KONSOLIDOVANÁ VÝROČNÁ SPRÁVA
a
KONSOLIDOVANÁ ÚČTOVNÁ ZÁVIERKA ZA ROK 2007
zostavená podľa Medzinárodných štandardov
pre finančné výkazníctvo (IFRS) platných v EU

CONSOLIDATED ANNUAL REPORT
and
CONSOLIDATED FINANCIAL STATEMENTS FOR 2007
prepared in accordance with International Financial
Reporting Standards (IFRS) as adopted by the EU

U. S. Steel Košice

Našou stratégiou je byť významným vodcom v priemysle, ktorý vytvára hodnoty, je svetovo konkurencieschopný a poskytuje kvalitné produkty a služby.

Our Policy is to distinguish ourself as the industry leader by building value, being world competitive and providing cost-effective quality products and services.

William C. King
Viceprezident pre financovanie
Senior Vice-president and Chief Financial Officer

Košice, 4. júna 2008
Košice, 4 June 2008

Obsah

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PROFIL SKUPINY

U. S. Steel Košice, s.r.o. (ďalej aj „Spoločnosť“) spolu s dcérskymi spoločnosťami (ďalej len „Skupina“) patrí medzi najväčších výrobcov plochých valcovaných výrobkov v strednej Európe.

Základné informácie o Spoločnosti:

Obchodné meno	U. S. Steel Košice, s.r.o.
Sídlo	Vstupný areál U. S. Steel, 044 54 Košice, Slovenská republika
Právna forma	Spoločnosť s ručením obmedzeným
Dátum založenia	7. jún 2000
Dátum vzniku	20. jún 2000
IČO	36 199 222
Obchodný register	Obchodný register Okresného súdu Košice I, oddiel: Sro, vložka číslo: 11711/V

Železiarne v Košiciach boli postavené v 60. rokoch 20. storočia. Postupne sa zaradili medzi významných stredoeurópskych výrobcov, presadili sa na trhu s oceľou a plochými valcovanými výrobkami, stali sa členmi medzinárodných asociácií. Pôvodné Východoslovenské železiarne sa od roku 2000 stali súčasťou nadnárodnej spoločnosti United States Steel Corporation („U. S. Steel“), s ktorou mali od roku 1998 vytvorený spoločný podnik na výrobu oceľových obalových materiálov. U. S. Steel má na americkom kontinente viac ako storočnú tradíciu a okrem Slovenska prevádzkuje aj zariadenia v Srbsku, ktoré spoločne tvoria U. S. Steel Europe.

V súčasnosti je košická hutnícka spoločnosť moderným podnikom, v ktorom sa spájajú bohaté technické zručnosti a znalosti slovenských hutníkov so západnými manažérskymi postupmi a silnou orientáciou na potreby trhu. Výroba sa orientuje najmä na produkty s vyššou pridanou hodnotou pre automobilový, obalový, elektrotechnický, spotrebný a stavebný priemysel.

GROUP'S PROFILE

U. S. Steel Košice, s.r.o. (hereinafter also "the Company") along with its subsidiaries (hereinafter only "the Group") ranks among the largest producers of flat-rolled products in Central Europe.

The general information about the Company:

Business Name	*U. S. Steel Košice, s.r.o.*
Location	*Vstupný areál U. S. Steel, 044 54 Košice, Slovak Republic*
Legal Entity	*Limited liability company*
Date of Establishment	*7 June 2000*
Date of Incorporation	*20 June 2000*
Register No.	*36 199 222*
Business Register	*Business Register of District Court Košice I, Section: Sro, Insert No.: 11711/V*

The Košice Steelworks were built in the 1960's. The Steelworks gradually rose to rank among the significant producers in Central Europe, and proved themselves on the steel market and flat rolled products, and became a member of international associations. In the year 2000, the original East Slovakian Steelworks became a part of the multinational company United States Steel Corporation ("U. S. Steel"), with whom the steelworks had formed a joint-venture company to produce steel packaging materials in 1998. U. S. Steel has more than a hundred years tradition on the American continent, and besides Slovakia it has also operating facilities in Serbia, which constituted U. S. Steel Europe.

Currently, the metallurgical plant in Košice is a modern company merging the vast technical skills and experience of Slovak steelmakers with western managerial procedures and strong market orientation. The operations are focused mostly on value-added products for automotive, packaging, electro-technical, consumer and construction industries.

Konatelia Spoločnosti

Konateľmi Spoločnosti k 31. decembru 2007 boli:

David Harman Lohr	Prezident
William Clyde King	Viceprezident pre financovanie
Matthew Burnis Perkins	Viceprezident pre výrobu
John Baird Peters	Viceprezident pre predaj a marketing
Ing. Anton Jura	Generálny manažér pre spracovateľské výrobky (USA)
RNDr. Miroslav Kiraľvarga	Viceprezident pre riadenie externých služieb a vzťahov
John Frederick Wilson	Generálny právny zástupca
Andrew Stewart Armstrong	Viceprezident pre BSC – Európa
Patrick James Mullarkey	Viceprezident pre technológiu
Ing. Martin Pitorák	Viceprezident pre ľudské zdroje

V roku 2007 došlo vo funkcii konateľov k nasledovným zmenám:
Kenneth Ralph Pepperney - zánik funkcie k 1. januáru 2007
Patrick James Mullarkey - vznik funkcie k 1. januáru 2007
John Frederick Wilson - vznik funkcie k 1. januáru 2007
Ing. Martin Pitorák - vznik funkcie k 1. máju 2007
Richard Eugene Veitch - zánik funkcie k 1. novembru 2007
Matthew Burnis Perkins - vznik funkcie k 1. novembru 2007

V roku 2008 do dátumu zostavenia účtovnej závierky došlo vo funkcii konateľov k nasledovným zmenám:
David Harman Lohr - zánik funkcie k 18. marcu 2008
George F. Babcoke - vznik funkcie k 18. marcu 2008
John Baird Peters - zánik funkcie k 1. máju 2008
Peter Joseph Alvarado - vznik funkcie k 1. máju 2008

Company Executives

The Company's Executives as of 31 December 2007 were:

David Harman Lohr	*President*
William Clyde King	*Senior Vice-president and Chief Financial Officer*
Matthew Burnis Perkins	*Vice-president Operations*
John Baird Peters	*Vice-president Commercial*
Ing. Anton Jura	*General Manager Processed Products (USA)*
RNDr. Miroslav Kiraľvarga	*Vice-president Management Services and Administration*
John Frederick Wilson	*General Counsel*
Andrew Stewart Armstrong	*Vice-president BSC – Europe*
Patrick James Mullarkey	*Vice-president Technology*
Ing. Martin Pitorák	*Vice-president Human Resources*

In 2007, the following changes were made in Executives positions:
Kenneth Ralph Pepperney - discharged on 1 January 2007
Patrick James Mullarkey - appointed on 1 January 2007
John Frederick Wilson - appointed on 1 January 2007
Ing. Martin Pitorák - appointed on 1 May 2007
Richard Eugene Veitch - discharged on 1 November 2007
Matthew Burnis Perkins - appointed on 1 November 2007

In 2008, by the date of the accompanying financial statements, the following changes were made in Executives positions:
David Harman Lohr - discharged on 18 March 2008
George F. Babcoke - appointed on 18 March 2008
John Baird Peters - discharged on 1 May 2008
Peter Joseph Alvarado - appointed on 1 May 2008

Investície v dcérskych spoločnostiach

K 31. decembru 2007 pôsobilo na Slovensku osem dcérskych spoločností, ktoré poskytujú služby hlavne pre materskú Spoločnosť, ako aj pre externých zákazníkov. Ďalších šesť dcérskych spoločností, ktoré sa zaoberajú hlavne predajom výrobkov Spoločnosti na zahraničných trhoch, pôsobí v európskych krajinách.

K 31. decembru 2007 Spoločnosť vlastnila 50%-ný podiel v pridruženej spoločnosti U.S. STEEL KOSICE (UK) LIMITED a podiely v dvoch spoločnostiach klasifikovaných ako finančný majetok k dispozícii na predaj: STABILITA, d.d.s., a.s. (9,3%) a Hutníctví železa, a.s. (11,4%).

V priebehu roka 2007 pokračoval proces reštrukturalizácie dcérskych spoločností. Výsledkom reštrukturalizácie bol zánik dcérskej spoločnosti VOZMULT a.s. Košice v likvidácii a zlúčenie dcérskej spoločnosti ENERGOSERVIS a.s. Košice s ďalšou dcérskou spoločnosťou VULKMONT, a.s. Košice.

Detailnejšie informácie ohľadom konsolidovaných dcérskych spoločností sú uvedené v poznámkach 30 a 31 Poznámok k priloženej konsolidovanej účtovnej závierke a na internetovej stránke http://www.usske.sk/units/subs-s.htm

Investments in Subsidiaries

Eight subsidiaries that mainly provide services to the parent Company and also for external customers were operating in Slovakia as of 31 December 2007. Six additional subsidiaries, which are mainly focused on trading with the Company's products on the foreign markets, are located in other European countries.

As of 31 December 2007 the Company owned a 50% share in associate U.S. STEEL KOSICE (UK) LIMITED and shares in two equity investment companies classified as financial assets available–for-sale: STABILITA, d.d.s., a.s. (9.3%) and Hutníctví železa, a.s. (11.4%).

During the year of 2007, the process of subsidiaries' restructuring continued. As a result of restructuring process, the subsidiary VOZMULT a.s. v likvidácii dissolved and subsidiary ENERGOSERVIS a.s. Košice merged with VULKMONT, a.s. Košice.

More information about consolidated companies is disclosed in Notes 30 and 31 of the Notes to the accompanying consolidated financial statements and on internet web page http://www.usske.sk/units/subs-e.htm.

Skupinu k 31. decembru 2007 tvorili nižšie uvedené dcérske spoločnosti:
As of 31 December 2007, the Group consisted of following subsidiaries:

Spoločnosť / *Entity*	**Hlavná činnosť**	***Principal Activities***	**Vlastnícky podiel Skupiny *Group's Ownership Interest***
ELEKTROSERVIS VN a VVN, a.s.	Údržba	*Maintenance*	100,00 %
U. S. Steel Košice – Labortest, s.r.o.	Laboratórne analýzy	*Testing laboratory*	100,00 %
U.S. Steel Košice – SBS, s.r.o.	Bezpečnostné služby	*Security services*	100,00 %
VULKMONT, a.s. Košice	Údržbárske a vulkanizačné služby	*Maintenance and vulcanization services*	100,00 %
Refrako s.r.o.	Výroba žiaruvzdorných materiálov	*Refractory production*	100,00 %
Reliningserv s.r.o.	Služby pre žiaruvzdorné materiály	*Refractory services*	100,00 %
U. S. Steel Services s.r.o.	Rôznorodé služby	*Various services*	100,00 %
OBAL-SERVIS, a.s. Košice	Balenie	*Packaging*	100,00 %
U. S. Steel Kosice – Belgium S.A.	Obchodovanie s výrobkami z ocele	*Steel trading*	100,00 %
U.S. Steel Košice-Bohemia a.s.	Obchodovanie s výrobkami z ocele	*Steel trading*	100,00 %
U.S. Steel Kosice – France S.A.	Obchodovanie s výrobkami z ocele	*Steel trading*	99,94 %
U.S. Steel Kosice-Germany GmbH	Obchodovanie s výrobkami z ocele	*Steel trading*	100,00 %
U.S. Steel Kosice – Austria GmbH	Obchodovanie s výrobkami z ocele	*Steel trading*	100,00 %
U. S. Steel Kosice Switzerland AG in liquidation	Obchodovanie s výrobkami z ocele	*Steel trading*	100,00 %

VÍZIA A HODNOTY SKUPINY

Vízia U. S. Steel

- Profitujúca oceliarenská spoločnosť, ktorá prináša adekvátny zisk pre svojich akcionárov a vynakladá zodpovedajúce prostriedky pre svoj dlhodobý úspech.
- Inovatívna oceliarenská spoločnosť, ktorá je významným vodcom v priemysle, prinášajúca vynikajúcu kvalitu výrobkov a služieb pre svojich zákazníkov, pričom kontinuálne znižuje náklady s cieľom dosiahnutia statusu producenta s nízkymi nákladmi.
- Spoločnosť, ktorá rešpektuje všetkých svojich zamestnancov, vytvára kreatívnu atmosféru motivujúcu zamestnancov k plnému uplatneniu ich talentu, podporuje všetkých k spoločnej práci, uznáva a odmeňuje každého zamestnanca v pomere k ich podielu na úspechu firmy.
- Spoločnosť, ktorá oceňuje diverzitu svojich pracovných síl, podporujúca bezpečné a zdravé pracovné prostredie, ktorá je environmentálne zodpovedná a v každom ohľade rešpektujúca etické správanie.
- Spoločnosť, ktorej každý zamestnanec je hrdý na to, že je jej dôležitým a užitočným členom.

Hlavné princípy podnikania Skupiny

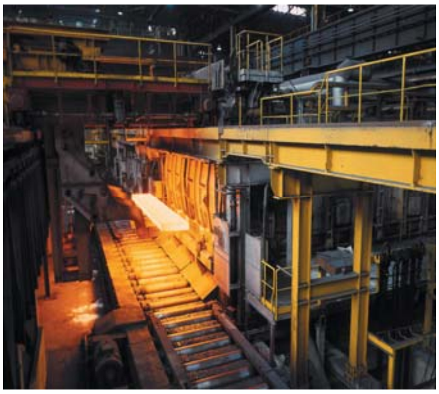
Skupina implementovala **šesť hlavných princípov podnikania** U. S. Steel, ktoré sa uplatňujú vo výrobe, v obchodovaní, v komunikácii so zamestnancami i partnermi a prostredníctvom ktorých sa spoločensky zodpovedný postoj Skupiny aplikuje v praxi:

- Bezpečnosť a ochrana zdravia zamestnancov
- Životné prostredie
- Kvalita výrobkov
- Zákaznícky servis
- Produktivita výroby
- Náklady na výrobu

VISION AND VALUES OF THE GROUP

Vision of U. S. Steel

- *A profitable steel company that earns an adequate return for its shareholders and provides sufficient capital to assure its long-term success.*
- *An innovative steel company that clearly distinguishes itself as the industry leader in providing superior quality and service to its customers, while continuously reducing costs to achieve the status of a low-cost producer.*
- *A company that has respect for all employees, creates an atmosphere which motivates employees to fully utilize their talents, encourages all employees to work together effectively and promptly recognizes and rewards each employee for contributions to the overall success of the company.*
- *A company that values diversity in its workforce, fosters a safe and healthy workplace, is environmentally responsible and at all times conducts itself in an ethical manner.*
- *A company in which each employee takes pride in being an important and contributing member.*



Business Drivers of the Group

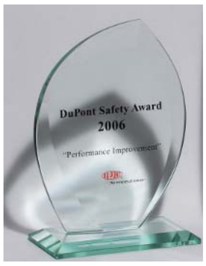
The Group implemented the U. S. Steel´s ***six business drivers*** *that are applied in production, commerce, communication with employees and partners, and through which the socially responsible approach of the Group is applied in practice:*

- *Safety*
- *Environment*
- *Quality*
- *Customer Service*
- *Productivity*
- *Manufacturing Cost*

VPLYV ČINNOSTI SKUPINY NA BEZPEČNOSŤ

Bezpečnosť a ochrana zdravia pri práci zamestnancov, dodávateľov a partnerov pracujúcich v areáli Skupiny je prioritou č. 1. Nosenie certifikovaných osobných ochranných prostriedkov a dodržiavanie kardinálnych bezpečnostných pravidiel sa stalo samozrejmosťou. Prostredníctvom tréningového programu H.E.L.P. (Hazard Elimination and Loss Prevention) manažéri a zamestnanci spoločne odhaľujú výrobné postupy a miesta, ktoré by mohli byť potenciálnym zdrojom rizika a ohrozenia zdravia zamestnancov.

Vďaka permanentne vynakladanému úsiliu všetkých zamestnancov bol počet úrazov znížený o 80 % oproti stavu pred prevzatím košických železiarní v roku 2000. Spoločnosť DuPont Safety Resources, svetový líder v oblasti bezpečnosti a ochrany zdravia pri práci udelila spoločnosti U. S. Steel Košice, s.r.o. cenu za projekt Manažérstvo rizík. Súčasťou pokračujúcej snahy Skupiny v otázkach bezpečnosti bol v roku 2007 zavedený Program bezpečnostných rozhovorov, ktorý napomáha stanovenému cieľu Skupiny trvale znižovať počet úrazov.



