U. S. Steel Košice, s.r.o.

Consolidated Financial Statements
for the year ended 31 December 2005

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT AUDITORS

To the members of U. S. Steel Košice, s.r.o.:

1 We have audited the accompanying consolidated balance sheet of U. S. Steel Košice, s.r.o. ("the Company") and its subsidiaries (together, the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements set out on pages 2 to 44 are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of U. S. Steel Košice, s.r.o. as at 31 December 2005 and the consolidated results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

Slovenská komora audítorov SKAU Č.licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

Ing. Mária Frühwaldová
SKAU licence No.: 47

27 December 2006

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

CONSOLIDATED FINANCIAL STATEMENTS AND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been approved and authorised for issue by the statutory representatives on 27 December 2006.

Košice, 27 December 2006

David H. Lohr	William C. King	Silvia Gaálová
The President	The Chief Financial Officer	General Manager Accounting

CONSOLIDATED FINANCIAL STATEMENTS AND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are in thousands of EUR)

CONSOLIDATED BALANCE SHEET

	Note	31 December 2005	31 December 2004
ASSETS			
Non-current Assets			
Property, plant and equipment	6	**813,183**	697,258
Intangible assets	7	**214,303**	7,803
Investment in associates	8	**810**	1,394
Financial assets available-for-sale		**119**	119
Deferred income tax asset	9	**149,229**	187,968
Loans to related party	11	**101,599**	22,035
Other non-current assets	10	**4,680**	2,978
Total non-current assets		**1,283,923**	**919,555**
Current Assets			
Loans to related party	11	**227,868**	293,790
Inventories	12	**266,186**	246,547
Trade and other receivables	13	**452,050**	397,668
Derivative financial instruments	14	**1,229**	564
Cash and cash equivalents	15	**49,203**	104,763
Other current assets	16	**1,864**	2,257
Total current assets		**998,400**	**1,045,589**
Total Assets		**2,282,323**	**1,965,144**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**587,842**	587,842
Other reserves	17	**45,787**	24,880
Retained earnings	17	**866,815**	910,842
Total equity attributable to the Company's equity holders		**1,500,444**	**1,523,564**
Minority Interests		**704**	514
Total Equity		**1,501,148**	**1,524,078**
Liabilities			
Non-Current Liabilities			
Loans from related party	11	**-**	98,424
Provisions for liabilities and charges	19	**35,704**	34,735
Deferred income tax liability	9	**220**	55
Total non-current liabilities		**35,924**	**133,214**
Current Liabilities			
Trade and other payables	21	**328,014**	286,790
Current income tax liability		**10,514**	12,229
Deferred income	22	**2,471**	-
Short-term loans and borrowings	18	**195,001**	-
Provisions for liabilities and charges	19	**209,251**	8,833
Total current liabilities		**745,251**	**307,852**
Total Liabilities and Equity		**2,282,323**	**1,965,144**

The accompanying notes on pages 8 to 45 are an integral part of these consolidated financial statements.

(All amounts are in thousands of EUR)

CONSOLIDATED INCOME STATEMENT

	Note	2005	2004
Revenue	23	**2,478,245**	2,097,611
Other income	23	**14,144**	8,278
Materials and energy consumed	24	**(1,484,950)**	(1,199,648)
Salaries and other employees benefits	25	**(268,192)**	(226,375)
Depreciation and amortization	6, 7	**(67,755)**	(55,905)
Repairs and maintenance		**(27,279)**	(23,722)
Transportation services		**(100,462)**	(100,664)
Advisory services		**(20,334)**	(16,520)
Other operating expenses	26	**(42,968)**	(115,082)
Profit from Operations		**480,504**	**367,973**
Finance income	27	**1,388**	5,517
Share of profit of associates		**503**	1,469
Profit Before Tax		**482,395**	**374,959**
Income tax expense	28	**(58,326)**	(73,963)
Profit After Tax		**424,069**	**300,996**
Profit after tax is attributable to:			
- Minority interest		**190**	(72)
- Equity holders of the Company		**423,879**	301,068
Profit After Tax		**424,069**	**300,996**

The accompanying notes on pages 8 to 45 are an integral part of these consolidated financial statements.

(All amounts are in thousands of EUR)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Minority interest	Total
	Share capital	Other reserves	Retained earnings	Subtotal		
Balance at 1 January 2004	**585,332**	**9,755**	**624,146**	**1,219,233**	**586**	**1,219,819**
Currency translation differences						
- Group	-	935	16	951	-	**951**
- Associates	-	-	-	-	-	**-**
Other	10	(54)	(144)	(188)	-	**(188)**
Net income recognized directly in equity	**10**	**881**	**(128)**	**763**	**-**	**763**
Profit for 2004	-	-	301,068	301,068	(72)	**300,996**
Total recognised income	**10**	**881**	**300,940**	**301,831**	**(72)**	**301,759**
Contribution to legal reserve fund	-	14,244	(14,244)	-	-	**-**
Contribution into share capital	2,500	-	-	2,500	-	**2,500**
	2,500	**14,244**	**(14,244)**	**2,500**	**-**	**2,500**
Balance at 31 December 2004	**587,842**	**24,880**	**910,842**	**1,523,564**	**514**	**1,524,078**
Balance at 1 January 2005	**587,842**	**24,880**	**910,842**	**1,523,564**	**514**	**1,524,078**
Currency translation differences						
- Group	-	520	14	534	-	**534**
- Associates	-	65	(40)	25	-	**25**
Fair value gains (net of tax)	-	4,254	-	4,254	-	**4,254**
Other	-	(40)	-	(40)	-	**(40)**
Net income recognized directly in equity	**-**	**4,799**	**(26)**	**4,773**	**-**	**4,773**
Profit for 2005	-	-	423,879	423,879	190	**424,069**
Total recognized income	**-**	**4,799**	**423,853**	**428,652**	**190**	**428,842**
Contribution to legal reserve fund	-	16,108	(16,108)	-	-	**-**
Dividends	-	-	(451,772)	(451,772)	-	**(451,772)**
	-	**16,108**	**(467,880)**	**(451,772)**	**-**	**(451,772)**
Balance at 31 December 2005	**587,842**	**45,787**	**866,815**	**1,500,444**	**704**	**1,501,148**

(All amounts are in thousands of EUR)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Total consolidated	
		2005	**2004**
Profit before tax		**482,395**	374,959
Adjustments for			
Depreciation	6	**65,370**	53,927
Amortization	7	**2,385**	2,617
Property, plant and equipment impairment losses/(reversals)	6	**6,923**	(415)
Losses/(gains) on disposal of property, plant and equipment		**(432)**	2,642
Losses/(gains) from fair value changes of financial derivatives		**-**	(875)
Losses/(gains) from fair value changes of other financial instruments		**(665)**	-
Finance income		**2,949**	23,429
Share of profit of associate	8	**(1,005)**	(2,937)
Foreign exchange losses/(gains) on non-operating activities		**(2,469)**	28,149
Changes in working capital			
Decrease/(increase) in inventories	12	**(19,639)**	(99,848)
Decrease/(increase) in trade and other receivables		**(55,690)**	(55,375)
Decrease/(increase) in other financial instruments		**(55)**	-
Increase/(decrease) in trade and other payables		**44,408**	86,773
Cash generated from operations		**524,475**	413,046
Interest paid		**(2,949)**	(28,123)
Income taxes paid		**(22,268)**	(15,303)
Net cash generated from operating activities		**499,258**	369,619
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**-**	(640)
Purchases of property, plant and equipment	6	**(185,476)**	(158,298)
Proceeds from sale of property, plant and equipment		**655**	154
Purchases of intangible assets	7	**(1,995)**	(4,056)
Loans granted to related parties	11	**(307,432)**	(22,035)
Loan repayments from related parties		**293,790**	29,305
Interest received		**-**	4,694
Dividends received	8	**1,455**	690
Net cash used in investing activities		**(199,003)**	(150,186)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**-**	2,500
Proceeds from borrowings	18	**195,000**	98,424
Repayment of borrowings	11	**(98,424)**	(240,760)
Dividends paid to the Company's shareholders		**(452,391)**	-
Dividends paid to minority interests		**-**	(144)
Net cash used in financing activities		**(355,815)**	(139,980)
Net (decrease)/increase in cash and cash equivalents		**(55,560)**	79,453
Cash and cash equivalents at beginning of year	15	**104,763**	25,310
Cash and cash equivalents at end of year	15	**49,203**	104,763

Note 1 General

U. S. Steel Košice, s.r.o. ("the Company") was established on 7 June 2000 and incorporated in the Commercial Register on 20 June 2000 in Slovakia (Commercial Register of the District Court Košice I in Košice, Section Sro, Insert 11711/V). The principal activity of the Company and its subsidiaries (together "the Group") is the production and sale of steel products (Note 23).

