many of our customers operate in cyclical industries and could experience financial difficulties in times of economic downturn. In some cases, these difficulties may result in bankruptcy filings or cessation of operations. If customers experiencing financial problems default on paying amounts owed to us, we may not be able to collect these amounts or recognize expected revenue. Any material payment defaults by our customers could have an adverse effect on our results of operations and financial condition. Also, a material payment default could cause a default, or a reduction in the amount of receivables available for sale, under our receivables sale program.

The terms of our indebtedness may restrict our ability to pay dividends.

Under the terms of our 9 3/4% Senior Notes due 2010 (Senior Notes), we must meet certain restricted payment tests in order to pay dividends or make certain investments.

The terms of our indebtedness contain restrictive provisions that may limit our flexibility.

We have Senior Notes outstanding in the aggregate principal amount of $378 million as of December 31, 2006. The Senior Notes impose significant restrictions on us such as limits on additional borrowings and certain investments and the use of funds from asset sales. Our $600 million revolving credit agreement secured by inventory (Inventory Facility) prohibits us from selling certain principal properties and imposes additional restrictions if the amount available to be borrowed under that agreement is less than $100 million. Such restrictions include maintaining a fixed charge coverage ratio and limitations on capital expenditures and investments. The Senior Notes, the revolving credit agreement and some of our other loan facilities and leases have provisions that may cause a default under one of these agreements to become a default under the others. These covenants may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities.

Rating agencies may downgrade our credit ratings, which would make it more difficult for us to raise capital and would increase our financial costs.

Any downgrade in our credit ratings may make raising capital more difficult, may increase the cost of future borrowings, may affect the terms under which we purchase goods and services, and may limit our ability to take advantage of potential business opportunities.

Change in control clauses may require us to immediately purchase or repay debt.

Upon the occurrence of change in control events specified in our Senior Notes, Inventory Facility and various other contracts and leases, the holders of our indebtedness may require us to immediately purchase or repay that debt on less than favorable terms. We may not have the financial resources to make these purchases and repayments, and a failure to purchase or repay such indebtedness would trigger cross-acceleration clauses under the Senior Notes and other indebtedness.

We have deferred tax assets that we may not be able to realize.

As of December 31, 2006, U. S. Steel had net federal, foreign and state deferred tax assets of $465 million. Although management believes that it is more likely than not that future operating results and tax planning strategies generating sufficient future taxable income can be utilized to realize the net deferred tax assets, there can be no assurance that we will be able to generate such results or implement these strategies.

Our international operations expose us to uncertainties and risks from abroad, which could negatively affect our results of operations.

USSK, located in Slovakia, and USSB, located in Serbia, constitute nearly 28 percent of our total raw steel production capability, and accounted for 25 percent of net sales and 40 percent of income from operations for 2006. Both USSK and USSB are subject to economic conditions and political factors in Europe, which if changed could negatively affect our results of operations and cash flow. Political factors include, but are not limited to, taxation, nationalization, inflation, currency fluctuations, increased regulation and quotas, tariffs and other protectionist measures. USSK and USSB are also subject to foreign currency exchange risks.

Any future international acquisitions would expose us to similar risks.

The quantity of carbon dioxide emission allowances awarded by the European Commission may limit the amount of steel that can be produced at USSK or force USSK to purchase emissions allowances, negatively affecting our results of operations and cash flow.

The European Commission (EC) has established a carbon dioxide (CO_2) emission trading scheme for EU member countries. Under this program Slovakia has received fewer CO_2 emissions allowances than it requested for both the first period (2005 through 2007) and second period (2008 through 2012). The Slovak Ministry of the Environment, in turn, awarded USSK fewer allowances than USSK had requested for the first period, and is likely to award USSK fewer allowances than requested for the second period. USSK is purchasing emissions allowances needed to cover its anticipated shortfall for the first period and, as to future periods, we may be required to reduce USSK s production or purchase emission allowances, either of which may have a negative impact on income and cash flow. See Item 1. Business Environmental Matters.

Adoption of greenhouse gas policies in the U.S. could negatively affect our results of operations and cash flows.

While ratification of the Kyoto protocol in the U.S. has not occurred, there remains the possibility that limitations on greenhouse gases may be imposed. Any such limitations could have a negative effect on income and cash flow.

Our business requires substantial expenditures for debt service, contingent obligations, capital investment, operating leases and maintenance that we may be unable to fund.

With $1,025 million of debt outstanding as of December 31, 2006, we have significant debt service requirements.

Our operations are capital intensive. For the five-year period ended December 31, 2006, total capital expenditures were $2.5 billion. At December 31, 2006, our contract commitments to acquire property, plant and equipment totaled $186 million and we were obligated to make aggregate lease payments of $270 million under operating leases.

In addition to capital expenditures and lease payments, we spend significant amounts for maintenance of raw material, raw steel and steel-finishing production facilities, including periodic relines or rebuilds of our seventeen blast furnaces.

As of December 31, 2006, we had contingent obligations consisting of indemnity obligations under active surety bonds, trusts and letters of credit totaling approximately $124 million, guarantees of approximately $2 million of indebtedness for unconsolidated entities and contractual purchase commitments under purchase orders and take or pay arrangements of approximately $2.9 billion, plus contingencies under the sale of our mining assets of approximately $79 million. As the general partner of the Clairton 1314B Partnership, we are obligated to fund cash shortfalls incurred by that partnership but may withdraw as the general partner if we are required to fund in excess of $150 million in operating cash shortfalls.

Our business may not generate sufficient operating cash flow, or external financing sources may not be available in amounts sufficient, to enable us to service or refinance our indebtedness or to fund other liquidity needs. We intend indefinitely to reinvest undistributed foreign earnings overseas; however, if we need to repatriate funds in the future to satisfy our liquidity needs, the tax consequences would reduce income and cash flow.

U. S. Steel is exposed to uninsured losses.

U. S. Steel s insurance coverage against catastrophic casualty and business interruption exposures contains certain common exclusions, substantial deductibles and self insurance retentions.

Our collective bargaining agreements may limit our flexibility.

The collective bargaining agreement with the USW contains provisions that prohibit us from pursuing any North American transaction involving steel or steel-related assets without the consent of the USW, grants the USW a right to bid on any sale of one or more facilities covered by the collective bargaining agreement, requires us to make reasonable and necessary capital expenditures to maintain the competitive status of our domestic facilities and requires mandatory pre-funding of a trust for retiree health care and life insurance based on, among other factors, dividend and pension funding levels. That agreement also restricts our ability to trade, sell or use foreign-produced coke and iron ore in North America, and further requires that the ratio of non-USW employees to USW employees at our domestic facilities not exceed one to five.

While other domestic integrated unionized steel producers have similar requirements in their agreements with the USW, some foreign and non-union domestic producers are not subject to such requirements.

Strikes, work stoppages and customer concern about the possibility of strikes, particularly upon the expiration of our major domestic collective bargaining agreement, could adversely impact our relationships with our customers which in turn could have a material adverse effect on our business, financial condition or results of operations. In addition, mini-mill producers, certain foreign competitors and producers of comparable products do not have unionized work forces. This may place us at a competitive disadvantage.

There are risks associated with acquisitions.

The success of any future acquisitions will depend substantially on our ability to integrate the acquired operations successfully with existing operations. If we are unable to integrate new operations successfully, our financial results and business reputation could suffer. Recent acquisitions in the steel industry have involved prices significantly higher than the prices we paid for our acquisitions in 2003. Such prices will make it more difficult to achieve adequate financial returns. Additional risks associated with acquisitions are the diversion of management s attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, and the

inherent risks in entering markets or lines of business in which we have limited or no prior experience. International acquisitions may present unique challenges and increase the Company s exposure to the risks associated with foreign operations.

Provisions of Delaware Law, our governing documents and our rights plan may make a takeover of U. S. Steel more difficult.

