UNITED STATES STEEL CORP
Form 10-K
February 24, 2009
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2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

Commission file number 1-16811

(Exact name of registrant as specified in its charter)

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

600 Grant Street, Pittsburgh, PA 15219-2800

(Address of principal executive offices)

Tel. No. (412) 433-1121

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

Title of Each Class	Name of Exchange on which Registered
United States Steel Corporation	
Common Stock, par value $1.00	**New York Stock Exchange, Chicago Stock Exchange**

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __ ü __	Accelerated filer _____
Non-accelerated filer _____	Smaller reporting company _____

(Do not check if a smaller reporting company)

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

Aggregate market value of Common Stock held by non-affiliates as of June 30, 2008 (the last business day of the registrant s most recently completed second fiscal quarter): $21.6 billion. The amount shown is based on the closing price of the registrant s Common Stock on the New York Stock Exchange composite tape on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 under the Securities Act of 1933.

There were 116,198,090 shares of United States Steel Corporation Common Stock outstanding as of February 20, 2009.

Documents Incorporated By Reference:

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated into Part III.

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FORWARD-LOOKING STATEMENTS

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

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PART I

Item 1. BUSINESS

U. S. Steel is an integrated steel producer with major production operations in North America and Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. U. S. Steel has annual raw steel production capability of 31.7 million net tons (tons) (24.3 million tons in North America and 7.4 million tons in Europe). We believe that we are currently the eighth largest steel producer in the world. U. S. Steel is also engaged in other business activities including the production of coke in both North America and Europe and iron ore pellets in North America, and transportation services (railroad and barge operations), real estate operations, and engineering and consulting services in North America.

The global economic recession has affected many of the markets that we serve and is having significant negative effects on our business. For further discussion, see Business Strategy, Item 1A. Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations Overview, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Supplementary Data Disclosures About Forward-Looking Statements.

On February 6, 2009, U. S. Steel announced that approximately 500 employees have elected to retire under a Voluntary Early Retirement Program (VERP) offered to certain non-represented Headquarters and Operations employees in the United States who met age and years-of-service criteria. In connection with this program, U. S. Steel will record a pre-tax charge of approximately $70 million in the first quarter of 2009. See Note 28 to the Financial Statements.

On January 31, 2009, we completed the sale of a majority of the operating assets of Elgin, Joliet and Eastern Railway Company (EJ&E) to a subsidiary of Canadian National Railway Company. After-tax proceeds from the sale were approximately $210 million and U. S. Steel will record a net gain of approximately $60 million in the first quarter of 2009. The retained portion of EJ&E has been renamed Gary Railway Company. See Note 5 to the Financial Statements.

On October 31, 2008, U. S. Steel acquired the interests in the Clairton 1314B Partnership, L.P. (1314B) held by unrelated parties for $104 million, and 1314B was terminated. 1314B s financial results had been consolidated in U. S. Steel s financial statements prior to October 31, 2008. There was no change in the operations at the Clairton Plant as a result of the transaction.

On August 29, 2008, U. S. Steel Canada Inc. (USSC) paid C$38 million (approximately $36 million) to acquire three pickle lines in Nanticoke, Ontario from Nelson Steel, a division of Samuel Manu-Tech Inc. The acquisition of the pickle lines strengthens USSC s position as a premier supplier of flat-rolled steel products to the North American market. The results of operations for these facilities are included in our Flat-rolled segment as of the date of the acquisition.

We completed two significant acquisitions in 2007 aimed at strengthening our presence in the North American flat-rolled and tubular markets.

On June 14, 2007, U. S. Steel acquired all of the outstanding shares of Lone Star Technologies, Inc. (Lone Star), a domestic manufacturer of welded oil country tubular goods (OCTG), standard and line pipe and tubular couplings, and a provider of finishing services. The facilities that were acquired in the Lone Star transaction included the Lone Star Steel Company facility, located in Lone Star, Texas, that manufactures OCTG products and standard and line pipe (renamed Texas Operations); the Wheeling Machine Products, Inc. and Wheeling Machine Products of Texas, Inc. facilities, located in Pine Bluff, Arkansas, and Hughes Springs and Houston, Texas, that supply couplings used to connect individual sections of oilfield casing and tubing (renamed Wheeling Machine Products); the Delta Tubular Processing, Inc. facility, located in Houston Texas, that provides thermal treating and end-finishing services for oilfield production tubing (renamed Tubular Processing Services); the Delta Tubular International, Inc. facility, located in Houston, Texas, that provides threading, inspection and storage services to the OCTG market (renamed Tubular Threading and Inspection Services); the Bellville Tube Company, L.P. facility,

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located in Bellville, Texas, that manufactures OCTG products (renamed Bellville Operations); and several Fintube Technologies, Inc. facilities that manufacture specialty tubular products used in heat recovery technology applications (Fintube Technologies). We also acquired Texas & Northern Railroad Company (T&N Railroad) and a 50 percent ownership interest in Apolo Tubulars S.A., a Brazilian supplier of welded casing, tubing, line pipe and other tubular products. Effective June 14, 2007, the Tubular segment includes the operating results of the facilities and the equity investee acquired from Lone Star, except for the results of T&N Railroad, which are included in Other Businesses as of such date.

On October 31, 2007, U. S. Steel acquired all of the outstanding shares of Stelco Inc. (Stelco), and renamed it USSC. The facilities that were acquired included Lake Erie Works, an integrated steelmaking facility in Nanticoke, Ontario; Hamilton Works, an integrated steelmaking facility in Hamilton, Ontario; and several joint venture interests including iron ore operations in the United States and Canada and a 60 percent interest in Z-Line Company, which owns and operates an automotive-quality hot dip galvanizing line. We also acquired approximately 4,000 acres of land in Ontario, Canada, which could potentially be sold or developed. Effective October 31, 2007, the Flat-rolled segment includes the operating results of USSC, except for the results of its real estate interests, which are included in Other Businesses as of such date.

See Note 4 to the Financial Statements for further information regarding these acquisitions.

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Segments

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

Effective with the fourth quarter of 2008, the operating results of our iron ore operations, which were previously included in Other Businesses, are included in the Flat-rolled segment. The iron ore operations are managed as part of our Flat-rolled segment, which consumes almost all of our iron ore production. Prior periods have been restated to reflect this change.

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

Flat-rolled has annual raw steel production capability of 24.3 million tons. Raw steel production was 19.2 million tons in 2008, 16.8 million tons in 2007 and 16.4 million tons in 2006. Raw steel production averaged 79 percent of capability in 2008, 83 percent of capability in 2007 and 84 percent of capability in 2006.

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

USSE has annual raw steel production capability of 7.4 million tons. USSE s raw steel production was 6.4 million tons in 2008, 6.8 million tons in 2007 and 7.1 million tons in 2006. USSE s raw steel production averaged 86 percent of capability in 2008, 92 percent of capability in 2007 and 95 percent of capability in 2006.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities, primarily in the United States, and equity investees in the United States and Brazil. These operations produce and sell both seamless and electric resistance welded (ERW) tubular products and primarily serve customers in the oil, gas and petrochemical markets. Tubular s annual production capability is 2.8 million tons.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses include transportation services, the management and development of real estate, and engineering and consulting services.

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

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Financial and Operational Highlights

Net Sales

(a) Includes Lone Star facilities from the date of acquisition on June 14, 2007 and USSC from the date of acquisition on October 31, 2007.

Net Sales by Segment

(Dollars in millions, excluding intersegment sales)	2008	2007	2006
Flat-rolled[(a)]	**$ 13,789**	$ 9,986	$ 9,693
USSE	**5,487**	4,667	3,968
Tubular	**4,251**	1,985	1,798
Total sales from reportable segments	**23,527**	16,638	15,459
Other Businesses[(a)]	**227**	235	256
Net sales	**$ 23,754**	$ 16,873	$ 15,715

(a) Certain amounts have been restated versus prior years disclosures. See Note 3 to the Financial Statements.

Income from Operations (IFO)

(a) Includes Lone Star facilities from the date of acquisition on June 14, 2007 and USSC from the date of acquisition on October 31, 2007.

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Income from Operations by Segment[a]

(Dollars in Millions)	Year Ended December 31, 2008	2007	2006
Flat-rolled[b]	**$ 1,390**	$ 382	$ 660
USSE	**491**	687	714
Tubular	**1,207**	356	631
Total income from reportable segments	**3,088**	1,425	2,005
Other Businesses[b]	**77**	84	69
Segment income from operations	**3,165**	1,509	2,074
Retiree benefit expenses	**(22)**	(143)	(243)
Other items not allocated to segments:			
Contingent funding liability reversal	**150**		
Labor agreement signing bonuses	**(105)**		
Litigation reserve	**(45)**		
Drawn-over-mandrel charge	**(28)**		
Environmental remediation charge	**(23)**		
Flat-rolled inventory transition effects	**(23)**	(58)	
Tubular inventory transition effects		(38)	
Workforce reduction charges		(57)	(21)
Out of period adjustments			(15)
Asset impairment charge			(5)
Loss from sale of certain assets			(5)
Total income from operations	**$ 3,069**	$ 1,213	$ 1,785

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

(b) Certain amounts have been restated versus prior years disclosures.

Steel Shipments

(a) Includes Lone Star facilities from the date of acquisition on June 14, 2007 and USSC from the date of acquisition on October 31, 2007.

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Steel Shipments by Product

Steel Shipments by Product and Segment

The following table does not include shipments by joint ventures and other equity investees of U. S. Steel.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Product 2008				
Hot-rolled Sheets	**6,474**	**2,142**		**8,616**
Cold-rolled Sheets	**4,489**	**1,195**		**5,684**
Coated Sheets	**3,554**	**733**		**4,287**
Tin Mill Products	**1,387**	**605**		**1,992**
Tubular		**109**	**1,952**	**2,061**
Semi-finished, Bars and Plates	**941**	**867**		**1,808**
TOTAL	**16,845**	**5,651**	**1,952**	**24,448**
Memo: Intersegment Shipments from Flat-rolled to Tubular				
Hot-rolled sheets	1,108			
Rounds	768			
Product 2007				
Hot-rolled Sheets	4,887	2,346		7,233
Cold-rolled Sheets	4,238	1,402		5,640
Coated Sheets	3,743	595		4,338
Tin Mill Products	1,288	618		1,906
Tubular		91	1,422	1,513
Semi-finished, Bars and Plates	378	1,087		1,465
TOTAL	14,534	6,139	1,422	22,095
Memo: Intersegment Shipments from Flat-rolled to Tubular				
Hot-rolled sheets	305			
Rounds	608			
Product 2006				
Hot-rolled Sheets	4,195	2,327		6,522
Cold-rolled Sheets	4,479	1,535		6,014
Coated Sheets	4,083	415		4,498
Tin Mill Products	1,318	587		1,905
Tubular		150	1,191	1,341
Semi-finished and Plates	105	1,247		1,352
TOTAL	14,180	6,261	1,191	21,632

Memo: Intersegment Shipments from	
Flat-rolled to Tubular	
Hot-rolled sheets	167
Rounds	691

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Steel Shipments by Market

Steel Shipments by Market and Segment

The following table does not include shipments by joint ventures and other equity investees of U. S. Steel. No single customer accounted for more than 10 percent of gross annual revenues.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Major Market 2008				
Steel Service Centers	**3,871**	**1,239**	**16**	**5,126**
Further Conversion Trade Customers	**3,368**	**546**	**34**	**3,080**
Joint Ventures	**1,770**			**1,770**
Transportation (Including Automotive)	**2,550**	**590**	**8**	**3,148**
Construction and Construction Products	**1,333**	**1,745**		**3,078**
Containers	**1,421**	**615**		**2,036**
Appliances and Electrical Equipment	**1,115**	**503**		**1,618**
Oil, Gas and Petrochemicals		**9**	**1,737**	**2,614**
Exports from the United States	**808**		**118**	**926**
All Other	**609**	**404**	**39**	**1,052**
TOTAL	**16,845**	**5,651**	**1,952**	**24,448**
Major Market 2007				
Steel Service Centers	3,151	1,264		4,415
Further Conversion Trade Customers	2,277	897	1	3,058
Joint Ventures	2,037			2,037
Transportation (Including Automotive)	2,629	493	1	3,123
Construction and Construction Products	1,045	1,847		2,892
Containers	1,301	563		1,864
Appliances and Electrical Equipment	1,055	489		1,544
Oil, Gas and Petrochemicals		10	1,330	1,457
Exports from the United States	566		90	656
All Other	473	576		1,049
TOTAL	14,534	6,139	1,422	22,095
Major Market 2006				
Steel Service Centers	3,241	1,367	1	4,609
Further Conversion Trade Customers	1,820	1,267	1	3,088
Joint Ventures	1,808			1,808
Transportation (Including Automotive)	2,517	439	1	2,957
Construction and Construction Products	1,263	1,526		2,789
Containers	1,317	566		1,883
Appliances and Electrical Equipment	1,198	512		1,710
Oil, Gas and Petrochemicals		41	1,073	1,114
Exports from the United States	628		115	743

All Other	388	543		931
TOTAL	14,180	6,261	1,191	21,632

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Business Strategy

U. S. Steel strives to be forward-looking, to grow responsibly, to generate a competitive return on capital and to meet our financial and stakeholder obligations. Within this value framework, our business strategy is to be a world leader in safety and environmental performance; to continue to increase our value-added product mix; to further expand our global business platform; to maintain a strong capital structure, balance sheet and liquidity position; to improve our reliability and cost competitiveness; and to attract and retain a diverse workforce with the talent and skills needed for our long-term success.

In the near term, our strategy is to carefully monitor the impact of the current economic situation on our customers and to adjust our operations to efficiently meet their requirements. In late 2008 and early 2009, we have reduced production levels to correspond with customer order rates by temporarily idling certain facilities and cutting back production at others. We also have significantly reduced planned capital expenditures, reduced our inventory levels, placed a temporary freeze on salaries and hiring, offered a VERP which has been accepted by approximately 500 non-represented Headquarters and Operations employees in the United States, suspended the company match on employees 401(k) plan contributions, suspended our common stock buyback program and discontinued all non-essential spending for travel and entertainment and outside services in an effort to maximize liquidity and lower costs. We do not know when conditions may improve, but we are well positioned to fully participate in a market recovery when it occurs. In the meantime, we continue aggressive efforts to maximize liquidity and reduce costs and will take additional actions as market conditions warrant.

Over the longer term, commercially we are focused on providing value-added steel products including advanced high strength steel and coated sheets for the automotive and appliance industries, electrical steel sheets for the manufacture of motors and electrical equipment, galvanized and Galvalume® sheets for the construction industry, tin mill products for the container industry and oil country tubular goods for the oil and gas industry. In addition, our European operations concentrate on being a dependable source of high-quality steel to meet the needs of the rapidly expanding central European markets.

Our balanced approach to the allocation of our capital resources and free cash flow has produced significant returns. Since our separation from Marathon Oil Company at the end of 2001: we have completed four major acquisitions (National Steel Corporation (National Steel) and USSS in 2003, and Lone Star and USSC in 2007), which increased our annual raw steel production capability by almost 80 percent to 31.7 million tons and increased our tubular production capability by more than 50 percent to 2.8 million tons; we have made capital investments of almost $4 billion; we have made voluntary contributions in excess of $1 billion to our main defined benefit pension plan and to our trusts for retiree health care and life insurance; we have repurchased over 16 million common shares for over $1 billion; we have increased the annual common stock dividend from $0.20 to $1.20 per share; and we have increased our liquidity by $1.4 billion.

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We have also made significant improvements in our safety performance as shown in the following graphs.

We will continue to assess North American and international expansion opportunities, including raw material operations, and carefully weigh them in light of changing global steel and financial market conditions and long-term value considerations. We may consider 100 percent acquisition opportunities, joint ventures and other arrangements.

We also continue to assess and make capital investments in our existing facilities with particular emphasis on our raw materials operations. In response to the current economic conditions, we are focusing our capital spending on non-discretionary and key strategic projects. We are continuing with our plans for a significant capital investment over a period of years for new coke oven batteries at our Clairton Plant, replacing existing batteries that are nearing the end of their useful lives and rehabilitating several other existing batteries. We are currently in the first phase of this investment, which includes construction of a technologically and environmentally advanced coke battery that will replace the current capacity of three older units, and rehabilitation of several existing coke batteries. Also, Gateway Energy & Coke Company, LLC (Gateway), an affiliate of SunCoke Energy, Inc., is in the process of constructing a coke plant to supply Granite City Works, while we are constructing a cogeneration facility that will utilize by-products and that we will own and operate. A previously announced capital investment program at our iron ore pellet operations in Keewatin, Minnesota to increase production by modernizing and improving a pellet indurating line that has been idle since 1980 is currently in the permitting process, but we expect this project to be deferred beyond 2009.