The Company's registered address is:

U. S. Steel Košice, s.r.o.
Vstupný areál U.S. Steel
Košice
044 54

The parent company of the Group is U. S. Steel Global Holdings I B.V., Rokin 55 ,1012 KK Amsterdam. Ultimate controlling party of the Group is United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania, USA.

Note 2 Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the consolidated financial statements of the Group are as follows:

2.1 Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"), issued as at 31 December 2005 and effective for annual periods then ended.

2.2 Basis of Preparation

The Act on Accounting of the Slovak republic requires certain companies to prepare consolidated financial statements for the year ended 31 December 2005 in accordance with IFRS as adopted by the EU.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

The financial statements have been prepared on the going concern basis.

The Group's consolidated financial statements were prepared in accordance with the Slovak Accounting Standards ("SAS") until 31 December 2004. SAS differs in some areas from IFRS as adopted by the EU. In preparing the Groups' consolidated financial statements for the year ended 31 December 2005, management has amended certain accounting, measurement and consolidation methods applied in the SAS financial statements in order to comply with IFRS as adopted by the EU. The 2004 comparative figures were restated to reflect these amendments.

Reconciliations and descriptions of the effect of the transition from SAS to IFRS as adopted by the EU on the Group's equity and its profit are provided in Note 3.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.3 *Foreign Currency Translations*

Functional and presentation currency

Items included in the financial statements of each of the U. S. Steel Košice Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'EURO' ('€'), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The majority of foreign consolidated subsidiaries is financially, economically and organisationally autonomous. Their functional currencies are the respective local currencies. The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b) income and expenses for each income statement are translated at average exchange rates; and

c) all resulting exchange differences are recognised as a translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 *Principles of Consolidation*

Subsidiaries

The consolidated financial statements of the Group include U. S. Steel Košice, s.r.o. and the companies that it controls (Note 33). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an entity so as to benefits from its activities. The companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

Associates

Investments in associated companies (generally investments of 20% to 50% in a company's equity) where significant influence is exercised by U. S. Steel Košice, s.r.o. are accounted for using the equity method and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealised losses are also eliminated but only to the extent that there is no evidence of impairment of the asset transferred.

2.5 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items such as purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Group expects to use them during more than one period or if the spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Machinery and equipment	5 – 15 years
Other non-current tangible assets	2 – 5 years

Commencement of depreciation is the date when the asset is first available for use.

When assets are disposed of or no future economic benefits are expected to arise from the continued use of the asset, the cost and accumulated depreciation of the assets are derecognized and any gain or loss resulting from their disposal is included in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Recoverable amount is the higher of an assets fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 *Intangible Assets*

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. The probability of inflow of economic benefits criterion is considered always met for acquired intangible assets because the effect of probability is reflected in the cost of the asset.

After initial recognition, intangible assets, other than CO_2 emissions allowances, are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each financial year-end.

Research and development costs

Research costs are recognized in the period in which they were incurred. The development costs that relate to a clearly defined product or process where the technical feasibility and the possibility of sale can be demonstrated and the Group has sufficient resources to complete the project, to sell it or to utilise its results internally, are capitalised up to the amount that is expected to be recovered from future economic benefits. If the conditions for capitalisation are not fulfilled, development costs are recognized in the period in which they were incurred.

Software

Acquired computer software is carried at cost less accumulated amortisation and any accumulated impairment losses and is classified as intangible assets unless the software is an integral part of the related hardware. Software is amortised on a straight-line basis over estimated useful lives (2 – 5 years). Expenditure to enhance or extend the software performance beyond its original specifications is capitalised and added to the original cost of the software.

Costs associated with maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, which will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

Emission allowances

Emission allowances are allocated annually free of charge by the Slovak government for a period of one year. They represent an intangible asset which was recorded as of the date the allowances were credited to the National Registry of Emission Rights (thereinafter NRER). The allowances were issued free of charge and are initially recognized at fair value. The fair value of allowances issued represents their market price on the European Energy Stock Exchange as of the date they are credited to NRER.

As no amount has been paid to acquire this intangible asset, it was recorded in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* recognized as deferred income on the acquisition date and subsequently recognized as an income on a systematic basis over the compliance period for which the allowances have been issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognized for the obligation to deliver the allowances equal to emissions that have been made. This liability is a provision that is disclosed under current provisions for liabilities and charges. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, what represents the market price of the number of allowances required to cover emissions made up to the balance sheet date.

Intangible asset representing the allowances is carried at market value with revaluation surplus recorded in equity. Revaluation decreases are recorded in profit or loss to the extent that they exceed revaluation surplus previously recorded in equity.

2.7 *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Goodwill on acquisitions of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.8 *Impairment of Property, Plant and Equipment and Intangible Assets*

Goodwill, intangible assets not yet available for use and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 *Borrowing Costs*

Borrowing costs are expensed as incurred. Interest expense is recognised in the income statement on a time proportion basis using the effective interest method.

2.10 *Accounting for Leases*

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

2.11 *Financial Assets*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. This category comprises trade and other receivables, cash and cash equivalents and loans to related parties presented on the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement of financial assets

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at their fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or origination.

Subsequently, financial assets at fair value through profit or loss and available for sale assets are carried at fair value. Gains and losses on available-for-sale financial assets other than interest income, dividend income and foreign exchange differences on debt instruments are deferred in equity until the asset is derecognised or impaired. Loans and receivables are carried at amortised cost using the effective interest method, net of provision made for impairment, if any.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

When the asset is uncollectible, it is written off against the related allowance account.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has (i) transferred substantially all risks and rewards of ownership or (ii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

Cost is determined on the FIFO basis (first-in, first out). The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

2.13 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Equity and Liabilities

<u>(i) Liabilities and equity</u>

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instruments is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is not genuine at the time of issuance or settlement is required only in case of the issuer’s liquidation, in which case the instrument is classified as equity.

<u>(ii) Reserves</u>

(a) Translation reserve

The translation reserve is used for translation differences arising on consolidation of financial statements of foreign entities. Upon disposal of the corresponding assets, the cumulative translation reserves are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

(b) Revaluation reserve

This reserve includes the cumulative net change in fair value of intangible assets carried at revalued amounts. Upon disposal of the corresponding assets, the cumulative revaluation reserves are transferred to retained earnings. The transfer is not made through the income statement.

2.15 Financial liabilities

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

2.16 Dividends

Dividends are recognised in the Group's accounts in the period in which they are approved by shareholders.

2.17 Government Grants

Government grants are recognized only if there is reasonable assurance that the company will comply with the conditions attached to them and that the grants will be received. They are deferred and amortised on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying financial statements. Income relating to government grants is recognised as a deduction from the related expense.

2.18 Provisions

Provision for legal claims, environmental and other obligations is recognised when, and only when, the Group has a present legal or constructive obligation as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.19 Defered Income Tax

Deferred income tax is provided for using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related asset is realised or the liability is settled.

Deferred income tax assets are recognised only to the extent that it is more likely than not that future taxable profit will be available against which the temporary differences, tax loss carryforwards or tax credits can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee Benefits

Defined contribution pension plan

The Group contributes to the government and private defined contribution pension plans.

The Group makes contributions to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group makes contributions to the supplementary scheme amounting up to 2% from the monthly accounted wage, but at least 700 SKK per employee for employees working in the III. and IV. risk category and 400 SKK per employee for other employees.

Employee retirement obligation

The Company is committed to make payments to the employees upon first retirement in accordance with Slovak legislation and the Labour Collective Agreement. The liability in respect of this employee benefit is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Slovak government securities which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Employees are entitled to benefits at first retirement, upon acquiring the entitlement to an old age pension, an invalidity (disability) pension or a pension for years of service as follows:

- if an employee retires in the month in which he or she acquires the entitlement to an old age pension, in the amount of his average monthly pay plus an amount of up to SKK 50 thousand based on the years of employment with the Company;
- in the other cases in the amount of his or her average monthly pay.

Actuarial gains and losses arising from experience adjustments and from changes in actuarial assumptions are charged or credited to income over the remaining working lives of the employees entitled to the benefits. Amendments to the benefit plan are charged or credited to income over the average period until the amended benefits become vested.