IMPACT OF THE COMPANY ON SAFETY

Occupational Safety and Health of the employees, suppliers and partners working on the Group's premises is the No.1 priority. Wearing certified personal protective equipment and complying with cardinal safety regulations has become a matter of course for the employees. Through the H.E.L.P. (Hazard Elimination and Loss Prevention) training program managers and employees jointly discover operational procedures and locations that are a potential source of risks and hazards to the health of employees.

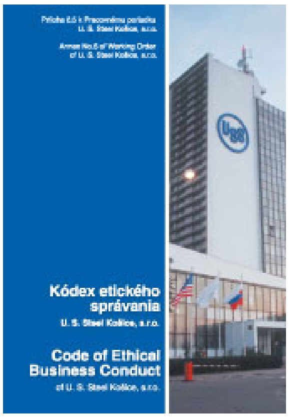
Thanks to the continuous efforts of all employees, the number of injuries has decreased by 80 %, as compared to the status before the acquisition of the Košice Steelworks in 2000. U. S. Steel Košice, s.r.o. was awarded for the project Risk Management by DuPont Safety Resources, the world leader in the safety area. As part of the Group's ongoing efforts in this area we have implemented a Program of Safety Discussion in 2007, which helps in Group's goal to permanently decrease the number of accidents.

VPLYV ČINNOSTI SKUPINY NA ZAMESTNANOSŤ

Odvtedy ako U. S. Steel prevzal Spoločnosť, prechádza zamestnanecká politika transformáciou tak, aby bola Skupina aj v tejto oblasti konkurencieschopná v porovnaní s ostatnými hutníckymi spoločnosťami vo svete a zároveň naplnila dohodu s vládou SR, v ktorej sa zaviazala, že zamestnanosť sa bude meniť len na základe prirodzeného úbytku. V roku 2007 pracovalo v Skupine priemerne 15 738 zamestnancov. Skupina je najväčším zamestnávateľom v regióne východného Slovenska a mesta Košice.

Súčasťou firemnej kultúry je aj oceňovanie zamestnancov, ktorí svojou kvalitnou prácou prispievajú k dosahovaniu vynikajúcich výsledkov v rôznych oblastiach. Patria sem napr. pravidelné obedy prezidenta Spoločnosti s najlepšími pracovníkmi v oblasti bezpečnosti práce, kvality či znižovania nákladov, rôzne podujatia, medzi nimi letné a zimné športové hry, reprezentačné firemné plesy i recipročné obsadzovanie postov a výmena zamestnancov medzi slovenskými, americkými a srbskými prevádzkami. Spoločnosť má prepracované programy sociálnej a zdravotnej starostlivosti o zamestnancov a pravidelne komunikuje pri ich dolaďovaní s predstaviteľmi troch odborových organizácií (OZ METALURG, OZ Kovo a OZ Nezávislé kresťanské odbory Slovenska).

Skupina si uvedomuje, že stanovené vysoké ciele sa dajú splniť iba prostredníctvom vlastných zamestnancov. Skupina preto zamestnancom poskytuje sociálne a ekonomické istoty, dobré zárobky i podmienky pre zabezpečenie ich všestranného rozvoja. Za základ dôvery potrebnej pre dlhodobý úspech Skupiny považuje Skupina princípy uvedené v Kódexe etického správania, ktorý dostane každý zamestnanec pri podpise pracovnej zmluvy. Kódex etického správania definuje prijateľné normy správania sa zamestnancov v oblastiach ako sú diskriminácia, sexuálne obťažovanie, nedovolené a neetické postupy a ochrana hospodárskej súťaže, konflikt záujmov i politická angažovanosť.



IMPACT OF THE GROUP ON EMPLOYMENT

Since the Company was acquired by U. S. Steel, the employment policy has undergone a transformation in order to assure competitiveness of the Group in comparison with other metallurgical companies in the world and to fulfill its commitment to the Slovak Government to reduce the number of employees only based on natural attrition. In 2007, there were 15,738 employees on average working in the Group. The Group is the largest employer in the region of Eastern Slovakia and Košice.

The rewarding of employees, who participate in the achievement of excellent results in various areas through their quality work, is also a part of the Company's culture. This includes regular lunch meetings of the Company's President with employees achieving the best results in occupational safety, quality or cost decreasing areas, various events including summer and winter games, annual balls, as well as reciprocal filling of positions and exchange of employees between Slovak, American and Serbian operations. The Company has sophisticated social and health care programs for employees and regularly discusses their modifications with the representatives of three union organizations (METALURG, Kovo, and the Independent Christian Trades Union of Slovakia).

The Group realizes that defined demanding objectives can only be fulfilled thanks to its employees. The Group gives its employees social and economic security, good salaries, and conditions to assure comprehensive personal development. The principles of the Code of Ethical Business Conduct that all employees receive when signing their employment contract are considered to be the foundation of the trust necessary for the long-term success of the Group. The Code of Ethical Business Conduct defines the acceptable standards of employee conduct in areas like discrimination, sexual harassment, unauthorized and unethical practices and protection of the economic competition, conflict of interests, and political involvement.

VPLYV ČINNOSTI SKUPINY NA ŽIVOTNÉ PROSTREDIE

Ochrana životného prostredia je v Skupine jedným zo základných strategických cieľov. V reálnom živote sa to prejavuje v systémovom prístupe k ochrane životného prostredia. Koncom roka 2003 bol spoločnosti U. S. Steel Košice, s.r.o. udelený spoločný certifikát EMS organizáciou RWTÜV, potvrdzujúci uplatnenie systému environmentálneho manažérstva podľa medzinárodnej normy ISO 14 001:2004. Tento certifikát má platnosť v rozsahu piatich finalizujúcich divíznych závodov, systém environmentálneho manažérstva je však implementovaný vo všetkých divíznych závodoch Spoločnosti.

Od roku 2000 Skupina investovala do desiatok ekologických projektov viac než 275 mil. USD, z toho v rokoch 2004-2007 najmä do nových výkonných systémov odprášenia v divíznych závodoch Koksovňa, Vysoké pece a Oceliareň, výsledkom čoho bolo zníženie tuhých znečisťujúcich látok o viac než 80%.

Okrem priamych investícií environmentálny tréningový program CITE (Continuous Improvement to the Environment) reprezentuje aktívny prístup manažmentu k zvýšeniu environmentálneho povedomia zamestnancov. Navyše, rozvoj pozitívneho postoja k skvalitňovaniu životného prostredia medzi študentmi základných, stredných a vysokých škôl podporuje Spoločnosť formou viacerých ekologických projektov (Kde a ako budeme bývať, Čo sme doteraz nevedeli, EKO, Ekotopfilm). Spoločnosť intenzívne spolupracuje v danej oblasti aj s mimovládnymi organizáciami a obcami v regióne.

V roku 2007 sa v U. S. Steel Košice, s.r.o. začalo s implementáciou programu REACH, ktorého cieľom je zabezpečiť vysokú úroveň ochrany ľudského zdravia a životného prostredia jednotnou kategorizáciou všetkých chemických látok, ktorá je platná v Európskej Únii.

Skupina priebežne monitoruje a pravidelne informuje verejnosť o množstvách emisií a kvalite odpadových vôd v týždenníku Oceľ východu i na svojej webovej stránke www.usske.sk.

IMPACT OF THE GROUP ON ENVIRONMENT

Environmental protection is one of the basic business drivers in the Group. In reality, this is demonstrated by a systematic approach to environmental protection. At the end of 2003, U. S. Steel Košice, s.r.o. received a corporate EMS certificate from the RWTÜV audit organization, confirming the implementation of an environmental management system in accordance with the international standard ISO 14 001:2004. This certificate covers 5 finishing plants, although the environmental management system has been implemented in all division plants of the Company.

Since 2000, the Group has invested more than USD 275 million into dozens of ecological projects, including the new highly efficient de-dusting systems at the Coke Batteries, Blast Furnaces and Steel Plants within the period of 2004-2007. This has resulted in a decrease of total solid particulates by 80%.

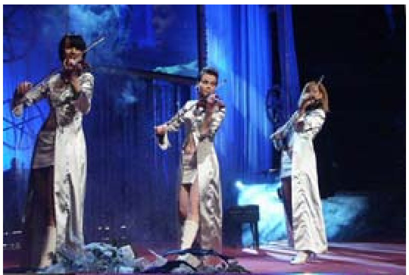
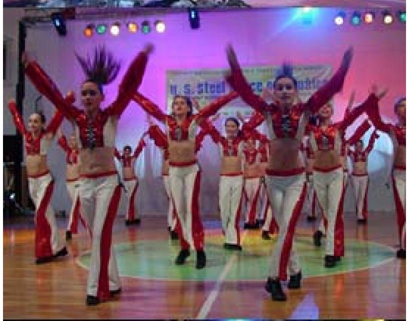
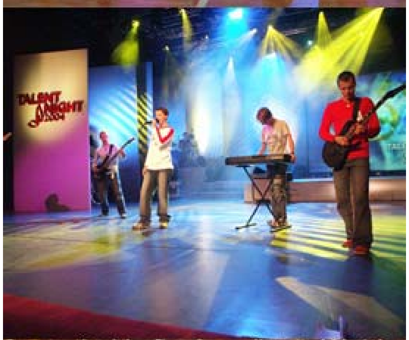
Besides direct investment, the CITE (Continuous Improvement to the Environment) training program represents an active approach by management to increase employees' environmental awareness. Moreover, the Company supports the development of positive attitudes toward environmental protection and improvement among elementary, secondary school and university students through several ecological projects (Where and how we will live, What we never knew until now, EKO, Ekotopfilm). The Company cooperates intensively in this area with non-governmental organizations and local government.

During the year of 2007 the implementation of program REACH (Registration, Evaluation and Authorization of Chemicals) has started in U. S. Steel Košice, s.r.o. The purpose of REACH is to provide high level of health and environmental safety through uniformed categorization of all chemicals valid in European Union.

The Group continuously monitors emissions and regularly informs the public about emission volumes and waste water quality in the weekly newspaper Oceľ východu and on its web site www.usske.sk.

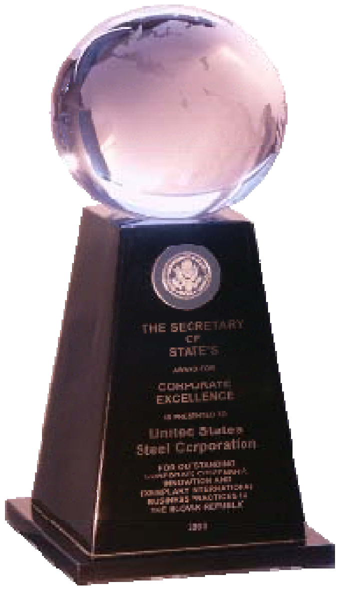
VPLYV ČINNOSTI SKUPINY NA KOMUNITU A REGIÓN

U. S. Steel Košice, s.r.o. uznáva a akceptuje svoju pozíciu zodpovedného partnera voči komunite a je popredným prispievateľom k ekonomickému, environmentálnemu a sociálnemu vývoju Košíc a východného Slovenska. Spoločnosť prispieva na projekty komunity hlavne v oblasti zdravotníctva, vzdelania, charity, športu a kultúry.


V roku 2002 bola založená **Nadácia U. S. Steel Košice** s cieľom podporovať verejno-prospešné projekty v zdravotníctve a vzdelaní, finančne podporovať vedu, kultúru a charitu. Prioritou Spoločnosti v oblasti darovania je hlavne zameranie sa na pomoc a podporu tých, ktorí sú priamo závislí na takejto pomoci, najmä detské domovy a zdravotne postihnutí, ako aj organizácie a spolky, ktoré sa zaoberajú sociálnymi a charitatívnymi aktivitami.

Za svoje filantropické aktivity boli spoločnosti U. S. Steel Košice, s.r.o. udelené ocenenia **U. S. State Department Award for Corporate Excellence** a **Pontis Foundation's Via Bona Slovakia**.



IMPACT OF THE GROUP ON COMMUNITY AND REGION

U. S. Steel Košice, s.r.o recognizes and accepts its role as a responsible community partner and is a leading contributor to the economic, environmental and social development of Kosice and Eastern Slovakia. The Company supports community projects mainly in healthcare, education, charity, sports and culture.

*In 2002 the **U. S. Steel Košice Foundation** was established to support public-benefit projects in healthcare and education, financially supporting science, culture and charity. The Company's priorities in the area of donations focus primarily on assisting and supporting those who are directly dependent on such support, especially children's homes and the disabled, as well as organizations and clubs involved in social and charity activities.*

*For its philanthropic activities U. S. Steel Košice, s.r.o. has gained the **U. S. State Department's Award for Corporate Excellence**, and the **Pontis Foundation's Via Bona Slovakia** awards.*

Vplyv na komunitu a región v oblasti bezpečnosti
Skupina považuje otázku bezpečnosti za tak dôležitú, že sa rozhodla šíriť myšlienku bezpečného správania nie iba medzi vlastnými zamestnancami Skupiny, ale taktiež medzi mladými ľuďmi, študentmi a širokou verejnosťou.

U. S. Steel Košice, s.r.o. prišla v roku 2005 s projektom s názvom „Profesionáli pracujú bezpečne“ zahŕňajúcim stretnutia manažérov Skupiny so študentmi, ich aktívnu účasť na súťažiach, písaní prác, fotografovaní a umeleckej práce. Celkový počet aktívne zúčastnených v tejto súťaži dosiahol takmer 600 študentov z 25 škôl.

Spoločnosť U. S. Steel Košice, s.r.o. otvorila nový grantový program „*V školách bezpečnejšie*“. Cieľom tohto projektu bolo implementovať do škôl špecifické opatrenia za účelom zvýšenia bezpečnosti študentov a učiteľov. Výberová komisia zložená zo špecialistov z oblastí vzdelávania, bezpečnosti práce, mimovládnych organizácií vybrala v apríli 2007 5 víťazných projektov z celkových 70-tich, ktoré Spoločnosť podporila sumou 1 mil. Sk. Zámery projektov sa realizovali v praxi v priebehu rokov 2007 a 2008.

Impact on Community and Region in Safety
The Group considers the value of safety to be so important that decided to spread the idea of safe behavior in every situation, not only among the Group's own employees but among young people, students and the general public as well.

In 2005, U. S. Steel Košice, s.r.o. came up with a project named "Professionals work safely" involving meetings of the Group's managers with students and school representative, achieving their active participation in competitions, writing essays, taking photographs and the creating artwork. The total number of active participants in the competitions was almost 600 students from 25 schools.

U. S. Steel Košice, s.r.o. opened a new grant program "More safely at Schools". The aim of this project was to implement specific measures at schools to increase the safety of students and teachers. The tender committee consisting of specialists in the areas of education, occupational safety, NGOs selected five winners out of a total of 70 projects in April 2007, which were supported by the Company in amount of SKK 1 million. The projects' intentions were accomplished during the years of 2007 and 2008.

Vplyv na komunitu a región v oblasti životného prostredia
U. S. Steel Košice, s.r.o. podporuje vývoj pozitívneho postoja k ochrane a zlepšeniu životného prostredia medzi žiakmi základných, stredných škôl a študentmi univerzít prostredníctvom niekoľkých ekologických projektov a verí, že mladá generácia sa stane nástupcom nášho prístupu k ochrane životného prostredia.

Kde a ako budeme žiť" je názov súťaže so zameraním na ochranu vzduchu, vody a prírody cez separovaný zber odpadov, ktorá je určená pre žiakov základných škôl. Žiaci sa podieľali na príprave a implementácii projektov už štvrtý rok.

„*Čo sme dosiaľ nevedeli*" je vedomostná súťaž určená pre študentov stredných škôl. Cieľom tejto súťaže je motivovať študentov k záujmu o životné prostredie, podporiť pozitívny prístup k životnému prostrediu a pomôcť si uvedomiť dôležitosť ochrany životného prostredia. V roku 2007 sa uskutočnil 2. ročník tejto vedomostnej súťaže.

„Inšpirácie z kovu" je názov medzinárodného workshopu pre študentov umenia organizovaného spoločnosťou U. S. Steel Košice, s.r.o., Technickou univerzitou v Košiciach a SOU hutníckym. Počas jedného týždňa študenti z kovového odpadu tvoria umelecké diela a prostredníctvom vystavenia svojich prác sa učia, že kov je užitočný a recyklovateľný materiál. V roku 2007 sa uskutočnil už 5. ročník tejto tvorivej dielne.

Impact on Community and Region in Environment
U. S. Steel Košice, s.r.o. supports development of positive attitudes toward environmental protection and improvement among elementary, secondary school and college students through several ecological projects, since it believes that the young generation will be the successor of our sustainability approach.

