J. S. Steel Group

U. S. Steel Group

PLAINTIFF'S EXHIBIT

USX-1207

The 1998 U. S. Steel Group Annual Report

USX

U. S. Steel Group, a Unit of USX Corporation of 1998. At our Minnesota Ore Operations one of five agglomerators was idled to limit inventories of iron ore. Operations at many of our joint ventures were also curtailed in 1998.

U. S. Steel's plants produced 11.2 million tons of raw steel, or 88 percent of raw steel capability in 1998, compared to 12.4 million tons of raw steel, or 97 percent of capability in 1997.

As part of a company-wide cost-cutting effort, voluntary early retirement was offered to approximately 550 management and non-union salaried employees. Most of the approximately 400 employees who accepted the offer will retire at the end of March 1999 and will not be replaced. To cover the cost of the program, a $10 million pretax charge was taken against fourth quarter earnings.

We continue to invest in facilities. The new heat-treating facility at our plate mill at Gary Works started production in the first quarter of 1998. It gives us the ability to heat-treat over 70 thousand tons of plate annually and allows us to compete in the market for high value-added plate products. Also, the galvanizing line at Fairless, which supports the automotive market, was upgraded and resumed operations in early 1999.

In response to market conditions, U. S. Steel will reduce capital spending in 1999 and focus spending on projects which will reduce costs, improve quality or expand our access to higher value-added markets.

A new 64-inch pickle line and the cold reduction mill upgrade at Mon Valley will lower production costs while improving quality. The cold reduction mill upgrade is expected to increase production from 1,600 tons to 2,000 tons per turn.

New coilers are being installed on the 84-inch hot strip mill at Gary Works, which holds the world-record for hot band production. These coilers will not only improve overall coiling quality, but will allow U. S. Steel to participate in the higher value-added, heavy gauge, high strength pipe and tubular converter market.

Fairfield has two capital projects underway – modernization of the pipe mill and installation of an acrylic coating facility. The pipe mill modernization will convert round instead of square blooms into tubular products and will result in improved product quality and productivity. The acrylume coating facility will enhance our position as a supplier to the metal building industry.

In Troy, Michigan, near Detroit, we are constructing an automotive center that will house our commercial and technical groups. The center will do advanced product application work and will allow us to improve our already close working relationship with key automotive customers in both the domestic and transplant markets. The new center will open in the second quarter.

In 1998, joint ventures continued to play an important role in our growth strategy. The new hot dipped galvanize line at our PRO-TEC joint venture in Leipsic, Ohio, started up in the fourth quarter. The new line adds 400 thousand tons of galvanizing capacity, bringing total plant capacity to one million tons per year. PRO-TEC produces high value-added galvanized steel for the automotive market.

Our VSZ tinning joint venture in Slovakia, which commenced operations in the first quarter of 1998, shipped more than 107 thousand metric tons of product. Olympic Laser Processing in Michigan completed the world's first fully automated laser blank welding facility and will begin commercial operation in 1999. Laser welded blanks are expected to play an increasingly important role in automobile manufacturing. Acero Prime, our warehousing and slitting joint venture in Mexico, was completed and began operation in December. Acero Prime primarily serves the appliance market.

In 1998, we reorganized our customer service function by moving away from a generalist, geographical organization to an integrated, industry-based organization where each group is tailored to its individual markets. We also continued to implement the new order processing system called OPEX. This system, in conjunction with our synchronous manufacturing system, provides a significant competitive advantage in customer service by reducing order lead and production cycle times and helping to manage inventories.

Our employees set another record for safety, improving on 1997 results by 11 percent. In October, Mon Valley Works received the Governor's Award for Safety Excellence from Pennsylvania Governor Tom Ridge. The award recognizes labor-management cooperation in promoting workplace safety.

In 1998, Clairton Works was an example of our environmental commitment. In May, it became the first steel or coke industry plant to achieve ISO 14001 certification. Then, in June, it received the Three Rivers Environmental Award for environmental stewardship. Finally, the Environmental Protection Agency (EPA) found that the air quality around Clairton met the PM10 standards for fine particulate matter.

Looking forward to 1999, U. S. Steel faces several significant challenges. First, we must turn back the tide of unfairly traded imports which are stealing our business and eroding the selling prices of our products. We will keep up our efforts in Washington to improve import monitoring, to strengthen trade laws, and for prompt and effective enforcement of our existing trade laws. In addition, we will continue to monitor imports and are prepared to file additional trade cases.

We must also negotiate an acceptable labor contract with the United Steelworkers of America, which represents about 15,000 members of our workforce. The current contract expires this summer.

Finally, we must continue to implement cost reduction programs across all our business units. We will, however, continue to invest in our core facilities and businesses to strengthen our competitive position and improve our financial performance.

Our strategic focus on organization, resources, people and customer service is geared to meet these business challenges and improve shareholder value. At U. S. Steel, we are committed to remaining the industry leader into the 21st century.

Thomas J. Usher

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

Statement of Operations

(Dollars in millions)	1998	1997	1996
Revenues:			
Sales	$ 6,184	$ 6,814	$ 6,533
Income from affiliates	46	69	66
Gain on disposal of assets	54	57	16
Gain on affiliate stock offering *(Note 5)*	–	–	53
Other income (loss)	(1)	1	2
Total revenues	6,283	6,941	6,670
Costs and expenses:			
Cost of sales (excludes items shown below)	5,410	5,762	5,829
Selling, general and administrative expenses (credits) *(Note 12)*	(201)	(137)	(165)
Depreciation, depletion and amortization	283	303	292
Taxes other than income taxes	212	240	231
Total costs and expenses	5,704	6,168	6,187
Income from operations	579	773	483
Net interest and other financial costs *(Note 7)*	42	87	116
Income before income taxes and extraordinary loss	537	686	367
Provision for estimated income taxes *(Note 15)*	173	234	92
Income before extraordinary loss	364	452	275
Extraordinary loss *(Note 6)*	–	–	2
Net income	364	452	273
Noncash credit from exchange of preferred stock *(Note 19)*	–	10	–
Dividends on preferred stock	(9)	(13)	(22)
Net income applicable to Steel Stock	$ 355	$ 449	$ 251

Income Per Common Share Applicable to Steel Stock

	1998	1997	1996
Basic:			
Income before extraordinary loss	$ 4.05	$ 5.24	$ 3.00
Extraordinary loss	–	–	.02
Net income	$ 4.05	$ 5.24	$ 2.98
Diluted:			
Income before extraordinary loss	$ 3.92	$ 4.88	$ 2.97
Extraordinary loss	–	–	.02
Net income	$ 3.92	$ 4.88	$ 2.95

See Note 23, for a description and computation of income per common share.
The accompanying notes are an integral part of these financial statements.

Balance Sheet

(Dollars in millions) December 31	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 9	$ 18
Receivables, less allowance for doubtful accounts of $9 and $13 *(Note 22)*	392	588
Inventories *(Note 14)*	698	705
Deferred income tax benefits *(Note 15)*	176	220
Total current assets	1,275	1,531
Investments and long-term receivables, less reserves of $10 and $15 *(Note 16)*	743	670
Property, plant and equipment – net *(Note 18)*	2,500	2,496
Long-term deferred income tax benefits *(Note 15)*	–	19
Prepaid pensions *(Note 12)*	2,172	1,957
Other noncurrent assets	3	21
Total assets	$ 6,693	$ 6,694
Liabilities		
Current liabilities:		
Notes payable	$ 13	$ 13
Accounts payable	501	687
Payroll and benefits payable	330	379
Accrued taxes	150	190
Accrued interest	10	11
Long-term debt due within one year *(Note 11)*	12	54
Total current liabilities	1,016	1,334
Long-term debt *(Note 11)*	464	456
Employee benefits *(Note 12)*	2,315	2,338
Deferred credits and other liabilities	557	536
Preferred stock of subsidiary *(Note 10)*	66	66
USX obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures of USX *(Note 19)*	182	182
Stockholders' Equity *(Note 20)*		
Preferred stock	3	3
Common stockholders' equity	2,090	1,779
Total stockholders' equity	2,093	1,782
Total liabilities and stockholders' equity	$ 6,693	$ 6,694

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

Statement of Cash Flows

(Dollars in millions)	1998	1997	1996
Increase (decrease) in cash and cash equivalents			
Operating activities:			
Net income	$ 364	$ 452	$ 273
Adjustments to reconcile to net cash provided from operating activities:			
Depreciation, depletion and amortization	283	303	292
Pensions and other postretirement benefits	(215)	(349)	(164)
Deferred income taxes	158	193	150
Gain on disposal of assets	(54)	(57)	(16)
Gain on affiliate stock offering	–	–	(53)
Changes in: Current receivables – sold	(30)	–	–
– operating turnover	232	(24)	(10)
Inventories	7	(57)	(47)
Current accounts payable and accrued expenses	(285)	61	(193)
All other – net	(88)	(52)	(146)
Net cash provided from operating activities	372	470	86
Investing activities:			
Capital expenditures	(310)	(261)	(337)
Disposal of assets	21	420	161
Restricted cash – withdrawals	35	–	–
– deposits	(35)	–	–
Affiliates – investments	(73)	(26)	(1)
All other – net	21	7	38
Net cash provided from (used in) investing activities	(341)	140	(139)
Financing activities *(Note 4)*:			
Increase (decrease) in U. S. Steel Group's portion of USX consolidated debt	13	(561)	(31)
Specifically attributed debt:			
Borrowings	–	–	113
Repayments	(4)	(6)	(5)
Steel Stock issued	55	48	51
Preferred stock repurchased	(8)	–	–
Dividends paid	(96)	(96)	(104)
Net cash provided from (used in) financing activities	(40)	(615)	24
Net decrease in cash and cash equivalents	(9)	(5)	(29)
Cash and cash equivalents at beginning of year	18	23	52
Cash and cash equivalents at end of year	$ 9	$ 18	$ 23

See Note 9, for supplemental cash flow information.

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

Notes to Financial Statements

1. Basis of Presentation

After the redemption of the USX – Delhi Group stock on January 26, 1998, USX Corporation (USX) has two classes of common stock: USX – U. S. Steel Group Common Stock (Steel Stock) and USX – Marathon Group Common Stock (Marathon Stock), which are intended to reflect the performance of the U. S. Steel Group and the Marathon Group, respectively.

The financial statements of the U. S. Steel Group include the financial position, results of operations and cash flows for all businesses of USX other than the businesses, assets and liabilities included in the Marathon Group, and a portion of the corporate assets and liabilities and related transactions which are not separately identified with ongoing operating units of USX. The U. S. Steel Group financial statements are prepared using the amounts included in the USX consolidated financial statements. For a description of the U. S. Steel Group's operating segment, see Note 8.

Although the financial statements of the U. S. Steel Group and the Marathon Group separately report the assets, liabilities (including contingent liabilities) and stockholders' equity of USX attributed to each such Group, such attribution of assets, liabilities (including contingent liabilities) and stockholders' equity between the U. S. Steel Group and the Marathon Group for the purpose of preparing their respective financial statements does not affect legal title to such assets or responsibility for such liabilities. Holders of Steel Stock and Marathon Stock are holders of common stock of USX, and continue to be subject to all the risks associated with an investment in USX and all of its businesses and liabilities. Financial impacts arising from one Group that affect the overall cost of USX's capital could affect the results of operations and financial condition of the other Group. In addition, net losses of either Group, as well as dividends and distributions on any class of USX Common Stock or series of preferred stock and repurchases of any class of USX Common Stock or series of preferred stock at prices in excess of par or stated value, will reduce the funds of USX legally available for payment of dividends on both classes of Common Stock. Accordingly, the USX consolidated financial information should be read in connection with the U. S. Steel Group financial information.

2. Summary of Principal Accounting Policies

Principles applied in consolidation – These financial statements include the accounts of the U. S. Steel Group. The U. S. Steel Group and the Marathon Group financial statements, taken together, comprise all of the accounts included in the USX consolidated financial statements.

Investments in entities over which the U. S. Steel Group has significant influence are accounted for using the equity method of accounting and are carried at the U. S. Steel Group's share of net assets plus loans and advances. Investments in companies whose stock has no readily determinable fair value are carried at cost.

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 long-lived assets; 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 principally include sales, dividend and affiliate income, gains or losses on the disposal of assets and gains or losses from changes in ownership interests.

Sales are recognized when products are shipped or services are provided to customers. Income from affiliates includes the U. S. Steel Group's proportionate share of income from equity method investments.

When long-lived assets depreciated on an individual basis are sold or otherwise disposed of, any gains or losses are reflected in income. Such gains or losses on the disposal of long-lived assets are recognized when title passes to the buyer and, if applicable, all significant regulatory approvals are received. Proceeds from disposal of long-lived assets depreciated on a group basis are credited to accumulated depreciation, depletion and amortization with no immediate effect on income.

Gains or losses from a change in ownership of an unconsolidated affiliate are recognized in revenues in the period of change.

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

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

Derivative instruments – The U. S. Steel Group engages in commodity risk management activities within the normal course of its business as an end-user of derivative instruments (Note 25). Management is authorized to manage exposure to price fluctuations related to the purchase of natural gas, refined products and nonferrous metals through the use of a variety of derivative financial and nonfinancial instruments. Derivative financial instruments require settlement in cash and include such instruments as over-the-counter (OTC) commodity swap agreements and OTC commodity options. Derivative nonfinancial instruments require or permit settlement by delivery of commodities and include exchange-traded commodity futures contracts and options. At times, derivative positions are closed, prior to maturity, simultaneous with the underlying physical transaction and the effects are recognized in income accordingly. The U. S. Steel Group's practice does not permit derivative positions to remain open if the underlying physical market risk has been removed. Changes in the market value of derivative instruments are deferred, including both closed and open positions, and are subsequently recognized in income as cost of sales in the same period as the underlying transaction. Premiums on all commodity-based option contracts are initially recorded based on the amount paid or received; the options' market value is subsequently recorded as a receivable or payable, as appropriate. The margin receivable accounts required for open commodity contracts reflect changes in the market prices of the underlying commodity and are settled on a daily basis.

Forward exchange contracts are used to manage currency risks related to commitments for capital expenditures and existing assets or liabilities denominated in a foreign currency. Gains or losses related to firm commitments are deferred and included with the underlying transaction; all other gains or losses are recognized in income in the current period as sales, cost of sales, interest income or expense, or other income, as appropriate. Forward exchange contract values are included in receivables or payables, as appropriate.

Recorded deferred gains or losses are reflected within other current and noncurrent assets or accounts payable and deferred credits and other liabilities. Cash flows from the use of derivative instruments are reported in the same category as the hedged item in the statement of cash flows.

Long-lived assets – Depreciation is generally computed using a modified straight-line method based upon estimated lives of assets and production levels. The modification factors 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.

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

The U. S. Steel Group evaluates impairment of its long-lived assets 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.

Environmental remediation – The U. S. Steel Group 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.

Postemployment benefits – The U. S. Steel Group recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions, including an appropriate discount rate, analogous to the required methodology for measuring pension and other postretirement benefit obligations. Actuarial gains and losses are deferred and amortized over future periods.

Insurance – The U. S. Steel Group 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 1998 classifications.

3. New Accounting Standards

The following accounting standards were adopted by USX:

Reporting comprehensive income – Effective January 1, 1998, USX adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This Standard establishes requirements for reporting and display of comprehensive income and its components in the financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events from nonowner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to owners. See disclosures of comprehensive income at Note 20 and on page U-7 of the USX consolidated financial statements.

Disclosures of operating segments – USX adopted in 1998, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes new standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers. The most significant new requirement of this Standard is that reportable operating segments be based on an enterprise's internally reported business segments. See disclosures of operating segments at Note 8.

Disclosures of postretirement benefits – USX adopted in 1998, Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132), which revises and standardizes the reporting requirements for postretirement benefits. However, the Standard does not change the measurement and recognition of those benefits. The U. S. Steel Group has complied with SFAS No. 132 by disclosing pension and other postretirement benefits at Note 12.

Environmental remediation liabilities – Effective January 1, 1997, USX adopted American Institute of Certified Public Accountants Statement of Position No. 96-1, "Environmental Remediation Liabilities" (SOP 96-1), which provides additional interpretation of existing accounting standards related to recognition, measurement and disclosure of environmental remediation liabilities. As a result of adopting SOP 96-1, the U. S. Steel Group identified additional environmental remediation liabilities of $35 million, of which $28 million was discounted to a present value of $13 million and $7 million was not discounted. Assumptions used in the calculation of the present value amount included an inflation factor of 2% and an interest rate of 7% over a range of 22 to 30 years. The net unfavorable effect of adoption on the U. S. Steel Group's income from operations at January 1, 1997, was $20 million.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This new Standard requires recognition of all derivatives as either assets or liabilities at fair value. SFAS No. 133 may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses resulting from changes in the fair value of derivative instruments. SFAS No. 133 requires a comprehensive review of all outstanding derivative instruments to determine whether or not their use meets the hedge accounting criteria. It is possible that there will be derivative instruments employed in our businesses that do not meet all of the designated hedge criteria and they will be reflected in income on a mark-to-market basis. Based upon the strategies currently employed by the U. S. Steel Group and the level of activity related to commodity-based derivative instruments in recent periods, the U. S. Steel Group does not anticipate the effect of adoption to have a material impact on either financial position or results of operations. The U. S. Steel Group plans to adopt SFAS No. 133 effective January 1, 2000, as required.

4. Corporate Activities

Financial activities – As a matter of policy, USX manages most financial activities on a centralized, consolidated basis. Such financial activities include the investment of surplus cash; the issuance, repayment and repurchase of short-term and long-term debt; the issuance, repurchase and redemption of preferred stock; and the issuance and repurchase of common stock. 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 are attributed to the U. S. Steel Group, the Marathon Group and, prior to November 1, 1997, the Delhi Group based upon the cash flows of each group for the periods presented and the initial capital structure of each group. Most financing transactions are attributed to and reflected in the financial statements of the groups. See Note 10, for the U. S. Steel Group's portion of USX's financial activities attributed to the groups. However, transactions such as leases, certain collateralized financings, certain indexed debt instruments, financial activities of consolidated entities which are less than wholly owned by USX and transactions related to securities convertible solely into any one class of common stock are or will be specifically attributed to and reflected in their entirety in the financial statements of the group to which they relate.

Corporate general and administrative costs – Corporate general and administrative costs are allocated to the U. S. Steel Group, the Marathon Group and, prior to November 1, 1997, the Delhi Group based upon utilization or other methods management believes to be reasonable and which consider certain measures of business activities, such as employment, investments and sales. The costs allocated to the U. S. Steel Group were $24 million in 1998, $33 million in 1997 and $28 million in 1996, and primarily consist of employment costs including pension effects, professional services, facilities and other related costs associated with corporate activities.

Income taxes – All members of the USX affiliated group are included in the consolidated United States federal income tax return filed by USX. Accordingly, the provision for federal income taxes and the related payments or refunds of tax are determined on a consolidated basis. The consolidated provision and the related tax payments or refunds have been reflected in the U. S. Steel Group, the

Marathon Group and, prior to November 1, 1997, the Delhi Group financial statements in accordance with USX's tax allocation policy. In general, such policy provides that the consolidated tax provision and related tax payments or refunds are allocated among the U. S. Steel Group, Marathon Group and, prior to November 1, 1997, the Delhi Group, for group financial statement purposes, based principally upon the financial income, taxable income, credits, preferences and other amounts directly related to the respective groups.

For tax provision and settlement purposes, tax benefits resulting from attributes (principally net operating losses and various tax credits), which cannot be utilized by one of the groups on a separate return basis but which can be utilized on a consolidated basis in that year or in a carryback year, are allocated to the group that generated the attributes. To the extent that one of the groups is allocated a consolidated tax attribute which, as a result of expiration or otherwise, is not ultimately utilized on the consolidated tax return, the prior years' allocation of such attribute is adjusted such that the effect of the expiration is borne by the group that generated the attribute. Also, if a tax attribute cannot be utilized on a consolidated basis in the year generated or in a carryback year, the prior years' allocation of such consolidated tax effects is adjusted in a subsequent year to the extent necessary to allocate the tax benefits to the group that would have realized the tax benefits on a separate return basis. As a result, the allocated group amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if the groups had filed separate tax returns.

5. Gain on Affiliate Stock Offering

In 1996, an aggregate of 6.9 million shares of RTI International Metals, Inc. (RTI) (formerly RMI Titanium Company) common stock was sold in a public offering at a price of $18.50 per share and total net proceeds of $121 million. Included in the offering were 2.3 million shares sold by USX for net proceeds of $40 million. The U. S. Steel Group recognized a total pretax gain of $53 million, of which $34 million was attributable to the shares sold by USX and $19 million was attributable to the increase in value of its investment as a result of the shares sold by RTI. The income tax effect related to the total gain was $19 million. As a result of this transaction, USX's ownership in RTI decreased from approximately 50% to 27%. The U. S. Steel Group continues to account for its investment in RTI under the equity method of accounting.

6. Extraordinary Loss

On December 30, 1996, USX irrevocably called for redemption on January 30, 1997, $120 million of debt, resulting in a 1996 extraordinary loss to the U. S. Steel Group of $2 million, net of a $1 million income tax benefit.

7. Net Interest and Other Financial Costs

(In millions)	1998	1997	1996
Interest and other financial income[a] –			
Interest income	$ 5	$ 4	$ 4
Interest and other financial costs[a]:			
Interest incurred	40	57	85
Less interest capitalized	6	7	8
Net interest	34	50	77
Interest on tax issues	16	13	10
Financial costs on trust preferred securities	13	10	–
Financial costs on preferred stock of subsidiary	5	5	5
Amortization of discounts	2	2	2
Expenses on sales of accounts receivable *(Note 22)*	21	21	20
Adjustment to settlement value of indexed debt	(44)	(10)	6
Total	47	91	120
Net interest and other financial costs[a]	$ 42	$ 87	$ 116

[a] See Note 4, for discussion of USX net interest and other financial costs attributable to the U. S. Steel Group.

8. Segment Information

The U. S. Steel Group consists of one operating segment, U. S. Steel. U. S. Steel is engaged in the production and sale of steel mill products, coke and taconite pellets. U. S. Steel also engages in the following related business activities: the management of mineral resources, domestic coal mining, engineering and consulting services, and real estate development and management. For information on sales by product line, see table of revenues on page S-25 of Management's Discussion and Analysis.

