

**U. S. Steel Košice, s.r.o.**

**Financial Statements for the year  
ended 31 December 2005  
and Report of Independent Auditors**

**June 2006**

## REPORT OF INDEPENDENT AUDITORS

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

- 1 We have audited the accompanying financial statements of U.S. Steel Košice, s.r.o. („the Company“) for the year 2005, that comprises the balance sheet as of 31 December 2005, the related statement of income for the year then ended and the notes thereto. These financial statements are the responsibility of the Company’s Executives. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the financial statements present fairly, in all material respects, the financial position of U.S. Steel Košice, s.r.o. as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Accounting Act of the Slovak Republic and related accounting regulation.
- 4 Without qualifying our report, we draw your attention to Note D.(a) of the financial statements. For tax reasons the Company opened its accounting books subsequent to original issue of the financial statements, the related auditor’s report dated 21 April 2006 and before approval of the general assembly. The additional accounting entries on opening of the books have resulted in no change in equity or profit after tax.

Bratislava, 13 June 2006

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



  
Ing. Mária Frühwaldová  
SKAU licence No.: 47



Line a	ASSETS b	Line no. c	Current period			Prior period
			Gross value 1	Adjustment 2	Net value 3	Net value 4
	<b>Total assets 002+003+032+062</b>	001	<b>90 595 229</b>	<b>9 993 400</b>	<b>80 601 829</b>	<b>70 011 713</b>
A.	Receivables for subscribed share capital (353)	002	1 870		1 870	2 239
B.	<b>Non-current assets 004+013+023</b>	003	<b>44 204 954</b>	<b>8 513 474</b>	<b>35 691 480</b>	<b>28 701 934</b>
B.I.	<b>Non-current intangible assets total (005 to 012)</b>	004	<b>641 180</b>	<b>341 262</b>	<b>299 918</b>	<b>316 434</b>
B.I.1.	Startup (Incorporation) expenses (011) -/071, 091A/	005				
2.	Research and development capitalised (012) -/072, 091A/	006				
3.	Software (013) -/073, 091A/	007	543 511	324 903	218 608	256 572
4.	Valuable rights (014) -/074, 091A/	008	1 748	1 088	660	868
5.	Goodwill (015) -/075, 091A/	009				
6.	Other non-current intangible assets (019, 01x) -/079, 07x, 091A/	010	19 712	15 271	4 441	3 460
7.	Non-current intangible assets under construction (041) -093	011	75 952		75 952	55 534
8.	Advance payments on account of non-current intangible assets (051) -095A	012	257		257	
B.II.	<b>Non-current tangible assets total (014 to 022)</b>	013	<b>39 046 525</b>	<b>8 103 159</b>	<b>30 943 366</b>	<b>26 944 641</b>
B.II.1.	Land (031) -092A	014	3 429 012		3 429 012	3 422 169
2.	Constructions (021) -/081, 092A/	015	8 320 643	1 452 101	6 868 542	6 366 693
3.	Individual movable assets and sets of movable assets (022) -/082, 092A/	016	20 856 519	6 150 858	14 705 661	10 026 163
4.	Perennial crops (025) -/085, 092A/	017				
5.	Livestock and draught animals (026) -/086, 092A/	018				
6.	Other non-current tangible assets (029, 02x, 032) -/089, 08x, 092A/	019	316 089	242 398	73 691	64 470
7.	Non-current tangible assets under construction (042) -094	020	5 035 164	257 802	4 777 362	7 054 897
8.	Advance payments on account of non-current tangible assets (052) -095A	021	1 089 098		1 089 098	10 249
9.	Provision for acquired assets (+/-097) +/-098	022				
B.III.	<b>Non-current financial assets (investments) total ( 024 to 031)</b>	023	<b>4 517 249</b>	<b>69 053</b>	<b>4 448 196</b>	<b>1 440 859</b>
B.III.1.	Shares and ownership interest in subsidiaries (061) -096A	024	662 798	69 053	593 745	576 848
2.	Shares and ownership interest in associates (062) -096A	025	4 362		4 362	4 362
3.	Other non-current securities and ownership interests (063) -096A	026	4 769		4 769	4 769
4.	Loans to enterprises in consolidated group (066) -096A	027				
5.	Other financial investments (067A, 069, 06xA) -096A	028	3 845 320		3 845 320	854 880
6.	Loans with maturity up to one year (066A, 067A, 06xA)-096A	029				
7.	Non-current financial assets in the course of acquisition (043) -096A	030				
8.	Advance payments on account of non-current financial investments (053) -095A	031				
C.	<b>Current assets 033+041+048+056</b>	032	<b>46 323 951</b>	<b>1 479 926</b>	<b>44 844 025</b>	<b>41 226 877</b>
C.I.	<b>Inventory total ( 034 to 040)</b>	033	<b>9 882 635</b>	<b>83 810</b>	<b>9 798 825</b>	<b>9 231 416</b>
C.I.1.	Raw material (112,119,11x) -/191,19x/	034	4 332 532	64 696	4 267 836	4 791 912
2.	Work in progress and semifinished goods (121,122,12x) -/192,193,19x/	035	2 407 169	17 215	2 389 954	2 204 818
3.	Construction contracts with maturity over one year 12x-192A	036				
4.	Finished goods (123) -194	037	2 008 175	1 280	2 006 895	1 456 800
5.	Livestock (124) -195	038				
6.	Merchandise (132, 13x, 139) -/196,19x/	039	1 134 759	619	1 134 140	777 886
7.	Advances paid on account of inventories (314A) -391A	040				

Line a	ASSETS b	Line no. c	Current period			Prior period
			Gross value 1	Adjustment 2	Net value 3	Net value 4
<b>C.II.</b>	<b>Non-current receivables total ( 042 to 047)</b>	<b>041</b>	<b>587 316</b>	<b>1 563</b>	<b>585 753</b>	<b>1 687 507</b>
C.II.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	042	6 375	1 563	4 812	1 905
2.	Receivables from enterprises with controlling interest (351A) -391A	043				
3.	Receivables from enterprises in consolidated group (351A) -391A	044				
4.	Receivables from shareholders, associates and consortium members (354A, 355A, 358A, 35XA) -391A	045				
5.	Other receivables (335A, 33xA, 371A, 373A, 374A, 375A, 376A, 378A) -391A	046	391		391	738
6.	Deferred tax receivable (481A)	047	580 550		580 550	1 684 864
<b>C.III.</b>	<b>Current receivables total (l. 049 to 055)</b>	<b>048</b>	<b>26 569 166</b>	<b>1 394 553</b>	<b>25 174 613</b>	<b>26 467 404</b>
C.III.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	049	16 377 380	1 394 553	14 982 827	13 438 781
2.	Other receivables from enterprises with controlling interest (351A) -391A	050				
3.	Other receivables within consolidation group (351A) -391A	051				
4.	Receivables from shareholders, associates and consortium members (354A, 355A, 358A, 35XA, 398A) -391A	052	8 625 960		8 625 960	11 398 400
5.	Social security (336A) -391A	053				
6.	Tax receivables (341, 342, 343, 345) -391A	054	1 513 753		1 513 753	1 629 821
7.	Other receivables (335A, 33xA, 371A, 373A, 374A, 375A, 376A, 378A) -391A	055	52 073		52 073	402
<b>C.IV.</b>	<b>Financial assets (057 to 061)</b>	<b>056</b>	<b>9 284 834</b>		<b>9 284 834</b>	<b>3 840 549</b>
C.IV.1.	Cash in hand (211, 213, 21x)	057	1 031		1 031	654
2.	Bank accounts (221A, 22xA, +/-261)	058	1 670 452		1 670 452	3 839 895
3.	Term deposits over one year 22xA	059				
4.	Short term financial assets (251, 253, 256, 257, 25x) -/291, 29x/	060	7 613 351		7 613 351	
5.	Current financial assets in the course of acquisition (259) - 291	061				
<b>D.</b>	<b>Accruals and prepayments total (063 to 064)</b>	<b>062</b>	<b>64 454</b>		<b>64 454</b>	<b>80 664</b>
D.1.	Prepaid expenses (381, 382)	063	64 454		64 454	80 664
2.	Accrued income (385)	064				
	<b>Control total ( 001 to 064)</b>	<b>888</b>	<b>362 312 722</b>	<b>39 973 600</b>	<b>322 339 122</b>	<b>279 961 711</b>