"Where and how we will live" is a competition focusing on the protection of air, water and nature through waste separation and collection, and is intended for elementary schools. The pupils have participated in project preparation and implementation for the past four years.

"What we never knew until now" is a knowledge competition for secondary school students. Its objective is to motivate students to take an interest in the environment, support positive attitudes toward the environment, and help recognize the importance of its protection. The second year of this knowledge competition took place in 2007.

"Metal Inspirations" is an international workshop for art college students, organized by U. S. Steel Košice, s.r.o., the Technical University of Košice and the Metallurgical Vocational School. During one week students make artistic objects from steel scrap while learning and showing that steel is a useful and recyclable material. The fifth year of this creative workshop took place in 2007.

Športové a detské ihriská

Podpora športu je zameraná na tradičné športy v tomto regióne: ľadový hokej, hádzaná, futbal, basketbal a krasokorčuľovanie. Počas mnohých rokov bola Skupina sponzorom miestnych profesionálnych športových klubov a tradičných športov a podujatí, akými sú najstarší európsky maratónsky beh „Medzinárodný maratón mieru“ alebo tenisový turnaj „Steelers Cup“.

Skupina sa v rámci sponzorského programu zamerala na detské športy a na talentovaných alebo znevýhodnených mladých športovcov. V roku 2006 prišla spoločnosť U. S. Steel Košice, s.r.o. s novým programom „Tvoja šanca hrať“ aby dala rovnakú príležitosť hokejovým, basketbalovým a futbalovým talentom zo sociálne znevýhodnených rodín. Spoločnosť podporuje deti, ktoré splnili kritéria programu tým, že prispieva na ich členské poplatky a na časť ich výstroja.

U. S. Steel Košice, s.r.o. tiež osobitne podporuje rozvoj detských ihrísk a športových zariadení, kde môžu deti zmysluplne stráviť svoj voľný čas, napr. viacúčelový športový areál pre deti a mládež na Alejovej ulici v Košiciach, ktoré zahŕňa amfiteáter, športové ihriská, klzisko a ihrisko s dopravnými značkami ako aj centrum na vzdelávanie v oblasti cestnej dopravy. V roku 2007 Skupina podporila aj otvorenie multifunkčného ihriska na Strednej zdravotníckej škole v Michalovciach, Strednej priemyselnej škole hutníckej v Košiciach, v obciach Sokoľany a v Nižnom Klatove.

Sports & children playgrounds

Sports support has been focused on traditional sports in this region: ice-hockey, handball, soccer, basketball and figure-skating. For many years the Group has been a sponsor for local professional sports clubs and traditional sports and community events such as the oldest European marathon race, the “Kosice Peace Marathon”, or the “Steelers Cup” tennis tournament.

Within the donation program, the Group focused on children‘s sports, and either talented or disabled young sportspeople. In 2006, U. S. Steel Košice, s.r.o. came up with a new program “Your Chance to Play”, to provide equal opportunities for ice-hockey, basketball and football to socially-disadvantaged families. The company is supporting children who fulfill the program criteria by subsidizing their club membership fees and part of their sports gear costs.

U. S. Steel Košice, s.r.o. also provides special support for kids’ playgrounds and sport facilities, where children can spend their free time to good purpose, e.g. the Multipurpose Sports Facility for Children & Youth on Alejova Street in Košice, which includes an amphitheatre, sports fields, an ice-rink and a road-traffic playground as well as a training center for traffic education. In 2007, the Group also supported startup of the multi-functional playground in Secondary school of medical assistants in Michalovce, Secondary technical school of metallurgy in Košice and in villages Sokoľany and Nižný Klatov.

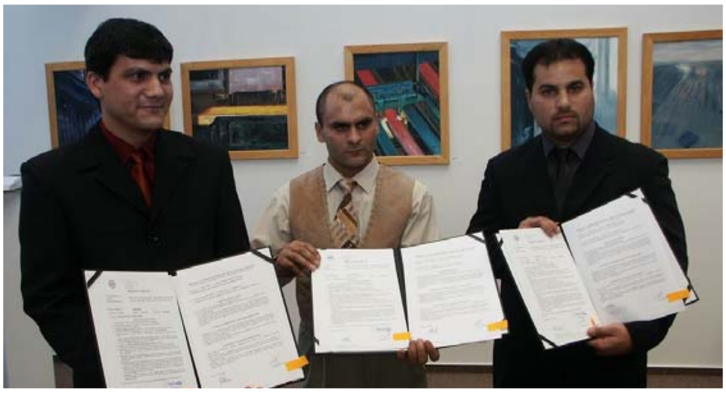
Vplyv na komunitu a región v oblasti zdravotnej starostlivosti
Ako najväčšia spoločnosť na východnom Slovensku dostáva Spoločnosť množstvo žiadostí z nemocníc ako aj od jednotlivcov ohľadom podpory v zdravotnej starostlivosti. Skupina podporuje nemocnice poskytnutím nových zdravotných pomôcok, ktoré môžu pomôcť tisícom obyvateľom. Nielen Skupina, ale aj samotní zamestnanci Skupiny sa podieľajú na tejto podpore. Sú veľmi štedrí počas vianočnej zbierky ako aj pri poskytnutí 2% zo svojich daní rôznym zdravotníckym zariadeniam, najmä Nemocnici Košice-Šaca a.s. 1. súkromná nemocnica, Fakultnej nemocnici L. Pasteura a Detskej fakultnej nemocnici v Košiciach. Spoločnosť U. S. Steel Košice, s.r.o. je taktiež jedným z partnerov Ligy proti rakovine a robí verejnú zbierku na prevenciu proti rakovine, výskum a liečbu – zbierka „Deň narcisov“.

Vplyv na komunitu a región v oblasti vzdelávania
Spoločnosť začala v roku 2004 štipendijný program na poskytovanie prístupu k vyššiemu vzdelaniu pre talentovaných študentov zo sociálne znevýhodneného prostredia v Košickom a Prešovskom kraji. Do konca roka 2007 dostalo 115 študentov príležitosť študovať na slovenských alebo zahraničných inštitúciách vyššieho vzdelávania. Ďalších 48 študentov si rozšírilo teoretické znalosti, praktické skúsenosti, komunikačné a manažérske zručnosti počas dvojmesačného letného programu pod názvom „Summer Intership Program“.

Impact on Community and Region in Health care
As the biggest company in Eastern Slovakia the Group receives many requests from both hospitals and individuals for support in medical care. The Group has been supporting hospitals with new medical equipment which can bring benefits to thousands of inhabitants. Not only the Group itself but its employees participate in this support. They are very generous during Christmas cash collections as well as when donating their 2% tax contribution to various health-care institutions, especially the Hospital Košice-Šaca a.s.1st private hospital, L. Pasteur University Hospital and Children's Hospital in Košice. U. S. Steel Košice, s.r.o. is also one of the Anti-Cancer League partners in public fundraising for cancer prevention, research and treatment – the "Daffodil Day" fundraising.

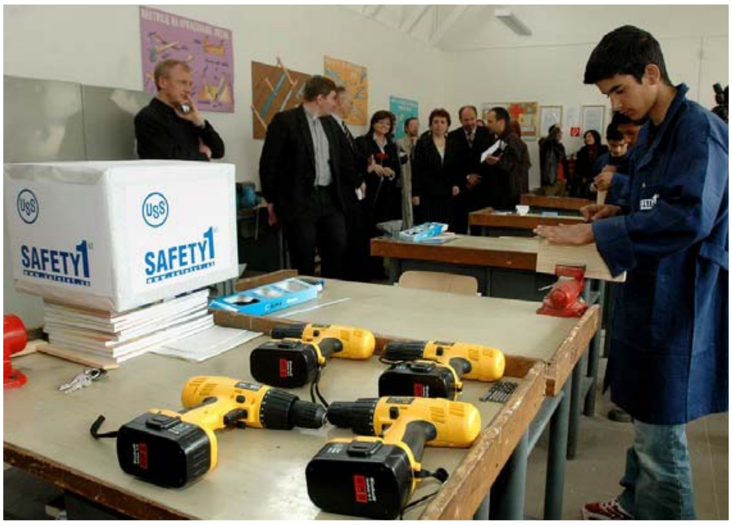
Impact on Community and Region in Education
In 2004 the Company started a Scholarship Program to provide access to higher education for talented students from socially disadvantaged families in the Košice and Prešov regions. By the end of year 2007, 115 students have been given the chance to study at Slovak or foreign institutions of higher education. In addition, another 48 students extended their theoretical knowledge, practical experience, communication and managerial skills during bimonthly summer program named "Summer Intership Program".

Podpora rómskej komunity



V roku 2002 prvý prezident U. S. Steel Košice, s.r.o. John H. Goodish ponúkol prácu pre niekoľko dlhodobo nezamestnaných Rómov z najbližšej obce Veľká Ida. Neskôr sa projekt nazval „*Rovnosť príležitosti – Práca pre Rómov*“ a postupne sa rozšíril o mestskú časť Šaca a sídlisko Luník IX a v roku 2007 sa do projektu zamestnávania rómskej komunity zapojila aj spoločnosť VULKMONT, a.s. Košice. Prostredníctvom tohto projektu sa zabezpečila práca približne 150 Rómom. Spoločnosť okrem toho podporila zriadenie novej multimediálnej učebne s cieľom motivovať rómskych žiakov k ďalšiemu vzdelávaniu.

Supporting Roma community



In 2002, the first U. S. Steel Košice, s.r.o. President John H. Goodish offered jobs for several long-term unemployed Romas from the closest village Velka Ida. Gradually the project named "Equal Opportunities – Work for Romas" was broadened to Šaca and Lunik IX city wards and in 2007, VULKMONT, a.s. Košice has also implemented the employment program for Roma community. Through this project jobs were provided for about 150 Romas. The Company also established a new multimedia schoolroom with the aim to motivate Roma's students for further education.

VYBRANÉ FINANČNÉ INFORMÁCIE

Konsolidovaná súvaha

Vybrané položky súvahy (v mil. EUR) za posledné tri roky sú:

	31.12.2007	31.12.2006	31.12.2005
DHM	938	910	813
DNM	22	78	214
Ostatný neobežný majetok	59	105	155
Úvery spriazneným stranám	-	-	329
Zásoby	322	298	266
Pohľadávky	475	541	452
Ostatný obežný majetok	110	108	53
Aktíva celkom	**1 926**	**2 040**	**2 282**

	31.12.2007	31.12.2006	31.12.2005
Vlastné imanie	1 419	1 537	1 501
Krátkodobé záväzky	402	354	328
Bankové úvery	-	-	195
Ostatné pasíva	105	149	258
Pasíva celkom	**1 926**	**2 040**	**2 282**

Konsolidovaný výkaz ziskov a strát

Vybrané položky výkazu ziskov a strát (v mil. EUR) za posledné tri roky sú:

	2007	2006	2005
Tržby a ostatné výnosy	3 077	2 897	2 492
Zisk z prevádzkovej činnosti	486	577	481
Čistý zisk za rok	406	487	424

SELECTED FINANCIAL INFORMATION

Consolidated Balance Sheet

Selected balance sheet items (in EUR million) for the last three years are:

	31 Dec 07	*31 Dec 06*	*31 Dec 05*
Property, Plant and Equipment	*938*	*910*	*813*
Intangible Assets	*22*	*78*	*214*
Other Non-Current Assets	*59*	*105*	*155*
Loans to Related Parties	*-*	*-*	*329*
Inventories	*322*	*298*	*266*
Accounts Receivable	*475*	*541*	*452*
Other Assets	*110*	*108*	*53*
Total Assets	***1,926***	***2,040***	***2,282***

	31 Dec 07	*31 Dec 06*	*31 Dec 05*
Equity	*1,419*	*1,537*	*1,501*
Accounts Payable	*402*	*354*	*328*
Bank Loans	*-*	*-*	*195*
Other Liabilities	*105*	*149*	*258*
Total Liabilities	***1,926***	***2,040***	***2,282***

Consolidated Income Statement

Selected income statement items (in EUR million) for the last three years are:

	2007	*2006*	*2005*
Revenues and Other Income	*3,077*	*2,897*	*2,492*
Operating Profit	*486*	*577*	*481*
Profit for the year	*406*	*487*	*424*

Návrh na rozdelenie zisku materskej spoločnosti U. S. Steel Košice, s.r.o. za rok 2007 je uvedený vo výročnej správe k individuálnej účtovnej závierke Spoločnosti..

Proposal of 2007 profit distribution of parent company U. S. Steel Košice, s.r.o. is presented in annual report to the separate financial statements of the Company.

VYBRANÉ EKONOMICKÉ INFORMÁCIE A VÝZNAMNÉ UDALOSTI V ROKU 2007

Kvalita

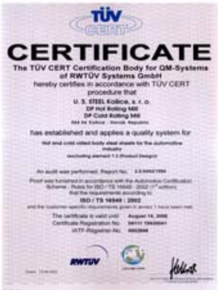
Uplatňovanie programov zameraných na kvalitu produkcie vytvára predpoklady pre zlepšovanie ekonomickej výkonnosti a zvyšovanie schopnosti konkurovať na domácom a medzinárodných trhoch. Medzinárodnú certifikáciu systému manažérstva kvality (QMS) podľa ISO 9001 získal v roku 1992 divízny závod Teplá valcovňa ako prvý závod v strednej a východnej Európe. Spoločnosť U. S. Steel Košice, s.r.o. je certifikovaná podľa medzinárodných štandardov ISO 9001:2000 a ISO/TS 16949 pre automobilový priemysel. V Spoločnosti je tiež implementovaný a certifikovaný systém environmentálneho manažérstva podľa požiadaviek ISO 14001:2004 a v procese implementácie je systém manažérstva bezpečnosti a ochrany zdravia pri práci. Certifikát spoločnosti TÜV NORD za zavedenie a používanie systému manažérstva bezpečnosti a ochrany zdravia pri práci podľa smernice OHSAS 18001:1999 získala v septembri 2007 ako prvá zo Skupiny dcérska spoločnosť OBAL-SERVIS, a.s. Košice.

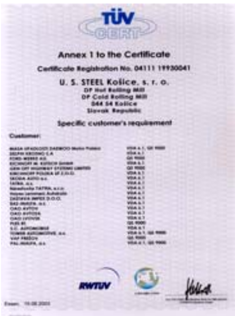
V roku 2002 bola Spoločnosť ocenená cenou Slovenskej republiky za kvalitu v kategórii veľká výrobná spoločnosť. Pre oceľové doskové radiátory KORAD bol v roku 2002 udelený Certifikát ochrannej značky kvality a Zlatej medaily Slovak Gold. Za rok 2006 prezídium Nadácie Slovak Gold udelilo Spoločnosti prestížne ocenenie Grand Prix Slovak Gold.

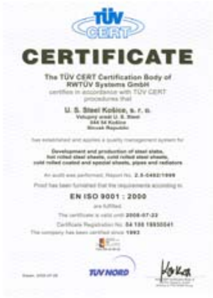
Výskum a vývoj

Spoločnosť v oblasti výskumu a vývoja využila nainštalované skúšobné linky, ktoré umožnili simulovať skutočné výrobné podmienky v prevádzkach Teplej a Studenej valcovne, čoho výsledkom sú optimalizované vlastnosti produkcie.

Metalurgické laboratórium Výskumu a vývoja Spoločnosti získalo v auguste 2007 od Slovenskej národnej akreditačnej služby osvedčenie o spôsobilosti vykonávať vybrané skúšky a mikroštruktúralne analýzy uznávané v SR i v zahraničí.


CERTIFICATE


Annex 1 to the Certificate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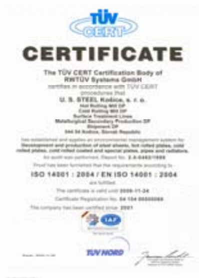
CERTIFICATE

SELECTED ECONOMIC INFORMATION AND SIGNIFICANT EVENTS IN 2007

Quality

Implementation of the programs focused on production quality creates conditions to increase economical efficiency and the ability to compete in domestic and foreign markets. In 1992, the Company was the first facility in Central and Eastern Europe that received international Quality Management System (QMS) certification in accordance with ISO 9001 for the Hot Rolling Mill Division Plant. U. S. Steel Košice, s.r.o. is certified in accordance with the international ISO 9001:2000 and ISO/TS 16949 standards for the automotive industry. An environmental management system in line with the requirements of ISO 14001:2004 has also been implemented in the Company and an occupational health and safety management system is also being implemented. A certificate issued by TÜV NORD for implementation and usage of the occupational health and safety management system in compliance with standard OHSAS 18001:1999 achieved OBAL-SERVIS, a.s. Košice in September 2007 as first company of the Group,

In 2002, the Company was awarded the Slovak National Award for Quality in the category of large manufacturing companies. In 2002, Korad steel panel radiators were awarded the Quality Trademark Certificate and the Slovak Gold Medal. The Presidium of the Slovak Gold Foundation awarded the Company by prestige award Grand Prix Slovak Gold for the year 2006.