Segment income represents income from operations allocable to U. S. Steel and does not include net interest and other financial costs, provisions for estimated income taxes and USX corporate general and administrative costs. These corporate costs primarily consist of employment costs including pension effects, professional services, facilities and other related costs associated with corporate activities. Also, certain general and administrative costs associated with former businesses and the gain on affiliate stock offering are not allocated to the segment. In addition, pension credits associated with pension plan assets and liabilities allocated to pre-1987 retirees and former businesses are not allocated to the segment. The following table represents the operations of U. S. Steel:

(In millions)	1998	1997	1996
Revenues:			
Customer	$ 6,180	$ 6,812	$ 6,535
Intergroup[(a)]	2	2	–
Equity in earnings of unconsolidated affiliates	46	69	66
Other	55	58	16
Total revenues	$ 6,283	$ 6,941	$ 6,617
Segment income	$ 330	$ 618	$ 248
Significant noncash items included in segment income:			
Depreciation, depletion and amortization	283	303	292
Pension expenses[(b)]	187	169	172
Capital expenditures[(c)]	305	256	336
Affiliates – investments[(c)]	71	26	–

(a) Intergroup sales and transfers were conducted on an arm's-length basis.

(b) Differences between segment total and group total represent unallocated pension credits and amounts included in administrative expenses.

(c) Differences between segment total and group total represent amounts related to corporate administrative activities.

The following schedule reconciles segment revenues and income to amounts reported in the U. S. Steel Group's financial statements:

(In millions)	1998	1997	1996
Revenues:			
Revenues of reportable segment	$ 6,283	$ 6,941	$ 6,617
Items not allocated to segment –			
Gain on affiliate stock offering	–	–	53
Total Group revenues	$ 6,283	$ 6,941	$ 6,670
Income:			
Income for reportable segment	$ 330	$ 618	$ 248
Items not allocated to segment:			
Gain on affiliate stock offering	–	–	53
Administrative expenses	(24)	(33)	(28)
Pension credits	373	313	330
Costs related to former businesses activities	(100)	(125)	(120)
Total Group income from operations	$ 579	$ 773	$ 483

Geographic Area:

The information below summarizes the operations in different geographic areas.

(In millions)	Year	Revenues: Within Geographic Areas	Revenues: Between Geographic Areas	Total	Assets[a]
United States	1998	$ 6,266	$ –	$ 6,266	$ 3,043
	1997	6,926	–	6,926	3,023
	1996	6,642	–	6,642	3,024
Foreign Countries	1998	17	–	17	69
	1997	15	–	15	1
	1996	28	–	28	2
Total	1998	$ 6,283	$ –	$ 6,283	$ 3,112
	1997	6,941	–	6,941	3,024
	1996	6,670	–	6,670	3,026

[a] Includes property, plant and equipment and investments in affiliates.

9. Supplemental Cash Flow Information

(In millions)	1998	1997	1996
Cash used in operating activities included:			
Interest and other financial costs paid (net of amount capitalized)	$ (76)	$ (99)	$ (129)
Income taxes paid, including settlements with other groups	(29)	(48)	(53)
USX debt attributed to all groups – net:			
Commercial paper:			
Issued	$ 1,650	$ –	$ 1,422
Repayments	(950)	–	(1,555)
Credit agreements:			
Borrowings	15,836	10,454	10,356
Repayments	(15,867)	(10,449)	(10,340)
Other credit arrangements – net	55	36	(36)
Other debt:			
Borrowings	671	10	78
Repayments	(1,053)	(741)	(705)
Total	$ 342	$ (690)	$ (780)
U. S. Steel Group activity	$ 13	$ (561)	$ (31)
Marathon Group activity	329	97	(769)
Delhi Group activity	–	(226)	20
Total	$ 342	$ (690)	$ (780)
Noncash investing and financing activities:			
Steel Stock issued for Dividend Reinvestment Plan and employee stock plans	$ 2	$ 5	$ 4
Disposal of assets – notes received	2	–	12
Trust preferred securities exchanged for preferred stock	–	182	–

10. Financial Activities Attributed to Groups

The following is the portion of USX financial activities attributed to the U. S. Steel Group. These amounts exclude amounts specifically attributed to the U. S. Steel Group.

		U. S. Steel Group		Consolidated USX[a]	
(In millions)	December 31	1998	1997	1998	1997
Cash and cash equivalents		$ –	$ 1	$ 4	$ 6
Receivables[b]		–	1	–	10
Other noncurrent assets[b]		1	1	8	8
Total assets		$ 1	$ 3	$ 12	$ 24
Notes payable		$ 13	$ 13	$ 145	$ 121
Accounts payable		–	–	–	1
Accrued interest		8	10	88	89
Long-term debt due within one year *(Note 11)*		7	49	66	466
Long-term debt *(Note 11)*		306	252	3,762	2,704
Preferred stock of subsidiary		66	66	250	250
Total liabilities		$ 400	$ 390	$ 4,311	$ 3,631

	U. S. Steel Group[c]			Consolidated USX		
(In millions)	1998	1997	1996	1998	1997	1996
Net interest and other financial costs *(Note 7)*	$29	$46	$81	$324	$309	$376

(a) For details of USX long-term debt and preferred stock of subsidiary, see Notes 17 and 25, respectively, to the USX consolidated financial statements.

(b) Primarily reflects 1997 forward currency contracts used to manage currency risks related to USX debt and interest denominated in a foreign currency.

(c) The U. S. Steel Group's net interest and other financial costs reflect weighted average effects of all financial activities attributed to all groups.

11. Long-Term Debt

The U. S. Steel Group's portion of USX's consolidated long-term debt is as follows:

		U. S. Steel Group		Consolidated USX[a]	
(In millions)	December 31	1998	1997	1998	1997
Specifically attributed debt[b]:					
Sale-leaseback financing and capital leases		$ 95	$ 99	$ 95	$ 123
Indexed debt less unamortized discount		68	110	68	110
Total		163	209	163	233
Less amount due within one year		5	5	5	5
Total specifically attributed long-term debt		$ 158	$ 204	$ 158	$ 228
Debt attributed to groups[c]		$ 316	$ 305	$ 3,853	$ 3,194
Less unamortized discount		3	4	25	24
Less amount due within one year		7	49	66	466
Total long-term debt attributed to groups		$ 306	$ 252	$ 3,762	$ 2,704
Total long-term debt due within one year		$ 12	$ 54	$ 71	$ 471
Total long-term debt due after one year		464	456	3,920	2,932

(a) See Note 17, to the USX consolidated financial statements for details of interest rates, maturities and other terms of long-term debt.

(b) As described in Note 4, certain financial activities are specifically attributed only to the U. S. Steel Group and the Marathon Group.

(c) Most long-term debt activities of USX Corporation and its wholly owned subsidiaries are attributed to all groups (in total, but not with respect to specific debt issues) based on their respective cash flows (Notes 4, 9 and 10).

12. Pensions and Other Postretirement Benefits

The U. S. Steel Group has noncontributory defined benefit pension plans covering substantially all 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 salaried employees based upon a percent of total career pensionable earnings. Certain of these plans provide benefits to USX corporate employees, and the related costs or credits for such employees are allocated to all groups (Note 4). The U. S. Steel Group also participates in multiemployer plans, most of which are defined benefit plans associated with coal operations.

The U. S. Steel Group also has defined benefit retiree health and life insurance plans (other benefits) covering most employees upon their retirement. Health benefits are provided, for the most part, through comprehensive hospital, surgical and major medical benefit provisions subject to various cost sharing features. Life insurance benefits are provided to nonunion retiree beneficiaries primarily based on employees' annual base salary at retirement. These plans provide benefits to USX corporate employees, and the related costs for such employees are allocated to all groups (Note 4). For union retirees, benefits are provided for the most part based on fixed amounts negotiated in labor contracts with the appropriate unions. Except for certain life insurance benefits paid from reserves held by insurance carriers and benefits required to be funded by union contracts, most other benefits have not been prefunded.

	Pension Benefits		Other Benefits	
(In millions)	1998	1997	1998	1997
Change in benefit obligations				
Benefit obligations at January 1	$ 7,314	$ 7,258	$ 2,070	$ 2,111
Service cost	71	65	15	15
Interest cost	487	517	141	153
Plan amendments	8	1	–	–
Actuarial (gains) losses	516	377	23	(74)
Settlement, curtailment and termination benefits	10	4	7	–
Benefits paid	(857)	(908)	(143)	(135)
Benefit obligations at December 31	$ 7,549	$ 7,314	$ 2,113	$ 2,070
Change in plan assets				
Fair value of plan assets at January 1	$ 9,775	$ 8,860	$ 258	$ 111
Actual return on plan assets	1,308	1,755	31	19
Employer contributions	–	49	–	150
Benefits paid	(840)	(889)	(24)	(22)
Fair value of plan assets at December 31	$10,243	$ 9,775	$ 265	$ 258
Funded status of plans at December 31	$ 2,694 [a]	$ 2,461 [a]	$(1,848)	$ (1,812)
Unrecognized net gain from transition	(140)	(209)	–	–
Unrecognized prior service cost	518	583	7	11
Unrecognized actuarial gains	(905)	(878)	(292)	(327)
Additional minimum liability[b]	(57)	(65)	–	–
Prepaid (accrued) benefit cost	$ 2,110	$ 1,892	$(2,133)	$ (2,128)

	1998	1997
[a] Includes several small plans that have accumulated benefit obligations in excess of plan assets:		
Projected benefit obligation (PBO)	$ (68)	$ (69)
Plan assets	–	–
PBO in excess of plan assets	$ (68)	$ (69)
[b] Additional minimum liability recorded was offset by the following:		
Intangible asset	$ 16	$ 27
Accumulated other comprehensive income (losses):		
Beginning of year	$ (25)	$ (17)
Change during year (net of tax)	(2)	(8)
Balance at end of year	$ (27)	$ (25)

(In millions)	Pension Benefits 1998	1997	1996	Other Benefits 1998	1997	1996
Components of net periodic benefit cost (credit)						
Service cost	$ 71	$ 65	$ 69	$ 15	$ 15	$ 18
Interest cost	487	517	523	141	153	160
Return on plan assets – actual	(1,308)	(1,755)	(1,136)	(31)	(19)	(12)
– deferred gain	539	1,012	367	10	8	1
Amortization of unrecognized (gains) losses	9	6	10	(12)	(9)	5
Multiemployer and other plans	1	2	2	13 [a]	15 [a]	15 [a]
Settlement and termination costs	10 [b]	4	6	–	–	–
Net periodic benefit cost (credit)	$ (191)	$ (149)	$ (159)	$ 136	$ 163	$ 187

[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 $103 million, including the effects of future medical inflation, and this amount could increase if additional beneficiaries are assigned.

[b] Represents costs of the 1998 voluntary early retirement program.

	Pension Benefits 1998	1997	Other Benefits 1998	1997
Actuarial assumptions at December 31:				
Discount rate	6.5%	7.0%	6.5%	7.0%
Expected annual return on plan assets	9.0%	9.5%	9.0%	9.5%
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 1999. The rate was assumed to decrease gradually to 5% for 2005 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	$ 16	$ (13)
Effect on other postretirement benefit obligations	192	(161)

13. Intergroup Transactions

Sales and purchases – U. S. Steel Group sales to the Marathon Group totaled $2 million in 1998 and 1997. U. S. Steel Group purchases from the Marathon Group totaled $21 million, $29 million and $21 million in 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, U. S. Steel Group accounts payable included $3 million related to transactions with the Marathon Group. These transactions were conducted on an arm's-length basis.

Income taxes receivable from/payable to the Marathon Group – At December 31, 1998 and 1997, amounts receivable or payable for income taxes were included in the balance sheet as follows:

(In millions) December 31	1998	1997
Current:		
Receivables	$ –	$ 22
Accounts payable	2	2
Noncurrent:		
Investments and long-term receivables	97	97

These amounts have been determined in accordance with the tax allocation policy described in Note 4. Amounts classified as current are settled in cash in the year succeeding that in which such amounts are accrued. Noncurrent amounts represent estimates of intergroup tax effects of certain issues for years that are still under various stages of audit and administrative review. Such tax effects are not settled among the groups until the audit of those respective tax years is closed. The amounts ultimately settled for open tax years will be different than recorded noncurrent amounts based on the final resolution of all of the audit issues for those years.

14. Inventories

(In millions) December 31	1998	1997
Raw materials	$ 185	$ 130
Semi-finished products	282	331
Finished products	182	187
Supplies and sundry items	49	57
Total	$ 698	$ 705

At December 31, 1998 and 1997, respectively, the LIFO method accounted for 94% and 93% of total inventory value. Current acquisition costs were estimated to exceed the above inventory values at December 31 by approximately $310 million and $300 million in 1998 and 1997, respectively.

15. Income Taxes

Income tax provisions and related assets and liabilities attributed to the U. S. Steel Group are determined in accordance with the USX group tax allocation policy (Note 4).

Provisions (credits) for estimated income taxes were:

	1998			1997			1996		
(In millions)	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ 19	$ 149	$ 168	$ 37	$ 168	$ 205	$ (51)	$ 138	$ 87
State and local	3	9	12	4	25	29	–	12	12
Foreign	(7)	–	(7)	–	–	–	(7)	–	(7)
Total	$ 15	$ 158	$ 173	$ 41	$ 193	$ 234	$ (58)	$ 150	$ 92

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

(In millions)	1998	1997	1996
Statutory rate applied to income before income taxes	$ 188	$ 240	$ 129
Excess percentage depletion	(11)	(10)	(7)
Effects of foreign operations, including foreign tax credits	(11)	(3)	(2)
State and local income taxes after federal income tax effects	8	19	8
Credits other than foreign tax credits	(3)	(15)	(40)
Nondeductible business expenses	1	2	2
Effects of partially owned companies	–	(3)	(6)
Adjustment of prior years' income taxes	–	6	9
Adjustment of valuation allowances	–	(1)	–
Other	1	(1)	(1)
Total provisions	$ 173	$ 234	$ 92

Deferred tax assets and liabilities resulted from the following:

(In millions) December 31	1998	1997
Deferred tax assets:		
Minimum tax credit carryforwards	$ 185	$ 180
State tax loss carryforwards (expiring in 1999 through 2018)	64	75
Employee benefits	969	907
Receivables, payables and debt	52	59
Contingency and other accruals	48	50
Other	12	15
Valuation allowances – state	(44)	(52)
Total deferred tax assets[a]	1,286	1,234
Deferred tax liabilities:		
Property, plant and equipment	272	242
Prepaid pensions	792	661
Inventory	16	13
Investments in subsidiaries and affiliates	116	88
Federal effect of state deferred tax assets	3	6
Other	40	21
Total deferred tax liabilities	1,239	1,031
Net deferred tax assets	$ 47	$ 203

[a] USX expects to generate sufficient future taxable income to realize the benefit of the U. S. Steel Group's deferred tax assets.

The consolidated tax returns of USX for the years 1990 through 1994 are under various stages of audit and administrative review by the IRS. USX believes it has made adequate provision for income taxes and interest which may become payable for years not yet settled.

16. Investments and Long-Term Receivables

(In millions) December 31	1998	1997
Equity method investments	$ 564	$ 472
Other investments	48	56
Receivables due after one year	10	22
Income tax receivable from the Marathon Group *(Note 13)*	97	97
Other	24	23
Total	$ 743	$ 670

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

(In millions)	1998	1997	1996
Income data – year:			
Revenues	$ 3,163	$ 3,143	$ 2,868
Operating income	193	228	223
Net income	97	139	140
Balance sheet data – December 31:			
Current assets	$ 1,028	$ 924	
Noncurrent assets	2,149	2,006	
Current liabilities	631	627	
Noncurrent liabilities	883	800	

Dividends and partnership distributions received from equity affiliates were $19 million in 1998, $13 million in 1997 and $25 million in 1996.

U. S. Steel Group purchases of transportation services and semi-finished steel from equity affiliates totaled $331 million, $424 million and $460 million in 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, U. S. Steel Group payables to these affiliates totaled $15 million and $21 million, respectively. U. S. Steel Group sales of steel and raw materials to equity affiliates totaled $725 million, $802 million and $824 million in 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, U. S. Steel Group receivables from these affiliates were $177 million and $149 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
1999	$ 10	$ 116
2000	11	105
2001	11	121
2002	11	52
2003	11	39
Later years	117	70
Sublease rentals	–	(1)
Total minimum lease payments	171	$ 502
Less imputed interest costs	(76)	
Present value of net minimum lease payments included in long-term debt	$ 95	

Operating lease rental expense:

(In millions)	1998	1997	1996
Minimum rental	$ 136	$ 135	$ 131
Contingent rental	19	15	5
Sublease rentals	(1)	(1)	(2)
Net rental expense	$ 154	$ 149	$ 134

The U. S. Steel Group 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. In the event of a change in control of USX, as defined in the agreements, or certain other circumstances, lease obligations totaling $8 million may be declared immediately due and payable.

18. Property, Plant and Equipment

(In millions) December 31		1998		1997
Land and depletable property	$	151	$	161
Buildings		469		477
Machinery and equipment		7,711		7,548
Leased assets		108		109
Total		8,439		8,295
Less accumulated depreciation, depletion and amortization		5,939		5,799
Net	$	2,500	$	2,496

Amounts in accumulated depreciation, depletion and amortization for assets acquired under capital leases (including sale-leasebacks accounted for as financings) were $77 million and $70 million at December 31, 1998 and 1997, respectively.

19. Trust Preferred Securities

In 1997, USX exchanged approximately 3.9 million 6.75% Convertible Quarterly Income Preferred Securities (Trust Preferred Securities) of USX Capital Trust I, a Delaware statutory business trust (Trust), for an equivalent number of shares of its 6.50% Cumulative Convertible Preferred Stock (6.50% Preferred Stock) (Exchange). The Exchange resulted in the recording of Trust Preferred Securities at a fair value of $182 million and a noncash credit to Retained Earnings of $10 million.

USX owns all of the common securities of the Trust, which was formed for the purpose of the Exchange. (The Trust Common Securities and the Trust Preferred Securities are together referred to as the Trust Securities.) The Trust Securities represent undivided beneficial ownership interests in the assets of the Trust, which consist solely of USX 6.75% Convertible Junior Subordinated Debentures maturing March 31, 2037 (Debentures), having an aggregate principal amount equal to the aggregate initial liquidation amount ($50.00 per security and $203 million in total) of the Trust Securities issued by the Trust. Interest and principal payments on the Debentures will be used to make quarterly distributions and to pay redemption and liquidation amounts on the Trust Preferred Securities. The quarterly distributions, which accumulate at the rate of 6.75% per annum on the Trust Preferred Securities and the accretion from fair value to the initial liquidation amount, are charged to income and included in net interest and other financial costs.

Under the terms of the Debentures, USX has the right to defer payment of interest for up to 20 consecutive quarters and, as a consequence, monthly distributions on the Trust Preferred Securities will be deferred during such period. If USX exercises this right, then, subject to limited exceptions, it may not pay any dividend or make any distribution with respect to any shares of its capital stock.

The Trust Preferred Securities are convertible at any time prior to the close of business on March 31, 2037 (unless such right is terminated earlier under certain circumstances) at the option of the holder, into shares of Steel Stock at a conversion price of $46.25 per share of Steel Stock (equivalent to a conversion ratio of 1.081 shares of Steel Stock for each Trust Preferred Security), subject to adjustment in certain circumstances.

The Trust Preferred Securities may be redeemed at any time at the option of USX, at a premium of 103.25% of the initial liquidation amount through March 31, 1999, and thereafter, declining annually to the initial liquidation amount on April 1, 2003, and thereafter. They are mandatorily redeemable at March 31, 2037, or earlier under certain circumstances.

Payments related to quarterly distributions and to the payment of redemption and liquidation amounts on the Trust Preferred Securities by the Trust are guaranteed by USX on a subordinated basis. In addition, USX unconditionally guarantees the Trust's Debentures. The obligations of USX under the Debentures, and the related indenture, trust agreement and guarantee constitute a full and unconditional guarantee by USX of the Trust's obligations under the Trust Preferred Securities.

20. Stockholders' Equity

(In millions, except per share data)	1998	1997	1996
Preferred stock:			
Balance at beginning of year	$ 3	$ 7	$ 7
Exchanged for trust preferred securities	–	(4)	–
Balance at end of year	$ 3	$ 3	$ 7
Common stockholders' equity:			
Balance at beginning of year	$ 1,779	$ 1,559	$ 1,337
Net income	364	452	273
6.50% preferred stock:			
Repurchased	(8)	–	–
Exchanged for trust preferred securities *(Note 19)*	–	(188)	–
Steel Stock issued	59	53	55
Dividends on preferred stock	(9)	(13)	(22)
Dividends on Steel Stock (per share $1.00)	(88)	(86)	(85)
Deferred compensation	–	–	1
Accumulated other comprehensive income (loss)[a]:			
Foreign currency translation adjustments	(5)	–	–
Minimum pension liability adjustments *(Note 12)*	(2)	(8)	–
Other	–	10	–
Balance at end of year	$ 2,090	$ 1,779	$ 1,559
Total stockholders' equity	$ 2,093	$ 1,782	$ 1,566

[a] See page U-7 of the USX consolidated financial statements relative to the annual activity of these adjustments. Total comprehensive income for the U. S. Steel Group for the years 1998, 1997 and 1996 was $357 million, $444 million and $273 million, respectively.

21. Dividends

In accordance with the USX Certificate of Incorporation, dividends on the Steel Stock and Marathon Stock are limited to the legally available funds of USX. Net losses of either Group, as well as dividends and distributions on any class of USX Common Stock or series of preferred stock and repurchases of any class of USX Common Stock or series of preferred stock at prices in excess of par or stated value, will reduce the funds of USX legally available for payment of dividends on both classes of Common Stock. Subject to this limitation, the Board of Directors intends to declare and pay dividends on the Steel Stock based on the financial condition and results of operations of the U. S. Steel Group, although it has no obligation under Delaware law to do so. In making its dividend decisions with respect to Steel Stock, the Board of Directors considers, among other things, the long-term earnings and cash flow capabilities of the U. S. Steel Group as well as the dividend policies of similar publicly traded steel companies.

Dividends on the Steel Stock are further limited to the Available Steel Dividend Amount. At December 31, 1998, the Available Steel Dividend Amount was at least $3,336 million. The Available Steel Dividend Amount will be increased or decreased, as appropriate, to reflect U. S. Steel Group net income, dividends, repurchases or issuances with respect to the Steel Stock and preferred stock attributed to the U. S. Steel Group and certain other items.