We are also continuing our efforts to implement an enterprise resource planning (ERP) system to help us operate more efficiently. Minor portions of the project were implemented in 2008; however, we have extended the overall implementation schedule. The completion of the ERP project is expected to provide further opportunities to streamline, standardize and centralize business processes in order to maximize cost effectiveness, efficiency and control across our global operations.

The foregoing statements of belief are forward-looking statements. Predictions regarding capital investments and benefits resulting from the implementation of the ERP project are subject to uncertainties. Factors that may affect our ability to construct new facilities include levels of cash flow from operations, general economic conditions, business conditions, availability of capital, whether or not assets are purchased or financed by operating leases, receipt of necessary permits and unforeseen hazards such as contractor performance, material shortages, weather conditions, explosions or fires, which could delay the timing of completion of particular capital projects. We may not be able to successfully implement the ERP project without experiencing difficulties. In addition, the

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expected benefits of implementing the ERP project might not be realized or the costs of implementation might outweigh the benefits realized. Actual results could differ materially from those expressed in these forward-looking statements.

Given the recent VERP and the number of remaining employees eligible for retirement in the near future (see Risk Factors Other Risk Factors applicable to U. S. Steel), recruiting, developing and retaining a diverse workforce and a world-class leadership team are crucial to the long-term success of our company. However, in light of current business conditions, we have revised our near-term recruiting plans.

Steel Industry Background and Competition

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

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

Mini-mills typically require lower capital expenditures for construction of facilities and may have lower total employment costs; however, these competitive advantages may be more than offset by the cost of scrap when scrap prices are high. Some mini-mills utilize thin slab casting technology to produce flat-rolled products and are increasingly able to compete directly with integrated producers of flat-rolled products, who are able to manufacture a broader range of products. U. S. Steel provides defined benefit pension and/or other postretirement benefits to approximately 130,000 retirees and beneficiaries. Mini-mills and most of our other competitors do not have comparable retiree obligations.

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

The recent significant reduction in global steel production in late 2008 and into 2009 has resulted in decreases in many raw materials prices. We expect that such prices will rebound when global steel production returns to more customary levels. In contrast, prices for steelmaking commodities such as steel scrap, coal, coke, iron ore, zinc, tin and other metallic additions had escalated significantly over the last several years due primarily to growth in worldwide steel production, especially in China. Historically, we have had adequate iron ore pellet production in the United States to meet our needs. With the acquisition of USSC and indirectly with the acquisition of Lone Star, at high levels of steelmaking production we could be one to two million tons short in our iron ore pellet supply position in North America, although we expect to be self-sufficient for 2009. If the proposed expansion at our iron ore pellet operations in Keewatin, Minnesota begins production, we will return to a position of being able to fully satisfy our North American pellet requirements at normal levels of capability utilization. The operations in Keewatin were temporarily idled in December 2008, and we expect the expansion project to be deferred beyond 2009. We are about 75 to 80 percent self sufficient for coke in North America at normal operating levels. Our relatively balanced raw materials position in North America and limited dependence on purchased steel scrap have helped mitigate the volatility of our production costs.

Demand for flat-rolled products is influenced by a wide variety of factors, including but not limited to macro-economic drivers, the supply-demand balance, inventories, imports and exports, currency fluctuations, and the demand from flat-rolled consuming markets. The largest drivers of domestic consumption have historically been the automotive and construction markets which make up more than 50 percent of total sheet consumption. Other sheet consuming industries include appliance, converter, container, tin, energy, electrical equipment, agricultural, domestic and commercial equipment and industrial machinery.

Demand for oil country tubular goods depends on several factors, most notably the number of oil and natural gas wells being drilled, completed and re-worked, the depth and drilling conditions of these wells and the drilling techniques utilized. The level of these activities depends primarily on the demand for natural gas and oil and the

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expectation of future prices of these commodities. Demand for our tubular products is also affected by the level of inventories maintained by manufacturers, distributors, and end users and by the level of imports in the markets we serve.

Steel imports to the United States accounted for an estimated 28 percent of the U.S. steel market in 2008, 26 percent in 2007 and 31 percent in 2006. Increases in future levels of imported steel could reduce future market prices and demand levels for steel produced in our North American facilities.

Imports of tubular products increased significantly in 2008. Oil country tubular goods (OCTG) accounted for a large share of the growth as they have more than doubled over 2007 levels. Imports of OCTG from China registered the most dramatic increase as they grew from 900,000 tons in 2007 to nearly 2.3 million tons in 2008. The U.S. market experienced a surge in tubular imports in the second half of 2008 that resulted in record OCTG inventories by the end of the year, which are expected to affect demand in 2009.

Imports of flat-rolled steel to Canada accounted for an estimated 25 percent of the Canadian market for flat-rolled steel products in 2008, 27 percent in 2007 and 34 percent in 2006.

Many of these imports have violated U.S. or Canadian trade laws. Under these laws, duties can be imposed against dumped products, which are products sold at a price that is below that producer s sales price in its home market or at a price that is lower than its cost of production. Countervailing duties can be imposed against products that benefited from foreign government financial assistance for the benefit of the production, manufacture, or exportation of the product. For many years, U. S. Steel, other producers, customers and the United Steelworkers (USW) have sought the imposition of duties and in many cases have been successful. Such duties are generally subject to review every five years and we actively participate in such review proceedings.

Total imports of flat-rolled carbon steel products (excluding quarto plates and wide flats) to the EU27 (the 27 countries currently comprising the European Union (EU)) were 15 percent of the EU market in 2008, 17 percent in 2007 and 14 percent in 2006. Imported steel to the EU market coupled with declining demand starting late in 2008 contributed to record levels of inventory, all of which resulted in weakening market prices in late 2008 and early 2009.

On October 29, 2007, the European Confederation of Iron and Steel Industries (Eurofer), the European trade association of steel producers of which USSK is a member, filed an anti-dumping complaint against imports into the EU of hot-dipped metallic coated sheet and strip products originating in China. In December 2008, Eurofer withdrew its complaint, saying that the case was based on historical data that no longer fully reflected turbulent current market conditions, and the European Commission thereafter terminated its investigation.

We expect to continue to experience competition from imports and will continue to closely monitor imports of products in which we have an interest. Additional complaints may be filed if unfairly traded imports adversely impact, or threaten to adversely impact, financial results.

U. S. Steel s businesses are subject to numerous federal, state and local laws and regulations relating to the storage, handling, emission and discharge of environmentally sensitive materials. U. S. Steel believes that our major North American and many

European integrated steel competitors are confronted by substantially similar environmental conditions and thus does not believe that our relative position with regard to such competitors is materially affected by the impact of environmental laws and regulations. However, the costs and operating restrictions necessary for compliance with environmental laws and regulations may have an adverse effect on U. S. Steel s competitive position with regard to domestic mini-mills, some foreign steel producers (particularly in developing economies such as China) and producers of materials which compete with steel, all of which may not be required to undertake equivalent costs in their operations. In addition, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to our prior disposal of environmentally sensitive materials. Many of our competitors have fewer historical liabilities. For further information, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

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USSE conducts business primarily in Europe and USSC conducts business primarily in Canada. We are subject to market conditions in those areas which are influenced by many of the same factors that affect U.S. markets, as well as matters specific to international markets such as quotas and tariffs. Like our domestic operations, USSE and USSC are affected by worldwide overcapacity in the steel industry, the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions. USSE and USSC are subject to different environmental regulations and other factors in Europe and Canada, respectively, that could negatively affect results of operations and cash flow. These environmental regulations and other factors include, but are not limited to, taxation, nationalization, inflation, currency fluctuations, increased regulation, limits on emissions (see Environmental Matters for discussions regarding carbon dioxide emissions limits which are applicable to European Union member countries, and carbon dioxide emissions limitations which are expected to come into effect in Canada), limits on production, and quotas, tariffs and other protectionist measures. USSE and USSC are affected by volatile raw materials prices, and USSE has been affected by curtailments of natural gas available to Europe from Russia through Ukraine. USSS experienced natural gas curtailments during periods of peak demand in Eastern Europe and Russia in 2006, and both USSK and USSS experienced a curtailment for more than ten days in January 2009 related to Russia s suspension of gas shipments to Europe.

U. S. Steel is subject to foreign currency exchange risks as a result of its European and Canadian operations. USSE s revenues are primarily in euros and its costs are primarily in U.S. dollars, Serbian dinars and euros. USSC s revenues are denominated in both Canadian and U.S. dollars. While most of USSC s costs are in Canadian dollars, we make significant raw material purchases in U.S. dollars. In addition, the acquisition of USSC was funded from the United States and through the reinvestment of undistributed foreign earnings from USSE, creating intercompany monetary assets and liabilities in currencies other than the functional currencies of the entities involved, which can impact income when they are remeasured at the end of each quarter. An $815 million U.S. dollar-denominated intercompany loan to a European affiliate was the primary exposure at December 31, 2008.

Facilities and Locations

Flat-rolled

Except for the Fairfield pipe mill, the operating results of all the facilities within U. S. Steel s integrated steel mills in North America are included in Flat-rolled. These facilities include Gary Works, Great Lakes Works, Mon Valley Works, Granite City Works, Lake Erie Works, Fairfield Works and Hamilton Works. The operating results of U. S. Steel s iron ore pellet operations and many equity investees in North America are also included in Flat-rolled.

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

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

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

Great Lakes Works, located in Ecorse and River Rouge, Michigan, has annual raw steel production capability of 3.8 million tons. Great Lakes facilities include three blast furnaces, two steelmaking vessels, a vacuum degassing unit, two slab casters, a hot strip mill, a pickling line, a tandem cold reduction mill, a temper mill, an electrolytic galvanizing line and a hot dip galvanizing line. Principal products include hot-rolled, cold-rolled and coated sheets. Great Lake Works was temporarily idled in December 2008.

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

The Clairton Plant is comprised of twelve coke batteries, two of which were operated for the Clairton 1314B Partnership, L.P. (1314B). On October 31, 2008, U. S. Steel acquired the interests in 1314B held by unrelated parties, and 1314B was terminated. There was no change in the operations at the Clairton Plant as a result of the transaction. Approximately 83 percent of 2008 coke production (including 1314B) was consumed by U. S. Steel facilities and the remainder was sold to or swapped with other domestic steel producers. Several coke by-products are sold to the chemicals and raw materials industries.

Granite City Works, located in Granite City, Illinois, has annual raw steel production capability of 2.8 million tons. Granite City s facilities include two coke batteries, two blast furnaces, two steelmaking vessels, two slab casters, a hot strip mill, a pickling line, a tandem cold reduction mill, a hot dip galvanizing line and a hot dip galvanizing/Galvalume® line. Granite City Works generally consumes all the coke it produces and sells several coke by-products. Principal products include hot-rolled and coated sheets. Gateway is in the process of constructing a coke plant to supply Granite City Works and we are constructing a cogeneration facility that will utilize by-products and that we will own and operate. Steel production and finishing at Granite City Works was temporarily idled in December 2008.

Lake Erie Works, located in Nanticoke, Ontario, has annual raw steel production capability of 2.6 million tons. Lake Erie Works facilities include a coke battery, a blast furnace, two steelmaking vessels, a slab caster, a hot strip mill and three pickling lines. The pickling lines were acquired on August 29, 2008 and are included in Flat-rolled results as of that date. Principal products include slabs and hot-rolled sheets.

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

Hamilton Works, located in Hamilton, Ontario, has annual raw steel production capability of 2.3 million tons. Hamilton Works facilities include a coke battery, a blast furnace, three steelmaking vessels, a slab caster, a combination slab/bloom caster, a bar mill, a pickling line, a cold reduction mill and two hot dip galvanizing lines. Principal products include slabs and cold-rolled and coated sheets. Steel production at Hamilton Works was temporarily idled in November 2008.

We have iron ore pellet operations located at Mt. Iron (Minntac) and Keewatin (Keetac), Minnesota with annual iron ore pellet production capability of 22.4 million tons. During 2008, 2007 and 2006, these operations produced 21.3 million, 20.8 million and 22.1 million net tons of iron ore pellets, respectively. We previously announced a capital investment program at Keetac to increase production by modernizing and improving a pellet indurating line that has been idle since 1980. This expansion would increase Keetac s iron pellet production capability by 3.6 million tons to a total annual capability of 9.6 million tons. We are currently involved in the permitting process, but Keetac was temporarily idled in December 2008 and we expect the expansion project to be deferred beyond 2009.

USSC owns 60 percent of the Z-Line Company (Z-Line), a partnership with Metal One Canada Corporation, which is consolidated in our financial results. Z-Line owns and operates a galvanizing/galvannealing line located within Hamilton Works with annual production capability of approximately 430,000 tons.

U. S. Steel participates in a number of additional joint ventures that are included in Flat-rolled, most of which are conducted through subsidiaries or other separate legal entities. All of these joint ventures are accounted for under the equity method. The significant joint ventures and other investments are described below. For information regarding joint ventures and other investments, see Note 10 to the Financial Statements.

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U. S. Steel and POSCO of South Korea participate in a 50-50 joint venture, USS-POSCO Industries (USS-POSCO), located in Pittsburg, California. The joint venture markets high quality sheet and tin mill products, principally in the western United States. USS-POSCO produces cold-rolled sheets, galvanized sheets, tin plate and tin-free steel from hot bands principally provided by U. S. Steel and POSCO, which each provide about 50 percent of its requirements. USS-POSCO s annual production capability is approximately 1.5 million tons.

U. S. Steel and Kobe Steel, Ltd. of Japan participate in a 50-50 joint venture, PRO-TEC Coating Company (PRO-TEC). PRO-TEC owns and operates two hot dip galvanizing lines in Leipsic, Ohio, which primarily serve the automotive industry. PRO-TEC s annual production capability is approximately 1.2 million tons. U. S. Steel supplies PRO-TEC with all of its requirements of cold-rolled sheets and markets all of its products.

U. S. Steel and Severstal North America, Inc. participate in Double Eagle Steel Coating Company (DESCO), a 50-50 joint venture which operates an electrogalvanizing facility located in Dearborn, Michigan. The facility coats sheet steel with free zinc or zinc alloy coatings, primarily for use in the automotive industry. DESCO processes steel supplied by each partner and each partner markets the steel it has processed by DESCO. DESCO s annual production capability is approximately 870,000 tons.

U. S. Steel and ArcelorMittal participate in the Double G Coatings Company, L.P. 50-50 joint venture (Double G), a hot dip galvanizing and Galvalume® facility located near Jackson, Mississippi, which primarily serves the construction industry. Double G processes steel supplied by each partner and each partner markets the steel it has processed by Double G. Double G s annual production capability is approximately 315,000 tons.

U. S. Steel and Worthington Industries, Inc. (Worthington Industries) participate in Worthington Specialty Processing (Worthington), which consisted of a steel processing facility located in Jackson, Michigan until October 1, 2008, when the joint venture was expanded by the partners. U. S. Steel contributed ProCoil Company LLC, its steel processing subsidiary in Canton, Michigan, and Worthington Industries contributed Worthington Steel Taylor, its steel processing subsidiary in Taylor, Michigan, to the joint venture. As part of this transaction, U. S. Steel received a cash payout of $2.5 million and our ownership interest decreased from 50 percent to 49 percent. The facilities slit, cut to length and press blanks from steel coils to desired specifications. Worthington s annual production capability is approximately 890,000 tons.

USSC and ArcelorMittal Dofasco, Inc. participate in Baycoat Limited Partnership (Baycoat), a 50-50 joint venture located in Hamilton, Ontario. Baycoat applies a variety of paint finishes to flat-rolled steel coils. Baycoat s annual production capability is approximately 280,000 tons.

D.C. Chrome Limited, a 50-50 joint venture between USSC and The Court Group of Companies Limited, operates a plant in Stony Creek, Ontario which textures and chromium plates work rolls for Hamilton Works and for other customers, and grinds and chromes steel shafts used in manlifts.

Chrome Deposit Corporation (CDC), a 50-50 joint venture between U. S. Steel and Court Holdings, reconditions finishing work rolls, which require grinding, chrome plating, and/or texturing. The rolls are used on rolling mills to provide superior finishes on steel sheets. CDC has seven locations across the United States, with all locations near major steel mills.

Feralloy Processing Company (FPC), a joint venture between U. S. Steel and Feralloy Corporation, converts coiled hot strip mill plate into sheared and flattened plates for shipment to customers. U. S. Steel has a 49 percent interest. The plant, located in Portage, Indiana, has a temper mill linked to a cut-to-length leveling line. The line provides stress-free, leveled product with a superior surface finish. FPC provides processing services to the joint venture partners and other steel consumers and service centers. FPC s annual production capability is approximately 275,000 tons.