Certain provisions of Delaware law, our certificate of incorporation and by-laws and our rights plan could make more difficult or delay our acquisition by means of a tender offer, a proxy contest or otherwise and the removal of incumbent directors. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids, even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Approximately one third of U. S. Steel s U.S.-based non-union workforce will be eligible for retirement in the next five years.

Over the last few years we have intensified our recruitment, training and retention efforts so that we may continue to optimally staff our operations. Failure to do so could negatively affect our future performance.

We may experience difficulties implementing our enterprise resource planning (ERP) system.

We are currently pursuing the potential company-wide benefits of implementing an ERP system to help us operate more efficiently. This is a complex project which would occur in several phases over the next several years. There can be no assurance that we can successfully implement an ERP program without experiencing difficulties or that the program will improve our global operations. In addition, we cannot guarantee that the expected benefits of implementing an ERP system will be realized or that realized benefits will outweigh the costs of implementation.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

The following table lists U. S. Steel s main properties, their locations and their products and services:

North American Operations

Property	Location	Products and Services
Gary Works	Gary, Indiana	Sheets; Tin mill; Strip mill plate; Coke
Midwest Plant	Portage, Indiana	Sheets; Tin mill
East Chicago Tin	East Chicago, Indiana	Tin mill
Great Lakes Works	Ecorse and River Rouge, Michigan	Sheets
Mon Valley Works		
Irvin Plant	West Mifflin, Pennsylvania	Sheets
Edgar Thomson Plant	Braddock, Pennsylvania	Slabs
Fairless Plant	Fairless Hills, Pennsylvania	Galvanized sheets
Clairton Works	Clairton, Pennsylvania	Coke
Clairton 1314B Partnership[a]	Clairton, Pennsylvania	Coke
Granite City Works	Granite City, Illinois	Sheets; Coke
Fairfield Works	Fairfield, Alabama	Sheets; Tubular
ProCoil Company LLC	Canton, Michigan	Steel processing; Warehousing
USS-POSCO Industries[b]	Pittsburg, California	Sheets; Tin mill
PRO-TEC Coating Company[b]	Leipsic, Ohio	Galvanized sheets
Double Eagle Steel Coating Company[b]	Dearborn, Michigan	Galvanized sheets
Double G Coatings Company, L.P.[b]	Jackson, Mississippi	Galvanized and Galvalume® sheets
Worthington Specialty Processing[b]	Jackson, Michigan	Steel processing
Feralloy Processing Company[b]	Portage, Indiana	Steel processing
Chrome Deposit Corporation[b]	Various	Roll processing
Acero Prime, S.R.L. de C.V.[b]	San Luis Potosi and Ramos Arizpe, Mexico	Steel processing; Warehousing
Lorain Tubular Operations	Lorain, Ohio	Tubular
Minntac iron ore operations	Mt. Iron, Minnesota	Iron ore pellets
Keetac iron ore operations	Keewatin, Minnesota	Iron ore pellets
Transtar	Alabama, Illinois, Indiana, Michigan, Ohio, Pennsylvania	Transportation services

International Operations

Property	Location	Products and Services
U. S. Steel Ko ice	Ko ice, Slovakia	Sheets; Tin mill; Strip mill plate; Tubular; Coke
U. S. Steel Balkan	Smederevo, Sabac and Kucevo, Serbia	Sheets; Tin mll; Strip mill plate; Limestone

(a) A consolidated partnership in which U. S. Steel owns less than 100 percent
(b) Equity investee

With the exception of properties acquired from National Steel on May 20, 2003 and our joint ventures, U. S. Steel or our predecessors have owned most of our domestic properties for at least 30 years with no material adverse claims asserted. In connection with the acquisition of National Steel facilities, U. S. Steel obtained title reports and insurance covering each of the properties obtained. In addition, the Bankruptcy Court order provided that U. S. Steel acquired all of the assets free and clear of

any liabilities, rights restrictions or other interests. In the case of the real property and buildings of USSK, certified copies of the property registrations were obtained and examined by local counsel prior to the acquisition. In the case of USSB, the Serbian bankruptcy law provides that we acquired USSB s assets free and clear of any prior claims.

Several steel production facilities are leased. The caster facility at Fairfield, Alabama is subject to a lease expiring in 2012, with an option to purchase or to extend the lease. A coke battery at Clairton, Pennsylvania is subject to a lease through 2012, at which time title will pass to U. S. Steel. A ladle metallurgy and caster facility at Ecorse, Michigan was subject to a lease expiring in 2007. In the fourth quarter of 2006, U. S. Steel committed to purchase the facility and, accordingly, this asset was included in property, plant and equipment at December 31, 2006. The electrolytic galvanizing facility at Ecorse, Michigan is subject to a lease expiring in 2007. In 2005, U. S. Steel made an irrevocable decision to purchase the electrolytic galvanizing facility at lease expiration. At the Midwest Plant in Indiana, U. S. Steel has a supply agreement for various utility services with a company which owns a cogeneration facility located on U. S. Steel property. The Midwest Plant agreement expires in 2013. The headquarters office space in Pittsburgh, Pennsylvania used by U. S. Steel is leased through 2018.

For property, plant and equipment additions, including capital leases, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Cash Flows and Notes 11 and 20 to the Financial Statements.

Item 3. LEGAL PROCEEDINGS

U. S. Steel is the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Certain of these matters are included below in this discussion. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the financial statements. However, management believes that U. S. Steel will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

Asbestos Litigation

As of December 31, 2006, U. S. Steel was a defendant in approximately 300 active cases involving approximately 3,700 plaintiffs (claims). At December 31, 2005, U. S. Steel was a defendant in approximately 500 active cases involving approximately 8,400 plaintiffs. During 2006, settlements and dismissals resulted in the disposition of approximately 5,150 claims and U. S. Steel paid approximately $8 million in settlements. New filings added approximately 450 claims.

More than 3,400, or approximately 92 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Of these claims, about 2,000 are pending in Mississippi and over 1,200 are pending in Texas. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. Mississippi and Texas have amended their laws to curtail mass filings. As a consequence, the approximately 450 claims filed last year name either a single individual or a handful of individuals.

Historically, these claims against U. S. Steel fall into three major groups: (1) claims made under certain federal and general maritime laws by employees of the Great Lakes Fleet or Intercoastal Fleet, former operations of U. S. Steel; (2) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); and (3) claims made by industrial workers allegedly exposed to products formerly manufactured by U. S. Steel. Most claims filed over the last several years have been premises claims. While U. S. Steel has excess casualty insurance, these policies have multi-million dollar self-insured retentions. To date, U. S. Steel has not received any payments under these policies relating to asbestos claims. In most cases, this

excess casualty insurance is the only insurance applicable to asbestos claims.

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 120 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 our 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 our products or premises.

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In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Historically, approximately 89 percent of the cases against U. S. Steel did not specify any damage amount or stated that the damages sought exceeded the amount required to establish jurisdiction of the court in which the case was filed. (Jurisdictional amounts generally range from $25,000 to $75,000.) U. S. Steel does not consider the amount of damages alleged, if any, in a complaint to be relevant in assessing our potential exposure to asbestos liabilities. The ultimate outcome of any claim depends upon a myriad of legal and factual issues, including whether the plaintiff can prove actual disease, if any; actual exposure, if any, to U. S. Steel products; or the duration of exposure to asbestos, if any, on U. S. Steel s premises. U. S. Steel has noted over the years that the form of complaint including its allegations, if any, concerning damages often depends upon the form of complaint filed by particular law firms and attorneys. Often the same damage allegation will be in multiple complaints regardless of the number of plaintiffs, the number of defendants, or any specific diseases or conditions alleged.

U. S. Steel aggressively pursues grounds for the dismissal of U. S. Steel from pending cases and litigates cases to verdict where we believe litigation is appropriate. U. S. Steel also makes efforts to settle appropriate cases, especially mesothelioma cases, for reasonable, and frequently nominal, amounts.