22. Sales of Receivables

The U. S. Steel Group participates in an agreement (the program) to sell an undivided interest in certain accounts receivable. Payments are collected from the sold accounts receivable; the collections are reinvested in new accounts receivable for the buyers; and a yield, based on defined short-term market rates, is transferred to the buyers. At December 31, 1998, the amount sold under the program that had not been collected was $320 million, which will be forwarded to the buyers at the end of the agreement in 1999, or in the event of earlier contract termination. If the U. S. Steel Group does not have a sufficient quantity of eligible accounts receivable to reinvest in for the buyers, the size of the program will be reduced accordingly. The amount sold under the program averaged $347 million in 1998 and $350 million in 1997 and 1996. The buyers have rights to a pool of receivables that must be maintained at a level of at least 115% of the program size. The U. S. Steel Group does not generally require collateral for accounts receivable, but significantly reduces credit risk through credit extension and collection policies, which include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments and aggressively pursuing delinquent accounts. In the event of a change in control of USX, as defined in the agreement, the U. S. Steel Group may be required to forward payments collected on sold accounts receivable to the buyers.

23. Income Per Common Share

The method of calculating net income per share for the Steel Stock, the Marathon Stock and, prior to November 1, 1997, the Delhi Stock reflects the USX Board of Directors' intent that the separately reported earnings and surplus of the U. S. Steel Group, the Marathon Group and the Delhi Group, as determined consistent with the USX Certificate of Incorporation, are available for payment of dividends to the respective classes of stock, although legally available funds and liquidation preferences of these classes of stock do not necessarily correspond with these amounts.

Basic net income per share is calculated by adjusting net income for dividend requirements of preferred stock and, in 1997, the noncash credit on exchange of preferred stock and is based on the weighted average number of common shares outstanding.

Diluted net income per share assumes conversion of convertible securities for the applicable periods outstanding and assumes exercise of stock options, provided in each case, the effect is not antidilutive.

	1998		1997		1996	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Computation of Income Per Share						
Net income (millions):						
Income before extraordinary loss	$ 364	$ 364	$ 452	$ 452	$ 275	$ 275
Dividends on preferred stock	(9)	-	(13)	-	(22)	(22)
Noncash credit from exchange of preferred stock	-	-	10	-	-	-
Extraordinary loss	-	-	-	-	(2)	(2)
Net income applicable to Steel Stock	355	364	449	452	251	251
Effect of dilutive securities:						
Trust preferred securities	-	8	-	6	-	-
Convertible debentures	-	-	-	2	-	3
Net income assuming conversions	$ 355	$ 372	$ 449	$ 460	$ 251	$ 254
Shares of common stock outstanding (thousands):						
Average number of common shares outstanding	87,508	87,508	85,672	85,672	84,025	84,025
Effect of dilutive securities:						
Trust preferred securities	-	4,256	-	2,660	-	-
Preferred stock	-	3,143	-	4,811	-	-
Convertible debentures	-	-	-	1,025	-	1,925
Stock options	-	36	-	35	-	12
Average common shares and dilutive effect	87,508	94,943	85,672	94,203	84,025	85,962
Per share:						
Income before extraordinary loss	$ 4.05	$ 3.92	$ 5.24	$ 4.88	$ 3.00	$ 2.97
Extraordinary loss	-	-	-	-	.02	.02
Net income	$ 4.05	$ 3.92	$ 5.24	$ 4.88	$ 2.98	$ 2.95

24. Stock-Based Compensation Plans and Stockholder Rights Plan

USX Stock-Based Compensation Plans and Stockholder Rights Plan are discussed in Note 21, and Note 23, respectively, to the USX consolidated financial statements.

In 1996, USX adopted SFAS No. 123, Accounting for Stock-Based Compensation and elected to continue to follow the accounting provisions of APB No. 25, as discussed in Note 2, to the USX consolidated financial statements. The U. S. Steel Group's actual stock-based compensation expense was $-0- in 1998, $8 million in 1997 and $2 million in 1996. Incremental compensation expense, as determined under SFAS No. 123, was not material ($.02 or less per share for all years presented). Therefore, pro forma net income and earnings per share data have been omitted.

5. Derivative Instruments

The U. S. Steel Group uses derivative instruments, such as commodity swaps, to manage exposure to price fluctuations relevant to the cost of natural gas, refined products and nonferrous metals used in steel operations.

The U. S. Steel Group remains at risk for possible changes in the market value of the derivative instrument; however, such risk should be mitigated by price changes in the underlying hedged item. The U. S. Steel Group is also exposed to credit risk in the event of nonperformance by counterparties. The credit worthiness of counterparties is subject to continuing review, including the use of master netting agreements to the extent practical, and full performance is anticipated.

The following table sets forth quantitative information by class of derivative instrument:

(In millions)	Fair Value Assets (Liabilities)[a]	Carrying Amount Assets (Liabilities)	Recorded Deferred Gain or (Loss)	Aggregate Contract Values[b]
December 31, 1998:				
OTC commodity swaps[c]	$ (7)	$ (7)	$ (7)	$ 54
December 31, 1997:				
OTC commodity swaps	$ (1)	$ (1)	$ (1)	$ 20
Forward exchange contract[d]:				
– receivable	$ 1	$ 1	$ –	$ 7

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

[b] Contract or notional amounts do not quantify risk exposure, but are used in the calculation of cash settlements under the contracts.

[c] The OTC swap arrangements vary in duration with certain contracts extending into 2000.

[d] The forward exchange contract matured in 1998.

:6. 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 25, by individual balance sheet account. As described in Note 4, the U. S. Steel Group's specifically attributed financial instruments and the U. S. Steel Group's portion of USX's financial instruments attributed to all groups are as follows:

(In millions) December 31	1998 Fair Value	1998 Carrying Amount	1997 Fair Value	1997 Carrying Amount
Financial assets:				
Cash and cash equivalents	$ 9	$ 9	$ 18	$ 18
Receivables	392	392	588	588
Investments and long-term receivables	120	120	131	131
Total financial assets	$ 521	$ 521	$ 737	$ 737
Financial liabilities:				
Notes payable	$ 13	$ 13	$ 13	$ 13
Accounts payable	501	501	687	687
Accrued interest	10	10	11	11
Long-term debt (including amounts due within one year)	406	381	448	412
Preferred stock of subsidiary and trust preferred securities	231	248	248	248
Total financial liabilities	$ 1,161	$ 1,153	$ 1,407	$ 1,371

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. 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.

The U. S. Steel Group's unrecognized financial instruments consist of receivables sold and financial guarantees. It is not practicable to estimate the fair value of these forms of financial instrument obligations because there are no quoted market prices for transactions which are similar in nature. For details relating to sales of receivables see Note 22, and for details relating to financial guarantees see Note 27.

27. Contingencies and Commitments

USX is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments relating to the U. S. Steel Group 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 U. S. Steel Group financial statements. However, management believes that USX will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably to the U. S. Steel Group.

Environmental matters –

The U. S. Steel Group is subject to federal, state, and local 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 $97 million and $106 million at December 31, 1998 and 1997, 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, the U. S. Steel Group has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 1998 and 1997, such capital expenditures totaled $49 million and $43 million, respectively. The U. S. Steel Group 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 by USX of the liabilities of affiliated entities of the U. S. Steel Group totaled $81 million at December 31, 1998, and $50 million at December 31, 1997. In the event that any defaults of guaranteed liabilities occur, USX has access to its interest in the assets of the affiliates to reduce potential U. S. Steel Group losses resulting from these guarantees. As of December 31, 1998, the largest guarantee for a single affiliate was $53 million.

Commitments –

At December 31, 1998 and 1997, the U. S. Steel Group's contract commitments to acquire property, plant and equipment totaled $188 million and $156 million, respectively.

USX entered into a 15-year take-or-pay arrangement in 1993, which requires the U. S. Steel Group to accept pulverized coal each month or pay a minimum monthly charge of approximately $1.3 million. Charges for deliveries of pulverized coal totaled $23 million in 1998 and $24 million in 1997. If USX elects to terminate the contract early, a maximum termination payment of $108 million, which declines over the duration of the agreement, may be required.

Other –

On August 1, 1999, U. S. Steel, along with several major steel competitors, faces the expiration of the labor agreement with the United Steelworkers of America. U. S. Steel's ability to negotiate an acceptable labor contract is essential to its ongoing operations. Any labor interruptions could have an adverse effect on operations, financial results and cash flow.

U. S. Steel Group

Selected Quarterly Financial Data (Unaudited)

(In millions, except per share data)	1998 4th Qtr.	1998 3rd Qtr.	1998 2nd Qtr.	1998 1st Qtr.	1997 4th Qtr.	1997 3rd Qtr.	1997 2nd Qtr.	1997 1st Qtr.
Revenues	$ 1,357	$ 1,497	$ 1,733	$ 1,696	$ 1,838	$ 1,735	$ 1,737	$ 1,631
Income from operations	95	105	217	162	252	197	193	131
Net income	76	65	136	87	152	116	97	87
Steel Stock data:								
Net income applicable to Steel Stock	$ 74	$ 63	$ 133	$ 85	$ 149	$ 114	$ 105	$ 81
– Per share: basic	.83	.72	1.53	.98	1.74	1.32	1.23	.96
diluted	.81	.71	1.46	.95	1.64	1.25	1.06	.93
Dividends paid per share	.25	.25	.25	.25	.25	.25	.25	.25
Price range of Steel Stock[a]:								
– Low	21-5/8	20-7/16	31	28-7/16	26-7/8	34-3/16	25-3/8	26-3/8
– High	27-3/4	33-1/2	43-1/16	42-1/8	36-15/16	40-3/4	35-5/8	33-3/8

[a] Composite tape.

Principal Unconsolidated Affiliates (Unaudited)

Company	Country	December 31, 1998 Ownership	Activity
Clairton 1314B Partnership, L.P.	United States	10%	Coke & Coke By-Products
Double Eagle Steel Coating Company	United States	50%	Steel Processing
PRO-TEC Coating Company	United States	50%	Steel Processing
RTI International Metals, Inc.[a]	United States	26%	Titanium & Specialty Metals
Transtar, Inc.	United States	46%	Transportation
USS/Kobe Steel Company	United States	50%	Steel Products
USS-POSCO Industries	United States	50%	Steel Processing
VSZ U. S. Steel, s. r.o.	Slovakia	50%	Tin Mill Products
Worthington Specialty Processing	United States	50%	Steel Processing

[a] Formerly RMI Titanium Company.

Supplementary Information on Mineral Reserves (Unaudited)

See the USX consolidated financial statements for Supplementary Information on Mineral Reserves relating to the U. S. Steel Group, page U-30.

Five-Year Operating Summary

(Thousands of net tons, unless otherwise noted)	1998	1997	1996	1995	1994
Raw Steel Production					
Gary, IN	**6,468**	7,428	6,840	7,163	6,768
Mon Valley, PA	**2,594**	2,561	2,746	2,740	2,669
Fairfield, AL	**2,152**	2,361	1,862	2,260	2,240
Total	**11,214**	12,350	11,448	12,163	11,677
Raw Steel Capability					
Continuous cast	**12,800**	12,800	12,800	12,500	11,990
Total production as % of total capability	**87.6**	96.5	89.4	97.3	97.4
Hot Metal Production	**9,743**	10,591	9,716	10,521	10,328
Coke Production[(a)]	**4,835**	5,757	6,777	6,770	6,777
Iron Ore Pellets – Minntac, MN					
Shipments	**15,446**	16,319	14,962	15,218	16,174
Coal Production	**8,150**	7,528	7,283	7,509	7,424
Coal Shipments	**7,670**	7,811	7,117	7,502	7,698
Steel Shipments by Product					
Sheet and semi-finished steel products	**7,608**	8,170	8,677	8,721	7,988
Tubular, plate and tin mill products	**3,078**	3,473	2,695	2,657	2,580
Total	**10,686**	11,643	11,372	11,378	10,568
Total as % of domestic steel industry	**10.3**	10.9	11.3	11.7	11.1
Steel Shipments by Market					
Steel service centers	**2,563**	2,746	2,831	2,564	2,780
Transportation	**1,785**	1,758	1,721	1,636	1,952
Further conversion:					
Joint ventures	**1,473**	1,568	1,542	1,332	1,308
Trade customers	**1,140**	1,378	1,227	1,084	1,058
Containers	**794**	856	874	857	962
Construction	**987**	994	865	671	722
Oil, gas and petrochemicals	**509**	810	746	748	367
Export	**382**	453	493	1,515	355
All other	**1,053**	1,080	1,073	971	1,064
Total	**10,686**	11,643	11,372	11,378	10,568

[(a)] The reduction in coke production in 1997 and 1998 reflected U. S. Steel's entry into a strategic partnership with two limited partners on June 1, 1997, to acquire an interest in three coke batteries at its Clairton (Pa.) Works.

Five-Year Financial Summary

(Dollars in millions, except as noted)	1998	1997	1996	1995	1994
Revenues					
Sales by product:					
Sheet and semi-finished steel products	$ 3,501	$ 3,820	$ 3,677	$ 3,623	$ 3,335
Tubular, plate and tin mill products	1,513	1,754	1,635	1,677	1,518
Raw materials (coal, coke and iron ore)	591	671	757	731	754
Other[a]	578	570	466	425	463
Income from affiliates	46	69	66	80	59
Gain on disposal of assets	54	57	16	21	12
Gain on affiliate stock offering	–	–	53	–	–
Total revenues	$ 6,283	$ 6,941	$ 6,670	$ 6,557	$ 6,141
Income From Operations					
Segment income for U. S. Steel operations	$ 330	$ 618	$ 248	$ 472	$ 277
Items not allocated to segment:					
Gain on affiliate stock offering	–	–	53	–	–
Administration expenses	(24)	(33)	(28)	(43)	(36)
Pension credits	373	313	330	294	287
Costs of former businesses	(100)	(125)	(120)	(141)	(140)
Total income from operations	579	773	483	582	388
Net interest and other financial costs	42	87	116	129	140
Provision for income taxes	173	234	92	150	47
Income Before Extraordinary Loss	$ 364	$ 452	$ 275	$ 303	$ 201
Per common share – basic (in dollars)	4.05	5.24	3.00	3.53	2.35
– diluted (in dollars)	3.92	4.88	2.97	3.43	2.33
Net Income	$ 364	$ 452	$ 273	$ 301	$ 201
Per common share – basic (in dollars)	4.05	5.24	2.98	3.51	2.35
– diluted (in dollars)	3.92	4.88	2.95	3.41	2.33
Pension Costs Included in U. S. Steel Operations	$ 187	$ 169	$ 172	$ 164	$ 163
Balance Sheet Position at year-end					
Current assets	$ 1,275	$ 1,531	$ 1,428	$ 1,444	$ 1,780
Net property, plant and equipment	2,500	2,496	2,551	2,512	2,536
Total assets	6,693	6,694	6,580	6,521	6,480
Short-term debt	25	67	91	101	21
Other current liabilities	991	1,267	1,208	1,418	1,246
Long-term debt	464	456	1,014	923	1,432
Employee benefits	2,315	2,338	2,430	2,424	2,496
Trust preferred securities and preferred stock of subsidiary	248	248	64	64	64
Common stockholders' equity	2,090	1,779	1,559	1,337	913
Per share (in dollars)	23.66	20.56	18.37	16.10	12.01
Cash Flow Data					
Net cash from operating activities	$ 372	$ 470	$ 86	$ 587	$ 78
Capital expenditures	310	261	337	324	248
Disposal of assets	21	420	161	67	19
Dividends paid	96	96	104	93	98
Employee Data					
Total employment costs	$ 1,305	$ 1.417	$ 1,372	$ 1,381	$ 1,402
Average employment cost (dollars per hour)	30.42	31.56	30.35	31.24	31.15
Average number of employees	20,267	20,683	20,831	20,845	21,310
Number of pensioners at year-end	92,051	93,952	96,510	99,062	101,732
Stockholder Data at year-end					
Number of common shares outstanding (in millions)	88.3	86.6	84.9	83.0	76.0
Registered shareholders (in thousands)	60.2	65.1	71.0	76.7	81.2
Market price of common stock	$23.000	$31.250	$31.375	$30.750	$35.500

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

Management's Discussion and Analysis

The U. S. Steel Group includes U. S. Steel, which is engaged in the production and sale of steel mill products, coke, and taconite pellets; the management of mineral resources; domestic coal mining; real estate development; and engineering and consulting services. Certain business activities are conducted through joint ventures and partially-owned companies, such as USS/Kobe Steel Company ("USS/Kobe"), USS-POSCO Industries ("USS-POSCO"), PRO-TEC Coating Company ("PRO-TEC"), Transtar, Inc. ("Transtar"), Clairton 1314B Partnership, VSZ U. S. Steel, s. r.o. and RTI International Metals, Inc. ("RTI"). Management's Discussion and Analysis should be read in conjunction with the U. S. Steel Group's Financial Statements and Notes to Financial Statements.

In 1998, segment income for U. S. Steel operations decreased primarily due to lower average steel product prices, lower shipment volumes, and less efficient operating levels, resulting from an increase in imports and weak tubular markets.

Certain sections of Management's Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of the U. S. Steel Group. These statements typically contain words such as "anticipates," "believes," "estimates," "expects" or similar words indicating that future outcomes are not known with certainty and 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 the U. S. Steel Group, see Supplementary Data – Disclosures About Forward-Looking Information in USX Form 10-K.

Management's Discussion and Analysis of Income

Revenues for each of the last three years are summarized in the following table, which is covered by the report of independent accountants.

(Dollars in millions)	1998	1997	1996
Sales by product:			
Sheet and semi-finished steel products	$ 3,501	$ 3,820	$ 3,677
Tubular, plate, and tin mill products	1,513	1,754	1,635
Raw materials (coal, coke and iron ore)	591	671	757
Other[a]	578	570	466
Income from affiliates	46	69	66
Gain on disposal of assets	54	57	16
Gain on affiliate stock offering[b]	–	–	53
Total revenues	$ 6,283	$ 6,941	$ 6,670

[a] Includes revenue from the sale of steel production by-products, engineering and consulting services, real estate development and resource management.

[b] For further details, see Note 5 to the U. S. Steel Group Financial Statements.

Total revenues decreased by $658 million in 1998 from 1997 primarily due to lower average realized prices, lower steel shipment volumes, and lower income from affiliates. Total revenues increased by $271 million in 1997 from 1996 primarily due to higher average steel product prices and higher shipment volumes.

Management's Discussion and Analysis CONTINUED

Income from operations for the U. S. Steel Group for the last three years was:

(Dollars in millions)	1998	1997	1996
Segment income for U. S. Steel operations[(a)]	$ 330	$ 618	$ 248
Items not allocated to segment:			
Pension credits	373	313	330
Administrative expenses	(24)	(33)	(28)
Costs related to former business activities[(b)]	(100)	(125)	(120)
Gain on affiliate stock offering[(c)]	–	–	53
Total income from operations	$ 579	$ 773	$ 483

(a) Includes income from the production and sale of steel mill products, coke and taconite pellets; the management of mineral resources; domestic coal mining; real estate development; and engineering and consulting services.

(b) Includes the portion of postretirement benefit costs and certain other expenses principally attributable to former business units of the U. S. Steel Group. Results in 1997 included charges of $9 million related to environmental accruals and the adoption of SOP 96-1.

(c) For further details, see Note 5 to the U. S. Steel Group Financial Statements.

Segment income for U. S. Steel operations

Segment income for U. S. Steel operations, which decreased $288 million in 1998 from 1997, included a net favorable $30 million for an insurance litigation settlement pertaining to the 1995 Gary (Ind.) Works No. 8 blast furnace explosion and charges of $10 million related to a voluntary workforce reduction plan. Results in 1997 included a benefit of $40 million in insurance settlement payments related to the 1996 hearth breakout at Gary Works No. 13 blast furnace and a $15 million gain on the sale of the plate mill at U. S. Steel's former Texas Works. In addition to the effects of these items, the decrease in segment income in 1998 for U. S. Steel operations was primarily due to lower average steel prices, lower shipments, less efficient operating levels, the cost effects of the 10 day outage at Gary Works No. 13 blast furnace following a tap hole failure, and lower income from affiliates. These unfavorable items were partially offset by lower 1998 accruals for profit sharing.

The increase in imports and weak tubular markets negatively affected steel shipment levels, steel product prices and operating levels in 1998. U. S. Steel shipments declined 8% in 1998 compared to 1997. In 1998, raw steel production was negatively affected by a planned reline at Gary Works No. 6 blast furnace, an unplanned blast furnace outage at the Gary Works No. 13 blast furnace, and the idling of certain facilities to control inventory as a result of the increase in imports. In 1998, raw steel capability utilization averaged 87.6%, compared to 96.5% in 1997.

Segment income for U. S. Steel operations increased $370 million in 1997 compared to 1996. Results in 1996 included $39 million of charges related to repair of the Gary Works No. 13 blast furnace and $13 million of charges related to a voluntary workforce reduction at the Fairless (Pa.) Works. In addition to the effects of these items, the increase in 1997 was primarily due to higher steel shipments, higher average realized steel prices, and improved operating efficiencies, including the full year availability of the Gary Works No. 13 blast furnace. These improvements were partially offset by higher 1997 accruals for profit sharing.

Management's Discussion and Analysis CONTINUED

The Gary Works No. 13 blast furnace. which represents about half of Gary Works iron producing capacity and roughly one-fourth of U. S. Steel's iron capacity, was idled on April 2, 1996 due to a hearth breakout. In addition to direct repair costs, 1996 operating results were adversely affected by production inefficiencies at Gary, as well as at other U. S. Steel plants, reduced shipments and higher costs for purchased iron and semifinished steel. The total effect of this unplanned outage on 1996 segment income is estimated to have been more than $100 million. USX maintained property damage and business interruption insurance coverages for the No. 13 blast furnace hearth breakout and the 1995 Gary Works No. 8 blast furnace explosion, subject to a $50 million deductible per occurrence for recoverable items. In 1998, USX and its insurance companies settled the Gary Works No. 8 blast furnace loss for approximately $30 million (net of charges and reserves) in excess of the deductible. In 1997, USX and its insurance companies settled the Gary Works No. 13 blast furnace loss for $40 million in excess of the deductible.

Segment income for U. S. Steel operations included pension costs (which are primarily noncash) allocated to the ongoing operations of U. S. Steel of $187 million, $169 million, and $172 million in 1998, 1997 and 1996, respectively. Pension costs in 1998 included $10 million for termination benefits associated to a voluntary early retirement program, the settlements for which will principally occur in the first half of 1999.

Items not allocated to segment

Pension credits associated with pension plan assets and liabilities allocated to pre-1987 retirees and former businesses are not included in segment income for U. S. Steel operations. These pension credits. which are primarily noncash, totaled $373 million in 1998, compared to $313 million and $330 million in 1997 and 1996 respectively.

Pension credits, combined with pension costs included in segment income for U. S. Steel operations, resulted in net pension credits of $186 million in 1998, $144 million in 1997 and $158 million in 1996. Net pension credits are expected to be approximately $205 million in 1999. Future net pension credits can be volatile dependent upon the future marketplace performance of plan assets, changes in actuarial assumptions regarding such factors as a selection of a discount rate and rate of return on assets, changes in the amortization levels of transition amounts or prior period service costs, 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. For additional information on pensions, see Note 12 to the U. S. Steel Group Financial Statements.

