UNITED STATES STEEL CORPORATION

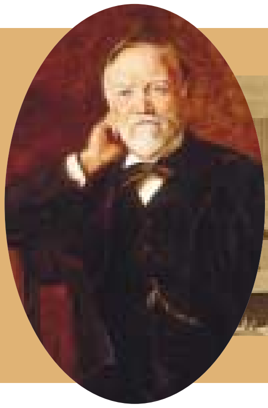
MAKING STEEL

WORLD COMPETITIVE

BUILDING VALUE

2001 annual report

In 1901, United States Steel Corporation roared to life, fueled by the genius of this man—Andrew Carnegie—whose legendary steel empire formed the cornerstone of the world's first billion-dollar corporation. And it all began here, near Pittsburgh, Pennsylvania, at Carnegie's Edgar Thomson Steel Works: then a factory powered by manual labor; now a sophisticated, high-tech facility that is a vital part of our world-class Mon Valley Works.



In 2001, U. S. Steel celebrated 100 years of steelmaking excellence. Founded by visionaries seeking to create a conglomerate mighty enough to compete head-on with steelmakers worldwide, this great company has been led by forward-thinking men of steel for more than a century. That tradition continues today. With our industry in crisis and change imperative, this powerful leadership team possesses the talent, vision and passion to lead the nation's largest steelmaker into its second century of greatness. On our own once more, United States Steel Corporation stands poised to make history. Again.

clockwise from bottom right:

Thomas J. Usher
Chairman of the Board, Chief Executive Officer and President

John P. Surma
Vice Chairman and Chief Financial Officer

Roy G. Dorrance
Vice Chairman and Chief Operating Officer

Dan D. Sandman
Vice Chairman and Chief Legal & Administrative Officer

Contents

Description of Business

United States Steel Corporation (United States Steel) consists of two reportable operating segments: 1) Domestic Steel and 2) U. S. Steel Kosice (USSK). Domestic Steel is engaged in the domestic production, sale and transportation of steel mill products, coke, taconite pellets and coal; the management of mineral resources; real estate development; and engineering and consulting services. USSK, with operations primarily in the Slovak Republic, is engaged in the production and sale of steel mill products and coke and primarily serves Central European markets. On December 31, 2001, in a tax-free transaction to shareholders, United States Steel was separated from USX Corporation, which concurrently changed its name to Marathon Oil Corporation (Marathon).

Statement Regarding the Delivery of a Single Set of Proxy Materials to Households with Multiple United States Steel Shareholders

Shareholders who share an address and now receive multiple copies of proxy materials may request delivery of a single copy by contacting Shareholder Services, at the address or telephone number shown below, to request the required consent form. If you have consented to the delivery of only one set of proxy materials to multiple shareholders who share your address, and if we have not received contrary instructions from another shareholder sharing your address, then only one annual report is being delivered to your household. Upon request, we will deliver promptly a separate copy of the annual report to any shareholder at your address. If you wish to receive a separate copy, you may call us toll-free at 1-866-433-4801 or write to us at United States Steel Shareholder Services, Room 611, 600 Grant Street, Pittsburgh, PA 15219-2800.

Financial Highlights

(Dollars in millions, except per share data)	**2001**	2000	1999
Revenues And Other Income	**$ 6,375**	$ 6,132	$ 5,470
Income (Loss) From Operations	**(405)**	104	150
Income (Loss) Before Extraordinary Losses	**(218)**	(21)	51
Net Income (Loss)	**(218)**	(21)	44
Balance Sheet Data At December 31:			
Total Assets	**$ 8,337**	$ 8,711	$ 7,525
Long-Term Debt And Other Financial Obligations	**1,466**	2,694	1,164
Stockholders' Equity	**2,506**	1,919	2,056
Total Capitalization	**3,972**	4,613	3,220
Per Common Share:			
Net Income (Loss) – Basic And Diluted	**$ (2.45)**	$ (.24)	$ .49
Dividends Paid On USX–U. S. Steel Group Common Stock	**.55**	1.00	1.00

Chairman's Message

2001 was a difficult year for the domestic steel industry. Injurious levels of imports continued to disrupt an already weakened market; domestic steel consumption plummeted from an annualized rate of 119 million tons in the first half to 98 million tons in the fourth quarter; and steel prices for many products reached 20-year lows. The 3 percent average growth in the economy predicted by economists never materialized, largely due to a worldwide economic recession in the second half and the impact of the September 11 tragedies.

For the year, United States Steel Corporation (United States Steel) had a net loss of $218 million on revenues of $6.4 billion, compared to a net loss of $21 million on revenues of $6.1 billion in 2000. Adjusted for special items, the 2001 net loss was $257 million versus adjusted 2000 net income of $77 million. Contributing to the decline were average realized domestic prices which dipped $23 per ton, or 5 percent versus the 2000 average, and higher unit costs due to depressed production levels at all of our plants. Fourth quarter operating rates were 67 percent at the company's domestic facilities and 66 percent at U. S. Steel Kosice (USSK) in the Slovak Republic, which was affected by weak economic conditions in Europe.

While our results were disappointing, the mark of a good company is an ability to move forward in spite of adversity, and United States Steel had many successes during the year. Because of our intense customer focus, we strengthened our market position in North America and Europe. We were challenged to operate efficiently and still provide our customers with the highest levels of service, and we did. This accomplishment is a great credit to our people. Their commitment to satisfying customers' needs with quality products and services is one of our core competencies, and it has helped set the stage for improved results in 2002, provided economic and steel market conditions improve.

In its first full year as part of United States Steel, USSK performed remarkably – thanks to excellent facilities and a skilled workforce – with segment income of $123 million, or $33 per ton. USSK gives us access to markets that can be served from Central Europe and allows us to support our domestic customers who have facilities there. And we are in an excellent position to expand in the value-added areas of the growing Central European manufacturing base. To better serve this market, we are installing a vacuum degasser and new tin and continuous annealing lines. Through improved production performance and operating efficiency, USSK increased annual raw steelmaking capacity by over 10 percent and realized cost savings of more than $20 per shipped ton.

In March, we completed the acquisition of the East Chicago tin operations of LTV Steel, increasing our annual Midwest coating capacity by more than 400,000 tons and strengthening our position as one of the two largest domestic producers of tin mill products. We expect East Chicago Tin to generate significant operating synergies and to help us better serve our customers. Also in March, we became sole owner of Transtar, Inc. and certain of its subsidiaries.

Straightline Source, our technology-enabled steel distribution business, was launched at the end of October. Straightline, which builds on the corporation's information technology strength, offers a direct buying option for processed steel products to companies that do not typically buy directly from steel producers. Customers can get instant price quotations, place and check orders over the Internet 24 hours a day/seven days a week, or conduct business via phone or fax. Straightline currently serves a contiguous region of the United States from Greater Chicago to the Florida panhandle, with plans for continued expansion.

Despite the difficult economic conditions, our commitment to employee safety remained paramount. Safety is not only our first priority – it is everyone's job. For the year, our total injury/illness frequency rate was 4.52, the lowest in the history of the company and an 18 percent year-over-year improvement in safety performance. Ongoing safety programs – including the use of employee teams for safety audits and the development of effective tools to improve two-way communication between employees and management – contributed to our success. Dramatic improvements in safety like we saw in 2001 can only be achieved with total employee commitment.

By year-end 2001, all of our domestic steelmaking plants were registered under the ISO 14001 environmental management system standard – the only internationally recognized environmental standard certified by independent auditors. We are proud of this accomplishment because it clearly demonstrates our commitment to continuous environmental improvement and to going beyond compliance to set new standards of environmental performance.

In 2001, we became the first American steelmaker to develop a line of dual-phase steels for the automobile industry, which we introduced under the trade name DUAL-TEN™. These new steels have a remarkable combination of formability and strength that allows automobile designers to create lighter weight, more fuel-efficient vehicles while improving vehicle safety. DUAL-TEN™ steels are already creating new opportunities to provide steel to the U.S. facilities of foreign automotive manufacturers, and other major automakers have expressed interest in the new products.

At the beginning of the year, USX Corporation celebrated the centennial of its incorporation in 1901 as United States Steel Corporation. Capitalized at over $1 billion, it was the largest corporation ever created and was the amalgamation of 10 steel companies – the largest being the Carnegie Steel Company – that together controlled 213 steel mills. In 1982, United States Steel Corporation bought Marathon Oil Company and, in 1986, changed its name to USX Corporation. We have come full circle, and at year-end 2001, USX Corporation spun off the steel business under its original name – United States Steel Corporation. We are enthusiastic about the spin-off and believe it will allow us to focus on our core business – making steel – and to make the critical acquisitions and investments necessary for us to be world competitive and build value for our stakeholders.

In December, we announced our support for consolidation of the domestic integrated steel industry, which could occur through United States Steel's acquisition of other integrated steelmakers. We believe that consolidating the industry under the right circumstances would be a positive step toward restoring the health of this ailing but vital part of the American economy. Many things must come together in 2002 for consolidation to occur, and we will only proceed if the results will benefit our shareholders, creditors, customers and employees.

In January 2002, we entered into an option agreement with NKK Corporation of Japan to purchase its 53 percent ownership of National Steel Corporation, headquartered in Mishawaka, Ind. If we exercise the option, we would also offer to acquire the remaining minority shares of National Steel. The acquisition would be made primarily with warrants to purchase United States Steel common stock.

Looking forward, a key goal for United States Steel in 2002 is profit margin restoration across all product lines. We can achieve this by improving proceeds when conditions permit, and by continuing efforts to reduce costs. We are targeting cost reduction programs that will reduce domestic costs by $30 per shipped ton by 2004, and USSK costs by $10 per shipped ton in 2002. In addition, capital expenditures will focus on modernization projects that build value for our company. Among these are the new quench and temper line at Lorain Tubular and the vacuum degasser and tin and continuous annealing lines at USSK.

United States Steel will also be guided by a new, three-part Vision. First, we will strive to be the best in the world at *Making Steel* – our core competency for more than 100 years and a vital business we are proud to be in. Second, we must be 100-percent focused on being a *World Competitive* company capable of meeting any competitor head-on in the markets we choose to serve. And third, our decisions and actions must be driven by our long-term commitment to *Building Value* for all of our stakeholders – including shareholders, employees, customers, creditors, suppliers, and the communities in which we operate.

In closing, I would like to pay tribute to the late Paul J. Wilhelm, president of U. S. Steel Group, who served the company from 1964 until his death last April. When Paul died, I lost a dear friend, and the company and the steel industry lost a champion. Paul loved steelmaking and was legendary as a people-oriented and visionary leader. He led us into a period of expansion and guided us through turbulent times, and I believe that much of our future success will be built upon his labor of love. Paul was an articulate and passionate spokesman for the steel industry and its people. We miss his leadership, his wise counsel and his friendship.

Thomas J. Usher

Thomas J. Usher
Chairman, Board of Directors,
Chief Executive Officer and President

Management's Report

The accompanying consolidated financial statements of United States Steel Corporation are the responsibility of and have been prepared by United States Steel Corporation in conformity with accounting principles generally accepted in the United States of America. They necessarily include some amounts that are based on best judgments and estimates. The United States Steel Corporation financial information displayed in other sections of this report is consistent with these financial statements.

United States Steel Corporation seeks to assure the objectivity and integrity of its financial records by careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communications programs aimed at assuring that its policies and methods are understood throughout the organization.

United States Steel Corporation has a comprehensive formalized system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that financial records are reliable. Appropriate management monitors the system for compliance, and the internal auditors independently measure its effectiveness and recommend possible improvements thereto. In addition, as part of their audit of the financial statements, United States Steel Corporation's independent accountants review and test the internal accounting controls selectively to establish a basis of reliance thereon in determining the nature, extent and timing of audit tests to be applied.

The Board of Directors pursues its oversight role in the area of financial reporting and internal accounting control through its Audit Committee. This Committee, composed solely of nonmanagement directors, regularly meets (jointly and separately) with the independent accountants, management and internal auditors to monitor the proper discharge by each of their responsibilities relative to internal accounting controls and the Corporation's financial statements.

Thomas J. Usher
Chairman, Board of Directors,
Chief Executive Officer & President

John P. Surma
Vice Chairman &
Chief Financial Officer

Gretchen R. Haggerty
Senior Vice President &
Controller

Report of Independent Accountants

To the Stockholders of United States Steel Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of United States Steel Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of United States Steel Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 15, 2002

Statement of Operations

(Dollars in millions)	**2001**	2000	1999
Revenues and other income:			
Revenues	**$ 6,286**	$ 6,090	$ 5,536
Income (loss) from investees	**64**	(8)	(89)
Net gains on disposal of assets	**22**	46	21
Other income	**3**	4	2
Total revenues and other income	**6,375**	6,132	5,470
Costs and expenses:			
Cost of revenues (excludes items shown below)	**6,091**	5,656	5,084
Selling, general and administrative expenses (credits) *(Note 12)*	**92**	(223)	(283)
Depreciation, depletion and amortization	**344**	360	304
Taxes other than income taxes	**253**	235	215
Total costs and expenses	**6,780**	6,028	5,320
Income (loss) from operations	**(405)**	104	150
Net interest and other financial costs *(Note 7)*	**141**	105	74
Income (loss) before income taxes and extraordinary losses	**(546)**	(1)	76
Provision (credit) for income taxes *(Note 14)*	**(328)**	20	25
Income (loss) before extraordinary losses	**(218)**	(21)	51
Extraordinary losses *(Note 6)*	**–**	–	7
Net income (loss)	**$ (218)**	$ (21)	$ 44

Income Per Common Share *(Note 20)*

	2001	2000	1999
Basic and diluted:			
Income (loss) before extraordinary losses	**$ (2.45)**	$ (.24)	$ .57
Extraordinary losses	**–**	–	.08
Net income (loss)	**$ (2.45)**	$ (.24)	$ .49

The accompanying notes are an integral part of these financial statements.

Balance Sheet

(Dollars in millions) December 31	**2001**	2000
Assets		
Current assets:		
Cash and cash equivalents	**$ 147**	$ 219
Receivables, less allowance for doubtful accounts of $165 and $57 *(Note 22)*	**802**	625
Receivables subject to a security interest *(Note 11)*	**–**	350
Receivables from Marathon *(Note 15)*	**28**	366
Inventories *(Note 13)*	**870**	946
Deferred income tax benefits *(Note 14)*	**216**	201
Other current assets	**10**	10
Total current assets	**2,073**	2,717
Investments and long-term receivables, less valuation allowance of $75 and $38 *(Note 16)*	**346**	439
Long-term receivables from Marathon *(Note 15)*	**8**	97
Property, plant and equipment – net *(Note 23)*	**3,084**	2,739
Prepaid pensions *(Note 12)*	**2,745**	2,672
Other noncurrent assets	**81**	47
Total assets	**$ 8,337**	$ 8,711
Liabilities		
Current liabilities:		
Notes payable	**$ –**	$ 70
Accounts payable	**638**	755
Accounts payable to Marathon *(Note 15)*	**54**	5
Payroll and benefits payable	**239**	202
Accrued taxes	**248**	173
Accrued interest	**48**	47
Long-term debt due within one year *(Note 11)*	**32**	139
Total current liabilities	**1,259**	1,391
Long-term debt *(Note 11)*	**1,434**	2,236
Deferred income taxes *(Note 14)*	**732**	666
Employee benefits *(Note 12)*	**2,008**	1,767
Deferred credits and other liabilities	**398**	483
Preferred stock of Marathon subsidiary *(Note 18)*	**–**	66
Mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures of Marathon *(Note 18)*	**–**	183
Contingencies and commitments *(Note 26)*	**–**	–
Stockholders' Equity *(Details on page 5)*		
Marathon net investment	**–**	1,952
Common stock –		
Issued – 89,197,740 shares (par value $1 per share, authorized 200,000,000 shares)	**89**	–
Additional paid-in capital	**2,475**	–
Accumulated other comprehensive loss	**(49)**	(30)
Deferred compensation	**(9)**	(3)
Total stockholders' equity	**2,506**	1,919
Total liabilities and stockholders' equity	**$ 8,337**	$ 8,711

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

(Dollars in millions)	**2001**	2000	1999
Increase (decrease) in cash and cash equivalents			
Operating activities:			
Net income (loss)	**$ (218)**	$ (21)	$ 44
Adjustments to reconcile to net cash provided from (used in) operating activities:			
Extraordinary losses	**–**	–	7
Depreciation, depletion and amortization	**344**	360	304
Pensions and other postretirement benefits	**(57)**	(847)	(256)
Deferred income taxes	**18**	389	107
Net gains on disposal of assets	**(22)**	(46)	(21)
(Income) loss from equity investees	**(64)**	8	89
Changes in:			
Current receivables			
– sold (repurchased)	**–**	–	(320)
– operating turnover	**116**	(43)	(146)
– income taxes	**336**	(267)	(97)
– provision for doubtful accounts	**108**	47	1
Inventories	**104**	(63)	(14)
Current accounts payable and accrued expenses	**(87)**	(262)	239
All other – net	**91**	118	(17)
Net cash provided from (used in) operating activities	**669**	(627)	(80)
Investing activities:			
Capital expenditures	**(287)**	(244)	(287)
Acquisition of U. S. Steel Kosice, net of cash acquired in 2000 of $59	**(14)**	(10)	–
Disposal of assets	**44**	21	10
Restricted cash – withdrawals	**5**	2	15
– deposits	**(4)**	(2)	(17)
Investees – investments	**(3)**	(35)	(15)
– loans and advances	**(3)**	(10)	–
– return of capital	**13**	–	–
All other – net	**10**	8	–
Net cash used in investing activities	**(239)**	(270)	(294)
Financing activities:			
Net change in attributed portion of Marathon consolidated debt and other financings	**(74)**	1,208	147
Specifically attributed debt:			
Borrowings	**–**	–	350
Repayments	**(370)**	(6)	(11)
Preferred stock repurchased	**–**	(12)	(2)
Dividends paid	**(57)**	(97)	(97)
Net cash provided from (used in) financing activities	**(501)**	1,093	387
Effect of exchange rate changes on cash	**(1)**	1	–
Net increase (decrease) in cash and cash equivalents	**(72)**	197	13
Cash and cash equivalents at beginning of year	**219**	22	9
Cash and cash equivalents at end of year	**$ 147**	$ 219	$ 22
Cash provided from (used in) operating activities included:			
Interest and other financial costs paid (net of amount capitalized)	**$ (182)**	$ (71)	$ (77)
Income taxes refunded from (paid to) taxing authorities	**9**	(10)	5
Income tax settlements received from (paid to) Marathon	**819**	91	(2)

See Note 9, for supplemental cash flow information.

The accompanying notes are an integral part of these financial statements.

Statement of Stockholders' Equity

(In millions, except per share data)	Dollars in millions **2001**	2000	1999	Shares in thousands **2001**	2000	1999
Common stock:						
Balance at beginning of year	**$ –**	$ –	$ –	**–**	–	–
Issued in Separation	**89**	–	–	**89,198**	–	–
Balance at end of year	**$ 89**	$ –	$ –	**89,198**	–	–
Additional paid-in capital:						
Balance at beginning of year	**$ –**	$ –	$ –			
Common stock issued in Separation	**2,475**	–	–			
Balance at end of year	**$2,475**	$ –	$ –			
				Comprehensive Income		
				2001	2000	1999
Marathon net investment *(Note 1)*:						
Balance at beginning of year	**$1,952**	$ 2,076	$2,129			
Net income (loss)	**(218)**	(21)	44	**$ (218)**	$ (21)	$ 44
Repurchase of 6.50% preferred stock	**–**	(12)	(2)			
Common stock issued	**8**	6	2			
Dividends on preferred stock	**(8)**	(8)	(9)			
Dividends on common stock (per share $.55 in 2001 and $1.00 in 2000 and 1999)	**(49)**	(89)	(88)			
Excess redemption value over carrying value of preferred securities	**(14)**	–	–			
Preferred stock retained by Marathon in Separation	**(120)**	–	–			
Capital contributions by Marathon *(Note 2)*	**1,013**	–	–			
Transfer to common stockholders' equity at Separation	**(2,564)**	–	–			
Balance at end of year	**$ –**	$ 1,952	$2,076			
Deferred compensation:						
Balance at beginning of year	**$ (3)**	$ –	$ (1)			
Changes during year, net of taxes	**(6)**	(3)	1			
Balance at end of year	**$ (9)**	$ (3)	$ –			
Accumulated other comprehensive income (loss):						
Minimum pension liability adjustments *(Note 12)*:						
Balance at beginning of year	**$ (4)**	$ (7)	$ (27)			
Changes during year, net of taxes[a]	**(16)**	3	20	**(16)**	3	20
Balance at end of year	**(20)**	(4)	(7)			
Foreign currency translation adjustments:						
Balance at beginning of year	**$ (26)**	$ (13)	$ (8)			
Changes during year, net of taxes[a]	**(3)**	(13)	(5)	**(3)**	(13)	(5)
Balance at end of year	**(29)**	(26)	(13)			
Total accumulated other comprehensive income (loss)	**$ (49)**	$ (30)	$ (20)			
Total comprehensive income (loss)				**$ (237)**	$ (31)	$ 59
Total stockholders' equity	**$2,506**	$ 1,919	$2,056			

[a] Related income tax provision (credit):			
Minimum pension liability adjustment	**$ 9**	$ (1)	$ (11)
Foreign currency translation adjustments	**–**	(5)	3

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. Basis of Presentation

United States Steel Corporation (United States Steel) owns and operates the former steel businesses of USX Corporation, now named and referred to herein as Marathon Oil Corporation (Marathon). United States Steel is engaged in the production, sale and transportation of steel mill products, coke, taconite pellets, and coal; the management of mineral resources; real estate development; and engineering and consulting services.

Prior to December 31, 2001, the businesses of United States Steel comprised an operating unit of Marathon. Marathon had two outstanding classes of common stock: USX–Marathon Group common stock, which was intended to reflect the performance of Marathon's energy business, and USX–U. S. Steel Group common stock (Steel Stock), which was intended to reflect the performance of Marathon's steel business. As described further in Note 2, on December 31, 2001, United States Steel was capitalized through the issuance of 89.2 million shares of common stock to holders of Steel Stock in exchange for all outstanding shares of Steel Stock on a one-for-one basis.