Research and Development

In the area of research and development the Company used testing facilities that allow for the simulation of real production conditions in the Hot Roll Mill and Cold Roll Mill and as a result, the Company is able to optimize desired production quality.

In August 2007 metallurgical laboratory of Company's Research and Development received a certification for the ability to perform selected tests and microstructure analyses valid in Slovakia and abroad as well. The certification was issued by Slovak National Accreditation Service.

Výrobná kapacita

Ročná kapacita produkcie surového železa predstavuje 4,5 mil. ton. V roku 2007 Skupina vyrobila 4,7 mil. ton ocele v brámach (2006: 4,7 mil. ton, 2005: 4,1 mil. ton).

Trhové podmienky a obchodná stratégia

Skupina pôsobí primárne na trhoch strednej a západnej Európy a podlieha trhovým podmienkam v týchto oblastiach. Niektoré faktory ako globálny dopyt po produktoch, trhové ceny výrobkov, ceny a dostupnosť vstupných surovín a energií, zmeny v legislatíve, fluktuácia kurzov mien a rôzne opatrenia medzinárodného obchodu by mohli ovplyvniť trhové podmienky, náklady, dodávky a ceny produktov Skupiny.

Obchodnou stratégiou je:
- maximalizácia predaja výrobkov s pridanou hodnotou
Zvýšenie predaja výrobkov s pridanou hodnotou pre sofistikovaný sektor: (automobilový, obalový a spotrebný priemysel).
- udržanie a rozšírenie našej pozície na našom domácom trhu
Maximalizovať náš predaj na trhu strednej Európy a Balkánu – na teritóriách so silným ekonomickým rastom a potenciálom.

Investície

V septembri 2007 bola otvorená nová pozinkovacia linka s ročnou kapacitou 350 tisíc ton na výrobu vysokokvalitných plechov pre obchodných partnerov Skupiny. Táto investícia umožní Skupine byť konkurencieschopnejšou na trhu s oceľou, hlavne v automobilovom priemysle, ale aj v stavebníctve a výrobe spotrebičov.

V novembri 2007 sa v Spoločnosti ukončil cyklus akcií zameraných na ochranu ovzdušia ukončením prác na primárnom odprášení Oceliarne 2 na divíznom závode Oceliareň. Ďalšou investíciou v oblasti ekológie bola rekonštrukcia neutralizačnej stanice na divíznom závode Studená valcovňa, ktorá bola skolaudovaná v decembri 2007. Nová technológia zvýšila kapacitu neutralizačnej stanice a kvalitu čistenia odpadových vôd.

Production Capacity

Annual raw steel production capability is 4.5 mil. tons. In 2007, the Group produced 4.7 million tons of steel in slabs (2006: 4.7 million, 2005: 4.1 million).

Market conditions and commercial strategy

The Group conducts its business primarily in Central and Western Europe and is subject to market conditions in these areas. Some factors such as worldwide demand, market prices of the products, prices and availability of raw materials and energy, changes in legislation, foreign currency exchange rate fluctuations and the regulation on international trade could affect market conditions, costs, shipments and prices of the Group's products.

Commercial strategy is to:
- Maximize sales of value added products
Increase the sales of value added products to the sophisticated sectors: (automotive, appliance, packaging).
- Defend and expand our position in our domestic markets
To maximize our sales to Central Europe and the Balkan – territories with strong economic growth and potential.

Capital Expenditures

New galvanized line was opened in September 2007 with annual capacity 350 thousand tons of high-quality produced sheets for Group's trade partners. This investment allows the Group to be more competitive on steel market, especially in automotive, but also in construction and appliance industry.

In November 2007, the Company completed the cycle of activities for air protection by finalizing works for primary de-dedusting in Steelwork No.2 at Steel Plant. Another environmental investment was the reconstruction of neutralizing station at Cold Rolling Mill and final approval was given in December 2007. New technology has increased the capacity of neutralizing station and quality of sewage water disposal.

VÝZNAMNÉ UDALOSTI PO SKONČENÍ ÚČTOVNÉHO OBDOBIA 2007

Významné udalosti, ktoré nastali po ukončení účtovnej závierky za rok 2007 sú uvedené v poznámke 30 Poznámok k priloženej konsolidovanej účtovnej závierke.

PREDPOKLADANÝ VÝVOJ V ROKU 2008

Manažment Skupiny očakáva pokračujúci solídny prevádzkový výsledok v roku 2008.

SIGNIFICANT EVENTS AFTER 2007 BALANCE SHEET DATE

Other significant events occurred after the balance sheet date are disclosed in Note 30 of the Notes to the accompanying consolidated financial statements.

EXPECTED DEVELOPMENT IN 2008

The Management of the Group expects continued solid operating results in 2008.

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended 31 December 2007

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

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended 31 December 2007 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been approved and authorized for issue by the statutory representatives of the Company on 4 June 2008. The Company's shareholder or executives do not have the power to amend the consolidated financial statements after issue.

Košice, 4 June 2008

George F. Babcoke	William C. King	Silvia Gaálová	Adam Dudič
The President (statutory representative)	The Chief Financial Officer (statutory representative)	General Manager Accounting (responsible for accounting)	Director Accounting Compliance and External Reporting (responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Slovensko, s.r.o.
Námestie 1. mája 18
815 32 Bratislava
Slovak Republic
Telephone +421 (0) 2 59350 111
Facsimile +421 (0) 2 59350 222

INDEPENDENT AUDITOR'S REPORT

To the member and executives of U. S. Steel Košice, s.r.o.:

We have audited the accompanying consolidated financial statements of U. S. Steel Košice, s.r.o. („the Company“) and its subsidiaries („the Group“), which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Consolidated Financial Statements

Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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.

PRICEWATERHOUSECOOPERS

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko

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

10 June 2008

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

Ivan Kupkovič

Ing. Ivan Kupkovič
SKAU licence No.: 689

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
(All amounts are in thousands of EUR)

CONSOLIDATED BALANCE SHEET

	Note	31 December 2007	31 December 2006
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**938,092**	909,601
Intangible assets	6	**21,853**	77,507
Investment in associate	7	**179**	215
Financial assets available-for-sale		**259**	259
Deferred income tax asset	8	**50,171**	98,730
Other non-current assets	9	**8,128**	6,529
Total non-current assets		**1,018,682**	**1,092,841**
Current Assets			
Inventories	10	**321,927**	297,788
Trade and other receivables	11	**475,430**	540,978
Financial assets available-for-sale		**-**	148
Derivative financial instruments	12	**-**	3,093
Cash and cash equivalents	13	**107,473**	102,112
Other current assets	14	**2,656**	2,808
Total current assets		**907,486**	**946,927**
Total Assets		**1,926,168**	**2,039,768**
EQUITY AND LIABILITIES			
Equity			
Base capital	15	**587,842**	587,842
Other reserves	15	**67,304**	64,875
Retained earnings		**763,460**	883,994
Total equity attributable to the Company's equity holders		**1,418,606**	**1,536,711**
Minority interests		**-**	180
Total Equity		**1,418,606**	**1,536,891**
Liabilities			
Non-Current Liabilities			
Long-term provisions for liabilities and charges	16	**35,615**	37,982
Deferred income tax liability	8	**602**	-
Other non-current liabilities		**58**	105
Total non-current liabilities		**36,275**	**38,087**
Current Liabilities			
Trade and other payables	18	**401,591**	353,621
Current income tax liability		**26,667**	36,714
Derivative financial instruments	12	**476**	-
Deferred income		**40**	36
Short-term provisions for liabilities and charges	16	**42,513**	74,419
Total current liabilities		**471,287**	**464,790**
Total Liabilities and Equity		**1,926,168**	**2,039,768**

The accompanying notes on pages 10 to 52 are an integral part of these consolidated financial statements.

(All amounts are in thousands of EUR)

CONSOLIDATED INCOME STATEMENT

	Note	2007	2006
Revenue	19	**3,072,962**	2,890,836
Other income	19	**3,818**	5,859
Materials and energy consumed	20	**(1,889,575)**	(1,703,529)
Salaries and other employees benefits	21	**(335,156)**	(271,864)
Depreciation and amortization	5, 6	**(83,063)**	(70,251)
Repairs and maintenance		**(47,524)**	(33,777)
Transportation services		**(132,024)**	(121,010)
Advisory services		**(17,366)**	(17,532)
Foreign exchange gains / (losses)		**14,912**	(6,597)
Other operating expenses	22	**(101,524)**	(95,392)
Profit from Operations		**485,460**	**576,743**
Finance income	23	**10,889**	12,020
Finance cost	23	**(2,436)**	(4,772)
Share of profit of associate	7	**789**	754
Profit Before Tax		**494,702**	**584,745**
Income tax expense	24	**(88,797)**	(98,148)
Profit After Tax		**405,905**	**486,597**
Profit after tax is attributable to:			
- Minority interest		**(180)**	(524)
- Equity holders of the Company		**406,085**	487,121
Profit After Tax		**405,905**	**486,597**

The accompanying notes on pages 10 to 52 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 holder of the Company				Minority interest	Total
	Base capital	Other reserves	Retained earnings	Subtotal		
Balance as of 1 January 2007	**587,842**	**64,875**	**883,994**	**1,536,711**	**180**	**1,536,891**
Currency translation differences						
- Group	-	727	-	**727**	-	**727**
- Associates (Note 7)	-	(73)	-	**(73)**	-	**(73)**
Other	-	1,232	(1,076)	**156**	-	**156**
Net income recognized directly in equity	-	1,886	(1,076)	**810**	-	**810**
Profit for 2007	-	-	406,085	**406,085**	(180)	**405,905**
Total recognized income	**-**	**1,886**	**405,009**	**406,895**	**(180)**	**406,715**
Contribution to legal reserve fund	-	543	(543)	-	-	**-**
Dividends	-	-	(525,000)	**(525,000)**	-	**(525,000)**
	-	**543**	**(525,543)**	**(525,000)**	**-**	**(525,000)**
Balance as of 31 December 2007	**587,842**	**67,304**	**763,460**	**1,418,606**	**-**	**1,418,606**

	Attributable to equity holder of the Company				Minority interest	Total
	Base capital	Other reserves	Retained earnings	Subtotal		
Balance as of 1 January 2006	**587,842**	**45,787**	**866,815**	**1,500,444**	**704**	**1,501,148**
Currency translation differences						
- Group	-	2,396	-	**2,396**	-	**2,396**
- Associates (Note 7)	-	27	-	**27**	-	**27**
Fair value gains (Note 6)	-	(5,252)	-	**(5,252)**	-	**(5,252)**
Deferred tax on fair value gains	-	998	-	**998**	-	**998**
Other	-	588	(2,137)	**(1,549)**	-	**(1,549)**
Net income recognized directly in equity	-	(1,243)	(2,137)	**(3,380)**	-	**(3,380)**
Profit for 2006	-	-	487,121	**487,121**	(524)	**486,597**
Total recognized income	**-**	**(1,243)**	**484,984**	**483,741**	**(524)**	**483,217**
Contribution to legal reserve fund	-	20,331	(20,331)	**-**	-	**-**
Dividends	-	-	(447,474)	**(447,474)**	-	**(447,474)**
	-	**20,331**	**(467,805)**	**(447,474)**	**-**	**(447,474)**
Balance as of 31 December 2006	**587,842**	**64,875**	**883,994**	**1,536,711**	**180**	**1,536,891**

(All amounts are in thousands of EUR)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Total consolidated	
		2007	**2006**
Profit before tax		**494,702**	**584,745**
Adjustments for			
Depreciation	5	**80,744**	68,105
Amortization	6	**2,319**	2,146
Losses from emission allowances transactions		**2,137**	1,460
(Gains) / losses on disposal of property, plant and equipment		**(1,283)**	2,401
Losses on disposal of subsidiaries	31	**-**	4,513
Gains on disposal of financial assets available-for-sale		**(3)**	-
Losses / (gains) from fair value changes of other financial instruments		**3,569**	(1,864)
Share of profit of associate	7	**(789)**	(754)
Interest income	23	**(10,818)**	(10,865)
Interest expense	23	**2,436**	4,772
Foreign exchange losses / (gains) on operating activities		**4,026**	(690)
Changes in working capital			
Increase in inventories	10	**(24,139)**	(43,236)
Decrease / (increase) in trade and other receivables and other current assets		**64,273**	(100,795)
Increase in trade and other payables and other current liabilities		**28,356**	26,160
Cash generated from operations		**645,530**	**536,098**
Interest paid		**(289)**	(2,950)
Income taxes paid		**(50,359)**	(24,260)
Net cash generated from operating activities		**594,882**	**508,888**
Cash flows from investing activities			
Proceeds from sale of subsidiary, net of cash disposed	31	**-**	(1,159)
Purchases of property, plant and equipment	5	**(113,027)**	(164,206)
Proceeds from sale of property, plant and equipment		**1,807**	47
Purchases of intangible assets	6	**(14,738)**	(8,165)
Purchases of financial assets available-for-sale		**-**	(296)
Proceeds from sale of financial assets available-for-sale		**151**	-
Loan repayments from related parties		**-**	329,467
Interest received		**10,646**	15,133
Dividends received from associate	7	**752**	1,032
Net cash (used in) / provided by investing activities		**(114,409)**	**171,853**
Cash flows from financing activities			
Repayment of borrowings		**-**	(195,000)
Dividends paid to the Company's shareholder		**(475,112)**	(432,832)
Net cash used in financing activities		**(475,112)**	**(627,832)**
Net increase in cash and cash equivalents		**5,361**	**52,909**
Cash and cash equivalents at beginning of year	13	**102,112**	49,203
Cash and cash equivalents at end of year	13	**107,473**	**102,112**

The accompanying notes on pages 10 to 52 are an integral part of these consolidated financial statements.

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

Note 1 General Information

U. S. Steel Košice, s.r.o. (hereinafter 'U. S. Steel Košice, s.r.o." or "the Company") was established as a limited liability company 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 Company's registered address is:

Vstupný areál U. S. Steel
Košice
044 54
Identification No.: 36 199 222
Tax identification No.: 2020052837
VAT identification No.: SK2020052837

Business activities of the Group

The principal activity of the Company and its subsidiaries (hereinafter "the Group") is the production and sale of steel products (Notes 19 and 31).

Liability in other business entities

The Group has no unlimited liability in other business entities.

Average number of staff

The average number of the Group's employees is presented in Note 21.

The Company's management

Statutory representatives as of 31 December 2007 were as follows:

David Harman Lohr	President
William Clyde King	Senior Vice President and Chief Financial Officer
Matthew Burnis Perkins (eff. 1 November 2007)	Vice President Operations
John Baird Peters	Vice President Commercial
Ing. Anton Jura	General Manager Processed Products (USA)
RNDr. Miroslav Kiraľvarga	Vice President Management Services and Administration
John Frederick Wilson (eff. 1 January 2007)	General Counsel
Andrew Stewart Armstrong	Vice President BSC - Europe
Patrick James Mullarkey (eff. 1 January 2007)	Vice President Technology
Ing. Martin Pitorák (eff. 1 May 2007)	Vice President Human Resources

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of 31 December 2007, the only shareholder of the Company was U. S. Steel Global Holdings I B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The registered address of the shareholder changed in 2007. The shareholder owns 100% share on base capital representing 100% of voting rights.

The General Meeting approved the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union ("EU") for the previous accounting period on 22

June 2007.

These consolidated financial statements of U. S. Steel Košice, s.r.o. Group are available directly at the registered address of the Company stated above and also at internet web page www.usske.sk/corpinfo/fin-e.htm. These consolidated financial statements are deposited in the Collection of documents of the District Court Košice I, Štúrova 29, 041 51 Košice, Slovakia.

The Group is included in the consolidated financial statements of parent company U. S. Steel Global Holdings I B.V, which are part of the consolidated financial statements of the ultimate controlling party of the Company – United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania, USA. The consolidated financial statements of the consolidated group are prepared by United States Steel Corporation ("U. S. Steel") in accordance with Generally Accepted Accounting Principles in the United States ("US GAAP") and are available directly at the registered address stated above and internet web page www.ussteel.com.

Note 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Group's consolidated financial statements (hereinafter "the consolidated financial statements") are set out below. These policies have been consistently applied to all the periods presented.