U. S. Steel, along with Feralloy Mexico, S.R.L. de C.V. and Mitsui & Co. (USA), Inc., participates in a joint venture, Acero Prime, S.R.L. de CV (Acero Prime). U. S. Steel has a 40 percent interest. Acero Prime operates in Mexico with facilities in San Luis Potosi and Ramos Arizpe, and a leased warehouse in Toluca. Acero Prime provides slitting, warehousing and logistical services. Acero Prime s annual slitting capability is approximately 385,000 tons.

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We have a 44.6 percent ownership interest in Wabush Mines (Wabush), which has a mine and concentrator in Wabush, Labrador and a pellet plant in Pointe Noire, Quebec. Wabush s rated annual production capability is 6.4 million tons of iron ore pellets, of which our share is about 2.8 million tons, reflecting our ownership interest. Our share of 2008 production was 2.0 million tons.

U. S. Steel has a 14.7 percent ownership interest in Hibbing Taconite Company (Hibbing), which is based in Hibbing, Minnesota. Hibbing s rated annual production capability is 9.1 million tons of iron ore pellets, of which our share is about 1.3 million tons, reflecting our ownership interest. Our share of 2008 production was 1.4 million tons.

We have a 15 percent ownership interest in Tilden Mining Company (Tilden), which is based in Ishpeming, Michigan. Tilden s rated annual production capability is 8.7 million tons of iron ore pellets, of which our share is about 1.3 million tons, reflecting our ownership interest. Our share of 2008 production was 1.2 million tons.

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

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

USSE

USSE consists of USSK and its subsidiaries and USSS.

USSK is headquartered at its integrated facility in Ko ice, Slovakia, which has annual raw steel production capability of 5.0 million tons. This facility has two coke batteries, three blast furnaces, four steelmaking vessels, a vacuum degassing unit, two dual strand casters, a hot strip mill, two pickling lines, two cold reduction mills, a temper mill, a temper/double cold reduction mill, three hot dip galvanizing lines, two tin coating lines, three dynamo lines and a color coating line. The final acceptance test for the new automotive-quality galvanizing line was completed in August 2008. Principal products include hot-rolled, cold-rolled and coated sheets and tin mill products. USSK also has facilities for manufacturing heating radiators, spiral welded pipe and refractories.

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

USSS has an integrated plant in Smederevo, Serbia which has annual raw steel production capability of 2.4 million tons. Facilities at this plant include two blast furnaces, three steelmaking vessels, two slab casters, a hot strip mill, a pickling line, a cold reduction mill, a temper mill and a temper/double cold reduction mill. Other facilities include a tin mill in Sabac with one tin coating line, a

limestone mine in Kucevo and a river port in Smederevo, all located in Serbia. Principal products include hot-rolled and cold-rolled sheets and tin mill products.

Serbian Roll Service Company, d.o.o. is a 50-50 joint venture between USSS and Court Holdings (Europe) Ltd. Currently under construction, the operation will recondition finishing work rolls which require grinding and chrome plating. Anticipated start-up is late 2009.

Tubular

Tubular manufactures seamless and welded oil country tubular goods (OCTG) and other tubular products.

Seamless products are produced on a mill located at Fairfield Works in Fairfield, Alabama, and on two mills located in Lorain, Ohio. The Fairfield mill has annual production capability of 750,000 tons and is supplied with steel rounds exclusively from Fairfield Works. The Fairfield mill has the capability to produce outer diameter (O.D.)

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sizes from 4.5 to 9.625 inches and has quench and temper, hydrotester, threading and coupling, and inspection capabilities. The Lorain mills have combined annual production capability of 780,000 tons and use steel rounds supplied by Fairfield Works and external sources. Lorain #3 Mill has the capability to produce O.D. sizes from 10.125 to 26 inches and has quench and temper, hydrotester, cutoff, and inspection capabilities. Lorain #4 Mill has the capability to produce O.D. sizes from 1.9 to 4.5 inches and has cut to length capabilities and uses Tubular Services in Houston for finishing.

Texas Operations manufactures welded OCTG, standard and line pipe and mechanical tubing products. Texas Operations #1 Mill has the capability to produce O.D. sizes from 7 to 16 inches. Texas Operations #2 Mill has the capability to produce O.D. sizes from 1.088 to 7.15 inches. Both mills have quench and temper, hydrotester, threading and coupling, and inspection capabilities. Bellville Operations manufactures welded tubular products primarily for OCTG. Bellville Operations has the capability to produce O.D. sizes from 2.375 to 4.5 inches and has limited hydrotester and cutoff capabilities. Texas Operations and Bellville Operations have combined annual production capability of 1.0 million tons and use hot-rolled products from Flat-rolled s facilities. Bellville Operations was temporarily idled in January 2009 and we intend to temporarily idle Texas Operations at the end of February.

Welded products are also produced on a mill located in McKeesport, Pennsylvania, which is operated by Camp-Hill Corporation. The McKeesport mill has annual production capability of 315,000 tons and processes hot-rolled bands from Mon Valley Works and other U. S. Steel locations. This mill has the capability to produce, hydrotest, cut to length, and inspect O.D. sizes from 8.625 to 20 inches.

Wheeling Machine Products supplies couplings used to connect individual sections of oilfield casing and tubing. It produces sizes ranging from 2.375 to 20 inches at three locations: Pine Bluff, Arkansas, Hughes Springs, Texas and Houston, Texas.

Tubular Processing Services, located in Houston, Texas, provides thermal treating and end-finishing services for oilfield production tubing. Tubular Threading and Inspection Services, also located in Houston, Texas, provides threading, inspection and storage services to the OCTG market.

Fintube Technologies (Fintube), located in Tulsa, Oklahoma and Monterey, Mexico, manufactures specialty tubular products used in heat recovery technology applications. Fintube has a welded tube production mill, finning operations and an engineered products division.

U. S. Steel also has a 50 percent ownership interest in Apolo Tubulars S.A. (Apolo), a Brazilian supplier of welded casing, tubing, line pipe and other tubular products. Apolo s annual production capability is approximately 150,000 tons.

In April 2007, U. S. Steel, POSCO and SeAH Steel Corporation, a Korean manufacturer of tubular products, formed United Spiral Pipe LLC to design, engineer and construct a manufacturing facility with annual production capability of 300,000 tons of spiral welded tubular products. U. S. Steel and POSCO each hold a 35-percent ownership interest in the joint venture, with the remaining 30-percent ownership interest being held by SeAH. Construction commenced in February 2008 and we expect start-up to occur in 2009.

Other Businesses

U. S. Steel s Other Businesses include transportation services, the management and development of real estate and engineering and consulting services.

On January 31, 2009, we completed the sale of a majority of the operating assets of EJ&E to a subsidiary of Canadian National Railway Company. After-tax proceeds from the sale were approximately $210 million and U. S. Steel will record a net gain of approximately $60 million in the first quarter of 2009. The retained portion of EJ&E has been renamed Gary Railway Company. See Note 5 to the Financial Statements.

In addition to Gary Railway Company in Indiana, U. S. Steel owns Lake Terminal Railroad Company in Ohio; Union Railroad Company and McKeesport Connecting Railroad Company in Pennsylvania; Birmingham Southern

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Railroad Company, Fairfield Southern Company, Inc., Mobile River Terminal Company, and Warrior and Gulf Navigation Company, all located in Alabama; Delray Connecting Railroad Company in Michigan and Texas & Northern Railroad Company in Texas; all of which comprise U. S. Steel s transportation business.

U. S. Steel owns, develops and manages various real estate assets, which include approximately 200,000 acres of surface rights primarily in Alabama, Illinois, Maryland, Michigan, Minnesota and Pennsylvania. In addition, U. S. Steel participates in joint ventures that are developing real estate projects in Alabama and Maryland. U. S. Steel also owns approximately 4,000 acres of land in Ontario, Canada, which could potentially be sold or developed.

Met-Chem Canada Inc., a wholly owned subsidiary of U. S. Steel, is a consulting company providing engineering services in the mining and mineral processing sectors.

Raw Materials and Energy

Historically, supplies of raw materials and energy used to produce steel have been more than sufficient and costs were relatively stable. In the past several years, there has been a tightening of raw material availability and a substantial increase in purchase prices. The recent significant reduction in global steel production has resulted in decreases in many of these purchase prices. We expect that such prices will increase when global steel production returns to more customary levels. As an integrated producer, U. S. Steel s primary raw materials are iron units in the form of iron ore or taconite, carbon units in the form of coal and coke (which is produced from coal) and steel scrap. The amounts of such raw materials needed to produce a ton of steel will fluctuate based upon the specifications of the final steel products, the quality of raw materials and, to a lesser extent, differences among steel producing equipment. In broad terms, U. S. Steel estimates that it consumes about 1.4 tons of coal to produce one ton of coke and that it consumes a little less than 0.4 tons of coke and over 1.2 tons of iron ore pellets to produce one ton of raw steel. We also consume approximately 4,500 MMBTU s of natural gas per ton shipped. While we believe that these estimates are useful for planning purposes, substantial variations occur. They are presented in order to give a general sense of raw material and energy consumption related to steel production.

Iron Ore

The iron ore facilities at Minntac and Keetac contain an estimated 761 million short tons of recoverable reserves. Our proportionate share of recoverable reserves at the Wabush, Hibbing and Tilden joint ventures is 103 million short tons. Recoverable tons means the tons of product that can be used internally or delivered to a customer after considering mining and beneficiation or preparation losses. At high levels of steelmaking production, we could be one to two million tons short of our Flat-rolled segment s annual requirements. Any shortfalls would be purchased from outside sources, although we expect to be self sufficient in 2009. We previously announced a capital investment program at Keetac to increase production by modernizing and improving a pellet indurating line that has been idle since 1980. This expansion would return us to a position of being able to fully satisfy our North American pellet requirements at all operating levels. We are currently involved in the permitting process, but Keetac was temporarily idled in December 2008 and we expect the expansion project to be deferred beyond 2009.

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

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Coal

All of U. S. Steel s coal requirements for our cokemaking facilities are purchased from outside sources. We believe that supplies of coal adequate to meet our needs are available from outside sources at competitive market prices. U. S. Steel has entered into contracts at what we believe are competitive market prices for our coal requirements in 2009 and for a portion of our 2010 requirements. The main sources of coal for Flat-rolled are the United States and Canada; and for USSE include Poland, the Czech Republic, the United States, Canada, Russia and Ukraine.

Coke

Our Flat-rolled segment has the capability to supply 75 to 80 percent of its metallurgical coke requirements for hot metal production in blast furnaces at normal operating levels. Blast furnace coal injection is used at certain Flat-rolled facilities to reduce coke usage. In the United States, U. S. Steel operates cokemaking facilities at the Clairton Plant of Mon Valley Works, at Gary Works and at Granite City Works. We routinely sell or swap a portion of the coke production from our Clairton facility. In Canada, we operate cokemaking facilities at Hamilton Works and Lake Erie Works, which serve the steelmaking operations at USSC. Depending on production levels, we may purchase additional coke on the open market. To the extent that it is necessary or appropriate considering existing needs and/or applicable transportation costs, coke is purchased from or swapped with North American and international suppliers or other end-users.

The increase in coke production in 2008 was mainly due to the inclusion of production at Lake Erie Works and Hamilton Works for the entire year. Production had been decreasing over the last several years due mainly to the declining condition of the coke batteries at our Clairton Plant and the idling of one of the coke batteries at Gary Works in October 2005. We are planning a significant capital investment over a period of years for new coke oven batteries at our Clairton Plant, replacing existing batteries that are nearing the end of their useful lives and rehabilitating several other existing batteries. We are currently in the first phase of this investment, which includes construction of a technologically and environmentally advanced coke battery that will replace the current capacity of three older units, and rehabilitation of several existing coke batteries. Also, Gateway is in the process of constructing a coke plant to supply Granite City Works, while we are constructing a cogeneration facility that will utilize by-products and that we will own and operate.

USSE operates cokemaking facilities that primarily serve the steelmaking operations at USSK and may occasionally supply a portion of USSS s needs. Depending on market conditions and operational schedules, USSK may purchase coke on the open market. Blast furnace coal injection at USSK reduces its coke requirements. USSS sources substantially all of its coke requirements from outside sources. We believe that supplies of coke adequate to meet USSE s needs are available at competitive market prices. The main sources of coke for USSE in 2009 are expected to be Poland, Ukraine, Russia, Bosnia, Hungary and the Czech Republic.

Limestone

All of Flat-rolled s limestone requirements are purchased from outside sources. We believe that supplies of limestone adequate to meet Flat-rolled s needs are readily available from outside sources at competitive market prices.

The majority of USSE s limestone requirements are purchased from outside sources. All limestone requirements for USSK are purchased from an outside source under a long-term contract. We source approximately 50 percent of USSS s limestone requirements from outside sources with the balance coming from a limestone mine under our direct control. We believe that supplies of limestone adequate to meet USSE s needs are available from outside sources at competitive market prices.

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Zinc and Tin

We believe that supplies of zinc and tin required to fulfill the requirements for Flat-rolled and USSE are available from outside sources at competitive market prices.

Steel Scrap and Other Materials

We believe that supplies of steel scrap and other alloying and coating materials required to fulfill our requirements for Flat-rolled and USSE are available from outside sources at competitive market prices. Generally, approximately 40 percent of our steel scrap requirements is internally generated through normal operations.

Natural Gas

We utilized approximately 110,000,000 mmbtu s of natural gas in 2008, all of which was purchased from outside sources.

We believe that supplies adequate to meet our North American needs are available at competitive market prices. About 60 percent of our natural gas purchases in the United States are based on bids solicited on a monthly basis from various vendors; approximately 10 percent are made through long-term contracts; and the remainder are made daily or with physical forward positions. About 75 percent of our Canadian gas purchases are based on solicited bids, on a monthly basis, from various vendors; and the remainder are made daily or with physical forward positions. We have executed physical forward positions consistent with anticipated business needs for natural gas because of the volatility of natural gas markets.

We believe that supplies adequate to meet USSE s needs are normally available at competitive market prices. Natural gas prices in Slovakia and Serbia have been less volatile than in the United States; however, prices have increased over the last several years. USSE is dependent upon availability of natural gas from Russia through Ukraine. USSS experienced natural gas curtailments during periods of peak demand in Eastern Europe and Russia in 2006, and both USSK and USSS experienced a curtailment of more than ten days in January 2009 related to Russia s suspension of gas shipments to Europe.

Both Flat-rolled and USSE use self-generated coke oven and blast furnace gas to reduce consumption of natural gas.

Commercial Sales of Product

U. S. Steel characterizes our sales as contract if sold pursuant to an agreement with defined pricing and a one year or longer duration, and as spot if sold pursuant to a shorter term contract. In 2008 approximately 55 percent, 30 percent and 3 percent of sales by Flat-rolled, USSE and Tubular, respectively, were contract sales. U. S. Steel does not consider sales backlog to be a meaningful measure since volume commitments in most contracts are based on each customer s specific periodic requirements.

Environmental Matters

U. S. Steel maintains a comprehensive environmental policy overseen by the Corporate Governance and Public Policy Committee of the U. S. Steel Board of Directors. The Environmental Affairs organization has the responsibility to ensure that U. S. Steel s operating organizations maintain environmental compliance systems that are in accordance with applicable laws and regulations. The Executive Environmental Committee, which is

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comprised of officers of U. S. Steel, is charged with reviewing our overall performance with various environmental compliance programs. Also, U. S. Steel, largely through the American Iron and Steel Institute, the Canadian Steel Producers Association, the World Steel Association and Eurofer, is involved in the promotion of cost effective environmental strategies through the development of appropriate air, water, waste and climate change laws and regulations at the local, state, national and international levels.

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

USSC is subject to the environmental laws of Canada, which are comparable to environmental standards in the United States. Environmental regulation in Canada is an area of shared responsibility between the federal government and the provincial governments, which in turn delegate certain matters to municipal governments. Federal environmental statutes include the federal Canadian Environmental Protection Act, 1999 and the Fisheries Act. Various provincial statutes regulate environmental matters such as the release and remediation of hazardous substances; waste storage, treatment and disposal; and air emissions. As in the United States, Canadian environmental laws (federal, provincial and local) are undergoing revisions and becoming more stringent.

USSK is subject to the environmental laws of Slovakia and the EU. A related law of the EU commonly known as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals, Regulation 1907/2006) requires the registration of certain substances that are produced in the EU or imported into the EU. USSK pre-registered various substances during the six-month pre-registration period that ended November 30, 2008, both on its own behalf and on behalf of U. S. Steel and certain of its subsidiaries that may be shipping products into the EU. USSK is compliant with REACH and intends to register its substances by the applicable deadlines to remain in compliance and be able to continue its businesses without material change.

USSS is subject to the environmental laws of Serbia. Under the terms of the acquisition in 2003, USSS is responsible for only those costs and liabilities associated with environmental events occurring subsequent to the completion of an environmental baseline study in June 2004, which was submitted to the Government of Serbia. In January 2008, USSS entered into an agreement with the Serbian government that commits us to spend approximately $50 million before the end of 2009 to improve the environmental performance of our facilities. Spending for this commitment in 2008 was $35 million. The spending is focused on projects aimed at reducing air particulate emissions.