Work and life jubilees

The Group also pays certain work and life jubilee benefits. The liability in respect of the work and life jubilee benefits plan is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The present value of defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Slovak government debt securities which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred. Amendments to the work and life jubilees benefit plan are charged or credited to income immediately.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other liabilities. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

2.21 Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

<u>Sale of goods</u>

Revenue from sales of goods is recognised when the entity has transferred significant risks and rewards to the buyer and has not retained continuing managerial involvement nor effective control over the goods sold.

<u>Sale of services</u>

Revenue from sale of services is recognised in the accounting period in which the services are rendered by reference to the stage of completion when this can be measured reliably. The stage of completion is measured by reference to the actual service provided as a proportion of the total service to be provided.

<u>Interest income</u>

Interest is recognised using the effective interest method.

<u>Dividends income</u>

Dividends are recognised when the shareholder's right to receive payment is established.

2.22 Segments

In accordance with IAS 14, *Segment reporting*, no segment reporting is presented in these financial statements because the Group has not issued any publicly traded securities.

2.23 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

2.24 Accounting for Derivative Financial Instruments

Derivative financial instruments, mainly short-term foreign exchange contracts, are initially recognised in the balance sheet at fair value (excluding transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative ; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in profit or loss.

Foreign currency forwards embedded in the host iron ore purchase contracts denominated in US Dollars are closely related to the host contracts because iron ore prices are routinely denominated in US Dollars in commercial transactions around the world.

2.25 Fair Value Estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Where quoted market prices are not available the fair value is determined using estimation techniques if appropriate.

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

2.26 Subsequent Events

Events after the balance sheet date that provide additional information about the Group's financial position at the balance sheet date (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

Note 3 Transition to IFRS as adopted by the EU

The Group first applied IFRS as adopted by the EU in the consolidated financial statements prepared at 31 December 2005 with the date of transition to IFRS as adopted by the EU on 1 January 2004. Its last consolidated financial statements were prepared for the year ended 31 December 2004 in accordance with Slovak accounting legislation.

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS as adopted by the EU effective for annual periods ending at the reporting date, 31 December 2005. This version was consistently applied in preparing the opening balance sheet at 1 January 2004 and in subsequent periods up to the first reporting date. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected to apply certain optional exemptions from the restrospective application. The following exceptions and exemptions were relevant to the Group:

(a) ***Business combination exemption.*** The Group has elected not to apply IFRS 3 retrospectively to past business combinations (before the date of transition to IFRS as adopted by the EU).

(All amounts are in thousands of EUR, unless otherwise indicated)

(b) ***The cumulative translation differences.*** The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to reporting in accordance with IFRS as adopted by the EU.

(c) ***Estimates exception***. Estimates under IFRS as adopted by the EU at 1 January 2004 and 31 December 2004 are consistent with estimates made for the same dates under previous Slovak GAAP.

The following reconciliations provide a quantification of the effect of the transition from Slovak Accounting Standards to IFRS as adopted by the EU at 1 January 2004, 31 December 2004 and for the year 2004:

Reconciliation of equity

	31 December 2004	**1 January 2004**
Equity reported under SAS in SKK thousands	54,539,671	41,663,017
Equity under SAS translated into EUR	**1,360,417**	**1,001,996**
Adjustments:		
- Property, plant and equipment	1,136	453
- Inventories	28,957	21,561
- Employee benefits	(5,760)	(4,417)
- Decommissioning liabilities	(4,600)	(3,265)
- Deferred income tax	143,689	205,331
- Other	239	(1,840)
Equity in accordance with IFRS as adopted by the EU	**1,524,078**	**1,219,819**

Reconciliation of profit for the year ended 31 December 2004

	2004
Profit reported under SAS in SKK thousands	12,877,689
Profit in under SAS translated into EUR	**356,812**
Adjustments:	
- Property, plant and equipment	684
- Inventories	7,396
- Employee benefits	(1,343)
- Decommissioning liabilities	(1,335)
- Deferred income tax	(61,643)
- Other	425
Profit in accordance with IFRS as adopted by the EU	**300,996**

Reconciliation of cash flows for the year ended 31 December 2004

The Group's operating, investing and financing cash flows reported under SAS did not significantly differ from IFRS.

The key adjustments for the differences between SAS and IFRS as adopted by the EU were attributable to the following:

Functional currency

In accordance with IAS 21, the Company's functional currency was determined to be EUR. Under SAS there is no concept of functional currency. All financial statements are prepared and presented in Slovak Koruna.

Property, plant and equipment (PP&E)

Under IFRS as adopted by the EU, components of property, plant and equipment are depreciated separately over their respective useful lives. Under SAS, component approach to depreciation is not acceptable.

Inventory

Under IAS 16, *Property, Plant and Equipment*, significant spare parts are capitalized and depreciated over their useful lives. Under SAS, spare parts are expensed in full when installed.

Employee benefits

Under SAS, the Group recognized only a liability for retirement obligations. In accordance with IFRS as adopted by the EU, the Group has recorded also the obligation for work and life jubilee benefits.

Decommissioning liabilities

In accordance with IFRS as adopted by the EU, the Company records a provision for closing, reclamation and after-close monitoring of landfills at the present value of estimated future costs. Such provision is initially recorded as an increase of cost of PP&E. Under SAS, the provision is gradually created through profit and loss, based on the waste volume disposed of to the landfill.

Deferred income tax

Under SAS, no deferred tax asset has been recognized for the unused tax credit available to the Company. In addition, the deferred tax on temporary differences between carrying amount and tax base of the assets and liabilities was recorded using effective tax rate (adjusted for the impact of the tax credit) when the differences are expected to reverse. Under IFRS as adopted by the EU, a deferred tax asset has been recognized for the unused tax credit and deferred taxes were calculated for all temporary differences at full tax rate.

The adjustment to the deferred tax also reflects the tax effects of the reconciling adjustments from SAS to IFRS as adopted by the EU.

Other

Other adjustments include mainly foreign currency forwards and embedded derivatives. Under SAS, the change in the fair value of foreign currency forwards, including those embedded in host contracts, is recorded directly in equity. Under IFRS as adopted by the EU, changes in fair value of derivatives are recorded in income statement. Those embedded derivatives initially recorded under SAS are not recognized under IFRS as the functional currency is EUR.

Note 4 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below. The Group also makes certain significant judgments in applying its accounting policies as disclosed below.

Estimated useful life of PP&E

The average useful life of depreciable PP&E represents approximately 15 years. A revision of the average useful life by 1 year would change the annual depreciation charge by EUR 3 million.

Functional currency of the Company

The Company's functional currency has been determined the EUR based on the underlying economic conditions and operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Company evaluates among other factors, the sources of revenue, risks associated with activities and denomination of currencies of its operations. The Company based its judgement on the fact that it operates internationally on markets mainly influenced by the EUR and its major activity is sale of steel in Western and Central Europe. Moreover, majority of capital expenditures and a significant portion of costs are denominated in the EUR. In accordance with the European Union Accession Treaty, the Slovak government is obliged to introduce the EUR as its national currency and pursues economic policies to achieve this by 2009.

CO_2 emission liabilities

The Group recognizes CO_2 emission allowances and a related obligations as stated in its accounting policy in Note 2.6. Management estimates a shortfall of the emission allowances for the period 2005 to 2007 and expect to purchases additional allowances to close the gap before the end of 2007. In accordance with the policy, such costs will be recognized in profit and loss when incurred.

Taxation

The Company was granted a tax credit (Note 9 and 32) available through 31 December 2009. Management believes that all tax credit conditions were met for the preceeding periods. Should any of the conditions was not met for any of the period involved, the tax credit claimed for the related period would have to be repaid including related tax penalties.

The Company estimates that it is probable that sufficient future taxable profit will be available against which the unused tax credit can be utilized. The Company applies all available tax strategies to utilize the tax credit in full by end of 2009.

Certain areas of Slovak tax law have not been sufficiently tested in practice. As a result, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations become available.

Note 5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 and which the entity has not early adopted. Unless otherwise described below, these new standards and interpretations are not expected to significantly affect the Group's financial statements:

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). The amendment changes accounting for foreign exchange differences arising on intercompany loans that form part of a net investment in a foreign operation. The Group is currently assessing what impact the new standard will have on the financial statements.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The Standard introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new Standard and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. Management is currently assessing the impact of IFRIC 5 on the Group's operations.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). This interpretation is not expected to affect the Group's financial statements.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). IFRIC 8 is not relevant for Group's operations.

IFRIC 9 Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006, that is from 1 January 2007). IFRIC 9 is not relevant to the Group's operations.