The accompanying consolidated balance sheet as of December 31, 2001, reflects the financial position of United States Steel as a separate, stand-alone entity. The combined balance sheet as of December 31, 2000, and the combined statements of operations and of cash flows for each of the three years in the period ended December 31, 2001, represent a carve-out presentation of the businesses comprising United States Steel, and are not intended to be a complete presentation of the financial position, results of operations and cash flows of United States Steel on a stand-alone basis. Marathon's net investment in United States Steel represents the combined net assets of the businesses comprising United States Steel and is presented in lieu of common stockholders equity in the combined balance sheet as of December 31, 2000. The allocations and estimates included in these combined financial statements are determined using the methodologies described below:

Financial activities – As a matter of policy, Marathon historically managed most financial activities on a centralized, consolidated basis. Transactions related primarily to invested cash, short-term and long-term debt (including convertible debt), related net interest and other financial costs, and preferred stock and related dividends were attributed to United States Steel based upon its cash flows for each of the periods presented and its initial capital structure. However, transactions such as leases, certain collateralized financings, certain indexed debt instruments, financial activities of consolidated entities which were less than wholly owned by Marathon, and transactions related to securities convertible solely into Steel Stock were specifically attributed to United States Steel.

Corporate general and administrative costs – Corporate general and administrative costs were allocated to United States Steel based upon utilization or other methods management believed to be reasonable and which considered certain measures of business activities, such as employment, investments and revenues.

Income taxes – The results from the businesses comprising United States Steel were included in the consolidated federal income tax returns of Marathon through 2001. The consolidated provision and the related tax payments or refunds were reflected in United States Steel's combined financial statements in accordance with Marathon's tax allocation policy. In general, such policy provided that the consolidated tax provision and related tax payments or refunds were allocated to United States Steel, based principally upon the financial income, taxable income, credits, preferences and other amounts directly related to United States Steel.

For tax provision and settlement purposes, tax benefits resulting from attributes (principally net operating losses and various tax credits), which could not be utilized by United States Steel on a separate return basis but which could be utilized on a consolidated basis in that year or in a carryback year, were allocated to United States Steel if it generated the attributes. As a result, the allocated group amounts of taxes payable or refundable were not necessarily comparable to those that would have resulted if United States Steel had filed its own separate tax returns.

In connection with the Separation discussed in Note 2, United States Steel and Marathon entered into a tax sharing agreement, which is discussed in Note 14.

2. The Separation

On December 31, 2001, in accordance with the Agreement and Plan of Reorganization approved by the shareholders of Marathon, Marathon converted each share of Steel Stock into the right to receive one share of United States Steel common stock (the Separation).

In connection with the Separation, United States Steel was required to repay or replace certain indebtedness and other obligations of Marathon so that the amount of indebtedness and other obligations for which United States Steel was responsible immediately following the Separation would be $900 million less than the net amounts attributed to United States Steel immediately prior to the Separation (Value Transfer). Any difference between the two amounts, adjusted for the Value Transfer, was to be settled in cash (Cash Settlement). During the last six months of 2001, United States Steel completed a number of financings in order to repay or replace certain indebtedness and other obligations of Marathon. At December 31, 2001, the net debt and other obligations of United States Steel was $54 million less than the net debt and other obligations attributed to United States Steel, adjusted for the Value Transfer. As a result, United States Steel recorded a $54 million payable to Marathon for the Cash Settlement. In accordance with the terms of the Separation, United States Steel paid Marathon $54 million, plus applicable interest, on February 6, 2002.

The net assets of United States Steel at Separation were approximately the same as the net assets attributed to United States Steel immediately prior to the Separation, except for the Value Transfer and the impacts of certain other transactions directly related to the Separation. The following table reconciles the net assets attributed to United States Steel immediately prior to the Separation with the net assets of United States Steel immediately following the Separation:

(In millions)		
Net assets of United States Steel prior to Separation		$ 1,551
Value Transfer	$ 900	
Separation costs funded by Marathon	62	
Other Separation adjustments	51	
Increase in net assets related to Separation		1,013
Net assets of United States Steel		$ 2,564

In connection with the Separation, United States Steel and Marathon entered into the following Agreements:

Financial Matters Agreement – This agreement establishes the responsibilities of United States Steel and Marathon relating to certain corporate obligations of Marathon at the time of Separation as follows:

- The assumption by United States Steel of certain industrial revenue bonds and certain other financial obligations of Marathon. See Notes 11 and 26 for details.
- Obligations for which Marathon is solely responsible.
- Obligations of Marathon for which United States Steel remains contingently liable. See Note 26 for details.
- Obligations of United States Steel for which Marathon remains contingently liable.

Tax Sharing Agreement – See Note 14, for a discussion of this agreement.

Transition Services Agreement – This agreement provides that, to the extent that one company or the other is not able to immediately service its own needs relating to services formerly managed on a corporate-wide basis, United States Steel and Marathon will enter into a transition services agreement whereby one company will provide such services to the other to the extent requested if the providing company is able to do so. Such agreements will be for a term of up to twelve months and be on a cost reimbursement basis.

License Agreement – This agreement granted to United States Steel a non-exclusive license to use the USX name rights and certain intellectual property with the right to sublicense.

Insurance Assistance Agreement – This agreement provides for the division of responsibility for joint insurance arrangements and the associated payment of insurance claims and deductibles following the Separation for claims associated with pre-Separation periods.

For other activities between United States Steel and Marathon in 2001 and prior periods, see Note 15.

3. Summary of Principal Accounting Policies

Principles applied in consolidation – These financial statements include the accounts of United States Steel and its majority-owned subsidiaries.

Investments in entities over which United States Steel has significant influence are accounted for using the equity method of accounting and are carried at United States Steel's share of net assets plus loans and advances. Differences in the basis of the investment and the underlying net asset value of the investee, if any, are amortized into earnings over the remaining useful life of the associated assets.

Investments in companies whose stock is publicly traded are carried generally at market value. The difference between the cost of these investments and market value is recorded in other comprehensive income (net of tax). Investments in companies whose stock has no readily determinable fair value are carried at cost and are periodically reviewed for impairment.

Income (loss) from investees includes United States Steel's proportionate share of income (loss) from equity method investments. Also, gains or losses from changes in ownership of unconsolidated investees are recognized in the period of change.

Use of estimates – Generally accepted accounting principles require 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 amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; environmental liabilities; liabilities for potential tax deficiencies and potential litigation claims and settlements; and assets and obligations related to employee benefits. Additionally, certain estimated liabilities are recorded when management commits to a plan to close an operating facility or to exit a business activity. Actual results could differ from the estimates and assumptions used.

Revenue recognition – Revenues are primarily recognized when products are shipped or services are provided to customers, the sales price is fixed and determinable, collectibility is reasonably assured, and title and risks of ownership have passed to the buyer. Costs associated with revenues, including shipping and other transportation costs, are recorded in cost of revenues.

Cash and cash equivalents – Cash and cash equivalents include cash on hand and on deposit and investments in highly liquid debt instruments with maturities generally of three months or less.

Inventories – Inventories are carried at lower of cost or market on a worldwide basis. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method.

Derivative instruments – United States Steel uses commodity-based and foreign currency derivative instruments to manage its exposure to price risk. Futures, forwards, swaps and options are used to reduce the effects of fluctuations in the purchase price of natural gas and nonferrous metals and also certain business transactions denominated in foreign currencies. United States Steel has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in results of operations.

Property, plant and equipment – Depreciation is primarily computed using a modified straight-line method based upon estimated lives of assets and production levels. The modification factors for domestic steel producing assets range from a minimum of 85% at a production level below 81% of capability, to a maximum of 105% for a 100% production level. No modification is made at the 95% production level, considered the normal long-range level. For certain equipment related to the railroad operations, depreciation is computed on the straight-line method, utilizing a composite or grouped asset approach, based on estimated lives of the assets.

Depletion of mineral properties is based on rates which are expected to amortize cost over the estimated tonnage of minerals to be removed.

United States Steel evaluates impairment of its property, plant and equipment on an individual asset basis or by logical groupings of assets. Assets deemed to be impaired are written down to their fair value, including any related goodwill, using discounted future cash flows and, if available, comparable market values.

When property, plant and equipment depreciated on an individual basis are sold or otherwise disposed of, any gains or losses are reflected in income. Gains on disposal of long-lived assets are recognized when earned, which is generally at the time of closing. If a loss on disposal is expected, such losses are recognized when the assets are reclassified as assets held for sale. Proceeds from disposal of property, plant and equipment depreciated on a group basis are credited to accumulated depreciation, depletion and amortization with no immediate effect on income.

Major maintenance activities – United States Steel incurs planned major maintenance costs primarily for blast furnace relines. Costs that extend the life of the asset are separately capitalized in property, plant and equipment and are amortized over their estimated useful life, which is generally the period until the next scheduled reline.

Environmental remediation – Environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve existing assets' environmental safety or efficiency. United States Steel provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Generally, the timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action. Remediation liabilities are accrued based on estimates of known environmental exposure and are discounted in certain instances.

Pensions, other postretirement and postemployment benefits – United States Steel has noncontributory defined benefit pension plans covering most U.S. employees and defined benefit retiree health care and life insurance plans (other postretirement benefits) covering most U.S. employees on their retirement. The net pension and other postretirement benefits obligations recorded and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases, the mortality of participants and the current level and escalation of health care costs in the future. Additionally, United States Steel recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments to certain U.S. employees. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions. Actuarial gains and losses are deferred and amortized over future periods.

Concentration of credit and business risks – United States Steel is exposed to credit risk in the event of nonpayment by customers principally within the automotive, steel and construction industries. Changes in these industries may significantly affect management's estimates and United States Steel's financial performance. United States Steel mitigates its exposure to credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral.

The majority of customers of United States Steel are located in the United States with the remainder primarily located in Central Europe. No single customer accounts for more than 5% of gross annual revenues.

Stock-based compensation – In 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue to apply the principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Deferred taxes – Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of deferred tax assets is assessed periodically based on several interrelated factors. These factors include United States Steel's expectation to generate sufficient future taxable income and management's intent regarding the permanent reinvestment of the earnings from certain foreign subsidiaries. U.S. deferred tax liabilities have not been recognized for the undistributed earnings of certain foreign subsidiaries, primarily USSK, because management intends to permanently reinvest such earnings in those foreign operations.

Insurance – United States Steel is insured for catastrophic casualty and certain property and business interruption exposures, as well as those risks required to be insured by law or contract. Costs resulting from noninsured losses are charged against income upon occurrence.

Reclassifications – Certain reclassifications of prior years' data have been made to conform to 2001 classifications.

4. New Accounting Standards

Effective January 1, 2001, United States Steel adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. This Statement, as amended, requires recognition of all derivatives at fair value as either assets or liabilities. A cumulative effect adjustment relating to the adoption of SFAS No. 133 was recognized in other comprehensive income. The cumulative effect adjustment relates only to deferred gains or losses for hedge transactions as of December 31, 2000. The effect of adoption of SFAS No. 133 was less than $1 million, net of tax.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations," SFAS No. 142 "Goodwill and Other Intangible Assets" and SFAS No. 143 "Accounting for Asset Retirement Obligations." The adoption of SFAS 141 and 142 on January 1, 2002, did not have a material impact on the results of operations or financial position of United States Steel.

SFAS No. 143 establishes a new accounting model for the recognition and measurement of retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires that an asset retirement obligation should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. United States Steel will adopt the Statement effective January 1, 2003. The transition adjustment resulting from the adoption of SFAS No. 143 will be reported as a cumulative effect of a change in accounting principle. At this time, United States Steel has not completed its assessment of the effect of the adoption of this Statement on either its financial position or results of operations.

In August 2001, the FASB approved SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). This Statement establishes a single accounting model for long-lived assets to be disposed of by sale and provides additional implementation guidance for assets to be held and used and assets to be disposed of other than by sale. United States Steel adopted this Statement effective January 1, 2002. There were no financial statement implications related to the adoption of SFAS No. 144, and the guidance will be applied on a prospective basis.

5. Business Combinations

On November 24, 2000, United States Steel acquired U. S. Steel Kosice, s.r.o. (USSK), which is located in the Slovak Republic. USSK was formed in June 2000 to hold the steel operations and related assets of VSZ a.s. (VSZ), a diversified Slovak corporation. The purchase price for USSK consisted of cash payments of $69 million in 2000, $14 million in 2001 and additional consideration of not less than $25 million and up to $75 million was contingent upon the performance of USSK in 2001. Based on the performance of USSK in 2001, the maximum contingent consideration has been accrued and will be paid in two installments of $37.5 million each in 2002 and 2003, resulting in total cash consideration of $158 million. Additionally, $325 million of debt and $226 million of other liabilities were included with the acquisition. The acquisition was accounted for under the purchase method of accounting. The 2000 results of operations include the operations of USSK from the date of acquisition. Prior to this transaction, United States Steel and VSZ were equal partners in VSZ U. S. Steel, s.r.o. (VSZUSS), a tin mill products manufacturer. The assets of USSK included VSZ's interest in VSZUSS. The acquisition of the remaining interest in VSZUSS was accounted for under the purchase method of accounting. Prior to the acquisition, United States Steel had accounted for its investment in VSZUSS under the equity method of accounting.

On March 1, 2001, United States Steel completed the purchase of the tin mill products business of LTV Corporation (LTV), which is now operated as East Chicago Tin. In this noncash transaction, United States Steel assumed approximately $66 million of employee related obligations from LTV. The acquisition was accounted for using the purchase method of accounting. Results of operations for the year 2001 include the operations of East Chicago Tin from the date of acquisition. In the fourth quarter of 2001, United States Steel recorded an intangible asset impairment of $20 million, related to the five-year agreement for LTV to supply United States Steel with pickled hot bands entered into in conjunction with the acquisition of LTV's tin mill products business. This impairment was recorded because LTV permanently ceased operations at their plants during the quarter pursuant to a bankruptcy court order.

On March 23, 2001, Transtar, Inc. (Transtar) completed a reorganization with its two voting shareholders, United States Steel and Transtar Holdings, L.P. (Holdings), an affiliate of Blackstone Capital Partners L.P. As a result of this transaction, United States Steel became sole owner of Transtar and certain of its subsidiaries. Holdings became owner of the other subsidiaries of Transtar. Because the reorganization involved the sale of certain subsidiaries to Holdings, a noncontrolling shareholder, Transtar recorded a gain by comparing the carrying value of the businesses sold to their fair value. United States Steel's share of the gain recognized by Transtar was $68 million, which is included in income (loss) from investees. Concurrently, United States Steel accounted for the change in ownership of Transtar using the step-acquisition purchase method of accounting. Also, in connection with this transaction, United States Steel recognized a favorable deferred tax adjustment of $33 million related to its investment in the stock of Transtar that was no longer required when United States Steel acquired 100 percent of Transtar. United States Steel previously accounted for its investment in Transtar under the equity method of accounting.

The following unaudited pro forma data for United States Steel includes the results of operations of the above acquisitions giving effect to them as if they had been consummated at the beginning of the years presented. Pro forma results for 2001 exclude the $68 million gain and $33 million tax benefit recorded as a result of the Transtar transaction. In addition, VSZ did not historically provide historical carve-out financial information for its steel activities prepared in accordance with generally accepted accounting principles in the United States of America. Therefore, United States Steel made certain estimates and assumptions regarding revenues and costs used in the preparation of the unaudited pro forma data relating to USSK for the year 2000.

The following unaudited pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

(In millions) (Unaudited)	**2001**	2000
Revenues and other income	**$ 6,353**	$ 7,355
Net income (loss)	**(321)**	58
Per share – basic and diluted	**(3.60)**	.65

6. Extraordinary Losses

In 1999, United States Steel irrevocably deposited with a trustee the entire 5.5 million common shares it owned in RTI International Metals, Inc. (RTI). The deposit of the shares resulted in the satisfaction of United States Steel's obligation under its 6$^3/_4$% Exchangeable Notes (indexed debt) due February 1, 2000. Under the terms of the indenture, the trustee exchanged one RTI share for each note at maturity. All shares were required for satisfaction of the indexed debt; therefore, none reverted back to United States Steel.

As a result of the above transaction, United States Steel recorded in 1999 an extraordinary loss of $5 million, net of a $3 million income tax benefit, representing prepaid interest expense and the write-off of unamortized debt issue costs, and a pretax charge of $22 million, representing the difference between the carrying value of the investment in RTI and the carrying value of the indexed debt, which is included in net gains on disposal of assets.

In 1999, Republic Technologies International, LLC, an equity investee of United States Steel, recorded an extraordinary loss related to the early extinguishment of debt. As a result, United States Steel recorded an extraordinary loss of $2 million, net of a $1 million income tax benefit, representing its share of Republic's extraordinary loss.

7. Other Items

(In millions)	**2001**	2000	1999
Net interest and other financial costs			
Interest and other financial income:			
Interest income	**$ 13**	$ 3	$ 1
Other	**(1)**	7	–
Total	**12**	10	1
Interest and other financial costs:			
Interest incurred	**186**	88	45
Less interest capitalized	**1**	3	6
Net interest	**185**	85	39
Interest on tax issues	**(58)** (a)	11	15
Financial costs on trust preferred securities	**13**	13	13
Financial costs on preferred stock of subsidiary	**11**	5	5
Amortization of discounts	**2**	1	1
Expenses on sales of accounts receivable	–	–	15
Adjustment to settlement value of indexed debt	–	–	(13)
Total	**153**	115	75
Net interest and other financial costs	**$ 141**	$ 105	$ 74

(a) Includes a favorable adjustment of $67 million related to prior years' taxes.

Foreign currency transactions

For 2001 and 2000, the aggregate foreign currency transaction gains (losses) included in determining net income were $(1) million and $7 million, respectively. There were no foreign currency transaction gains or losses in 1999.

8. Segment Information

United States Steel consists of two reportable operating segments: 1) Domestic Steel and 2) U. S. Steel Kosice (USSK). Domestic Steel is engaged in the domestic production, sale and transportation of steel mill products, coke, taconite pellets and coal; the management of mineral resources; real estate development; and engineering and consulting services. USSK, with operations primarily in the Slovak Republic, is engaged in the production and sale of steel mill products and coke and primarily serves Central European markets.

Segment income does not include net interest and other financial costs or the provision (credit) for income taxes. Additionally, the following items are not allocated to operating segments:

- Net pension credits
- Certain costs related to former United States Steel business activities
- Allocated Marathon corporate general and administrative costs. These costs primarily consist of employment costs including pension effects, professional services, facilities and other related costs associated with corporate activities.
- Certain other items not allocated to operating segments for business performance reporting purposes (see reconciliation below)

Information on assets by segment is not provided as it is not reviewed by the chief operating decision maker.

(In millions)	Domestic Steel	USSK	Total
2001			
Revenues and other income:			
Customer	**$ 5,323**	**$ 1,060**	**$ 6,383**
Intersegment[a]	**6**	**–**	**6**
Marathon[a]	**7**	**–**	**7**
Equity in earnings (losses) of unconsolidated investees	**(51)**	**1**	**(50)**
Other	**22**	**3**	**25**
Total revenues and other income	**$ 5,307**	**$ 1,064**	**$ 6,371**
Segment income (loss)	**$ (461)**	**$ 123**	**$ (338)**
Significant noncash items included in segment income –			
Depreciation, depletion and amortization[b]	**289**	**37**	**326**
Capital expenditures	**226**	**61**	**287**
2000[c]			
Revenues and other income:			
Customer	$ 5,989	$ 92	$ 6,081
Marathon[a]	17	–	17
Equity in earnings of unconsolidated investees	28	–	28
Other	50	–	50
Total revenues and other income	$ 6,084	$ 92	$ 6,176
Segment income	$ 98	$ 2	$ 100
Significant noncash items included in segment income –			
Depreciation, depletion and amortization[b]	285	4	289
Capital expenditures	239	5	244
1999[c]			
Revenues and other income:			
Customer	$ 5,519	$ –	$ 5,519
Marathon[a]	17	–	17
Equity in losses of unconsolidated investees	(35)	–	(35)
Other	45	–	45
Total revenues and other income	$ 5,546	$ –	$ 5,546
Segment income	$ 115	$ –	$ 115
Significant noncash items included in segment income –			
Depreciation, depletion and amortization	304	–	304
Capital expenditures[d]	286	–	286

(a) Revenues and transfers between segments and with Marathon were conducted under terms comparable to those with unrelated parties.

(b) Differences between segment total and United States Steel total represents amounts for impairment of assets related to Fairless shutdown in 2001 and impairment of coal assets in 2000.

(c) Certain amounts have been reclassified from segment results to items not allocated to segments to conform to 2001 presentation.

(d) Differences between segment total and United States Steel total represent amounts related to corporate administrative activities.

The following schedules reconcile segment amounts to amounts reported in United States Steel's financial statements:

(In millions)	**2001**	2000	1999
Revenues and Other Income:			
Revenues and other income of reportable segments	**$ 6,371**	$ 6,176	$ 5,546
Items not allocated to segments:			
Gain on Transtar reorganization	**68**	–	–
Insurance recoveries related to USS-POSCO fire	**46**	–	–
Asset impairment – trade receivables	**(104)**	(8)	–
Impairment and other costs related to investments in equity investees	–	(36)	(54)
Loss on investment used to satisfy indexed debt obligations	–	–	(22)
Elimination for intersegment revenues	**(6)**	–	–
Total revenues and other income	**$ 6,375**	$ 6,132	$ 5,470
Income:			
Income (loss) for reportable segments	**$ (338)**	$ 100	$ 115
Items not allocated to segment income:			
Net pension credits	**146**	266	193
Costs related to former businesses	**(76)**	(86)	(83)
Administrative expenses	**(22)**	(25)	(17)
	(290)	255	208
Other items not allocated to segment income:			
Gain on Transtar reorganization	**68**	–	–
Insurance recoveries related to USS-POSCO fire	**46**	–	–
Asset impairments – trade receivables	**(100)**	(8)	–
– other receivables	**(46)**	–	–
Impairment and other costs related to investments in equity investees	–	(36)	(54)
Loss on investment used to satisfy indexed debt obligations	–	–	(22)
Costs related to Fairless shutdown	**(38)**	–	–
Costs related to Separation	**(25)**	–	–
Asset impairments – intangible assets	**(20)**	–	–
– coal	–	(71)	–
Environmental and legal contingencies	–	(36)	(17)
Voluntary early retirement program pension settlement	–	–	35
Total income (loss) from operations	**$ (405)**	$ 104	$ 150

Revenues by Product:

(In millions)	**2001**	2000	1999
Sheet and semi-finished steel products	**$ 3,163**	$ 3,288	$ 3,433
Tubular products	**755**	754	221
Plate and tin mill products	**1,273**	977	919
Raw materials (coal, coke and iron ore)	**485**	626	549
Other[(a)]	**610**	445	414
Total	**$ 6,286**	$ 6,090	$ 5,536

(a) Includes revenue from the sale of steel production by-products, engineering and consulting services, real estate development and resource management, and, beginning in 2001, transportation services.

Geographic Area:

The information below summarizes revenue and other income and property, plant and equipment and investments (assets) at the manufacturing facilities in the different geographic areas.