Many nations, including the United States, are considering regulation of carbon dioxide (CO_2) emissions. International negotiations to supplement or replace the 1997 Kyoto Protocol are ongoing. The integrated steel process involves a series of chemical reactions involving carbon that create CO_2 emissions. This distinguishes integrated steel producers from mini-mills and many other industries where CO_2 generation is generally linked to energy usage. The EU has established greenhouse gas regulations; Canada has published details of a regulatory framework for greenhouse gas emissions as discussed below; and the United States may establish regulations in the future. Such regulations may entail substantial capital expenditures, restrict production, and raise the price of coal and other carbon-based energy sources.

To comply with the 1997 Kyoto Protocol to the United Nations Framework Convention on Climate Change, the European Commission (EC) created an Emissions Trading System (ETS). Under the ETS, the EC establishes CO_2 emissions limits for every EU member state and approves grants of CO_2 emission allowances to individual emitting facilities pursuant to national allocation plans that are proposed by each of the member states. Emission allowances can be bought and sold by emitting facilities to cover the quantities of CO_2 they emit in their

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operations. In 2004, the EC approved Slovakia s national allocation plan for the period 2005 through 2007 (NAP I), which granted USSK fewer emissions allowances than were ultimately required. USSK purchased allowances to cover its shortfall for the NAP I allocation period. Based on the actual value of allowances purchased, a short-term other liability of $2 million was recognized on the balance sheet as of December 31, 2007. This amount was settled in 2008.

In July 2008, following approval by the EC of Slovakia s national allocation plan for the 2008 to 2012 trading period (NAP II), Slovakia granted USSK more CO_2 allowances per year than USSK received for NAP I. Based on actual carbon emissions in 2008, we believe that USSK will have sufficient emissions allowances for the NAP II period without purchasing additional allowances.

On April 26, 2007, Canada s federal government announced an Action Plan to Reduce Greenhouse Gases and Air Pollution (the Plan). The federal government plans to set mandatory reduction targets on all major greenhouse gas producing industries to achieve an absolute reduction of 150 megatonnes in greenhouse gas emissions from 2006 levels by 2020. On March 10, 2008, Canada s federal government published details of its Regulatory Framework for Industrial Greenhouse Gas Emissions (the Framework). The Plan and the Framework provide that facilities existing in 2006 will be required to cut their greenhouse gas emissions intensity by 18 percent by 2010, with a further two percent reduction in each following year. Companies will be able to choose the most cost-effective way to meet their targets from a range of options. The Framework effectively exempts fixed process emissions of CO_2, which could exclude certain iron and steel producing CO_2 emissions from mandatory reductions. Certain provinces have enacted climate change rules and Ontario may also do so. The impact on USSC cannot be estimated at this time.

In the United States, the new Administration has announced its commitment to implement a national cap-and-trade program to reduce greenhouse gas emissions by 80 percent by 2050. The parameters and timetable of this proposed program have not been announced so it is impossible to estimate its impact on U. S. Steel, although it could be significant.

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

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

Air

The CAA imposes stringent limits on air emissions with a federally mandated operating permit program and civil and criminal enforcement sanctions. The CAA requires, among other things, the regulation of hazardous air pollutants through the development and promulgation of Maximum Achievable Control Technology (MACT) Standards. The U.S. Environmental Protection Agency (EPA) has developed various industry-specific MACT standards pursuant to this requirement. The CAA requires EPA to promulgate regulations establishing emission standards for each category of Hazardous Air Pollutants. EPA must also conduct risk assessments on each source category that is already subject to MACT standards and determine if additional standards are needed to reduce residual risks.

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The principal impact of the MACT standards on U. S. Steel operations includes those that are specific to cokemaking, ironmaking, steelmaking and iron ore processing.

The emission limitations for ironmaking and steelmaking sources could become more stringent if EPA s residual risk analysis indicates that additional controls are necessary. EPA is required to complete this residual risk analysis by 2011. The impact of this risk analysis and any subsequent changes cannot be estimated at this time.

U. S. Steel s cokemaking facilities are subject to two categories of MACT standards. The first category applies to pushing and quenching. EPA is required to make a risk-based determination for pushing and quenching emissions and determine whether additional emissions reductions are necessary from this process by 2011. EPA has yet to publish or propose any residual risk standards from these operations; therefore, the impact cannot be estimated at this time. The second category of MACT standards applying to coke facilities applies to emissions from charging, coke oven battery tops, and coke oven doors. With regard to these standards, U. S. Steel chose to install more stringent controls than MACT on some of its batteries, called Lowest Achievable Emissions Reductions (LAER). Such LAER batteries are not required to comply with certain residual risk standards until 2020. Because the scope of these anticipated changes are distant and relatively uncertain, the magnitude of the impact of these anticipated changes cannot be estimated at this time.

U. S. Steel s iron ore processing operations are subject to the Taconite Iron Ore Processing MACT standards. These standards may change if EPA revises the MACT standards in response to a petition filed by an environmental advocacy group. In addition, EPA will make a risk-based determination for taconite iron ore processing and determine whether additional emissions reductions are necessary from this process by 2011. EPA has yet to publish or propose any residual risk standards from these operations; therefore, the impact of any changes cannot be estimated at this time.

The CAA also requires EPA to develop and implement National Ambient Air Quality Standards (NAAQS) for criteria pollutants, which include, among others, particulate matter and ozone. In 1997, EPA established 24-hour and annual standards for fine particles that are less than 2.5 micrometers in size and in 2006, EPA tightened the 24-hour standard but retained the annual standard.

States are required to demonstrate compliance with the 1997 fine particle standard by April 2010, with a possible extension to April 2015. On December 22, 2008, EPA designated areas in which U. S. Steel operates as nonattainment and unclassified/attainment for the 2006 fine particle standard. State Implementation Plans for the 2006 standard are expected to be due in early 2013, with attainment demonstrations with the 2006 standard expected to be made between 2014 and 2019.

It is anticipated that EPA s fine particle programs could result in significant costs to U. S. Steel; however, it is impossible to estimate the magnitude of these costs at this time as state and federal agencies are still developing regulations for the programs and implementation is not expected until later in 2009 (1997 standard) and in 2019 (2006 standard).

Effective May 2008, EPA lowered its ground level ozone air quality standards, which could affect sources of nitrogen oxide and volatile organic compounds, which include coke plants, and iron and steel facilities. EPA is required to issue final designations of attainment, nonattainment and unclassifiable areas no later than March 2010 unless there is insufficient information to make these designation decisions. In that case, EPA will issue designations no later than March 2011. States must submit State Implementation Plans outlining how they will reduce pollution to meet the standards by a date that is no later than three years after

EPA s final designations. If EPA issues designations in 2010 or 2011, these plans would be due no later than 2013 or 2014, respectively. States are required to meet the standards by deadlines that may vary based on the severity of the problem in the area. It is anticipated that the ozone NAAQS revisions could result in significant costs to U. S. Steel; however, it is impossible to estimate the magnitude of these costs at this time since the implementation dates are unknown and distant.

For additional information regarding significant enforcement actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

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Water

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

Solid Waste

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

Remediation

A significant portion of U. S. Steel s currently identified environmental remediation projects relate to the remediation of former and present operating locations. A number of these locations were sold by U. S. Steel and are subject to cost-sharing and remediation provisions in the sales agreements. Projects include remediation of the Grand Calumet River, remediation of the former Geneva Works and the former Duluth Works, and the closure and remediation of permitted hazardous and non-hazardous waste landfills.

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

Property, Plant and Equipment Additions

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

Employees

As of December 31, 2008, U. S. Steel had approximately 29,000 employees in North America and approximately 20,000 in Europe. On February 6, 2009, U. S. Steel announced that approximately 500 employees have elected to retire under a Voluntary Early Retirement Program offered to certain non-represented Headquarters and Operations employees in the United States who met age and years-of-service criteria. The majority will be retiring on February 28, 2009.

Most hourly employees of U. S. Steel s flat-rolled, tubular, cokemaking and iron ore pellet facilities in the United States are covered by collective bargaining agreements with the USW entered into effective September 1, 2008 (the 2008 CBAs) that expire in September 2012. The 2008 CBAs resulted in wage increases ranging from $0.65 to $1.00 per hour as of the effective date. Each subsequent September 1 thereafter during the contract term, employees will receive a four percent wage increase. The 2008 CBAs also require U. S. Steel to make annual $75 million contributions to a restricted account within our trust for retiree health care and life insurance during the contract period. The 2008 CBAs also provide for pension and other benefit enhancements for both current employees and retirees (see Notes 16 and 19 to the Financial Statements). At Granite City Works, a small number

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of employees are represented by the Bricklayers, Laborers International or International Chemical Workers unions. Agreements with these unions have varying expiration dates. A small number of employees at Texas Operations are represented by the Security, Police and Fire Professionals of America under an agreement that expires in September 2010. Hourly employees at the Bellville Operations are covered by a collective bargaining agreement with the USW that expires in June 2011. Hourly employees at Tubular Processing Services in Houston, Texas and Wheeling Machine Products in Hughes Springs, Texas have elected USW representation and negotiations for initial collective bargaining agreements are currently in process. Hourly employees engaged in transportation activities in the United States are represented by the USW and other unions and are covered by collective bargaining agreements with varying expiration dates. There are two collective bargaining agreements with the USW at USSC. The agreement covering employees at Lake Erie Works expires in July 2009 and the agreement covering employees at Hamilton Works expires in July 2010. All of the agreements in North America contain no-strike clauses. In Europe, most represented employees at USSK are represented by the OZ Metalurg union and are covered by an agreement that expires in March 2012. Represented employees at USSS are covered by a collective bargaining agreement that expires in November 2009. Wage increases have been agreed to for all years for both USSE agreements; therefore, there will be no annual wage negotiations.

Available Information

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

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

Also available on the U. S. Steel web site are U. S. Steel s Corporate Governance Principles, our Code of Ethical Business Conduct and the charters of the Audit Committee, the Compensation & Organization Committee and the Corporate Governance & Public Policy Committee of the Board of Directors. These documents and the Annual Report on Form 10-K are also available in print to any shareholder who requests them. Such requests should be sent to the Office of the Corporate Secretary, United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania 15219-2800 (telephone: 412-433-2998).

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

Other Information

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

For significant operating data for U. S. Steel for each of the last five years, see Five-Year Operating Summary (Unaudited) on pages F-64 and F-65.

Item 1A. RISK FACTORS

Risk Factors Concerning the Current Global Recession

The volatile global economic climate is having significant negative effects on our business and our forward view is limited because of low order backlogs and short lead times. All segments of our business have been impacted and such impacts have created certain new risks and have also affected the other risks set forth below.

U. S. Steel s end product markets have been severely affected.

Our Flat-rolled and European segments sell to the automotive, appliance and construction-related industries, all of which have reported substantially lower customer demand due to the ongoing global recession. Prices for both oil and natural gas have fallen dramatically and this has led to a substantial decrease in oil and gas drilling activity, which has resulted in lower customer demand for our Tubular segment. As a result, U. S. Steel s operating levels have fallen and will remain at depressed levels until our customers demand increases.

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In addition to slackening demand by end customers, we believe that some of our customers are experiencing difficulty in obtaining credit or maintaining their ability to qualify for trade credit insurance, resulting in a further reduction in purchases and an increase in our credit risk exposure. The duration of the recession and the trajectory of the recovery for these industries may have a significant impact on U. S. Steel.

U. S. Steel may not be able to access financial markets and there may be difficulty drawing upon existing financial agreements.

Given the current economic environment, it is unclear on what terms if any we could access the capital markets. Lehman Brothers Commercial Bank (Lehman) holds a $15 million commitment in our $750 million credit facility (Credit Facility). With the bankruptcy filing by Lehman s parent, we do not know if Lehman could or would fund its share of the commitment. Other lenders may be facing financial difficulties and may be unable or unwilling to honor a draw request. Accordingly, there may be a reduction of the sums normally available under our credit facilities. This decrease in available credit may increase the risk of our customers defaulting on their payment obligations to U. S. Steel and may cause some of our suppliers to be delayed in filling or to be unable to fill our needs. Customer defaults may trigger repurchases or reduce the availability under our accounts receivables facility. In addition, that facility is funded by the sale of commercial paper by the purchasers so volatility in the commercial paper market may increase costs under that facility. Interest rates under the Credit Facility, our other variable rate credit facilities and our term loans may be set by auction among the lenders or as a margin over published rates such as the London Interbank Offered Rate and the Fed Funds Rate, which may result in substantially higher interest rates.

U. S. Steel may face increased risks of customer and supplier defaults.

There is an increased risk of insolvency and other credit related issues of our customers, particularly those in hard hit industries such as automotive, construction and appliance. Also, there is the possibility that our suppliers may face similar risks.

U. S. Steel s joint ventures and other equity investees are also being affected by the current global recession.

U. S. Steel s joint ventures and other equity affiliates are also engaged in the production of raw materials and the production or sales of flat-rolled and tubular products. As such they face many of the same issues previously described concerning U. S. Steel. Since these entities are smaller than U. S. Steel they may have fewer resources available to them to respond to the current global recession.

Risk Factors Concerning the Steel Industry

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

Steel consumption is highly cyclical and generally follows economic and industrial conditions both worldwide and in regional markets. The steel industry has historically been characterized by excess world supply, which has led to substantial price decreases during periods of economic weakness. The current economic downturn has decreased the demand for our products and is negatively affecting our profitability and cash flow. Substitute materials are increasingly available for many steel products, which further reduces demand for steel.

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

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

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production is exported to other markets. Since the Chinese steel industry is largely government owned, it may not be as adversely impacted by the current world financial situation and it may make production and sales decisions for non-market reasons.

Increased imports of steel products into North America and Europe could negatively affect steel prices and demand levels and reduce our profitability.

Steel imports to the United States accounted for an estimated 28 percent of the domestic steel market in 2008, 26 percent in 2007 and 31 percent in 2006. Foreign competitors may have lower labor costs, and some are owned, controlled or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. The expiration in 2007 of a number of antidumping and countervailing duty orders may facilitate additional imports in 2009 and beyond. In addition, the recent strengthening of the U.S. dollar makes imports more attractive to steel purchasers in the United States.

Imports of tubular products increased significantly in 2008. Oil country tubular goods (OCTG) accounted for a large share of the growth as they have more than doubled over 2007 levels. Imports of OCTG from China registered the most dramatic increase as they grew from 900,000 tons in 2007 to nearly 2.3 million tons in 2008. The U.S. market experienced a surge in tubular imports in the second half of 2008 that resulted in record OCTG inventories by the end of the year, which is expected to affect demand in 2009.

Imports of flat-rolled steel to Canada accounted for an estimated 25 percent of the Canadian market for flat-rolled steel products in 2008, 27 percent in 2007 and 34 percent in 2006.

Total imports of flat-rolled carbon steel products to the EU27 were 15 percent of the EU market in 2008, 17 percent in 2007 and 14 percent in 2006.

Increases in future levels of imported steel to North America and Europe could reduce future market prices and demand levels for steel products produced in those markets.

Imports into the United States, Canada and the European Union have often violated the international trade laws of these jurisdictions. While in some cases U. S. Steel and others have been successful in obtaining relief under these laws, in other circumstances relief has not been received. When received, such relief is generally subject to automatic or discretionary recision or reduction. There can be no assurance that any such relief will be obtained or continued in the future or that such relief as obtained will be adequate.

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

Steel producers require large amounts of raw materials iron ore or other iron containing material, steel scrap, coke, coal, zinc, tin and other metallic additions for integrated producers such as U. S. Steel, and scrap, zinc and other metallic additions for mini-mill producers. Both integrated and mini-mill producers consume large amounts of energy. Over the last several years, prices for raw materials and energy have increased significantly. In many cases these prices have increased by a greater percentage or have decreased more slowly than the selling prices for steel products.

U. S. Steel and other steel producers have periodically been faced with problems in obtaining sufficient raw materials and energy in a timely manner due to shortages or transportation problems (such as shortages of barges, ocean vessels, rail cars or trucks, or unavailability of rail lines or of locks on the Great Lakes), resulting in production curtailments. USSE is dependent upon availability of natural gas from Russia through Ukraine. USSE experienced natural gas curtailments during periods of peak demand in Eastern Europe and Russia in 2006 and during Russia s suspension of gas shipments to Europe in January 2009. Resulting production curtailments and escalated costs have reduced profit margins and any future curtailments and escalated costs may reduce profit margins.