The following table shows activity with respect to asbestos litigation over the last three years:

Year ended December 31,	Opening Number of Claims	Claims Dismissed, Settled and Resolved	New Claims	Closing Number of Claims	Amounts Paid to Resolve Claims (in millions)
2004	14,800	5,300	1,500	11,000	$ 14.6
2005	11,000	3,800	1,200	8,400	$ 11.0
2006	8,400	5,150	450	3,700	$ 8.0

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because we believe it is not possible to determine whether any loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. Among the reasons that U. S. Steel cannot reasonably estimate the number and nature of claims against us is that the vast majority of pending claims against us allege so-called premises liability based exposure on U. S. Steel s current or former premises. These claims are made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers.

It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although U. S. Steel s results of operations and cash flows for a given period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company s financial condition. Among the factors considered in reaching this conclusion are: (1) that U. S. Steel has been subject to a total of approximately 34,000 asbestos claims over the past 15 years ended December 31, 2006 that have been administratively dismissed or are inactive due to the failure of the plaintiffs to present any medical evidence supporting their claims; (2) that over the last several years, the total number of pending claims has declined; (3) that it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; and (4) U. S. Steel s history of trial outcomes, settlements and dismissals, including matters in Madison County, Illinois, where U. S. Steel lost a significant verdict in 2003. U. S. Steel has not seen any material differences in subsequent settlements in Madison County or elsewhere since that verdict and management believes that the possibility of other such aberrational verdicts is remote, although not impossible.

The foregoing statements of belief are forward-looking statements. Predictions as to the outcome of pending litigation are subject to substantial uncertainties with respect to (among other things) factual and judicial determinations, and actual results could differ materially from those expressed in these forward-looking statements.

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Environmental Proceedings

The following is a summary of the proceedings of U. S. Steel that were pending or contemplated as of December 31, 2006, under federal and state environmental laws. Except as described herein, it is not possible to accurately predict the ultimate outcome of these matters.

CERCLA Remediation Sites

Claims under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and related state acts have been raised with respect to the cleanup of various waste disposal and other sites. CERCLA is intended to expedite the cleanup of hazardous substances without regard to fault. Potentially responsible parties (PRPs) for each site include present and former owners and operators of, transporters to and generators of the substances at the site. Liability is strict and can be joint and several. Because of various factors including the ambiguity of the regulations, the difficulty of identifying the responsible parties for any particular site, the complexity of determining the relative liability among them, the uncertainty as to the most desirable remediation techniques and the amount of damages and cleanup costs and the time period during which such costs may be incurred, it is impossible to reasonably estimate U. S. Steel s ultimate cost of compliance with CERCLA.

Projections, provided in the following paragraphs, of spending for and/or timing of completion of specific projects are forward-looking statements. These forward-looking statements are based on certain assumptions including, but not limited to, the factors provided in the preceding paragraph. To the extent that these assumptions prove to be inaccurate, future spending for, or timing of completion of environmental projects may differ materially from what was stated in forward-looking statements.

At December 31, 2006, U. S. Steel had been identified as a PRP at a total of 22 CERCLA sites where liability is not resolved. Based on currently available information, which is in many cases preliminary and incomplete, management believes that U. S. Steel s liability for cleanup and remediation costs in connection with 13 of these sites will be between $100,000 and $1 million per site, and for eight of these sites will be under $100,000.

At the remaining site, management estimates U. S. Steel s share in the future cleanup costs to be $6.5 million, although it is not possible to accurately predict the amount of final allocation of such costs. That site is known as the Municipal & Industrial Disposal Co. site in Elizabeth, Pennsylvania. In October 1991, the Pennsylvania Department of Environmental Resources (PADER) placed the site on the Pennsylvania State Superfund list and began a Remedial Investigation (RI), which was issued in 1997. U. S. Steel and the Pennsylvania Department of Environmental Protection (PADEP) signed a Consent Order and Agreement on August 30, 2002, under which U. S. Steel is responsible for remediation of this site. In 2003 the Consent Order and Agreement became final. U. S. Steel is currently completing the remedial design for this site.

In addition, there are 14 sites related to U. S. Steel where information requests have been received or there are other indications that U. S. Steel may be a PRP under CERCLA, but where sufficient information is not presently available to confirm the existence of liability or to make any judgment as to the amount thereof.

Other Remediation Activities

There are 43 additional sites where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. Based on currently available information, which is in many cases preliminary and incomplete, management believes that liability for cleanup and remediation costs in connection with nine of these sites will be under $100,000 per site, another 16 sites have potential costs between $100,000 and $1 million per site, and seven sites may involve remediation costs between $1 million and $5 million. As described below, costs for remediation, investigation, restoration or compensation are estimated to be in excess of $5 million at two sites, in excess of $10 million at three sites, and in excess of $20 million at one site. Potential costs associated with remediation at the remaining five sites are not presently determinable.

Gary Works

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

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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 sediment remediation project for a section of the Grand Calumet River that runs through Gary Works. As of December 31, 2006, project costs have amounted to $53.6 million. U. S. Steel anticipates doing additional dredging at a cost of $7.5 million. The Corrective Action Management Unit (CAMU) will remain available to receive dredged materials from the Grand Calumet River and could be used for containment of approved material from other corrective measures conducted at Gary Works pursuant to the Administrative Order on Consent for corrective action. CAMU maintenance and wastewater treatment costs are anticipated to be an additional $2.1 million for the next five years. In 1998, U. S. Steel also entered into a consent decree with the public trustees, which resolves liability for natural resource damages on the same section of the Grand Calumet River. U. S. Steel will pay the public trustees $1.0 million at the end of the remediation project for ecological monitoring costs. In addition, U. S. Steel is obligated to perform, and has initiated, ecological restoration in this section of the Grand Calumet River. The costs required to complete the ecological restoration work are estimated to be $1.0 million. In total, the accrued liability for the above projects based on the estimated remaining costs was $11.6 million at December 31, 2006.

At Gary Works, U. S. Steel has agreed to close two hazardous waste disposal sites, D5 and T2, and one site, D2/Refuse Area, where a solid waste disposal unit is combined with a hazardous waste disposal unit. The three sites are located on plant property. The related accrued liability for estimated costs to close each of the sites and perform groundwater monitoring is, $6.3 million for D5, $4.4 million for T2 and $8.7 million for D2/Refuse Area, at December 31, 2006.

On October 23, 1998, EPA issued a final Administrative Order on Consent addressing Corrective Action for solid waste management units throughout Gary Works. This order requires U. S. Steel to perform a Resource Conservation and Recovery Act (RCRA) Facility Investigation (RFI) and a Corrective Measure Study (CMS) at Gary Works. Reports of field investigation findings for Phase I work plans have been submitted to EPA. Two Phase II RFI work plans have been submitted to EPA for approval. Four self-implementing interim measures have been completed. Through December 31, 2006, U. S. Steel has spent approximately $23.6 million for the studies, work plans, field investigations and self-implementing interim measures. U. S. Steel continues implementation of one self-implementing interim measure. U. S. Steel is preparing a final proposal to EPA seeking approval for perimeter groundwater monitoring and has completed an investigation of sediments in the West Grand Calumet Lagoon. The costs to complete the Phase I work and implement the field investigations for the submitted Phase II work plans, the anticipated perimeter groundwater monitoring, investigation of the West Grand Calumet Lagoon and implementation of the self-implementing interim measure are estimated to be $3.8 million. U. S. Steel is also preparing a proposal to EPA seeking approval to implement Corrective Measures necessary to address soil contamination at Gary Works. Additionally, U. S. Steel has removed a number of abandoned drums recently discovered in the West Grand Calumet Lagoon, disposed of the materials at the CAMU and continues to assess the scope of removal for the remaining drums. U. S. Steel estimates the minimum cost of the Corrective Measures for soil contamination and drum removal to be approximately $3.8 million. Closure costs for the CAMU are estimated to be an additional $4.9 million. Until the remaining Phase I work and Phase II field investigations are completed, it is impossible to assess what additional expenditures will be necessary for Corrective Action projects at Gary Works. In total, the accrued liability for the above projects was $12.5 million at December 31, 2006, based on the estimated remaining costs. It is reasonably possible that additional costs of $30 million may be incurred at the West Grand Calumet Lagoon in combination with the two RCRA projects at Fairfield Works, the RCRA program at Lorain Tubular, the RCRA program at the Fairless plant and the project at Duluth Works discussed elsewhere in this section.