2.1 Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued as of 31 December 2007 and effective for annual periods then ended.

2.2 Basis of Preparation

The Act on Accounting of the Slovak Republic requires the Company to prepare consolidated financial statements for the year ended 31 December 2007 in accordance with IFRS as adopted by the EU.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of intangible assets representing the carbon dioxide emissions allowances and by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

These consolidated financial statements have been prepared on the going concern basis.

The preparation of consolidated 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.3 Foreign Currency Translations

Functional and presentation currency

Items included in the financial statements of each of the U. S. Steel Košice, s.r.o. Group's entities are measured in the currency of the primary economic environment in which the particular company operates ("the functional currency"). These consolidated financial statements are prepared in Euro ("EUR"), which is the functional currency of the Company and presentation currency of the Group.

Transactions and balances

The Company keeps its books and records in the local currency (Slovak koruna), which is different from its functional currency. Transactions in currencies other than the Slovak koruna are translated into the Slovak koruna using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in currencies other than the Slovak koruna, and from the translation of monetary assets and liabilities denominated in currencies other than the Slovak koruna at year-end exchange rates are recognized in the income statement. At the time the Company prepares its financial statements all amounts are translated into the functional currency in accordance with *IAS 21 The Effects of Changes in Foreign Exchange Rates.* This translation produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency.

Group companies

The subsidiaries are financially, economically and organizationally 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 recognized 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 recognized 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 separate financial statements of U. S. Steel Košice, s.r.o. and the companies that it controls (Note 31). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of an entity's share capital and is able to govern the financial and operating policies of an entity so as to benefit 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 recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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 Group. 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 the Group 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 recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized 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. Unrealized 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 measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items such as purchase price, including import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognized 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 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, art collections and construction in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis 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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Group allocates the amount initially recognized in respect of an item of property, plant and equipment proportionally to its significant parts and depreciates separately each such part.

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

When assets are disposed of or it is determined that 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 residual values and useful lives for assets 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 other than emissions allowances are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

After initial recognition, intangible assets other than emissions allowances are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The amortization period and method are reviewed at each balance sheet date.

<u>Research and development costs</u>

Research costs are expensed 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 or internal use can be demonstrated and the Group has sufficient resources to complete the project, to sell it or to utilize its results internally, are capitalized up to the amount that is expected to be recovered from future economic benefits. If the conditions for capitalization are not fulfilled, development costs are expensed in the period in which they were incurred.

Software

Acquired computer software is measured at cost less accumulated amortization and any accumulated impairment losses and is classified as an intangible asset if it is not an integral part of the related hardware. Software is amortized on a straight-line basis over estimated useful lives (2 – 5 years). Expenditures to enhance or extend the software performance beyond its original specification is capitalized and added to the original cost of the software.

Costs associated with maintaining computer software are recognized 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 recognized as intangible assets.

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

Emissions allowances

Carbon dioxide emissions allowances are allocated to emitting facilities 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 (hereinafter "NRER"). The allowances were issued free of charge and are initially measured 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 the NRER.

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

As emissions are made, a liability is recognized for the obligation to deliver the emissions allowances equal to emissions that have been made. This liability is a provision that is disclosed under short-term 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, which represents the market price of the number of allowances required to cover emissions made up to the balance sheet date.

The intangible asset representing the emissions allowances is carried at market value with revaluation surplus recorded in equity. Revaluation decreases are recorded as an impairment loss in the income statement to the extent that they exceed the revaluation surplus previously recorded in equity. Emissions allowances that are not used by the end of the National Allocation Plan period are written off.

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 amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 have been impaired are reviewed for possible reversal of the impairment at each balance sheet date.

2.9 *Borrowing Costs*

Borrowing costs are expensed as incurred. Interest expense is recognized 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 recognized 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: loans, receivables, financial assets at fair value through profit or loss and financial assets 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.

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 loans and receivables with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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. Management designates financial instruments into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Derivatives are categorized 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 realized within 12 months of the balance sheet date.

Financial assets available-for-sale

Financial assets available-for-sale 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

Purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially measured 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.

Loans and receivables are measured at amortized cost using the effective interest method, net of provision made for impairment, if any. Financial assets at fair value through profit and loss representing derivative instruments (Notes 2.24 and 2.25) are measured at fair value. Financial assets available-for-sale are measured at cost because their fair value can not be reliably determined.

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 upon terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and payments outstanding for more than 180 days after due date are considered to be indicators that the loan or the 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 using a provision account, and the amount of the impairment loss is recognized in the income statement. When the asset is uncollectible, it is written off against the related provision account.

Financial assets are derecognized when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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 measured at the lower of cost and net realizable value. The cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of raw material inventories is assigned by using the first-in, first-out (FIFO) cost formula. The cost of work in progress, semi-finished production and finished products comprises raw materials, direct labor, 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 on hand, money deposited with financial institutions that can be withdrawn without notice and other short-term highly liquid investments that are subject to insignificant risk of changes in value and have maturity of three months or less from the date of acquisition.

2.14 *Equity and Reserves*

Equity and liabilities

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 are 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, or is required only in case of the issuer's liquidation, in which case the instrument is classified as equity.

Reserves

(a) Legal reserve funds

The legal reserve funds are set up in compliance with the Commercial Code. Contributions to the legal reserve fund of the Group were made from net income up to 10% of the base capital. Legal reserve fund is not distributable and must not be used for any operating purposes but it may be used only to cover losses of a company.

(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.

(c) Translation reserve

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

2.15 *Financial Liabilities*

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized 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 amortized cost.

2.16 *Dividends*

Dividends are recognized 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 Group will comply with the conditions attached to them and that the grants will be received. They are deferred and recorded 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 these consolidated financial statements. Income relating to government grants is recognized as a reduction of the related expense.

2.18 *Provisions*

Provisions are recognized when, and only when, the Group has a present legal or constructive obligation as a result of a past event for which it is probable 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 the provision reflecting the passage of time is recognized 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 recognized 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 *Current and Deferred Income Tax*

Income tax expense comprises current and deferred tax expense. Current and deferred tax expense are recognized in profit or loss, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity.

Ther current income tax charge is calculated based on taxable income for the year. Taxable income differs from profit as reported in the income statement because of items like the allowed tax credit, items of income or expense that are taxable or deductible in different years and items that are never taxable or deductible. The current income tax liability is calculated using tax rates (and tax laws) that have been enacted, or substantively enacted, as of the balance sheet date in the countries where the Company and its subsidiaries and associate operate and generate taxable income, and any adjustment to taxes payable in respect of previous years.

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 financial statements. However, the deferred income tax is not accounted for if it arises from the 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 substantively enacted, by the balance sheet date and are expected to apply when the related asset is realized or the liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for the cases 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 makes contributions to the mandatory government and private defined contribution pension plans 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 of U. S. Steel Košice, s.r.o. who have chosen to participate in a supplementary pension scheme, the Company 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 Group is committed to make payments to the employees upon retirement in accordance with Slovak legislation. Employees of U. S. Steel Košice, s.r.o. and two other subsidiaries are entitled to benefits at retirement, upon acquiring the entitlement to an old age pension, an invalidity (disability) pension or a pension for years of service in accordance with the Collective Labor Agreement 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 or her 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.

The liability in respect of this employee benefit represents the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by U. S. Steel 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 high quality corporate bonds in the European market 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 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. Employees of U. S. Steel Košice, s.r.o. and two other subsidiaries are entitled to work and life jubilee benefits upon reaching specific age and/or reaching specific period of employment in accordance with the Collective Labor Agreement.

The liability in respect of the work and life jubilee benefits plan represents the value of the defined benefit obligation as of the balance sheet date and is calculated annually by U. S. Steel 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 high quality corporate bonds in the European market 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 recognizes 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. In case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is determined based on the number of employees, which accepted the offer. 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 recognized in Liability to employees and social security. 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 recognized when it is probable that the economic benefits associated with the transaction will flow to the Group 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 and dividend income within the Group.

Sale of own production and goods

Revenue from sales of own production and goods is recognized when the Group has transferred significant risks and rewards of ownership to the buyer and has retained neither continuing managerial involvement nor effective control over the own production and goods sold.

Rendering of services

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

Interest income

Interest income is recognized using the effective interest method.

Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

2.22 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

As the Group's operations do not have significantly different risks and returns, and the regulatory environment, the nature of its services, business processes and types of customers for its products and services are homogenous for all its activities, the Group operates as a single business and geographical segment unit.

In addition, in accordance with *IAS 14 Segment reporting*, no segment reporting is presented in these consolidated financial statements because the Group has not debt or equity securities that are publicly traded.

2.23 Contingent Liabilities and Contingent Assets

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

Contingent assets are not recognized 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 recognized 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 the income statement.

Foreign currency forwards embedded in the host raw material purchase contracts denominated in U.S. dollars are considered to be closely related to the host contracts because raw material prices are routinely denominated in U.S. dollars in commercial transactions in the economic environment in which the Group operates.

2.25 *Fair Value Estimation*

The fair value of publicly traded derivatives 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 *Events After the Balance Sheet Date*

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 Significant Accounting Estimates and Judgments

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.

<u>Functional currency of the Company</u>

The Company's functional currency has been determined to be the EUR based on the underlying economic conditions and operations. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, 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 judgment on the fact that it operates internationally on markets mainly influenced by the EUR and its major activity is the sale of steel in Western and Central Europe. Moreover, a 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 is pursuing economic policies to introduce the EUR effective 1 January 2009. Events after balance sheet date are disclosed in Note 30.

Estimated useful life of Property, Plant and Equipment

The average useful life of depreciable Property, plant and equipment represents approximately 17 years (2006: 15 years). A revision of the average useful life by 1 year would change the annual depreciation charge by EUR 3 million (2006: EUR 4 million).

Spare parts

As stated in Note 2.5 major spare parts and stand-by equipment are capitalized to property, plant and equipment. The capitalization threshold to qualify as major spare parts was determined by management to be EUR 10 thousand (2006: EUR 10 thousand). Their useful life was derived from average life of related property, plant and equipment and estimated to be 7 years. If the threshold increased to EUR 30 thousand, the net income would decrease by EUR 7 million (2006: EUR 4 million). Change in the estimated useful life by 1 year would change the net income by EUR 2 million (2006: EUR 2 million).

Taxation

U. S. Steel Košice, s.r.o. was granted a tax credit (Notes 8 and 24) available through 31 December 2009. Management believes that all tax credit conditions were met for the preceding periods. If a condition is not met for a period, 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 the end of 2009. The utilization of the tax credit is based on management's assumptions (e.g. future taxable profits, exchange rates and depreciation policy) which are comparable with recent financial results and tax strategies adopted. During 2006, the Slovak tax authority audited and confirmed that U. S. Steel Košice, s.r.o. fulfilled all of the necessary conditions for claiming the tax credit for the years 2000 through 2005.

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. The Group's management is not aware of any circumstances that may give rise to a future material expense in this respect. Fiscal periods remain open to review by the tax authorities for five years after the year in which the tax return is filed.

Note 4 New Accounting Pronouncements

Standards, amendments and interpretations effective in 2007

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 principles for disclosures relating to 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. Adoption of the standard resulted in expansion of disclosures provided in these consolidated financial statements regarding Group's financial instruments and management of capital (Notes 11, 25, 26 and 27).

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant or do not have any material implications to the financial statements of the Group:

- *IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies (effective for periods beginning on or after 1 March 2006, i.e. from 1 January 2007)* 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 March 2006, i.e. from 1 January 2007)* requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

- *IFRIC 9 Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006, i.e. from 1 January 2007)* requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

- *IFRIC 10 Interim financial reporting and impairment (effective for periods beginning on or after 1 November 2006, i.e. from 1 January 2007)* prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

<u>Standards, amendments and interpretations to existing standards that are not yet effective</u>

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the accounting periods beginning on 1 January 2008:

IAS 1 Presentation of Financial Statements (revised September 2007; effective for periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income, which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. This standard has not yet been endorsed by the EU. The Group has not early adopted the standard and it will apply IAS 1 from 1 January 2009 or later, depending on EU endorsement of this standard.

IAS 23 (Amendment) Borrowing costs (effective for periods beginning on or after 1 January 2009). IAS 23 requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. This amendment has not yet been endorsed by the EU. The Group has not early adopted the amended standard and is currently assessing consolidated financial statements implications relating to the adoption of the amended standard in the future.

IFRS 8 Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard *SFAS 131 Disclosures about segments of an enterprise and related information*. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has not early adopted the standard and does not expect any financial statements implications relating to the adoption of this standard in the future.

IFRIC 11, IFRS 2 – Group and treasury share transactions (effective for periods beginning on or after 1 March 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent’s shares) should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group has not early adopted the interpretation and does not expect any consolidated financial statements implications relating to the adoption of this interpretation in the future.

IFRIC 12 Service concession arrangements (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group’s operations because it does not provide for public sector services. This interpretation has not yet been endorsed by the EU. The Group has not early adopted the interpretation and does not expect any material consolidated financial statements implications relating to the adoption of this interpretation in the future.

IFRIC 13 Customer loyalty programmes (effective from 1 January 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. This interpretation has not yet been endorsed by the EU. The Group has not early adopted the interpretation and does not expect any material consolidated financial statements implications relating to the adoption of this interpretation in the future.

IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for periods beginning on or after 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation has not yet been endorsed by the EU. The Group has not early adopted the interpretation and does not expect any material consolidated financial statements implications relating to the adoption of this interpretation in the future.

IFRS 2 (Amendment) Share-based payment (effective for periods beginning on or after 1 January 2009). The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of share based payments are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment has not yet been endorsed by the EU. The Group has not early adopted the amended standard and does not expect any material consolidated financial statements implications relating to the adoption of this amended standard in the future.

IFRS 3 (Revised) Business combinations (effective for periods beginning on or after 1 July 2009, i.e. 1 January 2010). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure the fair value of every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date, between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings in its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised standard has not yet been endorsed by the EU. The Group has not early adopted the revised standard and does not expect any material consolidated financial statements implications relating to the adoption of this revised standard in the future.

IAS 27 (Amendment) Consolidated and separate financial statements (effective for periods beginning on or after 1 July 2009, i.e. 1 January 2010). The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. The amended standard has not yet been endorsed by the EU. The Group has not early adopted the amended standard and does not expect any material consolidated financial statements implications relating to the adoption of this amended standard in the future.

IAS 32 and IAS 1 Amendment - Puttable financial instruments and obligations arising on liquidation (effective for periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The amendment has not yet been endorsed by the EU. The Group has not early adopted the amended standard and does not expect any material consolidated financial statements implications relating to the adoption of this amended standard in the future.

IFRS 1 and IAS 27 Amendment - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's financial statements.

The management has assessed effects of the project Proposed Improvements to IFRS led by IASB on the Group's financial statements and does not expect any significant effect.

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

Note 5 Property, Plant and Equipment

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2007	**346,516**	**821,117**	**21,690**	**15,892**	**1,205,215**
Additions	-	-	-	113,027	**113,027**
Disposals	(2,112)	(3,124)	(1,490)	(305)	**(7,031)**
Transfers	11,958	90,743	2,532	(105,233)	**-**
Currency translation differences	290	211	177	4	**682**
31 December 2007	**356,652**	**908,947**	**22,909**	**23,385**	**1,311,893**
Accumulated Depreciation and Impairment Losses					
1 January 2007	**(44,798)**	**(234,806)**	**(16,010)**	**-**	**(295,614)**
Depreciation for the year	(8,922)	(68,481)	(3,341)	-	**(80,744)**
Other additions	(1,881)	(1,783)	(117)	-	**(3,781)**
Disposals	1,929	3,107	1,275	-	**6,311**
Impairment losses	-	-	-	(16)	**(16)**
Currency translation differences	(58)	74	27	-	**43**
31 December 2007	**(53,730)**	**(301,889)**	**(18,166)**	**(16)**	**(373,801)**
Net book value	**302,922**	**607,058**	**4,743**	**23,369**	**938,092**

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
1 January 2006	**302,970**	**671,854**	**20,367**	**77,016**	**1,072,207**
Additions	-	-	-	164,206	**164,206**
Disposals	(9,270)	(21,600)	(561)	(1,333)	**(32,764)**
Transfers	52,232	170,449	1,390	(224,071)	**-**
Currency translation differences	584	414	494	74	**1,566**
31 December 2006	**346,516**	**821,117**	**21,690**	**15,892**	**1,205,215**
Accumulated Depreciation and Impairment Losses					
1 January 2006	**(44,129)**	**(201,495)**	**(13,204)**	**(196)**	**(259,024)**
Depreciation for the year	(9,514)	(55,942)	(2,649)	-	**(68,105)**
Disposals	9,214	21,600	385	196	**31,395**
Currency translation differences	(369)	1,031	(542)	-	**120**
31 December 2006	**(44,798)**	**(234,806)**	**(16,010)**	**-**	**(295,614)**
Net book value	**301,718**	**586,311**	**5,680**	**15,892**	**909,601**

No property, plant and equipment of the Group was pledged in favor of a creditor or restricted in its use as of 31 December 2007 and 31 December 2006.