Line a	LIABILITIES AND EQUITY b	Line no. c	Current period 5	Prior period 6
	<b>Total liabilities and equity 066+086+116</b>	<b>065</b>	<b>80 601 829</b>	<b>70 011 713</b>
<b>A</b>	<b>Equity - 067+071+078+082+085</b>	<b>066</b>	<b>52 606 876</b>	<b>54 196 851</b>
<b>A.I</b>	<b>Share capital total (1. 068+070)</b>	<b>067</b>	<b>25 286 458</b>	<b>25 286 458</b>
A.I.1.	Share capital (411 or +/-491)	068	25 286 458	25 286 458
2.	Own shares (-/252)	069		
3.	Change in share capital +/-419	070		
<b>A.II.</b>	<b>Capital funds total (072 to 077)</b>	<b>071</b>	<b>140 267</b>	<b>(12 222)</b>
A.II.1.	Share premium (412)	072		
2.	Other capital funds (413)	073	1 796	1 796
3.	Legal reserve (non-distributable) from capital deposits (417, 418)	074		
4.	Revaluation reserve for assets and liabilities(+/-414)	075	53 339	(98 535)
5.	Revaluation reserve for equity investments (+/-415)	076	85 132	84 517
6.	Revaluation reserve for merger and split (+/-416)	077		
<b>A.III.</b>	<b>Profit reserves total (079 to 081)</b>	<b>078</b>	<b>1 547 536</b>	<b>904 087</b>
A.III.1.	Legal reserve (421)	079	1 547 536	904 087
2.	Non-distributable reserve (422)	080		
3.	Statutory and other reserves (423, 427, 42x)	081		
<b>A.IV.</b>	<b>Retained earnings 083+084</b>	<b>082</b>	<b>9 941 179</b>	<b>15 149 543</b>
A.IV.1	Retained profits from previous years (428)	083	9 941 179	15 149 543
2.	Loss carried forward (-/429)	084		
<b>A.V.</b>	<b>Profit (loss) for the current year /+ -/ 001-(067+071+078+082+086+116)</b>	<b>085</b>	<b>15 691 436</b>	<b>12 868 985</b>
<b>B.</b>	<b>Liabilities I. 087+091+102+112</b>	<b>086</b>	<b>27 709 391</b>	<b>15 812 680</b>
<b>B.I.</b>	<b>Provisions total (I. 088 to 090)</b>	<b>087</b>	<b>9 128 995</b>	<b>1 983 427</b>
B.I.1.	Legal provisions (451A)	088	218 653	164 651
2.	Other long-term provisions (459A, 45xA)	089	732 524	866 822
3.	Short term provisions (323, 32x, 451A, 459A, 45xA)	090	8 177 818	951 954
<b>B.II.</b>	<b>Non-current liabilities (total I. 092 to 101)</b>	<b>091</b>	<b>45 751</b>	<b>29 260</b>
B.II.1.	Non-current trade liabilities (479A)	092		
2.	Non-current uninvoiced supplies (476A)	093		
3.	Liabilities to enterprises with controlling interest (471A)	094		
4.	Other non-current liabilities within consolidation group (361A, 36xA, 471A, 47xA)	095		
5.	Non-current advance payments received (475A)	096		
6.	Non-current bills of exchange payable (478A)	097		
7.	Bonds and debentures issued (473A, -/255A)	098		
8.	Social fund payable (472)	099	45 751	29 260
9.	Other non-current liabilities (474A, 479A, 47xA, 372A, 373A,377A)	100		
10.	Deferred tax liability (481A)	101		

Line a	LIABILITIES AND EQUITY b	Line no. c	Current period 5	Prior period 6
<b>B.III.</b>	<b>Current liabilities total (103 to 111)</b>	<b>102</b>	<b>11 154 285</b>	<b>13 799 993</b>
B.III.1	Trade liabilities (321, 322, 324, 325, 32x, 475A, 478A, 479A, 47xA)	103	6 481 904	6 148 473
2.	Current uninvoiced supplies (326, 476A)	104	3 158 963	2 406 937
3.	Non-current liabilities to enterprises with controlling interest (361, 471A)	105		
4.	Other liabilities within consolidation group (361A, 36xA, 471A, 47xA)	106		
5.	Liabilities to shareholders, associates and consortium members (364, 365, 366, 367, 368, 398A, 478A, 479A)	107	149 960	52 231
6.	Liabilities to employees (331, 333, 33x, 479A)	108	500 494	376 394
7.	Social security insurance payable (336A, 479A)	109	234 902	234 262
8.	Tax liabilities and subsidies payable (341, 342, 343, 345, 346, 347, 34x)	110	529 852	539 446
9.	Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47x)	111	98 210	4 042 250
<b>B.IV.</b>	<b>Bank loans and borrowings total (113 to 115)</b>	<b>112</b>	<b>7 380 360</b>	
B.IV.1.	Long-term bank loans (461A, 46xA)	113		
2.	Short-term bank loans (221A, 231, 232, 23x, 461A, 46xA)	114	7 380 360	
3.	Current borrowings (241, 249, 24x, 473A, -/255A)	115		
<b>C.</b>	<b>Accruals and deferred income - total 117+118</b>	<b>116</b>	<b>285 562</b>	<b>2 182</b>
C. 1.	Accruals (383)	117		
2.	Deferred income (384)	118	285 562	2 182
	<b>Control total (total 065 to 118)</b>	<b>999</b>	<b>306 430 319</b>	<b>267 175 682</b>

# INCOME STATEMENT

at ..... 31.12. .... 2005 ..... ( Sk thousands )

 for the period from month year month year  
 from       until      

Type of delivery	Type of delivery
*)	*)
<input checked="" type="checkbox"/> - ordinary	<input checked="" type="checkbox"/> - prepared
<input type="checkbox"/> - extraordinary	<input type="checkbox"/> - approved
<input type="checkbox"/> - preliminary	

INO

\*) marked with

Accounting entity name :

Legal form of the entity :

Residence of the entity, Street and No.

ZIP

Town

Phone are code

Phone number

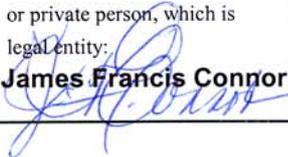
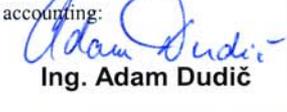
      

Fax number

e-mail

Prepared on: <b>13 June 2006</b>	Written record of member of entity's statutory body or private person, which is legal entity:  <b>James Francis Connor</b>	Written record of member of entity responsible for preparation of financial statement:  <b>Ing. Andrej Rendeš</b>	Written record of member of entity responsible for accounting:  <b>Ing. Adam Dudič</b>
Approved on:			

Line a	T E X T b	Line No. c	Actual result in	
			current period	prior period
			1	2
I.	Sale of merchandise (604)	01	10 852 019	8 631 601
A.	Costs of merchandise sold (504)	02	10 727 495	8 655 501
+	<b>Gross margin 01-02</b>	<b>03</b>	<b>124 524</b>	<b>(23 900)</b>
<b>II.</b>	<b>Production 05+06+07</b>	<b>04</b>	<b>82 705 353</b>	<b>74 953 383</b>
II.1.	Sale of own products and services (601,602)	05	80 447 301	72 579 595
2.	Change in inventory of finished goods and work in progress (+/- acc. group 61)	06	730 854	1 191 621
3.	Own work capitalised (acc. group 62)	07	1 527 198	1 182 167
<b>B.</b>	<b>Production costs 09+10</b>	<b>08</b>	<b>55 189 667</b>	<b>49 324 617</b>
B.1.	Raw material and energy used in production (501 to 503)	09	45 491 474	40 090 077
2.	Services (acc. group 51)	10	9 698 193	9 234 540
+	<b>Added value 03+04-08</b>	<b>11</b>	<b>27 640 210</b>	<b>25 604 866</b>
<b>C.</b>	<b>Staff costs total I. 13 to 16</b>	<b>12</b>	<b>9 151 338</b>	<b>7 816 102</b>
C.1.	Wages and salaries (521,522)	13	6 752 528	5 661 262
2.	Remuneration of members of the board of companies and co-operatives (523)	14		
3.	Social security costs (524,525,526)	15	1 981 135	1 773 616
4.	Employee welfare costs (527,528)	16	417 675	381 224
D.	Indirect taxes and fees (acc. group 53)	17	145 686	87 547
E.	Depreciation of non-current tangible and intangible assets (551)	18	2 050 141	1 694 919
III.	Revenue from sale of non-current assets and raw material (641,642)	19	368 702	340 221
F.	Carrying value of non-current assets and raw material sold (541,542)	20	312 286	332 029
IV.	Use and release of provisions for liabilities and charges and accrued operating revenue (652,654,655)	21	1 254 796	945 092
G.	Creation of provisions for liabilities and charges and accrued operating expenses (552,554,555)	22	1 049 825	1 272 449
V.	Release of provisions (operating) (657,658,659)	23	606 565	447 675
H.	Creation of provisions (operating) (557,558,559)	24	846 473	340 230
VI.	Other operating revenues (644,645,646,648,649)	25	7 522 666	757 790
I.	Other operating expenses (543 to 546,548,549)	26	7 776 422	1 165 593
VII.	Reclassification of operating revenues -(697)	27		
J.	Reclassification of operating expenses -(597)	28		
*	<b>Operating profit/loss 11-12-17-18+19-20+21-22+23-24+25-26+(-27) (-28)</b>	<b>29</b>	<b>16 060 768</b>	<b>15 386 775</b>
VIII.	Revenues from sale of securities and ownership interests (661)	30		
K.	Securities and ownership interest sold (561)	31		
<b>IX.</b>	<b>Income from long-term financial assets 33+34+35</b>	<b>32</b>	<b>242 985</b>	<b>272 598</b>
IX.1.	Income from investments in subsidiaries and associates (665A)	33	107 271	125 103
2.	Income from other long-term securities and ownership interest (665A)	34		
3.	Income from other long-term financial assets (665A)	35	135 714	147 495
X.	Income from short-term financial assets (666)	36		

Line a	T E X T b	Line No. c	Actual result in	
			current period 1	prior period 2
L.	Costs of short-term financial assets (566)	37		
XI.	Income from revaluation of securities and income from operations with derivatives (664,667)	38	151 431	108 361
M.	Revaluation costs of securities and costs of operations with derivatives (564,567)	39	36 925	82 113
XII.	Interest income (662)	40	84 876	33 133
N.	Interest expense (562)	41	80 405	697 020
XIII.	Foreign exchange gains (663)	42	3 982 886	2 337 466
O.	Foreign exchange losses (563)	43	2 725 788	3 932 037
XIV.	Other financial revenue (668)	44	799	962
P.	Other financial expenses (568,569)	45	183 282	179 864
XV.	Release of financial provisions for liabilities and charges (674)	46	7 792	12 784
Q.	Creation of financial provisions for liabilities and charges (574)	47		7 792
XVI.	Release of provisions (financial) (679)	48	100	55 822
R.	Creation of provision (financial) (579)	49	470	
XVII.	Reclassification of financial revenues (-) (698)	50		
S.	Reclassification of financial expenses (-) (598)	51		
*	<b>Profit/(loss) from financial activities 30-31+32+36-37+38-39+40-41+42-43+44-45+46-47+48-49+(-50)-(-51)</b>	<b>52</b>	<b>1 443 999</b>	<b>(2 077 700)</b>
T.	<b>Tax on income from ordinary activities 1.54+55</b>	<b>53</b>	<b>1 813 336</b>	<b>440 094</b>
T.1.	- payable (591,595)	54	724 964	1 058 136
2.	- deferred (+/-592)	55	1 088 372	(618 042)
**	<b>Net profit/(loss) from ordinary activities 29+52-53</b>	<b>56</b>	<b>15 691 431</b>	<b>12 868 981</b>
XVIII.	Extraordinary revenues (acc. group 68)	57	6	4
U.	Extraordinary expenses (acc. group 58)	58		
V.	<b>Tax on income from extraordinary activities 60+61</b>	<b>59</b>	<b>1</b>	
V.1.	- payable (593)	60	1	
2.	- deferred (+/-594)	61		
*	<b>Extraordinary profit/(loss) 1.57-58-59</b>	<b>62</b>	<b>5</b>	<b>4</b>
Z.	Profit/(loss) share transferred to owners' account (+/-596)	63		
***	<b>Net profit/(loss) for the period (+/-) 1.56+62-63</b>	<b>64</b>	<b>15 691 436</b>	<b>12 868 985</b>
	<b>Control total ( 1.1 to 64)</b>	<b>99</b>	<b>425 625 569</b>	<b>362 359 604</b>

## Notes to the financial statements at December 31, 2005

### A. GENERAL

#### 1. Business name and address

U.S. Steel Košice, s.r.o.