(In millions)	Year	Revenues and Other Income	Assets
United States	**2001**	**$ 5,302**	**$ 2,927**
	2000	6,027	2,745
	1999	5,452	2,889
Slovak Republic	**2001**	**1,030**	**429**
	2000	95	376
	1999	3	60
Other Foreign Countries	**2001**	**43**	**11**
	2000	10	10
	1999	15	3
Total	**2001**	**$ 6,375**	**$ 3,367**
	2000	6,132	3,131
	1999	5,470	2,952

9. Supplemental Cash Flow Information

(In millions)	**2001**	2000	1999
Noncash investing and financing activities:			
Assets acquired through capital leases	**$ 7**	$ –	$ –
Steel Stock issued for employee stock plans	**9**	5	2
Disposal of assets:			
Deposit of RTI common shares in satisfaction of indexed debt	–	–	56
Interest in USS/Kobe contributed to Republic	–	–	40
Other disposals of assets – notes or common stock received	**4**	14	1
Business combinations:			
Acquisition of East Chicago Tin – liabilities assumed	**66**	–	–
Acquisition of Transtar:			
Liabilities assumed	**114**	–	–
Investee liabilities consolidated in step acquisition	**145**	–	–
Acquisition of USSK:			
Liabilities assumed	–	568	–
Accrual of contingent consideration at present value	**45**	21	–
Investee liabilities consolidated in step acquisition	–	3	–
Other acquisitions:			
Liabilities assumed	–	–	26
Investee liabilities consolidated in step acquisition	–	–	26
Separation activities *(see Note 2)*:			
Marathon obligations historically attributed to United States Steel retained by Marathon in the Separation (Value Transfer)	**900**	–	–
Separation costs funded by Marathon	**62**	–	–
Other Separation adjustments	**51**	–	–

10. Short-Term Debt

USSK has a short-term $10 million credit facility that expires in November 2002. The facility, which is nonrecourse to United States Steel, bears interest on prevailing short-term market rates plus 1%. USSK is obligated to pay a .25% commitment fee on undrawn amounts. At December 31, 2001, there were no borrowings against this facility.

11. Long-Term Debt

(In millions)	Interest Rates – %	Maturity	December 31 **2001**	2000
Senior Notes	$10^3/_4$	2008	**$ 535**	$ –
Senior Quarterly Income Debt Securities	10	2031	**49**	–
Obligations relating to Industrial Development and Environmental Improvement Bonds and Notes	$1^{17}/_{25}$–$6^7/_8$	2009 – 2033	**471**	–
Inventory facility		2004	**–**	–
Fairfield Caster Lease		2002 – 2012	**84**	–
All other obligations, including other capital leases			**6**	–
USSK loan	$8^1/_2$	2010	**325**	–
USSK credit facility			**–**	–
Marathon debt attributed to United States Steel			–	2,387
Total			**1,470**	2,387
Less unamortized discount			**4**	12
Less amount due within one year			**32**	139
Long-term debt due after one year			**$1,434**	$2,236

Marathon debt attributed to United States Steel was determined based on the cash flows of United States Steel (see Note 2). Included in Marathon debt attributable to United States Steel was an accounts receivable facility accounted for as a secured borrowing. At December 31, 2000, $350 million was outstanding under this facility. The facility was terminated and repaid in 2001.

Senior Notes – $385 million and $150 million of Senior Notes (Notes) were issued on July 27, 2001 and September 11, 2001, respectively. Interest is payable semi-annually commencing February 1, 2002. Up to 35% of the aggregate principal amount of the Notes may be redeemed at any time prior to August 1, 2004, with the proceeds of public offerings of certain capital stock at a redemption price of 110.75% of the principal amount plus accrued interest.

Senior Quarterly Income Debt Securities (SQUIDS) – On December 19, 2001, SQUIDS were issued in an exchange for certain preferred securities of Marathon. Interest is payable quarterly commencing March 31, 2002. The SQUIDS will be redeemable at the option of United States Steel, in whole or in part, on or after December 31, 2006, at 100% of the principal amount redeemed together with accrued but unpaid interest to the redemption date.

Obligations relating to Industrial Development and Environmental Improvement Bonds and Notes – Under the Financial Matters Agreement (see Note 2), United States Steel assumed and will discharge all principal, interest and other duties of Marathon under these obligations, including any amounts due upon any defaults or accelerations of any of the obligations, other than defaults or accelerations caused by any action of Marathon. The agreement also provides that on or before the tenth anniversary of the Separation, United States Steel will provide for the discharge of Marathon from any remaining liability under any of these obligations. At December 31, 2001, $141 million of the $471 million were supported by letter of credit arrangements that could become short-term obligations under certain circumstances, including the ability of the remarketing agent to remarket the bonds.

Inventory facility – On November 30, 2001, United States Steel entered into a revolving credit facility that provides for borrowings of up to $400 million which expires on December 31, 2004. The facility is secured by all domestic inventory and related assets, including receivables other than those sold under the Receivables Purchase Agreement (see Note 22). The amount outstanding under the facility will not exceed the permitted "borrowing base" calculated on percentages of the values of eligible inventory. At December 31, 2001, $250 million was available to United States Steel under this facility. Interest on borrowings will be calculated based on either LIBOR or J. P. Morgan Chase's prime rate using spreads determined by credit ratings.

Fairfield Caster Lease – United States Steel is the lessee of a slab caster at the Fairfield Works facility in Alabama. The sublease is accounted for as a capital lease. Marathon is the obligor under the lease. Under the Financial Matters Agreement, United States Steel assumed and will discharge all obligations under this lease. This lease is an amortizing financing with a final maturity of 2012, subject to additional extensions.

USSK loan – USSK has a loan with a group of financial institutions which is nonrecourse to United States Steel. The loan is subject to annual repayments of $20 million beginning in 2003, with the balance due in 2010. Mandatory prepayments of the loan may be required based upon a cash flow formula or a change in control of United States Steel. The amount of the mandatory prepayment under the cash flow formula, payable April 1, 2002, is $26 million.

USSK credit facility – USSK has a $40 million credit facility that expires in December 2004. The facility, which is nonrecourse to United States Steel, bears interest on prevailing market rates plus .90%. USSK is obligated to pay a .25% commitment fee on undrawn amounts.

Covenants – The Notes, SQUIDS, USSK loan, USSK credit facility and the Inventory facility may be declared immediately due and payable in the event of a change in control of United States Steel, as defined in the related agreements. In such event, United States Steel may also be required to either repurchase the leased Fairfield Caster for $96 million or provide a letter of credit to secure the remaining obligation. Additionally, the Notes contain various other restrictive covenants, the majority of which will not apply upon the attainment of an investment grade rating, including restrictions on the payment of dividends, limits on additional borrowings, including limiting the amount of borrowings secured by inventories and the accounts receivable securitization, limits on sale/leaseback, limits on the use of funds from asset sales and sale of the stock of subsidiaries, and restrictions on our ability to make investments in joint ventures or make certain acquisitions. The Inventory facility imposes additional restrictions including financial covenants that require that United States Steel meet interest expense coverage and leverage ratios beginning on September 30, 2002, limitations on capital expenditures, and restrictions on investments. If these covenants are breached, creditors would be able to declare their obligations immediately due and payable and foreclose on any collateral.

Debt Maturities – Aggregate maturities of long-term debt are as follows (In millions):

	Year ended December 31,					
Total	2002	2003	2004	2005	2006	Later Years
$ 1,470	$ 32	$ 26	$ 25	$ 25	$ 26	$ 1,336

12. Pensions and Other Postretirement Benefits

United States Steel has noncontributory defined benefit pension plans covering substantially all U.S. employees. Benefits under these plans are based upon years of service and final average pensionable earnings, or a minimum benefit based upon years of service, whichever is greater. In addition, pension benefits are also provided to most U.S. salaried employees based upon a percent of total career pensionable earnings. United States Steel also participates in multiemployer plans, most of which are defined benefit plans associated with coal operations.

United States Steel also has defined benefit retiree health care and life insurance plans (other benefits) covering most U.S. employees upon their retirement. Health care benefits are provided through comprehensive hospital, surgical and major medical benefit provisions or through health maintenance organizations, both subject to various cost sharing features. Life insurance benefits are provided to nonunion retiree beneficiaries primarily based on employees' annual base salary at retirement. For U.S. union retirees, life insurance benefits are provided primarily based on fixed amounts negotiated in labor contracts with the appropriate unions.

	Pension Benefits		Other Benefits	
(In millions)	**2001**	2000	**2001**	2000
Change in benefit obligations				
Benefit obligations at January 1	**$ 6,921**	$ 6,716	**$ 2,149**	$ 1,896
Service cost	**89**	76	**15**	12
Interest cost	**496**	505	**161**	147
Plan amendments	**4**	–	–	–
Actuarial losses	**469**	430	**261**	260
Plan merger and acquisition	**106** [(a)]	–	**152** [(a)]	–
Settlements, curtailments and termination benefits	**21** [(b)]	–	–	–
Benefits paid	**(748)**	(806)	**(183)**	(166)
Benefit obligations at December 31	**$ 7,358**	$ 6,921	**$ 2,555**	$ 2,149
Change in plan assets				
Fair value of plan assets at January 1	**$ 9,312**	$ 9,995	**$ 842**	$ 281
Actual return on plan assets	**(26)**	139	**21**	26
Acquisition	**62**	(1)	–	–
Employer contributions	–	–	**17**	576 [(c)]
Trustee distributions[(d)]	**(17)**	(16)	–	–
Benefits paid from plan assets	**(748)**	(805)	**(152)**	(41)
Fair value of plan assets at December 31	**$ 8,583**	$ 9,312	**$ 728**	$ 842
Funded status of plans at December 31	**$ 1,225** [(e)]	$ 2,391 [(e)]	**$(1,827)**	$ (1,307)
Unrecognized net gain from transition	**(1)**	(2)	–	–
Unrecognized prior service cost	**629**	719	**7**	12
Unrecognized actuarial (gains) losses	**866**	(474)	**57**	(241)
Additional minimum liability	**(32)**[(f)]	(7)[(f)]	–	–
Prepaid (accrued) benefit cost	**$ 2,687**	$ 2,627	**$(1,763)**	$ (1,536)

(a) Reflects merger of Transtar benefit plans and LTV Steel's tin mill employee obligations and recognition of the obligation associated with retiree medical benefits for the pre-1989 Lorain Works' retirees which had been assumed by USS/Kobe Steel Company (USS/Kobe) in 1989 at the formation of the joint venture. Republic Technologies International Holdings, LLC (Republic) became responsible for all of USS/Kobe's employee benefit liabilities, except for active employees of the tubular processing facility, when USS/Kobe was merged into Republic in 1999. Republic filed for bankruptcy in April 2001, as discussed in Note 16. Subsequently, Republic stopped reimbursing United States Steel for the pre-1989 Lorain Works' retiree medical benefits. Due to these events, United States Steel recorded an obligation for payment of the benefits and an associated receivable from Republic for the reimbursement of these payments. These pre-1989 Lorain Works' retiree medical benefits are the subject of a pending request for payment as administrative expenses in the bankruptcy proceedings; however, even if the petition is successful, Republic's ability to pay is uncertain; therefore, a reserve has been established for a portion of the receivable.

(b) Recognizes increases due principally to a non-union voluntary early retirement program offered in conjunction with the Separation and a shutdown of the majority of the Fairless Plant.

(c) Includes contributions of $530 million to a Voluntary Employee Benefit Association trust, comprised of $30 million in contractual requirements and an elective contribution of $500 million. Also includes a $30 million elective contribution to the non-union retiree life insurance trust.

(d) Represents transfers of excess pension assets to fund retiree health care benefits accounts under Section 420 of the Internal Revenue Code.

(e) Includes a plan that has accumulated benefit obligations in excess of plan assets:

	2001	2000
Aggregate accumulated benefit obligations	**$ (58)**	$ (40)
Aggregate projected benefit obligations (PBO)	**(69)**	(49)
Aggregate plan assets	–	–

Of the $69 million PBO total, $8 million represents the portion of pension benefits applicable to Marathon employees' corporate service with USX. Such amount will be reimbursed by Marathon and is reflected as a receivable on the balance sheet.

The aggregate accumulated benefit obligation is included in employee benefits in the balance sheet.

(f) Additional minimum liability recorded was offset by the following:

Intangible asset	**$ –**	$ 1
Accumulated other comprehensive income (losses):		
Beginning of year	**$ (4)**	$ (7)
Change during year (net of tax)	**(16)**	3
Balance at end of year	**$ (20)**	$ (4)

(In millions)	Pension Benefits 2001	2000	1999	Other Benefits 2001	2000	1999
Components of net periodic benefit cost (credit)						
Service cost	**$ 89**	$ 76	$ 87	**$ 15**	$ 12	$ 15
Interest cost	**496**	505	473	**161**	147	133
Expected return on plan assets	**(837)**	(841)	(781)	**(60)**	(24)	(21)
Amortization – net transition gain	**(1)**	(67)	(67)	–	–	–
– prior service costs	**97**	98	83	**4**	4	4
– actuarial (gains) losses	**2**	(44)	6	**(3)**	(29)	(12)
Multiemployer and other plans	–	–	–	**12** [a]	9 [a]	7 [a]
Settlement and termination (gains) losses	**34** [b]	–	(35)[b]	–	–	–
Net periodic benefit cost (credit)	**$ (120)**	$ (273)	$ (234)	**$ 129**	$ 119	$ 126

[a] Represents payments to a multiemployer health care benefit plan created by the Coal Industry Retiree Health Benefit Act of 1992 based on assigned beneficiaries receiving benefits. The present value of this unrecognized obligation is broadly estimated to be $76 million, including the effects of future medical inflation, and this amount could increase if additional beneficiaries are assigned.
[b] Relates primarily to voluntary early retirement programs.

	Pension Benefits 2001	2000	Other Benefits 2001	2000
Weighted-average actuarial assumptions at December 31:				
Discount rate	**7.0%**	7.5%	**7.0%**	7.5%
Expected annual return on plan assets	**8.9%**	8.9%	**8.0%**	8.5%
Increase in compensation rate	**4.0%**	4.0%	**4.0%**	4.0%

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5% for 2008 and remain at that level thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(In millions)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 19	$ (16)
Effect on other postretirement benefit obligations	222	(188)

United States Steel also contributes to several defined contribution plans for its salaried employees and a small number of wage employees. Company contributions to these plans, which for the most part are based on a percentage of the employees' salary depending on years of service, totaled $13 million in 2001, $11 million in 2000 and $10 million in 1999. Most union employees are eligible to participate in a defined contribution plan where there is no company match on savings. United States Steel also maintains a supplemental thrift plan to provide benefits which are otherwise limited by the Internal Revenue Service for qualified plans; company costs under these plans totaled less than $1 million in 2001, 2000 and 1999.

13. Inventories

(In millions) December 31	2001	2000
Raw materials	**$ 184**	$ 214
Semi-finished products	**388**	429
Finished products	**202**	210
Supplies and sundry items	**96**	93
Total	**$ 870**	$ 946

At December 31, 2001 and 2000, the LIFO method accounted for 91% of total inventory value. Current acquisition costs were estimated to exceed the above inventory values at December 31 by approximately $410 million in 2001 and $380 million in 2000. Cost of revenues was reduced and income (loss) from operations was improved by $24 million in 2001 and $3 million in 2000 as a result of liquidations of LIFO inventories.

14. Income Taxes

Provisions (credits) for income taxes were:

(In millions)	**2001** Current	**2001** Deferred	**2001** Total	2000 Current	2000 Deferred	2000 Total	1999 Current	1999 Deferred	1999 Total
Federal	**$(326)**	**$ 38**	**$(288)**	$(357)	$ 340	$ (17)	$ (84)	$ 99	$ 15
State and local	**(23)**	**(13)**	**(36)**	(12)	49	37	1	8	9
Foreign	**3**	**(7)**	**(4)**	–	–	–	1	–	1
Total	**$(346)**	**$ 18**	**$(328)**	$(369)	$ 389	$ 20	$ (82)	$ 107	$ 25

A reconciliation of the federal statutory tax rate (35%) to total provisions (credits) follows:

(In millions)	**2001**	2000	1999
Statutory rate applied to income (loss) before income taxes	**$ (191)**	$ –	$ 27
Excess percentage depletion	**(1)**	(3)	(7)
Effects of foreign operations, including foreign tax credits	**(38)**	(5)	(2)
State and local income taxes after federal income tax effects	**(23)**	24	6
Credits other than foreign tax credits	**(3)**	(3)	(3)
Nontaxable gain from ownership change	**(24)**	–	–
Adjustments of prior years' federal income taxes	**(18)**	5	–
Dispositions of investments	**(33)**	–	–
Other	**3**	2	4
Total provisions (credits)	**$ (328)**	$ 20	$ 25

Deferred tax assets and liabilities resulted from the following:

(In millions) December 31	**2001**	2000
Deferred tax assets:		
Minimum tax credit carryforwards	**$ 3**	$ 39
State tax loss carryforwards (expiring in 2009 through 2011)	**2**	55
Foreign tax loss carryforwards	**50**	52
Employee benefits	**875**	782
Receivables, payables and debt	**99**	52
Expected federal benefit for deducting state deferred income taxes	**27**	16
Contingencies and other accruals	**98**	71
Other	**20**	2
Valuation allowances:		
Foreign	**(50)**	(52)
State	**(9)**	(34)
Total deferred tax assets[a]	**1,115**	983
Deferred tax liabilities:		
Property, plant and equipment	**359**	248
Prepaid pensions	**1,095**	1,046
Inventory	**34**	15
Investments in subsidiaries and equity investees	**67**	82
Other	**74**	61
Total deferred tax liabilities	**1,629**	1,452
Net deferred tax liabilities	**$ 514**	$ 469

[a] United States Steel expects to generate sufficient future taxable income to realize the benefit of its deferred tax assets.

The consolidated tax returns of Marathon for the years 1992 through 1997 are under various stages of audit and administrative review by the IRS. United States Steel believes it has made adequate provision for income taxes and interest which may become payable for years not yet settled.

Pretax loss in 2001 and 2000 included $103 million and $8 million of income, respectively, attributable to foreign sources.

Undistributed earnings of certain consolidated foreign subsidiaries at December 31, 2001, amounted to $130 million. No provision for deferred U.S. income taxes has been made for these subsidiaries because United States Steel intends to permanently reinvest such earnings in foreign operations. If such earnings were not permanently reinvested, a deferred tax liability of approximately $40 million would have been required.

Under the Slovak Income Tax Act, USSK is entitled to claim an income tax credit of 100% of its tax liability through 2004 and a 50% credit in 2005 through 2009. To qualify for a tax credit in 2001, USSK must generate more than 60% of its revenue from export sales; and commit to reinvest all tax credits earned into qualifying capital expenditures over a period of time as stipulated in the Slovak Income Tax Act. Management believes that USSK has met all necessary requirements for claiming a tax credit in 2001.

United States Steel and Marathon entered into a Tax Sharing Agreement that reflects each party's rights and obligations relating to payments and refunds of income, sales, transfer and other taxes that are attributable to periods beginning prior to and including the Separation Date and taxes resulting from transactions effected in connection with the Separation.

The Tax Sharing Agreement incorporates the general tax sharing principles of the former tax allocation policy. In general, United States Steel and Marathon, will make payments between them such that, with respect to any consolidated, combined or unitary tax returns for any taxable period or portion thereof ending on or before the Separation Date, the amount of taxes to be paid by each of United States Steel and Marathon will be determined, subject to certain adjustments, as if the former groups each filed their own consolidated, combined or unitary tax return. The Tax Sharing Agreement also provides for payments between United States Steel and Marathon for certain tax adjustments which may be made after the Separation. Other provisions address, but are not limited to, the handling of tax audits, settlements and return filing in cases where both United States Steel and Marathon have an interest in the results of these activities.

A preliminary settlement for the calendar year 2001 federal income taxes, which would have been made in March 2002 under the former tax allocation policy, was made immediately prior to the Separation at a discounted amount to reflect the time value of money. Under the preliminary settlement for calendar year 2001, United States Steel received $441 million from Marathon immediately prior to Separation arising from the tax allocation policy. This policy provides that United States Steel receive the benefit of tax attributes (principally net operating losses and various tax credits) that arose out of its business and which were used on a consolidated basis.

Additionally, pursuant to the Tax Sharing Agreement, United States Steel and Marathon have agreed through various representations and covenants to protect the tax-free status of the Separation. To the extent that a breach of a representation or covenant results in corporate tax being imposed, the breaching party, either United States Steel or Marathon, will be responsible for the payment of the corporate tax.

15. Transactions with Marathon

Revenues and purchases – United States Steel revenues for sales to Marathon totaled $7 million in 2001 and $17 million in both 2000 and 1999. United States Steel purchases from Marathon totaled $30 million, $60 million and $41 million in 2001, 2000 and 1999, respectively. These transactions were conducted under terms comparable to those with unrelated parties.

Receivables from/payables to Marathon – At December 31, 2001 and 2000, amounts receivable or payable were included in the balance sheet as follows:

(In millions) December 31	**2001**	2000
Receivables:		
Current:		
Trade receivables	**$ –**	$ 2
Income tax settlement with Marathon *(Note 1)*	**28**	364
Current receivables from Marathon	**28**	366
Noncurrent:		
Estimated future income tax settlements	**–**	97
Reimbursements under nonqualified employee benefit plans *(Note 12)*	**8**	–
Noncurrent receivables from Marathon	**8**	97
Current payables:		
Trade and income taxes	**–**	5
Separation settlement payable *(Note 2)*	**54**	–
Current payables to Marathon	**$ 54**	$ 5

16. Investments and Long-Term Receivables

(In millions) December 31	**2001**	2000
Equity method investments	**$ 233**	$ 325
Other investments	**49**	67
Receivables due after one year	**8**	5
Deposits of restricted cash	**2**	3
Other	**54**	39
Total	**$ 346**	$ 439

Summarized financial information of investees accounted for by the equity method of accounting follows:

(In millions)	**2001**	2000	1999
Income data – year:			
Revenues and other income	**$ 2,244**	$ 3,484	$ 3,027
Operating income (loss)	**(97)**	112	(57)
Net loss	**(208)**	(166)	(193)
Balance sheet data – December 31:			
Current assets	**$ 705**	$ 911	
Noncurrent assets	**1,604**	2,196	
Current liabilities	**861**	1,171	
Noncurrent liabilities	**1,340**	1,307	

United States Steel acquired a 25% interest in VSZ during 2000. VSZ does not provide its shareholders with financial statements prepared in accordance with accounting principles generally accepted in the United States (USGAAP). Although shares of VSZ are traded on the Bratislava Stock Exchange, those securities do not have a readily determinable fair value as defined under USGAAP. Accordingly, United States Steel accounts for its investment in VSZ under the cost method of accounting.