IFRIC 10 Interim Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006 that is from 1 January 2007). This interpretation is not expected to affect the Group's financial statements.

IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007, that is from 1 January 2008). IFRIC 11 is not expected to have material impact on the Group's financial statements.

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not expected to have material impact on the Group's financial statements.

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 is not expected to have an impact on the Group's financial statements.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 6 Property, Plant and Equipment

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2004	255,964	321,523	19,006	143,849	**740,342**
Additions	157	2,768	34	155,339	**158,298**
Disposals	(405)	(5,156)	(400)	(1,863)	**(7,824)**
Transfers	20,132	167,794	1,218	(189,144)	**-**
Currency translation differences	367	691	89	(26)	**1,121**
31 December 2004	**276,215**	**487,620**	**19,947**	**108,155**	**891,937**
Accumulated Depreciation and Impairment Losses					
1 January 2004	(25,235)	(111,042)	(9,600)	-	**(145,877)**
Depreciation for the year	(8,128)	(42,908)	(2,892)	-	**(53,928)**
Other additions	(12)	(1,792)	(7)	-	**(1,811)**
Disposals	365	4,279	392	-	**5,036**
Reversals of impairment losses	-	415	-	-	**415**
Currency translation differences	195	1,271	20	-	**1,486**
31 December 2004	**(32,815)**	**(149,777)**	**(12,087)**	**-**	**(194,679)**
Net book value	**243,400**	**337,843**	**7,860**	**108,155**	**697,258**

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2005	276,215	487,620	19,947	108,155	**891,937**
Additions	-	-	-	185,476	**185,476**
Disposals	(990)	(12,752)	(2,117)	(203)	**(16,062)**
Transfers	26,987	186,952	2,468	(216,407)	**-**
Currency translation differences	758	10,034	69	(5)	**10,856**
31 December 2005	**302,970**	**671,854**	**20,367**	**77,016**	**1,072,207**
Accumulated Depreciation and Impairment Losses					
1 January 2005	(32,815)	(149,777)	(12,087)	-	**(194,679)**
Depreciation for the year	(8,810)	(53,028)	(3,532)	-	**(65,370)**
Other additions	(32)	(69)	(124)	-	**(225)**
Disposals	978	12,752	2,105	-	**15,835**
Impairment losses	(3,179)	(3,548)	-	(196)	**(6,923)**
Currency translation differences	(271)	(7,825)	434	-	**(7,662)**
31 December 2005	**(44,129)**	**(201,495)**	**(13,204)**	**(196)**	**(259,024)**
Net book value	**258,841**	**470,359**	**7,163**	**76,820**	**813,183**

<u>Insurance</u>

Non-current tangible assets are insured by Česká poisťovňa Slovensko, a.s. The insurance covers damage caused by theft, disaster and other causes of machinery failure. The insurance compensation for one insurance claim will not exceed USD 500 million (2004: USD 500 million); compensation sublimits for individual risks are specified in the insurance contract. The participation is USD 25 million per claim.

(All amounts are in thousands of EUR, unless otherwise indicated)

Impairment Loss

The impairment loss of EUR 6,923 thousand has been recognized in 2005 income and relates mainly to property and equipment located in Germany. The recoverable amount is the assets' fair value less costs to sell determined by reference to an actual disposal transaction with an unrelated party.

Note 7 Intangible Assets

	Software	Emission Allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2004	8,457	-	290	1,735	**10,482**
Additions	37	-	19	4,000	**4,056**
Disposals	(299)	-	(171)	(7)	**(477)**
Transfers	4,263	-	95	(4,358)	**-**
Currency translation differences	17	-	194	-	**211**
31 December 2004	**12,475**	**-**	**427**	**1,370**	**14,272**
Accumulated Amortization and Impairment Losses					
1 January 2004	(4,597)	-	(196)	-	**(4,793)**
Amortization for the year	(1,872)	-	(105)	-	**(1,977)**
Other additions	(22)	-	(17)	-	**(39)**
Disposals	299	-	170	-	**469**
Currency translation differences	27	-	(156)	-	**(129)**
31 December 2004	**(6,165)**	**-**	**(304)**	**-**	**(6,469)**
Net book value	**6,310**	**-**	**123**	**1,370**	**7,803**

	Software	Emission Allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2005	12,475	-	427	1,370	**14,272**
Additions	2	201,481	1	1,992	**203,476**
Revaluation surplus	-	5,252	-	-	**5,252**
Disposals	(28)	-	(5)	-	**(33)**
Transfers	1,229	-	176	(1,405)	**-**
Currency translation differences	9	-	30	(9)	**30**
31 December 2005	**13,687**	**206,733**	**629**	**1,948**	**222,997**
Accumulated Amortization and Impairment Losses					
1 January 2005	(6,166)	-	(303)	-	**(6,469)**
Amortization for the year	(2,259)	-	(126)	-	**(2,385)**
Other additions	(7)	-	(1)	-	**(8)**
Disposals	28	-	5	-	**33**
Currency translation differences	162	-	(27)	-	**135**
31 December 2005	**(8,242)**	**-**	**(452)**	**-**	**(8,694)**
Net book value	**5,445**	**206,733**	**177**	**1,948**	**214,303**

(All amounts are in thousands of EUR, unless otherwise indicated)

Full amount of emission allowances granted by the Slovak government was issued free of charge.

Note 8 Investment in Associate

The Group has a 50 % interest in U. S. Steel Košice (UK), Ltd. Essex, United Kingdom, which is involved in trading with steel products.

	31 December 2005	31 December 2004
The Group´s share of net assets at 1 January	**1,394**	1,023
Profit for the period	**503**	1,469
Dividends paid	**(1,455)**	(690)
Translation adjustement and other	**368**	(408)
The Group´s share at 31 December	**810**	**1,394**

Summarised financial information of associate is following:

	2005	2004
Total assets	**19,268**	38,974
Equity	**2,333**	4,106
Total revenues	**71,635**	67,048
Profit / (loss) for the period	**1,005**	2,937

There are no significant restrictions on associate’s ability to transfer funds to the investor in the form of cash, dividends or otherwise.

Note 9 Deferred Income Taxes

Differences between IFRS as adopted by the EU and Slovak taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 19% (2004: 19%):

	1 January 2004	Recognized in income	Recognized in equity	31 December 2004
Property, plant and equipment	17,580	13,948	-	**31,528**
Inventories	1,541	1,318	-	**2,859**
Employee benefits	839	2,007	-	**2,846**
Deferred charges	5,682	(3,625)	-	**2,057**
Bad debt provisions	2,241	(872)	-	**1,369**
Unrealized foreign exchange losses	-	42,839	-	**42,839**
Tax credits	203,493	(99,830)	-	**103,663**
Other items	64	688	-	**752**
Total	**231,440**	**(43,527)**	**-**	**187,913**
Deferred tax asset	231,492			**187,968**
Deferred tax liability	(52)			**(55)**

(All amounts are in thousands of EUR, unless otherwise indicated)

	1 January 2005	Recognized in income	Recognized in equity	31 December 2005
Property, plant and equipment	31,528	(4,321)	-	**27,207**
Inventories	2,859	(914)	-	**1,945**
Employee benefits	2,846	(78)	-	**2,768**
Deferred charges	2,057	10	-	**2,067**
Bad debt provisions	1,369	(676)	-	**693**
Unrealized foreign exchange losses	42,839	(42,839)	-	**-**
Tax credits	103,663	9,323	-	**112,986**
Other items	752	(407)	998	**1,343**
Total	**187,913**	**(39,902)**	**998**	**149,009**
Deferred tax asset	187,968			**149,229**
Deferred tax liability	(55)			**(220)**

The expected timing of the reversal of temporary differences is as follows:

	31 December 2005	31 December 2004
Deferred tax to be realised within 12 months	**47,641**	54,915
Deferred tax to be realised after 12 months	**101,368**	132,998

In 2005, the Company has decided to treat for taxation purposes all unrealized foreign exchange differences as realized and utilized the related tax deduction in full in its 2005 corporate income tax return.

The Group has no unrecognized potential deferred tax assets.

Tax credit

The provisions of the Slovak Income Tax Act permit the Company to claim a tax credit of 100% of its income tax liability for years 2000 through 2004 and 50% for the years 2005 through 2009. In connection with Slovakia joining the European Union, the total tax credit granted to U. S. Steel Košice, s.r.o. was limited to USD 430 million (EUR 363 million using the exchange rate as of 31 December 2005) for the period 2000 through 2009.