Vstupný areál U.S. Steel

Košice

044 54

The company U.S. Steel Košice, s.r.o. ("the Company"), was established on June 7, 2000 and incorporated in the Commercial Register on June 20, 2000 (Commercial Register of the District Court Košice I in Košice, Section Sro, Insert 11711/V).

#### 2. Core business activities according to the extract from the Commercial Register

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

#### 3. Liability in other accounting entities

The Company as a shareholder has no unlimited liability in other accounting entities.

#### 4. Average number of staff

In 2005, the Company had 14,128 employees on average (year 2004: 14,385), 166 of which were management (year 2004: 167).

#### 5. Legal reason for preparing the financial statements

The Company's financial statements as of December 31, 2005 have been prepared as ordinary financial statements under § 17 Sec. 6 of the Slovak Accounting Act No. 431/2002 Coll. for the accounting period from January 1, 2005 to December 31, 2005.

#### 6. Date of approving the financial statements for the previous accounting period

The General Meeting approved the Company's financial statements for the previous accounting period on June 22, 2005.

### B. THE COMPANY'S BODIES

## 1. The Company's bodies

Executives as at December 31, 2005 were as follows:

Name	Position
David Harman Lohr	President
James Francis Connor	Vice-president for financing
Scott Christopher Pape	Vice-president for production
John Baird Peters (from December 1, 2005)	Vice-president for sales and marketing
Anton Jura	Vice-president for strategic implementations
Miroslav Kiral'varga	Vice-president for human resources
Jeffrey Vincent Greenwell	Vice-president for technology
Kenneth Ralph Pepperney	General Counsel
Andrew Stewart Armstrong (from December 1, 2005)	Vice-president for information technologies

## 2. Information on Shareholders of the Company

The structure of shareholders of the Company at December 31, 2005:

	Share in the registered capital		Voting rights
	SKK'000	%	%
U.S. Steel Global Holdings I B.V.	25,286,458	100	100
<b>TOTAL</b>	<b>25,286,458</b>	<b>100</b>	<b>100</b>

## C. THE CONSOLIDATED GROUP

The Company is included in the consolidated financial statements of U.S. Steel Global Holdings I B.V., Herengracht 469, 1017 BS Amsterdam, Netherlands, which are part of the consolidated financial statements of the United States Steel Corporation. The consolidated financial statements of the Group are prepared by United States Steel Corporation, 600 Grant Street, Pittsburgh, USA. The consolidated financial statements are available directly at the registered address stated above.

## D. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS

### (a) Basis of preparation

The Company's financial statements have been prepared in accordance with the Slovak Accounting Act and related accounting regulations, on the going concern basis.

Accounting principles and accounting methods were applied consistently with previous accounting period, except for the change in estimate for provision to bad debts (Note D.e).

The financial statements were originally prepared and approved by the Company's management on April 21, 2006. The auditor issued unmodified opinion thereon on April 21, 2006. Subsequently, before approval of the financial statements by the general meeting, it was determined that in 2005 the Company wrote off a receivable according to §68 sec. (5) Ruling of MF SR No. 23 054/202-92, i.e. to cease its exaction permanently, and not according to §68 sec. (6), i.e. based on court resolution which became effective in 2006. In order to claim the tax deduction in a period when the accounting write off is recorded, according to §17 sec. 1, letter b) and §19 sec. 2 letter h) of Act No. 595/2003 Coll. on income taxes and its amendments, the Company decided to open the accounting books and cancel the write-off of the receivable according to §68 sec. (5) as well as related release of provision to bad debt and to record the transaction in 2006 in accordance to with §68 sec. (6). The related adjustments which were reflected in these financial statements are as follows (in SKK thousands):

1) Reversal of debt write off			
MD	311 Debtors	630,110	
D	546 Debt write off		630,110
2) Reversal of bad debt provision release			
MD	658 Release of legal bad debt provision	630,110	
D	391 Bad debt provision		630,110
3) Correction of current and deferred income tax due to reversal of write off and provision release			
MD	341 Income tax	8,996	
D	591 Current income tax charge		8,996
MD	592 Deferred income tax	8,996	
D	481 Deferred tax asset		8,996

#### (b) Non-current intangible and tangible assets

Acquired non-current assets are stated at cost, which includes the acquisition price and the related acquisition costs (customs duty, transport, assembly, insurance, etc.). Neither the interest on borrowed capital nor the realised foreign exchange differences are included in the acquisition costs.

Internally generated non-current assets are stated at own cost. Own cost includes all direct costs spent on production or other activities and indirect costs related to production or other activities.

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

Non-current tangible and intangible assets are depreciated according to the depreciation plan based on the expected useful life and expected wear and tear. According to the approved policy for depreciation of the non-current assets, straight-line depreciation method is applied in the Company for all kinds of non-current assets. Depreciation begins as of the month a non-current asset is put in use and ends in the month of disposal. Depreciation charge is calculated from acquisition costs that is the value an asset is stated in the accounts.

Non-current intangible assets are intangible assets with acquisition costs exceeding SKK 50,000 and with economic useful life exceeding 1 year. Low-value non-current intangible assets with acquisition costs between SKK 20,000 and SKK 50,000 and with economic useful life exceeding 1 year is also categorised as non-current intangible assets. These assets are accounted for in the account 018 – Non-current low-value intangible assets.

Structure, expected amortisation period and amortisation method of non-current intangible assets is as follows:

	Estimated economic useful life	Amortisation Method
Software	2-5	Straight-line
Valuable rights (licence)	2-5	Straight-line
Other non-current intangible assets	2	Straight-line

Non-current tangible assets are tangible assets with acquisition costs exceeding SKK 30,000 and with economic useful life exceeding 1 year. In accordance with valid categorisation of assets in the Company, low-value non-current tangible assets with acquisition costs between SKK 3,000 and SKK 30,000, and for certain types between SKK 0 and SKK 30,000 and with economic useful life exceeding 1 year, were also categorised as non-current tangible assets. These assets are accounted for in the account 028 – Non-current low-value tangible assets.

Structure, expected depreciation period and depreciation method of non-current tangible assets is as follows:

	Estimated economic useful life	Depreciation Method
Land	-	-
Buildings	35	Straight-line
Movable tangible assets	5 - 15	Straight-line
Other non-current tangible assets	2 - 5	Straight-line

In case of a temporary diminution in the value of a non-current asset identified during stocktaking that is significantly lower than its carrying value after deducting the accumulated depreciation, a provision is set up to reflect its net realisable value.

Provision to assets, which are used in testing phase but not transferred to base, is set up in the amount of expected depreciation expense. The provision is released and accumulated depreciation is adjusted accordingly after the asset is transferred to base.

### (c) Long-term financial assets

Securities and ownership interests are recorded at acquisition cost including related acquisition costs.

At the balance sheet date, securities and ownership interests are stated at their net realisable value by creating provisions. Provisions to ownership interests are created for difference between the acquisition cost and share on net assets of the owned company as at the date of the financial statements.

Loans granted are recorded at acquisition costs. As of the date of financial statements, loans granted in foreign currency are converted to Slovak crowns using the foreign exchange rate of the National Bank of Slovakia at that date.

### (d) Inventories

Acquired inventories are recorded at cost, which includes the acquisition price and the related acquisition costs (customs duty, transport, insurance, commission, etc.). Interest on borrowings is not included in the acquisition costs. The Company accounts for the inventory using method A. Consumption is recorded using cost determined through FIFO method.

The related acquisition costs (referred to as valuation variants below) are expensed as follows:

$\% \text{ of valuation variance (VV)} = (\text{opening balance of VV} + \text{addition to VV}) / (\text{opening balance of inventories} + \text{addition to inventories})$

$\text{Valuation variance} = \text{actual consumption} \times \% \text{ of valuation variance}$

Work in progress, Semi-finished goods and Finished goods are stated at cost. Cost includes direct costs (direct material, direct wages and other direct costs) and a part of indirect costs closely related to the production of inventories internally (factory overhead expenses). Factory overhead expenses are included into cost depending on the extent to which these inventories are finished.

A provision against inventories is created in case of a temporary diminution in the value of inventories. If the cost exceeds net realizable value at balance sheet date, a provision is also recognized for the amount of the difference between cost and net realizable value.

### (e) Receivables

When originated, receivables are stated at their nominal value. Assigned receivables are stated at cost, which also includes related acquisition costs. A provision is set up for bad and doubtful debts and for receivables due from debtors in bankruptcy.

Until 2004 (incl.):

The criteria to calculate provision was the period for which receivables are overdue. The provision of 100% of nominal value was recognized to the receivables overdue more than 6 months, in specific cases also to the receivables overdue less than 6 months.

From 2005:

A provision to doubtful receivables, where the risk of their collection exists, is created as follows:

Receivables overdue :	% of receivables nominal value
3 – 6 months	25 %
6 – 9 months	50 %
9 – 12 months	75 %
more than 12 months	100 %

A provision against receivables due from debtors in bankruptcy is created in the amount of 100% of nominal value.