In 1999, United States Steel and Kobe Steel, Ltd. (Kobe Steel) completed a transaction that combined the steelmaking and bar producing assets of USS/Kobe Steel Company (USS/Kobe) with companies controlled by Blackstone Capital Partners II. The combined entity was named Republic Technologies International, LLC and is a wholly owned subsidiary of Republic Technologies International Holdings, LLC (Republic). As a result of this transaction, United States Steel recorded $47 million in charges related to the impairment of the carrying value of its investment in USS/Kobe and costs related to the formation of Republic. These charges were included in income (loss) from investees in 1999. In addition, United States Steel made a $15 million equity investment in Republic. United States Steel owned 50% of USS/Kobe and now owns 16% of Republic. United States Steel accounted for its investment in Republic under the equity method of accounting. During the first quarter of 2001, United States Steel discontinued applying the equity method of accounting since investments in and advances to Republic had been reduced to zero. On April 2, 2001, Republic filed a voluntary petition with the U.S. Bankruptcy Court to reorganize its operations under Chapter 11 of the U.S. Bankruptcy Code. As a result of Republic's action, United States Steel recorded a pretax charge of $74 million for potentially uncollectible receivables from Republic and recognized certain debt obligations of $14 million previously assumed by Republic. Due to further financial deterioration of Republic during the balance of 2001, United States Steel recorded a pretax charge of $68 million in the fourth quarter of 2001, related to a portion of the remaining Republic receivables exposure and retiree medical cost reimbursements owed by Republic. Summary financial information of Republic is included in the table above.

United States Steel operates and sells coke and by-products through the Clairton 1314B Partnership, L.P. in which it is the sole general partner. United States Steel is responsible for purchasing, operations and product sales and accounts for its 10% interest in the partnership under the equity method of accounting. United States Steel's share of profits and losses was 1.75% for the years ended December 31, 2001, 2000 and 1999 and will increase to 45.75% when a specified rate of return level is met by the limited partners. The partnership at times had operating cash shortfalls in 2001, after payment of distributions to the partners, that were funded with loans from United States Steel. As of December 31, 2001, the partnership owed United States Steel $3 million, which was repaid in January 2002. An unamortized deferred gain from the formation of the partnership of $150 million is included in deferred credits and other liabilities in the balance sheet. The gain will not be recognized in income as long as United States Steel has a commitment to fund cash shortfalls of the partnership.

Dividends and partnership distributions received from equity investees were $17 million in 2001, $10 million in 2000 and $2 million in 1999.

United States Steel purchases of transportation services and semi-finished steel from equity investees totaled $261 million, $566 million and $361 million in 2001, 2000 and 1999, respectively. At December 31, 2001 and 2000, United States Steel payables to these investees totaled $31 million and $66 million, respectively. Transtar, a provider of transportation services and formerly an equity investee, was acquired on March 23, 2001, as discussed in Note 5.

United States Steel revenues for steel and raw material sales to equity investees totaled $852 million, $958 million and $831 million in 2001, 2000 and 1999, respectively. At December 31, 2001 and 2000, United States Steel receivables from these investees were $228 million and $177 million, respectively. Generally, these transactions were conducted under long-term, market-based contractual arrangements.

17. Leases

Future minimum commitments for capital leases (including sale-leasebacks accounted for as financings) and for operating leases having remaining noncancelable lease terms in excess of one year are as follows:

(In millions)	Capital Leases	Operating Leases
2002	$ 14	$ 92
2003	13	79
2004	11	71
2005	11	46
2006	11	37
Later years	74	188
Sublease rentals	–	(96)
Total minimum lease payments	134	$ 417
Less imputed interest costs	44	
Present value of net minimum lease payments included in long-term debt *(see Note 11)*	$ 90	

Operating lease rental expense:

(In millions)	**2001**	2000	1999
Minimum rental	**$ 133**	$ 132	$ 124
Contingent rental	**18**	17	18
Sublease rentals	**(17)**	(6)	(6)
Net rental expense	**$ 134**	$ 143	$ 136

United States Steel leases a wide variety of facilities and equipment under operating leases, including land and building space, office equipment, production facilities and transportation equipment. Most long-term leases include renewal options and, in certain leases, purchase options.

18. Preferred Securities

Marathon was the issuer and obligor of the following preferred securities:

- 8 3/4% Cumulative Monthly Income Preferred Shares (MIPS) issued by a wholly owned subsidiary of Marathon
- 6 3/4% Convertible Quarterly Income Preferred Securities of USX Capital Trust I (QUIPS)
- 6.50% Cumulative Convertible Preferred Stock (Preferred Stock)

All of the outstanding QUIPS and Preferred Stock and a portion of the MIPS were historically attributed to United States Steel. In December 2001, $49 million of these securities were exchanged for SQUIDS issued by United States Steel as part of the financings incurred by United States Steel related to the Separation.

On December 31, 2001, Marathon redeemed the outstanding MIPS for cash. At the time of Separation, the QUIPS and Preferred Stock were retained by Marathon and were redeemed or repaid by Marathon in January 2002.

19. Stockholder Rights Plan

On December 31, 2001, United States Steel adopted a new Stockholder Rights Plan and declared a dividend distribution of one right for each share of common stock issued pursuant to the Plan of Reorganization in connection with the Separation. Each right becomes exercisable, at a price of $110, after any person or group has acquired, obtained the right to acquire or made a tender or exchange offer for 15% or more of the outstanding voting power represented by the outstanding Voting Stock, except pursuant to a qualifying all-cash tender offer for all outstanding shares of Voting Stock which results in the offeror owning shares of Voting Stock representing a majority of the voting power (other than Voting Stock beneficially owned by the offeror immediately prior to the offer). If the rights become exercisable, each right will entitle the holder, other than the acquiring person or group, to purchase one one-hundredth of a share of Series A Junior Preferred Stock or, upon the acquisition by any person of 15% or more of the outstanding voting power represented by the outstanding Voting Stock (or, in certain circumstances, other property), common stock having a market value of twice the exercise price. After a person or group acquires 15% or more of the outstanding voting power, if United States Steel engages in a merger or other business combination where it is not the surviving corporation or where it is the surviving corporation and the Voting Stock is changed or exchanged, or if 50% or more of United States Steel's assets, earnings power or cash flow are sold or transferred, each right will entitle the holder to purchase common stock of the acquiring entity having a market value of twice the exercise price. The rights and the exercise price are subject to adjustment. The rights will expire on December 31, 2011, unless such date is extended or the rights are earlier redeemed by United States Steel before they become exercisable. Under certain circumstances, the Board of Directors has the option to exchange one share of the respective class of Voting Stock for each exercisable right.

20. Income Per Common Share

Prior to December 31, 2001, the businesses comprising United States Steel were an operating unit of Marathon and did not have any public equity securities outstanding. In connection with the Separation, United States Steel was capitalized through the issuance of 89.2 million shares of common stock. Basic and diluted net income (loss) per share for all periods presented are calculated by dividing net income (loss) for the period by the number of outstanding common shares at December 31, 2001, the date of the Separation. In addition, the potential common stock related to employee options to purchase 3,520,000 shares of common stock have been excluded from the computation of diluted net income (loss) per share for all periods presented because their effect was antidilutive. These common stock equivalents will be included in future periods if their effect is dilutive.

	2001	2000	1999
Computation of Income Per Share			
Net income (loss) (millions):			
Income (loss) before extraordinary losses	**$ (218)**	$ (21)	$ 51
Extraordinary losses	**–**	–	7
Net income (loss) applicable to common stock	**$ (218)**	$ (21)	$ 44
Per share basic and diluted:			
Income (loss) before extraordinary losses	**$ (2.45)**	$ (.24)	$ .57
Extraordinary losses	**–**	–	.08
Net income (loss)	**$ (2.45)**	$ (.24)	$ .49

21. Stock-Based Compensation Plans

The United States Steel Corporation 2002 Stock Plan, which became effective January 1, 2002, replaces the USX Corporation 1990 Stock Plan as a stock-based compensation plan for key management employees of United States Steel. The 2002 Stock Plan authorizes the Compensation and Organization Committee of the board of directors to grant restricted stock, stock options and stock appreciation rights to key management employees. Up to 10,000,000 shares are available for grants during the five-year term of the Plan. In addition, awarded shares that do not result in shares being issued are available for subsequent grant, and any ungranted shares from prior years' annual allocations are available for subsequent grant during the years the 2002 Plan is in effect.

Stock options represent the right to purchase shares of stock at the market value of the stock at date of grant. Certain options contain the right to receive cash and/or common stock equal to the excess of the fair market value of shares of common stock, as determined in accordance with the plan, over the option price of shares. Under the 2002 Stock Plan, no stock options may be exercised prior to one year or after eight years from the date of grant. Under the former USX Corporation 1990 Stock Plan, stock options expired ten years from the date they were granted.

In connection with the Separation, all options to purchase Steel Stock were converted into options to purchase United States Steel common stock with identical terms; the remaining vesting periods and term of the options were continued.

The following is a summary of stock option activity under the former USX Corporation 1990 Stock Plan:

	Shares	Price[(a)]
Balance December 31, 1998	1,992,570	$ 35.50
Granted	656,400	28.22
Exercised	(2,580)	24.92
Canceled	(20,005)	38.51
Balance December 31, 1999	2,626,385	33.67
Granted	915,470	23.00
Exercised	(400)	24.30
Canceled	(62,955)	38.19
Balance December 31, 2000	3,478,500	30.78
Granted	1,089,555	19.89
Exercised	–	–
Canceled	(89,520)	32.56
Balance December 31, 2001	4,478,535	28.09

(a) Weighted-average exercise price.

The following table represents outstanding stock options issued under the former USX Corporation 1990 Stock Plan at December 31, 2001:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares Under Option	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares Under Option	Weighted-Average Exercise Price
$ 19.89–28.22	2,660,180	8.6 years	$23.02	1,570,625	$ 25.19
31.69–34.44	998,830	4.3	32.54	998,830	32.54
37.28–44.19	819,525	5.1	39.17	819,525	39.17
Total	4,478,535	7.0	28.09	3,388,980	30.73

The following net income and per share data represent the difference between stock-based compensation valued at fair value on the date of grant and recognized compensation costs.

(In millions, except per share data)	**2001**	2000	1999
Net income (loss)			
– As reported	**$ (218)**	$ (21)	$ 44
– Pro forma	**(221)**	(23)	42
Basic and diluted net income (loss) per share			
– As reported	**(2.45)**	(.24)	.49
– Pro forma	**(2.48)**	(.26)	.47

The above pro forma amounts were based on a Black-Scholes option-pricing model, which included the following information and assumptions:

	2001	2000	1999
Weighted-average grant-date exercise price per share	**$ 19.89**	$ 23.00	$ 28.22
Expected annual dividends per share	**$ .20**	$ 1.00	$ 1.00
Expected life in years	**5**	5	3
Expected volatility	**40%**	37%	37%
Risk-free interest rate	**4.9%**	6.5%	5.6%
Weighted-average grant-date fair value of options granted during the year, as calculated from above	**$ 7.69**	$ 6.63	$ 6.95

Restricted stock represents stock granted for such consideration, if any, as determined by the Compensation and Organization Committee, subject to forfeiture provisions and restrictions on transfer. Those restrictions may be removed as conditions such as performance, continuous service and other criteria are met. Restricted stock is issued at the market price per share at the date of grant and vests over service periods that range from one to five years.

Deferred compensation is charged to equity when the restricted stock is granted and subsequently adjusted for changes in the market value of the underlying stock. The deferred compensation is expensed over the balance of the vesting period and adjusted if conditions of the restricted stock grant are not met.

The following table presents information on restricted stock grants made under the former USX Corporation 1990 Stock Plan:

	2001	2000	1999
Number of shares granted	**54,372**	305,725	18,272
Weighted-average grant-date fair value per share	**$ 19.89**	$ 23.00	$ 28.22

United States Steel also has a restricted stock plan for certain salaried employees who are not officers of the Corporation. Participants in the plan are awarded restricted stock by the Salary and Benefits Committee based on their performance within certain guidelines. 50% of the awarded stock vests at the end of two years from the date of grant and the remaining 50% vests in four years from the date of grant. Prior to vesting, the employee has the right to vote such stock and receive dividends thereon. The nonvested shares are not transferable and are retained by the Corporation until they vest.

Deferred compensation is charged to equity when the restricted stock is granted. The deferred compensation is expensed over the balance of the vesting period and adjusted if conditions of the restricted stock grant are not met.

The following table presents information on restricted stock grants under the nonofficer plan:

	2001
Number of shares granted	**390,119**
Weighted-average grant-date fair value per share	**$ 18.97**

United States Steel has a deferred compensation plan for non-employee directors of its Board of Directors. The plan permits participants to defer up to 100% of their annual retainers in the form of common stock units, and it requires non-employee directors to defer at least half of their annual retainers in the form of common stock units. Common stock units are book entry units equal in value to a share of stock. With respect to common stock units relating to Steel Stock issued under the USX Corporation Deferred Compensation Plan for Non-Employee Directors, during 2001, 5,235 units were issued, during 2000, 4,872 units were issued, and during 1999, 3,798 units were issued. Common stock units relating to Steel Stock were converted into United States Steel common stock units in connection with the Separation.

Total stock based compensation expense was $6 million in 2001 and $1 million in both 2000 and 1999.

22. Sale of Accounts Receivable

On November 28, 2001, United States Steel entered into a five-year, Receivables Purchase Agreement with a group of financial institutions. United States Steel established a wholly owned subsidiary, U. S. Steel Receivables LLC (USSR), which is a special-purpose, bankruptcy-remote entity that acquires, on a daily basis, eligible trade receivables generated by United States Steel and certain of its subsidiaries. The purchases by USSR will be financed through the sale of an undivided percentage ownership interest in such receivables to certain commercial paper conduits. United States Steel has agreed to continue servicing the sold receivables at market rates. Because United States Steel receives adequate compensation for these services, no servicing asset or liability has been recorded.

Fundings under the facility are limited to the lesser of a funding base, comprised of eligible receivables, or $400 million. As of December 31, 2001, $258 million was available to be sold under this facility. USSR did not sell any ownership interests in the receivables to the commercial paper conduits during 2001; therefore, no sales of accounts receivable were recorded and no amounts were excluded from the balance sheet under these arrangements.

While the term of the facility is five years, the facility also terminates on the occurrence and failure to cure certain events, including, among others, certain defaults with respect to the inventory facility and other debt obligations, any failure of USSR to maintain certain ratios related to the collectability of the receivables, and failure to extend the commitments of the commercial paper conduits which currently terminate on November 27, 2002.

23. Property, Plant and Equipment

		December 31	
(In millions)	Useful Lives	**2001**	2000
Land and depletable property	–	**$ 193**	$ 161
Buildings	35 years	**572**	602
Machinery and equipment	4–22 years	**9,080**	8,409
Leased assets	3–25 years	**105**	98
Total		**9,950**	9,270
Less accumulated depreciation, depletion and amortization		**6,866**	6,531
Net		**$ 3,084**	$ 2,739

Amounts in accumulated depreciation, depletion and amortization for assets acquired under capital leases (including sale-leasebacks accounted for as financings) were $88 million and $79 million at December 31, 2001 and 2000, respectively.

On August 14, 2001, United States Steel announced its intention to permanently close the cold rolling and tin mill operations at its Fairless Works. In 2001, a pretax charge of $38 million was recorded related to the shutdown of these operations, of which $18 million is included in depreciation, depletion and amortization and $20 million is included in cost of revenues.

During 2000, United States Steel recorded $71 million of impairments relating to coal assets located in West Virginia and Alabama. The impairment was recorded as a result of a reassessment of long-term prospects after adverse geological conditions were encountered. The charge is included in depreciation, depletion and amortization.

24. Derivative Instruments

The following table sets forth quantitative information by class of derivative instrument at December 31, 2001:

(In millions)	Fair Value Assets (Liabilities)[a]	Carrying Amount Assets (Liabilities)
Non-Hedge Designation:		
OTC commodity swaps[b]	$ (5)	$ (5)

[a] The fair value amounts are based on exchange-traded index prices and dealer quotes.

[b] The OTC swap arrangements vary in duration with certain contracts extending into 2003.

25. Fair Value of Financial Instruments

Fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. The following table summarizes financial instruments, excluding derivative financial instruments disclosed in Note 24, by individual balance sheet account. United States Steel's financial instruments at December 31, 2001, and its December 31, 2000 specifically attributed and allocated financial instruments were:

(In millions) December 31	**2001**		2000	
	Fair Value	**Carrying Amount**	Fair Value	Carrying Amount
Financial assets:				
Cash and cash equivalents	**$ 147**	**$ 147**	$ 219	$ 219
Receivables	**802**	**802**	975	975
Receivables from Marathon	**28**	**28**	366	366
Investments and long-term receivables	**42**	**41**	137	137
Total financial assets	**$ 1,019**	**$ 1,018**	$ 1,697	$ 1,697
Financial liabilities:				
Notes payable	**$ –**	**$ –**	$ 70	$ 70
Accounts payable	**638**	**638**	755	755
Accrued interest	**48**	**48**	47	47
Payable to Marathon	**54**	**54**	5	5
Long-term debt (including amounts due within one year)	**1,122**	**1,375**	2,375	2,287
Preferred stock of subsidiary and trust preferred securities	**–**	**–**	182	249
Total financial liabilities	**$ 1,862**	**$ 2,115**	$ 3,434	$ 3,413

Fair value of financial instruments classified as current assets or liabilities approximates carrying value due to the short-term maturity of the instruments. Fair value of investments and long-term receivables was based on discounted cash flows or other specific instrument analysis. The cost method investment in VSZ was excluded from investments and long-term receivables because the fair value was not readily determinable. United States Steel is subject to market risk and liquidity risk related to its investments; however, these risks are not readily quantifiable. Fair value of preferred stock of subsidiary and trust preferred securities was based on market prices. Fair value of long-term debt instruments was based on market prices where available or current borrowing rates available for financings with similar terms and maturities.

Financial guarantees are United States Steel's only unrecognized financial instrument. It is not practicable to estimate the fair value of this form of financial instrument obligation because there are no quoted market prices for transactions which are similar in nature. For details relating to financial guarantees, see Note 26.

26. Contingencies and Commitments

United States Steel is the subject of, or 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 discussed below. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that United States Steel will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

Environmental matters – United States Steel is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Accrued liabilities for remediation totaled $138 million and $137 million at December 31, 2001 and 2000, respectively. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties that may be imposed.

For a number of years, United States Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 2001 and 2000, such capital expenditures totaled $15 million and $18 million, respectively. United States Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

Guarantees – Guarantees of the liabilities of unconsolidated entities of United States Steel totaled $32 million at December 31, 2001, and $82 million at December 31, 2000. In the event that any defaults of guaranteed liabilities occur, United States Steel has access to its interest in the assets of the investees to reduce potential losses resulting from these guarantees. As of December 31, 2001, the largest guarantee for a single such entity was $23 million.

Contingencies related to Separation from Marathon – United States Steel is contingently liable for debt and other obligations of Marathon in the amount of approximately $359 million as of December 31, 2001. Marathon is not limited by agreement with United States Steel as to the amount of indebtedness that it may incur and, in the event of the bankruptcy of Marathon, the holders of the industrial revenue bonds and such other obligations may declare them immediately due and payable. If such event occurs, United States Steel may not be able to satisfy such obligations.

Other contingencies – United States Steel is contingently liable to its Chairman, Chief Executive Officer and President for a $3 million retention bonus. The bonus is payable on the third anniversary of the Separation and is subject to certain performance measures.

Commitments – At December 31, 2001 and 2000, United States Steel's contract commitments to acquire property, plant and equipment totaled $84 million and $206 million, respectively. Additionally, spending commitments under lease agreements totaled $2.4 million at December 31, 2001.

USSK has a commitment to the Slovak government for a capital improvements program of $700 million, subject to certain conditions, over a period commencing with the acquisition date of November 24, 2000 and ending on December 31, 2010. USSK is required to report periodically to the Slovak government on its status toward meeting this commitment. The first reporting period ends on December 31, 2003. The remaining commitments under this capital improvements program as of December 31, 2001 and 2000, were $634 million and $695 million, respectively.

United States Steel entered into a 15-year take-or-pay arrangement in 1993, which requires United States Steel to accept pulverized coal each month or pay a minimum monthly charge of approximately $1 million. Charges for deliveries of pulverized coal totaled $23 million in 2001, 2000 and 1999. If United States Steel elects to terminate the contract early, a maximum termination payment of $89 million as of December 31, 2001, which declines over the duration of the agreement, may be required.

27. Subsequent Event

On January 17, 2002, United States Steel announced that it had entered into an Option Agreement with NKK Corporation (NKK) of Japan. The agreement grants United States Steel an option to purchase, either directly or through a subsidiary, all of NKK's stock in National Steel Corporation and to restructure a $100 million loan previously made to National Steel by an NKK subsidiary. The NKK stock in National Steel represents approximately 53% of National's outstanding shares. The option expires on June 15, 2002.

If the option is exercised, NKK will receive warrants to purchase 4 million shares of United States Steel common stock in exchange for its National Steel shares. The warrants will be exercisable through June 2007 at a price equal to 150% of the average closing price for United States Steel's common stock during a 60-day period prior to the issuance of the warrants. In connection with any exercise of the option, the NKK subsidiary loan to National Steel would be restructured into an unsecured, non-interest bearing $30 million note, with a 20-year term, convertible into 1 million shares of United States Steel common stock. The NKK convertible note will remain part of a restructured National Steel. United States Steel will have the right to convert in the first five years if the price of the stock exceeds $30 per share. In the next five-year period, both parties have the right to cause conversion if the price exceeds $30 per share and in the final ten years, either party has the right to cause conversion. In addition, United States Steel will, if it exercises the option, offer to acquire the remaining shares of National Steel in exchange for either warrants with no less value than those provided to NKK or United States Steel stock based upon an exchange ratio of .086 shares of United States Steel common stock for each share of National Steel stock. The minority shareholder option to receive warrants will not be available unless a sufficient number of those shareholders elect to receive warrants to permit such warrants to be listed on the New York Stock Exchange.

Also, NKK and United States Steel have agreed to enter into discussions for the purpose of developing a business alliance to support Japanese auto manufacturers in North America.

Although United States Steel has the ability to exercise the option at any time during its term, it is United States Steel's current intent not to exercise the option or to consummate a merger with National Steel unless a number of significant conditions are satisfied, including a substantial restructuring of National Steel's debt and other obligations. Other significant conditions include the resolution of key contingencies related to the consolidation of the domestic steel industry, the financial viability of National Steel and satisfactory general market conditions.