The cumulative tax credit claimed from 2000 amounted to USD 296 million (EUR 250 million using the exchange rate as of 31 December 2005). The Company must reinvest the tax saved in qualifying assets and satisfy certain administrative and other conditions. The management is convinced that all tax credit conditions were met for preceeding periods. Capital expenditures totaled USD 603 million (EUR 509 million using the exchange rate as of balance sheet date) by 31 December 2005. See Note 32.

The Company has recognized a deferred tax asset for the tax credit in accordance with IAS 12, *Income Taxes*. The Company believes it is probable that sufficient taxable profits will be available in the future against which the unused tax credit can be utilized. The amount recognized at each period end represents the unused portion of the total tax credit which is translated into EUR using the closing exchange rate. The tax credit is denominated in USD and the unused balance amounted to USD 134 million (EUR 113 million using the exchange rate as of balance sheet date) at 31 December 2005 (31 December 2004: USD 141 million i.e. EUR 104 million using the exchange rate as of balance sheet date).

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 10 Other Non-Current Assets

	31 December 2005	31 December 2004
Cash restricted in its use	**4,562**	2,781
Loans to employees	**10**	19
Other non-current assets	**108**	178
Total other non-current assets	**4,680**	**2,978**

The major part of cash restricted in its use represents long-term cash deposits made by U. S. Steel Košice, s.r.o. for closure, reclamation and after-close monitoring of landfills (Note 19). The effective interest rate on restricted cash in bank is disclosed in Note 15.

Note 11 Loans with Related Parties

	31 December 2005	31 December 2004
Loan to U.S. Steel Serbia B.V. IV (1)	**101,599**	22,035
Loan to U.S. Steel Global Holding B.V. I (2)	**227,868**	293,790
Loan from U.S. Steel Serbia B.V. IV (3)	**-**	(98,424)

(1) In November 2004, a long-term loan agreement of USD 100 million was signed with U.S.Steel Serbia B.V. IV at a fixed interest rate of 10% p.a. The instalments were due in June 2010. The facility was increased in 2005 to USD 200 million and the interest rate was adjusted to 7.3% p.a. effective 23 June 2005. U.S. Steel Serbia B.V. IV has withdrawn EUR 22,035 thousand (USD 30.0 million) by 31 December 2004 and further EUR 79,564 thousand (USD 90.4 million) by December 2005. For subsequent events see Note 32.

(2) The loan represents a short-term loan provided to U.S. Steel Global Holdings I. B.V. in December 2005. The facility is due in December 2006 and bears an interest rate of 4,695 % p.a. For subsequent events see Note 32.

(3) In 2004, U.S. Steel Serbia B.V. IV provided a loan of USD 134 million (EUR 98,424 thousand as at 31 December 2004) for the period ending November 2010 at fixed interest rate 8.5% p.a. During 2005, U.S. Steel Košice, s.r.o. early repaid this loan.

Note 12 Inventories

	31 December 2005	31 December 2004
Raw materials	114,097	128,148
Work-in-progress	36,099	36,761
Semi-finished production	30,135	22,722
Finished goods	56,555	39,544
Merchandise	29,300	19,372
Total	**266,186**	**246,547**

No inventories of the Group were written down in 2005 and 2004.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 13 Trade and Other Receivables

	31 December 2005	31 December 2004
Trade receivables	**439,088**	386,121
Advance payments made	**7,673**	4,495
VAT receivable	**41,060**	42,415
Other receivables	**1,740**	2,145
Less provision for impairment	**(37,511)**	(37,508)
Trade and other receivables	**452,050**	**397,668**

Ageing structure of trade and other receivables (gross) is presented in the table below:

	31 December 2005	31 December 2004
Receivables within the due date	**420,716**	364,164
Receivables overdue less than 180 days	**32,467**	34,157
Receivables overdue more than 180 days	**36,378**	36,855
Total	**489,561**	**435,176**

The maximum credit risk exposure at the balance sheet date is the fair value of each class of receivable mentioned above.

Note 14 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are not traded and were agreed with the banks on specific contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market foreign exchange rates. The aggregate fair values of derivative financial assets can fluctuate significantly from time to time. The table below sets out fair values, at the balance sheet date, of foreign exchange forwards contracts entered into by the Group:

	31 December 2005	31 December 2004
Foreign exchange forwards (asset)	1,229	564
Total	**1,229**	**564**

The table below reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature:

	31 December 2005 in curr ’000	31 December 2004 in curr ’000
EUR payable on settlement	(71,500)	(45,000)
SKK receivable on settlement	2,012,672	1,381,752
USD receivable on settlement	23,285	13,646

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 15 Cash and Cash Equivalents

	31 December 2005	31 December 2004
Cash in hand	**60**	53
Cash at bank	**49,143**	104,710
Total	**49,203**	**104,763**

Cash at bank at 31 Dec 2005 earns approx. 2.2% p.a. for EUR deposits, 1.8% p.a. for SKK deposits and 4.1% p.a. for USD deposits.

Cash restricted in its use is shown as other non-current assets (Note 10).

Note 16 Other Current Assets

The balance of other current assets represents prepaid expenses totaling EUR 1,864 thousand as of 31 December 2005 (31 December 2004: EUR 2,257 thousand).

Note 17 Equity

(i) Share Capital

The Company's registered and fully paid in capital is EUR 587,842 thousand (SKK 25,286 million). There were no changes in share capital during 2005. In June 2004, a capital contribution of EUR 2.5 million was made by the shareholders to comply with the tax credit requirements set in the tax legislation.

(ii) Reserves

	31 December 2005	31 December 2004
Other capital funds	**791**	831
Legal reserve funds of the Group	**39,221**	23,113
Asset revaluation reserve (net of tax)	**4,254**	-
Translation reserve	**1,521**	936
Total other reserves	**45,787**	**24,880**

The legal reserve funds are set up in accordance with the Commercial Code. Contributions to the legal reserve fund of the Company are made at 5% of net income based on Slovak statutory financial statements up to 10% of the share capital. Such funds are not distributable and cannot be used for any operating purposes but they may be used to increase share capital or to cover losses.

The total distributable earnings of the Company under SAS represent SKK 25,633 million as of 31 December 2005 (31 December 2004: SKK 28,019 million).

(iii) Dividends

Dividends are generally approved and distributed based on Slovak statutory net income presented in SKK. Dividends totaling SKK 17,433,900 thousand (EUR 451,772 thousand) were approved in June 2005 of which unpaid dividends totaled EUR 3,967 thousand as of 31 December 2005 (31 December 2004: EUR 1,351 thousand) (Note 21).

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 18 Loans and Borrowings

	31 December 2005	31 December 2004
Loan from ING Bank N.V.	**195,000**	-
Bank overdrafts	**1**	-
	195,001	**-**
Current portion of loans and borrowings	195,001	-
Non-current portion of loans and borrowings	-	-

In December 2005, the Company received short-term syndicated loan totaling EUR 195 million from ING Bank N.V., London due on 15 December 2006 at interest rate EURIBOR + 0.2% p.a. For subsequent events see Note 32.

The Company has two USD 40 million and USD 20 million credit facilities provided by the agent Citibank (Slovakia) a.s. (Note 29). The facilities were not drawn as at 31 December 2005 but were utilized for bank guarantees of EUR 3,144 thousand. The commitment fee amounted to 0.1% - 0.25% p.a. during 2005.

Carrying amounts of loans and borrowings at each balance sheet date approximate their fair values.

Note 19 Provisions for Liabilities and Charges

	Employee Benefits	Landfill	Litigation	CO_2 emissions	Other	Total
Balance as at 31 December 2004	**16,224**	**14,860**	**8,366**	**-**	**4,118**	**43,568**
Provisions made during the year	1,233	1,795	1,602	199,010	19	**203,659**
Provisions used during the year	(1,596)	-	(214)	-	(462)	**(2,272)**
Balance as at 31 December 2005	**15,861**	**16,655**	**9,754**	**199,010**	**3,675**	**244,955**
Current portion of provisions	-	-	9,754	199,010	487	**209,251**
Non-current portion of provisions	15,861	16,655	-	-	3,188	**35,704**

Employee benefits

Employee benefits provisions relate to payments to the employees upon first retirement and to work and life jubilees in accordance with the Collective Labour Agreement and the Labour Code (Note 20).

Landfill

Since 1 July 2002 the Company as operator of two landfills (non-hazardous and hazardous waste) recognized a provision for closing, reclamation and after-close monitoring of landfills based on the Act on Waste. The use of landfills was approved until 31 December 2008.