**(f) Short-term financial assets**

Short-term financial assets consist of cash and cash equivalents and balances in the bank accounts.

**(g) Prepayments and accrued revenues**

Prepayments and accrued revenues are recognized in the amount necessary to comply with accrual principle.

**(h) Provision**

Provisions are liabilities of uncertain timing or amount and are stated at the expected amount of the liability.

The Act No. 223/2001 Coll. on Waste (as later amended) became effective on July 1, 2002 based on which the Company must create a special-purpose financial provision for closing, monitoring and reclaiming land after closing a waste dump in accordance with this Act. The annual expense to build up the provision is calculated in accordance with the law as follows:

$$R = Q \times CN / K$$

where:

R - annual charge to income in SKK,  
Q - quantity of disposed waste in tonnes per annum,  
CN - the capital expenditure in SKK proposed in the project documentation for closing and reclaiming land after closing a waste dump and operating costs for monitoring the waste disposal site,  
K - the free capacity of the waste disposal site in tonnes at the time when the Company commences to create the provision.

The Company is obliged to create provision for pension liability and also for the work and life jubilees liability in accordance with the Labour Act and the Collective Agreement. The Company calculates these liabilities using the actuarial methods.

In 2005, short-term provision for the CO<sub>2</sub> emissions was created for tonnes of CO<sub>2</sub> emitted estimated by the date of financial statements. The provision is estimated in the amount sufficient to fulfill the commitment to settle the emissions in accordance with Act No. 572/2004 Coll. The provision is released in the subsequent accounting period when the emissions are settled in accordance with the act above.

**(i) Emission quotas**

Emission quotas granted for free are recognized in account 254 Short-term financial assets with related double entry to account 384 Deferred income. Emission quotas are valued at replacement cost as of the date they are debited to the account of National Registry of Emission Quotas. The European Carbon market is used to obtain value for replacement cost.

As of the date of financial statements, the provision is recognized in account 323 Short-term provision for CO<sub>2</sub> emitted. The provision is calculated as a multiple of estimated volume of CO<sub>2</sub> emitted for calendar year and value (price) from European Carbon market. The provision is charged to account 548 Other operating costs. At the same date, emission quotas granted are released on accruals basis from account 384 Deferred income and credited to the account 648 Other operating revenues.

**(j) Current income tax**

Corporate income tax is expensed in the period when the tax liability arises. In the accompanying income statement, it is calculated on the basis of the profit/(loss) before taxes that has been adjusted for tax-deductible and tax non-deductible items due to permanent and temporary adjustments to the tax base, for tax relief, and any loss carried forward. The tax liability is stated net of corporate income tax advances that the Company paid during the year. If corporate income tax advances paid during the year exceed the tax liability for the period, the Company records a tax receivable.

**(k) Deferred income tax**

Deferred income taxes (deferred tax asset and deferred tax liability) relate to:

- temporary differences between the carrying value of assets and the carrying value of liabilities shown in the balance sheet and their tax base,
- the possibility to carry forward a tax loss in future periods, which means the possibility to deduct the tax loss from the tax base in the future, and
- the possibility to transfer unused tax deductions and other tax claims to future periods.

Deferred tax asset is recorded only up to the amount that is expected to reverse in future tax base.

Deferred tax is calculated using the tax rate that is expected to be valid at reversal of the timing difference.

**(l) Accrued expenses and deferred income**

Prepayments and accrued revenues are recognized in the amount necessary to comply with accrual principle.

**(m) Leases**

Assets acquired under financial lease contracts before 2004 and all operating lease contracts are expensed on a straight-line basis over the period of the lease. The Company has not acquired assets under financial lease since 2004.

**(n) Derivatives**

When acquired, financial derivatives are stated at the acquisition price and at their fair value at the balance sheet date.

Fair value changes of hedging derivatives are posted, without affecting income, directly to equity to account 414. On maturity, the gains and losses are posted to the income statement (accounts 567 – Costs of derivative transactions and 667 – Revenue from derivative transactions).

Fair value changes of financial derivatives designated for trading on a domestic or a foreign stock exchange or on another public market are posted to the income statement (to accounts 567 and 667).

Fair value changes of financial derivatives designated for trading on a non-public market are posted, without affecting income, directly to equity to account 414. On maturity, the gains and losses are posted to the income statement (to accounts 567 and 667).

**(o) Assets and liabilities hedged by financial derivatives**

Assets and liabilities hedged by financial derivatives are stated at their fair value. Changes in the fair values of assets and liabilities hedged by financial derivatives are posted, without affecting income, directly to equity to account 414.

**(p) Revenues**

Sales revenues are reduced by discounts and deductions (rebates, bonuses, discounts, credit notes, etc.). Sales revenues are recognised at the date of delivery of goods or provision of services.

**(q) Foreign currency transactions**

Assets and liabilities in foreign currency are converted to Slovak crowns using the foreign exchange rate of the National Bank of Slovakia at the transaction date and in the financial statements at the ruling exchange rate as of the date of financial statements. The resulting foreign exchange differences are posted to the profit and loss account. At the purchase or sale of a foreign currency the Company uses foreign exchange rate valid at purchase or sale of this currency.

**(r) Managing of credit and business risks**

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

**(s) Commodity price risk**

In the normal course of its business, the Company is exposed to market risk or price fluctuations related to the production or sale of steel products.

**(t) Foreign currency risk**

The Company is exposed to the risk of exchange rates fluctuations in relation to anticipated revenues, operating costs, commitments for capital expenditures and existing assets or liabilities denominated in foreign currencies.

**E. ASSETS**

**1. Non-current intangible and tangible assets**

The movement schedule of non-current intangible assets from December 31, 2004 to December 31, 2005 is (in SKK thousands):

Description	31.12.2004	Additions	Disposals	Transfers	31.12.2005
Software	497,677	-	(1,143)	46,977	543,511
Valuable rights	1,748	-	-	-	1,748
Other non-current intangible assets	14,704	-	(195)	5,203	19,712
Intangible assets in progress	55,534	72,947	(349)	(52,180)	75,952
Prepayments to non-current intangible assets	-	257	-	-	257
<b>Cost TOTAL</b>	<b>569,663</b>	<b>73,204</b>	<b>(1,687)</b>	<b>-</b>	<b>641,180</b>

Description	31.12.2004	Additions	Disposals	Transfers	31.12.2005
Software	(241,105)	(84,941)	1,143	-	(324,903)
Valuable rights	(880)	(208)	-	-	(1,088)
Other non-current intangible assets	(11,244)	(4,222)	195	-	(15,271)
Intangible assets in progress	-	-	-	-	-
Prepayments to non-current intangible assets	-	-	-	-	-
<b>Accumulated Amortization TOTAL</b>	<b>(253,229)</b>	<b>(89,371)</b>	<b>1,338</b>	<b>-</b>	<b>(341,262)</b>
Software	256,572				218,608
Valuable rights	868				660
Other non-current intangible assets	3,460				4,441
Intangible assets in progress	55,534				75,952
Prepayments to non-current intangible assets	-				257
<b>Net Book Value TOTAL</b>	<b>316,434</b>				<b>299,918</b>

Low-value intangible asset booked directly to costs represented the amount SKK 959 thousand at December 31, 2005 (at December 31, 2004: SKK 897 thousand).

The movement schedule of non-current tangible assets from December 31, 2004 to December 31, 2005 is (in SKK thousands):

Description	31.12.2004	Additions	Disposals	Transfers	31.12.2005
Land	3,422,169	-	(528)	7,371	3,429,012
Buildings	7,497,106	369	(14,017)	837,185	8,320,643
Movable tangible assets	14,631,115	9,671	(110,716)	6,326,449	20,856,519
Other non-current tangible assets	339,498	179	(83,028)	59,440	316,089
Tangible assets in progress	7,065,642	5,211,057	(11,090)	(7,230,445)	5,035,164
Prepayments to non-current tangible assets (net)	10,249	1,078,849	-	-	1,089,098
<b>Cost TOTAL</b>	<b>32,965,779</b>	<b>6,300,125</b>	<b>(219,379)</b>	<b>-</b>	<b>39,046,525</b>
Land	-	-	-	-	-
Buildings	(1,130,413)	(335,704)	14,016	-	(1,452,101)
Movable tangible assets	(4,604,952)	(1,681,805)	135,899	-	(6,150,858)
Other non-current tangible assets	(275,028)	(50,395)	83,025	-	(242,398)
Tangible assets in progress (Provisions)	(10,745)	(318,195)	71,138	-	(257,802)
Prepayments to non-current tangible assets	-	-	-	-	-
<b>Accumulated Depreciation / Provisions TOTAL</b>	<b>(6,021,138)</b>	<b>(2,386,099)</b>	<b>304,078</b>	<b>-</b>	<b>(8,103,159)</b>
Land	3,422,169				3,429,012
Buildings	6,366,693				6,868,542
Movable tangible assets	10,026,163				14,705,661
Other non-current tangible assets	64,470				73,691
Tangible assets in progress	7,054,897				4,777,362
Prepayments to non-current tangible assets	10,249				1,089,098
<b>Net Book Value TOTAL</b>	<b>26,944,641</b>				<b>30,943,366</b>

No non-current tangible assets were pledged in favour of a creditor as of December 31, 2005.

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

The Company does not record or use assets, the legal title to which has not yet been registered in the real estate cadastre.

Low-value tangible asset expensed represented the amount SKK 206,067 thousand at December 31, 2005 (December 31, 2004: SKK 177,044 thousand).

Expenditures incurred in the research and development costs centres which were recorded in the profit and loss account were SKK 110,887 thousand as of December 31, 2005 (December 31, 2004: 119,397 tis. Sk).