Selected Quarterly Financial Data (Unaudited)

(In millions, except per share data)	**2001** 4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	2000 4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Revenues and other income:								
Revenues	**$ 1,398**	**$ 1,645**	**$ 1,733**	**$ 1,510**	$ 1,417	$ 1,462	$ 1,629	$ 1,582
Other income (loss)	**16**	**15**	**4**	**54**	(4)	13	27	6
Total	**1,414**	**1,660**	**1,737**	**1,564**	1,413	1,475	1,656	1,588
Income (loss) from operations	**(252)**	**(25)**	**(27)**	**(101)**	(159)	60	112	91
Net income (loss)	**(174)**	**(23)**	**(30)**	**9**	(139)	19	56	43
Common stock data[a]:								
Net income (loss)	**$ (174)**	**$ (25)**	**$ (32)**	**$ 7**	$ (141)	$ 17	$ 54	$ 41
– Per share[b]:								
basic	**(1.95)**	**(.26)**	**(.34)**	**.10**	(1.56)	.21	.64	.47
diluted	**(1.95)**	**(.26)**	**(.34)**	**.10**	(1.57)	.21	.64	.47
Dividends paid per share	**.10**	**.10**	**.10**	**.25**	.25	.25	.25	.25
Price range of common stock[c]								
– Low	**13.00**	**13.08**	**13.72**	**14.00**	12.69	14.88	18.25	20.63
– High	**18.75**	**21.70**	**22.00**	**18.00**	18.31	19.69	26.88	32.94

(a) Dividends and price range information represent Steel Stock. See Note 1 of the Notes to Financial Statements.

(b) Earnings per share for all periods is based on the outstanding common shares at December 31, 2001. See Note 20 of the Notes to Financial Statements.

(c) Composite tape.

Principal Unconsolidated Investees (Unaudited)

Company	Country	December 31, 2001 Ownership	Activity
Acero Prime, S.R.L. de CV	Mexico	44%	Steel Processing
Chrome Deposit Corporation	United States	50%	Chrome Coating Services
Clairton 1314B Partnership, L.P.	United States	10%[a]	Coke & Coke By-Products
Delta Tubular Processing	United States	50%	Steel Processing
Double Eagle Steel Coating Company	United States	50%	Steel Processing
Feralloy Processing Company	United States	49%	Steel Processing
Olympic Laser Processing	United States	50%	Steel Processing
PRO-TEC Coating Company	United States	50%	Steel Processing
Republic Technologies International, LLC	United States	16%	Steel Products
USS-POSCO Industries	United States	50%	Steel Processing
Worthington Specialty Processing	United States	50%	Steel Processing

(a) Interest in profits and losses is currently 1.75%. This interest will increase to 45.75% when the limited partners achieve certain rate of return levels. See Note 16 of the Notes to Financial Statements.

Supplementary Information on Mineral Reserves Other Than Oil and Gas (Unaudited)

Mineral Reserves

United States Steel operates two underground coal mining complexes, the #50 Mine and Pinnacle Preparation Plant in West Virginia, and the Oak Grove Mine and Concord Preparation Plant in Alabama. United States Steel also operates one iron ore surface mining complex consisting of the open pit Minntac Mine and Pellet Plant in Minnesota.

Production History

The following table provides a summary, by mining complex, of minerals production in millions of tons for each of the last three years:

	2001	2000	1999
Coal:			
#50 Mine/Pinnacle Preparation Plant	**3.2**	3.3	4.1
Oak Grove Mine/Concord Preparation Plant	**1.8**	2.2	2.1
Total coal production	**5.0**	5.5	6.2
Iron Ore Pellets:			
Minntac Mine and Pellet Plant	**14.5**	16.3	14.3

Supplementary Information on Mineral Reserves Other Than Oil and Gas (Unaudited) CONTINUED

Adverse mining conditions in the form of unforeseen geologic conditions encountered at both coal mining operations in the year 2000 resulted in changes to the mining plans in 2001. Coal production was diminished and mining costs were elevated. Force majeure conditions were declared with respect to contracted coal deliveries in 2000 with certain contracts fulfilled by purchased substitutes and other contracts fulfilled by extension of delivery time into 2001. These adverse mining conditions did not affect reserves reported as of December 31, 2001.

No recent adverse events affected iron ore pellet production other than fluctuations in market demand.

Coal Reserves

United States Steel had 774.8 million short tons of recoverable coal reserves classified as proven and probable at December 31, 2001. Proven and probable reserves are defined by sites for inspection, sampling and measurement generally less than 1 mile apart, such that continuity between points and subsequent economic evaluation can be assured.

Independent outside entities have reviewed United States Steel's coal reserve estimates on properties comprising approximately 70% of the stated coal reserves.

The following table summarizes our proven and probable coal reserves as of December 31, 2001, the status of the reserves as assigned or unassigned, our property interest in the reserves and certain characteristics of the reserves:

Location	Proven and Probable Reserves [a][b]	Reserve Control		Coal Characteristics		As Received[c] BTU Per Pound	As Received[c] % Sulfur
		Owned	Leased	Grade	Volatility		
Assigned Reserves[d]:							
Oak Grove Mine, AL	49.8	49.8	–	Metallurgical	Low	>12,000	<1.0%
#50 Mine, WV	85.2	73.5	11.7	Metallurgical	Low	>12,000	<1.0%
Total assigned	135.0	123.3	11.7				
Unassigned Reserves[e]:							
Alabama	123.4	123.4	–	Metallurgical	Low to High	>12,000	<1.0%
Alabama[b][f]	45.3	45.3	–	Steam	Low to High	>12,000	0.7%-2.5%
Alabama	31.9	–	31.9	Metallurgical	Medium	>12,000	<1.0%
Illinois[f]	374.8	374.8	–	Steam	High	11,600	2.3%
Indiana, Pennsylvania, Tennessee, West Virginia[f]	64.4	64.4	–	Metallurgical/Steam	Low to High	11,600-13,000	1.0%-3.0%
Total unassigned	639.8	607.9	31.9				
Total Proven and Probable	774.8	731.2	43.6				

(a) The amounts in this column reflect recoverable tons. Recoverable tons represent the amount of product that could be used internally or delivered to a customer after considering mining and preparation losses. Neither inferred reserves nor resources which exist in addition to proven and probable reserves were included in these figures. In 2001, reserves decreased due to production, the sale and lease of reserves to others and engineering revisions.

(b) All of United States Steel's recoverable reserves would be recovered utilizing underground mining methods, with the exception of 15.2 million short tons of owned, unassigned, recoverable, steam grade reserves in Alabama which would be recovered utilizing surface mining methods.

(c) "As received" means the quality parameters stated are with the expected product moisture content and quality values that a customer can reasonably expect to receive upon delivery.

(d) Assigned Reserves means recoverable coal reserves which have been committed by United States Steel to our operating mines and plant facilities.

(e) Unassigned Reserves represent coal which has not been committed, and which would require new mines and or plant facilities before operations could begin on the property.

(f) Represents non-compliance steam coal as defined by Phase II of the Clean Air Act, having sulfur content in excess of 1.2 pounds per million Btu's.

Iron Ore Reserves

United States Steel had 695.4 million short tons of recoverable iron ore reserves classified as proven and probable at December 31, 2001. Proven and probable reserves are defined by sites for inspection, sampling, and measurement generally less than 1,000 feet apart, such that continuity between points and subsequent economic evaluation can be assured. Recoverable tons mean the tons of product that can be used internally or delivered to a customer after considering mining and benefication or preparation losses. Neither inferred reserves nor resources which exist in addition to proven and probable reserves were included in these figures. In 2001, reserves decreased due to production and engineering revisions.

All 695.4 million tons of proven and probable reserves are assigned, which means that they have been committed by United States Steel to its one operating mine, and are of blast furnace pellet grade. United States Steel owns 212.2 million of these tons and leases the remaining 483.2 million tons. United States Steel does not own, or control by lease, any unassigned iron ore reserves.

Independent outside entities, including lessors, have reviewed United States Steel's estimates on approximately 75% of the stated iron ore reserves.

Five-Year Operating Summary

(Thousands of net tons, unless otherwise noted)	**2001**	2000	1999	1998	1997
Raw Steel Production					
Gary, IN	**6,114**	6,610	7,102	6,468	7,428
Mon Valley, PA	**1,951**	2,683	2,821	2,594	2,561
Fairfield, AL	**2,028**	2,069	2,109	2,152	2,361
Domestic Steel	**10,093**	11,362	12,032	11,214	12,350
Kosice, Slovak Republic	**4,051**	382	–	–	–
Total	**14,144**	11,744	12,032	11,214	12,350
Raw Steel Capability					
Domestic Steel	**12,800**	12,800	12,800	12,800	12,800
U. S. Steel Kosice[a]	**5,000**	467	–	–	–
Total	**17,800**	13,267	12,800	12,800	12,800
Production as % of total capability – Domestic	**78.9**	88.8	94.0	87.6	96.5
– USSK	**81.0**	81.8	–	–	–
Coke Production					
Domestic Steel[b]	**4,647**	5,003	4,619	4,835	5,757
U. S. Steel Kosice	**1,555**	188	–	–	–
Total	**6,202**	5,191	4,619	4,835	5,757
Coke Shipments – Domestic					
Trade	**2,070**	2,069	1,694	2,562	2,995
Intercompany	**2,661**	2,941	2,982	2,228	2,762
Total	**4,731**	5,010	4,676	4,790	5,757
Iron Ore Pellet Shipments					
Trade	**2,985**	3,336	3,017	4,115	4,895
Intercompany	**11,928**	11,684	12,008	11,331	11,508
Total	**14,913**	15,020	15,025	15,446	16,403
Coal Shipments					
Trade	**1,063**	3,228	4,891	6,056	6,422
Intercompany	**4,519**	3,551	2,033	1,614	1,389
Total	**5,582**	6,779	6,924	7,670	7,811
Steel Shipments by Product – Domestic Steel					
Sheet and semi-finished steel products	**6,411**	7,409	8,114	7,608	8,170
Tubular products	**1,022**	1,145	410	603	947
Plate and tin mill products	**2,368**	2,202	2,105	2,475	2,526
Total	**9,801**	10,756	10,629	10,686	11,643
Total as % of domestic steel industry	**9.9**	9.9	10.0	10.5	11.0
Steel Shipments by Product – U. S. Steel Kosice					
Sheet and semi-finished steel products	**2,937**	206	–	–	–
Tubular products	**138**	12	–	–	–
Plate and tin mill products	**639**	99	–	–	–
Total	**3,714**	317	–	–	–

[a] Represents the operations of U. S. Steel Kosice, s.r.o., following the acquisition of the steelmaking operations and related assets of VSZ a.s. on November 24, 2000.

[b] The reduction in coke production after 1997 reflected United States Steel's entry into a strategic partnership (the Clairton 1314B Partnership, L.P.) with two limited partners on June 1, 1997, to acquire an interest in three coke batteries at its Clairton (Pa.) Works.

Five-Year Operating Summary CONTINUED

(Thousands of net tons, unless otherwise noted)	**2001**	2000	1999	1998	1997
Steel Shipments by Market – Domestic Steel					
Steel service centers	**2,421**	2,315	2,456	2,563	2,746
Transportation	**1,143**	1,466	1,505	1,785	1,758
Further conversion:					
Joint ventures	**1,328**	1,771	1,818	1,473	1,568
Trade customers	**1,153**	1,174	1,633	1,140	1,378
Containers	**779**	702	738	794	856
Construction	**794**	936	844	987	994
Oil, gas and petrochemicals	**895**	973	363	509	810
Export	**522**	544	321	382	453
All other	**766**	875	951	1,053	1,080
Total	**9,801**	10,756	10,629	10,686	11,643
Steel Shipments by Market – U. S. Steel Kosice					
Steel service centers	**492**	53	–	–	–
Transportation	**194**	13	–	–	–
Further conversion:					
Joint ventures	**30**	2	–	–	–
Trade customers	**958**	70	–	–	–
Containers	**234**	17	–	–	–
Construction	**1,034**	82	–	–	–
Oil, gas and petrochemicals	**168**	24	–	–	–
All other	**604**	56	–	–	–
Total	**3,714**	317	–	–	–
Average Steel Price Per Ton					
Domestic Steel	**$427**	$450	$420	$469	$479
U. S. Steel Kosice	**260**	269	–	–	–

Five-Year Financial Summary[(a)]

(Dollars in millions, except as noted)	**2001**	2000	1999	1998	1997
Revenues and Other Income					
Revenues by product:					
Sheet & semi-finished steel products	**$ 3,163**	$ 3,288	$ 3,433	$ 3,598	$ 3,923
Tubular products	**755**	754	221	382	596
Plate & tin mill products	**1,273**	977	919	1,164	1,197
Raw materials (coal, coke & iron ore)	**485**	626	549	744	796
Other[(b)]	**610**	445	414	490	517
Income (loss) from investees	**64**	(8)	(89)	46	69
Net gains on disposal of assets	**22**	46	21	54	57
Other income (loss)	**3**	4	2	(1)	1
Total revenues and other income	**$ 6,375**	$ 6,132	$ 5,470	$ 6,477	$ 7,156
Income (Loss) From Operations					
Segment income (loss):					
Domestic Steel	**$ (461)**	$ 98	$ 115	$ 497	$ 732
U. S. Steel Kosice (USSK)	**123**	2	–	–	–
Items not allocated to segments:					
Net pension credits	**146**	266	193	186	144
Costs of former businesses	**(76)**	(86)	(83)	(100)	(125)
Administrative expenses	**(22)**	(25)	(17)	(24)	(33)
Asset impairments	**(166)**	(79)	–	–	–
Gains (losses) related to equity investees	**114**	(36)	(54)	–	–
Other	**(63)**	(36)	(4)	20	55
Total income (loss) from operations	**(405)**	104	150	579	773
Net interest and other financial costs	**141**	105	74	42	87
Provision (credit) for income taxes	**(328)**	20	25	173	234
Net Income (Loss)[(c)]	**(218)**	(21)	44	364	452
Per common share – basic & diluted	**(2.45)**	(.24)	.49	4.08	5.07
Balance Sheet Position at Year-End					
Current assets	**$ 2,073**	$ 2,717	$ 1,981	$ 1,275	$ 1,531
Net property, plant & equipment	**3,084**	2,739	2,516	2,500	2,496
Total assets	**8,337**	8,711	7,525	6,749	6,694
Short-term debt	**32**	209	13	25	67
Other current liabilities	**1,227**	1,182	1,271	991	1,267
Long-term debt	**1,434** [(d)]	2,236	902	464	456
Employee benefits	**2,008**	1,767	2,245	2,315	2,338
Preferred securities	–	249	249	248	248
Stockholders' equity[(e)]	**2,506**	1,919	2,056	2,093	1,782
Cash Flow Data					
Net cash from operating activities	**$ 675** [(f)]	$ (627)	$ (80)	$ 380	$ 476
Capital expenditures	**287**	244	287	310	261
Dividends paid[(g)]	**57**	97	97	96	96
Employee Data					
Total employment costs	**$ 1,581** [(h)]	$ 1,197 [(i)]	$ 1,148	$ 1,305	$ 1,417
Average domestic employment cost (dollars per hour)	**33.88**	28.70	28.35	30.42	31.56
Average number of domestic employees	**21,078**	19,353	19,266	20,267	20,683
Average number of USSK employees	**16,083**	16,256 [(j)]	–	–	–
Number of pensioners at year-end	**91,003**	94,339	97,102 [(k)]	92,051	93,952
Stockholder Data at Year-End[(e)]					
Common shares outstanding (millions)	**89.2**	88.8	88.4	88.3	86.6
Registered shareholders (in thousands)	**52.4**	50.3	55.6	60.2	65.1
Market price of common stock	**$ 18.11**	$ 18.00	$ 33.00	$ 23.00	$ 31.25

(a) See Notes 1 and 2 of the Notes to Financial Statements for discussion of the basis of presentation and the December 31, 2001 Separation from Marathon.
(b) Includes revenue from the sale of steel production by-products, engineering and consulting services, real estate development and resource management, and, beginning in 2001, transportation services.
(c) Earnings per share for all years is based on the outstanding common shares at December 31, 2001.
(d) Reflects the $900 million Value Transfer. See Note 2 of the Notes to Financial Statements.
(e) For periods prior to 2001, amounts represent Marathon's net investment in United States Steel.
(f) Reflects $819 million of tax settlements with Marathon. See the Statement of Cash Flows.
(g) Represents data pertaining to USX–U. S. Steel Group common stock for periods prior to 2001.
(h) Includes LTV Corporation's tin mill products business and Transtar, Inc. subsidiaries from dates of acquisition, March 1, 2001 and March 23, 2001, respectively.
(i) Includes USSK from date of acquisition on November 24, 2000.
(j) Represents average head count from the date of acquisition.
(k) Includes approximately 8,000 surviving spouse beneficiaries added to the United States Steel pension plan in 1999.

Management's Discussion and Analysis of Financial Condition and Results of Operations

On December 31, 2001, in a tax-free transaction, Marathon Oil Corporation ("Marathon"), formerly USX Corporation, converted each share of its USX–U. S. Steel Group class of common stock ("Steel Stock") into the right to receive one share of United States Steel Corporation common stock ("Separation"). The net assets of United States Steel on December 31, 2001 were approximately the same as the net assets attributable to Steel Stock at the time of the Separation, except for a value transfer of $900 million in the form of additional net debt and other financings retained by Marathon. During the last six months of 2001, United States Steel completed a number of financings so that, upon the Separation, the net debt and other financings of United States Steel on a stand-alone basis were approximately equal to the net debt and other financings attributable to the Steel Stock less the value transfer and the tax settlement with Marathon. For further information on the Separation, see Notes 1 and 2 of the Financial Statements.

United States Steel's Domestic Steel segment is engaged in the production, sale and transportation of steel mill products, coke, taconite pellets and coal; the management of mineral resources; real estate development; and engineering and consulting services. The U. S. Steel Kosice ("USSK") segment, primarily located in the Slovak Republic, produces and sells steel mill products and coke mainly for the Central European market. Certain business activities are conducted through joint ventures and partially owned companies, such as USS-POSCO Industries LLC ("USS-POSCO"), PRO-TEC Coating Company ("PRO-TEC"), Clairton 1314B Partnership L.P., Republic Technologies International, LLC ("Republic") and Rannila Kosice, s.r.o. Management's Discussion and Analysis should be read in conjunction with United States Steel's Financial Statements and Notes to Financial Statements.

On March 1, 2001, United States Steel completed the purchase of the tin mill products business of LTV Corporation ("LTV"), which is now operated as East Chicago Tin. In this noncash transaction, United States Steel assumed certain employee-related obligations from LTV. See Note 5 to the Financial Statements.

On March 23, 2001, Transtar, Inc. ("Transtar") completed a reorganization with its two voting shareholders, United States Steel and Transtar Holdings, L.P. ("Holdings"), an affiliate of Blackstone Capital Partners L.P. As a result of this transaction, United States Steel became sole owner of Transtar and certain of its subsidiaries, including several rail and barge operations. Holdings became owner of the other operating subsidiaries of Transtar. See Note 5 to the Financial Statements.

Certain sections of Management's Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of United States 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 additional risk factors affecting the businesses of United States Steel, see Supplementary Data – Disclosures About Forward-Looking Information.

Critical Accounting Policies and Estimates

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

Management believes that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the financial statements.

Depreciation – United States Steel records depreciation primarily using a modified straight-line method based upon estimated lives of assets and production levels. The modification factors for domestic steel producing assets range from a minimum of 85% at a production level below 81% of capability, to a maximum of 105% for a 100% production level. No modification is made at the 95% production level, considered the normal long-range level. Depreciation charges for 2001, 2000 and 1999 were 85%, 94% and 99%, respectively, of straight-line depreciation based on production levels for each of the years. For certain equipment related to railroad operations, depreciation is recorded on the straight-line method, utilizing a composite or grouped approach, based on estimated lives of assets.

Asset Impairments – United States Steel evaluates the impairment of its property, plant and equipment on an individual asset basis or by logical groupings of assets. Asset impairments are recognized when the carrying value of those productive assets exceed their aggregate projected undiscounted cash flows. If future demand and market conditions are less favorable than those projected by management, additional asset write-downs may be required.

Allowances for Doubtful Accounts – United States Steel maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories – United States Steel determines the cost of inventories primarily under the last-in, first-out ("LIFO") method. Consequently, the overall carrying value of inventories is significantly less than the replacement cost. United States Steel writes down inventories for the difference between the carrying value of the inventories and the estimated market value on a worldwide basis. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Deferred Taxes – United States Steel records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. While United States Steel has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that United States Steel were to determine that it would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made. Likewise, should United States Steel determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the valuation allowance for deferred tax assets would be charged to income in the period such determination was made.

United States Steel makes no provision for deferred U.S. income taxes on the undistributed earnings of USSK and other consolidated foreign subsidiaries because management intends to permanently reinvest such earnings in foreign operations. If circumstances change and it is determined that earnings will be remitted in the foreseeable future, a charge would be required to record the U.S. deferred tax liability for the amounts planned to be remitted.

Liabilities for Potential Tax Deficiencies – United States Steel records liabilities for potential tax deficiencies. These liabilities are based on management's judgment of the risk of loss should those items be challenged by taxing authorities. In the event that United States Steel were to determine that tax-related items would not be considered deficiencies or that items previously not considered to be potential deficiencies could be considered as potential tax deficiencies (as a result of an audit, tax ruling or other positions or authority) an adjustment to the liability would be recorded through income in the period such determination was made.

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

Accruals for Potential Litigation Claims and Settlements – United States Steel records accruals for potential litigation claims and settlements when legal counsel advises that an obligation is probable and reasonably estimable. Changes in findings and negotiations as the cases progress cause changes in the recorded accruals.

Pensions and Other Postretirement Benefits ("OPEB") – Net pension and OPEB expense recorded for pension and other postretirement benefits are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases, the mortality of participants and the current level and escalation of health care costs in the future. Changes in these and other factors and differences between actual and assumed changes in the present value of liabilities or assets of United States Steel's plans above certain thresholds could cause net annual expense to increase or decrease materially from year to year.

Management's Discussion and Analysis of Income

Due to the capital intensive nature of integrated steel production, the principal drivers of United States Steel's financial results are price, volume and mix. To the extent that these factors are affected by industry conditions and the overall economic climate, revenues and income will reflect such conditions.