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

(Dollars in millions)	1998	1997	1996
Net interest and other financial costs	$ 42	$ 87	$ 116
Less:			
Favorable (unfavorable) adjustment to carrying value of Indexed Debt[(a)]	44	10	(6)
Net interest and other financial costs adjusted to exclude above item	$ 86	$ 97	$ 110

(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. At maturity, USX must exchange these notes for shares of RTI common stock, or redeem the notes for the equivalent amount of cash The carrying value of Indexed Debt is adjusted quarterly to settlement value, based on changes in the value of RTI common stock. Any resulting adjustment is charged or credited to income and included in interest and other financial costs. USX's 26% interest in RTI continues to be accounted for under the equity method.

Management's Discussion and Analysis CONTINUED

Adjusted net interest and other financial costs decreased by $11 million in 1998 as compared with 1997, and by $13 million in 1997 as compared with 1996, due primarily to lower average debt levels.

The **provision for estimated income taxes** in 1998 decreased compared to 1997 due to a decline in income from operations, and a $9 million favorable foreign tax adjustment in 1998 as a result of a favorable resolution of foreign tax litigation. The provision for estimated income taxes in 1997 increased compared to 1996 due to improved income from operations, a reduction in estimated tax credits other than foreign tax credits (primarily nonconventional source fuel credits) and an increase in estimated state income tax expense. A significant portion of the reduction in the nonconventional source fuel credits resulted from U. S. Steel Group's entry into a strategic partnership with two limited partners to acquire an interest in three coke batteries at its Clairton (Pa.) Works. For further discussion on income taxes, see Note 15 to the U. S. Steel Group Financial Statements.

The **extraordinary loss** on extinguishment of debt of $2 million in 1996 represents the portion of the loss on early extinguishment of USX debt attributed to the U. S. Steel Group. For additional information, see Note 6 to the U. S. Steel Group Financial Statements.

Net income in 1998 was $364 million, compared with net income of $452 million in 1997 and net income of $273 million in 1996. Net income decreased $88 million in 1998 from 1997, compared with a increase of $179 million in 1997 from 1996. The changes in net income primarily reflect the factors discussed above.

Noncash credit from exchange of preferred stock totaled $10 million in 1997. On May 16, 1997, USX exchanged approximately 3.9 million 6.75% Convertible Quarterly Income Preferred Securities ("Trust Preferred Securities") of USX Capital Trust I, for an equivalent number of shares of its outstanding 6.50% Cumulative Convertible Preferred Stock ("6.50% Preferred Stock"). The noncash credit from exchange of preferred stock represents the difference between the carrying value of the 6.50% Preferred Stock ($192 million) and the fair value of the Trust Preferred Securities of USX Capital Trust I ($182 million), at the date of the exchange. For additional discussion on the exchange, see Note 19 to the U. S. Steel Group Financial Statements.

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

Current assets at year-end 1998 decreased $256 million from year-end 1997 primarily due to lower trade receivables (which were impacted by a decline in revenues) and lower deferred income taxes.

Current liabilities in 1998 decreased $318 million from 1997 primarily due to decreased accounts payable, payroll and benefits payable, and accrued taxes, which were impacted by a decline in revenues and income. The decline in income resulted in lower profit sharing accruals in 1998.

Total long-term debt and notes payable at December 31, 1998 of $489 million was $34 million lower than year-end 1997. Total long-term debt and notes payable included favorable adjustments to carrying value of Indexed Debt of $44 million and $10 million in 1998 and 1997, respectively. Excluding these adjustments, total debt did not change substantially in 1998. Virtually all of the debt is a direct obligation of, or is guaranteed by, USX.

Management's Discussion and Analysis CONTINUED

Net cash provided from operating activities in 1998 was $372 million compared with $470 million in 1997. The 1998 period included proceeds of $38 million for the insurance litigation settlement pertaining to the 1995 Gary Works No. 8 blast furnace explosion and the payment of $30 million for the repurchase of sold accounts receivable. The 1997 period included payments of $80 million in elective funding of retiree life insurance of union and nonunion participants, $70 million to the United Steelworkers of America ("USWA") Voluntary Employee Benefit Association Trust (VEBA) ($40 million represented prefunding for years 1998 and 1999), $49 million to fund the U. S. Steel Group's principal pension plan for the 1996 plan year and receipts of $40 million in insurance recoveries related to the 1996 Gary Works No. 13 hearth breakout. Excluding these items, net cash provided from operating activities decreased $265 million in 1998 due mainly to decreased profitability and unfavorable working capital changes.

The U. S. Steel Group's net cash provided from operating activities in 1996 reflects payment of $59 million to the Internal Revenue Service for certain agreed and unagreed adjustments relating to the tax year 1990, and a payment of $28 million related to settlement of the Pickering litigation. Excluding these items, net cash provided from operating activities increased $456 million in 1997 due mainly to increased profitability and favorable working capital changes.

Capital expenditures in 1998 included a reline of the Gary Works No. 6 blast furnace, an upgrade to the galvanizing line at Fairless Works, replacement of coke battery thruwalls at Gary Works, conversion of the Fairfield pipemill to use round instead of square blooms and additional environmental expenditures primarily at Fairfield Works and Gary Works. Capital expenditures in 1997 included a blast furnace reline at Mon Valley Works, a new heat treat line for plates at Gary Works and additional environmental expenditures primarily at Gary Works. Capital expenditures in 1996 included a blast furnace reline and new galvanizing line at Fairfield Works, environmental expenditures primarily at Gary Works, and certain spending related to the Gary No. 13 blast furnace hearth breakout. Contract commitments for capital expenditures at year-end 1998 were $188 million, compared with $156 million at year-end 1997.

Capital expenditures for 1999 are expected to be approximately $290 million including a new 64" pickle line and upgrades to the cold rolling mill at Mon Valley Works, the upgrade of the hot strip mill coilers and replacement of coke battery thruwalls at Gary Works, the basic oxygen furnace emissions project at Fairfield Works, the new customer service center in Detroit to support the automotive business, and additional environmental expenditures, primarily at Gary Works.

The preceding statement concerning expected 1999 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, unforeseen hazards such as weather conditions, explosions or fires, and delays in obtaining government or partner approval, 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.

Net cash used in **investments in affiliates** in 1998 of $73 million mainly reflects funding for entry into a joint venture in Slovakia with VSZ a.s. ("VSZ"). In February 1998, this 50-50 joint venture, doing business as VSZ U. S. Steel, s. r.o., took over ownership and operation of an existing tin mill facility at VSZ's Ocel plant in Kosice, with annual production capability of 140,000 metric tons. Net cash used in investments in affiliates in 1997 of $26 million included funding of equity affiliate capital projects (mainly the construction of a second galvanizing line at PRO-TEC), partially offset by dividends from equity affiliates. Investments in affiliates in 1996 used net cash of $1 million.

Management's Discussion and Analysis CONTINUED

Cash from disposal of assets totaled $21 million in 1998, compared with $420 million in 1997 and $161 million in 1996. The 1997 proceeds included $361 million from U. S. Steel's entry into a strategic partnership with two limited partners to acquire an interest in three coke batteries at its Clairton Works. The 1996 proceeds reflected the sale of U. S. Steel Group's investment in National-Oilwell and a portion of its investment in RTI common stock.

In 1996, an aggregate of 6.9 million shares of RTI common stock was sold in a public offering. Included in the offering were 2.3 million shares sold by USX for net proceeds of $40 million. USX currently owns approximately 26% of the outstanding common stock of RTI. For additional information, see Note 5 to the U. S. Steel Group Financial Statements.

Financial obligations increased by $9 million in 1998 compared with a decrease of $567 million in 1997, and an increase of $77 million in 1996. Financial obligations consist of the U. S. Steel Group's portion of USX debt and preferred stock of a subsidiary attributed to both groups as well as debt and financing agreements specifically attributed to the U. S. Steel Group. The decrease in 1997 primarily reflected the net effects of cash from operating activities, asset sales and capital expenditures. For a discussion of USX financing activities attributed to both groups, see Management's Discussion and Analysis of USX Consolidated Financial Condition, Cash Flows and Liquidity.

Pension Activity

USX contributed $49 million in 1997 to fund the U. S. Steel Group's principal pension plan for the 1996 plan year.

Derivative Instruments

See Quantitative and Qualitative Disclosures About Market Risk for discussion of derivative instruments and associated market risk for U. S. Steel Group.

Liquidity

For discussion of USX's liquidity and capital resources, see Management's Discussion and Analysis of USX Consolidated Financial Condition, Cash Flows and Liquidity.

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

The U. S. Steel Group 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 the U. S. Steel Group's products and services, operating results will be adversely affected. The U. S. Steel Group 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, marketing areas, 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 the U. S. Steel Group could be adversely affected.

Management's Discussion and Analysis CONTINUED

The U. S. Steel Group's environmental expenditures for the last three years were[(a)]:

(Dollars in millions)	1998	1997	1996
Capital	$ 49	$ 43	$ 90
Compliance			
Operating & maintenance	198	196	199
Remediation[(b)]	19	29	33
Total U. S. Steel Group	$ 266	$ 268	$ 322

(a) Based on previously established U. S. Department of Commerce survey guidelines.

(b) These amounts include spending charged against such reserves, net of recoveries where permissible, but do not include noncash provisions recorded for environmental remediation.

The U. S. Steel Group's environmental capital expenditures accounted for 16%, 16% and 27% of total capital expenditures in 1998, 1997 and 1996, respectively.

Compliance expenditures represented 4% of the U. S. Steel Group's total costs and expenses in 1998, 1997 and 1996. Remediation spending during 1996 to 1998 was mainly related to remediation activities at former and present operating locations. These projects include continuing remediation at an *in situ* uranium mining operation and former coke-making facilities 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.

The U. S. Steel Group 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, USX is unable to estimate the cost of remediation activities, if any, that will be required.

USX has been notified that it is a potential responsible party ("PRP") at 29 waste sites related to the U. S. Steel Group under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as of December 31, 1998. In addition, there are 17 sites related to the U. S. Steel Group where USX has received information requests or other indications that USX 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 the U. S. Steel Group 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, USX is one of a number of parties involved and the total cost of remediation, as well as USX's share thereof, is frequently dependent upon the outcome of investigations and remedial studies. The U. S. Steel Group 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 27 to the U. S. Steel Group Financial Statements.

In 1998, USX entered into a consent decree with the Environmental Protection Agency ("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, USX 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. USX has agreed to pay civil penalties of $2.9 million for the alleged water act violations and $0.5 million in natural resource damages assessment costs, which will be paid in 1999. In addition, USX will pay the EPA $1 million at the end of the remediation project for future monitoring costs. During the negotiations leading up to the settlement with EPA, capital improvements were made to upgrade plant systems to comply with the NPDES requirements. The sediment remediation project is an approved final interim measure under the corrective action program for Gary Works and is expected to cost approximately $30 million over the next six years. Estimated remediation and monitoring costs for this project have been accrued.

In 1997, USX adopted American Institute of Certified Public Accountants Statement of Position No. 96-1 – "Environmental Remediation Liabilities", which resulted in a $20 million charge. For additional information, see Note 3 to the U. S. Steel Group Financial Statements.

New or expanded environmental requirements, which could increase the U. S. Steel Group's environmental costs, may arise in the future. USX 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, the U. S. Steel Group does not anticipate that environmental compliance expenditures (including operating and maintenance and remediation) will materially increase in 1999. The U. S. Steel Group's capital expenditures for environmental are expected to be approximately $32 million in 1999 and are expected to be spent on projects primarily at Gary Works and Fairfield Works. Predictions beyond 1999 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, the U. S. Steel Group anticipates that environmental capital expenditures will be approximately $28 million in 2000; 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.

USX is the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments relating to the U. S. Steel Group involving a variety of matters, including laws and regulations relating to the environment, certain of which are discussed in Note 27 to the U. S. Steel Group Financial Statements. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the U. S. Steel Group Financial Statements. However, management believes that USX will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably to the U. S. Steel Group.

Management's Discussion and Analysis of Operations

Average realized steel prices were 2.1% lower in 1998 versus 1997 due primarily to U. S. Steel realizing lower prices on sheet products. In 1997, average realized steel prices were 2.6% higher versus 1996 due primarily to U. S. Steel realizing higher prices for tubular and sheet products.

Management's Discussion and Analysis CONTINUED

Steel shipments were 10.7 million tons in 1998, 11.6 million tons in 1997, and 11.4 million tons in 1996. U. S. Steel Group shipments comprised approximately 10% of the domestic steel market in 1998. In 1998, U. S. Steel shipments were negatively affected by an increase in imports and weak tubular markets. Exports accounted for approximately 4% of U. S. Steel Group shipments in 1998, 1997 and 1996.

Raw steel production was 11.2 million tons in 1998, compared with 12.3 million tons in 1997 and 11.4 million tons in 1996. Raw steel production averaged 88% of capability in 1998, compared with 97% of capability in 1997 and 89% of capability in 1996. In 1998, raw steel production was negatively affected by a planned reline at Gary Works No. 6 blast furnace, an unplanned blast furnace outage at the Gary Works No. 13 blast furnace, and the idling of certain facilities as a result of the increase in imports. U. S. Steel Group curtailed its production by keeping the Gary Works No. 6 blast furnace out of service after a scheduled reline was completed in mid-August, 1998, until February, 1999. In addition, raw steel production was cut back at Mon Valley Works and Fairfield Works. In 1996, raw steel production was negatively affected by an unplanned blast furnace outage at the Gary Works No. 13 blast furnace. U. S. Steel's stated annual raw steel production capability was 12.8 million tons in 1998, 1997 and 1996.

In addition to cutting back raw steel production in 1998, U. S. Steel suspended one of Minntac's five taconite pellet production lines in Minnesota, idled the Fairfield Works pipe mill for several multiple week periods, and curtailed selected sheet facilities at Fairless Works (the curtailments at Fairless Works represented about 70 percent of operations as of December 31, 1998).

On September 30, 1998, U. S. Steel joined with 11 other producers and the USWA to file trade cases against Japan, Russia, and Brazil. Those filings contend that millions of tons of unfairly traded hot rolled carbon sheet products have caused serious injury to the domestic steel industry through rapidly falling prices and lost business. The U. S. International Trade Commission ("ITC"), in its preliminary determination in November 1998, found the domestic steel industry was being threatened with material injury as a result of imports of hot rolled carbon sheet products from these three countries. This preliminary determination of injury is subject to further investigation by the ITC and U.S. Department of Commerce ("Commerce"). On February 12, 1999, Commerce announced preliminary anti-dumping duty margins on hot rolled imports from Japan (ranging from approximately 25% to 67%) and Brazil (ranging from approximately 50% to 71%) and preliminary countervailing duty margins on imports from Brazil (ranging from more than 6% to more than 9%). On February 22, 1999, Commerce announced preliminary anti-dumping duty margins on hot rolled imports from Russia (ranging from approximately 71% to more than 217%). However, Commerce announced at the same time that it had initialed an agreement with Russia to suspend the anti-dumping investigation on hot rolled imports from Russia. This agreement, if approved, allows the annual import of 750,000 metric tons of hot rolled steel product from Russia at a minimum price ranging from $255 to $280 FOB per metric ton. U. S. Steel is opposed to this agreement and is reviewing all available remedies to challenge this agreement. U. S. Steel will pursue the hot rolled import case against Russia to obtain the issuance of final determinations by Commerce and the ITC. The preliminary injury determination and the preliminary anti-dumping and countervailing duty margin determinations are subject to further investigation by the ITC and Commerce. It is presently expected that Commerce will issue its final anti-dumping and countervailing duty margin determinations on April 28, 1999 and the ITC will issue its final injury determination on June 2, 1999.

Management's Discussion and Analysis CONTINUED

In addition to announcing the preliminary anti-dumping duty margins on hot rolled imports from Russia and the proposed suspension agreement on those imports, Commerce also announced on February 22, 1999 that it had initialed an agreement with Russia to restrict imports of major steel products, other than hot rolled and cut-to-length plate, from Russia. U. S. Steel is opposed to this agreement.

Plate products accounted for 10%, 8% and 9% of U. S. Steel Group shipments in 1998, 1997 and 1996, respectively. On November 5, 1996, two other domestic steel plate producers filed anti-dumping cases with Commerce and the ITC asserting that People's Republic of China, the Russia Federation, Ukraine, and South Africa have engaged in unfair trade practices with respect to the export of carbon cut-to-length plate to the United States. U. S. Steel Group has supported these cases. Commerce issued final affirmative determination of dumping for each country in October 1997, finding substantial dumping margins on cut-to-length steel plate imports from those countries. In December 1997, the ITC voted unanimously that the United States industry producing cut-to-length carbon steel plate was injured due to imports of dumped cut-to-length plate from the four countries. The United States has negotiated suspension agreements that limit imports of cut-to-length carbon steel plate from the four countries to a total of approximately 440,000 tons per year for the next five years, a reduction of about two-thirds from 1996 import levels, and provide for an average 10-15% increase in import prices to remove the injurious impact of the imports. Any violation or abrogation of the suspension agreements will result in imposition of the dumping duties found by Commerce.

On February 16, 1999, U. S. Steel, along with Bethlehem Steel Corporation, IPSCO, Inc., Tuscaloosa Steel Company, and the USWA, filed trade cases against South Korea, France, Italy, Macedonia, India, the Czech Republic, Japan, and Indonesia, contending that dumped and subsidized cut-to-length plate are being imported into the United States from these countries.

USX intends to file additional anti-dumping and countervailing duty petitions if unfairly traded imports adversely impact, or threaten to adversely impact, the results of the U. S. Steel Group. For additional information regarding levels of imported steel, see discussion of "Outlook for 1999" below.

U. S. Steel Mining Company, LLC ("U. S. Steel Mining") entered into a five year contract with the United Mine Workers of America ("UMWA"), effective January 1, 1998, covering approximately 1,000 employees. This agreement followed that of other major mining companies.

The U. S. Steel Group depreciates steel assets by modifying straight-line depreciation based on the level of production. Depreciation charges for 1998, 1997, and 1996 were 93%, 102%, and 94%, respectively, of straight-line depreciation based on production levels for each of the years. See Note 2 to the U. S. Steel Group Financial Statements.

Outlook for 1999

U. S. Steel expects that shipment volumes and average steel product prices will continue to be impacted by the effects of high levels of low priced steel imports and growing domestic minimill production capability for flat rolled products. Scrap prices are currently at low levels and provide minimills a cost advantage. In recent years, demand for steel in the United States has been at high levels. Any weakness in the U.S. economy for capital goods or consumer durables could adversely impact U. S. Steel Group's product prices and shipment levels.

Management's Discussion and Analysis CONTINUED

On August 1, 1999, U. S. Steel, along with several major steel competitors, faces the expiration of the labor agreement with the USWA. U. S. Steel's ability to negotiate an acceptable labor contract is essential to ongoing operations. Any labor interruptions could have an adverse effect on operations, financial results and cash flow.

Steel imports to the United States accounted for an estimated 30%, 24% and 23% of the domestic steel market for the years 1998, 1997 and 1996, respectively. In November 1998, steel imports accounted for an estimated 37% of the domestic steel market. Steel imports of hot rolled and cold rolled steel increased 42% in 1998, compared to 1997. Steel imports of plates increased 75% in 1998, compared to 1997.

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 imports, 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.

Year 2000 Readiness Disclosure

A multi-functional Year 2000 task force continues to execute a preparedness plan which addresses readiness requirements for business computer systems, technical infrastructure, end-user computing, third parties, manufacturing, environmental operations, systems products produced and sold, and dedicated R&D test facilities. The U. S. Steel Group is executing a Year 2000 readiness plan which includes:

- prioritizing and focusing on those computerized and automated systems and processes critical to the operations in terms of material safety, operational, environmental, quality and financial risk to the company.
- allocating and committing appropriate resources to fix the problem.
- communicating with, and aggressively pursuing, critical third parties to help ensure the Year 2000 readiness of their products and services through use of mailings, telephone contacts, on-site assessments and the inclusion of Year 2000 readiness language in purchase orders and contracts.
- performing rigorous Year 2000 tests of critical systems.
- participating in, and exchanging Year 2000 information with industry trade associations, such as the American Iron & Steel Institute, Association of Iron & Steel Engineers and the Steel Industry Systems Association.
- engaging qualified outside engineering and information technology consulting firms to assist in the Year 2000 impact assessment and readiness effort.

State of Readiness

The U. S. Steel Group's progress on achieving Year 2000 readiness is currently on pace with our objectives. Certain systems/processes are to be replaced and/or upgraded with third-party Year 2000 ready products and services. All systems and processes are targeted to be Year 2000 ready, including integration testing, by the end of the third quarter, 1999. This schedule may be impacted by the availability of information and services from third-party suppliers/vendors on the Year 2000 readiness of their products and services. Generally, efforts in 1999 will be primarily devoted to both Year 2000 systems and integration testing, tracking of the readiness of third parties, developing contingency plans and verifying the state of Year 2000 readiness.

The following chart provides the percent of completion for the inventory of systems and processes that may be affected by the year 2000 ("Y2K Inventory"), the analysis performed to determine the Year 2000 date impact on inventoried systems and processes ("Y2K Impact Assessment") and the year 2000 readiness of the U. S. Steel Group's year 2000 inventory ("Y2K Readiness of Overall Inventory"). The percent of completion for Y2K Readiness of Overall Inventory includes all inventory items not date impacted, those items already Year 2000 ready and those corrected and made Year 2000 ready through the renovation/replacement, testing and implementation activities.

	Percent Completed		
As of January 31, 1999	Y2K Inventory	Y2K Impact Assess-ment	Y2K Readiness of Overall Inventory
Information technology	100%	98%	95%
Non-information technology	100%	84%	81%

Third Parties

The U. S. Steel Group continues to review its third party (including, but not limited to outside processors, process control systems and hardware suppliers, telecommunication providers, and transportation carriers) relationships to determine those critical to its operations. The majority of contacts have been made with critical third parties to determine if they will be able to provide their product and service to the U. S. Steel Group after the Year 2000. An aggressive follow-up process with those third parties not responding or returning an unacceptable response is underway. Communications with U. S. Steel Group's third parties is an on-going process which includes mailings, telephone contacts and on-site visits. If it is determined that there is a significant risk with the third parties, an effort will be made to work with the third parties to resolve the issue, or a new provider of the same products or services will be investigated and secured. As of December 31, 1998, the U. S. Steel Group has sent out approximately 700 inquiries and received over 600 responses.