## 2. Non-current financial assets

The movement schedule of non-current financial assets from December 31, 2004 to December 31, 2005 is (in SKK thousands):

Description	31.12.2004	Additions	Disposals	Transfers	31.12.2005
Shares and ownership interests in controlled companies	645,531	18,467	(1,200)	-	662,798
Shares and ownership interests with substantial influence in companies	4,362	-	-	-	4,362
Other securities and ownership interests	4,769	-	-	-	4,769
Other long-term financial assets	854,880	2,990,440	-	-	3,845,320
<b>Cost TOTAL</b>	<b>1 509 542</b>	<b>3,008,907</b>	<b>(1,200)</b>	<b>-</b>	<b>4,517,249</b>
Shares and ownership interests in controlled companies	(68,683)	(470)	100	-	(69,053)
<b>Provisions TOTAL</b>	<b>(68,683)</b>	<b>(470)</b>	<b>100</b>	<b>-</b>	<b>(69,053)</b>
Shares and ownership interests in controlled companies	576,848				593,745
Shares and ownership interests with substantial influence in companies	4,362				4,362
Other securities and ownership interests	4,769				4,769
Other long-term financial assets	854,880				3,845,320
<b>Net Book Value TOTAL</b>	<b>1,440,859</b>				<b>4,448,196</b>

Preliminary equity values at December 31, 2005 and the 2005 profit/(loss) of the companies, together with comparative figures for the previous accounting period, are shown in the following table:

	Share on reg. capital	Curr.	Profit / (Loss)		Equity		Net Book Value in the Company books	
			%	2005	2004	2005	2004	2005
			'000 curr	'000 curr	'000 curr	'000 curr	'000 SKK	'000 SKK
<b>a) Subsidiaries</b>								
U.S. Steel Košice – Labortest, s.r.o.	99.97	SKK	8,377	3,047	118,589	96,212	86,857	72,857
Elektroservis VN a VVN, a.s. Košice	67.00	SKK	5,298	2,766	10,548	6,363	670	670
Energoservis, a.s. Košice	67.11	SKK	7,374	6,977	25,703	19,305	1,490	1,490
Internacional Trade Center, a.s. Košice	100.00	SKK	-	2,016	-	15,227	-	1,100
Vozmult, a.s. Košice	50.91	SKK	625	553	4,350	3,739	438	438
Vulkmont, a.s. Košice	80.50	SKK	12,232	10,379	45,918	34,185	2,525	2,505
U.S. Steel Košice – SBS s.r.o.	98.00	SKK	4,963	3,218	16,660	11,697	1,477	1,477
U.S. Steel Services, s.r.o., Košice	99.96	SKK	1,608	1,034	70,952	69,448	68,605	68,605
Obal Servis, a.s. Košice	100.00	SKK	28,856	22,098	120,043	73,530	33,430	29,000
Reliningserv, s.r.o., Košice	99.95	SKK	11,519	9,775	85,346	74,608	57,529	57,529
Refrako, s.r.o., Košice	99.98	SKK	35,223	31,154	306,332	271,308	191,503	191,503
U.S. Steel Košice-Feromarket a.s.	100.00	SKK	-	(27)	-	(716)	-	-
U.S. Steel Košice–Austria, GmbH, Austria	100.00	EUR	122	761	(29)	(151)	-	-
U.S. Steel Košice–France, S.A., France	99.94	EUR	51	167	275	375	9,076	9,076
U.S. Steel Košice–Germany, GmbH, Germany	100.00	EUR	380	1,201	2,478	2,478	104,786	104,786
U.S. Steel Košice–Bohemia a.s., Czech Republic	100.00	CZK	9,634	30,587	61,211	82,164	22,942	22,942
USSKS d.o.o. Beograd, Serbia	100.00	YUM	1,079	(45,357)	18,064	18,064	160	143
U.S. Steel Košice–Belgium, S.A. Belgium	51.00	EUR	(4)	(6)	(1,578)	(1,578)	-	-
U.S. Steel Košice–Hungary, Kft., Hungary	69.00	HUF	25,399	65,792	100,522	89,191	-	470
U.S. Steel Košice–Switzerland, AG v likvid., Switzerland	100.00	CHF	24	25	879	879	12,257	12,257
<b>Subtotal</b>							<b>593,745</b>	<b>576,848</b>
<b>b) Joint ventures</b>								
U.S. Steel Košice (UK), Ltd., Great Britain	50.00	GBP	971	2,768	920	3,687	4,362	4,362
<b>c) Other securities</b>								
Hutnictví železa	11.40	CZK	(1,057)	(473)	47,774	48,626	4,769	4,769

There was no pledge on Company's ownership interests in the companies due to banks or other lenders.

In 2005, the Company recognized full valuation allowance to U.S. Steel Košice – Hungary, Kft., Hungary totaling SKK 470 thousand. Full valuation allowance to U.S. Steel Košice–Austria, GmbH, Austria and U.S. Steel Košice–Belgium, S.A., Belgium did not change.

As of December 31, 2005, the Company recognized unrealized FX loss totaling SKK 24,776 thousand and unrealized FX gain totaling SKK 110,666 thousand.

In 2005, the Company increased its share into the registered capital of following companies:

Vulkmont	SKK 20 thousand	- issue of shares
U.S. Steel Košice–Labortest s.r.o.	SKK 14,000 thousand	- non-monetary contribution
Obal – Servis, a.s. Košice	SKK 3,330 thousand	- non-monetary contribution

Internacional Trade Center, a.s. Košice merged with Obal-Servis, a.s. Košice as of January 1, 2005.

U.S. Steel Košice – Feromarket a.s. dissolved as of November 26, 2005 in accordance with Corporate law.

The Company provided long-term loan to U.S. Steel Serbia B.V. as of June 23, 2003:

Loan	Interest			Balance as of		Balance as of	
	Curr.	p.a. %	Due date	'000 USD	'000 SKK	'000 USD	'000 SKK
Loan	USD	7.2315	June 30, 2010	120,362	3,845,320	30,000	854,880
<b>TOTAL</b>				<b>120,362</b>	<b>3,845,320</b>	<b>30,000</b>	<b>854,880</b>

### 3. Inventories

Movements in the provision for inventories during the accounting period is shown in the following table (in SKK thousands):

	Balance as of December 31, 2004	Addition	Release	Balance as of December 31, 2005
Material	59,507	43,469	(38,280)	64,696
Work in progress	25,332	45,100	(53,217)	17,215
Finished goods	658	10,576	(9,954)	1,280
Goods	619	-	-	619
<b>TOTAL</b>	<b>86,116</b>	<b>99,145</b>	<b>(101,451)</b>	<b>83,810</b>

A provision was set up to reflect the diminution in value of inventories. The value of inventories was impaired mainly as a result of its ageing and slow turnover.

No inventories of the Company are pledged in favour of a bank.

Inventories are insured by Česká poisťovňa Slovensko, a.s. The insurance covers damage caused by theft, disaster (and other causes). The insurance compensation for one insurance claim will not exceed USD 500 million (2004: USD 500 million).

#### 4. Receivables

Aged trade receivables are in the following table (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Trade receivables within due date	13,782,099	12,052,322
Overdue trade receivables	2,595,281	2,821,585
<b>TOTAL</b>	<b>16,377,380</b>	<b>14,873,907</b>

As of December 31, 2005, short-term receivables include receivable from shareholder totaling SKK 8,625,960 thousand, which provided for the 1 year period at 4.7% p.a. interest rate. Receivable from shareholder as of December 31, 2004 of SKK 3,818,464 thousand was paid fully in June 2005.

Bad debt allowance was recognized to the receivables where the risk of uncollectability exists. The movement in the bad debt allowance during the accounting period is in the following table (in SKK thousands):

	Balance as of December 31, 2004	Addition	Release	Balance as of December 31, 2005
Trade Receivables	1,435,126	377,024	(417,597)	1,394,553
Other receivables	767	1,583	(787)	1,563
<b>Total</b>	<b>1,435,893</b>	<b>378,607</b>	<b>(418,384)</b>	<b>1,396,116</b>

Receivables are not pledged except for lien against the following customers:

Companies	Pledged Asset	Value of the lien
FESTAP, Slovakia	Building	SKK 20,000 thousand
TMS MONTYS, Slovakia	Building	SKK 10,800 thousand
KODA, Slovakia	Building	SKK 4,500 thousand
Letisko – Košice, Slovakia	Land, hangar	SKK 10,000 thousand
GLAZBUD, S.A., Poland	Production halls, land	EUR 2,200 thousand
GLAZBUD ZHP, Poland	Buildings, land shares	EUR 829 thousand
FERRUM, Poland	Immovables	EUR 2,000 thousand

The Company signed a conditional debt assignment agreements with Ferona Slovakia, Dacia Romania a Raven Slovakia to CitiBank Slovakia and CitiBank Romania respectively, in case of no instalments from the debtors.

No receivables of the Company are pledged in favour of a bank or other entities.

#### 5. Deferred tax asset

Deferred tax asset includes the following temporary differences (in SKK thousands):

	As of December 31, 2005 Temporary difference	As of December 31, 2005 Deferred tax	As of December 31, 2004 Temporary difference	As of December 31, 2004 Deferred tax
Depreciation of fixed assets	4,619,032	438,808	5,716,995	669,720
Provision for fixed assets	268,983	25,553	73,944	7,025
Provision for inventory	79,662	7,568	83,774	7,959
Provision for receivables	173,452	16,478	391,583	37,200
Accruals	700,656	97,823	799,713	121,621
Unrealised FX differences and derivatives	(58,938)	(5,599)	8,638,476	841,341
Other	(860)	(82)	(45)	(2)
<b>TOTAL</b>	<b>5,781,987</b>	<b>580,550</b>	<b>15,704,440</b>	<b>1,684,864</b>

The change in deferred tax asset is shown in the following table (in SKK thousands):

Balance as of December 31, 2004	1,684,864
Balance as of December 31, 2005	580,550
<b>Change</b>	<b>1,104,314</b>
Of which:	
- recorded to income statement	1,088,372
- recorded to equity accounts	15,942

Tax rates of 19% and 9.5% respectively were applied to all temporary differences depending on the expected utilisation of the tax credit (December 31, 2004: 19% and 9,5% ).