In October 1996, U. S. Steel was notified by the Indiana Department of Environmental Management (IDEM), acting as lead trustee, that IDEM and the U.S. Department of the Interior had concluded a preliminary investigation of potential injuries to natural resources related to releases of hazardous substances from various municipal and industrial sources along the east branch of the Grand Calumet River and Indiana Harbor Canal. U. S. Steel agreed to pay to the public trustees $20.5 million over a five-year period for restoration costs, plus $1.0 million in assessment costs. A Consent Decree memorializing this settlement was entered on the record by the court and thereafter became effective April 1, 2005. U. S. Steel paid our entire share of the assessment costs and $4.5 million of our share of the restoration costs to the public trustees in 2005. U. S. Steel paid an additional $4.0 million of our share of restoration costs plus interest in 2006. A balance of $12 million in restoration costs to complete our settlement obligations remains as an accrued liability as of December 31, 2006.

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On November 30, 1999, IDEM issued a notice of violation (NOV) alleging various air violations at Gary Works, including opacity violations at the No. 1 BOP and pushing violations at the four coke batteries. On August 21, 2002, IDEM issued a revised NOV, which supercedes the 1999 NOV and includes alleged violations at the blast furnaces, steel shops and coke batteries from 1998 to 2002. On December 27, 2005, IDEM issued a NOV which includes alleged violations at the No. 8 Blast Furnace and the Coke Batteries for the period of 2002 through 2005. U. S. Steel and IDEM signed an Agreed Order December 1, 2006. The Order requires a penalty payment of $571,400 that was paid in December 2006. The Order includes three Supplemental Environmental Projects (SEPs) valued at $3.7 million. The Order also includes pushing compliance plans, a door work practice plan, a refractory repair plan, monitoring of flue caps, installation of two ambient monitors and compliance with all coke battery requirements.

Clairton

In March 2006, U. S. Steel met with Allegheny County Health Department (ACHD) to discuss entering into a Consent Order to address compliance with the stack opacity limit at the pushing emission control baghouse for B Battery. No penalty amount was discussed, but a penalty of an undetermined amount is anticipated. U. S. Steel had already submitted a compliance plan to ACHD committing to the repair of 24 thru-walls. U. S. Steel received a draft Consent Order from ACHD on July 3, 2006, and is in discussions with ACHD to resolve this matter. A liability has not been recorded for this matter as the amount of the penalty is not currently determinable.

Midwest Plant

A former disposal area located on the east side of the Midwest Plant was designated a solid waste management unit (East Side SWMU) by IDEM before U. S. Steel acquired this plant from National Steel Corporation. After the acquisition, U. S. Steel conducted further investigations of the East Side SWMU. As a result, U. S. Steel has submitted a Closure Plan to IDEM recommending an in-place closure of the East Side SWMU. The cost to close the East Side SWMU is expected to be $4.1 million, and was recorded as an accrued liability as of December 31, 2006.

Fairless Plant

In January 1992, U. S. Steel commenced negotiations with EPA regarding the terms of an Administrative Order on consent, pursuant to RCRA, under which U. S. Steel would perform a RFI and a CMS at our Fairless Plant. A Phase I RFI report was submitted during the third quarter of 1997. A Phase II/III RFI will be submitted following EPA approval of the Phase I report. While the RFI/CMS will determine whether there is a need for, and the scope of, any remedial activities at the Fairless Plant, U. S. Steel continues to maintain interim measures at the Fairless Plant and has completed investigation activities on specific parcels. No remedial activities are contemplated as a result of the investigations of these parcels. The cost to U. S. Steel to continue to maintain the interim measures and develop a Phase II/III RFI Work Plan is estimated to be $458,000, and was recorded as an accrued liability as of December 31, 2006. It is reasonably possible that additional costs of $30 million may be incurred at this site in combination with the West Grand Calumet Lagoon at Gary Works, the two RCRA projects at Fairfield Works, the RCRA program at Lorain Tubular and the project at the Duluth Works discussed elsewhere in this section.

Fairfield Works

A consent decree was signed by U. S. Steel, EPA and the U.S. Department of Justice and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997, under which U. S. Steel paid a civil penalty of $1.0 million, completed two SEPs at a cost of $1.75 million and initiated a RCRA corrective action program at the facility. The Alabama Department of Environmental Management (ADEM) assumed primary responsibility for regulation and oversight of the RCRA corrective action program at Fairfield Works, with the approval of EPA. The first Phase I RFI work plan was approved and field sampling for the work plan was completed in 2004. U. S. Steel submitted a Phase I RFI Report to ADEM in February 2005. ADEM approved the Phase I RFI Report and requested a Phase II RFI work plan. The cost to develop and implement the Phase II RFI work plan is estimated to be $819,000, and was recorded as an accrued liability as of December 31, 2006. U. S. Steel has completed the investigation and remediation of Lower Opossum Creek under a joint agreement with Beazer, Inc., whereby U. S. Steel has agreed to pay 30 percent of

the costs. U. S. Steel s remaining share of the costs for sediment remediation is $210,000. In January 1999, ADEM included the former Ensley facility site in Fairfield Corrective Action. Based on results from our Phase I facility investigation of Ensley, U. S. Steel has identified approximately 2.5 acres of land at the former coke plant for remediation. The estimated cost to remediate this area and close Ensley was recorded as an accrued liability of $1.5 million as of December 31, 2006. While U. S. Steel does not possess information necessary to estimate reasonably possible additional costs at this site, they may range from insignificant to substantial. In total, the accrued liability for the projects described above was $2.7 million at December 31, 2006, based on estimated remaining costs. It is reasonably possible that additional costs of $30 million may be incurred at these sites in combination with the West Grand Calumet Lagoon at Gary Works, the RCRA project at the Fairless Plant, the RCRA program at Lorain Tubular and the project at Duluth Works discussed elsewhere in this section.

Lorain Tubular Operations

In 1997, USS/Kobe Steel Company (USS/Kobe), a former joint venture between U. S. Steel and Kobe Steel, Ltd. (Kobe) with steelmaking, bar producing and tubular operations in Lorain, Ohio, was the subject of a multi-media audit by EPA that included an air, water and hazardous waste compliance review. The tubular operations at Lorain are now operated by U. S. Steel as Lorain Tubular Operations. In 2005, U. S. Steel, the State of Ohio and EPA entered into a consent decree that settled an enforcement action taken by the United States and Ohio, which resolved all issues related to U. S. Steel s operations. The Consent Decree was filed with the U. S. District Court for the Northern District of Ohio Eastern Division (United States of America and State of Ohio v. United States Steel Corporation), where it was entered November 29, 2005. Issues related to the company that retained the steelmaking and bar-producing facilities were resolved in its bankruptcy proceedings. In December 2005, U. S. Steel paid cash penalties totaling $100,025. Also in December 2005, U. S. Steel conducted a test of particulate emissions from our No. 3 Seamless Rotary Mill scrubber system to demonstrate compliance with our permit limitations. In addition, U. S. Steel agreed to perform a SEP to replace transformers with polychlorinated biphenals (PCBs) for a combined amount of approximately $395,000, in connection with the settlement of this enforcement action. U. S. Steel completed the SEP in 2006. U. S. Steel anticipates submitting a final report in 2007 of the costs incurred implementing the SEP upon receipt of the remaining notification of destruction of the PCB transformers.