The Costs to Address Year 2000 Issues

The current estimated cost associated with Year 2000 readiness, is approximately $29 million, which includes $16 million in incremental cost. Total costs incurred as of January 31, 1999, were $14 million, including $6 million of incremental costs. As Y2K Impact Assessment nears completion and the renovation planning, readiness implementation and testing evolve, the estimated costs may change.

Year 2000 Risks to the Company

The most reasonably likely worst case Year 2000 scenario would be the inability of third party suppliers, such as utility providers, telecommunication companies, outside processors, and other critical suppliers, to continue providing their products and services. This could pose the greatest material safety, operational, environmental, quality and/or financial risk to the company.

Management's Discussion and Analysis CONTINUED

In addition, the lack of accurate and timely Year 2000 date impact information from suppliers of automation and process control systems and processes is a concern to the U. S. Steel Group. Without timely and quality information from suppliers, specifically on embedded chip technology, schedules for attaining readiness can be impacted and some Year 2000 problems could go undetected during the transition to the year 2000.

Contingency Planning

General guidelines have been issued to all business units for creating contingency plans to address those critical facets of operations that can cause a material safety, operational, environmental, or financial risk to the company. Representatives of the U. S. Steel Group are working with the Association of Iron & Steel Engineers and the American Iron & Steel Institute to develop contingency planning guidelines to address issues specific to the steel industry. These guidelines are intended to help entities develop specific contingency plans that will cover their associated Year 2000 risks and areas of concern. The U. S. Steel Group currently expects to have contingency plans completed and tested, when practical, by the middle of 1999.

This discussion includes forward-looking statements of the U. S. Steel Group's efforts and management's expectations relating to Year 2000 readiness. The Steel Group's ability to achieve Year 2000 readiness and the level of incremental costs associated therewith, could be adversely impacted by, among other things, the availability and cost of programming and testing resources, vendors' ability to install or modify proprietary hardware and software and unanticipated problems identified in the ongoing Year 2000 readiness review. Also, the U. S. Steel Group's ability to mitigate Year 2000 risks could be adversely impacted by the ability to complete, and the effectiveness of, contingency plans.

Accounting Standards

In March 1998, the American Institute of Certified Public Accountants issued its Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidelines for companies to capitalize or expense costs incurred to develop or obtain internal-use software. Effective January 1, 1999, USX adopted SOP 98-1. The incremental impact on results of operations of adoption of SOP 98-1 is likely to be initially favorable since certain qualifying costs will be capitalized and amortized over future periods.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This new standard requires recognition of all derivatives as either assets or liabilities at fair value. This new standard may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses resulting from changes in the fair value of derivative instruments. At adoption this new standard requires a comprehensive review of all outstanding derivative instruments to determine whether or not their use meets the hedge accounting criteria. It is possible that there will be derivative instruments employed in our businesses that do not meet all of the designated hedge criteria and they will be reflected in income on a mark-to-market basis. Based upon the strategies currently used by USX and the level of activity related to forward exchange contracts and commodity-based derivative instruments in recent periods, USX does not anticipate the effect of adoption to have a material impact on either financial position or results of operations for the U. S. Steel Group. USX plans to adopt the standard effective January 1, 2000, as required.

Quantitative and Qualitative Disclosures About Market Risk

Management Opinion Concerning Derivative Instruments

USX employs a strategic approach of limiting its use of derivative instruments principally to hedging activities, whereby gains and losses are generally offset by price changes in the underlying commodity. Based on this approach, combined with risk assessment procedures and internal controls, management believes that its use of derivative instruments does not expose the U. S. Steel Group to material risk; however, the U. S. Steel Group's use of derivative instruments for hedging activities could materially affect the U. S. Steel Group's results of operations in particular quarterly or annual periods. This is primarily because use of such instruments may limit the company's ability to benefit from favorable price movements. 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 2 to the U. S. Steel Group Financial Statements.

Commodity Price Risk and Related Risks

In the normal course of its business, the U. S. Steel Group is exposed to market risk or price fluctuations related to the production and sale of steel products. To a lesser extent, the U. S. Steel Group is exposed to price risk related to the purchase, production or sale of coal and coke and the purchase of natural gas, steel scrap and certain nonferrous metals used as raw materials. The U. S. Steel Group is also exposed to effects of price fluctuations on the value of its raw material and steel product inventories.

The U. S. Steel Group'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, the U. S. Steel Group 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 the U. S. Steel Group'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, 1998, are provided in the following table[(a)]:

(Dollars in millions)

	Incremental Decrease in Pretax Income Assuming a Hypothetical Price Change of[(a)]	
Derivative Commodity Instruments	10%	25%
Natural gas	$ 2.3	$ 5.6
Zinc	1.6	3.9
Nickel	.1	.2
Tin	.1	.2
Heating oil	–	.1

(a) Gains and losses on derivative commodity instruments are generally offset by price changes in the underlying commodity. Effects of these offsets are not reflected in the sensitivity analyses. 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, 1998. U. S. Steel Group management evaluates its portfolio of derivative commodity instruments on an ongoing basis and adds or revises strategies to reflect anticipated market conditions and changes in risk profiles. Changes to the portfolio subsequent to December 31, 1998, would cause future pretax income effects to differ from those presented in the table.

Quantitative and Qualitative Disclosures About Market Risk CONTINUED

While these derivative commodity instruments are generally used to reduce risks from unfavorable commodity price movements, they also may limit the opportunity to benefit from favorable movements. The U. S. Steel Group recorded net pretax hedging losses of $6 million in 1998, compared with net gains of $5 million in 1997, and net gains of $21 million in 1996. 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 25 to the U. S. Steel Group Financial Statements.

Interest Rate Risk

USX 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 1998 interest rates on the fair value of the U. S. Steel Group's specifically attributed non-derivative financial instruments and the U. S. Steel Group's portion of USX's non-derivative financial instruments attributed to both groups, is provided in the following table:

(Dollars in millions)

As of December 31, 1998 Non-Derivative Financial Instruments[(a)]	Carrying Value[(b)]	Fair Value[(b)]	Incremental Increase in Fair Value[(c)]
Financial assets:			
Investments and long-term receivables[(d)]	$ 23	$ 23	$ –
Financial liabilities:			
Long-term debt (including amounts due within one year)[(e)]	$ 381	$ 406	$ 17
Preferred stock of subsidiary[(f)]	66	66	5
USX obligated mandatorily redeemable convertible preferred securities of a subsidiary trust[(f)]	182	165	13
Total	$ 629	$ 637	$ 35

(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 26 to the U. S. Steel Group Financial Statements.

(c) Reflects, by class of financial instrument, the estimated incremental effect of a hypothetical 10% decrease in interest rates at December 31, 1998, on the fair value of non-derivative financial instruments. For financial liabilities, this assumes a 10% decrease in the weighted average yield to maturity of USX's long-term debt at December 31, 1998.

(d) For additional information, see Note 16 to the U. S. Steel Group Financial Statements.

(e) 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 U. S. Steel Group Financial Statements.

(f) See Note 25 to the USX Consolidated Financial Statements.

At December 31, 1998, USX'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 $13 million increase in the fair value of long-term debt assuming a hypothetical 10% decrease in interest rates. However, USX's sensitivity to interest rate declines and corresponding increases in the fair value of its debt portfolio would unfavorably affect USX's results and cash flows only to the extent that USX elected to repurchase or otherwise retire all or a portion of its fixed-rate debt portfolio at prices above carrying value.

Quantitative and Qualitative Disclosures About Market Risk CONTINUED

Foreign Currency Exchange Rate Risk

At December 31, 1998, the U. S. Steel Group had no material exposure to foreign currency exchange rate risk.

Equity Price Risk

The U. S. Steel Group is subject to equity price risk resulting from USX's issuance in December 1996 of $117 million of 6-3/4% Exchangeable Notes Due February 1, 2000 ("Indexed Debt"). At maturity, USX must exchange the notes for shares of RTI International Metals, Inc. (formerly RMI Titanium Company) ("RTI") common stock, or redeem the notes for the equivalent amount of cash. Each quarter, USX adjusts the carrying value of Indexed Debt to settlement value, based on changes in the value of RTI common stock. Any resulting adjustment is charged or credited to income and included in interest and other financial costs. During 1998, USX recorded a favorable adjustment of $44 million. At year-end 1998, a hypothetical 10% increase in the value of RTI common stock would have resulted in a $7 million unfavorable effect on pretax income. USX holds a 26% interest in RTI which is accounted for under the equity method. At December 31, 1998, USX's investment in RTI common stock had a fair market value of $77 million and USX's carrying value of the Indexed Debt was $69 million. The unfavorable effects on income described above would generally be offset by changes in the market value of USX's investment in RTI. However, under the equity method of accounting, USX cannot recognize in income these changes in the market value until the investment is liquidated. The entire effect of adjustments to the carrying value of Indexed Debt is reflected in the U. S. Steel Group Financial Statements.

Safe Harbor

The U. S. Steel Group's quantitative and qualitative disclosures about market risk include forward-looking statements with respect to management's opinion about risks associated with the U. S. Steel Group'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 U. S. Steel Group's hedging programs may differ materially from those discussed in the forward-looking statements.

Management's Report

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

USX 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.

USX 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 consolidated financial statements, USX's independent accountants, who are elected by the stockholders, 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 its responsibilities relative to internal accounting controls and the consolidated financial statements.

Thomas J. Usher	Robert M. Hernandez	Kenneth L. Matheny
Chairman, Board of Directors	*Vice Chairman*	*Vice President*
& Chief Executive Officer	*& Chief Financial Officer*	*& Comptroller*

Report of Independent Accountants

To the Stockholders of USX Corporation:

In our opinion, the accompanying consolidated financial statements appearing on pages U-2 through U-28 present fairly, in all material respects, the financial position of USX Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of USX'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 generally accepted auditing standards 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 the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
600 Grant Street, Pittsburgh, Pennsylvania 15219-2794
February 9, 1999

Consolidated Statement of Operations

(Dollars in millions)	1998	1997	1996
Revenues:			
Sales *(Note 6)*	$ 27,887	$ 22,375	$ 22,743
Dividend and affiliate income	96	105	99
Gain on disposal of assets	82	94	71
Gain on ownership change in Marathon Ashland Petroleum LLC *(Note 3)*	245	–	–
Gain on affiliate stock offering *(Note 9)*	–	–	53
Other income	25	14	11
Total revenues	28,335	22,588	22,977
Costs and expenses:			
Cost of sales (excludes items shown below)	20,712	16,047	16,930
Selling, general and administrative expenses	304	218	144
Depreciation, depletion and amortization	1,224	967	985
Taxes other than income taxes	3,998	3,178	3,202
Exploration expenses	313	189	146
Inventory market valuation charges (credits) *(Note 19)*	267	284	(209)
Total costs and expenses	26,818	20,883	21,198
Income from operations	1,517	1,705	1,779
Net interest and other financial costs *(Note 7)*	279	347	421
Minority interest in income of Marathon Ashland Petroleum LLC *(Note 3)*	249	–	–
Income from continuing operations before income taxes	989	1,358	1,358
Provision for estimated income taxes *(Note 13)*	315	450	412
Income from continuing operations	674	908	946
Discontinued operations *(Note 5)*:			
Income (loss) from operations (net of income tax)	–	(1)	6
Gain on disposal (net of income tax)	–	81	–
Income from discontinued operations	–	80	6
Extraordinary loss *(Note 8)*	–	–	9
Net income	674	988	943
Noncash credit from exchange of preferred stock *(Note 25)*	–	10	–
Dividends on preferred stock	(9)	(13)	(22)
Net income applicable to common stocks	$ 665	$ 985	$ 921

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

Income Per Common Share

(Dollars in millions, except per share data)	1998	1997	1996
CONTINUING OPERATIONS			
Applicable to Marathon Stock:			
Income before extraordinary loss	$ 310	$ 456	$ 671
Extraordinary loss	–	–	7
Net income	$ 310	$ 456	$ 664
Per Share Data			
Basic:			
Income before extraordinary loss	$ 1.06	$ 1.59	$ 2.33
Extraordinary loss	–	–	.02
Net income	$ 1.06	$ 1.59	$ 2.31
Diluted:			
Income before extraordinary loss	$ 1.05	$ 1.58	$ 2.31
Extraordinary loss	–	–	.02
Net income	$ 1.05	$ 1.58	$ 2.29
Applicable to Steel Stock:			
Income before extraordinary loss	$ 355	$ 449	$ 253
Extraordinary loss	–	–	2
Net income	$ 355	$ 449	$ 251
Per Share Data			
Basic:			
Income before extraordinary loss	$ 4.05	$ 5.24	$ 3.00
Extraordinary loss	–	–	.02
Net income	$ 4.05	$ 5.24	$ 2.98
Diluted:			
Income before extraordinary loss	$ 3.92	$ 4.88	$ 2.97
Extraordinary loss	–	–	.02
Net income	$ 3.92	$ 4.88	$ 2.95
DISCONTINUED OPERATIONS			
Applicable to Delhi Stock:			
Income before extraordinary loss		$ 79.7	$ 6.4
Extraordinary loss		–	.5
Net income		$ 79.7	$ 5.9
Per Share Data			
Basic:			
Income before extraordinary loss		$ 8.43	$ .67
Extraordinary loss		–	.06
Net income		$ 8.43	$ .61
Diluted:			
Income before extraordinary loss		$ 8.41	$ .67
Extraordinary loss		–	.06
Net income		$ 8.41	$ .61

See Note 24, for a description and computation of income per common share.

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

Consolidated Balance Sheet

(Dollars in millions) December 31	1998	1997
Assets		
Current assets:		
Cash and cash equivalents *(Note 4)*	$ 146	$ 54
Receivables, less allowance for doubtful accounts of $12 and $15 *(Note 14)*	1,663	1,417
Inventories *(Note 19)*	2,008	1,685
Deferred income tax benefits *(Note 13)*	217	229
Other current assets	172	87
Total current assets	4,206	3,472
Investments and long-term receivables, less reserves of $10 and $15 *(Note 15)*	1,249	1,028
Property, plant and equipment – net *(Note 18)*	12,929	10,062
Prepaid pensions *(Note 11)*	2,413	2,247
Other noncurrent assets	336	280
Cash restricted for redemption of Delhi Stock *(Note 5)*	–	195
Total assets	$ 21,133	$ 17,284
Liabilities		
Current liabilities:		
Notes payable	$ 145	$ 121
Accounts payable	2,478	2,011
Distribution payable to minority shareholder of Marathon Ashland Petroleum LLC *(Note 4)*	103	–
Payroll and benefits payable	480	521
Accrued taxes	245	304
Accrued interest	97	95
Long-term debt due within one year *(Note 17)*	71	471
Total current liabilities	3,619	3,523
Long-term debt *(Note 17)*	3,920	2,932
Long-term deferred income taxes *(Note 13)*	1,579	1,353
Employee benefits *(Note 11)*	2,868	2,713
Deferred credits and other liabilities	720	736
Preferred stock of subsidiary *(Note 25)*	250	250
USX obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely junior subordinated convertible debentures of USX *(Note 25)*	182	182
Minority interest in Marathon Ashland Petroleum LLC *(Note 3)*	1,590	–
Redeemable Delhi Stock *(Note 5)*	–	195
Stockholders' Equity (Details on pages U-6 and U-7)		
Preferred stock *(Note 26)* –		
6.50% Cumulative Convertible issued – 2,767,787 shares and 2,962,037 shares ($138 and $148 liquidation preference, respectively)	3	3
Common stocks:		
Marathon Stock issued – 308,458,835 shares and 288,786,343 shares (par value $1 per share, authorized 550,000,000 shares)	308	289
Steel Stock issued – 88,336,439 shares and 86,577,799 shares (par value $1 per share, authorized 200,000,000 shares)	88	86
Securities exchangeable solely into Marathon Stock – issued – 507,324 shares *(Note 3)*	1	–
Additional paid-in capital	4,587	3,924
Deferred compensation	(1)	(3)
Retained earnings	1,467	1,138
Accumulated other comprehensive income (loss)	(48)	(37)
Total stockholders' equity	6,405	5,400
Total liabilities and stockholders' equity	$ 21,133	$ 17,284

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

Consolidated Statement of Cash Flows

(Dollars in millions)	1998	1997	1996
Increase (decrease) in cash and cash equivalents			
Operating activities:			
Net income	$ 674	$ 988	$ 943
Adjustments to reconcile to net cash provided from operating activities:			
Minority interest in income of Marathon Ashland Petroleum LLC – net of distributions	38	–	–
Depreciation, depletion and amortization	1,224	987	1,012
Exploratory dry well costs	186	78	54
Inventory market valuation charges (credits)	267	284	(209)
Pensions and other postretirement benefits	(181)	(342)	(151)
Deferred income taxes	184	228	257
Gain on disposal of the Delhi Companies	–	(287)	–
Gain on ownership change in Marathon Ashland Petroleum LLC	(245)	–	–
Gain on disposal of assets	(82)	(94)	(71)
Gain on affiliate stock offering	–	–	(53)
Changes in: Current receivables – sold	(30)	(390)	–
– operating turnover	451	16	(170)
Inventories	(6)	(39)	27
Current accounts payable and accrued expenses	(497)	91	83
All other – net	(180)	(62)	(73)
Net cash provided from operating activities	1,803	1,458	1,649
Investing activities:			
Capital expenditures	(1,580)	(1,373)	(1,168)
Acquisition of Tarragon Oil and Gas Limited	(686)	–	–
Proceeds from sale of the Delhi Companies	–	752	–
Disposal of assets	86	481	443
Restricted cash – withdrawals	241	108	–
– deposits	(67)	(205)	(98)
Affiliates – investments	(115)	(219)	(32)
– loans and advances	(104)	(46)	(6)
– repayments of loans and advances	63	7	19
All other – net	12	6	43
Net cash used in investing activities	(2,150)	(489)	(799)
Financing activities:			
Commercial paper and revolving credit arrangements – net	724	41	(153)
Other debt – borrowings	1,036	11	191
– repayments	(1,445)	(786)	(711)
Common stock – issued	668	82	53
– repurchased	(195)	–	–
Preferred stock repurchased	(8)	–	–
Dividends paid	(342)	(316)	(307)
Net cash provided from (used in) financing activities	438	(968)	(927)
Effect of exchange rate changes on cash	1	(2)	1
Net increase (decrease) in cash and cash equivalents	92	(1)	(76)
Cash and cash equivalents at beginning of year	54	55	131
Cash and cash equivalents at end of year	$ 146	$ 54	$ 55

See Note 20, for supplemental cash flow information.

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

Consolidated Statement of Stockholders' Equity

After the redemption of the USX – Delhi Group Common Stock (Delhi Stock) on January 26, 1998 (Note 5), USX has two classes of common stock: USX – Marathon Group Common Stock (Marathon Stock) and USX – U. S. Steel Group Common Stock (Steel Stock), which are intended to reflect the performance of the Marathon and U. S. Steel Groups, respectively. (See Note 10, for a description of the two Groups.) During 1998, USX issued 878,074 Exchangeable Shares (exchangeable solely into Marathon Stock) related to the purchase of a Canadian company. (See Note 3.)

On all matters where the holders of Marathon Stock and Steel Stock vote together as a single class, Marathon Stock has one vote per share and Steel Stock has a fluctuating vote per share based on the relative market value of a share of Steel Stock to the market value of a share of Marathon Stock. In the event of a disposition of all or substantially all the properties and assets of the U. S. Steel Group, USX must either distribute the net proceeds to the holders of the Steel Stock as a special dividend or in redemption of the stock, or exchange the Steel Stock for the Marathon Stock. In the event of liquidation of USX, the holders of the Marathon Stock and Steel Stock will share in the funds remaining for common stockholders based on the relative market capitalization of the respective Marathon Stock and Steel Stock to the aggregate market capitalization of both classes of common stock.

	Dollars in millions			Shares in thousands		
	1998	1997	1996	1998	1997	1996
Preferred stock *(Note 26)* –						
6.50% Cumulative Convertible:						
Outstanding at beginning of year	$ 3	$ 7	$ 7	2,962	6,900	6,900
Repurchased	–	–	–	(194)	–	–
Exchanged for trust preferred securities	–	(4)	–	–	(3,938)	–
Outstanding at end of year	$ 3	$ 3	$ 7	2,768	2,962	6,900
Common stocks:						
Marathon Stock:						
Outstanding at beginning of year	$ 289	$ 288	$ 287	288,786	287,525	287,398
Issued in public offering	17	–	–	17,000	–	–
Issued for:						
Employee stock plans	2	1	1	2,236	1,209	127
Dividend Reinvestment Plan	–	–	–	66	52	–
Exchangeable Shares	–	–	–	371	–	–
Outstanding at end of year	$ 308	$ 289	$ 288	308,459	288,786	287,525
Steel Stock:						
Outstanding at beginning of year	$ 86	$ 85	$ 83	86,578	84,885	83,042
Issued for:						
Employee stock plans	2	1	2	1,733	1,416	1,649
Dividend Reinvestment Plan	–	–	–	25	277	194
Outstanding at end of year	$ 88	$ 86	$ 85	88,336	86,578	84,885
Delhi Stock:						
Outstanding at beginning of year	$ –	$ 9	$ 9	–	9,448	9,447
Issued (canceled) for employee stock plans	–	–	–	–	(3)	1
Reclassified to redeemable Delhi Stock	–	(9)	–	–	(9,445)	–
Outstanding at end of year	$ –	$ –	$ 9	–	–	9,448
Securities exchangeable solely into Marathon Stock:						
Issued to acquire Tarragon stock	$ 1	$ –	$ –	878	–	–
Exchanged for Marathon Stock	–	–	–	(371)	–	–
Outstanding at end of year	$ 1	$ –	$ –	507	–	–

(Table continued on next page)

(Dollars in millions)	Stockholders' Equity 1998	1997	1996	Comprehensive Income 1998	1997	1996
Additional paid-in capital:						
Balance at beginning of year	$3,924	$4,150	$4,094			
Marathon Stock issued	598	38	3			
Steel Stock issued	57	52	53			
Exchangeable Shares:						
Issued	28	–	–			
Exchanged for Marathon Stock	(12)	–	–			
6.50% preferred stock:						
Repurchased	(8)	–	–			
Exchanged for trust preferred securities	–	(188)	–			
Reclassified to redeemable Delhi Stock	–	(128)	–			
Balance at end of year	$4,587	$3,924	$4,150			
Deferred compensation *(Note 21)*	$ (1)	$ (3)	$ (4)			
Retained earnings:						
Balance at beginning of year	$1,138	$ 517	$ (116)			
Net income	674	988	943	$ 674	$ 988	$ 943
Dividends on preferred stock	(9)	(13)	(22)			
Dividends on Marathon Stock (per share: $.84 in 1998, $.76 in 1997 and $.70 in 1996)	(248)	(219)	(201)			
Dividends on Steel Stock (per share $1.00)	(88)	(86)	(85)			
Dividends on Delhi Stock (per share: $.15 in 1997 and $.20 in 1996)	–	(1)	(2)			
Reclassified to redeemable Delhi Stock	–	(58)	–			
Noncash credit from exchange of preferred stock	–	10	–			
Balance at end of year	$1,467	$1,138	$ 517			
Accumulated other comprehensive income (loss):						
Minimum pension liability adjustments:						
Balance at beginning of year	$ (32)	$ (22)	$ (23)			
Changes during year, net of taxes(a)	(5)	(10)	1	(5)	(10)	1
Balance at end of year	(37)	(32)	(22)			
Foreign currency translation adjustments:						
Balance at beginning of year	$ (8)	$ (8)	$ (8)			
Changes during year, net of taxes(a)	(3)	–	–	(3)	–	–
Balance at end of year	(11)	(8)	(8)			
Unrealized holding gains on investments:						
Balance at beginning of year	$ 3	$ –	$ –			
Changes during year, net of taxes(a)	2	3	–	2	3	–
Reclassification adjustment for gains included in net income	(5)	–	–	(5)	–	–
Balance at end of year	–	3	–			
Total balances at end of year	$ (48)	$ (37)	$ (30)			
Total comprehensive income(b)				$ 663	$ 981	$ 944
Total stockholders' equity	$6,405	$5,400	$5,022			

(a) Related income tax provision (credit):	1998	1997	1996
Minimum pension liability adjustments	$ 3	$ 5	$ –
Foreign currency translation adjustments	4	–	–
Unrealized holding gains on investments	2	(1)	–
(b) Total comprehensive income by Group:			
Marathon Group	$ 306	$ 457	$ 665
U. S. Steel Group	357	444	273
Delhi Group	–	80	6
Total	$ 663	$ 981	$ 944

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

Notes to Consolidated Financial Statements

1. Summary of Principal Accounting Policies

Principles applied in consolidation – The consolidated financial statements include the accounts of USX Corporation and the majority-owned subsidiaries which it controls (USX).