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

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

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

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

Risk Factors Concerning U. S. Steel Legacy Obligations

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

We maintain defined benefit retiree health care and life insurance and defined benefit and defined contribution pension plans covering most of our North American employees and former employees upon their retirement. As of December 31, 2008, approximately 130,000 current employees, retirees and beneficiaries are participating in the plans to receive pension and/or medical benefits. At December 31, 2008, U. S. Steel s benefit obligations for retiree medical and life insurance exceeded trust assets by $3.1 billion, an increase of $210 million from the amount at the end of 2007. The funded status of the projected pension benefit obligation decreased from a net overfunded position of $223 million at year-end 2007 to a net underfunded position of $2.0 billion at year-end 2008.

Most of our other benefits and pension benefits are subject to collective bargaining agreements with unionized workforces and will be subject to future negotiations. Minimum contributions to domestic qualified pension plans are controlled under ERISA and other government regulations. Minimum contributions to USSC pension plans are governed by an agreement entered into by Stelco and the Province of Ontario that U. S. Steel assumed in conjunction with the acquisition of Stelco. This agreement requires defined annual contributions until the earlier of full solvency funding for the four main plans or until December 31, 2015, when minimum funding requirements for the plans resume under the provincial pension legislation. Substantial cash contributions may be required to fund other benefits and pensions. Total costs for pension plans and other benefits are expected to be approximately $380 million in 2009, an increase of $153 million from 2008.

Many domestic and international competitors do not provide defined benefit retiree health care and life insurance and pension plans, and other international competitors operate in jurisdictions with government sponsored health care plans that may offer them a cost advantage. Benefit obligations under our plans are not tied to operating rates; therefore, our costs are not expected to decline as a result of the current global recession or any other future economic downturns.

U. S. Steel contributes to a multiemployer plan in the United States covering pensions for USW-represented workers formerly employed by National Steel and workers hired after May 2003. We have legal and contractual requirements for future funding of this plan, which will have a negative effect on our cash flows. The collective bargaining agreements with the USW entered into effective September 1, 2008 (the 2008 CBAs) increased our required contributions to this plan from $1.80 to $2.65 per hour worked. In addition, funding requirements for participants could increase as a result of any underfunding of this plan.

The recent turmoil in financial markets has led to significant declines in the value of equity investments that are held by the trusts under our pension plans and the trust to pay for retiree health care and life insurance benefits, which has contributed to the underfunded position at December 31, 2008. Since the Pension Protection Act of 2006 was enacted, U. S. Steel has not been required to make mandatory contributions to our main U.S. pension plan. Such contributions may be required in the future.

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

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

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

Other Risk Factors Applicable to U. S. Steel

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

Our steel production depends on the operation of critical pieces of equipment, such as blast furnaces, casters and hot strip mills. It is possible that we could experience prolonged periods of reduced production due to equipment failures at our facilities or those of our key suppliers. It is also possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. Production at USSE was curtailed in January 2009 due to the suspension of natural gas deliveries to Europe from Russia and we remain vulnerable to this risk. Availability of raw materials and delivery of products to customers could be affected by logistical disruptions (such as shortages of barges, ocean vessels, rail cars or trucks, or unavailability of rail lines or of locks on the Great Lakes). To the extent that lost production could not be compensated for at unaffected facilities and depending on the length of the outage, our sales and our unit production costs could be adversely affected.

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

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

Declines in the production levels of our major customers and customer payment defaults could have an adverse effect on our financial position, results of operations and cash flow.

Flat-rolled and USSE sell to the automotive, appliance and construction-related industries, all of which have reported substantially lower customer demand due to the ongoing global recession. Prices for both oil and natural gas have fallen dramatically leading to a reduction in oil and gas exploration and development, which in turn has resulted in lower customer demand for our Tubular segment. In addition to slackening demand by end customers, we believe that some of our customers are experiencing difficulty in obtaining credit, which has further reduced their purchases from us. The duration of the recession and the trajectory of the recovery for these industries may have a significant impact on U. S. Steel.

In some cases, these difficulties may result in bankruptcy filings or cessation of operations. If customers experiencing financial problems default on paying amounts owed to us, we may not be able to collect these amounts. Any material payment defaults by our customers could have an adverse effect on our results of operations and financial condition. The decrease in available credit may increase the risk of our customers defaulting on their payment obligations to U. S. Steel and may cause some of our suppliers to be delayed in filling

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or unable to fill our needs. Customer defaults may trigger repurchases or reduce the availability under our accounts receivables facility. In addition, that facility is funded by the sale of commercial paper by the purchasers so volatility in the commercial paper market may increase costs under that facility.

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

In 2007, we entered into a five-year $750 million revolving credit facility (Credit Facility) and five-year and three-year term loan facilities both in the amount of $500 million (Term Loan Facilities), with $655 million outstanding under the Term Loan Facilities at December 31, 2008. These facilities include an interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) to consolidated interest expense) covenant of 2:1 and a leverage ratio (consolidated debt to consolidated EBITDA) covenant of 3.25:1. We also issued $1.6 billion of Senior Notes in 2007 that contain covenants restricting our ability to create liens and engage in sale-leasebacks and requiring the repurchase of the Senior Notes upon a change of control under specified circumstances, as well as other customary provisions. Compliance with these covenants will depend upon future operating results and other factors that are at least partially outside of our control. These covenants may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities.

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

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

Change in control clauses in our financial and labor agreements grant the other party rights to accelerate obligations and to terminate or extend our labor agreements,

Upon the occurrence of change in control events specified in our Senior Notes, Credit Facility, Term Loan Facilities and various other contracts and leases, the holders of our indebtedness may require us to immediately repurchase or repay that debt on less than favorable terms. Additionally, the 2008 CBAs give the USW the right to either terminate or extend the collective bargaining agreements for an additional four years.

A change of control is generally defined to include any of the following: (a) the acquisition by a person or group of at least 35 percent of our common stock, (b) a merger in which holders of our common stock own less than a majority of the equity in the resulting entity, or (c) replacement of a majority of the members of our Board of Directors.

Our operations expose us to uncertainties and risks in the countries in which we operate, which could negatively affect our results of operations and cash flow.

Our U.S. operations are subject to economic conditions and political factors in the United States, which if changed could negatively affect our results of operations and cash flow. Political factors include, but are not limited to, taxation, inflation, increased regulation, limitations on exports of energy and raw materials, and trade remedies. Actions taken by the new U.S. Administration could affect our results of operations and cash flow.

USSK, located in Slovakia, USSS, located in Serbia, and USSC, located in Canada, constitute 39 percent of our total raw steel production capability. All of them are subject to economic conditions and political factors in the countries in which they are located, and USSK is additionally subject to economic conditions and political factors associated with the European Union and the euro currency. Changes in any of these economic conditions or political factors could negatively affect our results of operations and cash flow. Political factors include, but are not limited to, taxation, nationalization, inflation, government instability, civil unrest, increased regulation and quotas, tariffs and other protectionist measures.

Any future foreign acquisitions would expose us to similar risks.

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We are subject to significant foreign currency risks, which could negatively impact our profitability and cash flows.

Our foreign operations accounted for approximately 34 percent of our net sales in 2008. The financial condition and results of operations of USSK, USSS and USSC are reported in various foreign currencies and then translated into U.S. dollars at the applicable exchange rate for inclusion in our financial statements. The appreciation of the U.S. dollar against these foreign currencies could have a negative impact on our consolidated profitability.

In addition, the acquisition of USSC was funded from the United States, as well as through the reinvestment of undistributed foreign earnings from USSE, creating intercompany monetary assets and liabilities in currencies other than the functional currencies of the entities involved, which can have a non-cash impact on income when they are remeasured at the end of each quarter. An $815 million U.S. dollar-denominated intercompany loan to a European affiliate was the primary exposure at December 31, 2008.

Any future foreign acquisitions would expose us to similar risks.

Greenhouse gas policies could negatively affect our results of operations and cash flows.

The integrated steel process involves a series of chemical reactions involving carbon that create carbon dioxide (CO_2). This distinguishes integrated steel producers from mini-mills and many other industries where CO_2 generation is generally linked to energy usage. The European Union (EU) has established greenhouse gas regulations and Canada and the United States may also do so. These limitations could have a negative effect on income and cash flows. Since mini-mill production does not involve the same chemical reactions as integrated production, mini-mills may have a competitive advantage. Also since China and many other developing nations have not instituted greenhouse gas regulations, and since past international agreements such as the Kyoto Protocol provided exemptions and lesser standards for developing nations, we may also be at a competitive disadvantage.

The new U.S. Administration has announced its commitment to implement a national cap-and-trade program to reduce greenhouse gas emissions by 80 percent by 2050. The parameters and timetable of this proposed program have not been announced but it could have a negative impact on production levels, income and cash flows. Furthermore, it could have negative impacts on our suppliers and customers that could result in higher costs and lower sales for us.

On April 26, 2007, Canada s federal government announced an Action Plan to Reduce Greenhouse Gases and Air Pollution. The federal government plans to set mandatory reduction targets on all major greenhouse gas producing industries to achieve an absolute reduction of 150 megatonnes in greenhouse gas emissions from 2006 levels by 2020. Facilities existing in 2006 will be required to cut their greenhouse gas emissions intensity by 18 percent by 2010, with a further two percent reduction in each following year. Companies will be able to choose the most cost-effective way to meet their targets from a range of options. Environment Canada has indicated that the proposed rules will contain exemptions for fixed process gas emissions industries, including steel, for which an exemption of 62 percent of greenhouse gas emissions is contemplated. Certain provinces have enacted climate change rules and Ontario may also do so. These limitations could have a negative effect on income and cash flows.

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

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

With $3,145 million of debt outstanding as of December 31, 2008, we have significant debt service requirements.

Our operations are capital intensive. For the five-year period ended December 31, 2008, total capital expenditures were $3.5 billion, including $161 million of expenditures by Gateway Energy & Coke Company, LLC (Gateway)

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that are consolidated in our financial results based on Financial Accounting Standards Board Interpretation No. 46(R). At December 31, 2008, our contract commitments to acquire property, plant and equipment totaled $271 million and we were obligated to make aggregate lease payments of $186 million under operating leases. We are planning a significant capital investment over a period of years for new coke oven batteries at our Clairton Plant, replacing existing batteries that are nearing the end of their useful lives and rehabilitating several other existing batteries. We are currently in the first phase of this investment, which includes construction of a technologically and environmentally advanced coke battery that will replace the current capacity of three older units, and rehabilitation of several existing coke batteries. Also, Gateway is in the process of constructing a coke plant to supply Granite City Works and we are constructing a cogeneration facility that will utilize by-products and that we will own and operate. Should we choose to defer capital expenditures to conserve cash, it could become more expensive to complete such deferred projects in the future.

In addition to capital expenditures and lease payments, we spend significant amounts for maintenance of raw material, raw steel and steel-finishing production facilities.

As of December 31, 2008, we had contingent obligations consisting of indemnity obligations under active surety bonds, trusts and letters of credit totaling approximately $147 million, operating lease obligations of approximately $29 million that may be declared immediately due and payable in the event of the bankruptcy of Marathon Oil Corporation, and contractual purchase commitments under purchase orders and take or pay arrangements of approximately $13.5 billion.

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

We have approximately $1.2 billion of revolving credit facilities and a $500 million accounts receivable securitization facility, which provide us with available financing to meet our cash needs. In light of the current volatile market environment, we may not be able to obtain the full amount of the funds available under these facilities.

U. S. Steel is exposed to uninsured losses.

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

Our collective bargaining agreements may limit our flexibility.

Most hourly employees of U. S. Steel s flat-rolled, tubular, cokemaking and iron ore pellet facilities in the United States are covered by the 2008 CBAs, which expire in September 2012. These agreements contain provisions that prohibit us from pursuing any North American transaction involving steel or steel-related assets without the consent of the USW, grant the USW a right to bid on any sale of one or more facilities covered by the 2008 CBAs, require us to make reasonable and necessary capital expenditures to maintain the competitive status of our domestic facilities and require mandatory pre-funding of a trust for retiree health care and life

insurance. These agreements also restrict our ability to trade, sell or use foreign-produced coke and iron ore in North America, and further require that the ratio of non-USW employees to USW employees at our domestic facilities not exceed one to five.

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

There are risks associated with past acquisitions, as well as any acquisitions we may make in the future.

The Lone Star and Stelco acquisitions created $1.6 billion of goodwill on our balance sheet as of December 31, 2008, which exposes us to the risk of future impairment charges.

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The Lone Star acquisition increased our tubular production capacity by more than 50 percent and the Stelco acquisition increased our North American steelmaking capability by 25 percent, thereby increasing our exposure to cyclical downturns in historically cyclical industries such as oil and gas, service center, conversion, automotive, construction and appliance.

The success of any future acquisitions will depend substantially on the accuracy of our analysis concerning such businesses and our ability to complete such acquisitions on favorable terms, to finance such acquisitions and to integrate the acquired operations successfully with existing operations. If we are unable to integrate new operations successfully, our financial results and business reputation could suffer. Our recent acquisitions involved purchase prices significantly higher than the prices we paid for our acquisitions in 2003. Such prices will make it more difficult to achieve adequate financial returns. Additional risks associated with acquisitions are the diversion of management s attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, and the inherent risks in entering markets or lines of business in which we have limited or no prior experience. International acquisitions may present unique challenges and increase the Company s exposure to the risks associated with foreign operations and countries. Antitrust and similar laws in foreign jurisdictions may prevent us from completing acquisitions.

We may be subject to litigation, the disposition of which could negatively affect our profitability and cash flow in a particular period.

Our profitability or cash flow in a particular period could be affected by an adverse ruling in any litigation currently pending in the courts or by litigation that may be filed against us in the future. For information regarding our current significant legal proceedings, see Item 3. Legal Proceedings.

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

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

We may suffer employment losses, which could negatively affect our future performance.

A significant number of U. S. Steel s U.S.-based non-represented employees will be eligible for retirement over the next several years.

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

In response to the current economic situation, we have laid off many employees mainly at our idled facilities, have placed a temporary freeze on hiring and have offered a voluntary early retirement program (VERP) to certain non-represented employees. We are closely monitoring the impact of these actions to ensure that long-term staffing needs of our company will be met. Approximately 500 employees accepted the VERP and the majority will be retiring on February 28, 2009.

The current cost reduction actions will increase the number of personnel and organization changes and may increase the risk of internal control failures. We are monitoring these changes closely and expanding our training program.

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

We are currently implementing an ERP system to help us operate more efficiently. This is a complex project, which is expected to be implemented in several phases over the next several years. We may not be able to successfully implement the ERP program without experiencing difficulties. In addition, the expected benefits of implementing the ERP system may not be realized or the costs of implementation may outweigh the realized benefits. We recently extended the implementation schedule to reduce near-term costs. This action will delay the realization of benefits from this project and may add to final project costs.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

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

North American Operations		
Property	**Location**	**Products and Services**
Gary Works	Gary, Indiana	Sheets; Tin mill; Strip mill plate; Coke
Midwest Plant	Portage, Indiana	Sheets; Tin mill
East Chicago Tin	East Chicago, Indiana	Tin mill
Great Lakes Works	Ecorse and River Rouge, Michigan	Sheets
Mon Valley Works		
Irvin Plant	West Mifflin, Pennsylvania	Sheets
Edgar Thomson Plant	Braddock, Pennsylvania	Slabs
Fairless Plant	Fairless Hills, Pennsylvania	Galvanized sheets
Clairton Plant	Clairton, Pennsylvania	Coke
Granite City Works	Granite City, Illinois	Sheets; Coke
Lake Erie Works	Nanticoke, Ontario, Canada	Slabs; Sheets; Coke
Hamilton Works	Hamilton, Ontario, Canada	Slabs; Sheets; Coke; Bars
Fairfield Works	Fairfield, Alabama	Sheets; Tubular
Z-Line Company[(b)]	Hamilton, Ontario, Canada	Galvanized sheets
USS-POSCO Industries[(a)]	Pittsburg, California	Sheets; Tin mill
PRO-TEC Coating Company[(a)]	Leipsic, Ohio	Galvanized sheets
Double Eagle Steel Coating Company[(a)]	Dearborn, Michigan	Galvanized sheets
Double G Coatings Company, L.P.[(a)]	Jackson, Mississippi	Galvanized and Galvalume® sheets
Worthington Specialty Processing[(a)]	Jackson, Canton and Taylor, Michigan	Steel processing
Feralloy Processing Company[(a)]	Portage, Indiana	Steel processing
Chrome Deposit Corporation[(a)]	Various	Roll processing
Acero Prime, S.R.L. de C.V.[(a)]	San Luis Potosi and Ramos Arizpe, Mexico	Steel processing; Warehousing
Baycoat Limited Partnership[(a)]	Hamilton, Ontario, Canada	Steel processing
D.C. Chrome Limited[(a)]	Stony Creek, Ontario, Canada	Roll processing
Lorain Tubular Operations	Lorain, Ohio	Tubular
Texas Operations	Lone Star, Texas	Tubular
Bellville Operations	Bellville, Texas	Tubular
Wheeling Machine Products	Pine Bluff, Arkansas and Hughes Springs and Houston, Texas	Tubular couplings
Tubular Processing Services	Houston, Texas	Tubular processing
Tubular Threading and Inspection Services	Houston, Texas	Tubular threading, inspection and storage services
Fintube Technologies, Inc.	Tulsa, Oklahoma and Monterrey, Mexico	Tubular
United Spiral Pipe, LLC[(a)]	Pittsburg, California	Tubular
Minntac iron ore operations	Mt. Iron, Minnesota	Iron ore pellets
Keetac iron ore operations	Keewatin, Minnesota	Iron ore pellets
Hibbing Taconite Company[(a)]	Hibbing, Minnesota	Iron ore pellets
Wabush Mines[(a)]	Wabush, Labrador, Canada and Pointe Noire, Quebec, Canada	Iron ore pellets
Tilden Mining Company[(a)]	Ishpeming, Michigan	Iron ore pellets
Transtar[(c)]	Alabama, Illinois, Indiana, Michigan, Ohio, Pennsylvania, Texas	Transportation services

(a) Equity investee
(b) A consolidated partnership in which U. S. Steel owns less than 100 percent
(c) Effective with the sale of a major portion of the Elgin, Joliet and Eastern Railway Company on January 31, 2009, Transtar no longer operates in Illinois.