(All amounts are in thousands of EUR, unless otherwise indicated)

Litigation

The Company uses external legal counsels to act in the legal proceedings. Management has made its best estimate of the probabilities and the contingent loss amounts associated with all legal proceedings in both Slovakian and foreign jurisdictions and has recorded accruals accordingly. These proceedings are at different stages and some may proceed for undeterminable periods of time. Further disclosures about the litigation proceedings could prejudice the Group's position in the dispute and are therefore not made.

CO_2 Emissions

The provision was recognized for CO_2 emissions made in 2005. It is calculated as a multiple of estimated volume of CO_2 emitted for the calendar year and the fair value of CO_2 credits on the European Carbon market. The provision was charged to Other operating expenses net of amortisation of related deferred income (Note 22).

Other

Other provisions include warranty provisions and provisions for other business risks.

Note 20 Employee Benefits Obligations

Employee retirement obligation

The Company is committed to make payments to the employees upon retirement in accordance with the Labour Code and Labour Collective Agreement. The defined benefit obligation is calculated annually by U. S. Steel Corporation actuaries using the projected unit credit method.

Work and life jubilees

The Group also pays certain work and life jubilee benefits. The liability is calculated consistently with the employee retirement obligation except that actuarial gains and losses and past services costs are recognised immediately in the income statement.

Pension expense is comprised of the following:

	2005	2004
Service cost	**341**	1,542
Interest cost	**372**	432
Net actuarial losses (gains) recognized	**46**	102
Foreign exchange difference	**372**	854
Total pension expense	**1,131**	**2,930**

Service cost and net actuarial losses (gains) are presented in salaries and employee benefits caption of income statement. Interest costs and foreign exchange differences are included in the finance costs.

Principal actuarial assumptions used to determine pension obligations as of 31 December were as follows:

	2005	2004
Discount rate	**5.50%**	5.75%
Annual wage and salary increases	**5.00%**	5.00%

(All amounts are in thousands of EUR, unless otherwise indicated)

Profit Sharing and Bonus Plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other liabilities. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

Defined Contribution Pension Plan

Throughout the year, the Group made contributions to the Government's health, retirement benefit and unemployment schemes amounting to 21.9% (2004: 22.4%) of gross salaries up to a monthly salary ceiling between SKK 22 thousand to SKK 47 thousand.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group made contributions to the supplementary scheme amounting up to 1.6% from the monthly accounted wage.

Termination benefit

The Company offered to its certain employees a voluntary early retirement program in 2005. The total special termination benefit expense amounted to EUR 16,219 thousand and was recorded under Salaries and other employee benefits in profit and loss (Note 25).

Note 21 Trade and Other Payables

	31 December 2005	31 December 2004
Trade payables	**182,789**	158,177
Uninvoiced deliveries and other accrued expenses	**97,938**	80,002
Advance payments received	**941**	2,814
Liability to employees and social security	**23,361**	18,872
Dividends payable (Note 17)	**3,967**	1,351
VAT and other taxes and fees	**4,313**	5,329
Other non-trade payables	**14,705**	20,245
Total trade and other payables	**328,014**	**286,790**

Note 22 Deferred Income

U. S. Steel Košice, s.r.o. was allocated free of charge CO_2 emission allowances by the Slovak Government. They were initially recognised at fair value when allocated and are subsequently measured at their fair value as at balance sheet date. The balances included in the consolidated balance sheet as at 31 December 2005 in respect of the emission rights are as follows:

	31 December 2005	31 December 2004
Emission rights (intangible asset) (Note 7)	**206,733**	-
Revaluation of emission rights (equity) (Note7, 17)	**(5,252)**	-
Deferred income	**(2,471)**	-
Liability for the obligation to deliver allowances (provision) (Note 19)	**(199,010)**	-

As required by the legislation, the emission allowances received (Note 7) and the liability for obligation to deliver the allowances will be settled within few months after the year end.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 23 Revenue and Other Income

The main activities of the Group are:

- production and sale: coke, raw iron, steel plates, plates for electronic industry, flat rolled steel products, gravel and frass, tar products, industrial fertilizers, drinkable and utility water, chemical agents, small metal wraps, metal tubes, general machinery equipment, compressed air, industrial water, technical gases, magnetic circuits and tubes
- wholesale and retail: iron ore, fuels, metalurgical, iron, machinery and ceramic products
- production and distribution of: electricity, heat, gas

Revenues comprise of the following:

	2005	2004
Sales of own production	**2,099,130**	1,816,028
Sales of goods [1]	**366,560**	267,806
Rendering of services	**12,555**	13,777
Total	**2,478,245**	**2,097,611**

[1] Sales of goods represent primarily intercompany deliveries of raw materials to U. S. Steel Serbia d.o.o. (Note 31).

Other Income

Other income includes rental income and contractual penalties.

Note 24 Materials and Energy Consumed

Materials and energy consumed comprises of the following:

	2005	2004
Materials consumed	**(1,091,664)**	(907,827)
Energy consumed	**(57,396)**	(56,714)
Costs of goods sold	**(356,245)**	(265,459)
Changes in inventory	**20,355**	30,352
Total	**(1,484,950)**	**(1,199,648)**

Note 25 Salaries and Other Employee Benefits

Salaries and employee benefits comprise of the following:

	2005	2004
Wages and salaries	**(158,609)**	(144,579)
Profit sharing expense	**(22,625)**	(17,782)
Termination benefits	**(16,219)**	-
Social security – Defined contribution plan (Note 20)	**(59,969)**	(51,878)
Other social expenses	**(11,876)**	(11,311)
Pension expenses – Retirement and Work and Life Jubilees (Note 20)	**1,106**	(825)
Total	**(268,192)**	**(226,375)**

During 2005, a voluntary early retirement program was offered to certain employees of U. S. Steel Košice, s.r.o. The termination benefit expense of EUR 16,219 thousand was recorded for those employees who accepted the offer during 2005.

(All amounts are in thousands of EUR, unless otherwise indicated)

The average number of employees for the year was:

	2005	2004
U. S. Steel Košice, s.r.o.	**14,128**	14,385
Other Group companies	**2,645**	2,662
Total Group	**16,773**	**17,047**

Note 26 Other Operating Expenses

	2005	2004
Bad debt expense	**(1,029)**	(1,706)
Cleaning and waste	**(8,257)**	(6,952)
Rent	**(2,368)**	(2,646)
Advertising and promotion	**(2,122)**	(2,098)
Intermediary fees	**(3,944)**	(4,883)
Training	**(2,429)**	(2,122)
Impairment loss (Note 6)	**(6,923)**	415
Loss on disposal of material	**(380)**	(53)
Real estate tax and other taxes	**(4,206)**	(2,624)
Foreign exchange gains less losses	**51,281**	(25,963)
Other operating expenses	**(62,591)**	(66,450)
Total	**(42,968)**	**(115,082)**

Note 27 Finance Income

	2005	2004
Interest income	**3,884**	3,681
Interest expense	**(2,144)**	(17,410)
Foreign exchange differences on borrowings	**(352)**	19,246
Total	**1,388**	**5,517**

Note 28 Income Taxes

	2005	2004
Current tax	**(19,929)**	(4,976)
Tax payment charged to profit and loss based on decision of the European Commission	**-**	(23,512)
Deferred tax	**(38,397)**	(45,515)
Total income tax expense	**(58,326)**	**(73,963)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Company follows:

	2005	2004
Profit before tax	**482,395**	374,959
Tax calculated at 19% tax rate	**91,655**	71,242
Non-deductible expenses	**1,373**	2,824
Effect of functional currency on temporary differences	**(21,345)**	(12,308)
Effect of different tax rate in other jurisdictions	**145**	449
Tax payment of USD 32 million based on EC decision	**(13,502)**	11,756
Tax charge	**58,326**	**73,963**

The weighted average effective tax rate was 12% (2004: 20%). The decrease in effective tax rate is due to EUR 23.5 million (USD 32 million) payment based on EC decision charged to profit and loss in 2004.

On 22 September 2004 an agreement was reached resolving a dispute regarding the effective date of limitations upon the production of flat–rolled products at U. S. Steel Košice, s.r.o. The agreement calls for the maximum tax credit, which is available to U. S. Steel Košice, s.r.o. through to 2009, to be reduced by $70 million to $430 million from the $500 million limit provided for in the Accession Treaty. Furthermore, U. S. Steel Košice, s.r.o. agreed to make two tax payments of $16 million each to the Slovak government in 2004 and 2005, respectively. (The full USD 32 million was charged to the income statement in 2004). Under the terms of the settlement, U. S. Steel Košice, s.r.o. agreed that the Treaty's production and sales limitation provisions, which are based upon U. S. Steel Košice's 2001 flat-rolled product production and sales and provide for annual increase of 3% and 2% respectively, will be honored by the Company from January 1, 2004 onwards. See also Note 9.