Investments in unincorporated oil and gas joint ventures, undivided interest pipelines and jointly owned gas processing plants are consolidated on a pro rata basis.

Investments in other entities over which USX has significant influence are accounted for using the equity method of accounting and are carried at USX's share of net assets plus loans and advances.

Investments in other companies whose stock is publicly traded are carried 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.

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 long-lived assets; 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 principally include sales, dividend and affiliate income, gains or losses on the disposal of assets and gains or losses from changes in ownership interests.

Sales are recognized when products are shipped or services are provided to customers. Consumer excise taxes on petroleum products and merchandise and matching crude oil and refined products buy/sell transactions settled in cash are included in both revenues and costs and expenses, with no effect on income.

Dividend and affiliate income includes USX's proportionate share of income from equity method investments and dividend income from other investments. Dividend income is recognized when dividend payments are received.

When long-lived assets depreciated on an individual basis are sold or otherwise disposed of, any gains or losses are reflected in income. Such gains or losses on the disposal of long-lived assets are recognized when title passes to the buyer and, if applicable, all significant regulatory approvals are received. Proceeds from disposal of long-lived assets depreciated on a group basis are credited to accumulated depreciation, depletion and amortization with no immediate effect on income.

Gains or losses from a change in ownership of a consolidated subsidiary or an unconsolidated affiliate are recognized in revenues in the period of change.

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. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method.

Derivative instruments – USX engages in commodity and currency risk management activities within the normal course of its businesses as an end-user of derivative instruments (Note 27). Management is authorized to manage exposure to price fluctuations related to the purchase, production or sale of crude oil, natural gas, refined products, nonferrous metals and electricity through the use of a variety of derivative financial and nonfinancial instruments. Derivative financial instruments require settlement in cash and include such instruments as over-the-counter (OTC) commodity swap agreements and OTC commodity options. Derivative nonfinancial instruments require or permit settlement by delivery of commodities and include exchange-traded commodity futures contracts and options. At times, derivative positions are closed, prior to maturity, simultaneous with the underlying physical transaction and the effects are recognized in income accordingly. USX's practice does not permit derivative positions to remain open if the underlying physical market risk has been removed. Derivative instruments relating to fixed price sales of equity production are marked-to-market in the current period and the related income effects are included within income from operations. All other changes in the market value of derivative instruments are deferred, including both closed and open positions, and are subsequently recognized in income, as sales or cost of sales, in the same period as the underlying transaction. Premiums on all commodity-based option contracts are initially recorded based on the amount paid or received; the options' market value is subsequently recorded as a receivable or payable, as appropriate. The margin receivable accounts required for open commodity contracts reflect changes in the market prices of the underlying commodity and are settled on a daily basis.

Forward exchange contracts are used to manage currency risks related to commitments for capital expenditures and existing assets or liabilities denominated in a foreign currency. Gains or losses related to firm commitments are deferred and included with the underlying transaction; all other gains or losses are recognized in income in the current period as sales, cost of sales, interest income or expense, or other income, as appropriate. Forward exchange contract values are included in receivables or payables, as appropriate.

Recorded deferred gains or losses are reflected within other current and noncurrent assets or accounts payable and deferred credits and other liabilities. Cash flows from the use of derivative instruments are reported in the same category as the hedged item in the statement of cash flows.

Exploration and development – USX follows the successful efforts method of accounting for oil and gas exploration and development.

Gas balancing – USX follows the sales method of accounting for gas production imbalances.

Long-lived assets – Except for oil and gas producing properties, depreciation is generally computed on the straight-line method based upon estimated lives of assets. USX's method of computing depreciation for steel producing assets modifies straight-line depreciation based on the level of production. The modification factors 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 and depletion of oil and gas producing properties are computed using predetermined rates based upon estimated proved oil and gas reserves applied on a units-of-production method.

Depletion of mineral properties, other than oil and gas, is based on rates which are expected to amortize cost over the estimated tonnage of minerals to be removed.

USX evaluates impairment of its oil and gas producing assets primarily on a field-by-field basis. Other assets are evaluated 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.

Environmental liabilities – USX 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. If recoveries of remediation costs from third parties are probable, a receivable is recorded. Estimated abandonment and dismantlement costs of offshore production platforms are accrued based on production of estimated proved oil and gas reserves.

Postemployment benefits – USX recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions, including an appropriate discount rate, analogous to the required methodology for measuring pension and other postretirement benefit obligations. Actuarial gains and losses are deferred and amortized over future periods.

Insurance – USX 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 1998 classifications.

2. New Accounting Standards

The following accounting standards were adopted by USX:

Reporting comprehensive income – Effective January 1, 1998, USX adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This Standard establishes requirements for reporting and display of comprehensive income and its components in the financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events from nonowner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to owners. See required disclosures on page U-7.

Disclosures of operating segments – USX adopted in 1998, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), which establishes new standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers. The most significant new requirement of this Standard is that reportable operating segments be based on an enterprise's internally reported business segments. USX has complied with SFAS No. 131 by disclosing Group operating segments and other required data at Note 10.

Disclosures of postretirement benefits – USX adopted in 1998, Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132), which revises and standardizes the reporting requirements for postretirement benefits. However, the Standard does not change the measurement and recognition of those benefits. USX has complied with SFAS No. 132 by disclosing pension and other postretirement benefits at Note 11.

Environmental remediation liabilities – Effective January 1, 1997, USX adopted American Institute of Certified Public Accountants Statement of Position No. 96-1, "Environmental Remediation Liabilities" (SOP 96-1), which provides additional interpretation of existing accounting standards related to recognition, measurement and disclosure of environmental remediation liabilities. As a result of adopting SOP 96-1, USX identified additional environmental remediation liabilities of $46 million, of which $28 million was discounted to a present value of $13 million and $18 million was not discounted. Assumptions used in the calculation of the present value amount included an inflation factor of 2% and an interest rate of 7% over a range of 22 to 30 years. Estimated receivables for recoverable costs related to adoption of SOP 96-1 were $4 million. The net unfavorable effect of adoption on income from operations at January 1, 1997, was $27 million.

Stock-based compensation – Effective January 1, 1996, USX adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), which establishes a fair value based method of accounting for employee stock-based compensation plans. The Standard permits companies to continue to apply the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), provided certain disclosures are made. USX has complied with SFAS No. 123 by following the accounting provisions of APB No. 25 and including the required disclosures at Note 21.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This new Standard requires recognition of all derivatives as either assets or liabilities at fair value. SFAS No. 133 may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses resulting from changes in the fair value of derivative instruments. SFAS No. 133 requires a comprehensive review of all outstanding derivative instruments to determine whether or not their use meets the hedge accounting criteria. It is possible that there will be derivative instruments employed in our businesses that do not meet all of the designated hedge criteria and they will be reflected in income on a mark-to-market basis. Based upon the strategies currently employed by USX and the level of activity related to forward exchange contracts and commodity-based derivative instruments in recent periods, USX does not anticipate the effect of adoption to have a material impact on either financial position or results of operations. USX plans to adopt SFAS No. 133 effective January 1, 2000, as required.

3. Business Combinations

In August 1998, Marathon Oil Company (Marathon) acquired Tarragon Oil and Gas Limited (Tarragon), a Canadian oil and gas exploration and production company. Securityholders of Tarragon received, at their election, Cdn$14.25 for each Tarragon share, or the economic equivalent in Exchangeable Shares of an indirect Canadian subsidiary of Marathon, which are exchangeable solely on a one-for-one basis into Marathon Stock. The purchase price included cash payments of $686 million, issuance of 878,074 Exchangeable Shares valued at $29 million and the assumption of $345 million in debt.

The Exchangeable Shares are exchangeable at the option of the holder at any time and automatically redeemable on August 11, 2003 (and, in certain circumstances, as early as August 11, 2001). The holders of Exchangeable Shares are entitled to receive declared dividends equivalent to dividends declared from time to time by USX on Marathon Stock.

USX accounted for the acquisition using the purchase method of accounting. The 1998 results of operations include the operations of Marathon Canada Limited, formerly known as Tarragon, commencing August 12, 1998.

During 1997, Marathon and Ashland Inc. (Ashland) agreed to combine the major elements of their refining, marketing and transportation (RM&T) operations. On January 1, 1998, Marathon transferred certain RM&T net assets to Marathon Ashland Petroleum LLC (MAP), a new consolidated subsidiary. Also on January 1, 1998, Marathon acquired certain RM&T net assets from Ashland in exchange for a 38% interest in MAP. The acquisition was accounted for under the purchase method of accounting. The purchase price was determined to be $1.9 billion, based upon an external valuation. The change in Marathon's ownership interest in MAP resulted in a gain of $245 million, which is included in 1998 revenues.

In connection with the formation of MAP, Marathon and Ashland entered into a Limited Liability Company Agreement dated January 1, 1998 (the LLC Agreement). The LLC Agreement provides for an initial term of MAP expiring on December 31, 2022 (25 years from its formation). The term will automatically be extended for ten-year periods, unless a termination notice is given by either party.

Also in connection with the formation of MAP, the parties entered into a Put/Call, Registration Rights and Standstill Agreement (the Put/Call Agreement). The Put/Call Agreement provides that at any time after December 31, 2004, Ashland will have the right to sell to Marathon all of Ashland's ownership interest in MAP, for an amount in cash and/or Marathon or USX debt or equity securities equal to the product of 85% (90% if equity securities are used) of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP. Payment could be made at closing, or at Marathon's option, in three equal annual installments, the first of which would be payable at closing. At any time after December 31, 2004, Marathon will have the right to purchase all of Ashland's ownership interests in MAP, for an amount in cash equal to the product of 115% of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP.

The following unaudited pro forma data for USX includes the results of operations of Tarragon for 1998 and 1997, and the Ashland RM&T net assets for 1997, giving effect to the acquisitions as if they had been consummated at the beginning of the years presented. The 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, except per share amounts)	1998	1997
Revenues	$28,429	$30,167
Net income	643 [a]	989 [a]
Net income per common share of Marathon Stock –		
Basic and diluted	.95	1.58

[a] Excluding the pro forma inventory market valuation adjustment, pro forma net income would have been $747 million in 1998 and $1,151 million in 1997. Reported net income, excluding the reported inventory market valuation adjustment, would have been $778 million in 1998 and $1,167 million in 1997.

4. Transactions Between MAP and Ashland

At December 31, 1998, MAP included in their cash and cash equivalents, a $103 million demand note invested with Ashland, which is payable March 15, 1999.

During 1998, MAP's petroleum products' sales to Ashland were $185 million and MAP's purchases of products and services from Ashland were $45 million. These transactions were conducted on an arm's-length basis.

At December 31, 1998, MAP had current receivables from Ashland of $22 million and current payables, including distributions payable, to Ashland of $106 million.

5. Discontinued Operations

Effective October 31, 1997, USX sold its stock in Delhi Gas Pipeline Corporation and other subsidiaries of USX that comprised all of the Delhi Group (Delhi Companies). The transaction involved a gross purchase price of $762 million. Under the USX Restated Certificate of Incorporation (USX Certificate), USX was required to elect one of three options to return the value of the net proceeds received in the transaction to the holders of shares in Delhi Stock (Delhi shareholders). Of the three options, USX elected to use the net proceeds of $195 million, or $20.60 per share, to redeem all shares of Delhi Stock. The net proceeds were distributed to the Delhi shareholders on January 26, 1998. After the redemption, 50,000,000 shares of Delhi Stock remain authorized but unissued.

The sale of the Delhi Companies resulted in a gain on disposal of $81 million, net of $206 million income taxes.

As of December 31, 1997, the balance sheet of the Delhi Group consisted of cash restricted for the redemption of Delhi Stock of $195 million and redeemable Delhi Stock in an equal and offsetting amount.

The financial results of the Delhi Group have been reclassified as discontinued operations for the 1997 and 1996 periods presented in the Consolidated Statement of Operations and are summarized as follows:

(In millions)	1997[a]	Year Ended December 31 1996
Revenues	$ 1,205	$ 1,062
Costs and expenses	1,190	1,031
Income from operations	15	31
Net interest and other financial costs	23	21
Income (loss) before income taxes	(8)	10
Provision (credit) for estimated income taxes	(7)	4
Net income (loss)	$ (1)	$ 6

[a] Represents ten months of operations.

6. Revenues

The items below are included in revenues and costs and expenses, with no effect on income.

(In millions)	1998	1997	1996
Matching crude oil and refined product buy/sell transactions settled in cash	$ 3,948	$ 2,436	$ 2,912
Consumer excise taxes on petroleum products and merchandise	3,581	2,736	2,768

7. Other Items

(In millions)	1998	1997	1996
Net interest and other financial costs from continuing operations			
Interest and other financial income:			
Interest income	$ 35	$ 11	$ 8
Other	4	(6)	(1)
Total	39	5	7
Interest and other financial costs:			
Interest incurred	325	289	345
Less interest capitalized	46	31	11
Net interest	279	258	334
Interest on tax issues	21	20	14
Financial costs on trust preferred securities	13	10	–
Financial costs on preferred stock of subsidiary	22	21	21
Amortization of discounts	6	6	9
Expenses on sales of accounts receivable	21	40	40
Adjustment to settlement value of indexed debt	(44)	(10)	6
Other	–	7	4
Total	318	352	428
Net interest and other financial costs	$ 279	$ 347	$ 421

Foreign currency transactions

For 1998, 1997 and 1996, the aggregate foreign currency transaction gains (losses) included in determining income from continuing operations were $13 million, $4 million and $(24) million, respectively.

8. Extraordinary Loss

On December 30, 1996, USX irrevocably called for redemption on January 30, 1997, $120 million of 8-1/2% Sinking Fund Debentures, resulting in a 1996 extraordinary loss of $9 million, net of a $5 million income tax benefit.

9. Gain on Affiliate Stock Offering

In 1996, an aggregate of 6.9 million shares of RTI International Metals, Inc. (RTI) (formerly RMI Titanium Company) common stock was sold in a public offering at a price of $18.50 per share and total net proceeds of $121 million. Included in the offering were 2.3 million shares sold by USX for net proceeds of $40 million. USX recognized a total pretax gain of $53 million, of which $34 million was attributable to the shares sold by USX and $19 million was attributable to the increase in value of USX's investment as a result of the shares sold by RTI. The income tax effect related to the total gain was $19 million. As a result of this transaction, USX's ownership in RTI decreased from approximately 50% to 27%. USX continues to account for its investment in RTI under the equity method of accounting.

10. Group and Segment Information

After the redemption of the Delhi Stock on January 26, 1998, USX has two classes of common stock: Marathon Stock and Steel Stock, which are intended to reflect the performance of the Marathon Group and the U. S. Steel Group, respectively. A description of each group and its products and services is as follows:

> ***Marathon Group*** – The Marathon Group includes Marathon Oil Company and certain other subsidiaries of USX. Marathon Group revenues as a percentage of total consolidated USX revenues were 78% in 1998, 69% in 1997 and 71% in 1996. For information on sales by product line, see table of revenues on page U-49 of Management's Discussion and Analysis.
>
> ***U. S. Steel Group*** – The U. S. Steel Group consists of U. S. Steel, the largest domestic integrated steel producer. U. S. Steel Group revenues as a percentage of total consolidated USX revenues were 22% in 1998, 31% in 1997 and 29% in 1996. For information on sales by product line, see table of revenues on page U-56 of Management's Discussion and Analysis.

Group Operations:

(In millions)	Year	Revenues	Income From Operations	Net Income	Capital Expenditures	Assets
Marathon Group	1998	$ 22,075	$ 938	$ 310	$ 1,270	$ 14,544
	1997	15,754	932	456	1,038	10,565
	1996	16,394	1,296	664	751	10,151
U. S. Steel Group	1998	6,283	579	364	310	6,693
	1997	6,941	773	452	261	6,694
	1996	6,670	483	273	337	6,580
Adjustments for Discontinued Operations and Eliminations	1998	(23)	–	–	–	(104)
	1997	(107)	–	80	74	25
	1996	(87)	–	6	80	249
Total USX Corporation	1998	$ 28,335	$ 1,517	$ 674	$ 1,580	$ 21,133
	1997	22,588	1,705	988	1,373	17,284
	1996	22,977	1,779	943	1,168	16,980

Operating Segments:

USX's reportable operating segments are business units within the Marathon and U. S. Steel Groups, each providing their own unique products and services. Each operating segment is independently managed and requires different technology and marketing strategies. Segment income represents income from operations allocable to operating segments. The following items included in income from operations are not allocated to operating segments:

- Gain on ownership change in MAP
- Gain on affiliate stock offering
- Pension credits associated with pension plan assets and liabilities allocated to pre-1987 retirees and former businesses
- Certain costs related to former U. S. Steel Group business activities
- Certain general and administrative costs related to all Marathon Group operating segments in excess of amounts billed to MAP under service contracts and amounts charged out to operating segments under Marathon's shared services procedures
- USX 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.
- Inventory market valuation adjustments
- Certain other items not allocated to operating segments for business performance reporting purposes

The Marathon Group's operations consists of three reportable operating segments: 1) Exploration and Production – explores for and produces crude oil and natural gas on a worldwide basis; 2) Refining, Marketing and Transportation – refines, markets and transports crude oil and petroleum products, primarily in the Midwest and southeastern United States through MAP; and 3) Other Energy Related Businesses. Other Energy Related Businesses is an aggregation of two segments which fall below the quantitative reporting thresholds: 1) Natural Gas and Crude Oil Marketing and Transportation – markets and transports its own and third-party natural gas and crude oil in the United States; and 2) Power Generation – develops, constructs and operates independent electric power projects worldwide. The U. S. Steel Group consists of a single operating segment, U. S. Steel. U. S. Steel is engaged in the production and sale of steel mill products, coke and taconite pellets; the management of mineral resources; domestic coal mining; engineering and consulting services; and real estate development and management.

(In millions)	Exploration and Production	Refining, Marketing and Transportation	Other Energy Related Businesses	Total Marathon Segments	U. S. Steel	Total
1998						
Revenues:						
Customer	$ 2,085	$19,290	$ 306	$21,681	$ 6,180	$27,861
Intersegment[(a)]	144	10	17	171	–	171
Intergroup[(a)]	13	–	7	20	2	22
Equity in earnings of unconsolidated affiliates	2	12	14	28	46	74
Other	26	40	11	77	55	132
Total revenues	$ 2,270	$19,352	$ 355	$21,977	$ 6,283	$28,260
Segment income	$ 278	$ 896	$ 33	$ 1,207	$ 330	$ 1,537
Significant noncash items included in segment income:						
Depreciation, depletion and amortization[(b)]	581	272	6	859	283	1,142
Pension expenses[(c)]	3	16	2	21	187	208
Capital expenditures[(d)]	839	410	8	1,257	305	1,562
Affiliates – investments[(e)]	–	22	17	39	71	110
1997						
Revenues:						
Customer	$ 1,575	$13,606	$ 381	$15,562	$ 6,812	$22,374
Intersegment[(a)]	619	–	–	619	–	619
Intergroup[(a)]	99	–	6	105	2	107
Equity in earnings of unconsolidated affiliates	14	4	7	25	69	94
Other	7	20	30	57	58	115
Total revenues	$ 2,314	$13,630	$ 424	$16,368	$ 6,941	$23,309
Segment income	$ 773	$ 563	$ 48	$ 1,384	$ 618	$ 2,002
Significant noncash items included in segment income:						
Depreciation, depletion and amortization[(b)]	469	173	7	649	303	952
Pension expenses[(c)]	3	8	1	12	169	181
Capital expenditures[(d)]	810	205	6	1,021	256	1,277
Affiliates – investments[(e)]	114	–	73	187	26	213
1996						
Revenues:						
Customer	$ 1,765	$ 14,130	$ 299	$16,194	$ 6,535	$22,729
Intersegment[(a)]	776	–	–	776	–	776
Intergroup[(a)]	83	–	4	87	–	87
Equity in earnings of unconsolidated affiliates	6	8	11	25	66	91
Other	10	13	13	36	16	52
Total revenues	$ 2,640	$14,151	$ 327	$17,118	$ 6,617	$23,735
Segment income	$ 900	$ 249	$ 57	$ 1,206	$ 248	$ 1,454
Significant noncash items included in segment income:						
Depreciation, depletion and amortization[(b)]	499	173	6	678	292	970
Pension expenses[(c)]	2	8	1	11	172	183
Capital expenditures[(d)]	504	234	3	741	336	1,077
Affiliates – investments[(e)]	20	–	11	31	–	31

(a) Intersegment and intergroup sales and transfers were conducted on an arm's-length basis.
(b) Differences between segment totals and consolidated totals represent amounts included in administrative expenses and, in 1998, international exploration and production property impairments.
(c) Differences between segment totals and consolidated totals represent unallocated pension credits and amounts included in administrative expenses.
(d) Differences between segment totals and consolidated totals represent amounts related to corporate administrative activities and, in 1997 and 1996, discontinued operations.
(e) Differences between segment totals and consolidated totals represent amounts related to corporate administrative activities.