In September 2006, U. S. Steel received a letter from the Ohio Environmental Protection Agency (Ohio EPA) inviting U. S. Steel to enter into discussions about RCRA Corrective Action at the Lorain Tubular facility. On December 15, 2006, U. S. Steel received a letter from Ohio EPA that requires U. S. Steel to complete an evaluation of human exposure and update the previous RCRA preliminary site assessment. $50,000 has been accrued for the costs of additional studies at this site. It is reasonably possible that additional costs of $30 million may be incurred at the Lorain Tubular Corrective Action program in combination with the West Grand Calumet Lagoon, the two RCRA projects at Fairfield Works, the RCRA program at the Fairless plant and the project at Duluth Works discussed elsewhere in this section.

Great Lakes Works

On January 6, 2006, Great Lakes Works received a proposed administrative consent order from the Michigan Department of Environmental Quality (MDEQ) that alleged violations of NPDES permits at the facility. On February 13, 2007, MDEQ and U. S. Steel agreed to a revised Administrative Consent Order that resolves this matter. The Administrative Consent Order requires U. S. Steel to pay a civil penalty of $300,000 and reimburse MDEQ $50,000 in costs; and the Order identifies certain compliance actions that address the alleged violations. Great Lakes Works has initiated work on some of these compliance actions, has completed some, and is committed to submitting plans or recommending options to MDEQ for others. One of the compliance actions addresses three river basins along the Detroit River and U. S. Steel has undertaken a project to remove historic basin sediments from these areas. As of December 31, 2006, $1.1 million has been spent on the project, and a liability of $1.7 million has been recorded for estimated costs to complete the river basin project. Another compliance action includes modifications to the Cold Mill Wastewater Treatment Plant where U. S. Steel has agreed to rehabilitate four clarifiers and two wastewater conveyance pipelines,

upgrade the computer control system and evaluate other potential improvements of this system. Some elements of this project have been completed at a cost of $1.4 million and U. S. Steel anticipates that it could spend an additional $5.1 million, most of which will be capitalized. Costs to complete the remaining compliance actions are presently not determinable.

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Duluth Works

At the former Duluth Works in Minnesota, U. S. Steel spent a total of approximately $13.1 million for cleanup and agency oversight costs through December 31, 2006. The Duluth Works was listed by the Minnesota Pollution Control Agency under the Minnesota Environmental Response and Liability Act on its Permanent List of Priorities. EPA has consolidated and included the Duluth Works site with the St. Louis River and Interlake sites on EPA s National Priorities List. The Duluth Works cleanup has proceeded since 1989. U. S. Steel is conducting an engineering study of the estuary sediments. The method and extent of remediation at this site is presently unknown, therefore, future costs are indeterminable. Study and oversight costs are currently estimated at $368,000, and were recorded as an accrued liability as of December 31, 2006. These costs include risk assessment, sampling, inspections and analytical work, and development of a work plan and cost estimate to implement EPA five-year review recommendations. It is reasonably possible that additional costs of $30 million may be incurred at this site in combination with the West Grand Calumet Lagoon at Gary Works, the two RCRA projects at Fairfield Works, the RCRA program at Lorain Tubular and the RCRA program at the Fairless Plant discussed elsewhere in this section.

Granite City

Granite City Works received two 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). IEPA referred the two NOVs to the Illinois Attorney General s Office for enforcement. We anticipate resolving this case by entering into a Consent Order, which will include a revised pushing compliance plan and a penalty. IEPA has proposed a civil penalty of $175,000. On September 14, 2005, the Illinois Attorney General filed a complaint in the Madison County Circuit Court, titled People of the State of Illinois ex. rel. Lisa Madigan vs. United States Steel Corporation, which included the issues raised in the two NOVs. U. S. Steel submitted a counteroffer of $125,000 for the civil penalty. In December 2006, IEPA added to its complaint a release of coke oven gas in February 2006 and increased the proposed penalty an additional $20,000. U. S. Steel has recorded an accrued liability of $145,000 for this matter as of December 31, 2006.

Geneva Works

At U. S. Steel s former Geneva Works, liability for environmental remediation, including the closure of three hazardous waste impoundments and facility-wide corrective action, has been allocated between U. S. Steel and Geneva Steel Company pursuant to an asset sales agreement and a permit issued by Utah Department of Environmental Quality. In December 2005, a third party purchased the Geneva site and assumed Geneva Steel Company s rights and obligations under the asset sales agreement and the permit pursuant to a bankruptcy court order. U. S. Steel has reviewed environmental data concerning the site gathered by itself and third parties, has commenced the development of work plans that are necessary to begin field investigations and has begun remediation on some areas of the site for which U. S. Steel has responsibility. U. S. Steel has recorded an accrued liability of $23.7 million as of December 31, 2006, for our estimated share of the remaining costs of remediation.

Other

In February 2005, U. S. Steel s lease for a third party to mine slag at the Gascola slag disposal site in Penn Hills, Pennsylvania was terminated. Current mining regulations require closure of the site. The cost to close the slag disposal site is estimated to be $2.9

million. This work will include contour of the highwalls and vegetative cover for the entire site.

In September 2001, U. S. Steel agreed to an Administrative Order on Consent with the State of North Carolina for the assessment and cleanup of a Greensboro, North Carolina fertilizer manufacturing site. The Order allocated responsibility for remediation costs among U. S. Steel and two other parties. The estimated remediation costs are $3.1 million. U. S. Steel s estimated share of these costs is $788,000, based on the agreed allocation factor of 26 percent. In 2006, U. S. Steel submitted a Remedial Action Plan to the North Carolina Department of Environmental and Natural Resources that proposed monitored natural attenuation for groundwater beneath the site.

On December 20, 2002, U. S. Steel received a letter from the Kansas Department of Health & Environment (KDHE) requesting U. S. Steel s cooperation in cleaning up the National Zinc site located in Cherryvale, Kansas, a former zinc smelter operated by Edgar Zinc from 1898 to 1931. In April 2003, U. S. Steel and Salomon Smith Barney Holdings, Inc. (SSB), entered into a consent order to conduct an investigation and develop remediation alternatives. In 2004, a remedial action design report was submitted to and approved by KDHE. U. S. Steel anticipates that our 50 percent share of the costs necessary to complete the remedial design and implement the preferred remedy will be approximately $3.0 million. In 2005, KDHE and the U.S. Fish and Wildlife Service asserted a claim against U. S. Steel and SSB (now called CitiGroup Global Market Holdings, Inc.) for natural resource damages at the site and nearby creek. The parties have agreed to settlement of this claim for a cash payment and U. S. Steel s share is $247,875. On August 17, 2006, both parties received a demand from the U.S. Department of Justice for approximately $1.7 million for past costs incurred by EPA in cleaning up the site and surrounding residential yards, U. S. Steel s share being 50 percent of the claim for past costs. U. S. Steel and CitiGroup signed a tolling agreement on the claim until May 31, 2007.

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of U. S. Steel and their ages as of February 1, 2007, are as follows:

Name	Age	Title	Executive Officer Since
John J. Connelly	60	Senior Vice President Strategic Planning & Business Development	April 27, 2004
James D. Garraux	54	General Counsel & Senior Vice President Labor Relations & Environmental Affairs	February 1, 2007
John H. Goodish	58	Executive Vice President & Chief Operating Officer	December 31, 2001
Gretchen R. Haggerty	51	Executive Vice President & Chief Financial Officer	December 31, 2001
David H. Lohr	53	Senior Vice President European Operations & President U. S. Steel Ko ice	June 1, 2005
Larry G. Schultz	57	Vice President & Controller	December 31, 2001
Thomas W. Sterling	59	Senior Vice President Administration	August 1, 2003
John P. Surma	52	Chairman of the Board of Directors and Chief Executive Officer	December 31, 2001

All of the executive officers mentioned above have held responsible management or professional positions with U. S. Steel or our subsidiaries for more than the past five years.