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Other Operations

Property	Location	Products and Services
U. S. Steel Ko ice	Ko ice, Slovakia	Sheets; Tin mill; Strip mill plate; Tubular; Coke; Radiators; Refractories
U. S. Steel Serbia	Smederevo, Sabac and Kucevo, Serbia	Sheets; Tin mill; Strip mill plate; Limestone
Apolo Tubulars S.A.[(a)]	Lorena, Sao Paulo, Brazil	Tubular
Serbian Roll Service Company, d.o.o.[(a)]	Smederevo, Serbia	Roll Processing

(a) Equity investee

U. S. Steel and its predecessors (including Lone Star) have owned their properties for many years with no material adverse claims asserted. In the case of Great Lakes Works, Granite City Works, the Midwest Plant and Keetac iron ore operations acquired from National Steel in 2003; the Smederevo, Sabac and Kucevo, Serbia operations acquired by U. S. Steel in 2003; and the Lake Erie Works and Hamilton Works of U. S. Steel Canada acquired in 2007; U. S. Steel or its subsidiaries are the beneficiaries of bankruptcy laws and orders providing that properties are held free and clear of past liabilities. In addition, U. S. Steel or its predecessors obtained title insurance, local counsel opinions or similar protections when the major properties were initially acquired.

The caster facility at Fairfield, Alabama is subject to a lease expiring in 2012, with an option to purchase or to extend the lease. A coke battery at Clairton, Pennsylvania is subject to a lease through 2012, at which time title will pass to U. S. Steel. At the Midwest Plant in Indiana, U. S. Steel has a supply agreement for various utility services with a company which owns a cogeneration facility located on U. S. Steel property. The Midwest Plant agreement expires in 2013. The headquarters office space in Pittsburgh, Pennsylvania used by U. S. Steel is leased through 2018.

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

Item 3. LEGAL PROCEEDINGS

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

is possible that these contingencies could be resolved unfavorably.

General Litigation

In March 2008, the Indiana Court of Appeals reversed a previous decision of the Indiana Utilities Regulatory Commission involving a rate escalation provision in U. S. Steel s electric power supply contract with Northern Indiana Public Service Company and a reserve of $45 million related to prior year effects was established in the first quarter. In September 2008, the Indiana Supreme Court granted U. S. Steel s petition to transfer the matter to that court, where the merits of the case were argued in November 2008. We are awaiting a decision.

On March 20, 2008, ArcelorMittal Dofasco, Inc. (Dofasco) served USSC with a statement of claim filed in the Ontario Superior Court of Justice seeking to require Cleveland Cliffs Inc., now Cliffs Natural Resources Inc., and USSC to complete a proposed transaction to sell their interests in the Wabush iron ore joint venture to Dofasco and to pay C$427 million in damages (approximately $349 million) or, alternatively, to pay damages of C$1.8 billion (approximately $1.5 billion) if the sale did not take place. On November 5, 2008, the court granted USSC s Motion to Strike and Dofasco s claim against USSC has been dismissed.

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In a series of lawsuits filed in federal court in the Northern District of Illinois beginning September 12, 2008, individual direct or indirect buyers of steel products have asserted that eight steel manufacturers, including U. S. Steel, conspired in violation of antitrust laws to restrict the domestic production of raw steel and thereby to fix, raise, maintain or stabilize the price of steel products in the United States. The cases are filed as class actions and claim treble damages for the period 2005 to present, but do not allege any damage amounts. U. S. Steel will vigorously defend these lawsuits and does not believe that it has any liability regarding these matters.

Asbestos Litigation

As of December 31, 2008, U. S. Steel was a defendant in approximately 450 active cases involving approximately 3,050 plaintiffs (claims). At December 31, 2007, U. S. Steel was a defendant in approximately 325 active cases involving approximately 3,000 plaintiffs. During 2008, settlements and dismissals resulted in the disposition of approximately 400 claims and U. S. Steel paid approximately $13 million in settlements. New filings added approximately 450 claims.

Almost 2,600, or approximately 85 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Of these claims, about 1,550 are pending in Mississippi and about 1,050 are pending in Texas. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. Mississippi and Texas have amended their laws to curtail mass filings. As a consequence, most of the claims filed in 2008 and 2007 involve individual or small groups of claimants.

Historically, these claims against U. S. Steel fall into three major groups: (1) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); (2) claims made by industrial workers allegedly exposed to products formerly manufactured by U. S. Steel; and (3) claims made under certain federal and general maritime laws by employees of former operations of U. S. Steel. In general, the only insurance available to U. S. Steel with respect to asbestos claims is excess casualty insurance, which has multi-million dollar self-insured retentions. To date, U. S. Steel has received minimal payments under these policies relating to asbestos claims.

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 190 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

In many cases in which claims have been asserted against U. S. Steel, the plaintiffs have been unable to establish any causal relationship to U. S. Steel or our products or premises; however, with the decline in mass plaintiff cases the incidence of claimants actually alleging a claim against U. S. Steel is increasing. In addition, in many asbestos cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all; that any injuries that they have incurred did in fact result from alleged exposure to asbestos; or that such alleged exposure was in any way related to U. S. Steel or our products or premises.

In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Historically, approximately 89 percent of the cases against U. S. Steel did not specify any damage

amount or stated that the damages sought exceeded the amount required to establish jurisdiction of the court in which the case was filed. (Jurisdictional amounts generally range from $25,000 to $75,000.) U. S. Steel does not consider the amount of damages alleged, if any, in a complaint to be relevant in assessing our potential exposure to asbestos liabilities. The ultimate outcome of any claim depends upon a myriad of legal and factual issues, including whether the plaintiff can prove actual disease, if any; actual exposure, if any, to U. S. Steel products; or the duration of exposure to asbestos, if any, on U. S. Steel s premises. U. S. Steel has noted over the years that the form of complaint including its allegations, if any, concerning damages often depends upon the form of complaint filed by particular law firms and attorneys. Often the same damage allegation will be in multiple complaints regardless of the number of plaintiffs, the number of defendants, or any specific diseases or conditions alleged.

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

The following table shows activity with respect to asbestos litigation:

Year ended December 31,	Opening Number of Claims	Claims Dismissed, Settled and Resolved	New Claims	Closing Number of Claims	Amounts Paid to Resolve Claims (in millions)
2006	8,400	5,150	450	3,700	$ 8
2007	3,700	1,230	530	3,000	$ 9
2008	3,000	400	450	3,050	$ 13

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because it is not possible to determine whether any loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. The vast majority of pending claims against us allege so-called premises liability-based exposure on U. S. Steel s current or former premises. These claims are made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers. In most cases, the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely.

It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company s financial condition, although the resolution of such matters could significantly impact results of operations for a particular quarter. Among the factors considered in reaching this conclusion are: (1) that over the last several years, the total number of pending claims has declined; (2) that it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; and (3) U. S. Steel s history of trial outcomes, settlements and dismissals.

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

Environmental Proceedings

The following is a summary of the proceedings of U. S. Steel that were pending or contemplated as of December 31, 2008, under federal and state environmental laws. Except as described herein, it is not possible to accurately predict the ultimate outcome of these matters.

CERCLA Remediation Sites

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

Projections, provided in the following paragraphs, of spending for and/or timing of completion of specific projects are forward-looking statements. These forward-looking statements are based on certain assumptions including,

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but not limited to, the factors provided in the preceding paragraph. To the extent that these assumptions prove to be inaccurate, future spending for, or timing of completion of, environmental projects may differ materially from what was stated in forward-looking statements.

At December 31, 2008, U. S. Steel had been identified as a PRP at a total of 23 CERCLA sites where liability is not resolved. Based on currently available information, which is in many cases preliminary and incomplete, management believes that U. S. Steel s liability for cleanup and remediation costs will be between $1 million and $5 million for two of these sites, will be between $100,000 and $1 million per site for seven of these sites, and will be under $100,000 per site for 12 of these sites. At the remaining two sites, management estimates U. S. Steel s share in the future cleanup costs to be $32.6 million, although it is not possible to accurately predict the amount of final allocation of such costs. One site is known as the Municipal & Industrial Disposal Co. site in Elizabeth, Pennsylvania. In October 1991, the Pennsylvania Department of Environmental Resources placed the site on the Pennsylvania State Superfund list and began a Remedial Investigation, which was issued in 1997. U. S. Steel and the Pennsylvania Department of Environmental Protection (PADEP) signed a Consent Order and Agreement on August 30, 2002, under which U. S. Steel is responsible for remediation of this site. In 2003 the Consent Order and Agreement became final. U. S. Steel has completed the remedial design for this site and it is being reviewed by PADEP. The other site is the former Duluth Works, which was listed by the Minnesota Pollution Control Agency (MPCA) under the Minnesota Environmental Response and Liability Act on its Permanent List of Priorities. The U.S. Environmental Protection Agency (EPA) has included the Duluth Works site with the St. Louis River Interlake Duluth Tar site on EPA s National Priorities List. The Duluth Works cleanup has proceeded since 1989. U. S. Steel has prepared a conceptual habitat enhancement plan (HEP) that includes measures to address contaminated sediments in the St. Louis River Estuary. MPCA (on behalf of EPA) has completed its second five-year review for the site. As a result, additional data collection will be required to address data gaps identified in the five-year review and corrective measures will be required to address the recently discovered areas of contamination on the upland property. Study, investigation and oversight costs along with implementation of corrective measures on the upland property and implementation of the HEP are currently estimated at $25.6 million.

In addition, there are 11 sites related to U. S. Steel where information requests have been received or there are other indications that U. S. Steel may be a PRP under CERCLA, but where sufficient information is not presently available to confirm the existence of liability or to make any judgment as to the amount thereof.

Other Remediation Activities

There are 48 additional sites where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. Based on currently available information, which is in many cases preliminary and incomplete, management believes that liability for cleanup and remediation costs in connection with 13 of these sites will be under $100,000 per site, another 18 sites have potential costs between $100,000 and $1 million per site, and 10 sites may involve remediation costs between $1 million and $5 million per site. As described below, costs for remediation, investigation, restoration or compensation are estimated to be in excess of $5 million per site at two sites and in excess of $10 million per site at two sites. Potential costs associated with remediation at the remaining three sites are not presently determinable.

Gary Works

On January 26, 1998, pursuant to an action filed by EPA in the United States District Court for the Northern District of Indiana titled United States of America v. USX, U. S. Steel entered into a consent decree with EPA which resolved alleged violations of the

Clean Water Act National Pollutant Discharge Elimination System (NPDES) permit at Gary Works and provides for a sediment remediation project for a section of the Grand Calumet River that runs through Gary Works. As of December 31, 2008, project costs have amounted to $60.8 million. U. S. Steel completed additional dredging in 2007, and submitted a Dredge Completion Report to EPA in May 2008. Although further dredging is not expected, $1.1 million is accrued for possible additional work that may be required to complete the project and obtain EPA approval. The Corrective Action Management Unit (CAMU) which received dredged materials from the Grand Calumet River could be used for containment of approved material from other corrective measures conducted at Gary Works pursuant to the Administrative Order on Consent for corrective action. CAMU maintenance and wastewater treatment costs are anticipated to be an additional $1.4 million through December 2011. In 1998, U. S. Steel also entered into a consent decree with the public trustees, which

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resolves liability for natural resource damages on the same section of the Grand Calumet River. U. S. Steel will pay the public trustees $1.0 million at the end of the sediment remediation project for ecological monitoring costs. In addition, U. S. Steel is obligated to perform, and has initiated, ecological restoration in this section of the Grand Calumet River. The costs required to complete the ecological restoration work are estimated to be $903,000. In total, the accrued liability for the above projects based on the estimated remaining costs was $4.4 million at December 31, 2008.

At Gary Works, U. S. Steel has agreed to close three hazardous waste disposal sites: D5, along with an adjacent solid waste disposal unit, Terminal Treatment Plant (TTP) Area; T2; and D2 combined with a portion of the Refuse Area, where a solid waste disposal unit overlaps with the hazardous waste disposal unit. The sites are located on plant property. U. S. Steel has submitted a closure plan to the Indiana Department of Environmental Management (IDEM) for D2 and the known tar areas of the Refuse Area. U. S. Steel has proposed that the remainder of the Refuse Area be addressed as a Solid Waste Management Unit (SWMU) under corrective action. In addition, U. S. Steel has submitted a revised closure plan for T2 and a closure plan for D5 and plans to submit a closure plan for the TTP Area in the first quarter of 2009. The related accrued liability for estimated costs to close each of the hazardous waste sites and perform groundwater monitoring is $6.1 million for D5 and TTP, $3.9 million for T2 and $10.9 million for D2 including a portion of the Refuse Area, at December 31, 2008.

On October 23, 1998, EPA issued a final Administrative Order on Consent addressing Corrective Action for SWMUs throughout Gary Works. This order requires U. S. Steel to perform a Resource Conservation and Recovery Act (RCRA) Facility Investigation (RFI), a Corrective Measure Study (CMS) and Corrective Measure Implementation at Gary Works. Reports of field investigation findings for Phase I work plans have been submitted to EPA. Four self-implementing interim measures have been completed. Through December 31, 2008, U. S. Steel had spent approximately $27.0 million for the studies, work plans, field investigations and self-implementing interim measures. U. S. Steel has submitted a proposal to EPA seeking approval for perimeter groundwater monitoring and is developing a proposal for a corrective measure to address impacted sediments in the West Grand Calumet Lagoon. In addition, U. S. Steel has submitted a conceptual sampling and analysis plan for the Solid Waste Management Areas east of the Vessel Slip Turning Basin, has submitted a Self-Implementing Stabilization Measure (SISM) proposal for the design of a full scale groundwater treatment system to address benzene impacted groundwater east of the vessel slip, and continues to operate a groundwater treatment system for the coke plant. The costs for the above mentioned activities, including operation and maintenance of the coke plant groundwater treatment system for 2009, are estimated to be $15.8 million. U. S. Steel has submitted a proposal to EPA seeking approval to implement corrective measures necessary to address soil contamination at Gary Works. U. S. Steel estimates the minimum cost of the corrective measures for soil contamination to be approximately $3.5 million. Closure costs for the CAMU are estimated to be an additional $6.1 million. Until the remaining Phase I work and Phase II field investigations are completed, it is impossible to assess what additional expenditures will be necessary for Corrective Action projects at Gary Works. In total, the accrued liability for the above projects was $25.4 million at December 31, 2008, based on the estimated remaining costs.

In October 1996, U. S. Steel was notified by IDEM, acting as lead trustee, that IDEM and the U.S. Department of the Interior had concluded a preliminary investigation of potential injuries to natural resources related to releases of hazardous substances from various municipal and industrial sources along the east branch of the Grand Calumet River and Indiana Harbor Canal. U. S. Steel agreed to pay to the public trustees $20.5 million over a five-year period for restoration costs, plus $1.0 million in assessment costs. A Consent Decree memorializing this settlement was entered on the record by the court and thereafter became effective April 1, 2005. U. S. Steel has paid our entire share of the assessment costs and $16.5 million of our share of the restoration costs to the public trustees. A balance of $4.0 million in restoration costs to complete our settlement obligations remained as an accrued liability as of December 31, 2008.

On November 26, 2007, IDEM issued a Notice of Violation (NOV) alleging three pushing violations and one door violation on the No. 2 Battery that were to have occurred on July 11, 2007. On December 20, 2007, IDEM made a verbal penalty demand of $123,000 to resolve these alleged violations. U. S. Steel provided written responses to the NOVs. Negotiations regarding these NOVs are ongoing.