The following schedule reconciles segment revenues and income to amounts reported in the Marathon and U. S. Steel Groups' financial statements:

(In millions)	Marathon Group 1998	Marathon Group 1997	Marathon Group 1996	U. S. Steel Group 1998	U. S. Steel Group 1997	U. S. Steel Group 1996
Revenues:						
Revenues of reportable segments	$ 21,977	$ 16,368	$ 17,118	$ 6,283	$ 6,941	$ 6,617
Items not allocated to segments:						
Gain on ownership change in MAP	245	–	–	–	–	–
Gain on affiliate stock offering	–	–	–	–	–	53
Other	24	–	35	–	–	–
Elimination of intersegment revenues	(171)	(619)	(776)	–	–	–
Administrative revenues	–	5	17	–	–	–
Total Group revenues	$ 22,075	$ 15,754	$ 16,394	$ 6,283	$ 6,941	$ 6,670
Income:						
Income for reportable segments	$ 1,207	$ 1,384	$ 1,206	$ 330	$ 618	$ 248
Items not allocated to segments:						
Gain on ownership change in MAP	245	–	–	–	–	–
Gain on affiliate stock offering	–	–	–	–	–	53
Administrative expenses	(106)	(168)	(133)	(24)	(33)	(28)
Pension credits	–	–	–	373	313	330
Costs related to former business activities	–	–	–	(100)	(125)	(120)
Inventory market valuation adjustments	(267)	(284)	209	–	–	–
Other[a]	(141)	–	14	–	–	–
Total Group income from operations	$ 938	$ 932	$ 1,296	$ 579	$ 773	$ 483

[a] Represents international exploration and production property impairments, suspended exploration well write-offs, gas contract settlement and MAP transition charges in 1998. Represents net gains on certain asset sales, charges for withdrawal from a nonprofit oil spill response group and certain state tax adjustments in 1996.

Geographic Area:

The information below summarizes the operations in different geographic areas. Transfers between geographic areas are at prices which approximate market.

(In millions)	Year	Revenues: Within Geographic Areas	Revenues: Between Geographic Areas	Revenues: Total	Assets[a]
Marathon Group:					
United States	1998	$ 21,296	$ –	$ 21,296	$ 7,675
	1997	15,034	–	15,034	5,588
	1996	15,509	–	15,509	5,192
United Kingdom	1998	532	–	532	1,788
	1997	698	–	698	1,932
	1996	859	–	859	2,002
Other Foreign Countries	1998	247	420	667	1,497
	1997	22	39	61	444
	1996	26	43	69	270
Eliminations	1998	–	(420)	(420)	–
	1997	–	(39)	(39)	–
	1996	–	(43)	(43)	–
Total Marathon Group	1998	$ 22,075	$ –	$ 22,075	$ 10,960
	1997	15,754	–	15,754	7,964
	1996	16,394	–	16,394	7,464
U. S. Steel Group:					
United States	1998	$ 6,266	$ –	$ 6,266	$ 3,043
	1997	6,926	–	6,926	3,023
	1996	6,642	–	6,642	3,024
Foreign Countries	1998	17	–	17	69
	1997	15	–	15	1
	1996	28	–	28	2
Total U. S. Steel Group	1998	$ 6,283	$ –	$ 6,283	$ 3,112
	1997	6,941	–	6,941	3,024
	1996	6,670	–	6,670	3,026
Adjustments for Discontinued Operations and Eliminations	1998	$ (23)	$ –	$ (23)	$ –
	1997	(107)	–	(107)	–
	1996	(87)	–	(87)	557
Total USX Corporation	1998	$ 28,335	$ –	$ 28,335	$ 14,072
	1997	22,588	–	22,588	10,988
	1996	22,977	–	22,977	11,047

[a] Includes property, plant and equipment and investments in affiliates.

11. Pensions and Other Postretirement Benefits

USX has noncontributory defined benefit pension plans covering substantially all employees. Benefits under these plans are primarily 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 based upon a percent of total career pensionable earnings cover certain participating salaried employees.

USX also has defined benefit retiree health and life insurance plans (other benefits) covering most employees upon their retirement. Health benefits are provided, for the most part, through comprehensive hospital, surgical and major medical benefit provisions subject to various cost sharing features. Life insurance benefits are provided to certain nonunion and union represented retiree beneficiaries primarily based on employees' annual base salary at retirement. For most union retirees, benefits are provided for the most part based on fixed amounts negotiated in labor contracts with the appropriate unions. Except for certain life insurance benefits paid from reserves held by insurance carriers and benefits required to be funded by union contracts, most other benefits have not been prefunded.

	Pension Benefits		Other Benefits	
(In millions)	1998	1997	1998	1997
Change in benefit obligations				
Benefit obligations at January 1	$ 8,085	$ 7,885	$ 2,451	$ 2,417
Service cost	119	96	27	21
Interest cost	544	562	172	175
Plan amendments	14	37	(30)	–
Actuarial (gains) losses	637	462	164	(11)
Acquisition	145	–	98	–
Settlement, curtailment and termination benefits	10	4	7	–
Benefits paid	(925)	(961)	(160)	(151)
Benefit obligations at December 31	$ 8,629	$ 8,085	$ 2,729	$ 2,451
Change in plan assets				
Fair value of plan assets at January 1	$10,925	$ 9,849	$ 258	$ 111
Actual return on plan assets	1,507	1,972	31	19
Acquisition	55	–	–	–
Employer contributions	(6)	44	–	150
Benefits paid	(907)	(940)	(24)	(22)
Fair value of plan assets at December 31	$11,574	$10,925	$ 265	$ 258
Funded status of plans at December 31	$ 2,945 (a)	$ 2,840 (a)	$(2,464)	$ (2,193)
Unrecognized net gain from transition	(175)	(249)	–	–
Unrecognized prior service costs (credits)	566	628	(38)	(7)
Unrecognized net actuarial gains	(993)	(993)	(81)	(254)
Additional minimum liability(b)	(75)	(79)	–	–
Prepaid (accrued) benefit cost	$ 2,268	$ 2,147	$(2,583)	$ (2,454)

	1998	1997
(a) Includes several small plans that have accumulated benefit obligations in excess of plan assets:		
Projected benefit obligation (PBO)	$ (120)	$ (151)
Plan assets	–	24
PBO in excess of plan assets	$ (120)	$ (127)
(b) Additional minimum liability recorded was offset by the following:		
Intangible asset	$ 18	$ 30
Accumulated other comprehensive income (losses):		
Beginning of year	$ (32)	$ (22)
Change during year (net of tax)	(5)	(10)
Balance at end of year	$ (37)	$ (32)

(In millions)	Pension Benefits 1998	1997	1996	Other Benefits 1998	1997	1996
Components of net periodic benefit cost (credit)						
Service cost	$ 119	$ 96	$ 104	$ 27	$ 21	$ 26
Interest cost	544	562	568	172	175	183
Return on plan assets – actual	(1,507)	(1,972)	(1,275)	(31)	(19)	(12)
– deferred gain	631	1,144	422	10	8	1
Amortization of unrecognized (gains) losses	7	3	7	(12)	(12)	2
Multiemployer and other USX plans	6	6	6	13 [a]	15 [a]	15 [a]
Settlement and termination costs	10 [b]	4	6	–	–	–
Net periodic benefit cost (credit)	$ (190)	$ (157)	$ (162)	$ 179	$ 188	$ 215

[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 $103 million, including the effects of future medical inflation, and this amount could increase if additional beneficiaries are assigned.

[b] Represents costs of the U. S. Steel Group 1998 voluntary early retirement program.

	Pension Benefits 1998	1997	Other Benefits 1998	1997
Actuarial assumptions at December 31:				
Discount rate	6.5%	7.0%	6.5%	7.0%
Expected annual return on plan assets	9.0%	9.5%	9.0%	9.5%
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 1999. The rate was assumed to decrease gradually to 5% for 2005 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	$ 23	$ (17)
Effect on other postretirement benefit obligations	288	(237)

12. 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
1999	$ 10	$ 229
2000	11	293
2001	11	200
2002	11	116
2003	11	82
Later years	117	208
Sublease rentals	–	(16)
Total minimum lease payments	171	$ 1,112
Less imputed interest costs	(76)	
Present value of net minimum lease payments included in long-term debt	$ 95	

Operating lease rental expense from continuing operations:

(In millions)	1998	1997	1996
Minimum rental	$ 293	$ 237	$ 227
Contingent rental	29	25	15
Sublease rentals	(8)	(8)	(8)
Net rental expense	$ 314	$ 254	$ 234

USX 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. In the event of a change in control of USX, as defined in the agreements, or certain other circumstances, operating lease obligations totaling $115 million may be declared immediately due and payable.

13. Income Taxes

Provisions (credits) for estimated income taxes on income from continuing operations were:

	1998			1997			1996		
(In millions)	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ 102	$ 168	$ 270	$ 208	$ 163	$ 371	$ 142	$ 151	$ 293
State and local	33	18	51	7	32	39	12	21	33
Foreign	(4)	(2)	(6)	12	28	40	4	82	86
Total	$ 131	$ 184	$ 315	$ 227	$ 223	$ 450	$ 158	$ 254	$ 412

A reconciliation of federal statutory tax rate (35%) to total provisions from continuing operations follows:

(In millions)	1998	1997	1996
Statutory rate applied to income from continuing operations before income taxes	$ 346	$ 475	$ 476
Effects of foreign operations, including foreign tax credits	(37)	(11)	(16)
State and local income taxes after federal income tax effects	33	25	22
Credits other than foreign tax credits	(12)	(24)	(48)
Excess percentage depletion	(11)	(10)	(7)
Effects of partially owned companies	(4)	(9)	(16)
Nondeductible business and amortization expenses	4	5	5
Dispositions of subsidiary investments	–	–	(8)
Adjustment of prior years' income taxes	(5)	2	3
Adjustment of valuation allowances	–	(5)	–
Other	1	2	1
Total provisions on income from continuing operations	$ 315	$ 450	$ 412

Deferred tax assets and liabilities resulted from the following:

(In millions) December 31	1998	1997
Deferred tax assets:		
Minimum tax credit carryforwards	$ 200	$ 222
State tax loss carryforwards (expiring in 1999 through 2018)	118	127
Foreign tax loss carryforwards (portion of which expire in 1999 through 2013)	414	483
Employee benefits	1,170	1,079
Expected federal benefit for:		
Crediting certain foreign deferred income taxes	528	249
Deducting state and other foreign deferred income taxes	48	47
Receivables, payables and debt	80	63
Contingency and other accruals	188	198
Other	50	10
Valuation allowances:		
Federal	(30)	–
State	(73)	(91)
Foreign	(260)	(272)
Total deferred tax assets[a]	2,433	2,115
Deferred tax liabilities:		
Property, plant and equipment	2,409	2,062
Prepaid pensions	917	790
Inventory	186	212
Investments in subsidiaries and affiliates	57	74
Other	190	94
Total deferred tax liabilities	3,759	3,232
Net deferred tax liabilities	$ 1,326	$ 1,117

[a] USX expects to generate sufficient future taxable income to realize the benefit of its deferred tax assets. In addition, the ability to realize the benefit of foreign tax credits is based upon certain assumptions concerning future operating conditions (particularly as related to prevailing oil prices), income generated from foreign sources and USX's tax profile in the years that such credits may be claimed.

The consolidated tax returns of USX for the years 1990 through 1994 are under various stages of audit and administrative review by the IRS. USX believes it has made adequate provision for income taxes and interest which may become payable for years not yet settled.

Pretax income (loss) from continuing operations included $(75) million, $250 million and $339 million attributable to foreign sources in 1998, 1997 and 1996, respectively.

Undistributed earnings of certain consolidated foreign subsidiaries at December 31, 1998, amounted to $132 million. No provision for deferred U.S. income taxes has been made for these subsidiaries because USX intends to permanently reinvest such earnings in those foreign operations. If such earnings were not permanently reinvested, a deferred tax liability of $46 million would have been required.

14. Sales of Receivables

USX has an agreement (the program) at December 31, 1998, to sell an undivided interest in certain accounts receivable of the U. S. Steel Group. Payments are collected from the sold accounts receivable; the collections are reinvested in new accounts receivable for the buyers; and a yield, based on defined short-term market rates, is transferred to the buyers. At December 31, 1998, the amount sold under the program that had not been collected was $320 million, which will be forwarded to the buyers at the end of the agreement in 1999, or in the event of earlier contract termination. If USX does not have a sufficient quantity of eligible accounts receivable to reinvest in for the buyers, the size of the program will be reduced accordingly. The amounts sold under the current and previous programs averaged $347 million, $705 million and $740 million for years 1998, 1997 and 1996, respectively. (For most of 1997 and for the year 1996, the Marathon and Delhi Groups had a separate accounts receivable program that was terminated in late 1997.) The buyers have rights to a pool of receivables that must be maintained at a level of at least 115% of the program's size. USX does not generally require collateral for accounts receivable, but significantly reduces credit risk through credit extension and collection policies, which include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments and aggressively pursuing delinquent accounts. In the event of a change in control of USX, USX may be required to forward to the buyers, payments collected on the sold accounts receivable.

15. Investments and Long-Term Receivables

(In millions) December 31	1998	1997
Equity method investments	$ 1,062	$ 838
Other investments	81	88
Receivables due after one year	56	71
Deposits of restricted cash	21	–
Other	29	31
Total	$ 1,249	$ 1,028

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

(In millions)	1998	1997	1996
Income data – year:			
Revenues	$ 3,510	$ 3,705	$ 3,274
Operating income	324	342	318
Net income	176	191	193
Balance sheet data – December 31:			
Current assets	$ 1,290	$ 1,094	
Noncurrent assets	4,382	3,476	
Current liabilities	874	863	
Noncurrent liabilities	2,137	1,521	

Dividends and partnership distributions received from equity affiliates were $42 million in 1998, $34 million in 1997 and $49 million in 1996.

USX purchases from equity affiliates totaled $395 million, $461 million and $509 million in 1998, 1997 and 1996, respectively. USX sales to equity affiliates totaled $725 million, $812 million and $830 million in 1998, 1997 and 1996, respectively.

16. Short-Term Credit Agreement

USX has a short-term credit agreement totaling $125 million at December 31, 1998. Interest is based on the bank's prime rate or London Interbank Offered Rate (LIBOR), and carries a facility fee of .15%. Certain other banks provide short-term lines of credit totaling $150 million which require a .125% fee or maintenance of compensating balances of 3%. At December 31, 1998, there were $40 million in borrowings against these facilities. USX had other outstanding short-term borrowings of $105 million.

17. Long-Term Debt

(In millions)	Interest Rates – %	Maturity	December 31 1998	1997
USX Corporation:				
Revolving credit facility[a]		2001	$ 700	$ –
Notes payable	$6^{17}/_{20}$ – $9^{4}/_{5}$	1999 – 2023	2,267	2,239
Foreign currency obligations[b]	$5^{3}/_{4}$	–	–	68
Obligations relating to Industrial Development and Environmental Improvement Bonds and Notes[c]	$3^{3}/_{20}$ – $6^{7}/_{8}$	2007 – 2033	494	470
Indexed debt[d]	$6^{3}/_{4}$	2000	69	113
All other obligations, including sale-leaseback financing and capital leases		1999 – 2012	94	98
Consolidated subsidiaries:				
Revolving credit facilities[e]			–	–
Guaranteed Notes	7	2002	135	135
Guaranteed Loan[f]	$9^{1}/_{20}$	1999 – 2006	245	265
Notes payable	$8^{1}/_{2}$	1999 – 2001	2	3
All other obligations, including capital leases		1999 – 2008	11	38
Total [g][h]			4,017	3,429
Less unamortized discount			26	26
Less amount due within one year			71	471
Long-term debt due after one year			$ 3,920	$ 2,932

(a) An amended agreement which terminates in August 2001, provides for borrowing under a $2,350 million revolving credit facility. Interest is based on defined short-term market rates. During the term of this agreement, USX is obligated to pay a variable facility fee on total commitments, which was .15% at December 31, 1998.

(b) These obligations were redeemed during 1998.

(c) At December 31, 1998, USX had outstanding obligations relating to Environmental Improvement Bonds in the amount of $159 million, which were supported by letter of credit arrangements that could become short-term obligations under certain circumstances.

(d) The indexed debt represents $6^{3}/_{4}$% exchangeable notes due February 1, 2000, in the principal amount of $117 million or $21.375 per note, which was the market price per share of RTI common stock on November 26, 1996. At maturity, the principal amount of each note will be mandatorily exchanged by USX into shares of RTI common stock (or, at USX's option, the cash equivalent and/or such other consideration as permitted or required by the terms of the notes) at a defined exchange rate, which is based on the average market price of RTI common stock valued in January 2000. The carrying value of the notes is adjusted quarterly to settlement value and any resulting adjustment is charged or credited to income and included in net interest and other financial costs.

(e) In 1998, MAP entered into a revolving credit facility for $100 million that terminates in July 1999 and a $400 million revolving credit facility that terminates in July 2003. Interest is based on defined short-term market rates for both facilities. During the terms of the agreements, MAP is obligated to pay a variable facility fee on total commitments. At December 31, 1998, the facility fee was .10% for the $100 million facility and .125% for the $400 million facility. At December 31, 1998, the unused and available credit was $500 million. In the event that MAP defaults on indebtedness (as defined in the agreement) in excess of $100 million, USX has guaranteed the payment of any outstanding obligations.

(f) The guaranteed loan was used to fund a portion of the costs in connection with the development of the East Brae Field and the SAGE pipeline in the North Sea. A portion of proceeds from a long-term gas sales contract is dedicated to loan service under certain circumstances. Prepayment of the loan may be required under certain situations, including events impairing the security interest.

(g) Required payments of long-term debt for the years 2000-2003 are $127 million, $981 million, $209 million and $186 million, respectively.

(h) In the event of a change in control of USX, as defined in the related agreements, debt obligations totaling $3,610 million may be declared immediately due and payable. The principal obligations subject to such a provision are Notes payable – $2,267 million; and Guaranteed Loan – $245 million. In such event, USX may also be required to either repurchase the leased Fairfield slab caster for $108 million or provide a letter of credit to secure the remaining obligation.

18. Property, Plant and Equipment

(In millions) December 31	1998	1997
Marathon Group	$ 20,728	$ 17,233
U. S. Steel Group	8,439	8,295
Total	29,167	25,528
Less accumulated depreciation, depletion and amortization	16,238	15,466
Net	$ 12,929	$ 10,062

Property, plant and equipment includes gross assets acquired under capital leases (including sale-leasebacks accounted for as financings) of $108 million at December 31, 1998, and $134 million at December 31, 1997; related amounts in accumulated depreciation, depletion and amortization were $77 million and $94 million, respectively.

19. Inventories

(In millions) December 31	1998	1997
Raw materials	$ 916	$ 582
Semi-finished products	282	331
Finished products	1,205	922
Supplies and sundry items	156	134
Total (at cost)	2,559	1,969
Less inventory market valuation reserve	551	284
Net inventory carrying value	$ 2,008	$ 1,685

At December 31, 1998 and 1997, the LIFO method accounted for 90% and 92%, respectively, of total inventory value. Current acquisition costs were estimated to exceed the above inventory values at December 31 by approximately $310 million and $300 million in 1998 and 1997, respectively.

The inventory market valuation reserve reflects the extent that the recorded LIFO cost basis of crude oil and refined products inventories exceeds net realizable value. The reserve is decreased to reflect increases in market prices and inventory turnover and increased to reflect decreases in market prices. Changes in the inventory market valuation reserve result in noncash charges or credits to costs and expenses.

20. Supplemental Cash Flow Information

(In millions)	1998	1997	1996
Cash used in operating activities included:			
Interest and other financial costs paid (net of amount capitalized)	$ (336)	$ (382)	$ (488)
Income taxes paid	(183)	(400)	(127)
Commercial paper and revolving credit arrangements – net:			
Commercial paper – issued	$ 1,650	$ –	$ 1,422
– repayments	(950)	–	(1,555)
Credit agreements – borrowings	15,836	10,454	10,356
– repayments	(15,867)	(10,449)	(10,340)
Other credit arrangements – net	55	36	(36)
Total	$ 724	$ 41	$ (153)
Noncash investing and financing activities:			
Common stock issued for dividend reinvestment and employee stock plans	$ 5	$ 10	$ 6
Acquisition of Tarragon			
– Exchangeable Shares issued	29	–	–
– liabilities assumed	433	–	–
Acquisition of Ashland RM&T net assets			
– 38% interest in MAP	1,900	–	–
– liabilities assumed	1,038	–	–
Acquisition of assets – debt issued	–	–	2
Disposal of assets – notes and common stock received	2	–	12
– liabilities assumed by buyers	–	240	25
Trust preferred securities exchanged for preferred stock	–	182	–
Marathon Stock issued for Exchangeable Shares	11	–	–

21. Stock-Based Compensation Plans

The 1990 Stock Plan, as amended and restated, authorizes the Compensation Committee of the Board of Directors to grant restricted stock, stock options and stock appreciation rights to key management employees. Such employees are generally granted awards of the class of common stock intended to reflect the performance of the group(s) to which their work relates. Up to .5 percent of the outstanding Marathon Stock and .8 percent of the outstanding Steel Stock, as determined on December 31 of the preceding year, are available for grants during each calendar year the 1990 Plan is in effect. 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 1990 Plan is in effect. As of December 31, 1998, 8,141,990 Marathon Stock shares and 2,524,613 Steel Stock shares were available for grants in 1999. The Stock-Based Compensation Plans' activity below includes the Delhi Stock prior to its January 1998 redemption (Note 5).

Restricted stock represents stock granted for such consideration, if any, as determined by the Compensation Committee, subject to provisions for forfeiture and restricting 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 stockholders' 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:

	Marathon Stock			Steel Stock		
	1998	1997	1996	1998	1997	1996
Number of shares granted	25,378	20,430	11,495	17,742	11,942	5,605
Weighted-average grant-date fair value per share	$ 34.00	$ 29.38	$ 22.38	$ 37.28	$ 32.00	$ 31.94

Stock options represent the right to purchase shares of Marathon Stock, Steel Stock or Delhi 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. Stock options vest after a one-year service period and expire 10 years from the date they are granted.