<u>Insurance</u>

Non-current tangible assets are insured by Česká poisťovňa - Slovensko, akciová spoločnosť. The insurance covers damage caused by theft, disaster and other causes of machinery failure while maximum insurance compensation for one insurance claim is USD 600 million (i.e. EUR 408 million using the exchange rate as of balance sheet date) (2006: USD 600 million (i.e. EUR 456 million using the exchange rate as of 31 December 2006)). Compensation sublimits for individual risks are specified in the insurance contract. Own participation is USD

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

25 million per claim. Events after the balance sheet date are disclosed in Note 30.

Note 6 Intangible Assets

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2007	**14,064**	**260,872**	**727**	**4,602**	**280,265**
Additions	-	4,870	-	14,738	**19,608**
Disposals	(4)	(258,459)	(34)	-	**(258,497)**
Transfers	1,505	107	313	(1,925)	**-**
Currency translation differences	32	-	10	24	**66**
31 December 2007	**15,597**	**7,390**	**1,016**	**17,439**	**41,442**
Accumulated Amortization and Impairment Losses					
1 January 2007	**(9,710)**	**(192,489)**	**(559)**	**-**	**(202,758)**
Amortization for the year	(2,189)	-	(130)	-	**(2,319)**
Impairment losses	-	(6,723)	-	-	**(6,723)**
Disposals	4	192,113	34	-	**192,151**
Currency translation differences	55	-	5	-	**60**
31 December 2007	**(11,840)**	**(7,099)**	**(650)**	**-**	**(19,589)**
Net book value	**3,757**	**291**	**366**	**17,439**	**21,853**

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
1 January 2006	**13,687**	**206,733**	**629**	**1,948**	**222,997**
Additions	-	252,089	-	8,165	**260,254**
Revaluation surplus	-	(5,252)	-	-	**(5,252)**
Disposals	(578)	(196,096)	(10)	(1,077)	**(197,761)**
Transfers	939	3,398	98	(4,435)	**-**
Currency translation differences	16	-	10	1	**27**
31 December 2006	**14,064**	**260,872**	**727**	**4,602**	**280,265**
Accumulated Amortization and Impairment Losses					
1 January 2006	**(8,242)**	**-**	**(452)**	**-**	**(8,694)**
Amortization for the year	(2,028)	-	(118)	-	**(2,146)**
Impairment loss	-	(192,489)	-	-	**(192,489)**
Disposals	570	-	16	-	**586**
Currency translation differences	(10)	-	(5)	-	**(15)**
31 December 2006	**(9,710)**	**(192,489)**	**(559)**	**-**	**(202,758)**
Net book value	**4,354**	**68,383**	**168**	**4,602**	**77,507**

No intangible assets of the Group were pledged in favor of a creditor or restricted in its use as of 31 December 2007 and 31 December 2006.

Insurance

Intangible assets are not insured.

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

Emissions allowances

U. S. Steel Košice, s.r.o. was allocated free of charge CO_2 emissions allowances by the Slovak Government. They were measured at fair value initially as of allocation date and subsequently as of balance sheet date. The European Energy Stock Exchange is used to obtain fair value of the emissions allowances. The liability for the obligation to deliver the emissions allowances was settled within a few months after the balance sheet date in accordance with applicable legislation.

The balances included in the consolidated balance sheet in respect of the emissions allowances are as follows:

	31 December 2007	31 December 2006
Emissions allowances (intangible asset)	**291**	68,383
Liability for the obligation to deliver allowances (provision) (Note 16)	**291**	66,352

If a cost model had been used, the carrying amount of emissions allowances net of impairment would have totaled EUR 291 thousand as of 31 December 2007 (31 December 2006: EUR 62,998 thousand).

Note 7 Investment in Associate

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

	31 December 2007	31 December 2006
The Group´s share of net assets as of 1 January	**215**	810
Share of profit of associate	**789**	754
Dividends paid	**(752)**	(1,032)
Translation adjustment and other	**(73)**	(317)
The Group's share as of 31 December	**179**	**215**

Summarized financial information of associate is following:

	2007	2006
Total assets	**28,187**	31,377
Equity	**1,497**	1,831
Total revenues	**66,072**	66,101
Profit for the period	**1,316**	1,508

There was no pledge on Group's ownership interests in associate as of 31 December 2007 and 31 December 2006.

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

Note 8 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% (2006: 19%):

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

	1 January 2007	Recognized in income	Recognized in equity	31 December 2007
Property, plant and equipment	31,364	(12,634)	-	**18,730**
Inventories	3,802	1,056	-	**4,858**
Employee benefits	3,083	4,806	-	**7,889**
Deferred charges	2,165	(36)	-	**2,129**
Bad debt provisions	348	(265)	-	**83**
Tax credit	58,311	(41,505)	-	**16,806**
Emission allowances transactions	83	(83)	-	**-**
Other items	(426)	(500)	-	**(926)**
Total	**98,730**	**(49,161)**	**-**	**49,569**
Deferred tax asset	98,730			**50,171**
Deferred tax liability	-			**(602)**

	1 January 2006	Recognized in income	Recognized in equity	31 December 2006
Property, plant and equipment	27,207	4,157	-	**31,364**
Inventories	1,945	1,857	-	**3,802**
Employee benefits	2,768	315	-	**3,083**
Deferred charges	2,067	98	-	**2,165**
Bad debt provisions	693	(345)	-	**348**
Tax credit	112,986	(54,675)	-	**58,311**
Emission allowances transactions	(998)	83	998	**83**
Other items	2,341	(2,767)	-	**(426)**
Total	**149,009**	**(51,277)**	**998**	**98,730**
Deferred tax asset	149,229			**98,730**
Deferred tax liability	(220)			**-**

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

	31 December 2007	31 December 2006
Deferred tax to be realized within 12 months	**38,206**	55,092
Deferred tax to be realized after 12 months	**11,363**	43,638

The Group had no unrecognized potential deferred tax assets as of 31 December 2007 and 31 December 2006.

Tax credit

The provisions of the Slovak Income Tax Act permit U. S. Steel Košice, s.r.o. 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 for the years 2000 through 2009.

As of 31 December 2007, the cumulative tax credit claimed from 2000 amounted to USD 405 million (31 December 2006: USD 353 million). The tax credit requirements include mainly reinvestment of the tax saved in qualifying assets, 60% of total revenue must be from the export of products and other specific administrative requirements. During 2006, the Slovak tax authority audited and confirmed that U. S. Steel Košice, s.r.o. fulfilled all of the necessary conditions for claiming the tax credit (Notes 3 and 24) for the years 2000 through 2005.

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

U. S. Steel Košice, s.r.o. has recognized a deferred tax asset for the tax credit in accordance with *IAS 12 Income Taxes*. U. S. Steel Košice, s.r.o. 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 25 million (i.e. EUR 17 million using the exchange rate as of balance sheet date) as of 31 December 2007 (31 December 2006: USD 77 million (i.e. EUR 58 million using the exchange rate as of 31 December 2006)).

Note 9 Other Non-Current Assets

	31 December 2007	31 December 2006
Cash restricted in its use (Note 27)	**8,125**	6,521
Loans to employees	**3**	8
Total	**8,128**	**6,529**

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 16). The effective interest rate on restricted cash in bank is disclosed in Note 13. The balances are neither past due nor impaired. Credit risk of cash restricted in its use is disclosed in Note 26.

Note 10 Inventories

	31 December 2007	31 December 2006
Raw materials	**173,043**	142,270
Work-in-progress	**38,009**	42,295
Semi-finished production	**28,360**	31,524
Finished goods	**79,551**	66,918
Merchandise	**2,964**	14,781
Total	**321,927**	**297,788**

The inventory items are shown after provision for slow-moving inventory of EUR 3,394 thousand (31 December 2006: EUR 3,184 thousand). No inventories were pledged or restricted in use as of 31 December 2007 and 31 December 2006.

The movement of provision for impairment to inventories was as follows:

	Raw materials	Work in progress	Semi-finished production	Finished products	Merchandise	Total
1 January 2007	**845**	**1,023**	**1,214**	**102**	**-**	**3,184**
Provision made	537	3,392	1,194	292	-	**5,415**
Provision used	(811)	(2,647)	(1,517)	(230)	-	**(5,205)**
31 December 2007	**571**	**1,768**	**891**	**164**	**-**	**3,394**

	Raw materials	Work in progress	Semi-finished production	Finished products	Merchandise	Total
1 January 2006	**1,728**	**160**	**295**	**60**	**16**	**2,259**
Provision made	1,145	1,475	2,352	100	-	**5,072**
Provision used	(2,028)	(612)	(1,433)	(58)	(16)	**(4,147)**
31 December 2006	**845**	**1,023**	**1,214**	**102**	**-**	**3,184**

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

Note 11 Trade and Other Receivables

	31 December 2007	31 December 2006
Trade receivables	**340,416**	388,474
Related party accounts receivable (Note 29)	**103,216**	105,944
Total trade receivables (Note 27)	**443,632**	**494,418**
Advance payments made	**9,124**	3,382
VAT receivable	**35,292**	61,608
Other receivables	**1,903**	2,115
Trade and other receivables (gross)	**489,951**	**561,523**
Less provision for impairment	**(14,521)**	(20,545)
Trade and other receivables (net)	**475,430**	**540,978**
Long-term receivables	**-**	-
Short-term receivables	**475,430**	540,978

No receivables of the Group were pledged in favor of a bank or other entities as of 31 December 2007 and 31 December 2006. The maximum credit risk exposure at the balance sheet date is the carrying value of each class of receivable mentioned above. Information about collateral or other credit enhancements and overall credit risk of the Group is disclosed in Note 26.

The carrying value of trade receivables, including related party accounts receivable, is denominated in the following currencies:

	31 December 2007	31 December 2006
U. S. Steel Košice, s.r.o.		
SKK	**21,665**	27,094
EUR	**348,431**	381,822
USD	**37,715**	19,817
other	**31,752**	37,223
Subsidiaries and consolidation adjustments		
Not analyzed	**4,069**	28,462
Total	**443,632**	**494,418**

The structure of trade receivables is as follows:

	31 December 2007	31 December 2006
U. S. Steel Košice, s.r.o.		
Receivables not yet due and not impaired	**296,731**	319,909
Receivables past due but not impaired	**25,266**	23,682
Receivables individually impaired	**11,486**	14,320
Subsidiaries and consolidation adjustments		
Not analyzed	**6,933**	30,563
Trade receivables	**340,416**	**388,474**
U. S. Steel Košice, s.r.o.		
Receivables not yet due and not impaired	**67,176**	85,441
Receivables past due but not impaired	**35,679**	17,504
Receivables individually impaired	**3,225**	5,100
Subsidiaries and consolidation adjustments		
Not analyzed	**(2,864)**	(2,101)
Related party accounts receivable	**103,216**	**105,944**
Total	**443,632**	**494,418**

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

Receivables not yet due and not impaired, excluding receivables in subsidiaries and consolidation adjustments, can be analyzed based on internal credit ratings as follows:

	31 December 2007	31 December 2006
No or low-risk counterparties	**196,134**	220,097
Marginal or high-risk counterparties	**100,597**	99,812
Trade receivables	**296,731**	**319,909**
No or low-risk counterparties	**7,771**	5,348
Marginal or high-risk counterparties	**59,405**	80,093
Related party accounts receivable	**67,176**	**85,441**
Total	**363,907**	**405,350**

Ageing structure of trade receivables past due but not impaired, excluding receivables in subsidiaries and consolidation adjustments, is as follows:

	31 December 2007	31 December 2006
Past due 0 – 30 days	**23,820**	20,790
Past due 30 – 90 days	**1,357**	2,630
Past due 90 – 180 days	**89**	262
Trade receivables	**25,266**	**23,682**
Past due 0 – 30 days	**19,986**	14,271
Past due 30 – 90 days	**15,057**	2,065
Past due 90 – 180 days	**636**	1,168
Related party accounts receivable	**35,679**	**17,504**
Total	**60,945**	**41,186**

Ageing structure of trade receivables individually impaired, excluding receivables in subsidiaries and consolidation adjustments, is as follows:

	31 December 2007	31 December 2006
Past due 180 – 365 days	**89**	52
Past due over 365 days	**11,397**	14,268
Trade receivables	**11,486**	**14,320**
Past due 180 – 365 days	**109**	3,130
Past due over 365 days	**3,116**	1,970
Related party accounts receivable	**3,225**	**5,100**
Total	**14,711**	**19,420**

The movement of provision for impairment to accounts receivable was as follows:

	Trade receivables	Related party accounts receivable	Other receivables	Advance payments made	Total
1 January 2007	**15,603**	**3,143**	**1,408**	**391**	**20,545**
Provision made	955	1,095	86	21	**2,157**
Receivables written-off	(3,041)	-	(490)	-	**(3,531)**
Provision reversed	(1,061)	(2,969)	(220)	(400)	**(4,650)**
31 December 2007	**12,456**	**1,269**	**784**	**12**	**14,521**

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

	Trade receivables	Related party accounts receivable	Other receivables	Advance payments made	Total
1 January 2006	**34,867**	**765**	**1,386**	**1**	**37,019**
Provision made	2,338	3,766	311	390	**6,805**
Receivables written-off	(18,603)	-	(257)	-	**(18,860)**
Provision reversed	(2,999)	(1,388)	(32)	-	**(4,419)**
31 December 2006	**15,603**	**3,143**	**1,408**	**391**	**20,545**

Accounts receivable totaling EUR 3,545 thousand were written off in 2007 (2006: EUR 18,860 thousand).

Note 12 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 favorable (assets) or unfavorable (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, as of balance sheet date, of foreign exchange forwards contracts entered into by the Group as of balance sheet date:

	31 December 2007	31 December 2006
Foreign exchange forwards (asset)	**-**	3,093
Foreign exchange forwards (liability)	**476**	-
Total	**476**	**3,093**

Balances as of 31 December 2007 and 31 December 2006 were not past due. The Goup has entered into foreign exhchange forwards with ING Bank N.V., Citibank (Slovakia) a.s. and Slovenská sporiteľňa, a.s. as of 31 December 2007 and 31 December 2006. The rating of the banks is available on their internet website.

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 2007 in curr '000	31 December 2006 in curr '000
EUR payable on settlement	**(71,500)**	(71,500)
SKK receivable on settlement	**1,734,914**	1,916,935
USD receivable on settlement	**28,444**	25,395

Note 13 Cash and Cash Equivalents

	31 December 2007	31 December 2006
Cash on hand	**65**	76
Cash at bank	**107,408**	102,036
Total (Note 27)	**107,473**	**102,112**

Cash at bank earns approx. 3.4% p.a. for EUR deposits, 2.0% p.a. for SKK deposits and 4.6% p.a. for USD deposits as of 31 December 2007 (31 December 2006: 3.5% p.a. for EUR deposits, 3.9% p.a. for SKK deposits and 5.1% p.a. for USD deposits).

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

Cash restricted in its use is shown in Other non-current assets (Note 9).

All balances are neither past due nor impaired. Credit risk of cash and cash equivalents is disclosed in Note 26.

Note 14 Other Current Assets

The balance of other current assets represents prepaid expenses totaling EUR 2,656 thousand as of 31 December 2007 (31 December 2006: EUR 2,808 thousand).

Note 15 Equity

Base capital

The Group's registered and fully paid in capital is EUR 587,842 thousand (SKK 25,286 million). The Group does not have unregistered increased base capital as of 31 December 2007. There were no changes in base capital during 2007 and 2006.