On October 3, 2007, November 26, 2007, March 2, 2008 and March 18, 2008, IDEM issued NOVs alleging opacity limitation violations from the coke plant and Blast Furnaces Nos. 4 and 8. To date, no penalty demand has been made by IDEM regarding these NOVs. U. S. Steel is currently negotiating resolution of these NOVs with IDEM.

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On July 3, 2008, EPA Region V issued a Notice of Violation/Finding of Violation (NOV/FOV) alleging violations resulting from a multi-media inspection conducted in May 2007 and subsequent information collection requests pursuant to Section 114 of the Clean Air Act. These alleged violations include those currently being prosecuted by IDEM that are identified above. Other alleged violations include the reline of No. 4 Blast Furnace in 1990 without a New Source Review/Prevention of Significant Deterioration permit, and opacity limit excursions from hot iron transfer cars, slag skimming, slag pits, and the blast furnace casting house. The NOV/FOV also alleges violations relating to hydrochloric acid pickling, blast furnace relief valves and blast furnace flares. While a penalty demand is expected, EPA Region V has not yet made such a demand. Since issuing the NOV/FOV, EPA Region V has issued additional Section 114 information requests to Gary Works. U. S. Steel has responded to the requests and is currently negotiating resolution of the NOV/FOV and other request issues with EPA Region V and IDEM.

Mon Valley Works

On March 17, 2008, U. S. Steel entered a Consent Order and Agreement (COA) with the Allegheny County Health Department (ACHD) to resolve alleged opacity limitation and pushing and traveling violations from older coke oven batteries at its Clairton Plant and to resolve alleged opacity violations from its Edgar Thomson Plant. The COA required U. S. Steel to pay a civil penalty of $301,800 to resolve past alleged violations addressed by the COA. U. S. Steel paid the civil penalty on March 25, 2008. The COA requires U. S. Steel to conduct interim repairs on existing batteries, and make improvements at the Ladle Metallurgical Facility and Steelmaking Shop at the Edgar Thomson Plant. In November 2007, U. S. Steel announced that it is considering plans to upgrade the Clairton Plant. These upgrades are being conducted in two phases and address the alleged violations and improve coking performance. The first phase is under construction and includes replacing Batteries 7 through 9 with a new six meter C Battery that employs Best Available Control Technology (BACT); and the second phase, which has not yet begun, would include replacing Batteries 1 though 3 with a new six meter D Battery, that would also employ BACT. In addition, U. S. Steel is upgrading its existing Batteries 19 and 20. U. S. Steel estimates that these investments will exceed $1 billion. U. S. Steel is also making upgrades at its Edgar Thomson Plant that would reduce emissions. In January 2008, U. S. Steel submitted an installation air permit application for C Battery. The final installation air permit for C Battery was issued by ACHD on July 24, 2008. U. S. Steel submitted an installation air permit application for D Battery in July 2008.

Midwest Plant

A former disposal area located on the east side of the Midwest Plant was designated a SWMU (East Side SWMU) by IDEM before U. S. Steel acquired this plant from National Steel Corporation. After the acquisition, U. S. Steel conducted further investigations of the East Side SWMU. As a result, U. S. Steel has submitted a Closure Plan to IDEM recommending an in-place closure of the East Side SWMU. The cost to close the East Side SWMU is expected to be $4.0 million and was recorded as an accrued liability as of December 31, 2008.

Fairless Plant

In January 1992, U. S. Steel commenced negotiations with EPA regarding the terms of an Administrative Order on consent, pursuant to RCRA, under which U. S. Steel would perform an RFI and a CMS at our Fairless Plant. A Phase I RFI report was submitted during the third quarter of 1997. A Phase II/III RFI will be submitted following EPA approval of the Phase I report. While the RFI/CMS will determine whether there is a need for, and the scope of, any remedial activities at the Fairless Plant, U. S. Steel continues to maintain interim measures at the Fairless Plant and has completed investigation activities on specific parcels. No remedial activities are contemplated as a result of the investigations of these parcels. The cost to U. S. Steel to continue to maintain the interim measures and develop a Phase II/III RFI Work Plan is estimated to be $729,000. It is reasonably possible that

additional costs of as much as $40 to $70 million may be incurred at this site in combination with five other projects. See Note 27 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Fairfield Works

A consent decree was signed by U. S. Steel, EPA and the U.S. Department of Justice (DOJ) and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997, under which U. S. Steel paid a civil penalty of $1.0 million, completed two supplemental environmental projects at a cost of $1.75 million and initiated a RCRA corrective action program at the facility. The

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Alabama Department of Environmental Management (ADEM) assumed primary responsibility for regulation and oversight of the RCRA corrective action program at Fairfield Works, with the approval of EPA. The first Phase I RFI work plan was approved and field sampling for the work plan was completed in 2004. U. S. Steel submitted a Phase I RFI Report to ADEM in February 2005. ADEM approved the Phase I RFI Report and is reviewing a Phase II RFI work plan. The remaining cost to develop and implement the Phase II RFI work plan is estimated to be $680,000. U. S. Steel has completed the investigation and remediation of Lower Opossum Creek under a joint agreement with Beazer, Inc., whereby U. S. Steel has agreed to pay 30 percent of the costs. U. S. Steel s remaining share of the costs for sediment remediation is $210,000. In January 1999, ADEM included the former Ensley facility site in Fairfield Corrective Action. Based on results from our Phase I facility investigation of Ensley, U. S. Steel identified approximately two acres of land at the former coke plant for remediation. As of December 31, 2008, costs to complete the remediation of this area have amounted to $1.3 million. An additional $50,000 is accrued for project contingencies. In total, the accrued liability for the projects described above was $1.0 million at December 31, 2008, based on estimated remaining costs. It is reasonably possible that additional costs of as much as $40 to $70 million may be incurred at this site in combination with five other projects. See Note 27 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Lorain Tubular Operations

In September 2006, U. S. Steel received a letter from the Ohio Environmental Protection Agency (Ohio EPA) inviting U. S. Steel to enter into discussions about RCRA Corrective Action at Lorain Tubular Operations. On December 15, 2006, U. S. Steel received a letter from Ohio EPA that requires U. S. Steel to complete an evaluation of human exposure and update the previous RCRA preliminary site assessment. As of December 31, 2008, U. S. Steel has spent $91,000 on studies at this site. Costs to complete additional studies are estimated to be $344,000. It is reasonably possible that additional costs of as much as $40 to $70 million may be incurred at this site in combination with five other projects. See Note 27 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Great Lakes Works

On January 6, 2006, Great Lakes Works received a proposed administrative consent order from the Michigan Department of Environmental Quality (MDEQ) that alleged violations of NPDES permits at the facility. On February 13, 2007, MDEQ and U. S. Steel agreed to a revised Administrative Consent Order that resolves this matter. As required by the Administrative Consent Order, U. S. Steel has paid a civil penalty of $300,000 and has reimbursed MDEQ $50,000 in costs. The Order identifies certain compliance actions that address the alleged violations. U. S. Steel has completed work on most of these compliance actions, and has initiated work on the others. One of the compliance actions addresses three river basins along the Detroit River and U. S. Steel has completed the corrective measure necessary to remove historical basin sediments from these areas. As of December 31, 2007, $1.8 million had been spent on the project. In addition, $661,000 was accrued for possible additional requirements to obtain MDEQ approval. Another compliance action includes modifications to the Cold Mill Wastewater Treatment Plant where U. S. Steel has agreed to rehabilitate four clarifiers and two wastewater conveyance pipelines, upgrade the computer control system and evaluate other potential improvements of this system. The vast majority of the elements of this project have been completed at a cost of $8.6 million and U. S. Steel anticipates spending an additional $1.9 million, most of which will be capitalized. Costs to complete the few remaining compliance actions are presently not determinable.

EPA Region V has conducted inspections and issued information and emission testing requests under Section 114 of the Clean Air Act regarding operations at Great Lakes Works. U. S. Steel has responded to the requests and has held discussions with EPA Region V and MDEQ regarding the requests and the regulatory agencies concerns. Further discussions are planned in 2009.

Granite City Works

Granite City Works received two NOVs, dated February 20, 2004 and March 25, 2004, for air violations at the coke batteries, the blast furnace and the steel shop. All of the issues have been resolved except for an issue relating to air emissions that occurs when coke is pushed out of the ovens, for which a compliance plan has been submitted

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to the Illinois Environmental Protection Agency (IEPA). IEPA referred the two NOVs to the Illinois Attorney General s Office for enforcement. On September 14, 2005, the Illinois Attorney General filed a complaint in the Madison County Circuit Court, titled People of the State of Illinois ex. rel. Lisa Madigan vs. United States Steel Corporation, which included the issues raised in the two NOVs. In December 2006, IEPA added to its complaint by adding a release of coke oven gas in February 2006. In October 2007, the Court entered a Second Supplemental Complaint in which IEPA added alleged violations regarding excessive opacity emissions from the blast furnace, and incorrect sulfur dioxide (SO_2) emission factors regarding blast furnace gas emissions. On December 18, 2007, U. S. Steel entered into a Consent Order with the Illinois Attorney General and IEPA that resolved the Complaint, as supplemented. The Order required that U. S. Steel: (1) pay a penalty of $300,000, which U. S. Steel paid on January 10, 2008; (2) demonstrate compliance with Coke Oven Pushing Operations in accordance with the compliance schedule provided in the Order; (3) comply with the basic oxygen furnace (BOF) opacity emissions in accordance with the schedule provided in the Order; and (4) submit to IEPA a revised permit application with the correct SO_2 emission factors, which U. S. Steel submitted in January 2008. On March 31, 2008, U. S. Steel submitted a revised BOF Compliance Schedule and requested to modify the Order consistent with the revised BOF Compliance Schedule. U. S. Steel is currently negotiating with IEPA and the Illinois Attorney General as to what upgrades at the BOF will precede the compliance demonstration. Therefore, the compliance demonstration deadline for the BOF is indefinitely postponed by agreement of the parties.

EPA Region V has conducted inspections and issued information and emission testing requests under Section 114 of the Clean Air Act regarding operations at Granite City Works. U. S. Steel has responded to the requests and has held discussions with EPA Region V and MDEQ regarding the requests and the regulatory agencies concerns. Further discussions are planned in 2009.

At Granite City Works, U. S. Steel and Gateway Energy & Coke Company, LLC (Gateway), a subsidiary of SunCoke Energy, Inc., have agreed with two environmental advocacy groups to establish an Environmental Trust Fund (Trust), which requires the permittees (U. S. Steel and Gateway) to collectively deposit $1.0 million by September 30th of each year, beginning September 30, 2008 and ending September 30, 2012. U. S. Steel contributed $500,000 to the Trust on September 30, 2008, which amounted to its share of the required 2008 deposit. As grantors, U. S. Steel and Gateway have established the Trust as a part of the cost to construct a heat recovery coke plant adjacent to Granite City Works. The capital contribution and all net income of the Trust are to be used for the purposes of promoting energy efficiency, greenhouse gas reductions and PM2.5 emission reduction, to be implemented in the local community where the Granite City Works is located. The Trust can be used for projects at public buildings or property owned by the city, local schools, parks and library districts.

Geneva Works

At U. S. Steel s former Geneva Works, liability for environmental remediation, including the closure of three hazardous waste impoundments and facility-wide corrective action, has been allocated between U. S. Steel and the current property owner pursuant to an asset sales agreement and a permit issued by the Utah Department of Environmental Quality. U. S. Steel has reviewed environmental data concerning the site gathered by itself and third parties, developed work plans, initiated remedial measures on certain areas of the site, completed remediation on others, and continues to conduct field investigations. U. S. Steel has recorded a liability of $18.7 million as of December 31, 2008, for our estimated share of the remaining costs of remediation. In addition, U. S. Steel anticipates that corrective measures to address the existing tar pond could add significant costs to this project that are presently not determinable. As a result, it is reasonably possible that additional costs of as much as $40 to $70 million may be incurred at this site in combination with five other projects. See Note 27 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

USS-POSCO Industries (UPI)

At UPI, a joint venture between subsidiaries of U. S. Steel and POSCO, corrective measures have been implemented for the majority of the former SWMUs and U. S. Steel is investigating a remedy for impacted ground water at the former wire mill. U. S. Steel is also in discussions with the California Department of Toxic Substances Control (DTSC) about whether or not additional corrective measures may be required at three remaining SWMUs within the facility. Arsenic impacted soils have been delineated at two of the SWMUs. While it is likely that corrective measures will be required at one or more of these SWMUs, it is not possible at this time to define a

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scope or estimate costs for what may be required by DTSC. It is reasonably possible that additional costs of as much as $40 to $70 million may be incurred at this site in combination with five other projects. See Note 27 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Other

On December 20, 2002, U. S. Steel received a letter from the Kansas Department of Health & Environment (KDHE) requesting U. S. Steel s cooperation in cleaning up the National Zinc site located in Cherryvale, Kansas, a former zinc smelter operated by Edgar Zinc from 1898 to 1931. In April 2003, U. S. Steel and Salomon Smith Barney Holdings, Inc. (SSB) entered into a consent order to conduct an investigation and develop remediation alternatives. In 2004, a remedial action design report was submitted to and approved by KDHE. Implementation of the preferred remedy was essentially completed in late 2007. The respondents are finalizing the Removal Action Summary report, deed restrictions and operating and maintenance plans for approval by KDHE. In 2005, KDHE and the U.S. Fish and Wildlife Service asserted a claim against U. S. Steel and SSB (now called CitiGroup Global Market Holdings, Inc.) for natural resource damages at the site and nearby creek. On September 12, 2007, U. S. Steel signed a consent decree to settle this claim for a cash payment with U. S. Steel s share at $247,875. This consent decree was entered by the court, and U. S. Steel paid its share of the settlement on December 13, 2007. On August 17, 2006, both parties received a demand from DOJ for approximately $1.7 million for past costs incurred by EPA in cleaning up the site and surrounding residential yards, U. S. Steel s share being 50 percent of the claim for past costs. DOJ agreed to settle the claim for past costs in the amount of $1.0 million (U. S. Steel s share is $500,000). On December 12, 2008, U. S. Steel and SSB entered into a Consent Decree with DOJ to settle the past costs claim for this amount. On January 8, 2009, DOJ lodged the Consent Decree with the Court for approval.

On January 23, 2006, the KDHE sent a letter to U. S. Steel requesting that U. S. Steel address a former zinc smelter site in Girard, Kansas that was leased by American Sheet Steel Company in 1900. U. S. Steel is developing a Corrective Action Plan that will include a proposed remedial measure for impacted soils at this site. The costs to implement this measure are estimated to be $1.1 million. In addition, U. S. Steel will incur additional costs to purchase this residential property in an amount yet to be determined. U. S. Steel has accrued a total of $1.3 million to complete the investigation, conduct the remedial measure and purchase the property for these purposes.

In January of 2004, U. S. Steel received notice of a claim from the Texas Commission on Environmental Quality (TCEQ) and notice of claims from citizens of a cap failure at the Dayton Landfill. U. S. Steel, Lubrizol and ExxonMobil are the largest PRPs at the site and have agreed to equally share costs for investigating the site, making U. S. Steel s share 33⅓ percent. On December 10, 2008, TCEQ approved the Affected Properties Assessment Report. The Revised Screening Level Ecological Risk Assessment report was approved by TCEQ in mid-October 2008. The accrued liability to complete U. S. Steel s one-third portion of the site investigations and implement the remedial measure was $1.9 million as of December 31, 2008.

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

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of U. S. Steel and their ages as of February 1, 2009, are as follows:

Name	Age	Title	Executive Officer Since
George F. Babcoke	52	Senior Vice President European Operations & President U. S. Steel Ko ice	March 1, 2008
James D. Garraux	56	General Counsel & Senior Vice President Labor Relations & Environmental Affairs	February 1, 2007
John H. Goodish	60	Executive Vice President & Chief Operating Officer	December 31, 2001
Gretchen R. Haggerty	53	Executive Vice President & Chief Financial Officer	December 31, 2001
J. James Kutka	60	Senior Vice President Strategic Planning & Business Development	June 1, 2008
David H. Lohr	55	Senior Vice President-North American Flat-Roll Operations	June 1, 2005
Larry G. Schultz	59	Senior Vice President & Controller	June 1, 2002
Thomas W. Sterling	61	Senior Vice President Administration	August 1, 2003
John P. Surma	54	Chairman of the Board of Directors and Chief Executive Officer	December 31, 2001
Susan M. Suver	49	Vice President Human Resources	November 1, 2007

All of the executive officers mentioned above have held responsible management or professional positions with U. S. Steel or our subsidiaries for more than the past five years, with the exception of Ms. Suver. Prior to joining U. S. Steel, Ms. Suver served as corporate vice president, Global Human Resources for Arrow Electronics, Inc. (Arrow), a $12 billion global provider of industrial and commercial electronic components and computer products. She joined Arrow in 2001 as vice president, Global Organizational Development. Prior to that, she served as vice president, Organization Effectiveness and Communication for Phelps Dodge Corporation.