Based on the income tax legislation a tax credit of USD 430 million is available to the Company (Note K.1c).

The Company has not recognized a deferred tax asset on the remaining tax credit available since there are certain tax credit qualifying conditions in place which have to be met in future years during the tax credit period and there is an uncertainty that these conditions necessary to ultimately sustain the tax credit will be fulfilled.

## 6. Financial accounts

Cash in hand, bank accounts, and securities are shown on financial accounts. Bank accounts are fully available for the Company's use taking into account due dates of term deposits and restricted cash related to future liquidation of landfill.

## 7. Short-term financial assets

The Company recognized emission quotas granted for year 2005 in amount of SKK 7,613,351 thousand as Short-term financial assets. Emission quotas are valued at replacement cost (Note D.i and K.1b).

## 8. Prepayments

Individual accrued and deferred items are presented in the table shown below (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Prepaid expenses:		
- rent	1,581	1,927
- software products	12,202	7,825
- insurance	20,286	24,183
- water freight charges	11,273	13,885
- transport	6,399	13,563
- meal tickets	33	16,864
- other	12,680	2,417
<b>TOTAL</b>	<b>64,454</b>	<b>80,664</b>

## F. EQUITY AND LIABILITIES

### 1. Equity

Movements in equity during the accounting period are shown in the following table (in SKK thousands):

	Balance as of December 31, 2004	2004 Profit distribution	Valuation differences	Dividends	2005 Profit	Balance as of December 31, 2005
Share capital	25,286,458	-	-	-	-	25,286,458
Other capital funds	1,796	-	-	-	-	1,796
Revaluation reserve	(14,018)	-	152,489	-	-	138,471
Legal reserve fund	904,087	643,449	-	-	-	1,547,536
Retained earnings	15,149,543	12,225,536	-	(17,433,900)	-	9,941,179
Profit/(loss) for the current accounting period	12,868,985	(12,868,985)	-	-	15,691,436	15,691,436
<b>TOTAL</b>	<b>54,196,851</b>	<b>-</b>	<b>152,489</b>	<b>(17,433,900)</b>	<b>15,691,436</b>	<b>52,606,876</b>

The Company recognizes a receivable for registered share capital in the amount of SKK 1,870 thousand as of December 31, 2005 (December 31, 2004: SKK 2,239 thousand). The Company does not have share capital not registered in Commercial Register as of December 31, 2005.

Dividends totaling SKK 17,336,171 thousand were paid in June, August and December 2005. Unpaid dividends as of December 31, 2005 totaled SKK 149,960 thousand (December 31, 2004: SKK 52 231 thousand).

Overview of profits and losses that have been posted directly to equity accounts (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Revaluation reserve for assets and liabilities:		
- Change in the fair value of forwards (Note K.2)	46,526	21,894
- Change in the fair value of embedded derivatives (Note K.2)	12,412	(130,772)
- Deferred tax receivables re the derivatives	(5,599)	10,343
Revaluation reserve for equity investments	85,132	84,517
<b>TOTAL</b>	<b>138,471</b>	<b>(14,018)</b>

Revaluation reserve for equity investments represents fixed assets contribution to share capital of subsidiaries.

The 2004 profit of SKK 12,868,985 thousand was distributed as follows (in SKK thousand):

Contribution to legal reserve fund	12,225,536
Transfer to retained earnings	643,449
<b>TOTAL</b>	<b>12,868,985</b>

## 2. Provisions

An overview of provisions is presented in the table below (in SKK thousands):

	Balance as of December 31, 2004	Addition	Release	Balance as of December 31, 2005
<b>Legal provisions</b>	<b>164,651</b>	<b>54,002</b>	<b>-</b>	<b>218,653</b>
Long-term provisions				
Provision for litigation	452,663	14,536	(8,263)	458,936
Foreign exchange difference of provision for litigation	(128,093)	38,317	-	(89,776)
Pension liability	373,688	36,048	(66,608)	343,128
Life and working jubilees	21,569	780	(2,113)	20,236
Provision to depreciation	146,995	120,760	(267,755)	-
<b>Long-term provisions TOTAL</b>	<b>866,822</b>	<b>210,441</b>	<b>(344,739)</b>	<b>732,524</b>
Short-term provisions				
Uninvoiced deliveries – supplies	87	-743	-	-656
Uninvoiced deliveries – services	267,754	214,837	(250,873)	231,718
Provision for environmental fees	176,249	228,760	(176,248)	228,761
Transport provision	330,662	178,074	(319,389)	189,347
Trade commission provision	54,940	191,925	(156,771)	90,094
Claims provision	18,121	40,106	(39,788)	18,439
Salaries	104,141	91,192	(104,141)	91,192
CO <sub>2</sub> emissions	-	7,328,923	-	7,328,923
<b>Short-term provisions TOTAL</b>	<b>951,954</b>	<b>8,273,074</b>	<b>(1,047,210)</b>	<b>8,177,818</b>
<b>Provisions TOTAL</b>	<b>1,983,427</b>	<b>8,537,517</b>	<b>(1,391,949)</b>	<b>9,128,995</b>

### Legal provisions

Since July 1, 2002 the Company as operator of two landfills (landfill of non-hazardous and hazardous waste) created a provision for closing, reclamation and after-close monitoring of landfills based on the Act on Waste no. 223/2001 as amended. According to the existing technical solution of landfill safety, the state authorities approved the use of landfills until December 31, 2008.

### Pension

USSK recognizes employee retirement and anniversary obligations resulting from Labour Collective Agreement and Labour Code. The liability was calculated by an in-house actuary and initially recognized as of January 1, 2003. In 2005, retirement obligation is calculated using discount rate 5.50% (2004: 5.75%) and annual wage increase rate of 5.00 % (2004: 5.00%).

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

- if an employee retires in the month in which he/she acquires the entitlement to an old age pension, in the amount of his average monthly earnings + the amount of up to SKK 50 thousand based on the years of employment
- in the other cases in the amount of his/her average monthly earnings.

Provision for life and work jubilees is created based on Labour Collective Agreement and Labour Code and is calculated using the same method as the pension provision.

### Provision for CO<sub>2</sub> emissions

As of the date of financial statements, the provision is recognized in the account 323 Short-term provision for CO<sub>2</sub> emitted. The provision is calculated as a multiple of estimated volume of CO<sub>2</sub> emitted for calendar year and value from European Carbon market. The provision is charged to the account 548 Other operating costs (Note D.i and E.7).

## 3. Liabilities

The structure of liabilities (except for bank loans) by the remaining period to maturity is in the following table (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Trade payables due within one year	5,832,736	5,778,739
Overdue trade payables	649,168	369,734
Other short-term liabilities	4,672,382	7,651,520
<b>Short-term liabilities TOTAL</b>	<b>11,154,286</b>	<b>13,799,993</b>
Liabilities due between 1 and 5 years (Note F.4)	45,751	29,260
Liabilities overdue 5 years	-	-
<b>Long-term liabilities TOTAL</b>	<b>45,751</b>	<b>29,260</b>

Other short-term liabilities included a loan from U.S. Steel Serbia BV 4 of SKK 3,818,464 thousand (Note F.5).

No liabilities are secured by a lien.

## 4. Social fund

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

	2005	2004
Opening balance on January 1	29,260	15,441
Company contribution (company costs)	52,545	48,933
Employees contribution (repayments)	18,625	11,770
Withdrawals	(54,679)	(46,884)
<b>Closing balance on December 31</b>	<b>45,751</b>	<b>29,260</b>

The social fund is used for social, medical, relaxing and similar employees' needs in accordance with social fund law.

## 5. Bank loans

An overview of bank loans is presented in the table below:

Loan type	Curr.	Interest p.a. %	Due date	Balance as of December 31, 2005		Balance as of December 31, 2004	
				'000 EUR	'000 SKK	'000 EUR	'000 SKK
Syndicated loan (ING)	EUR	2.613	December 15, 2006	195,000	7,380,360	-	-
<b>Short-term loans TOTAL</b>				<b>195,000</b>	<b>7,380,360</b>	<b>-</b>	<b>-</b>

In December 2005, the Company received short-term syndicated loan totaling EUR 195 million from ING Bank N.V., London for the period ending December 15, 2006 at interest rate EURIBOR + 0.2% p.a.

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

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

Interest expenses were (in SKK thousand):

	2005	2004
Loans	80,294	653,969
Other interest expense	111	43,051
<b>TOTAL</b>	<b>80,405</b>	<b>697,020</b>

There are no collaterals to the bank loans.

During 2005, U.S. Steel Košice, s.r.o. early repaid the loan of USD 134 million from U.S. Steel Serbia B.V. IV.

## 6. Accruals and deferred income

The structure of accruals and deferred income is in the following table (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Deferred income:		
- Rent	1,130	2,174
- Other	4	8
- Emission quotas (Note D.i and E.7)	284,428	-
<b>TOTAL</b>	<b>285,562</b>	<b>2,182</b>

## G. REVENUES

### 1. Sales revenues

Sales revenues by individual segments, i.e. by product types and services, and by main territories are presented in the table below (in SKK thousands):

	Segment 1		Segment 2		Services and goods		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004
Slovak Republic	5,666,136	6,367,182	4,973,543	5,310,952	394,670	436,257	11,034,349	12,114,391
Foreign countries	38,666,678	29,891,726	30,681,591	30,428,669	10,916,702	8,776,410	80,264,971	69,096,805
<b>TOTAL</b>	<b>44,332,814</b>	<b>36,258,908</b>	<b>35,655,134</b>	<b>35,739,621</b>	<b>11,311,372</b>	<b>9,212,667</b>	<b>91,299,320</b>	<b>81,211,196</b>

Segment 1 represents cold rolled steel products, segment 2 represents other products.