All of the executive officers identified above, with the exception of Messrs. Connelly, Lohr and Sterling, will hold office until the annual election of executive officers by the Board of Directors following the next Annual Meeting of Stockholders, or until his or her earlier resignation, retirement or removal. Messrs. Connelly, Lohr and Sterling will hold office until their resignation, retirement or removal.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Information

The principal market on which U. S. Steel common stock is traded is the New York Stock Exchange. U. S. Steel common stock is also traded on the Chicago Stock Exchange. Information concerning the high and low sales price for the common stock as reported in the consolidated transaction reporting system and the frequency and amount of dividends paid during the last two years is set forth in Selected Quarterly Financial Data (Unaudited) on page F-51.

As of January 31, 2007, there were 25,051 registered holders of U. S. Steel common stock.

The Board of Directors intends to declare and pay dividends on U. S. Steel common stock based on the financial condition and results of operations of U. S. Steel, although it has no obligation under Delaware law or the U. S. Steel Certificate of Incorporation to do so. After the separation from Marathon Oil Corporation, U. S. Steel established an initial quarterly dividend rate of $0.05 per share effective with the March 2002 payment. The quarterly dividend rate was increased to $.08 per share effective with the March 2005 payment, to $.10 per share effective with the June 2005 payment, to $.15 per share effective with the June 2006 payment, and to $.20 per share effective with the December 2006 payment. The outstanding 7% Series B Mandatory Convertible Preferred Shares (Series B Preferred) mandatorily converted into U. S. Steel common stock on June 15, 2006 at a rate of 3.1928 common shares for each Series B Preferred share. Dividends on U. S. Steel common stock are limited to legally available funds and are subject to limitations under U. S. Steel s debt obligations. For further information, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Liquidity.

Shareholder Return Performance

The graph below compares the yearly change in cumulative total shareholder return of our common stock with the cumulative total return of the Standard & Poor s (S&P s) 500 Stock Index and the S&P Steel Index. The S&P Steel Index is comprised of U. S. Steel, Nucor Corporation, Allegheny Technologies Incorporated and Worthington Industries, Inc.

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Recent Sales of Unregistered Securities

In 2006, no unregistered shares were issued.

Issuer Purchases of Equity Securities

The following table contains information about purchases by U. S. Steel of our equity securities during the period covered by this report.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1-31, 2006		$		8,000,000
February 1-28, 2006		$		8,000,000
March 1-31, 2006		$		8,000,000
Quarter ended March 31, 2006		**$**		**8,000,000**
April 1-30, 2006		$		8,000,000
May 1-31, 2006	121,818	$ 63.65	100,000	7,900,000
June 1-30, 2006	1,777,000	$ 62.33	1,777,000	6,123,000
Quarter ended June 30, 2006	**1,898,818**	**$ 62.41**	**1,877,000**	**6,123,000**
July 1-31, 2006	270,100	$ 64.74	270,100	5,852,900
August 1-31, 2006	2,691,700	$ 59.77	2,691,700	3,161,200
September 1-30, 2006	1,705,000	$ 58.96	1,705,000	1,456,200
Quarter ended September 30, 2006	**4,666,800**	**$ 59.76**	**4,666,800**	**1,456,200**
October 1-31, 2006	355,000	$ 61.54	355,000	8,000,000
November 1-30, 2006	248,800	$ 67.43	248,800	7,751,200
December 1-31, 2006	100,000	$ 74.20	100,000	7,651,200
Quarter ended December 31, 2006	**703,800**	**$ 65.42**	**703,800**	**7,651,200**

Of the shares repurchased in May 2006, 21,818 were purchased pursuant to the exercise by 2002 Stock Plan participants of their right to elect Stock-for-Tax-Witholding in connection with the vesting of restricted shares under the plan.

The remainder of the above shares were purchased pursuant to the U. S. Steel Common Stock Repurchase Program, which was announced on July 26, 2005 and allowed for the repurchase of up to eight million shares from time to time in the open market or

privately negotiated transactions. The above purchases were all made in the open market. Since that time, the Board of Directors has authorized the repurchase of additional shares. As of December 31, 2006, authority remained for the repurchase of approximately 7.7 million shares.

The timing of such purchases will be determined by the company based upon a number of factors including the market price of U. S. Steel common stock; the availability and pursuit of strategic initiatives including investment and acquisition opportunities; operating cash flow and internal capital requirements; and general economic conditions in the United States and Europe.

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Item 6. SELECTED FINANCIAL DATA

Dollars in millions (except per share data)

	2006	2005	2004	2003	2002
Statement of Operations Data:					
Net sales[(a)]	**$ 15,715**	$ 14,039	$ 13,975	$ 9,328	$ 6,949
Income (loss) from operations[(b)]	**1,785**	1,439	1,625	(719)	123
Income (loss) before extraordinary loss and cumulative effects of changes in accounting principles[(b)]	**1,374**	910	1,121	(363)	81
Net income (loss)[(b)]	**1,374**	910	1,135	(420)	81
Per Common Share Data:					
Income (loss) before extraordinary loss and cumulative effects of changes in accounting principles[(c)] basic	**$ 11.88**	$ 7.87	$ 9.87	$ (3.67)	$ 0.83
diluted	**11.18**	7.00	8.72	(3.67)	0.83
Net income (loss)[(c)] basic	**11.88**	7.87	10.00	(4.22)	0.83
diluted	**11.18**	7.00	8.83	(4.22)	0.83
Dividends paid	**0.60**	0.38	0.20	0.20	0.20
Balance Sheet Data December 31:					
Total assets	**$ 10,586**	$ 9,822	$ 11,064	$ 7,897	$ 7,991
Capitalization:					
Debt[(d)]	**$ 1,025**	$ 1,612	$ 1,371	$ 1,933	$ 1,434
Stockholders equity	**4,365**	3,324	4,074	1,153	2,044
Total capitalization	**$ 5,390**	$ 4,936	$ 5,445	$ 3,086	$ 3,478

(a) For discussion of changes between the years 2006, 2005 and 2004, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase in net sales from 2003 to 2004 was mainly due to higher average realized prices and shipment volumes for all three reportable segments. Sales for Flat-rolled in 2004 benefited from the inclusion of sales from the acquired National Steel facilities for the entire year. Sales for USSE in 2004 benefited from the inclusion of USSB sales for the entire year. The increase in net sales from 2002 to 2003 primarily reflected higher shipment volumes for domestic sheet and tin products due to the acquisition of National Steel facilities, increased prices and shipment volumes for USSE and increased prices for domestic sheet products. The improvement also reflected higher prices and volumes on commercial coke shipments, increased shipments of slabs and increased shipments for Straightline Source. These were partially offset by lower coal revenue due to the sale of the mining assets, lower plate revenue due in part to the disposition of the Gary plate mill, and lower commercial shipments of iron ore pellets.

(b) For discussion of changes between the years 2006, 2005 and 2004, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The significant increase from 2003 to 2004 primarily reflected higher average realized prices for all three reportable segments and lower workforce reduction charges, partially offset by higher raw material costs. The decrease from 2002 to 2003 primarily reflected restructuring charges, higher pension and other benefits costs and increased compensation expense related to stock appreciation rights.

(c) See Note 7 to the Financial Statements for the basis of calculating earnings per share.