Messrs. Garraux, Goodish and Surma and Ms. Haggerty will hold office until the annual election of executive officers by the Board of Directors following the next Annual Meeting of Stockholders, or until his or her earlier resignation, retirement or removal. Messrs. Babcoke and Lohr and Ms. Suver will hold office until their resignation, retirement or removal.

Messrs. Kutka, Schultz and Sterling have elected to retire from U. S. Steel effective April 1, 2009, under a voluntary early retirement program offered to certain non-represented employees in the United States who met age and years of service criteria.

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PART II

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

Common Stock Information

The principal market on which U. S. Steel common stock is traded is the New York Stock Exchange. U. S. Steel common stock is also traded on the Chicago Stock Exchange. Information concerning the high and low sales price for the common stock as reported in the consolidated transaction reporting system and the frequency and amount of dividends paid during the last two years is set forth in Selected Quarterly Financial Data (Unaudited) on page F-62.

As of January 31, 2009, there were 20,959 registered holders of U. S. Steel common stock.

The Board of Directors intends to declare and pay dividends on U. S. Steel common stock based on the financial condition and results of operations of U. S. Steel, although it has no obligation under Delaware law or the U. S. Steel Certificate of Incorporation to do so. After the separation from Marathon Oil Corporation on December 31, 2001, U. S. Steel established an initial quarterly dividend rate of $0.05 per share effective with the March 2002 payment. The quarterly dividend rate was increased to $.08 per share effective with the March 2005 payment, to $.10 per share effective with the June 2005 payment, to $.15 per share effective with the June 2006 payment, to $.20 per share effective with the December 2006 payment, to $.25 per share effective with the March 2008 payment and to $.30 per share effective with the September 2008 payment. Dividends on U. S. Steel common stock are limited to legally available funds.

Shareholder Return Performance

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

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Recent Sales of Unregistered Securities

In 2008, no unregistered shares were sold or issued.

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1-31, 2008	105,000	$ 107.92	105,000	6,356,300
February 1-29, 2008	100,000	$ 103.78	100,000	6,256,300
March 1-31, 2008	100,000	$ 113.94	100,000	6,156,300
Quarter ended March 31, 2008	**305,000**	**$ 108.54**	**305,000**	**6,156,300**
April 1-30, 2008	110,000	$ 142.85	110,000	6,046,300
May 1-31, 2008	105,000	$ 168.14	105,000	5,941,300
June 1-30, 2008	105,000	$ 178.35	105,000	5,836,300
Quarter ended June 30, 2008	**320,000**	**$ 162.80**	**320,000**	**5,836,300**
July 1-31, 2008	104,900	$ 158.60	104,900	5,731,400
August 1-31, 2008	110,000	$ 135.52	110,000	5,621,400
September 1-30, 2008	915,000	$ 105.91	915,000	4,706,400
Quarter ended September 30, 2008	**1,129,900**	**$ 113.68**	**1,129,900**	**4,706,400**
October 1-31, 2008	240,000	$ 53.56	240,000	4,466,400
November 1-30, 2008	20,000	$ 35.87	20,000	4,446,400
December 1-31, 2008		$		4,446,400
Quarter ended December 31, 2008	**260,000**	**$ 52.20**	**260,000**	**4,446,400**

The above shares were purchased pursuant to the U. S. Steel Common Stock Repurchase Program, which was announced on July 26, 2005 and allowed for the repurchase of up to eight million shares from time to time in the open market or privately negotiated transactions. The above purchases were all made in the open market. Since that time, the Board of Directors has authorized the repurchase of additional shares. As of December 31, 2008, authority remained for the repurchase of approximately 4.4 million shares.

The timing of such purchases will be determined by the company based upon a number of factors including the market price of U. S. Steel common stock, the availability and pursuit of strategic initiatives including investment and acquisition opportunities, operating cash flow and internal capital requirements, and general economic conditions in North America and Europe. We have suspended repurchases under this program.

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Item 6. SELECTED FINANCIAL DATA

Dollars in millions (except per share data)

	2008	2007[a]	2006	2005	2004
Statement of Operations Data:					
Net sales[b]	**$ 23,754**	$ 16,873	$ 15,715	$ 14,039	$ 13,975
Income from operations[c]	**3,069**	1,213	1,785	1,439	1,625
Net Income before extraordinary loss and cumulative effects of changes in accounting principles[c]	**2,112**	879	1,374	910	1,121
Net income[c]	**2,112**	879	1,374	910	1,135
Per Common Share Data:					
Net income before extraordinary loss and cumulative effects of changes in accounting principles[d] basic	**$ 18.04**	$ 7.44	$ 11.88	$ 7.87	$ 9.87
diluted	**17.96**	7.40	11.18	7.00	8.72
Net income[d] basic	**18.04**	7.44	11.88	7.87	10.00
diluted	**17.96**	7.40	11.18	7.00	8.83
Dividends per share declared and paid	**1.10**	0.80	0.60	0.38	0.20
Balance Sheet Data December 31:					
Total assets	**$ 16,087**	$ 15,632	$ 10,586	$ 9,822	$ 11,064
Capitalization:					
Debt[e]	**$ 3,145**	$ 3,257	$ 1,025	$ 1,612	$ 1,371
Stockholders equity	**4,895**	5,531	4,365	3,324	4,074
Total capitalization	**$ 8,040**	$ 8,788	$ 5,390	$ 4,936	$ 5,445

(a) Includes Lone Star facilities from the date of acquisition on June 14, 2007 and USSC from the date of acquisition on October 31, 2007.

(b) For discussion of changes between the years 2008, 2007 and 2006, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase in net sales from 2005 to 2006 primarily resulted from higher shipments and increased average realized prices prices in all three reportable segments. The increase in net sales from 2004 to 2005 primarily resulted from higher average realized prices in all three reportable segments, partially offset by lower domestic shipments of sheets and trade coke.

(c) For discussion of changes between the years 2008, 2007 and 2006, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase from 2005 to 2006 was mainly due to higher average realized prices in the U.S., higher shipments of flat-rolled products in the U.S. and in Europe and lower raw materials costs in Europe. These were partially offset by higher raw materials costs in the U.S. The decrease from 2004 to 2005 mainly resulted from higher raw materials, outage and energy costs in the U.S. and Europe, and lower domestic shipments of sheets and trade coke, partially offset by higher average realized prices in all three reportable segments.

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

(e) For discussion of changes between the years 2008 and 2007 see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase from 2006 to 2007 primarily resulted from new debt issued to fund the acquisitions of USSC and Lone Star. The decrease from 2005 to 2006 primarily resulted from the repurchase of most of our 10 3/4% Senior Notes due August 1, 2008, and from the repayment and termination of a 195 million credit facility at USSK. The increase from 2004 to 2005 primarily reflected amounts drawn against a one-year revolving credit facility at USSK that was entered into in order to facilitate the repatriation of $300 million in foreign earnings pursuant to the American Jobs Creation Act of 2004.

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

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

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

Overview

U. S. Steel, the eighth largest steel producer in the world and the largest integrated steel producer headquartered in North America, has a broad and diverse mix of products and customers. U. S. Steel uses iron ore, coal, coke, steel scrap, zinc, tin and other metallic additions to produce a wide range of steel products, concentrating on value-added steel products for customers with demanding technical applications in the automotive, appliance, container, industrial machinery, construction and oil, gas and petrochemical industries. In addition to our facilities in the United States, U. S. Steel has significant operations in Canada through U. S. Steel Canada Inc. (USSC) and in Europe through U. S. Steel Ko ice (USSK), located in Slovakia, and U. S. Steel Serbia (USSS), located in Serbia. U. S. Steel s financial results are primarily determined by the combined effects of shipment volume, selling prices, production costs and product mix. While the operating results of our various businesses are affected by a number of business-specific factors (see Item 1. Business Steel Industry Background and Competition), the primary drivers for U. S. Steel are general economic conditions in North America, Europe and, to a lesser extent, other steel-consuming regions; the levels of worldwide steel production and consumption; pension and other benefits costs; and raw material (iron ore, coal, coke, steel scrap, zinc, tin and other metallic additions) and energy (natural gas and electricity) costs.

The difficult global economic environment is having significant negative effects on our business. Our raw steel capability utilization, which has averaged between 79 and 87 percent during the years 2004-2008, averaged only 46 percent in the fourth quarter of 2008. We have reduced production levels to correspond with customer order rates by temporarily idling certain facilities and cutting back production at others. We also have significantly reduced planned capital expenditures, reduced our inventory levels, placed a temporary freeze on salaries and hiring, offered a voluntary early retirement program (VERP) which has been accepted by approximately 500 non-represented Headquarters and Operations employees in the United States, suspended the company match on employee 401(k) contributions, suspended our common stock buyback program and discontinued all non-essential spending for travel and entertainment and outside services in an effort to maximize liquidity and lower costs.

U. S. Steel cannot predict the trajectory or duration of the global recession. Lead times for steel orders are shorter now than they have been in the past, making it more difficult than usual to forecast the future. If the situation grows worse, we may be forced to further curtail production including idling additional facilities, laying off employees and further deferring capital and other projects. Published indices report that a number of our major customer groups have significantly reduced their inventory levels leading us to believe that an upturn in general economic levels will translate into increased orders for steel products. This is a forward-looking belief that may be impacted by many factors beyond our control. An increase in orders will likely require an increased investment in working capital, the cost of which will depend upon conditions in the financial markets (see Liquidity).

U. S. Steel s long-term success depends on our ability to earn a competitive return on capital employed by implementing our strategy to be a world leader in safety and environmental performance; to continue to increase

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our value-added product mix; to further expand our global business platform; to maintain a strong capital structure, balance sheet and liquidity position; to continue to improve our reliability and cost competitiveness; and to attract and retain a diverse and talented workforce. For a fuller description of our strategy, see Item 1. Business Description Business Strategy. Some of the other key issues which are impacting the global steel industry, including U. S. Steel, are the level of unfunded pension and other benefits obligations; the degree of industry consolidation; the impact of production and consumption of steel in China and other developing countries; and the levels of steel imports into the markets we serve.

Critical Accounting Estimates

Management s discussion and analysis of U. S. Steel s financial condition and results of operations is based upon U. S. Steel s financial statements, which have been prepared in accordance with accounting standards generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates, including those related to employee benefits liabilities and assets held in trust relating to such liabilities; the carrying value of property, plant and equipment; goodwill and intangible assets; valuation allowances for receivables, inventories and deferred income tax assets; liabilities for deferred income taxes, potential tax deficiencies, environmental obligations and potential litigation claims and settlements. Management s estimates are based on historical experience, current business and market conditions, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions or conditions.

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

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

U. S. Steel s investment strategy for its domestic pension and retiree medical trusts provides that at least half of plan assets are invested in common stock with the balance primarily invested in bonds and other fixed-income securities. U. S. Steel believes that returns on common stock over the long term will be higher than returns from fixed-income securities as actual historical returns from U. S. Steel s trusts have shown. Returns on bonds and other fixed-income securities tend to offset some of the shorter-term volatility of common stocks. Both equity and fixed-income investments are made across a broad range of industries and companies to provide protection against the impact of volatility in any single industry as well as company specific developments. U. S. Steel is currently using an 8.0 percent assumed rate of return for purposes of the expected return on assets for the development of net periodic cost for the main defined benefit pension plan and other benefits. This rate was chosen by taking into account the intended asset mix and the historical premiums that fixed-income and equity investments have yielded above government bonds. Actual returns since the inception of the plans have exceeded this 8.0 percent rate and while recent returns have not, it is U. S. Steel s expectation that future periods will return to this level. For USSC defined benefit pension plans, a 7.5 percent rate of return is being used for the development of net periodic costs in 2009. This rate was based on an investment strategy that provides that at least half of plan assets be invested in equity securities and the historical premiums that fixed-income and equity investments have yielded above government bonds.

The discount rate reflects the current rate at which the pension and other benefits liabilities could be effectively settled at the measurement date. In setting the domestic rates, we utilize several AAA and AA corporate bond indices as an indication of interest rate movements and levels, and we also look to an internally calculated rate determined by matching our expected benefit payments to payments from a stream of AA or higher rated zero

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coupon corporate bonds theoretically available in the marketplace. Based on this evaluation at December 31, 2008, U. S. Steel increased the discount rate used to measure both domestic pension and other benefits obligations to 6.0 percent. For USSC benefit plans, a discount rate was selected through a similar review process using Canadian bond rates and indices and at December 31, 2008, U. S. Steel increased the discount rate to 6.5 percent for its Canadian-based pension and other benefits.

U. S. Steel determines the escalation trend in per capita health care costs based on historical rate experience under U. S. Steel s insurance plans. Much of our costs for the domestic USW participants retiree health benefits (other than for most surviving spouses) in the Company s main domestic insurance plan are subject to a cost cap that was negotiated in 2003. As a result of the collective bargaining agreements with the United Steelworkers (USW) entered into effective September 1, 2008 (the 2008 CBAs) (see Note 16 to the Financial Statements), our costs are subject to the full impact of escalation for the surviving spouse beneficiaries since their retiree premium contributions are now a flat fixed amount. Escalation applies to most other groups within the Company s insurance plans, but does not apply to most domestic non-union retirees since their benefits are limited to flat dollar amounts. For measurement of its domestic retiree medical plans, U. S. Steel has assumed an initial escalation rate of 8.0 percent for 2009. This rate is assumed to decrease gradually to an ultimate rate of 5.0 percent in 2013 and remain at that level thereafter. In our Canadian retiree medical plans, liabilities decreased as a result of lower escalation impacts due to favorable claims cost rate experience and exchange rate changes. For measurement of its Canadian retiree medical plans, U. S. Steel has assumed an initial escalation rate of 7.0 percent for 2009. This rate is assumed to decrease gradually to an ultimate rate of 5.0 percent in 2013 and remain at that level thereafter.

Net periodic pension cost, including multiemployer plans, is expected to total approximately $200 million in 2009 compared to $78 million in 2008. Pension expense for 2009 includes an estimated $10 million curtailment charge. Total other benefits costs in 2009 are expected to be approximately $180 million, compared to $149 million in 2008. The increases are due primarily to 2008 asset performance.

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

	Hypothetical Rate Increase (Decrease)	
(In millions of dollars)	**1/2%**	**(1/2%)**
Expected return on plan assets		
Incremental increase (decrease) in:		
Net periodic pension costs for 2009	$ (55)	$ 55
Discount rate		
Incremental increase (decrease) in:		
Net periodic pension & other benefits costs for 2009	$ (23)	$ 29
Pension & other benefits liabilities at December 31, 2008	$ (465)	$ 510
Health care cost escalation trend rates		
Incremental increase (decrease) in:		
Service and interest cost components for 2009	$ 7	$ (8)

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

Goodwill and identifiable intangible assets Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired.

Goodwill is tested for impairment annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. The change in business conditions in the fourth quarter of 2008 was considered a triggering event as defined by FAS 142, Goodwill and Other Intangible Assets, and goodwill was subsequently re-tested for impairment as of December 31, 2008. The evaluation of impairment involves comparing

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the fair value of the associated reporting unit to its carrying value, including goodwill. U. S. Steel s reporting units are generally consistent with our reportable operating segments, except for our Tubular segment. Within the Tubular segment we have three reporting units corresponding to our different manufacturing processes and products. Fair value for each reporting unit with goodwill was estimated using discounted future cash flows based on management s long range estimates of market conditions over a five-year horizon with a 2.25 percent compound annual growth rate. U. S. Steel s risk free interest rate is approximately two percent and our systematic risk premium is approximately nine percent. Our testing did not indicate that goodwill was impaired as of December 31, 2008. However, if our future cash flow projections are not realized, either because of an extended recessionary period or other unforeseen events, goodwill may be subject to impairment in future periods. A five percent decrease in the estimated fair value of our reporting units may result in an impairment.

U. S. Steel has determined that certain acquired intangible assets have indefinite useful lives. These assets are reviewed for impairment annually and whenever events or circumstances indicate that the carrying value may not be recoverable.

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. The impairment test performed as of December 31, 2008 for property, plant and equipment, as described below, also addressed intangible assets with finite lives. None of the long-lived asset groupings with intangible assets were impaired as of December 31, 2008.

Asset Impairments U. S. Steel evaluates impairment of its property, plant and equipment whenever circumstances indicate that the carrying value may not be recoverable. The change in business conditions in the fourth quarter of 2008 was considered a triggering event as defined by Financial Accounting Standard (FAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and subsequently long-lived asset groupings were tested for impairment. (Our asset groupings are the same as our reporting units