Revenues and other income for each of the last three years are summarized in the following table:

(Dollars in millions)	**2001**	2000	1999
Revenues by product:			
Sheet and semi-finished steel products	**$ 3,163**	$ 3,288	$ 3,433
Tubular products	**755**	754	221
Plate and tin mill products	**1,273**	977	919
Raw materials (coal, coke and iron ore)	**485**	626	549
Other[a]	**610**	445	414
Income (loss) from investees	**64**	(8)	(89)
Net gains on disposal of assets	**22**	46	21
Other income	**3**	4	2
Total revenues and other income	**$ 6,375**	$ 6,132	$ 5,470

(a) Includes revenue from the sale of steel production by-products, real estate development, resource management, and engineering and consulting services and beginning in 2001, transportation services.

Total revenues and other income increased by $243 million in 2001 from 2000 primarily due to the inclusion of USSK revenues for the full year, the inclusion of Transtar revenues following the reorganization and higher income from investees relating to the gain on the Transtar reorganization, partially offset by lower domestic shipment volumes (domestic steel shipments decreased 955,000 tons) and lower average domestic steel product prices (average prices decreased $23 per ton). Total revenues and other income in 2000 increased by $662 million from 1999 primarily due to the consolidation of Lorain Tubular effective January 1, 2000, higher average realized prices, particularly tubular product prices, and lower losses from investees, which, in 1999, included a $47 million charge for the impairment of United States Steel's investment in USS/Kobe Steel Company ("USS/Kobe").

Income (loss) from operations for United States Steel for the last three years was[a]:

(Dollars in millions)	**2001**	2000	1999
Segment income (loss) for Domestic Steel	**$ (461)**	$ 98	$ 115
Segment income for U. S. Steel Kosice	**123**	2	–
Income (loss) from reportable segments	**$ (338)**	$ 100	$ 115
Net pension credits	**146**	266	193
Costs related to former businesses[b]	**(76)**	(86)	(83)
Administrative expenses	**(22)**	(25)	(17)
Total	**$ (290)**	$ 255	$ 208
Other items not allocated to segment income:			
Gain on Transtar reorganization	**68**	–	–
Insurance recoveries related to USS-POSCO fire[c]	**46**	–	–
Asset impairments – trade receivables	**(100)**	(8)	–
– other receivables	**(46)**	–	–
Impairment and other costs related to investments in equity investees	–	(36)	(54)
Loss on investment used to satisfy indexed debt obligations[d]	–	–	(22)
Costs related to Fairless shutdown	**(38)**	–	–
Costs related to Separation	**(25)**	–	–
Asset impairments – intangible assets	**(20)**	–	–
– coal	–	(71)	–
Environmental and legal contingencies	–	(36)	(17)
Voluntary early retirement program pension settlement	–	–	35
Total income (loss) from operations	**$ (405)**	$ 104	$ 150

(a) Certain amounts have been removed from segment income and appear in items not allocated to segments for consistency with current-year presentation method.
(b) Includes other postretirement benefit costs and certain other expenses principally attributable to former business units of United States Steel.
(c) In excess of facility repair costs.
(d) For further details, see Note 6 to the Financial Statements.

Segment income (loss) for Domestic Steel

Domestic Steel operations recorded a segment loss of $461 million in 2001 versus segment income of $98 million in 2000, a decrease of $559 million. The decrease in segment income was primarily due to lower prices, primarily for sheet products, lower domestic shipment volumes which resulted in less efficient operating rates and higher unit costs, lower income from coke and taconite pellet operations, lower results from tin operations during the phase out of operations at Fairless and higher than anticipated start-up and operating expenses associated with the March acquisition of East Chicago Tin, and business interruption effects at USS-POSCO following the cold mill fire in May, some of which were offset by insurance recoveries already received in the second half of 2001. Offsetting these decreases were improved results from coal operations due to improved operating and geological conditions as well as higher tubular prices during the first half of 2001.

Segment income for Domestic Steel operations in 2000 decreased $17 million from 1999. The decrease in segment income for Domestic Steel was primarily due to lower throughput, lower income from raw materials operations, particularly coal operations, and lower sheet shipments resulting from high levels of imports.

Segment income for U. S. Steel Kosice

USSK segment income for the full-year 2001 was $123 million compared to $2 million in 2000 for the period following United States Steel's acquisition of USSK on November 24, 2000. The increase is primarily due to United States Steel's full year of ownership, changes in commercial strategy, strong customer focused marketing and a favorable cost structure.

Items not allocated to segments:

Net periodic pension credits, which are primarily noncash, totaled $120 million in 2001, $273 million in 2000 and $234 million in 1999. The decrease of $153 million in the net periodic pension credit from 2000 to 2001 was primarily due to the $69 million effect of the transition asset being fully amortized in 2000 and an unfavorable change in the amortization of actuarial (gains)/losses. The increase of $39 million from 1999 to 2000 was primarily due to a favorable change in the amortization of actuarial (gains)/losses. Net periodic pension credits in 2001 and 1999 include settlement and termination effects. For additional information on pensions, see Note 12 to the Financial Statements.

Gain on Transtar reorganization represents United States Steel's share of the gain in 2001. Because this was a transaction with a noncontrolling shareholder, Transtar, Inc. recognized a gain by comparing the carrying value of the businesses sold to their fair value. See Note 5 to Financial Statements.

Insurance recoveries related to USS-POSCO fire represent United States Steel's share of insurance recoveries in excess of facility repair costs for the cold-rolling mill fire at USS-POSCO in 2001.

Asset impairments – Trade Receivables were for charges related to receivables exposure from financially distressed steel companies, primarily Republic, in 2000 and 2001.

Asset impairments – Other Receivables were for charges related to retiree medical cost reimbursements owed by Republic in 2001.

In 2000, **impairment and other costs related to investments in equity investees** totaled $36 million to establish reserves against notes from Republic and to represent United States Steel's share of Republic special charges which resulted from the completion of a financial restructuring of Republic. In 1999, impairment and other costs related to investments in equity investees totaled $54 million related to the impairment of United States Steel's investment in USS/Kobe, costs related to the formation of Republic and other non-recurring equity investee charges.

Income from operations in 1999 also included a **loss on investment used to satisfy indexed debt obligations** of $22 million from the termination of ownership in RTI International Metals, Inc. ("RTI"). For further discussion, see Note 6 to the Financial Statements.

Costs related to Fairless shutdown resulted from the permanent shutdown of the cold rolling and tin mill facilities at Fairless Works in 2001.

Costs related to the Separation were for United States Steel's share of professional fees and expenses and certain other costs directly attributable to the Separation in 2001.

Asset impairments – Intangible Asset was for the impairment of an intangible asset in 2001 related to the five-year agreement for LTV to supply United States Steel with pickled hot bands entered into in conjunction with the acquisition of LTV's tin mill products business.

Asset impairments – Coal was for asset impairments at coal mines in Alabama and West Virginia in 2000 following a reassessment of long-term prospects after adverse geological conditions were encountered.

Environmental and legal contingencies relate to certain environmental and legal accruals in 2000 and 1999.

The **voluntary early retirement program pension settlement** in 1999 relates to a favorable pension settlement primarily related to salaried employees.

Selling, general and administrative expenses increased by $315 million in 2001 as compared to 2000. The increase was due to several factors, including the $157 million decrease in the net periodic pension credit previously discussed. Other contributing factors were the increase in costs in 2001 as a result of the USSK acquisition and the reorganization of Transtar, Separation costs and the impairment of retiree medical cost reimbursements owed by Republic. The increase in selling, general and administrative expenses of $60 million from 1999 to 2000 was primarily due to a $42 million decrease in the portion of the net periodic pension credit recorded in selling, general and administrative expenses, as well as increased costs following the acquisition of USSK.

Net interest and other financial costs for each of the last three years are summarized in the following table:

(Dollars in millions)	**2001**	2000	1999
Net interest and other financial costs	**$ 141**	$ 105	$ 74
Plus:			
Favorable adjustment to carrying value of Indexed Debt[a]	–	–	13
Favorable adjustment to interest related to prior years' taxes	**67**	–	–
Net interest and other financial costs adjusted to exclude above item	**$ 208**	$ 105	$ 87

[a] In December 1996, USX issued $117 million of 6-3/4% Exchangeable Notes Due February 1, 2000 ("Indexed Debt") indexed to the price of RTI common stock. The carrying value of Indexed Debt was adjusted quarterly to settlement value, based on changes in the value of RTI common stock. Any resulting adjustment was credited to income and included in interest and other financial costs. For further discussion of Indexed Debt, see Note 6 to the Financial Statements.

Adjusted net interest and other financial costs increased by $103 million in 2001 as compared with 2000. This increase was largely due to higher average debt levels, which resulted from negative cash flow and the elective funding for employee benefits and the acquisition of USSK, both of which occurred in the fourth quarter of 2000. Adjusted net interest and other financial costs increased $18 million in 2000 as compared with 1999, primarily due to higher average debt levels.

The **credit for income taxes** in 2001 was $328 million primarily as a result of higher losses from operations. The credit included a $33 million deferred tax benefit associated with the Transtar reorganization. In addition, as a result of Slovak Republic laws regarding tax credits and certain tax planning strategies to permanently reinvest earnings in foreign operations, virtually no income tax provision is recorded for USSK income. If circumstances change and it is determined that earnings will be remitted in the foreseeable future, a charge would be required to record the U.S. deferred tax liability for the amounts planned to be remitted. The provision for income taxes in 2000 decreased $5 million compared to 1999 primarily due to a decline in income from operations, partially offset by higher state income taxes as certain previously recorded state tax benefits will not be utilized. See also Note 14 to the Financial Statements.

The **extraordinary loss** on extinguishment of debt of $7 million, net of income tax benefit, in 1999 included a $5 million loss resulting from the satisfaction of the indexed debt and a $2 million loss for United States Steel's share of Republic's extraordinary loss related to the early extinguishment of debt. See also Note 6 to the Financial Statements.

Management's Discussion and Analysis of Operations

The year 2001 turned out to be an extremely difficult one for the domestic steel industry. Steel imports to the United States accounted for an estimated 24%, 27% and 26% of the domestic steel market for 2001, 2000 and 1999, respectively. In 2001, imports of steel pipe increased 9% and imports of hot rolled sheets decreased 59%, compared to 2000.

Injurious levels of imports continued to disrupt an already weakened market in which domestic steel consumption plummeted from an annualized rate of 119 million tons in the first half to 98 million tons in the fourth quarter. The 3% average growth in the domestic economy predicted by economists never materialized – largely due to a worldwide economic recession in the second half and the impact of the September 11 tragedies. Contributing to the decline in net income was a decrease in average realized domestic prices of 5% compared to the 2000 average and higher unit costs due to depressed production levels at all of our domestic plants.

Total shipments from the Domestic Steel segment were 9.8 million tons in 2001, 10.8 million tons in 2000 and 10.6 million tons in 1999, and comprised approximately 9.9% of the domestic steel market in 2001. Domestic Steel shipments in 2001 were affected by a weak domestic economy, which reduced demand for sheet, plate and tubular products. Shipments in 1999 were reduced because of weak tubular markets. High import levels impacted all three years. Exports accounted for approximately 5% of our shipments from Domestic Steel in 2001, 5% in 2000 and 3% in 1999.

USSK shipments were 3.7 million net tons in 2001 and 0.3 million net tons in 2000 in the short period following the acquisition.

Domestic raw steel production was 10.1 million tons in 2001, compared with 11.4 million tons in 2000 and 12.0 million tons in 1999. Domestic raw steel production averaged 79% of capability in 2001, compared with 89% of capability in 2000 and 94% of capability in 1999. In 2001, domestic raw steel production was negatively impacted by poor economic conditions and the high level of imports. In 2000, domestic raw steel production was negatively impacted by a planned reline at the Gary Works No. 4 blast furnace in July 2000. Because of market conditions, United States Steel limited its domestic production by keeping the Gary Works No. 4 blast furnace out of service until February 2001. Because of market conditions, United States Steel curtailed its domestic production by keeping the Gary Works No. 6 blast furnace out of service until February 1999, after a scheduled reline was completed in mid-August 1998. United States Steel's stated annual domestic raw steel production capability was 12.8 million tons in 2001, 2000 and 1999.

USSK raw steel production was 4.1 million net tons in 2001, or 81% of USSK's stated annual raw steel production capability of 5.0 million net tons.

On November 13, 2000, United States Steel joined with eight other producers and the Independent Steelworkers Union to file trade cases against hot-rolled carbon steel flat products from 11 countries (Argentina, India, Indonesia, Kazakhstan, the Netherlands, the People's Republic of China, Romania, South Africa, Taiwan, Thailand and Ukraine). Three days later, the USWA also entered the cases as a petitioner. Antidumping ("AD") cases were filed against all the countries and countervailing duty ("CVD") cases were filed against Argentina, India, Indonesia, South Africa, and Thailand. The U.S. Department of Commerce ("Commerce") has found margins in all of the cases. The International Trade Commission ("ITC") had previously found material injury to the domestic industry in the cases against Argentina and South Africa, and, on November 2, 2001, the ITC found material injury to the domestic industry in the cases against the remaining countries.

On December 19, 2001, culminating a process which began in June 2001 regarding investigations under Section 201 of the Trade Act of 1974, the ITC commissioners communicated their remedy recommendations to the President of the United States. Five of the six commissioners recommended that tariffs of 20% to 40% be imposed on imports of hot-rolled, cold-rolled and corrosion-resistant products for four years, subject to reductions of the tariffs from year to year. The three commissioners who had previously found that imports of tin mill products were a cause of serious injury to the domestic industry recommended the same tariff remedies be applied to that product that they recommended for hot-rolled, cold-rolled and corrosion-resistant products. Two of the commissioners recommended the same remedy for imports of slabs, while four of the commissioners recommended subjecting slab imports to these tariffs only after certain quantities of slabs enter the country without special tariffs. The remaining commissioner recommended declining levels of quotas for a three-year period. The President is now reviewing the recommendations and will determine what remedies, if any, to impose. In response to the recommendations, United States Steel commented that under current market conditions, 20% tariffs are inadequate and urged the President to act quickly to adopt 40% tariffs on all flat-rolled imports, including slabs. Management is unable to predict the outcome of the Section 201 actions, or its effect on our results or stock price.

On September 28, 2001, United States Steel joined with seven other producers to file trade cases against cold-rolled carbon steel flat products from 20 countries (Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Japan, Korea, Netherlands, New Zealand, Russia, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey, and Venezuela). AD cases were filed against all the countries and CVD cases were filed against Argentina, Brazil, France, and Korea. On November 13, 2001, the ITC determined that there is a reasonable indication that the U.S. industry is materially injured or threatened with material injury by reason of the imports in question. These cases will be the subject of continuing investigations at both Commerce and the ITC.

United States Steel believes that the remedies provided by AD and CVD cases are insufficient to correct the widespread dumping and subsidy abuses that currently characterize steel imports into our country and has, therefore, urged the U.S. government to take actions such as those in President Bush's three-part program to address the excessive imports of steel that have been depressing markets in the United States. United States Steel, nevertheless, intends to file additional AD and CVD petitions against unfairly traded imports that adversely impact, or threaten to adversely impact, the results of United States Steel.

Management's Discussion and Analysis of Financial Condition, Cash Flows and Liquidity

Current assets at year-end 2001 decreased $644 million from year-end 2000 primarily due to the settlement in 2001 of the $364 million income tax receivable from Marathon established in 2000, decreased trade receivables including receivables subject to a security interest, and a decrease in cash and cash equivalents. The proceeds from the settlement of the income tax receivable from Marathon were used to reduce debt attributed to United States Steel.

Investments and long-term receivables decreased $93 million from year-end 2000 primarily due to the reorganization of Transtar in March of 2001, which converted an equity method investee into a consolidated subsidiary.

Net property, plant and equipment at year-end 2001 increased $345 million from year-end 2000 primarily due to the Transtar reorganization and the acquisition of East Chicago Tin, which were noncash transactions.

Current liabilities at year-end 2001 decreased $132 million from year-end 2000 primarily due to a decrease in accounts payable and long-term debt due within one year, partially offset by an increase in accrued taxes and amounts payable to Marathon in connection with the Separation.

Total long-term debt and notes payable at December 31, 2001 was $1,434 million, $802 million lower than year-end 2000. The decrease in debt was primarily due to the $900 million value transfer from Marathon and the receipt of $819 million of favorable tax settlements with Marathon; partially offset by negative operating cash flow of $144 million absent the Marathon tax settlements, net cash used in investing activities of $239 million, debt repayments of $370 million and dividends paid of $57 million.

Employee benefit liabilities at December 31, 2001 increased $241 million from year-end 2000 of which $152 million reflected mergers of liabilities associated with the Transtar reorganization, the acquisition of LTV tin mill properties and medical expenses of former Lorain Works retirees paid by United States Steel which are pending collection under Republic bankruptcy proceedings. The remainder of the increase was primarily due to ongoing accruals in excess of cash payments from company assets. Following the elective $500 million Voluntary Employee Benefit Association ("VEBA") funding in the fourth quarter of 2000, which decreased the employee benefits liability, most union retiree medical claims are being paid from the VEBA instead of company assets.

Preferred stock of subsidiary and **mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures** decreased $66 million and $183 million, respectively, from year-end 2000 in connection with the Separation. These amounts were previously attributed to United States Steel under the Marathon capital structure.

Net cash provided from operating activities of $669 million increased in 2001 compared to 2000. The increase was primarily due to the receipt of favorable intergroup tax settlements from Marathon totaling $819 million in the 2001 period compared to a favorable intergroup settlement of $91 million in the 2000 period and the absence of a $530 million elective contribution to a VEBA and non-union retiree life insurance trust. The $819 million tax settlement is reflected in net cash provided by operating activities primarily as favorable working capital changes of $364 million related to the settlement of the income tax receivable established in 2000 arising from tax attributes primarily generated in the year 2000; increases in net income of $426 million for tax benefits generated by United States Steel in 2001; and net increases in all other items net of $15 million for state tax benefits generated in 2000. The last two items were included in the $441 million settlement with Marathon, which occurred in 2001 as a result of the Separation. Absent these intergroup tax settlements in 2001 and 2000 and the $530 million of elective contributions in 2000 to a VEBA and non-union retiree life insurance trust, net cash used in operating activities decreased by $38 million. Cash payments of employee benefit liabilities were lower because $152 million was paid from assets held in trust for the plan in 2001 compared to $41 million in 2000 primarily as a result of approximately $112 million of funds from the VEBA being used to pay retiree medical and life insurance benefits for union retirees in 2001. In addition, working capital improved. These improvements were partially offset by decreased net income.

Net cash used in operating activities in 2000 was $627 million and reflected the $500 million elective contribution to a VEBA, a $30 million elective contribution to a non-union retiree life insurance trust and an income tax receivable from Marathon of $364 million. These unfavorable effects were partially offset by a $91 million income tax settlement with Marathon received in 2000 primarily for the year 1999 in accordance with the group tax allocation policy. The $500 million VEBA contribution has provided United States Steel with the flexibility to pay ongoing costs of providing USWA retiree health care and life insurance benefits from the VEBA instead of from corporate cash flow.

Net cash used in operating activities was $80 million in 1999 including a net payment of $320 million under a terminated accounts receivable program. Excluding the non-recurring VEBA contributions and the accounts receivable facility termination as well as the tax settlements with Marathon in both years, net cash provided from operating activities decreased $430 million in 2000 due mainly to decreased profitability and an increase in working capital.

Capital expenditures of $287 million in 2001 included exercising a buyout option of a lease for half of the Gary Works No. 2 Slab Caster; repairs to the No. 3 blast furnace at the Mon Valley Works; work on the No. 2 stove at the No. 6 blast furnace at Gary Works; the completion of the replacement coke battery thruwalls at Gary Works; the completion of an upgrade to the Mon Valley Works cold reduction mill; systems development projects; and projects at USSK, including the tin mill expansion and the vacuum degasser project.

Capital expenditures of $244 million in 2000 included exercising an early buyout option of a lease for half of the Gary Works No. 2 Slab Caster; the continued replacement of coke battery thruwalls at Gary Works; installation of the remaining two coilers at the Gary Works hot strip mill; a blast furnace stove replacement at Gary Works; and the continuation of an upgrade to the Mon Valley Works cold reduction mill.

Capital expenditures of $287 million in 1999 included the completion of the 64" pickle line at Mon Valley Works; the replacement of one coiler at the Gary Works hot strip mill; an upgrade to the Mon Valley Works cold reduction mill; replacement of coke battery thruwalls at Gary Works; several projects at Gary Works allowing for production of specialized high-strength steels, primarily for the automotive market; and completion of the conversion of the Fairfield Works pipemill to use rounds instead of square blooms.

Contract commitments for capital expenditures at year-end 2001 were $84 million, compared with $206 million at year-end 2000. USSK has a commitment to the Slovak government to spend $700 million for a capital improvements program at USSK, subject to certain conditions, over a period commencing with the acquisition date and ending on December 31, 2010. As of December 31, 2001, USSK had spent $66 million on this capital improvement program.

Capital expenditures for 2002 are expected to be approximately $300 million, including $105 million for USSK. This estimate anticipates entering into operating leases for certain mobile and systems equipment, valued at approximately $40 million, the acquisition of which would be included in capital spending if the leases are not completed. Major expenditures include the installation of a new quench and temper line at Lorain Tubular; continued information systems development at Straightline; and projects at USSK, including continued work on the new tin and continuous annealing lines and the completion of the vacuum degasser. Over and above this capital spending, $37.5 million will be paid to VSZ by USSK in both 2002 and 2003 to complete payment for the USSK acquisition.

The preceding statement concerning expected 2002 capital expenditures is a forward-looking statement. This forward-looking statement is based on assumptions, which can be affected by (among other things) 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, and unforeseen hazards such as weather conditions, explosions or fires, which could delay the timing of completion of particular capital projects. Accordingly, actual results may differ materially from current expectations in the forward-looking statement.

The **acquisition of U. S. Steel Kosice s.r.o.,** consisted of cash payments of $14 million in 2001 and net cash payments of $10 million in 2000, which reflected $69 million of cash payments in 2000 less $59 million of cash acquired in the transaction. Two additional payments of $37.5 million each are to be made to VSZ in 2002 and 2003 related to the purchase. The first quarter 2001 acquisition of East Chicago Tin and reorganization of Transtar were noncash transactions. See also Note 5 to the Financial Statements.

Investees – return of capital in 2001 of $13 million reflected a return of capital on an investment in stock of VSZ in which United States Steel holds a 25% interest.

Net change in attributed portion of Marathon consolidated debt and other financings was a decrease of $74 million in 2001 compared to an increase of $1,208 million and $147 million in 2000 and 1999, respectively. The decrease in 2001 primarily reflected the net effects of cash provided from operating activities less cash used for investing activities and dividend payments. The increase in 2000 primarily reflected the net effects of cash used in operating activities, including a VEBA contribution, cash used in investing activities, dividend payments and preferred stock repurchases. The increase in 1999 primarily reflected the net effects of cash used in operating and investing activities and dividend payments.