Note 29 Financial Risk Management

(i) Credit risk

The Group is exposed to credit risk in the event of non-payment by customers principally within the automotive, steel, container and construction industries. Changes in these industries may significantly affect management's estimates and the Group's financial performance. The Group mitigates credit risk for approximately 53% of its revenues by requiring bank guarantees, letters of credit, credit insurance, prepayment or other collateral. The majority of the customers of the Group are located in Central and Western Europe. No single customer accounts for more than 10% of gross annual revenues.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

(iii) Liquidity risk

The Company policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to cover the liquidity risk in accordance with its financing strategy.

The Company has a USD 40 million credit facility provided by the agent Citibank (Slovakia) a.s. that expires on 17 December 2006. This credit facility may be used for drawing short-term loans, issue of bank guarantees and letters of credits. The facility bears interest at prevailing market rates plus 0.9 % p.a. The Company is obliged to pay a 0.25 % p.a. commitment fee on undrawn amounts. As of 31 December 2005 there were no borrowings against this facility.

In addition, a short-term credit facility of USD 20 million provided by the agent Citibank (Slovakia) a.s. is available to the Company. This credit facility may be used till 22 December 2006 for drawing bank overdraft, short-term loans, issue of bank quarantess and letters of credits. Short-term loans bear interest at prevailing short-term market rates plus 0.3 % p.a. and the bank overdrafts bears interest at prevailing market rates plus 0.35 % p.a. The Company is obliged to pay a 0.1 % p.a. commitment fee on undrawn amounts. As of 31 December 2005 the credit facility has been used in the amount of SKK 119 million for bank guarantees.

(All amounts are in thousands of EUR, unless otherwise indicated)

(iv) Foreign exchange risk

The Group is exposed to the risk of exchange rate fluctuations related to anticipated revenues and operating costs, commitments for capital expenditures and existing assets or liabilities denominated in foreign currencies. The Group is subject to foreign currency exchange risks because its revenues are primarily in euros and its costs are primarily in U.S. dollars and Slovak koruna.

(v) Commodity price risk management

In the normal course of its business, the Group is exposed to market risk or price fluctuations related to the production or sale of steel products. The Group is exposed to commodity price risk on both purchasing and sales sides, and manages the risk through the resulting natural hedge. The Group did not carry out any derivative transaction.

Note 30 Commitments and Contingencies

(i) Operating leases

The future aggregated minimum lease payments of operating leases are as follows:

	2005	2004
Not later than 1 year	2,960	2,981
Later than 1 year and not later than 5 years	6,352	6,482
Later than 5 years	165	180
Total	**9,477**	**9,643**

(ii) Capital commitments and commitments to Slovak Government

Capital expenditure of EUR 96 million and EUR 80 million had been committed under contractual arrangements as of 31 December 2005 and 31 December 2004, respectively.

The Company has a commitment to the Slovak government for a capital improvements program of USD 700 million, subject to certain conditions, over a period commencing with the acquisition date of 24 November 2000, and ending on 31 December 2010. The remaining commitments under this capital improvements program as of 31 December 2005 and 31 December 2004, were USD 53 million and USD 257 million, respectively.

The Company’s other commitments to the Slovak government also include to retain the employment levels (except for natural retirement) for a period of 10 years and support foreign investment in Slovakia for a two-year period from November 2000.

As part of the acquisition of the U. S. Steel Košice, s.r.o. by United States Steel, the Company is committed to purchasing certain services from Slovenský investičný holding (former VSZ) in the future. These transactions are conducted under terms comparable with unrelated parties or at cost plus an agreed mark-up where comparable prices are not available. The Company was also obliged to sell to Slovenský investičný holding steel products under terms and price formulas agreed to prior to the acquisition date until October 2005. In 2005, the Company sold products and services of EUR 1 million to the Slovenský investičný holding (2004: EUR 2 million) and purchased services in amount of EUR 1 million (2004: EUR 3 million).

(iii) Environmental commitments

As part of an agreement with the Slovak Government, the Government has agreed to indemnify and hold harmless the Company, United States Steel, their affiliates and the officers, directors, employees, agents and contractors for remediation, restoration, compensation, indemnity and other matters, as defined in the agreement, relating to environmental conditions existing prior to completion of the acquisition of the Company by United States Steel on 24 November 2000. Some aspects of this indemnification gradually expired between 2001 and 2004. In light of the indemnification contained in the agreement with the Slovak Government, management has assessed that there is no need for any accrual of costs related to the remediation of environmental damage existing as of the acquisition date. Under the current status of legislation in the Slovak Republic the Company has not incurred material obligations to remedy environmental damage caused by its operations.

The Company is also committed to incur capital expenditures into production equipment so that they fulfill the requirements of valid environmental legislation. There are no legal proceedings pending against the Company involving environmental maters.

Air, water and solid waste – The Company's obligations with regards to air, water and solid waste pollution are set by the Slovak legislation. In 2005, the environmental expenses totaled approximately EUR 9 million (2004: EUR 6 million).

Carbon dioxide (CO_2) emissions – In April 2004, U. S. Steel Košice, s.r.o. submitted a request to the Slovak government to obtain quotas of CO_2 emissions for U. S. Steel's plant in Košice. This request related to requirements imposed by the European Commission (EC), which is allocating CO_2 emission limits for member countries and that is responsible for implementation of Global agreement of UN on climate changes as stated in the Kyoto agreement. The process resulted in creation of European emission trading scheme for CO_2.

Slovakia was required to submit to the EC for approval a national allocation plan (NAP) specifying its total CO_2 allowances in tons of emissions for the period 2005 to 2007. Slovakia submitted its proposed NAP to the EC in June 2004. Slovakia and the EC have agreed on a NAP that reduces Slovakia's original proposed CO_2 allocation by approximately 14 percent and the EC approved the NAP as reduced on 20 October 2004.

On 20 December 2004, U. S. Steel Košice, s.r.o. filed an application for annulment in the Court of First Instance of the European Communities (CFI) contesting the EC's reduction of Slovakia's original proposed NAP.

In February 2005, the government allocated emission quotas to individual entities. The Company received CO_2 emission quotas totaling 28.6 million tons for the period from 2005 to 2007. The Company did not exceed the 2005 volume of CO_2 emission quotas received.

Asbestos – The Company undertakes a long term process of asbestos removal. The project of approximately EUR 6 million is expected to be completed by 2010 with annual expenditures of EUR 1 million. The annual budgeted costs are presented to the municipal health authorities. The current legislation permits usage of asbestos in existing facilities until the time of disposal and requires asbestos removal from new products since 2005. The penalties, if any, for not meeting such a deadline are not material. The Company makes a decision, whether the cost should be capitalized or expensed at the time of occurrence. There was no amount capitalized in 2005. No provision was recorded by the Company for asbestos removal as there is no obligation for such removal in current valid legislation.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 31 Related Party Transactions

The Group has entered into transactions with its related parties in the normal course of business.

The balance sheet includes the following amounts resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2005	**31 December 2004**	**31 December 2005**	**31 December 2004**
U. S. Steel Kosice (UK) Ltd [1]	**5,418**	12,786	**-**	8
UEC Technologies, LLC[7]	**-**	-	**-**	144
United States Steel Corporation [3]	**7,728**	206	**34,719**	15,808
USS International Services, LLC[6]	**126**	191	**1,065**	414
U. S. Steel Global Holdings I B.V. [2]	**228,222**	293,803	**3,961**	890
U. S. Steel Serbia d.o.o. [4]	**90,120**	65,788	**16,391**	12,498
U. S. Steel Serbia B.V. IV [5]	**105,408**	22,263	**-**	99,363
Total	**437,022**	**395,037**	**56,136**	**129,125**

[1] Associate
[2] Parent company
[3] Ultimate parent company
[4,5, 6, 7] Companies under common control of USS Corporation

(1) Receivables arise from sales of steel products to the associated company U. S. Steel Kosice (UK) Ltd.

(2) The balances receivable from U. S. Steel Global Holdings I B.V. include short-term loan provided by U.S. Steel Košice, s.r.o. (Note 11).