(d) For discussion of changes between the years 2006 and 2005 see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase from 2004 to 2005 primarily reflected amounts drawn against a one-year revolving credit facility at USSK that was entered into in order to facilitate the repatriation of $300 million in foreign earnings pursuant to the American Jobs Creation Act of 2004. The decrease from 2003 to 2004 was mainly due to the retirement of USSK long-term debt in November 2004 and the redemption of certain senior notes in April 2004. The increase from 2002 to 2003 was mainly due to the issuance of $450 million of 9-3/4% senior notes in May 2003.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements and related notes that appear elsewhere in this document.

Certain sections of Management s Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of U. S. Steel. These statements typically contain words such as anticipates, believes, estimates, expects or similar words indicating that future outcomes are not known with certainty and are subject to risk factors that could cause these outcomes to differ significantly from those projected. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in forward-looking statements. For discussion of risk factors affecting the businesses of U. S. Steel, see Item 1A Risk Factors and Supplementary Data Disclosures About Forward-Looking Statements.

Overview

U. S. Steel, the sixth largest steel producer in the world and the second largest integrated steel producer in North America, has a broad and diverse mix of products and customers. U. S. Steel uses iron ore, coal, coke, steel scrap, zinc and tin to produce a wide range of steel products, concentrating on value-added steel products for customers with demanding technical applications in the automotive, appliance, container, industrial machinery, construction and oil and gas industries. In addition to our facilities in North America, U. S. Steel has significant operations in Central Europe through U. S. Steel Ko ice (USSK), located in Slovakia, and U. S. Steel Balkan (USSB), located in Serbia. U. S. Steel s financial results are primarily determined by the combined effects of shipment volume, selling prices, production costs and product mix. The primary drivers for U. S. Steel are economic conditions in the United States, Europe and, to a lesser extent, other steel-consuming regions; the levels of worldwide steel production and consumption; pension and other benefits costs; and raw material (iron ore, coal, coke, steel scrap, zinc and tin) and energy (natural gas and electricity) costs.

U. S. Steel s long-term success depends on our ability to implement our strategy to continue to increase our value-added product mix; to expand our global business platform; to improve our capital structure and strengthen our balance sheet; to improve our reliability and cost competitiveness; to become a world leader in safety and environmental performance; and to attract and retain a diverse workforce with the talent and skills needed for our long-term success. In North America, U. S. Steel is focused on providing value-added steel products to our target markets. In Europe, our strategy is to be a leading producer and a prime supplier of steel to growing European markets, to expand our customer base by providing reliable delivery of high quality steel and to invest in value-added facilities, including the automotive hot-dip galvanizing line that started up in February 2007. For a fuller description of our strategy, see Item 1. Business Description Business Strategy. Some of the other key issues which will impact the global steel industry, including U. S. Steel, are the sustainability of current steel prices; the cost of purchased raw materials and energy; the level of unfunded pension and other benefits obligations; the magnitude and durability of the world economic recovery; the degree of further industry consolidation; and the impact of production and consumption of steel in China, which has resulted in volatility in steel raw material supplies and global steel supply and pricing. Steel imports to the United States in 2006 reached record highs and may increase again in 2007 depending on the relative strength of the U.S. dollar, market pricing, consumption in the United States versus other regions and foreign production levels.

Critical Accounting Estimates

Management s discussion and analysis of U. S. Steel s financial condition and results of operations is based upon U. S. Steel s financial statements, which have been prepared in accordance with accounting standards generally accepted in the United States (U.S.). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates, including those related to the carrying value of property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; liabilities for

deferred income taxes, potential tax deficiencies, environmental obligations, potential litigation claims and settlements; and assets and obligations related to employee benefits. Management s estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions or conditions.

Management believes that the following are the more significant judgments and estimates used in the preparation of the financial statements.

Pensions and Other Benefits The recording of net periodic benefit costs for defined benefit pensions and other benefits is based on, among other things, assumptions of the expected annual return on plan assets, discount rate, escalation or other changes in retiree health care costs and plan participation levels. Changes in the assumptions or differences between actual and expected changes in the present value of liabilities or assets of U. S. Steel s plans could cause net periodic benefit costs to increase or decrease materially from year to year as discussed below.

U. S. Steel bases its estimate of the annual expected return on plan assets on the historical long-term rate of return experienced by U. S. Steel s plan assets, the investment mix of plan assets between debt, equities and other investments, and our view of market returns expected in the future. Based on a review of these factors, U. S. Steel kept the expected annual return on pension plan assets for our main pension plan at 8.0 percent for 2007.

The discount rate reflects the current rate at which the pension and other benefits liabilities could be effectively settled at the measurement date. In setting these rates, we utilize several Merrill Lynch Average AAA/AA Corporate Bond indexes and both the 30-year and the 10-year U. S. Treasury bond rates as a preliminary indication of interest rate movements and levels, and we also look to an internally calculated rate determined by matching our expected benefit payments to payments from a stream of AA or higher rated zero coupon corporate bonds theoretically available in the marketplace. Based on this evaluation at December 31, 2006, U. S. Steel increased the discount rate used to measure both pension and other benefits obligations from 5.50 percent to 5.75 percent. Higher discount rates decrease the actuarial losses of the plans and will favorably impact net periodic pension and other benefits costs by approximately $9 million in 2007.

U. S. Steel determines the escalation trend in per capita health care costs based on historical rate experience under U. S. Steel s insurance plans. Assumed health care cost trend rates no longer have a significant effect on the amounts reported for U. S. Steel s health care plans, other than the benefit plan offered to retired mineworkers, since a cost cap was negotiated in 2003 with the USW. Most non-union benefits are limited to flat dollar payments that are not affected by escalation. For measurement purposes, U. S. Steel has assumed an initial escalation rate of 8.0 percent for 2007. This rate is assumed to decrease gradually to an ultimate rate of 5.0 percent in 2013 and remain at that level thereafter.

Net periodic pension cost, including multiemployer plans, is expected to total approximately $113 million in 2007 compared to $202 million in 2006. Total other benefits costs in 2007 are expected to be approximately $124 million compared to $110 million in 2006.

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A sensitivity analysis of the projected incremental effect of a hypothetical 1/2 percent change in the significant assumptions used in the pension and other benefits calculations is provided in the following table:

	Hypothetical Rate Increase (Decrease)	
(In millions of dollars)	**(1/2%)**	**1/2%**
Expected return on plan assets		
Incremental increase (decrease) in:		
Expected pension costs for 2007	$ 35	$ (35)
Discount rate		
Incremental increase (decrease) in:		
Expected pension & other benefits costs for 2007	$ 19	$ (19)
Pension & other benefits liabilities at December 31, 2006	$ 446	$ (411)
Health care cost escalation trend rates		
Incremental increase (decrease) in:		
Expected other benefits costs for 2007	$ (9)	$ 10

Changes in the assumptions for expected annual return on plan assets and the discount rate do not impact the funding calculations used to derive minimum funding requirements for the pension plans. For further cash flow discussion, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Liquidity.

Asset Impairments Asset impairments are recognized when the carrying value of productive assets exceeds their aggregate projected undiscounted cash flows. These undiscounted cash flows are based on management s long range estimates of market conditions and the overall performance associated with the individual asset or asset grouping. If future demand and market conditions are less favorable than those projected by management, or if the probability of disposition of the assets differs from that previously estimated by management, additional asset write-downs may be required.

Taxes U. S. Steel records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event that U. S. Steel determines that it would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would increase income in the period such determination was made. Likewise, should U. S. Steel determine that it would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the valuation allowance for deferred tax assets would be charged to income in the period such determination was made. U. S. Steel expects to generate future taxable income to realize the benefits of our net deferred tax assets.

U. S. Steel makes no provision for deferred U.S. income taxes on the undistributed earnings of USSE because management intends, without regard to the one-time repatriation in 2005, indefinitely to reinvest such earnings in foreign operations. See Note 9 to the Financial Statements. Undistributed foreign earnings at December 31, 2006 amounted to approximately $1,995 million. If such earnings were not permanently reinvested, a U.S. deferred tax liability of approximately $640 million would have been required.