### 2. Changes in production inventory

Changes in production inventory shown in the income statement represent an increase of SKK 730,854 thousand. Based on balance sheet items, they represent an increase of SKK 735,231 thousand, as presented in the table below (in SKK thousands):

	Dec 31, 2005	Balance as of Dec 31, 2004	Dec 31, 2003	Change	
				2005	2004
Work-in-progress and semi-finished products	2,389,954	2,204,818	1,350,540	185,136	854,278
Finished goods	2,006,895	1,456,800	1,128,378	550,095	328,422
<b>TOTAL</b>	<b>4,396,849</b>	<b>3,661,618</b>	<b>2,478,918</b>	<b>735,231</b>	<b>1,182,700</b>
Creation of the provision				55,676	36,391
Release of the provision				(63,171)	(29,157)
Shortages and damages				2,004	869
Gifts				1,038	537
Other				76	281
<b>Change in Income Statement</b>				<b>730,854</b>	<b>1,191,621</b>

### 3. Capitalisation

An overview of capitalised costs is in the following table (in SKK thousands):

	2005	2004
Self constructed long-term tangible assets	62,948	147,168
Acquired inventories by own services	437,629	414,493
Other capitalization	1,026,621	620,506
<b>TOTAL</b>	<b>1,527,198</b>	<b>1,182,167</b>

### 4. Other income from operating activities

An overview of other significant income from operating activities is in the table below (in SKK thousands):

	2005	2004
Sale of inventory	342,487	334,042
Sale of fixed assets	26,215	6,179
<b>TOTAL</b>	<b>368,702</b>	<b>340,221</b>
Contractual fines and penalties	30,734	2,166
Income from receivables assigned and written-off	27,350	608,166
Emission quotas (Note D.i)	7,328,923	-
Other operating income	135,659	147,458
<b>TOTAL</b>	<b>7,522,666</b>	<b>757,790</b>

## 5. Financial income

An overview of financial income is in the following table (in SKK thousands):

	2005	2004
Interests from banks	70,706	33,133
Interest from loans within Group (Note M)	14,170	-
Interest from loans to related parties (Note M)	135,714	147,495
Realized foreign exchange gains	3,702,322	1,824,662
Unrealized foreign exchange gains	280,564	512,804
Received dividends (Note M)	107,271	125,103
Revenues from derivative transactions	151,431	108,361
Other financial revenues	799	962
Release of provisions	7,792	12,784
Release of valuation allowances to financial investments	100	55,822
<b>TOTAL</b>	<b>4,470,869</b>	<b>2,821,126</b>

## H. EXPENSES

### 1. Services

An overview of cost of services provided is in the table below (in SKK thousands):

	2005	2004
Repairs and maintenance	1,574,406	1,355,275
Travel and representation	166,180	141,941
Purchase of licenses	6,636	29,877
Transport	3,882,158	3,977,795
Leasing	1,125	2,983
Rent	93,189	103,072
Advisory services	765,622	629,921
Advertising expenses	52,429	52,744
Subcontracted services – cooperation	174,357	289,612
Intermediary services and commissions	285,808	202,012
Other	2,696,283	2,449,308
<b>TOTAL</b>	<b>9,698,193</b>	<b>9,234,540</b>

### 2. Other expenses from operating activities

An overview of other significant costs from operating activities is in the following table (in SKK thousands):

	2005	2004
Net book value of sold fixed assets	5,175	4,890
Sale of inventory	307,111	327,139
<b>TOTAL</b>	<b>312,286</b>	<b>332,029</b>
Shortages and damages	3,583	30,572
Receivables assigned and written-off (Note E.4)	73,843	734,245
Provision to CO <sub>2</sub> emissions (Note F.2)	7,328,923	-
Other	370,073	400,776
<b>TOTAL</b>	<b>7,776,422</b>	<b>1,165,593</b>

### 3. Financial expenses

An overview of financing costs is in the following table (in SKK thousands):

	2005	2004
Interest expenses (Note F.5)	80,405	697,020
Realized foreign exchange losses	2,466,446	1,797,880
Unrealized foreign exchange losses	259,342	2,134,157
Costs of derivatives	36,925	82,113
Other financial expenses	183,282	179,864
Creation of provisions for financing transactions	-	7,792
Provision for long-term financial assets	470	-
<b>TOTAL</b>	<b>3,026,870</b>	<b>4,898,826</b>

### I. INCOME TAXES

The reconciliation between tax charge and profit before tax (in SKK thousands):

	2005	2004
<b>Profit before tax for year</b>	<b>17,504,773</b>	<b>13,309,079</b>
Tax rate	19%	19%
<b>Expected tax charge</b>	<b>3,325,907</b>	<b>2,528,725</b>
Tax credit **	(731,274)	(4,112,413)
Tax payable in respect of EU agreement *	-	1,057,893
Permanent differences @ 19%	53,003	113,167
Effect of different tax rates and tax credit on temporary differences	(815,555)	852,722
<b>Total</b>	<b>1,813,337</b>	<b>440,094</b>
Current tax charge	731,274	5,717
Tax related to prior periods	(6,310)	243
Deferred tax credit	1,088,373	(618,042)
Tax payable in respect of EU agreement	-	1,052,176
<b>Total</b>	<b>1,813,337</b>	<b>440,094</b>

\* On March 19, 2004 an agreement was reached resolving a dispute regarding the effective date of limitations upon the production of flat-rolled products at U. S. Steel Košice, s.r.o. The agreement calls for the maximum tax credit, which is available to U. S. Steel Košice through to 2009, to be reduced by \$70 million to \$430 million from the \$500 million limit provided for in the Accession Treaty. In addition, U. S. Steel Košice agreed to a tax payment of \$16 million to the Slovak government in 2004 and the payment of an additional \$16 million tax in 2005. (The full USD 32 million was charged to the income statement in 2004). Under the terms of the settlement, U. S. Steel Košice agreed that the Treaty's production limitation provisions, which are based upon U. S. Steel Košice's 2001 flat-rolled product production and provide for annual increase of 3%, will be honored by the Company from January 1, 2004 through to the end of 2009 to coincide with the effective period of the foreign investor's tax credit (Note K.1c).

** Summary calculation of the tax credit (in SKK thousand)	2005	2004
<b>Accounting profit before tax</b>	<b>17,504,773</b>	<b>13,309,079</b>
Non-taxable items	(8,810,041)	6,758,190
Difference between tax and accounting depreciation charge	(997,111)	1,577,010
<b>Tax base</b>	<b>7,697,621</b>	<b>21,644,279</b>
Tax rate	19%	19%
<b>Income tax from ordinary activities</b>	<b>1,462,548</b>	<b>4,112,413</b>
<b>Tax charge</b>	<b>1,462,548</b>	<b>4,112,413</b>
Deductions	(731,274)	-
<b>Tax relief according to § 35 of the Act no. 366/199.</b>	<b>731,274</b>	<b>4,112,413</b>

## J. OFF-BALANCE SHEET ACCOUNTS

### 1. Property leased from other parties

The Company leases the following property under operating leasing arrangements:

Description	Contract valid to:	Rent to pay until contract expiration in '000 SKK
<b>Non tangible fixed asset</b>		
Software	2006	17,646
<b>Tangible fixed asset</b>		
Non residential premises	2006	15,320
Information systems	2009	29,222
Office equipment	2007	32,954
CO <sub>2</sub> application technology	2015	5,130
Other	2006	1,636
Land	indefinite	3,592
Vehicles	2008	116,842
<b>TOTAL</b>		<b>222,342</b>

### 2. Property leased to other parties

Description	Contract valid to:	Acquisition cost of leased property in '000 SKK
Buildings and constructions	indefinite	109,632
Other tangible assets	indefinite	35,430
Land	indefinite	74,027
Rent of non residential premises	indefinite	48,199
<b>TOTAL</b>		<b>267,288</b>

## K. OTHER ASSETS AND LIABILITIES

### 1. Contingent liabilities

#### a) Legal claims

The Company is party to a number of legal proceedings in both Slovakian and foreign jurisdictions, most of which arose prior to the acquisition date. These proceedings are at different stages and some may proceed for undeterminable periods of time. Management has made its best estimate of the probabilities and the contingent loss amounts associated with such matters and has recorded provision.

#### b) Environment

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

The Company is also committed to incur capital expenditures into production equipment so that they fulfill the requirements of valid environmental legislation.

### **Air, water and solid waste pollution**

The Company's obligations with regards to air, water and solid waste pollution are set by the Slovak legislation. In 2005, the environmental expenses totaled approximately SKK 342,143 thousand (2004: SKK 232,162 thousand). There are no legal proceedings pending against the Company involving environmental matters.

### **Emissions**

In April 2004, USSK submitted a request to the Slovak government to obtain quotas of carbon dioxide (CO<sub>2</sub>) emissions for U. S. Steel's plant in Košice. This request related to requirements imposed by the European Commission (EC), which is allocating CO<sub>2</sub> emission limits for member countries and that is responsible for implementation of Global agreement of UN on climate changes as stated in the Kyoto agreement. The process resulted in creation of European emission trading scheme for CO<sub>2</sub>.

Slovakia was required to submit to the EC for approval a national allocation plan (NAP) specifying its total CO<sub>2</sub> allowances in tons of emissions for the period 2005 to 2007. Slovakia submitted its proposed NAP to the EC in June 2004. Slovakia and the EC have agreed on a NAP that reduces Slovakia's original proposed CO<sub>2</sub> allocation by approximately 14 percent and the EC approved the NAP as reduced in October 20, 2004.

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

In February 2005, the government allocated emission quotas to individual entities. The Company received CO<sub>2</sub> emission quotas totaling 28.6 million tons for the period from 2005 to 2007. The Company did not exceed the 2005 volume of CO<sub>2</sub> emission quotas received. The Company did not record as of December 31, 2005 a provision for an expected gap in 2006 and 2007 in accordance with applicable accounting legislation.

### **Asbestos**

The Company undertakes a long term process of asbestos removal. The project of approximately SKK 231 million is expected to be completed by 2010 with annual expenditures of SKK 33 million. The annual budgeted costs are presented to the municipal health authorities. The current legislation permits usage of asbestos in existing facilities until the time of disposal and requires asbestos removal from new products since 2005. The penalties, if any, for not meeting such a deadline are not material. The Company makes a decision, whether the cost should be capitalized or expensed at the time of occurrence. There was no amount capitalized in 2005. No provision was recorded by the Company for asbestos removal as there is no obligation for such removal in current valid legislation.