(3) Intercompany receivables to U.S. Steel Serbia represent shipments of raw materials including freight costs, payables to U.S. Steel Serbia relate mainly to the finished goods supplies to the Company’s foreign affiliates.

(4) The receivables from U.S. Steel Serbia B.V. IV totaling EUR 101,599 thousand and EUR 22,305 as of 31 December 2005 and 31 December 2004, respectively, represent long-term loan provided by U.S. Steel Košice, s.r.o. (Note 11). The payables from U.S. Steel Serbia B.V. IV totaling EUR 98,424 thousand as of 31 December 2004 represent long-term loan obtained by U.S. Steel Košice, s.r.o. (Note 11).

(All amounts are in thousands of EUR, unless otherwise indicated)

The following amounts of revenues and expenses resulting from transactions with related parties were recorded in the Group income statements:

	Revenues		Expenses	
	2005	**2004**	**2005**	**2004**
U. S. Steel Kosice (UK) Ltd [(1)]	**40,846**	58,802	**430**	1,030
UEC Technologies, LLC[(4)]	**-**	-	**254**	2,035
United States Steel Corporation [(3)]	**7,643**	83	**43,454**	22,098
USS International Services, LLC[(5)]	**-**	-	**13,080**	10,952
U. S. Steel Global Holdings I B.V. [(2)]	**356**	-	**-**	-
U. S. Steel Serbia d.o.o. [(6)]	**320,934**	238,873	**81,672**	52,682
U. S. Steel Serbia B.V. IV[(7)]	**3,414**	3,836	**-**	6,773
U. S. Steel Europe B.V. [(8)]	**-**	-	**36,191**	-
Total	**373,193**	**301,594**	**175,081**	**95,570**

[(1)] Associate
[(2)] Parent company
[(3)] Ultimate parent company
[(4,5, 6, 7, 8)] Companies under common control of USS Corporation

Emoluments of the statutory representatives

(a) Foreign members of the Group's management and executives are employed by USS International Services, LLC. Charges paid to USS International Services amounted to EUR 10 million in 2005 (2004: EUR 8 million).

(b) Shares or share options of U S Steel Corporation granted to the Company's executives do not represent a material amount in these financial statements.

(c) Loans to employees

Certain employees may be eligible for loans from the Group. The interest rate on such loans is 2% p.a. The difference between loan interest rate and the market interest rate is subjet to income tax. Other significant terms of such loans are substantially the same as terms granted in the market. The balance of loans receivable from employees is classified in Other non-current assets (Note 10).

Note 32 Subsequent Events

Subsidiaries

Following companies entered into liquidation process:

- U. S. Steel Kosice–Hungary Kft effective 1 January 2006
- VOZMULT a.s. Košice effective 1 September 2006.

As of 22 May 2006, Finow Verwaltungs- und Service GmbH was established and became an owner of Walzwerk Finow GmbH and its subsidiaries Stawa Stahlbau GmbH and Nordbahn GmbH. As of 1 November 2006, 100% share of Finow Verwaltungs- und Service GmbH was sold to the third unrelated party.

Finance

A USD denominated long-term loan provided to U. S. Steel Serbia B.V. IV (Note 11) was converted to EUR effective 1 January 2006. Since then, the maximum drawings up to EUR 170 million and fixed interest rate of 7.2315% p.a. were agreed. During 2006, U.S. Steel Serbia B.V. IV had withdrawn additional EUR 24.3 million. The entire balance of the loan principal and related interest was fully repaid in July 2006.

By the date of financial statements preparation, the syndicated loan from ING totaling EUR 195 million (Note 18) was paid in full and terminated.

By the date of financial statements, U. S. Steel Košice, s.r.o. renewed EUR 40 million and EUR 20 million credit facilities with expiry dates of 13 December 2009 and 31 December 2009. These credit facilities may be used for drawing short-term loans, issue of bank guarantees and letters of credits and the facilities bear interest at prevailing market rates plus 0.25 % p.a.. The Company is obliged to pay a 0.07% p.a. commitment fee on undrawn amounts.

Dividends

The Annual General Meeting held on 19 June 2006 approved dividends of SKK 17,000,000 thousand (EUR 447,474 thousand) from retained earnings of previous accounting periods of which dividends totaling SKK 16,344,853 thousand (EUR 432,805 thousand) were paid by the date of these financial statements.

Other

During 2006, the Slovak tax authority audited and confirmed that U. S. Steel Košice, s.r.o. has fulfilled all of the necessary conditions for claiming the tax credit (Notes 9 and 28) for the years 2000 through 2005.

U. S. Steel Košice, s.r.o. fulfilled the capital spending commitment with the Slovak government of USD 700 million in August 2006.

After 31 December 2005, no other significant events have occurred that would require recognition or disclosure in the 2005 financial statements.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 33 List of Subsidiaries

The following subsidiaries have been consolidated as of 31 December 2005 and 31 December 2004 respectivelly:

Entity	Place of Incorporation	Principal Activities	Ownership Interest
ELEKTROSERVIS VN a VVN, a.s.	Slovakia	Maintenance	67.00 %
ENERGOSERVIS a.s. Košice	Slovakia	Maintenance	67.12 %
VOZMULT a.s. Košice	Slovakia	Maintenance	50.91 %
U. S. Steel Košice – Labortest, s.r.o.	Slovakia	Chemical analysis	99.97 %
U.S. Steel Košice – SBS, s.r.o.	Slovakia	Security services	98.00 %
VULKMONT, a.s. Košice	Slovakia	Vulkanization services	80.50 %
"Trgovinsko preduzece „USSKS“ d.o.o. Beograd Bulevar Mihajla Pupina 165A in liquidation (1)	Serbia	Services	100.00 %
Refrako s.r.o.	Slovakia	Refractory production	99.98 %
Reliningserv s.r.o	Slovakia	Refractory services	99.95 %
U. S. Steel Services s.r.o.	Slovakia	Various services	99.96 %
OBAL-SERVIS, a.s. Košice (2)	Slovakia	Packaging	100.00 %
U. S. Steel Kosice – Belgium S.A.	Belgium	Steel trading	51.00 %
U.S. Steel Košice–Bohemia a.s.	Czech Republic	Steel trading	100.00 %
U.S. Steel Kosice – France S.A.	France	Steel trading	99.94 %
U. S. Steel Kosice–Hungary Kft.	Hungary	Steel trading	69.00 %
U.S. Steel Kosice–Germany GmbH	Germany	Steel trading	100.00 %
U.S. Steel Kosice – Austria GmbH	Austria	Steel trading	100.00 %
U. S. Steel Kosice Switzerland AG in liquidation	Switzerland	Steel trading	100.00 %
Walzwerk Finow GmbH (3)	Germany	Production of tubes and profiles	100.00 %
Stawa Stahlbau GmbH (4)	Germany	Production of steel sections	100.00 %

(1) Trgovinsko preduzece „USSKS“ d.o.o. Beograd, Bulevar Mihajla Pupina 165A in liquidation is in liquidation effective 6 October 2005
(2) OBAL-SERVIS, a.s. Košice consolidated from 2004
(3) A subsidiary of U.S. Steel Kosice - Germany GmbH
(4) A subsidiary of Walzwerk Finow GmbH.

The activities of the subsidiaries shown above are closely connected with the principal activity of the Group. All subsidiaries are unlisted.

There was no pledge on Company's ownership interests in subsidiaries as at 31 December 2005.

There are no significant restrictions on the subsidiaries' ability to transfer funds to the parent company in the form of cash, dividends or otherwise.

<u>Business combination</u>

On 10 March 2004 the Group acquired 100% of the voting shares of OBAL-SERVIS, a.s. Košice an unlisted company based in the Slovak Republic specializing in the packaging.

The fair value of the identifiable assets, liabilities and contingent liabilities of OBAL-SERVIS, a.s. Košice as at the date of acquisition was not significant. The consideration paid was EUR 727 thousand.

(All amounts are in thousands of EUR, unless otherwise indicated)

Note 34 Foreign Exchange Rates

	Average exchange rate in 2004	Exchange rate as at 31 December 2004	Average exchange rate in 2005	Exchange rate as at 31 December 2005
Slovak Koruna	40.074	38.796	38.590	37.848
Swiss Franc	1.545	1.544	1.548	1.559
Hungarian Forint	251.927	245.747	247.992	252.034
Czech Koruna	31.931	30.524	29.799	28.936
US Dollar	1.242	1.361	1.244	1.185
Serbian Dinar	72.573	78.885	82.915	85.500
British Pound	0.679	0.709	0.684	0.689