U. S. Steel records liabilities for potential tax deficiencies. These liabilities are based on management s judgment of the risk of loss for items that have been or may be challenged by taxing authorities. In the event that U. S. Steel were to determine that tax-related items would not be considered deficiencies or that items previously not considered to be potential deficiencies could be considered

potential tax deficiencies (as a result of an audit, tax ruling or other positions or authority), an adjustment to the liability would be recorded through income in the period such determination was made.

Environmental Remediation U. S. Steel provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. U. S. Steel regularly monitors the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination was made. As of December 31, 2006, the total accrual for environmental remediation

was $140 million, excluding liabilities related to asset retirement obligations under Statement of Financial Accounting Standards (FAS) No. 143. Due to uncertainties inherent in remediation projects, it is possible that total remediation costs for active matters may exceed the accrued liability by as much as 25 percent.

Segments

During 2006, U. S. Steel had three reportable operating segments: Flat-rolled Products (Flat-rolled), U. S. Steel Europe (USSE) and Tubular Products (Tubular). The results of several operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

The Flat-rolled segment includes the operating results of U. S. Steel s North American integrated steel mills and equity investees involved in the production of sheet, tin mill products, strip mill plate, and rounds for Tubular, as well as all coke production facilities in the U.S. These operations are principally located in the United States and primarily serve domestic customers in the service center, conversion, transportation (including automotive), container, construction and appliance markets.

The USSE segment includes the operating results of U. S. Steel Ko ice (USSK), U. S. Steel s integrated steel mill in Slovakia; and U. S. Steel Balkan (USSB), U. S. Steel s integrated steel mill and other facilities in Serbia. USSE primarily serves customers in the central, western and southern European construction, conversion, service center, appliance, container, transportation (including automotive), and oil, gas and petrochemical markets. USSE produces and sells sheet, strip mill plate, tin mill and tubular products, as well as heating radiators and refractories.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities in the U.S. These operations produce and sell both seamless and electric resistance welded tubular products and primarily serve customers in the oil, gas and petrochemical markets. Tubular has the annual capability to produce 1.8 million tons of products.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses are involved in the production and sale of iron ore pellets, transportation services and the management and development of real estate.

For further information about segments, see Note 3 to the Financial Statements.

Net Sales

Includes National Steel facilities from the date of acquisition on May 20,

2003, and USSB from the date of acquisition on September 12, 2003.

The following table sets forth the net sales of U. S. Steel by segment for each of the last three years:

(Dollars in millions, excluding intersegment sales)	**2006**	**2005**	**2004**
Flat-rolled	**$ 9,607**	$ 8,813	$ 9,827
USSE	**3,968**	3,336	2,839
Tubular	**1,798**	1,546	941
Total sales from reportable segments	**15,373**	13,695	13,607
Other Businesses	**342**	344	368
Net sales	**$ 15,715**	$ 14,039	$ 13,975

Management s analysis of the percentage change in net sales for U. S. Steel s reportable business segments is set forth in the following tables:

Year Ended December 31, 2006 versus Year Ended December 31, 2005

	Steel Products[a]					
	Volume	**Price**	**Mix**	**FX**[b]	**Coke & Other**	**Net Change**
Flat-rolled	6%	3%	0%	0%	0%	9%
USSE	19%	2%	-3%	1%	0%	19%
Tubular	3%	12%	1%	0%	0%	16%

(a) Excludes intersegment sales
(b) Foreign currency effects

Total net sales in 2006 increased by $1,676 million compared to 2005. Sales for the Flat-rolled segment were up 9 percent mainly on higher shipments of sheet products and higher average realized prices (up $17 per ton). Sales for USSE increased 19 percent mainly as a result of higher shipment volumes. Tubular sales were up 16 percent due primarily to higher average realized prices (up $173 per ton), as well as increased shipment volumes.

Year Ended December 31, 2005 versus Year Ended December 31, 2004

	Steel Products[a]					
	Volume	**Price**	**Mix**	**FX**[b]	**Coke & Other**	**Net Change**
Flat-rolled	-14%	6%	0%	0%	-2%	-10%
USSE	2%	14%	1%	0%	1%	18%
Tubular	6%	52%	5%	0%	1%	64%

(a) Excludes intersegment sales
(b) Foreign currency effects

Total net sales in 2005 increased by $64 million compared to 2004. Sales for the Flat-rolled segment were down 10 percent as the increases in Flat-rolled average realized prices (up $43 per ton) were more than offset by lower sheet shipment volumes and lower trade shipments of coke. Sales for USSE increased by 18 percent mainly as a result of higher average realized prices (up $81 per ton). Tubular sales were up significantly due primarily to higher average realized prices (up $463 per ton), as well as increased shipment volumes and an improved product mix.

Operating expenses

Profit-based union payments

Results for the years ended December 31, 2006, 2005 and 2004 included costs related to three profit-based payments pursuant to the provisions of the 2003 labor agreement negotiated with the USW. All of these costs are included in cost of sales on the statement of operations.

	Year Ended December 31		
(Dollars in millions)	**2006**	**2005**	**2004**
Allocated to segment results	**$ 167**	$ 115	$ 131
Retiree benefit expenses	**131**	100	110
Total	**$ 298**	$ 215	$ 241

Payment amounts per the agreement with the USW are calculated as a percentage of consolidated income from operations after special items (as defined in the agreement) and are: (1) to be used to assist retirees from National Steel with health care costs, based on between 6 percent and 7.5 percent of profit; (2) to be used to offset a portion of future medical insurance premiums to be paid by U. S. Steel retirees based on 5 percent of profit above $15 per ton; and (3) paid as profit sharing to active union employees based on 7.5 percent of profit between $10 and $50 per ton and 10 percent of profit above $50 per ton.

At the end of 2006, 2005 and 2004, assumptions for the second calculation above were included in the actuarial calculation of retiree medical liabilities. This actuarial calculation is performed annually as of December 31, unless a significant interim event occurs. Costs for this item are not reflected in the table above and are calculated and recorded through the income statement in the same manner as other retiree medical costs.

Pension and other benefits costs

Defined benefit pension and multiemployer pension plan benefit costs, which are included in income from operations, totaled $202 million in 2006, compared to $280 million in 2005 and $254 million in 2004. The costs in 2006, 2005 and 2004 included settlement, termination and curtailment losses of $12 million, $23 million and $22 million, respectively. Excluding these charges, the decrease in pension expense in 2006 compared to 2005 mainly reflects a reduced prior service cost amortization associated with 1991 pension improvements that are now fully amortized and a reduced interest component reflecting lower liabilities caused by normal maturation of the plan. The increase from 2004 to 2005 mainly reflected a lower asset base, which resulted in a higher amortization of net actuarial losses and a lower return on plan assets.

Other benefits costs, which are also included in income from operations, totaled $110 million in 2006, $109 million in 2005 and $106 million in 2004.

Costs related to defined contribution plans totaled $22 million in 2006, $19 million in 2005 and $18 million in 2004.

For additional information on pensions and other benefits, see Note 15 to the Financial Statements.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by $52 million in 2006 compared to 2005. The decrease was primarily due to lower pension expense as discussed above.

Selling, general and administrative expenses were $656 million in 2005, compared to $739 million in 2004. The decline primarily reflected lower expenses for stock-based and executive compensation, partially offset by higher pension costs.

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Income from operations[a]

(Dollars in Millions)	Year Ended December 31,		
	2006	**2005**	**2004**
Flat-rolled	**$ 600**	$ 602	$ 1,185
USSE	**714**	502	439
Tubular	**631**	528	197
Total income from reportable segments	**1,945**	1,632	1,821
Other Businesses	**129**	43	58
Segment income from operations	**2,074**	1,675	1,879
Retiree benefit expenses	**(243)**	(267)	(257)
Other items not allocated to segments:			