Other reserves

The movement in other reserves is as follows:

	Other capital funds	Legal reserve funds	Asset revaluation reserve (net of tax)	Translation reserve	Total
1 January 2007	**2,009**	**58,907**	**15**	**3,944**	**64,875**
Currency translation differences					
- Group	-	-	-	727	**727**
- Associates (Note 7)	-	-	-	(73)	**(73)**
Contribution to legal reserve fund	-	543	-	-	**543**
Other	1,365	(133)	-	-	**1,232**
31 December 2007	**3,374**	**59,317**	**15**	**4,598**	**67,304**

	Other capital funds	Legal reserve funds	Asset revaluation reserve (net of tax)	Translation reserve	Total
1 January 2006	**791**	**39,221**	**4,254**	**1,521**	**45,787**
Currency translation differences					
- Group	-	-	-	2,396	**2,396**
- Associates (Note 7)	-	-	-	27	**27**
Contribution to legal reserve fund	-	20,331	-	-	**20,331**
Revaluation of CO_2 emissions allowances (net of tax)	-	-	(4,254)	-	**(4,254)**
Other	1,218	(645)	15	-	**588**
31 December 2006	**2,009**	**58,907**	**15**	**3,944**	**64,875**

The total distributable earnings of the Group represent EUR 763,460 thousand as of 31 December 2007 (31 December 2006: EUR 883,994 thousand).

The consolidated profit for 2006 was distributed as follows:

	2006
Contribution to legal reserve fund	543
Transfer to retained earnings	486,578
Total	**487,121**

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

Dividends

Dividends from 2006 IFRS net income totaling EUR 525 million were approved for distribution in June 2007. Dividends totaling SKK 17,000,000 thousand (EUR 447,474 thousand) were approved for distribution in June 2006 based on 2005 net income presented in SKK in accordance with Slovak Accounting Standards. Unpaid dividends totaled EUR 73,894 thousand as of 31 December 2007 (31 December 2006: EUR 23,287 thousand) (Notes 18 and 29). Dividends are payable in any currency requested by the shareholder. No dividends from 2007 net income were approved by the date when these consolidated financial statements were authorized for issue.

Note 16 Provisions for Liabilities and Charges

Movement in provisions for liabilities and charges was as follows:

	Employee Benefits	Landfill	Litigation	CO_2 emissions	Other	Total
1 January 2007	**17,735**	**19,280**	**7,911**	**66,352**	**1,123**	**112,401**
Provision made	38,829	1,689	7	291	452	**41,268**
Provision used / reversed	(4,560)	-	(3,774)	(66,352)	(855)	**(75,541)**
31 December 2007	**52,004**	**20,969**	**4,144**	**291**	**720**	**78,128**
Long-term provisions	16,464	18,794	-	-	357	**35,615**
Short-term provisions	35,540	2,175	4,144	291	363	**42,513**

	Employee Benefits	Landfill	Litigation	CO_2 emissions	Other	Total
1 January 2006	**15,861**	**16,655**	**9,754**	**199,010**	**3,675**	**244,955**
Provisions made	3,033	2,625	-	66,352	218	**72,228**
Provisions used / reversed	(1,159)	-	(1,843)	(199,010)	(2,770)	**(204,782)**
31 December 2006	**17,735**	**19,280**	**7,911**	**66,352**	**1,123**	**112,401**
Long-term provisions	17,735	19,280	-	-	967	**37,982**
Short-term provisions	-	-	7,911	66,352	156	**74,419**

Movement of provisions caused by passage of time (i.e. accretion expense) was considered to be immaterial in 2007 and 2006.

Employee benefits

More information is disclosed in Note 17.

Landfill

Since 1 July 2002 the Group 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 usage of landfills was approved until 31 December 2008. The short-term portion relates to cash outflows that are expected to be settled within 12 months.

Litigation

The Group uses external legal counsel to act in some legal proceedings and internal legal councel in other 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.

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

CO_2 emissions

The provision was recognized for CO_2 emissions made in 2007. It is calculated as a multiple of estimated volume of CO_2 emitted for the calendar year and the fair value of CO_2 emission allowances on the European Energy Stock Exchange. The provision was charged to Other operating expenses (Note 22) net of amortization of related deferred income.

Other

Other provisions include provisions for warranty and other business risks.

Note 17 Employee Benefits Obligations

Employee retirement obligation

The Group is committed to make payments to the employees upon retirement in accordance with the Labor Code and Collective Labor Agreement. The defined benefit obligation is calculated annually by U. S. Steel 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 recognized immediately in the income statement.

Termination benefit

The termination benefit expense totaled EUR 39,068 thousand, of which EUR 38,888 thousand was recorded under Salaries and other employee benefits in 2007 income (Note 21) for approximately 1,500 employees of the Group who accepted a voluntary early retirement program during the fourth quarter of 2007. 670 employees left the Group prior to 31 December 2007; the remaining employees will leave the Group throughout 2008. The liability totaled EUR 35,539 thousand as of 31 December 2007 (Note 16).

The movement in the accrued liability over the years is as follows:

	2007	2006
1 January	**17,735**	**15,861**
Total expense charged to the income statement – pension	**(55)**	2,238
Total expense charged to the income statement – jubilees	**474**	795
Total expense charged in the income statement – termination	**39,068**	-
Benefits paid	**(5,218)**	(1,159)
31 December	**52,004**	**17,735**

The amounts recognized in the balance sheet are determined as follows:

	2007	2006
Present value of the obligation – pension	**6,896**	8,698
Present value of the obligation – jubilees	**6,060**	6,261
Present value of the obligation – termination	**35,539**	-
Unrecognized actuarial gains	**3,686**	3,098
Unrecognized past service costs	**(177)**	(322)
Liability in the balance sheet	**52,004**	**17,735**

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

The amounts recognized in the income statement are determined as follows:

	2007	2006
Current service costs – pension	**(1,634)**	524
Current service costs – jubilees	**(186)**	315
Current service costs – termination	**38,888**	-
Interest costs	**1,128**	1,000
Net actuarial losses / (gains) recognized	**656**	(394)
Foreign exchange losses	**635**	1,588
Total costs	**39,487**	**3,033**

Service cost and net actuarial losses / (gains) are presented in Salaries and other employee benefits (Note 21) of income statement. Foreign exchange losses are included in the Foreign exchange gains / (losses) of the income statement and interest costs in the finance result.

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

	2007	2006
Discount rate	**5.75%**	5.50%
Annual wage and salary increases	**5.00%**	5.00%
Staff turnover [(1)]	**max 5.00%**	max 5.00%

(1) Staff turnover is replaced by termination table that varies by employee's age and years of service but does not exceed 5% annualy.

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized 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 mandatory government and private defined contribution plans amounting to 21.4% (2006: 24.1%) of gross salaries up to a monthly salary ceiling between SKK 26 thousand to SKK 56 thousand. The amount of contributions made is presented in Note 21.

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 2.0% from the monthly accounted wage in 2007 (2006: 1.9%).

Note 18 Trade and Other Payables

	31 December 2007	31 December 2006
Trade payables	**147,599**	155,919
Related party accounts payable (Note 29)	**24,071**	25,089
Assigned trade payables	**8,525**	6,971
Uninvoiced deliveries and other accrued expenses	**105,080**	95,282
Trade payables and accruals (Note 27)	**285,275**	**283,261**
Advance payments received	**2,319**	2,152
Liability to employees and social security	**24,961**	22,639
Dividends payable (Notes 15 and 29)	**73,894**	23,287
VAT and other taxes and fees	**10,679**	17,014
Other payables	**4,463**	5,268
Total	**401,591**	**353,621**

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

Ageing structure of trade and other payables is presented in the table below:

	31 December 2007	31 December 2006
Trade and other payables not yet due	394,138	345,954
Trade and other payables past due	7,453	7,667
Total	**401,591**	**353,621**

The carrying value of trade payables and accruals is denominated in the following currencies:

	31 December 2007	31 December 2006
EUR	63,267	70,374
SKK	102,658	110,222
USD	99,281	80,159
other	20,069	22,506
Total	**285,275**	**283,261**

Contributions to and withdrawal from the social fund during the accounting period are shown in the following table:

	2007	2006
1 January	**1,448**	**1,317**
Company contribution (company costs)	1,966	1,813
Employees contribution (repayments)	547	617
Withdrawals	(2,585)	(2,299)
31 December	**1,376**	**1,448**

The social fund is used for social, medical, relaxing and similar needs of the Group's employees in accordance with social fund law. The balances are included in the Liability to employees and social security caption of the table above.

Note 19 Revenue and Other Income

The main activities of the Group are production and sale of flat rolled steel products, steel plates, tubes, raw iron, coke, refractory materials, packaging and other services and production and distribution of electricity, heat and gas.

Revenue is comprised of the following:

	2007	2006
Sales of own production	2,542,183	2,388,162
Sales of merchandise (1)	517,124	493,384
Rendering of services	13,655	9,290
Total	**3,072,962**	**2,890,836**

(1) Sales of merchandise represent primarily sales of raw materials to U. S. Steel Serbia d.o.o., a related party under common control of U. S. Steel (Note 29), and sales of their production by our subsidiaries in the European market.

<u>Other income</u>

Other income includes rental income and contractual penalties.

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

Note 20 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2007	2006
Materials consumed	**(1,286,696)**	(1,161,109)
Energy consumed	**(97,615)**	(78,682)
Costs of merchandise sold (Note 19)	**(506,334)**	(484,488)
Changes in inventory	**1,070**	20,750
Total	**(1,889,575)**	**(1,703,529)**

Note 21 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2007	2006
Wages and salaries	**(187,618)**	(167,722)
Profit sharing expense	**(27,297)**	(27,085)
Termination benefits (Note 17)	**(38,888)**	-
Social insurance – defined contribution plan (Note 17)	**(71,735)**	(65,602)
Other social expenses	**(12,471)**	(11,010)
Pension expenses – retirement and work and life jubilees (Note 17)	**2,853**	(445)
Total	**(335,156)**	**(271,864)**

The average number of employees of the Group was:

	2007	2006
U. S. Steel Košice, s.r.o.	**13,342**	13,558
Other Group companies	**2,396**	2,575
Total	**15,738**	**16,133**

Note 22 Other Operating Expenses

	2007	2006
Packaging	**(18,933)**	(16,226)
Cleaning and waste	**(8,340)**	(7,293)
Rent	**(4,017)**	(2,935)
Advertising and promotion	**(2,936)**	(2,979)
Intermediary fees	**(4,605)**	(4,515)
Training	**(3,277)**	(2,603)
Gain on emissions allowances transactions (Notes 6 and 16)	**4,586**	191,123
Impairment loss – emissions allowances (Note 6)	**(6,723)**	(192,489)
Impairment of receivables – reversal / (loss) and receivables written-off (Note 11)	**2 479**	(2,043)
Impairment loss – inventory (Note 10)	**(210)**	(621)
Loss on disposal of material	**(194)**	(1,235)
(Loss) / gain on derivative instruments transactions	**(269)**	3
Loss on disposal of subsidiary (Note 31)	**-**	(4,513)
Real estate tax and other taxes	**(4,845)**	(4,377)
Other operating expenses [1]	**(54,240)**	(44,689)
Total	**(101,524)**	**(95,392)**

[1] Other operating expenses include various types of services not exceeding EUR 5

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

million individually.

Note 23 Finance Income and Finance Cost

	2007	2006
Interest income	**10,818**	10,865
Interest expense	**(2,436)**	(4,772)
Foreign exchange differences on borrowings	**71**	1,155
Total	**8,453**	**7,248**

Note 24 Income Taxes

	2007	2006
Current tax	**(39,636)**	(46,871)
Deferred tax (Note 8)	**(49,161)**	(51,277)
Total	**(88,797)**	**(98,148)**

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

	2007	2006
Profit before tax	**494,702**	584,745
Tax calculated at 19% tax rate	**93,993**	111,102
Non-deductible expenses	**1,902**	3,385
Effect of functional currency on temporary differences	**(7,012)**	(16,348)
Effect of different tax rate in other jurisdictions	**(86)**	9
Tax charge	**88,797**	**98,148**

The weighted average effective tax rate was 18% (2006: 17%).

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 2009, to be reduced by USD 70 million to USD 430 million from the USD 500 million limit provided for in the EU Accession Treaty. Furthermore, U. S. Steel Košice, s.r.o. agreed to make two tax payments of USD 16 million each to the Slovak government in 2004 and 2005, respectively. 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 1 January 2004 onwards. Management is confident that all conditions were fulfilled.

Note 25 Capital Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to pay obligations as they come due. The Group's overall strategy did not change from 2006.

The capital structure of the Group consists of debt (no debt was recorded as of 31 December 2007 and 31 December 2006) and equity totaling EUR 1,418,606 thousand as of 31 December 2007 (31 December 2006: EUR 1,536,891 thousand) that includes base capital, other reserves and retained earnings.

The externally imposed capital requirements for a limited liability company established in the Slovak republic include minimum level of base capital totaling EUR 5 thousand. The Group complied with the regulatory capital requirements as of 31 December 2007 and 31 December 2006.

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

Note 26 Financial Risk Management

Financial risk is managed in compliance with policies and procedures of U. S. Steel. The use of risk management instruments, if any, is controlled by U. S. Steel management which has authorized the use of futures, forwards, swaps and options to manage exposure to price fluctuations of certain commodities and foreign currency transactions. The use of derivative instruments could materially affect the Group's results of operations in particular accounting periods; however, management believes that the use of these instruments will not have a material adverse effect on the financial position or liquidity of the Group.

The Group is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign exchange rate risk and other price risk).

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.

All customers of the U. S. Steel Košice, s.r.o. are assigned an internal risk rating in accordance with approved internal policies and procedures. A customer's credit rating is determined by considering its financial situation, payment behavior, past experience and other factors. Customers of subsidiaries were not internally rated as of 31 December 2007 and 31 December 2006. Individual credit limits are established based on internal ratings and the amounts and utilization of the limits are periodically re-evaluated and monitored. Management does not expect any material losses from non-performance by the customers.

The Group is exposed to overall credit risk arising form financial instruments as summarized below:

31 December 2007

	Derivative financial instruments	Trade receivables	Cash and cash equivalents
Trade receivables (Note 11)			
Trade receivables	-	443,632	-
Derivative financial instruments (Note 12)			
Foreign exchange forwards	-	-	-
Cash and cash equivalents (Note 13)			
ING Bank N.V. (1)	-	-	35,481
Citibank (Slovakia) a.s. (1)	-	-	69,157
Slovenská sporiteľňa, a.s. (1)	-	-	721
Other banks	-	-	2,049
Cash on hand	-	-	65
Cash restricted in its use (Note 9)			
Citibank (Slovakia) a.s. (1)	-	-	8,117
Other banks	-	-	8
Total	**-**	**443,632**	**115,598**

(1) Rating of the bank is available on the bank internet website.

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

31 December 2006

	Derivative financial instruments	Trade receivables	Cash and cash equivalents
Trade receivables (Note 11)			
Trade receivables	-	494,418	-
Derivative financial instruments (Note 12)			
Foreign exchange forwards	3,093	-	-
Cash and cash equivalents (Note 13)			
ING Bank N.V. [(1)]	-	-	30,553
Citibank (Slovakia) a.s. [(1)]	-	-	69,102
Slovenská sporiteľňa, a.s. [(1)]	-	-	547
Other banks	-	-	1,834
Cash on hand	-	-	76
Cash restricted in its use (Note 9)			
Citibank (Slovakia) a.s. [(1)]	-	-	6,513
Other banks	-	-	8
Total	**3,093**	**494,418**	**108,633**

[(1)] Rating of the bank is available on the bank internet website.

The Group mitigates credit risk for approximately 70% (2006: 54%) of its revenues by requiring bank guarantees, letters of credit, credit insurance, prepayment or other collateral. Information about collateral or other credit enhancements is as follows:

	2007	2006
Credit insurance	**52 %**	44 %
Letters of credit and documentary collection	**6 %**	4 %
Bank guarantees	**3 %**	4 %
Other credit enhancements	**9 %**	2 %
Secured receivables	**70 %**	54 %
Unsecured receivables	**30 %**	46 %
Total	**100 %**	**100 %**

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.

Liquidity risk

The Group 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. Management of the Group is monitoring expected and actual cash flows and cash position of the Group on a daily basis in accordance with approved internal policies and procedures. Excess funds are invested to liquid financial assets and time deposits not to exceed equivalent of USD 150 million for sole obligor. The investment exposure by country is also monitored separately. Management believes that the Group is not exposed to significant liquidity risk.

The Group has a EUR 40 million credit facility that expires on 13 December 2009. This credit facility may be used for drawing short-term loans, issuing of bank guarantees and letters of credits. There were no borrowings against this facility as of 31 December 2007 and 31 December 2006.

In addition, a credit facility of EUR 20 million is available to the Group. This credit facility may be used until 31 December 2009 for drawing bank overdraft, short-term loans, issuing of bank guarantees and letters of credits. As of 31 December 2007 the credit facility has been used in the amount of EUR 4,093 thousands for bank guarantees and letters of credit (2006: EUR 3,724 thousands).

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

The table below summarizes the expected undiscounted cash flows in relation to agreed maturities of financial liabilities.