Dividends paid decreased $40 million from year 2000 due to a decrease in the quarterly dividend rate from $0.25 to $0.10 per share paid to USX–U. S. Steel Group common stockholders, effective with the June 2001 payment. After the Separation, United States Steel established an initial quarterly dividend rate of $0.05 per share effective with the March 2002 payment.

Debt Ratings

As of December 31, 2001, Moody's Investor Services, Inc. assigned a corporate credit rating of Ba3 to United States Steel with negative implications. On January 17, 2002, Standard & Poor's Corp. placed the BB corporate credit rating for United States Steel on credit watch with negative implications. Additionally, Moody's and Standard & Poor's have assigned Ba3 and BB, respectively, to United States Steel's senior unsecured debt.

Liquidity

In November 2001, United States Steel entered into a five-year Receivables Purchase Agreement with financial institutions. United States Steel established a wholly owned subsidiary, United States Steel Receivables LLC, which is a special-purpose, bankruptcy-remote entity that acquires, on a daily basis, eligible trade receivables generated by United States Steel and certain of its subsidiaries. Fundings under the facility are limited to the lesser of eligible receivables or $400 million. As of February 28, 2002, United States Steel had $299 million of eligible receivables, of which $200 million were sold, primarily to fund working capital needs to build inventory based on increased order rates.

In addition, United States Steel entered into a three-year revolving credit facility expiring December 31, 2004, that provides for borrowings of up to $400 million secured by all domestic inventory and related assets ("Inventory Facility"), including receivables other than those sold under the Receivables Purchase Agreement. As of February 28, 2002, $249 million was available to United States Steel under the Inventory Facility.

USSK has bank credit facilities aggregating $50 million. At December 31, 2001, there were no borrowings against these facilities. If USSK were to default under the $325 million outstanding loan, lenders could refuse to allow additional borrowing under the $40 million facility; however, outstanding loans would not be called.

United States Steel currently has Senior Notes outstanding in the aggregate principal amount of $535 million. The Senior Notes impose significant restrictions on United States Steel such as the following: restrictions on payments of dividends; limits on additional borrowings, including limiting the amount of borrowings secured by inventories or accounts receivable; limits on sale/leasebacks;

limits on the use of funds from asset sales and sale of the stock of subsidiaries; and restrictions on our ability to invest in joint ventures or make certain acquisitions. The Inventory Facility imposes additional restrictions on United States Steel including the following: effective September 30, 2002, United States Steel must meet an interest expense coverage ratio of at least 2 to 1 through March 30, 2003 and 2.5 to 1 thereafter and a leverage ratio of no more than 6 to 1 through December 30, 2002, 5.5 to 1 through March 30, 2003, 5 to 1 through June 29, 2003, 4.5 to 1 through September 29, 2003, 4 to 1 through March 30, 2004 and 3.75 to 1 thereafter; limitations on capital expenditures; and restrictions on investments. If these covenants are breached or if we fail to make payments under our material debt obligations or the Receivables Purchase Agreement, creditors would be able to terminate their commitments to make further loans, declare their outstanding obligations immediately due and payable and foreclose on any collateral, and it may also cause termination events to occur under the Receivables Purchase Agreement and a default under the Senior Notes. Additional indebtedness that United States Steel may incur in the future may also contain similar covenants, as well as other restrictive provisions. Cross-acceleration clauses in the Receivables Purchase Agreement, the Inventory Facility, the Senior Notes and any future additional indebtedness could have an adverse effect upon our financial position and liquidity.

United States Steel has utilized surety bonds to provide financial assurance for certain transactions and business activities. The total amount of active surety bonds currently being used for financial assurance purposes is approximately $255 million. Recent events have caused major changes in the surety bond market including significant increases in surety bond premiums. These factors, together with our non-investment grade credit rating, may cause United States Steel to replace some surety bonds with other forms of financial assurance, or provide some form of collateral to the surety bond providers in order to keep bonds in place. The other forms of financial assurance or collateral could include financial instruments that are supported by either the Receivables Purchase Agreement or Inventory Facility. The use of these types of financial instruments for financial assurance and collateral will have a negative impact on liquidity.

United States Steel is contingently liable for debt and other obligations of Marathon in the amount of $359 million as of December 31, 2001. Marathon is not limited by agreement with United States Steel as to the amount of indebtedness that it may incur and, in the event of the bankruptcy of Marathon, the holders of the Marathon industrial revenue bonds assumed by United States Steel and such other obligations may declare them immediately due and payable. If that occurs, United States Steel may not be able to satisfy such obligations. See Note 11 to the Financial Statements for further information on the industrial revenue bonds. In addition, if Marathon loses its investment grade ratings, certain of these obligations will be considered indebtedness under the Senior Notes indenture and for covenant calculations under the Inventory Facility. This occurrence could prevent United States Steel from incurring additional indebtedness under the Senior Notes or may cause a default under the Inventory Facility.

United States Steel is the sole general partner of and owns a 10 percent equity interest in Clairton 1314B Partnership, L.P. As general partner, United States Steel is responsible for operating and selling coke and byproducts from the partnership's three coke batteries located at United States Steel's Clairton Works. United States Steel's share of profits and losses is currently 1.75%, which will increase to 45.75% when the limited partners achieve a specified return, which is currently expected to occur this year. The partnership at times had operating cash shortfalls after payment of distributions to the partners in 2001 that were funded with loans from United States Steel. As of December 31, 2001, the partnership owed United States Steel $3 million, which was repaid in January 2002. United States Steel may dissolve the partnership under certain circumstances including if it is required to make equity investments or loans in excess of $150 million to fund such shortfalls.

The following table summarizes United States Steel's liquidity as of December 31, 2001:

(Dollars in millions)

Cash and cash equivalents	$ 147
Amount available under Receivables Purchase Agreement	258
Amount available under Inventory Facility	250
Amounts available under USSK credit facilities	50
Total estimated liquidity	$ 705

The following table summarizes United States Steel's contractual obligations and commercial commitments at December 31, 2001, and the effect such obligations and commitments are expected to have on its liquidity and cash flow in future periods.

(Dollars in millions)

		Payments Due By Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	Beyond 5 Years
Long-term debt	$ 1,380	$ 26	$ 40	$ 40	$ 1,274
Capital leases[a]	134	14	24	22	74
Operating leases[a]	417	74	112	73	158
Capital commitments[b][f]	718	–	–	–	718
Commitments under lease agreements[b]	2	1	1	–	–
Environmental commitments[b][f]	138	16	–	–	122
Usher Separation bonus[b]	3	–	3	–	–
Additional consideration for USSK purchase[c]	75	38	37	–	–
Total contractual cash obligations	$ 2,867	$ 169	$ 217	$ 135	$ 2,346
Standby letters of credit[d]	$ 1	$ 1	$ –	$ –	$ –
Surety bonds[f]	255	–	–	–	255
Clairton 1314B Partnership[e][f]	150	–	–	–	150
Guarantees of indebtedness of unconsolidated entities[b][f]	32	–	–	–	32
Contingent liabilities:					
– Marathon obligations[b]	359	–	16	191	152
– Take or pay arrangement[b]	105	17	34	34	20
Total commercial commitments	$ 902	$ 18	$ 50	$ 225	$ 609

(a) See Note 17 to the Financial Statements.
(b) See Note 26 to the Financial Statements.
(c) See Note 5 to the Financial Statements.
(d) Guaranteed by Marathon.
(e) See Note 16 to the Financial Statements.
(f) Timing of potential cash outflows is not determinable.

Contingent lease payments have been excluded from the above table. Contingent lease payments relate to operating lease agreements that include a floating rental charge, which is associated to a variable component. Future contingent lease payments are not determinable to any degree of certainty. United States Steel's annual incurred contingent lease expense is disclosed in Note 17 to the Financial Statements. Additionally, recorded liabilities related to deferred income taxes, employee benefits and other liabilities that may have an impact on liquidity and cash flow in future periods are excluded from the above table.

United States Steel management believes that our liquidity will be adequate to satisfy our obligations for the foreseeable future, including obligations to complete currently authorized capital spending programs. Future requirements for United States Steel's business needs, including the funding of capital expenditures, debt service for financings incurred in relation to the Separation, and any amounts that may ultimately be paid in connection with contingencies, are expected to be financed by a combination of internally generated funds, proceeds from the sale of stock, borrowings and other external financing sources. However, there is no assurance that our business will generate sufficient operating cash flow or that external financing sources will be available in an amount sufficient to enable us to service or refinance our indebtedness or to fund other liquidity needs. If there is a prolonged delay in the recovery of the manufacturing sector of the U.S. economy, United States Steel believes that it can maintain adequate liquidity through a combination of deferral of nonessential capital spending, sales of non-strategic assets and other cash conservation measures.

United States Steel management's opinion concerning liquidity and United States Steel's ability to avail itself in the future of the financing options mentioned in the above forward-looking statements are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected. Factors that could affect the availability of financing include the performance of United States Steel (as measured by various factors including cash provided from operating activities), levels of inventories and accounts receivable, the state of worldwide debt and equity markets, investor perceptions and expectations of past and future performance, the overall U.S. financial climate, and, in particular, with respect to borrowings, the levels of United States Steel's outstanding debt and credit ratings by rating agencies.

Derivative Instruments

See Quantitative and Qualitative Disclosures About Market Risk for discussion of derivative instruments and associated market risk for United States Steel.

Management's Discussion and Analysis of Environmental Matters, Litigation and Contingencies

United States 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 Clean Air Act obligations, 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 United States Steel's products and services, operating results will be adversely affected. United States Steel believes that all of its domestic competitors are subject to similar environmental laws and regulations. However, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities, production processes and the specific products and services it provides. To the extent that competitors are not required to undertake equivalent costs in their operations, the competitive position of United States Steel could be adversely affected.

USSK is subject to the laws of the Slovak Republic. The environmental laws of the Slovak Republic generally follow the requirements of the European Union, which are comparable to domestic standards. USSK has also entered into an agreement with the Slovak government to bring, over time, its facilities into European Union environmental compliance.

In addition, United States Steel expects to incur capital and operating expenditures to meet environmental standards under the Slovak Republic's environmental laws for its USSK operation.

United States Steel's environmental expenditures for the last three years were[a]:

(Dollars in millions)	2001	2000	1999
Domestic:			
Capital	**$ 5**	$ 18	$ 32
Compliance			
Operating & maintenance	**184**	194	199
Remediation[b]	**26**	18	22
Total Domestic	**$ 215**	$ 230	$ 253
USSK:			
Capital	**$ 10**	$ –	$ –
Compliance			
Operating & maintenance	**6**	–	–
Remediation	–	–	–
Total USSK	**$ 16**	$ –	$ –
Total United States Steel	**$ 231**	$ 230	$ 253

[a] Based on previously established U. S. Department of Commerce survey guidelines.
[b] These amounts include spending charged against remediation reserves, net of recoveries where permissible, but do not include noncash provisions recorded for environmental remediation.

United States Steel's environmental capital expenditures accounted for 5%, 7% and 11% of total capital expenditures in 2001, 2000 and 1999, respectively.

Compliance expenditures represented 3% of United States Steel's total costs and expenses in 2001, and 4% of United States Steel's total costs and expenses in 2000 and 1999. Remediation spending during 1999 to 2001 was mainly related to remediation activities at former and present operating locations. These projects include remediation of contaminated sediments in a river that receives discharges from the Gary Works and the closure of permitted hazardous and non-hazardous waste landfills.

The Resource Conservation and Recovery Act ("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.

United States Steel is in the study phase of RCRA corrective action programs at its Fairless Works and its former Geneva Works. A RCRA corrective action program has been initiated at its Gary Works and its Fairfield Works. Until the studies are completed at these facilities, United States Steel is unable to estimate the total cost of remediation activities that will be required.

United States Steel has been notified that it is a potentially responsible party ("PRP") at 19 waste sites under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as of December 31, 2001. In addition, there are 13 sites related to United States Steel where it has received information requests or other indications that it may be a PRP under CERCLA but where sufficient information is not presently available to confirm the existence of liability or make any judgment as to the amount thereof. There are also 34 additional sites related to United States Steel where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. At many of these sites, United States Steel is one of a number of parties involved and the total cost of remediation, as well as United States Steel's share thereof, is frequently dependent upon the outcome of investigations and remedial studies. United States Steel accrues for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable.

As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. See Note 26 to the Financial Statements.

In October 1996, United States Steel was notified by the Indiana Department of Environmental Management ("IDEM") acting as lead trustee, that IDEM and the U.S. Department of the Interior had concluded a preliminary investigation of potential injuries to natural resources related to releases of hazardous substances from various municipal and industrial sources along the east branch of the Grand Calumet River and Indiana Harbor Canal. The public trustees completed a pre-assessment screen pursuant to federal regulations and have determined to perform a Natural Resource Damages Assessment. United States Steel was identified as a PRP along with 15 other companies owning property along the river and harbor canal. United States Steel and eight other PRPs have formed a joint defense group. The trustees notified the public of their plan for assessment and later adopted the plan. In 2000, the trustees concluded their assessment of sediment injuries, which includes a technical review of environmental conditions. The PRP joint defense group has proposed terms for the settlement of this claim, which have been endorsed by representatives of the trustees and the U.S. Environmental Protection Agency ("EPA") to be included in a consent decree that United States Steel expects will resolve this claim.

In 1998, United States Steel entered into a consent decree with the EPA which resolved alleged violations of the Clean Water Act National Pollution 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. Contemporaneously, United States Steel entered into a consent decree with the public trustees, which resolves potential liability for natural resource damages on the same section of the Grand Calumet River. In 1999, United States Steel paid civil penalties of $2.9 million for the alleged water act violations and $0.5 million in natural resource damages assessment costs. In addition, United States Steel will pay the public trustees $1 million at the end of the remediation project for future monitoring costs and United States Steel is obligated to purchase and restore several parcels of property that have been or will be conveyed to the trustees. During the negotiations leading up to the settlement with EPA, capital improvements were made to upgrade plant systems to comply with the NPDES requirements. As of December 31, 2001, the sediment remediation project is an approved final interim measure under the corrective action program for Gary Works and is expected to cost approximately $35.2 million over the next five years. Estimated remediation and monitoring costs for this project have been accrued.

At the former Duluth, Minnesota Works, United States Steel spent a total of approximately $11.4 million through 2001. The Duluth Works was listed by the Minnesota Pollution Control Agency under the Minnesota Environmental Response and Liability Act on its Permanent List of Priorities. The EPA has consolidated and included the Duluth Works site with the other sites on the EPA's National Priorities List. The Duluth Works cleanup has proceeded since 1989. United States Steel is conducting an engineering study of the estuary sediments. Depending upon the method and extent of remediation at this site, future costs are presently unkown and indeterminable.

In 1997, USS/Kobe, a joint venture between United States Steel and Kobe Steel, Ltd. ("Kobe"), was the subject of a multi-media audit by the EPA that included an air, water and hazardous waste compliance review. USS/Kobe and the EPA entered into a tolling agreement pending issuance of the final audit and commenced settlement negotiations in July 1999. In August 1999, the steelmaking and bar producing operations of USS/Kobe were combined with companies controlled by Blackstone Capital Partners II to form Republic. The tubular operations of USS/Kobe were transferred to a newly formed entity, Lorain Tubular Company, LLC ("Lorain Tubular"), which operated as a joint venture between United States Steel and Kobe until December 31, 1999, when United States Steel purchased all of Kobe's interest in Lorain Tubular. Republic and United States Steel are continuing negotiations with the EPA. Most of the matters raised by the EPA relate to Republic's facilities; however, air discharges from United States Steel's #3 seamless pipe mill have also been cited. United States Steel will be responsible for matters relating to its facilities. The final report and citations from the EPA have not been issued.

In 1987, United States Steel and the Pennsylvania Department of Environmental Resources ("PADER") entered into a Consent Order to resolve an incident in January 1985 involving the alleged unauthorized discharge of benzene and other organic pollutants from Clairton Works in Clairton, Pa. That Consent Order required United States Steel to pay a penalty of $50,000 and a monthly payment of $2,500 for five years. In 1990, United States Steel and the PADER reached agreement to amend the Consent Order. Under the amended Order, United States Steel agreed to remediate the Peters Creek Lagoon (a former coke plant waste disposal site); to pay a penalty of $300,000; and to pay a monthly penalty of up to $1,500 each month until the former disposal site is closed. Remediation costs have amounted to $9.9 million with another $1.1 million presently projected to complete the project.

In 1988, United States Steel and three other PRPs agreed to the issuance of an administrative order by the EPA to undertake emergency removal work at the Municipal & Industrial Disposal Co. site in Elizabeth Township, Pa. The cost of such removal, which has been completed, was approximately $4.2 million, of which United States Steel paid $3.4 million. The EPA indicated that further remediation of this site would be required. In October 1991, the PADER placed the site on the Pennsylvania State Superfund list and began a Remedial Investigation ("RI"), which was issued in 1997. United States Steel's share of any final allocation formula for cleanup of the entire site was never determined; however, based on presently available information, United States Steel may have been responsible for as much as 70% of the waste material deposited at the site. The Pennsylvania Department of Environmental Protection ("PADEP"), formerly PADER, issued its Final Feasibility Study Report for the entire site in August 2001. The report identifies and evaluates feasible remedial alternatives and selects three preferred alternatives. These alternatives are estimated to cost from $17 million to $20 million. Consultants for United States Steel have concluded that a less costly alternative should be employed at the site, which is estimated to cost $5.5 million. Based on the allocation of liability that has been recognized for past site cleanup activities, the United States Steel share of costs for this remedy would be approximately $3.7 million. United States Steel is in the process of negotiating a consent decree with PADEP. United States Steel has submitted a conceptual remediation plan, which PADEP has approved. United States Steel will be submitting a remedial design plan based on the remediation plan. PADEP is also seeking reimbursement for approximately $2 million in costs. United States Steel could potentially be held responsible for an undetermined share of those costs.

In September 2001, United States Steel agreed to an Administrative Order on Consent with the State of North Carolina for the assessment and cleanup of a Greensboro, N.C. fertilizer manufacturing site. The site was owned by Armour Agriculture Chemical Company (now named Viad) from 1912 to 1968. United States Steel owned the site from 1968 to 1986 and sold the site to LaRoche Industries in 1986. The agreed order allocated responsibility for assessment and cleanup costs as follows: Viad – 48%, United States Steel – 26% and LaRoche – 26%; and LaRoche was appointed to be the lead party responsible for conducting the cleanup. In March 2001, United States Steel was notified that LaRoche had filed for protection under the bankruptcy law. On August 23, 2001, the allocation of responsibility for this site assessment and cleanup and the cost allocation was approved by the bankruptcy court in the LaRoche bankruptcy. The estimated remediation costs are $4.4 million to $5.7 million. United States Steel's estimated share of these costs is $1.6 million.

New or expanded environmental requirements, which could increase United States Steel's environmental costs, may arise in the future. United States Steel intends to comply with all legal requirements regarding the environment, but since many of them are not fixed or presently determinable (even under existing legislation) and may be affected by future legislation, it is not possible to predict accurately the ultimate cost of compliance, including remediation costs which may be incurred and penalties which may be imposed. However, based on presently available information, and existing laws and regulations as currently implemented, United States Steel does not anticipate that environmental compliance expenditures (including operating and maintenance and remediation) will materially increase in 2002. United States Steel's environmental capital expenditures are expected to be approximately $28 million in 2002 primarily related to projects at Gary Works and at USSK (approximately $8 million). Predictions beyond 2002 can only be broad-based estimates, which have varied, and will continue to vary, due to the ongoing evolution of specific regulatory requirements, the possible imposition of more stringent requirements and the availability of new technologies to remediate sites, among other matters. Based upon currently identified projects, United States Steel anticipates that environmental capital expenditures will be approximately $49 million in 2003 including $17 million for USSK; however, actual expenditures may vary as the number and scope of environmental projects are revised as a result of improved technology or changes in regulatory requirements and could increase if additional projects are identified or additional requirements are imposed.

United States Steel has been and is a defendant in a large number of cases in which plaintiffs allege injury resulting from exposure to asbestos. Many of these cases involve multiple plaintiffs and most have multiple defendants. These claims fall into three major groups: (1) claims made under certain federal and general maritime law by employees of the Great Lakes Fleet or Intercoastal Fleet, former operations of United States Steel; (2) claims made by persons who performed work at United States Steel facilities; and (3) claims made by industrial workers allegedly exposed to an electrical cable product formerly manufactured by United States Steel. To date all actions resolved have been either dismissed or settled for immaterial amounts. It is not possible to predict with certainty the outcome of these matters; however, based upon present knowledge, United States Steel believes that it is unlikely that the resolution of the remaining actions will have a material adverse effect on its financial condition. This statement of belief is a forward-looking statement. 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 this forward-looking statement.

United States 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 which are discussed in Note 26 to the Financial Statements. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the United States Steel Financial Statements. However, management believes that United States Steel will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably to United States Steel.

Outlook for 2002

In November 2001, Domestic Steel's order rate began to increase and this trend has continued into the first quarter. Sheet facilities are now fully loaded and spot market price increases are being implemented. Plate and tubular markets continue to reflect weak demand. In the first quarter 2002, domestic shipments are expected to improve and average realized prices are expected to be slightly lower, largely due to product mix, when compared to fourth quarter 2001. USSK first quarter 2002 shipments and average realized prices are expected to be lower than fourth quarter 2001.

For full-year 2002, domestic shipments are expected to be approximately 11 million net tons and USSK shipments are expected to be approximately 3.8 million net tons.

For the longer term, domestic shipment levels and realized prices will be influenced by the strength and timing of a recovery in the manufacturing sector of the domestic economy, levels of imported steel following the outcome of the President's Section 201 decision and production capability changes at domestic facilities. Many factors will determine the strength and timing of such recovery, and shipment levels and prices are also subject to many of the same factors. For USSK, economic and political developments in Europe, including many factors similar to those impacting Domestic Steel, will impact USSK's results of operations.

United States Steel's income from operations includes net pension credits, which are primarily noncash, associated with all of United States Steel's pension plans. Net pension credits were $146 million in 2001. At the end of 2000, United States Steel's main pension plan's transition asset was fully amortized, decreasing the pension credit by $69 million in 2001 and in future years for this component. In addition, for the year 2002, lower than expected market returns in the year 2001 and the mergers of Transtar and LTV tin mill liabilities will further reduce net pension credits to approximately $110 million, excluding settlements and any potential effects of consolidation or rationalization activities. An unfavorable $8 million settlement charge is expected in the first half of 2002 under the nonqualified pension plan relative to salaried employees accepting retirement under last year's VERP. A settlement effect is not currently expected under the qualified salaried pension plan in 2002 relative to the VERP program. The above includes forward-looking statements concerning net pension credits which can vary depending upon the market performance of plan assets, changes in actuarial assumptions regarding discount rate and rate of return on plan assets, plan amendments affecting benefit payout levels and profile changes in the beneficiary populations being valued. Changes in any of these factors could cause net pension credits to change. To the extent net pension credits decline in the future, income from operations would be adversely affected.