### **c) Tax liabilities**

In accordance with the paragraph 35 of the Act no. 366/99 on Income Tax as amended tax relief can be provided to taxpayers in case the exactly stated conditions are fulfilled.

U.S. Steel Košice, fulfilled following conditions for utilisation of tax credit for the year 2004:

- the paid amount of registered capital of foreign company reached SKK 25,286,458 thousand
- the Company's export exceeded the limit of 60%
- the condition of reinvesting the tax credits claimed in qualifying capital expenditures has to be fulfilled during the five years since the end of the year, in which the Company claimed the tax credit for the first time.

The provisions of the Slovak Income Tax Act permit the Company to claim a tax credit of 100% of tax liability for years 2000 through 2004 and 50% for the years 2005 through 2009.

Total tax credit claimed from 2000 is SKK 11,817,434 thousand, capital expenditures from 2001 totaled SKK 15,868,016 thousand.

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

#### **d) Other commitments**

The Company has commitments for ordered but not delivered and not invoiced capital expenditure totaling SKK 708,376 thousand as of December 31, 2005 (December 31, 2004: SKK 344,268 thousand).

The Company has a commitment to the Slovak government for a capital improvements program of USD 700 million, subject to certain conditions, over a period commencing with the acquisition date of November 24, 2000, and ending on December 31, 2010. The remaining commitments under this capital improvements program as of December 31, 2005 and 2004, were USD 52.6 million and USD 263 million, respectively.

As part of the acquisition of the Company by United States Steel, the Company is committed to purchasing certain services from Slovenský investičný holding (former VSZ) in the future. These transactions are conducted under terms comparable with unrelated parties or at cost plus an agreed mark-up where comparable prices are not available. The Company was also obliged to sell to Slovenský investičný holding steel products under terms and price formulas agreed to prior to the acquisition date until October 2005. In 2005, the Company sold products and services of SKK 41,874 thousand to the Slovenský investičný holding (2004: SKK 84,380 thousand) and purchased services in amount of SKK 40,660 thousand (2004: SKK 113,341 thousand).

## **2. Other financial receivables / liabilities**

### **Forwards**

In the off-balance sheet, the Company records open derivative contracts – currency forwards in the nominal value of SKK 2,767,183 thousand as of December 31, 2005 (December 31, 2004: SKK 1,797,102 thousand). These contracts mature during 2006. These contracts represent the exchange of EUR 52,000 thousand for SKK 2,012,672 thousand and the exchange of EUR 19,500 thousand for USD 23,285 thousand. Changes of the derivatives at the balance sheet date were posted to the Company's equity which increased by SKK 46,526 thousand.

### **Embedded derivatives**

The Company concluded some sales and purchase contracts that are denominated in foreign currencies (other than US dollar or local currencies) and thus include embedded derivatives. The change in fair value of embedded derivatives totaled SKK 12,412 thousand as of December 31, 2005 (December 31, 2004: SKK 130,772 thousand).

## **L. INFORMATION ON MEMBERS OF STATUTORY AND OTHER BODIES OF THE COMPANY**

Foreign members of the Company's management and Executives are employed by USS International Services, LLC. U. S. Steel Košice, s.r.o. refunds employment related costs to this company. Other services (Income statement, line 10) include charges paid to USS International Services, 600 Grant Street, Pittsburgh, the USA totaling SKK 401,139 thousand (2004: SKK 312,608 thousand).

## **M. ECONOMIC RELATIONS BETWEEN THE ACCOUNTING ENTITY AND RELATED PARTIES**

In 2005, the Company carried out transactions with the following related parties:

US Steel Global Holdings I B.V.  
USS International Services, LLC  
UNITED STATES STEEL LLC  
US Steel Serbia BV IV  
US Steel Serbia d.o.o.  
Granite City, the USA  
Fairfield, the USA  
Great Lakes, the USA  
U.S. Steel Košice – Labortest, s.r.o.  
Elektroservis VN a VVN, a.s. Košice

Energoservis, a.s. Košice  
 Vozmult, a.s. Košice  
 Vulkmont, a.s. Košice  
 U.S. Steel Košice – SBS s.r.o. Košice  
 U.S. Steel Services, s.r.o. Košice  
 Reliningserv, s.r.o. Košice  
 Refrako, s.r.o. Košice  
 U.S. Steel Feromarket, a.s. Prievizda  
 U.S. Steel Košice – Austria, GmbH. Austria  
 U.S. Steel Košice – France, S.A. France  
 U.S. Steel Košice – Germany, GmbH, Germany  
 U.S. Steel Košice – Bohemia a.s., Czech Republic  
 USS KS d.o.o. Beograd, Serbia  
 U.S. Steel Košice –Belgium, S.A. Belgium  
 U.S. Steel Košice – Hungary, Kft., Hungary  
 U.S. Steel Košice – Switzerland, AG in liquidation, Switzerland  
 U.S. Steel Košice (UK), Ltd. Essex, Great Britain

Transactions with related parties are in the following table (in SKK thousands):

	2005	2004
Sales	15,995,293	23,543,567
Interest revenue (Note G.5)	149,884	147,495
<b>TOTAL</b>	<b>16,145,177</b>	<b>23,691,062</b>
Purchases	5,086,288	2,995,987
<b>TOTAL</b>	<b>5,086,288</b>	<b>2,995,987</b>

Selected assets and liabilities resulting from transactions with related parties are in the following table (in SKK thousands):

	As of December 31, 2005	As of December 31, 2004
Trade receivables	3,590,854	2,890,744
Other receivables	236	6,598
Loans granted (Note E.2 and E.4)	12,471,280	12,253,280
<b>Assets TOTAL</b>	<b>16,062,370</b>	<b>15,150,622</b>
Trade payables	653,185	503,446
Other payables within Group (Note F.1)	149,960	52,231
Loans received	-	3,818,464
<b>Liabilities TOTAL</b>	<b>803,145</b>	<b>4,374,141</b>

In 2005, the Company has received the dividends from subsidiaries and joint ventures in the amount of SKK 107,323 thousand (2004: SKK 125,104 thousand) (Note G.5).

Transactions between related parties have been carried out on an arm's length basis.

## N. POST-BALANCE SHEET EVENTS

U.S. Steel Košice – Hungary entered into liquidation process effective January 1, 2006. U.S. Steel Košice acquired 100% share in U.S. Steel Košice–Belgium, S.A. in May 2006.

The Company applies International Financial Reporting Standards as adopted by the EU effective January 1, 2006.

The functional currency is EUR effective January 1, 2006.

By the date of financial statements preparation, the Company has repaid EUR 90 million of the syndicated loan from ING (Note F.5). The Company has also provided USD 30 million to U.S. Steel Serbia B.V. as part of the long term loan agreement (Note E.2).

The financial statements were originally prepared and approved by the Company's management on 21 April 2006. The auditor issued unmodified opinion thereon on 21 April 2006. Subsequently, before approval of the financial statements by the general assembly, the Company decided to open the accounting books as described in Note D.(a) to these financial statements.

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

#### O. CASH FLOW STATEMENT AT DECEMBER 31, 2005

The Company has prepared the cash flow statement using the indirect method (in SKK thousands). Certain comparatives of 2004 have been amended or reclassified to be consistent with current year presentation:

	2005	2004
<b>Cash-flow from operating activities</b>		
<b>Net profit from ordinary activities before tax</b>	<b>17,504,767</b>	<b>13,309,074</b>
Non-cash adjustments	-	-
Depreciation of tangible and intangible fixed asset	2,050,141	1,694,919
Gifts	11,641	-
Receivables write-off	73,843	127,338
Inventories write-off	2,707	24,959
Fixed asset write-off	25,807	17,269
Change in other provisions	(183,357)	250,528
Change in provisions for fixed asset	282,407	(74,001)
Dividends revenue	(107,271)	(125,103)
Interest expenses	80,405	697,020
Interest revenues	(220,590)	(180,628)
Profit from sale of fixed assets	(21,040)	(1,289)
Income tax paid	(762,484)	(531,446)
Other non-cash items	21,257	4,685
<b>Net cash-flow from operating activities before change in working capital</b>	<b>18,758,233</b>	<b>15,213,325</b>
<b>Change in working capital:</b>		
Change in receivables	(1,344,818)	730,406
Change in inventory	(570,115)	(3,436,937)
Change in liabilities	1,038,968	1,896,274
<b>Net cash-flow from operating activities</b>	<b>17,882,268</b>	<b>14,403,068</b>
<b>Cash-flow from investment activities</b>		
Acquisition of fixed assets	(6,148,398)	(5,588,891)
Fixed assets sold	26,216	6,179
Dividends received	107,271	125,103
Dividends paid (F.1)	(17,336,171)	-
<b>Net cash-flow from investment activities</b>	<b>(23,351,082)</b>	<b>(5,457,609)</b>

	2005	2004
<b>Cash-flow from financing activities</b>		
Interest paid	(108,603)	(1,103,010)
Interest received	84,876	172,080
Increase in registered capital of the Company	-	99,805
Loans payments received from the member – net (Note E.4)	2,786,019	1,206,225
Loans payments paid to the member (Note F.3)	(3,818,464)	(9,247,795)
Loans provided to the related party (Note E.2)	(2,989,742)	(854,880)
Loan received – bank loan in 2005 (Note F.5)	7,366,781	3,818,464
<b>Net cash-flow from financing activities</b>	<b>3,320,867</b>	<b>(5,909,111)</b>
Foreign exchange differences from bank accounts	(21,119)	(4,438)
<b>Net cash-flow</b>	<b>(2,169,066)</b>	<b>3,031,910</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>3,840,549</b>	<b>808,639</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,671,483</b>	<b>3,840,549</b>

Košice, 13 June 2006

David Harman Lohr

James Francis Connor