31 December 2007

	0 – 1 year	1 – 5 years	over 5 years	Total
Liabilities				
Trade payables and accruals	285,275	-	-	**285,275**
Derivative financial instruments	71,500	-	-	**71,500**
Total	**356,775**	**-**	**-**	**356,775**

31 December 2006

	0 – 1 year	1 – 5 years	over 5 years	Total
Liabilities				
Trade payables and accruals	283,261	-	-	**283,261**
Derivative financial instruments	71,500	-	-	**71,500**
Total	**354,761**	**-**	**-**	**354,761**

Market risk

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group had no significant interest income other than short term bank deposits and cash at bank accounts as of 31 December 2007 and 31 December 2006.

(b) Currency risk

The Group is exposed to the risk of price fluctuations due to the effects of foreign exchange rates on revenues and operating costs, capital expenditures and existing assets or liabilities denominated in currencies other than EUR, particularly U. S. dollar and Slovak koruna.

The Group manages its exposure to certain currency price fluctuations in cooperation with U. S. Steel, using a limited number of forward currency contracts. As of 31 December 2007, the Group had open EUR forward sales contracts for both U.S. dollar (total notional value of approximately EUR 19.5 million) and Slovak koruna (total notional value of approximately EUR 52.0 million).

As of 31 December 2007, if EUR had weakened/strengthened by 20% against the U.S. dollar with all other variables held constant, it would have resulted in a EUR 3.9 million charge/credit to income statement. As of 31 December 2007, if EUR had weakened/strengthened by 20% against the Slovak koruna with all other variables held constant, it would have resulted in a EUR 4.4 million credit/charge to income statement.

As of 31 December 2006, if EUR had weakened/strengthened by 20% against the U.S. dollar with all other variables held constant, it would have resulted in a EUR 2.1 million charge/credit to income statement. As of 31 December 2006, if EUR had weakened/strengthened by 20% against the Slovak koruna with all other variables held constant, it would have resulted in a EUR 1.3 million charge/credit to income statement.

(c) Other price risk

In the normal course of its business, the Group is exposed to price fluctuations related to the production or sale of steel products. The Group is also exposed to price risk related to the purchase, production or sale of coal, coke, natural gas, steel scrap, iron ore and pellets, and zinc, tin and other nonferrous metals used as raw materials.

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

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's market risk strategy is in compliance with U. S. Steel's strategy that has generally been to obtain competitive prices for our products and services and allow operating results to reflect market price in profit or loss movements dictated by supply and demand. The Group did not carry out any material derivative transaction mitigating commodity price risk and had no outstanding commodity derivatives as of 31 December 2007 and 31 December 2006.

Note 27 Financial Instruments by Category

The following table provides a reconciliation of classes of financial assets and liabilities with the measurement categories as determined by the *IAS 39 Financial Instruments: Recognition of Measurement*:

31 December 2007

	Loans and receivables	Assets at fair value through profit and loss	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Receivables	443,632	-	-	**443,632**
Cash and cash equivalents (incl. restricted cash)	115,598	-	-	**115,598**
Total	**559,230**	**-**	**259**	**559,489**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	285,275	**285,275**
Derivative financial instruments	476	-	**476**
Total	**476**	**285,275**	**285,751**

31 December 2006

	Loans and receivables	Assets at fair value through profit and loss	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	407	**407**
Receivables	494,418	-	-	**494,418**
Cash and cash equivalents (incl. restricted cash)	108,633	-	-	**108,633**
Derivative financial instruments	-	3,093	-	**3,093**
Total	**603,051**	**3,093**	**407**	**606,551**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	283,261	**283,261**
Total	**-**	**283,261**	**283,261**

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

Note 28 Contingent Liabilities and Contingent Assets

Operating leases

The future aggregated minimum lease payments under non-cancellable operating leases (payments in foreign currency are stated using the exchange rate as of balance sheet date) are as follows:

	2007	2006
Not later than 1 year	**2,216**	3,023
Later than 1 year and not later than 5 years	**4,019**	6,544
Later than 5 years	**134**	220
Total	**6,369**	**9,787**

Capital commitments and commitments to the Slovak Government

Capital expenditures of EUR 31 million had been committed under contractual arrangements as of 31 December 2007 (31 December 2005: EUR 78 million).

The U. S. Steel Košice, s.r.o. has the following commitments to the Slovak Government:

- a capital investment program of USD 700 million, subject to certain conditions, over a period of 10 years from November 2000. The Company fulfilled this commitment to the Slovak Government in August 2006.
- retention of the employment (except for natural attrition and dishonesty behavior of employees) for a period of 10 years from November 2000.
- supporting foreign investment in Slovakia for a period of 2 years from November 2000. The Company fulfilled this commitment to the Slovak Government.

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 Corporation, 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 Corporation 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 matters.

Air, water and solid waste – The Group’s obligations with regards to air, water and solid waste pollution are set by the Slovak legislation. In 2007, the environmental expenses totaled approximately EUR 10 million (2006: EUR 7 million).

Carbon dioxide (CO_2) emissions – In 2004, the European Commission (“EC“) approved a national allocation plan for the period 2005 through 2007 (“NAP I“) that reduced the originally proposed CO_2 allocation for the Slovak Republic by approximately 14 percent, and following that decision the Ministry of Environment of Slovak Republic (“Ministry“) imposed an 8% reduction to the amount of CO_2 allowances originally requested by the Company. Subsequently, the Company filed legal actions against the EC and the Ministry challenging these reductions. The challenge against the EC was dismissed on grounds of inadmissibility. The Company purchased CO_2 allowances needed to cover its shortfall for the NAP I allocation period.

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

On 29 November 2006, the EC issued a decision that the Slovak Republic would be granted 25% fewer CO_2 allowances than were requested by the Slovak Republic in its proposed national allocation plan for the second CO_2 trading period of 2008 through 2012 (“NAP II“). The Ministry has not yet made an allocation of Slovakia’s CO_2 allowances to companies within Slovakia for the NAP II period, but has submitted to the EC a revised allocation plan that would award the Company more annual allowances than were awarded to the Company under the NAP I. The Slovak Republic has withdrawn its legal challenge against the EC regarding NAP II, and the challenge by the Company is on appeal, after having been dismissed at the lower court on grounds of inadmissibility.

Contingent assets

Pursuant to an agreement that was signed in relation to the sale of interests in FINOW Verwaltungs- und Service GmbH to a third party, the Group is entitled to certain contingent payments. The third party also has the option to pay the compensation as a lump-sum amount of EUR 2.25 million by 1 November 2009 or EUR 5 million by 1 November 2011.

The Group has no other significant contingent assets as of 31 December 2007 and 31 December 2006.

Note 29 Related Party Transactions

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

	Receivables		Payables	
	31 December 2007	**31 December 2006**	**31 December 2007**	**31 December 2006**
U.S. STEEL KOSICE (UK) LIMITED [1]	**8,937**	5,596	**-**	11
U. S. Steel Global Holdings I B.V. [2]	**-**	-	**73,894**	23,287
United States Steel Corporation [3]	**188**	252	**21,777**	355
U. S. Steel Serbia d.o.o. [4]	**93,841**	99,928	**2,294**	23,772
USS International Services, LLC [5]	**250**	168	**-**	951
Total	**103,216**	**105,944**	**97,965**	**48,376**

[1] Associate
[2] Parent company
[3] Ultimate parent company
[4, 5] Companies under common control of U. S. Steel

As of 31 December 2007, provision for impairment against receivables due from U. S. Steel Serbia d.o.o. was recognized totaling EUR 1,268 thousand (31 December 2006: 3,143 thousand).

(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	
	2007	**2006**	**2007**	**2006**
U.S. STEEL KOSICE (UK) LIMITED [(1)]	**34,833**	38,626	**-**	15
United States Steel Corporation [(3)]	**1,195**	813	**41,568**	47,668
U. S. Steel Serbia d.o.o. [(4)]	**397,819**	364,504	**191,362**	195,070
USS International Services, LLC [(5)]	**46**	3,988	**11,773**	12,005
Total	**433,893**	**407,931**	**244,703**	**254,758**

[(1)] Associate
[(3)] Ultimate parent company
[(4, 5)] Companies under common control of U. S. Steel

[(1)] Receivables and revenues arise from sales of steel products to the associated company U.S. STEEL KOSICE (UK) LIMITED.

[(2)] The balances payable to U. S. Steel Global Holdings I B.V. represent outstanding dividends declared by U. S. Steel Košice, s.r.o. (Notes 15 and 18).

[(3)] Transactions relate to purchases of raw material from United States Steel Corporation and services and recharges provided to United States Steel Corporation.

[(4)] Intercompany receivables from U. S. Steel Serbia d.o.o. represent shipments of raw materials and slabs including freight costs, payables to U. S. Steel Serbia d.o.o. relate mainly to the finished goods supplies to the Company's foreign affiliates.

[(5)] USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o..

Emoluments of the statutory representatives

(a) Slovak and foreign statutory representatives of the Company did not receive any cash or non-cash benefits from the Group in 2007 and 2006 that arise from their positions of statutory representatives. They are employed and paid only based on their employment contracts with the Company and USS International Services, LLC, respectively. Compensation of foreign statutory representatives of the Company is included in the charges paid to USS International Services, LLC shown above. Compensation of Slovak statutory representatives is included in the salaries and other employee benefits of Company's key management employees as shown in the following table:

	2007	**2006**
Wages and salaries	**7,535**	6,739
Profit sharing expense	**379**	374
Social insurance – defined contribution plan	**1,436**	1,164
Total	**9,350**	**8,277**

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

(c) No loans or advance payments were provided to statutory representatives of the Company by the Group.

Note 30 Events After the Balance Sheet Date

Statutory representatives

George F. Babcoke was appointed as President of the U. S. Steel Košice, s.r.o. effective from 18 March 2008 and Peter J. Alvarado was appointed as Vice-president for Sales and Marketing effective from 1 May 2008.

Subsidiaries

ELEKTROSERVIS VN a VVN, a.s. merged with VULKMONT, a.s. Košice effective from 1 January 2008.

In March 2008 the carrying value of investment in U. S. Steel Košice – Labortest, s.r.o. was increased by EUR 119 thousand by contribution of property, plant and equipment by the Company.

U. S. Steel Kosice Switzerland AG in liquidation dissolved on 28 February 2008.

Other

On 9 April 2008 a new insurance contract was concluded with Česká poisťovňa - Slovensko, akciová spoločnosť increasing the maximum insurance compensation for one insurance claim to USD 750 million.

On 23 April 2008 a new Collective Labor Agreement was signed for the period 2008 through 2011. The Collective Labor Agreement relates to the employees of U. S. Steel Košice, s.r.o., U.S. Steel Košice – SBS, s.r.o. and U. S. Steel Košice – Labortest, s.r.o.. It ensures stable wage development for a period of four years and does not materially change employee benefits.

On 24 April 2008 the Company delivered CO_2 emission allowances for 2007 fulfilling its obligation for NAP I.

On 7 May 2008, the European Commission (EC) recommended that the Slovak Republic adopt the Euro, replacing the Slovak koruna, effective 1 January 2009. In the convergence report, the EC concluded that Slovakia has fulfilled all Maastricht criteria necessary to join the eurozone and will be able to meet them in the future. The statements of European Parliament, Economic and Finance Ministers Council and European Council will follow the EC recommendation. It is expected that the conversion rate will be approved on 8 July 2008.

On 12 May 2008, the Slovak tax authority issued a protocol with respect to its completed audit of the 2005 income tax of the Company. The protocol concluded that there were no tax adjustments required.

Dividends totaling EUR 575 million were proposed for distribution as of 4 June 2008.

After 31 December 2007, no other significant events have occurred that would require recognition or disclosure in the 2007 consolidated financial statements.

Note 31 List of Subsidiaries

The activities of the subsidiaries shown below are closely connected with the principal activity of the Group. None of the subsidiaries is listed on any stock exchange.

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

The following subsidiaries have been consolidated as of 31 December 2007 and 31 December 2006 respectively:

Entity	Place of Incorporation	Principal Activities	Group's Ownership Interest	
			31 December 2007	31 December 2006
ELEKTROSERVIS VN a VVN, a.s.	Slovakia	Maintenance	**100.00 %**	100.00 %
ENERGOSERVIS a.s. Košice	Slovakia	Maintenance	**-**	81.98 %
VOZMULT a.s. Košice v likvidácii (1)	Slovakia	Maintenance	**-**	50.91 %
U. S. Steel Košice – Labortest, s.r.o.	Slovakia	Testing laboratory	**100,00 %**	100.00 %
U.S. Steel Košice – SBS, s.r.o.	Slovakia	Security services	**100.00 %**	100.00 %
VULKMONT, a.s. Košice	Slovakia	Maintenance and vulcanization services	**100.00 %**	100.00 %
Refrako s.r.o.	Slovakia	Refractory production	**100.00 %**	100.00 %
Reliningserv s.r.o	Slovakia	Refractory services	**100.00 %**	100.00 %
U. S. Steel Services s.r.o.	Slovakia	Various services	**100.00 %**	100.00 %
OBAL-SERVIS, a.s. Košice	Slovakia	Packaging	**100.00 %**	100.00 %
U. S. Steel Kosice – Belgium S.A.	Belgium	Steel trading	**100.00 %**	100.00 %
U.S. Steel Košice–Bohemia a.s.	Czech Republic	Steel trading	**100.00 %**	100.00 %
U.S. Steel Kosice – France S.A.	France	Steel trading	**99.94 %**	99.94 %
U.S. Steel Kosice–Germany GmbH (2)	Germany	Steel trading	**100.00 %**	100.00 %
U.S. Steel Kosice – Austria GmbH	Austria	Steel trading	**100.00 %**	100.00 %
U. S. Steel Kosice Switzerland AG in liquidation	Switzerland	Steel trading	**100.00 %**	100.00 %

(1) VOZMULT a.s. Košice v likvidácii dissolved on 9 June 2007.

In 2007, the Company increased carrying value of the investment in:

- VULKMONT, a.s. Košice by contribution of property, plant and equipment totaling EUR 310 thousand effectively 27 February 2007 and by merger with ENERGOSERVIS a.s. Košice totaling EUR 162 thousand effectively 1 October 2007 in which the Company increased its share up to 100.00 % by purchase of shares from minority shareholders before merger,
- U. S. Steel Services s.r.o. by contribution of property, plant and equipment totaling EUR 133 thousand effectively 14 September 2007.

Liquidator of the U. S. Steel Kosice Switzerland AG in liquidation was appointed by the Company.

VOZMULT a.s. Košice v likvidácii dissolved effective 9 June 2007. Trgovinsko preduzece „USSKS“ d.o.o. Beograd Bulevar Mihajla Pupina 165A in liquidation and U. S. Steel Kosice–Hungary Kft. v.a. dissolved effective 6 November 2006 and 19 December 2006, respectively.

As of 22 May 2006, FINOW Verwaltungs- und Service GmbH was established by the Company through the spin off from U.S. Steel Kosice–Germany GmbH. Walzwerk Finow GmbH and its subsidiary Stawa Stahlbau GmbH became wholly owned subsidiaries of FINOW Verwaltungs- und Service GmbH. As of 1 November 2006, 100% share of FINOW Verwaltungs- und Service GmbH was sold to the third unrelated party for EUR 200 thousand.

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

The assets and liabilities arising from the disposal are as follows:

Non-current assets	23
Current assets	16,511
Cash and cash equivalents	1,359
Non-current liabilities	(1,345)
Current liabilities	(11,835)
Net assets disposed of	**4,713**
Loss on disposal (Note 22)	(4,513)
Proceeds from disposal	**200**
Less cash and cash equivalents in the subsidiary disposed of	(1,359)
Net cash outflow from disposal	**(1,159)**

There was no pledge on Company's ownership interests in subsidiaries as at 31 December 2007 and 31 December 2006.

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

Events after the balance sheet date are disclosed in Note 30.

Note 32 Foreign Exchange Rates

	Average exchange rate in 2007	**Exchange rate as at 31 December 2007**	**Average exchange rate in 2006**	**Exchange rate as at 31 December 2006**
Slovak koruna / Euro	**33.774**	**33.603**	37.229	34.573
Swiss franc / Euro	**1.642**	**1.661**	1.573	1.605
Hungarian forint / Euro	**-**	**-**	264.035	251.806
Czech koruna / Euro	**27.752**	**26.606**	28.354	27.526
U.S. dollar / Euro	**1.368**	**1.469**	1.254	1.317
Serbian dinar / Euro	**-**	**-**	84.058	79.000
British pound / Euro	**0.684**	**0.735**	0.682	0.671