In its retiree medical estimates of escalation, United States Steel projects an aggregate 8.0% initial trend rate in 2002 that gradually reduces each year to an ultimate trend rate of 5% in the year 2008. This was increased from a 7.5% initial trend rate assumed for 2001. The 8.0% rate reflects a weighting of various escalation rates on different components of the plan, with some rates as high as 15%, after taking into consideration the demographics of the affected populations and the different utilization patterns of medicare versus pre-medicare retirees. See Note 12 to the Financial Statements for the effect of a 1% change in the assumed health care cost trend rates.

United States Steel owns a 16% investment in Republic, through United States Steel's ownership in Republic Technologies International Holdings, LLC, which is the sole owner of Republic. Republic is a major purchaser of raw materials from United States Steel and the primary supplier of rounds for our tubular facility in Lorain, Ohio. During the first quarter of 2001, United States Steel discontinued applying the equity method of accounting since investments in and advances to Republic had been reduced to zero. On April 2, 2001, Republic filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Republic has continued to supply the Lorain mill since filing for bankruptcy and no supply interruptions are anticipated. During the first quarter of 2001, as a result of Republic's action, United States Steel recorded a pretax charge of $74 million for potentially uncollectible receivables from Republic and recognized certain debt obligations of $14 million previously assumed by Republic. Due to further financial deterioration of Republic during the balance of 2001, United States Steel recorded a pretax charge of $68 million in the fourth quarter of 2001 related to a portion of the remaining Republic trade receivables and retiree medical cost reimbursements owed by Republic. At December 31, 2001, United States Steel's remaining financial exposure to Republic was approximately $19 million.

On January 17, 2002, United States Steel announced that it had entered into an Option Agreement with NKK Corporation ("NKK") of Japan. The agreement grants United States Steel an option to purchase, either directly or through a subsidiary, all of NKK's National Steel Corporation common stock and to restructure a $100 million loan previously made to National Steel by an NKK subsidiary. NKK's ownership of National Steel's common stock represents approximately 53% of National's outstanding shares. The option expires on June 15, 2002.

If the option is exercised, NKK will receive warrants to purchase 4 million shares of United States Steel common stock in exchange for its National Steel shares. The warrants will be exercisable through June 2007 at a price equal to 150% of the average closing price for United States Steel's common stock during a 60-day period prior to the issuance of the warrants. In connection with any exercise of the option, the NKK subsidiary loan to National Steel would be restructured into an unsecured, non-interest bearing $30 million note, with a 20-year term, convertible into 1 million shares of United States Steel common stock. The NKK convertible note will remain part of a restructured National Steel. United States Steel will have the right to convert in the first five years if the price of United States Steel common stock exceeds $30 per share. In the next five-year period, both parties have the right to cause conversion if the price exceeds $30 per share and in the final ten years, either party has the right to cause conversion. In addition, United States Steel will, if it exercises the option, offer to acquire the remaining shares of National Steel in exchange for either warrants with no less value than those provided to NKK or United States Steel common stock based upon an exchange ratio of 0.086 shares of United States Steel common stock for each share of National Steel stock. The minority shareholder option to receive warrants will not be available unless a sufficient number of those shareholders elect to receive warrants to permit such warrants to be listed on the New York Stock Exchange.

Also, NKK and United States Steel have agreed to enter into discussions for the purpose of developing a business alliance to support Japanese auto manufacturers in North America.

Although United States Steel has the ability to exercise the option at any time during its term, it is United States Steel's current intent not to exercise the option or to consummate a merger with National Steel unless a number of significant conditions are satisfied, including a substantial restructuring of National Steel's debt and other obligations. Other significant conditions include the resolution of key contingencies related to the consolidation of the domestic steel industry, the financial viability of National Steel and satisfactory general market conditions.

United States Steel has publicly stated that it is willing to participate in consolidation of the domestic steel industry if it would be beneficial to our customers, shareholders, creditors and employees. A number of important conditions must occur to facilitate such consolidation including implementation of President Bush's three-part program to address worldwide overcapacity, relief from the burden of costs related to retiree obligations of other domestic steel companies and a new progressive labor agreement. In addition, United States Steel may make additional investments in Central Europe to build USSK and to better serve our customers who are seeking worldwide supply arrangements.

The preceding statements concerning anticipated steel demand, steel pricing, and shipment levels are forward-looking and are based upon assumptions as to future product prices and mix, and levels of steel production capability, production and shipments. These forward-looking statements can be affected by levels of imports following government action on Section 201 activities, domestic and international economies, domestic production capacity and customer demand. In the event these assumptions prove to be inaccurate, actual results may differ significantly from those presently anticipated. The potential exercise of the National Steel option by United States Steel, the negotiation and possible consummation of any merger or acquisition agreement, and the potential completion of any industry consolidation or acquisitions whether domestic or international are all subject to numerous conditions, some of which are described above. Many of these conditions depend upon actions of other parties, such as the federal government, the United Steelworkers of America and foreign governments. There is no assurance that the National Steel option will be exercised, that any merger agreement will be negotiated and/or consummated, or that any industry domestic or international consolidation in general will occur, nor any specificity concerning the terms upon which any of these might occur, other than the specific terms of the Option Agreement.

Accounting Standards

Effective January 1, 2001, United States Steel adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended by SFAS Nos. 137 and 138. This Statement, as amended, requires recognition of all derivatives at fair value as either assets or liabilities. Changes in fair value will be reflected in current period net income or other comprehensive income depending on the designation of the derivative instrument. A cumulative effect adjustment relating to the adoption of SFAS No. 133 was recognized in other comprehensive income. The cumulative effect adjustment relates only to deferred gains or losses for hedge transactions as of December 31, 2000. The effect of adoption of SFAS No. 133 was less than $1 million, net of tax.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"), No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") and No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). The adoption of SFAS No. 141 and SFAS No. 142 on January 1, 2002, did not have a material impact on the results of operations or financial position of United States Steel.

SFAS No. 143 establishes a new accounting model for the recognition and measurement of retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires that an asset retirement obligation should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. United States Steel plans to adopt the Statement effective January 1, 2003. The transition adjustment resulting from the adoption of SFAS No. 143 will be reported as a cumulative effect of a change in accounting principle. At this time, United States Steel has not completed its assessment of the effect of the adoption of this Statement on either its financial position or results of operations.

In August 2001, the FASB approved SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). This Statement establishes a single accounting model for long-lived assets to be disposed of by sale and provides additional implementation guidance for assets to be held and used and assets to be disposed of other than by sale. United States Steel adopted SFAS No. 144 effective January 1, 2002. There was no financial statement implication related to the adoption of SFAS No. 144, and the guidance will be applied on a prospective basis.

Quantitative and Qualitative Disclosures About Market Risk

Management Opinion Concerning Derivative Instruments

United States Steel uses commodity-based and foreign currency derivative instruments to manage its price risk. Management has authorized the use of futures, forwards, swaps and options to manage exposure to price fluctuations related to the purchase of natural gas, heating oil and nonferrous metals and also certain business transactions denominated in foreign currencies. Derivative instruments used for trading and other activities are marked-to-market and the resulting gains or losses are recognized in the current period in income from operations. While United States Steel's risk management activities generally reduce market risk exposure due to unfavorable commodity price changes for raw material purchases and products sold, such activities can also encompass strategies that assume price risk.

Management believes that the use of derivative instruments, along with risk assessment procedures and internal controls, does not expose United States Steel to material risk. The use of derivative instruments could materially affect United States Steel's results of operations in particular quarterly or annual periods. However, management believes that use of these instruments will not have a material adverse effect on financial position or liquidity. For a summary of accounting policies related to derivative instruments, see Note 3 to the Financial Statements.

Commodity Price Risk and Related Risks

In the normal course of its business, United States Steel is exposed to market risk or price fluctuations related to the purchase, production or sale of steel products. To a lesser extent, United States Steel is exposed to price risk related to the purchase, production or sale of coal and coke and the purchase of natural gas, steel scrap, iron ore and pellets, and certain nonferrous metals used as raw materials.

United States Steel's market risk strategy has generally been to obtain competitive prices for its products and services and allow operating results to reflect market price movements dictated by supply and demand. However, United States Steel uses derivative commodity instruments (primarily over-the-counter commodity swaps) to manage exposure to fluctuations in the purchase price of natural gas, heating oil and certain nonferrous metals. The use of these instruments has not been significant in relation to United States Steel's overall business activity.

Sensitivity analyses of the incremental effects on pretax income of hypothetical 10% and 25% decreases in commodity prices for open derivative commodity instruments as of December 31, 2001, and December 31, 2000, are provided in the following table.

(Dollars in millions)

	Incremental Decrease in Pretax Income Assuming a Hypothetical Price Decrease of[a]			
	2001		2000	
Commodity-Based Derivative Instruments	**10%**	**25%**	10%	25%
Zinc	**3.5**	**8.9**	1.5	3.8
Tin	**0.2**	**0.6**	0.2	0.6

[a] With the adoption of SFAS No. 133, the definition of a derivative instrument has been expanded to include certain fixed price physical commodity contracts. Such instruments are included in the above table. Amounts reflect the estimated incremental effect on pretax income of hypothetical 10% and 25% decreases in closing commodity prices for each open contract position at December 31, 2001, and December 31, 2000. Management evaluates the portfolio of derivative commodity instruments on an ongoing basis and adjusts strategies to reflect anticipated market conditions, changes in risk profiles and overall business objectives. Changes to the portfolio subsequent to December 31, 2001, may cause future pretax income effects to differ from those presented in the table.

United States Steel uses OTC commodity swaps to manage exposure to market risk related to the purchase of natural gas, heating oil and certain nonferrous metals. United States Steel recorded net pretax other than trading activity losses of $13 million in 2001, gains of $2 million in 2000 and losses of $3 million in 1999. These gains and losses were offset by changes in the realized prices of the underlying hedged commodities. For additional quantitative information relating to derivative commodity instruments, including aggregate contract values and fair values, where appropriate, see Note 24 to the Financial Statements.

Interest Rate Risk

United States Steel is subject to the effects of interest rate fluctuations on certain of its non-derivative financial instruments. A sensitivity analysis of the projected incremental effect of a hypothetical 10% decrease in year-end 2001 and 2000 interest rates on the fair value of United States Steel's non-derivative financial instruments is provided in the following table:

(Dollars in millions)

As of December 31	**2001**		2000	
Non-Derivative Financial Instruments[(a)]	**Fair Value[(b)]**	**Incremental Increase in Fair Value[(c)]**	Fair Value[(b)]	Incremental Increase in Fair Value[(c)]
Financial assets:				
Investments and long-term receivables[(d)]	**$ 42**	**$ –**	$ 137	$ –
Financial liabilities:				
Long-term debt[(e)(f)]	**$ 1,122**	**$ 79**	$ 2,375	$ 80
Preferred stock of subsidiary[(g)]	**–**	**–**	63	5
USX obligated mandatorily redeemable convertible preferred securities of a subsidiary trust[(g)]	**–**	**–**	119	10
Total liabilities	**$ 1,122**	**$ 79**	$ 2,557	$ 95

(a) Fair values of cash and cash equivalents, receivables, notes payable, accounts payable and accrued interest, approximate carrying value and are relatively insensitive to changes in interest rates due to the short-term maturity of the instruments. Accordingly, these instruments are excluded from the table.

(b) See Note 25 to the Financial Statements for carrying value of instruments.

(c) Reflects, by class of financial instrument, the estimated incremental effect of a hypothetical 10% decrease in interest rates at December 31, 2001, and December 31, 2000, on the fair value of United States Steel's non-derivative financial instruments. For financial liabilities, this assumes a 10% decrease in the weighted average yield to maturity of United States Steel's long-term debt at December 31, 2001, and December 31, 2000.

(d) For additional information, see Note 16 to the Financial Statements.

(e) Includes amounts due within one year.

(f) Fair value was based on market prices where available, or current borrowing rates for financings with similar terms and maturities. For additional information, see Note 11 to the Financial Statements.

(g) See Note 18 to the Financial Statements.

At December 31, 2001, United States Steel's portfolio of long-term debt was comprised primarily of fixed-rate instruments. Therefore, the fair value of the portfolio is relatively sensitive to effects of interest rate fluctuations. This sensitivity is illustrated by the $79 million increase in the fair value of long-term debt assuming a hypothetical 10% decrease in interest rates. However, United States Steel's sensitivity to interest rate declines and corresponding increases in the fair value of its debt portfolio would unfavorably affect United States Steel's results and cash flows only to the extent that United States Steel elected to repurchase or otherwise retire all or a portion of its fixed-rate debt portfolio at prices above carrying value.

Foreign Currency Exchange Rate Risk

United States Steel is subject to the risk of price fluctuations related to anticipated revenues and operating costs, firm commitments for capital expenditures and existing assets or liabilities denominated in currencies other than U.S. dollars, in particular the Euro and Slovak Koruna. United States Steel has not generally used derivative instruments to manage this risk. However, United States Steel has made limited use of forward currency contracts to manage exposure to certain currency price fluctuations. At December 31, 2001, United States Steel had no open forward currency contracts. In November 2001, the month in which United States Steel had the most foreign currency exchange maturities, total notional maturities were $19.4 million.

Equity Price Risk

United States Steel is subject to equity price risk and market liquidity risk related to its investment in VSZ a.s., the former parent of U. S. Steel Kosice, s.r.o. These risks are not readily quantifiable for several reasons, including the absence of a readily determinable fair value as determined under U.S. generally accepted accounting principles.

Safe Harbor

United States Steel's quantitative and qualitative disclosures about market risk include forward-looking statements with respect to management's opinion about risks associated with United States Steel's use of derivative instruments. These statements are based on certain assumptions with respect to market prices and industry supply of and demand for steel products and certain raw materials. To the extent that these assumptions prove to be inaccurate, future outcomes with respect to United States Steel's hedging programs may differ materially from those discussed in the forward-looking statements.

Organization

Officer–Directors

Thomas J. Usher
Chairman of the Board, Chief Executive Officer and President

Roy G. Dorrance
Vice Chairman and Chief Operating Officer

Dan D. Sandman
Vice Chairman and Chief Legal & Administrative Officer

John P. Surma
Vice Chairman and Chief Financial Officer

Outside Directors

J. Gary Cooper[1,2,4]
Chairman and Chief Executive Officer, Commonwealth National Bank

Robert J. Darnall[1,2,3]
Former Chairman, President and Chief Executive Officer, Ispat North America

Shirley Ann Jackson[1,2,4]
President, Rensselaer Polytechnic Institute

Charles R. Lee[2,3,4]
Chairman of the Board and Co-CEO, Verizon Communications (telecommunications)

Paul E. Lego[1,2,4]
Retired Chairman and CEO, Westinghouse Electric Corporation

John F. McGillicuddy[1,2,4]
Retired Chairman of the Board, Chemical Banking Corporation

Seth E. Schofield[1,3,4]
Retired Chairman and Chief Executive Officer, USAir Group Inc.

John W. Snow[1,2,3]
Chairman, President and Chief Executive Officer, CSX Corporation (a major transportation company)

Douglas C. Yearley[1,3,4]
Chairman Emeritus, Phelps Dodge Corporation

Committees of the Board and Membership
1 – Audit
2 – Financial Policy
3 – Compensation and Organization
4 – Corporate Governance and Public Policy

Corporate Policy Committee (in addition to the Officer–Directors)

Charles C. Gedeon
Executive Vice President–Raw Materials & Diversified Businesses

J. Paul Kadlic
Executive Vice President–Sheet Products

Albert E. Ferrara, Jr.
Senior Vice President & Treasurer

Gretchen R. Haggerty
Senior Vice President & Controller

Larry G. Schultz
Vice President–Investor Relations & Financial Analysis

Terrence D. Straub
Vice President–Governmental Affairs

Vice Presidents

Charles G. Carson, III
Vice President–Environmental Affairs

Leonard H. Chuderewicz
Vice President–Raw Materials

John J. Connelly
Vice President–Strategic Planning & Business Development

Donald L. Foster, Jr.
Vice President–International Sales

James D. Garraux
Vice President–Employee Relations

Thomas W. Goettge
Vice President–Tin, Tubular & Plate

J. James Kutka, Jr.
Vice President–Commercial, Sheet Products

David H. Lohr
Vice President–Operations, Sheet Products

Stephan K. Todd
Vice President–Law

Business Units

Straightline Source
1200 Penn Avenue
Pittsburgh, PA 15222

Robert H. Dryburgh
President

Transtar, Inc.
135 Jamison Lane
Monroeville, PA 15146

Thomas W. Sterling, III
President

United States Steel International, Inc.
600 Grant Street
Pittsburgh, PA 15219-2800

Donald L. Foster, Jr.
President

U. S. Steel Kosice, s.r.o.
Vstupný Arelá VSZ
04454 Kosice, Slovakia

John H. Goodish
President

U. S. Steel Mining Company, LLC
600 Grant Street
Pittsburgh, PA 15219-2800

George T. Weber, Jr.
President

USS Real Estate
600 Grant Street
Pittsburgh, PA 15219-2800

Peter Moller
President

USX Engineers and Consultants, Inc.
600 Grant Street
Pittsburgh, PA 15219-2800

Christopher J. Navetta
President

Joint Ventures

PRO-TEC Coating Company
5000 County Road #5
Leipsic, OH 45856-9234

W. Paul Worstell
President

USS-POSCO Industries
P. O. Box 471
Pittsburg, CA 94565-0471

Robert R. Smith
President

Investor Information

Corporate Headquarters
600 Grant Street
Pittsburgh, PA 15219-2800
412 433-1121

Contact Information
Security analysts and investors may contact Investor Relations at 412 433-1139 or *lgschultz@uss.com*. ***Individual investors*** with issues such as those on the right should contact Shareholder Services at the address or telephone number shown at the bottom of this column.

Annual Meeting
The 2002 Annual Meeting of Stockholders will be held in Pittsburgh, PA on April 30.

Independent Accountants
PricewaterhouseCoopers LLP
600 Grant Street
Pittsburgh, PA 15219-2794

Common Stock Exchange Listings
New York Stock Exchange (Principal Exchange),
Chicago Stock Exchange,
Pacific Stock Exchange

Common Stock Symbol – X

Internet Web Site:
http://www.ussteel.com

Annual Report on Form 10-K
The United States Steel Corporation Annual Report on Form 10-K to the Securities and Exchange Commission will be available by mid-March. A copy may be obtained from the Internet or by contacting Shareholder Services at the address or telephone number shown below.

Principal Stock Transfer Office
United States Steel Corporation
Shareholder Services
600 Grant Street, Room 611
Pittsburgh, PA 15219-2800
412 433-4801
866 433-4801 (toll free)
412 433-4818 (FAX)

Quarterly Common Stock Information

	2001			2000		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$ 18.00	$ 14.00	$. 25	$ 32.94	$ 20.63	$ .25
Second	22.00	13.72	.10	26.88	18.25	.25
Third	21.70	13.08	.10	19.69	14.88	.25
Fourth	18.75	13.00	.10	18.31	12.69	.25
Year	$ 22.00	$ 13.00	$ .55	$ 32.94	$ 12.69	$ 1.00

Dividends
Dividends on common stock, as declared by the Board of Directors, are normally paid on the tenth day of March, June, September and December.

Dividend Checks Not Received / Electronic Deposit
If you do not receive your dividend check on the appropriate payment date, we suggest that you wait about 10 days after the payment date to allow for any delay in mail delivery. After that time, advise Shareholder Services by phone or in writing for a replacement check to be issued. You may also contact Shareholder Services to authorize direct electronic deposit of your dividends into your bank account.

Dividend Reinvestment and Direct Stock Purchase Plan
The Dividend Reinvestment and Direct Stock Purchase Plan provides stockholders with a convenient way to purchase additional shares of United States Steel Corporation Common Stock without payment of any brokerage fees or service charges through investment of cash dividends or through optional cash payments. Stockholders of record and non-shareholders can request a copy of the Plan Prospectus and an authorization form from Shareholder Services. Shareholders who own their shares through a broker should contact their broker.

Lost Stock Certificate
If a stock certificate is lost, stolen or destroyed, notify Shareholder Services in writing so that a “stop transfer” can be placed on the missing certificate. Shareholder Services will send you the necessary forms and instructions for obtaining a replacement certificate. You may be required to obtain and pay for the cost of an indemnity bond. If you find the missing certificate, notify Shareholder Services in writing immediately so that the stop transfer can be removed. To avoid loss, theft or destruction, we recommend that you keep your certificates in a safe place, such as a safe deposit box at your bank.

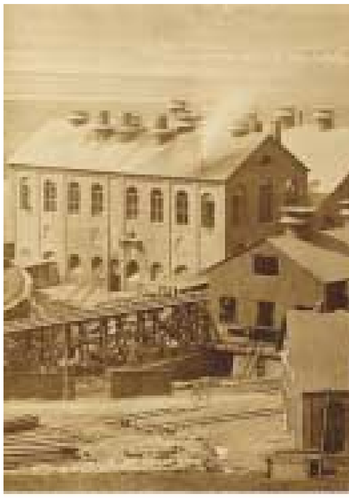
Taxpayer Identification Number
Federal law requires that each stockholder provide a certified Taxpayer Identification Number (TIN) for his/her stockholder account. For individual stockholders, your TIN is your Social Security Number. If you do not provide a certified TIN, United States Steel Corporation may be required to withhold 30 percent from your dividends for federal income taxes.

Address Change
It is important to notify Shareholder Services immediately, by phone, in writing or by FAX, when you change your address. As a convenience, you may also indicate an address change on the face of your quarterly dividend check. Seasonal addresses can also be entered for your account.

Making Steel. *United States Steel Corporation has been making steel for more than 100 years, and we intend to be making it for 100 more, always seeking to make it better, faster and more cost effectively; always focused on safety and environmental protection; always striving to be the best in the world.*

World Competitive. *Committed to strengthening our position in the global marketplace, United States Steel Corporation is constantly evaluating opportunities to expand the company's presence in the markets we choose to serve, while meeting and setting world-class standards and increasing our competitive advantage.*

Building Value. *Seeking to build value for every one of our constituencies, United States Steel Corporation continually makes decisions and takes actions that are in the best interest of our shareholders, customers, employees, suppliers, creditors and the communities in which we operate.*



United States Steel Corporation 600 Grant Street, Pittsburgh, PA 15219-2800