The following is a summary of stock option activity:

	Marathon Stock		Steel Stock		Delhi Stock	
	Shares	Price[a]	Shares	Price[a]	Shares	Price[a]
Balance December 31, 1995	5,056,550	$ 23.63	1,056,650	$ 35.68	259,900	$ 16.24
Granted	633,825	22.38	411,705	31.94	77,550	13.63
Exercised	(321,985)	17.50	(100,260)	31.98	(1,500)	12.69
Canceled	(137,820)	26.82	(22,500)	33.43	(9,000)	17.49
Balance December 31, 1996	5,230,570	23.78	1,345,595	34.85	326,950	15.60
Granted	756,260	29.38	457,590	32.00	94,250	13.31
Exercised	(2,215,665)	23.86	(158,265)	31.85	(6,300)	12.21
Canceled	(76,300)	26.91	(11,820)	34.36	(6,650)	15.73
Balance December 31, 1997	3,694,865	24.81	1,633,100	34.35	408,250	15.13
Granted	987,535	34.00	611,515	37.28		
Exercised	(594,260)	27.61	(230,805)	32.00		
Canceled	(13,200)	27.22	(21,240)	35.89		
Redeemed	–		–		(408,250)	20.60 [b]
Balance December 31, 1998	4,074,940	26.62	1,992,570	35.50	–	

[a] Weighted-average exercise price

[b] Redemption price

The following table represents stock options at December 31, 1998, excluding the Delhi Stock, which was redeemed on January 26, 1998:

		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
Marathon Stock	$ 17.00–23.44	1,728,295	5.7 years	$20.63	1,728,295	$20.63
	25.38–26.88	174,050	2.4	25.46	174,050	25.46
	29.08–34.00	2,172,595	7.3	31.48	1,189,060	29.39
	Total	4,074,940			3,091,405	
Steel Stock	$ 22.46–25.44	32,815	2.5 years	$24.83	32,815	$24.83
	31.69–34.44	1,076,165	7.2	32.57	1,076,165	32.57
	37.28–44.19	883,590	7.8	39.46	279,375	44.19
	Total	1,992,570			1,388,355	

During 1996, USX adopted SFAS No. 123, Accounting for Stock-Based Compensation, as discussed in Note 2, and elected to continue to follow the accounting provisions of APB No. 25. Actual stock-based compensation expense (credit) was $(3) million in 1998, $30 million in 1997 and $8 million in 1996. Incremental compensation expense, as determined under SFAS No. 123, was not material ($.02 or less per share for all years presented). Therefore, pro forma net income and earnings per share data have been omitted.

Effective January 1, 1997, USX created a deferred compensation plan for non-employee directors of its Board of Directors. The plan permits participants to defer some or all of their annual retainers in the form of common stock units or cash. Common stock units are book entry units equal in value to a share of Marathon Stock or Steel Stock. Deferred stock benefits are distributed in shares of common stock within five business days after a participant leaves the Board of Directors. During 1998 and 1997, no shares of common stock were distributed.

22. Dividends

In accordance with the USX Certificate, dividends on the Marathon Stock and Steel Stock are limited to the legally available funds of USX. Net losses of any Group, as well as dividends and distributions on any class of USX Common Stock or series of preferred stock and repurchases of any class of USX Common Stock or series of preferred stock at prices in excess of par or stated value, will reduce the funds of USX legally available for payment of dividends on all classes of Common Stock. Subject to this limitation, the Board of Directors intends to declare and pay dividends on the Marathon Stock and Steel Stock based on the financial condition and results of operations of the related group, although it has no obligation under Delaware law to do so. In making its dividend decisions with respect to each of the Marathon Stock and Steel Stock, the Board of Directors considers, among other things, the long-term earnings and cash flow capabilities of the related group as well as the dividend policies of similar publicly traded companies.

Dividends on the Steel Stock are further limited to the Available Steel Dividend Amount. At December 31, 1998, the Available Steel Dividend Amount was at least $3,336 million. The Available Steel Dividend Amount will be increased or decreased, as appropriate, to reflect U. S. Steel Group net income, dividends, repurchases or issuances with respect to the Steel Stock and preferred stock attributed to the U. S. Steel Group and certain other items.

23. Stockholder Rights Plan

USX's Board of Directors has adopted a Stockholder Rights Plan and declared a dividend distribution of one right for each outstanding share of Marathon Stock and Steel Stock referred to together as "Voting Stock." Each right becomes exercisable, at a price of $120, when any person or group has acquired, obtained the right to acquire or made a tender or exchange offer for 15% or more of the total voting power of the Voting Stock, except pursuant to a qualifying all-cash tender offer for all outstanding shares of Voting Stock, which is accepted with respect to shares of Voting Stock representing a majority of the voting power other than Voting Stock beneficially owned by the offeror. Each right entitles 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 total voting power of the Voting Stock, Marathon Stock or Steel Stock (as the case may be) or other property having a market value of twice the exercise price. After the rights become exercisable, if USX is acquired in a merger or other business combination where it is not the survivor, or if 50% or more of USX's assets, earnings power or cash flow are sold or transferred, each right entitles the holder to purchase common stock of the acquiring entity having a market value of twice the exercise price. The rights and exercise price are subject to adjustment, and the rights expire on October 9, 1999, or may be redeemed by USX for one cent per right at any time prior to the point 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.

24. Income Per Common Share

The method of calculating net income per share for the Marathon Stock, the Steel Stock and, prior to November 1, 1997, the Delhi Stock reflects the USX Board of Directors' intent that the separately reported earnings and surplus of the Marathon Group, the U. S. Steel Group and the Delhi Group, as determined consistent with the USX Certificate, are available for payment of dividends on the respective classes of stock, although legally available funds and liquidation preferences of these classes of stock do not necessarily correspond with these amounts. The financial statements of the Marathon Group, the U. S. Steel Group and the Delhi Group, taken together, include all accounts which comprise the corresponding consolidated financial statements of USX.

Basic net income per share is calculated by adjusting net income for dividend requirements of preferred stock and, in 1997, the noncash credit on exchange of preferred stock and is based on the weighted average number of common shares outstanding.

Diluted net income per share assumes conversion of convertible securities for the applicable periods outstanding and assumes exercise of stock options, provided in each case, the effect is not antidilutive.

COMPUTATION OF INCOME PER SHARE

	1998 Basic	1998 Diluted	1997 Basic	1997 Diluted	1996 Basic	1996 Diluted
CONTINUING OPERATIONS						
Marathon Group						
Net income (millions):						
Income before extraordinary loss	$ 310	$ 310	$ 456	$ 456	$ 671	$ 671
Extraordinary loss	–	–	–	–	7	7
Net income	310	310	456	456	664	664
Effect of dilutive securities –						
Convertible debentures	–	–	–	3	–	14
Net income assuming conversions	$ 310	$ 310	$ 456	$ 459	$ 664	$ 678
Shares of common stock outstanding (thousands):						
Average number of common shares outstanding	292,876	292,876	288,038	288,038	287,460	287,460
Effect of dilutive securities:						
Convertible debentures	–	–	–	1,936	–	8,975
Stock options	–	559	–	546	–	133
Average common shares and dilutive effect	292,876	293,435	288,038	290,520	287,460	296,568
Per share:						
Income before extraordinary loss	$ 1.06	$ 1.05	$ 1.59	$ 1.58	$ 2.33	$ 2.31
Extraordinary loss	–	–	–	–	.02	.02
Net income	$ 1.06	$ 1.05	$ 1.59	$ 1.58	$ 2.31	$ 2.29
U. S. Steel Group						
Net income (millions):						
Income before extraordinary loss	$ 364	$ 364	$ 452	$ 452	$ 275	$ 275
Noncash credit from exchange of preferred stock	–	–	10	–	–	–
Dividends on preferred stock	(9)	–	(13)	–	(22)	(22)
Extraordinary loss	–	–	–	–	(2)	(2)
Net income applicable to Steel Stock	355	364	449	452	251	251
Effect of dilutive securities:						
Trust preferred securities	–	8	–	6	–	–
Convertible debentures	–	–	–	2	–	3
Net income assuming conversions	$ 355	$ 372	$ 449	$ 460	$ 251	$ 254
Shares of common stock outstanding (thousands):						
Average number of common shares outstanding	87,508	87,508	85,672	85,672	84,025	84,025
Effect of dilutive securities:						
Trust preferred securities	–	4,256	–	2,660	–	–
Preferred stock	–	3,143	–	4,811	–	–
Convertible debentures	–	–	–	1,025	–	1,925
Stock options	–	36	–	35	–	12
Average common shares and dilutive effect	87,508	94,943	85,672	94,203	84,025	85,962
Per share:						
Income before extraordinary loss	$ 4.05	$ 3.92	$ 5.24	$ 4.88	$ 3.00	$ 2.97
Extraordinary loss	–	–	–	–	.02	.02
Net income	$ 4.05	$ 3.92	$ 5.24	$ 4.88	$ 2.98	$ 2.95
DISCONTINUED OPERATIONS						
Delhi Group						
Net income (millions):						
Income before extraordinary loss			$ 79.7	$ 79.7	$ 6.4	$ 6.4
Extraordinary loss			–	–	.5	.5
Net income			$ 79.7	$ 79.7	$ 5.9	$ 5.9
Shares of common stock outstanding (thousands):						
Average number of common shares outstanding			9,449	9,449	9,448	9,448
Stock options			–	21	–	3
Average common shares and dilutive effect			9,449	9,470	9,448	9,451
Per share:						
Income before extraordinary loss			$ 8.43	$ 8.41	$ .67	$ .67
Extraordinary loss			–	–	.06	.06
Net income			$ 8.43	$ 8.41	$ .61	$ .61

25. Preferred Stock of Subsidiary and Trust Preferred Securities

USX Capital LLC, a wholly owned subsidiary of USX, sold 10,000,000 shares (carrying value of $250 million) of 8$^{3/4}$% Cumulative Monthly Income Preferred Shares (MIPS) (liquidation preference of $25 per share) in 1994. Proceeds of the issue were loaned to USX. USX has the right under the loan agreement to extend interest payment periods for up to 18 months, and as a consequence, monthly dividend payments on the MIPS can be deferred by USX Capital LLC during any such interest payment period. In the event that USX exercises this right, USX may not declare dividends on any share of its preferred or common stocks. The MIPS are redeemable at the option of USX Capital LLC and subject to the prior consent of USX, in whole or in part from time to time, for $25 per share on or after March 31, 1999, and will be redeemed from the proceeds of any repayment of the loan by USX. In addition, upon final maturity of the loan, USX Capital LLC is required to redeem the MIPS. The financial costs are included in net interest and other financial costs.

In 1997, USX exchanged approximately 3.9 million 6.75% Convertible Quarterly Income Preferred Securities (Trust Preferred Securities) of USX Capital Trust I, a Delaware statutory business trust (Trust), for an equivalent number of shares of its 6.50% Cumulative Convertible Preferred Stock (6.50% Preferred Stock) (Exchange). The Exchange resulted in the recording of Trust Preferred Securities at a fair value of $182 million and a noncash credit to Retained Earnings of $10 million.

USX owns all of the common securities of the Trust, which was formed for the purpose of the Exchange. (The Trust Common Securities and the Trust Preferred Securities are together referred to as the Trust Securities.) The Trust Securities represent undivided beneficial ownership interests in the assets of the Trust, which consist solely of USX 6.75% Convertible Junior Subordinated Debentures maturing March 31, 2037 (Debentures), having an aggregate principal amount equal to the aggregate initial liquidation amount ($50.00 per security and $203 million in total) of the Trust Securities issued by the Trust. Interest and principal payments on the Debentures will be used to make quarterly distributions and to pay redemption and liquidation amounts on the Trust Preferred Securities. The quarterly distributions, which accumulate at the rate of 6.75% per annum on the Trust Preferred Securities and the accretion from fair value to the initial liquidation amount, are charged to income and included in net interest and other financial costs.

Under the terms of the Debentures, USX has the right to defer payment of interest for up to 20 consecutive quarters and, as a consequence, monthly distributions on the Trust Preferred Securities will be deferred during such period. If USX exercises this right, then, subject to limited exceptions, it may not pay any dividend or make any distribution with respect to any shares of its capital stock.

The Trust Preferred Securities are convertible at any time prior to the close of business on March 31, 2037 (unless such right is terminated earlier under certain circumstances) at the option of the holder, into shares of Steel Stock at a conversion price of $46.25 per share of Steel Stock (equivalent to a conversion ratio of 1.081 shares of Steel Stock for each Trust Preferred Security), subject to adjustment in certain circumstances.

The Trust Preferred Securities may be redeemed at any time at the option of USX, at a premium of 103.25% of the initial liquidation amount through March 31, 1999, and thereafter, declining annually to the initial liquidation amount on April 1, 2003, and thereafter. They are mandatorily redeemable at March 31, 2037, or earlier under certain circumstances.

Payments related to quarterly distributions and to the payment of redemption and liquidation amounts on the Trust Preferred Securities by the Trust are guaranteed by USX on a subordinated basis. In addition, USX unconditionally guarantees the Trust's Debentures. The obligations of USX under the Debentures, and the related indenture, trust agreement and guarantee constitute a full and unconditional guarantee by USX of the Trust's obligations under the Trust Preferred Securities.

26. Preferred Stock

USX is authorized to issue 40,000,000 shares of preferred stock, without par value –

6.50% Cumulative Convertible Preferred Stock (6.50% Preferred Stock) – As of December 31, 1998, 2,767,787 shares (stated value of $1.00 per share; liquidation preference of $50.00 per share) were outstanding. The 6.50% Preferred Stock is convertible at any time, at the option of the holder, into shares of Steel Stock at a conversion price of $46.125 per share of Steel Stock, subject to adjustment in certain circumstances. This stock is redeemable at USX's sole option, at a price of $51.625 per share beginning April 1, 1998, and thereafter at prices declining annually on each April 1 to an amount equal to $50.00 per share on and after April 1, 2003.

27. Derivative Instruments

USX uses commodity-based derivative instruments to manage exposure to price fluctuations related to the anticipated purchase or production and sale of crude oil, natural gas, refined products, nonferrous metals and electricity. The derivative instruments used, as a part of an overall risk management program, include exchange-traded futures contracts and options, and instruments which require settlement in cash such as OTC commodity swaps and OTC options. While 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 which assume certain price risk in isolated transactions.

USX uses forward exchange contracts to minimize its exposure to foreign currency price fluctuations.

USX remains at risk for possible changes in the market value of the derivative instrument; however, such risk should be mitigated by price changes in the underlying hedged item. USX is also exposed to credit risk in the event of nonperformance by counterparties. The credit worthiness of counterparties is subject to continuing review, including the use of master netting agreements to the extent practical, and full performance is anticipated.

The following table sets forth quantitative information by class of derivative instrument:

(In millions)	Fair Value Assets (Liabilities)[a]	Carrying Amount Assets (Liabilities)	Recorded Deferred Gain or (Loss)	Aggregate Contract Values[b]
December 31, 1998:				
Exchange-traded commodity futures	$ –	$ –	$ (2)	$ 104
Exchange-traded commodity options	3 [c]	2	3	776
OTC commodity swaps[d]	(9) [e]	(9)	(7)	297
OTC commodity options	3	3	3	147
Total commodities	$ (3)	$ (4)	$ (3)	$1,324
Forward exchange contracts[f]:				
– receivable	$ 36	$ 36	$ –	$ 36
December 31, 1997:				
Exchange-traded commodity futures	$ –	$ –	$ –	$ 30
Exchange-traded commodity options	1 [c]	1	2	120
OTC commodity swaps	(3) [e]	(3)	(4)	50
OTC commodity options	–	–	–	6
Total commodities	$ (2)	$ (2)	$ (2)	$ 215
Forward exchange contracts[g]:				
– receivable	$ 11	$ 10	$ –	$ 59
– payable	(1)	(1)	(1)	5
Total currencies	$ 10	$ 9	$ (1)	$ 64

[a] The fair value amounts for OTC positions are based on various indices or dealer quotes. The fair value amounts for currency contracts are based on dealer quotes of forward prices covering the remaining duration of the forward exchange contract. The exchange-traded futures contracts and certain option contracts do not have a corresponding fair value since changes in the market prices are settled on a daily basis.

[b] Contract or notional amounts do not quantify risk exposure, but are used in the calculation of cash settlements under the contracts. The contract or notional amounts do not reflect the extent to which positions may offset one another.

[c] Includes fair values as of December 31, 1998 and 1997, for assets of $23 million and $3 million and for liabilities of $(20) million and $(2) million, respectively.

[d] The OTC swap arrangements vary in duration with certain contracts extending into 2008.

[e] Includes fair values as of December 31, 1998 and 1997, for assets of $29 million and $1 million and for liabilities of $(38) million and $(4) million, respectively.

[f] The forward exchange contracts relating to USX's foreign operations have various maturities ending in December 1999.

[g] The forward exchange contracts relating to foreign denominated debt matured in 1998.

28. 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 27, by individual balance sheet account:

(In millions) December 31	1998 Fair Value	1998 Carrying Amount	1997 Fair Value	1997 Carrying Amount
Financial assets:				
Cash and cash equivalents	$ 146	$ 146	$ 54	$ 54
Receivables	1,663	1,663	1,417	1,417
Investments and long-term receivables	180	124	177	120
Total financial assets	$ 1,989	$ 1,933	$ 1,648	$ 1,591
Financial liabilities:				
Notes payable	$ 145	$ 145	$ 121	$ 121
Accounts payable	2,478	2,478	2,011	2,011
Distribution payable to minority shareholder of MAP	103	103	-	-
Accrued interest	97	97	95	95
Long-term debt (including amounts due within one year)	4,203	3,896	3,646	3,281
Preferred stock of subsidiary and trust preferred securities	414	432	435	432
Total financial liabilities	$ 7,440	$ 7,151	$ 6,308	$ 5,940

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. 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.

USX's unrecognized financial instruments consist of receivables sold and financial guarantees. It is not practicable to estimate the fair value of these forms of financial instrument obligations because there are no quoted market prices for transactions which are similar in nature. For details relating to sales of receivables see Note 14, and for details relating to financial guarantees see Note 29.

29. Contingencies and Commitments

USX 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 USX will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

Environmental matters –

USX 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. At December 31, 1998 and 1997, accrued liabilities for remediation totaled $145 million and $158 million, 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. Receivables for recoverable costs from certain states, under programs to assist companies in cleanup efforts related to underground storage tanks at retail marketing outlets, were $41 million at December 31, 1998, and $42 million at December 31, 1997.

For a number of years, USX has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 1998 and 1997, such capital expenditures totaled $173 million and $134 million, respectively. USX 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.

At December 31, 1998 and 1997, accrued liabilities for platform abandonment and dismantlement totaled $141 million and $128 million, respectively.

Guarantees –

Guarantees of the liabilities of affiliated entities by USX and its consolidated subsidiaries totaled $212 million at December 31, 1998, and $73 million at December 31, 1997. In the event that any defaults of guaranteed liabilities occur, USX has access to its interest in the assets of most of the affiliates to reduce potential losses resulting from these guarantees. As of December 31, 1998, the largest guarantee for a single affiliate was $131 million.

At December 31, 1998 and 1997, USX's pro rata share of obligations of LOOP LLC and various pipeline affiliates secured by throughput and deficiency agreements totaled $164 million and $165 million, respectively. Under the agreements, USX is required to advance funds if the affiliates are unable to service debt. Any such advances are prepayments of future transportation charges.

Commitments –

At December 31, 1998 and 1997, contract commitments to acquire property, plant and equipment and long-term investments totaled $812 million and $533 million, respectively.

USX entered into a 15-year take-or-pay arrangement in 1993, which requires USX to accept pulverized coal each month or pay a minimum monthly charge of approximately $1.3 million. Charges for deliveries of pulverized coal totaled $23 million in 1998 and $24 million in 1997. If USX elects to terminate the contract early, a maximum termination payment of $108 million, which declines over the duration of the agreement, may be required.

USX is a party to a 15-year transportation services agreement with a natural gas transmission company. The contract requires USX to pay a minimum annual demand charge of approximately $5 million starting in the year 2000 and concluding in the year 2014. The payments are required even if the transportation facility is not utilized.

Other –

On August 1, 1999, U. S. Steel, along with several major steel competitors, faces the expiration of the labor agreement with the United Steelworkers of America. U. S. Steel's ability to negotiate an acceptable labor contract is essential to its ongoing operations. Any labor interruptions could have an adverse effect on operations, financial results and cash flow.

USX

Selected Quarterly Financial Data (Unaudited)

(In millions, except per share data)	1998 4th Qtr.	1998 3rd Qtr.	1998 2nd Qtr.	1998 1st Qtr.	1997 4th Qtr.	1997 3rd Qtr.	1997 2nd Qtr.	1997 1st Qtr.
CONTINUING OPERATIONS								
Revenues	$ 6,700	$ 7,156	$ 7,292	$ 7,187	$ 5,734	$ 5,657	$ 5,502	$ 5,695
Income (loss) from operations	(37)	320	670	564	346	557	436	366
Includes:								
Inventory market valuation charges (credits)	245	50	(3)	(25)	147	(41)	64	114
Gain on ownership change in MAP	–	(1)	(2)	248	–	–	–	–
Net income (loss):								
Income (loss) from continuing operations	$ (10)	$ 116	$ 298	$ 270	$ 190	$ 308	$ 215	$ 195
Income (loss) from discontinued operations	–	–	–	–	81	(1)	(1)	1
Net income (loss)	$ (10)	$ 116	$ 298	$ 270	$ 271	$ 307	$ 214	$ 196
Marathon Stock data:								
Net income (loss)	$ (86)	$ 51	$ 162	$ 183	$ 38	$ 192	$ 118	$ 108
– Per share: basic	(.29)	.18	.56	.63	.14	.67	.41	.37
diluted	(.29)	.17	.56	.63	.13	.66	.41	.37
Dividends paid per share	.21	.21	.21	.21	.19	.19	.19	.19
Price range of Marathon Stock[a]:								
– Low	26-11/16	25	32-3/16	31	29	28-15/16	25-5/8	23-3/4
– High	38-1/8	37-1/8	38-7/8	40-1/2	38-7/8	38-3/16	31-1/8	28-1/2
Steel Stock data:								
Net income applicable to Steel Stock	$ 74	$ 63	$ 133	$ 86	$ 149	$ 114	$ 105	$ 81
– Per share: basic	.83	.72	1.53	.98	1.74	1.32	1.23	.96
diluted	.81	.71	1.46	.95	1.64	1.25	1.06	.93
Dividends paid per share	.25	.25	.25	.25	.25	.25	.25	.25
Price range of Steel Stock[a]:								
– Low	21-5/8	20-7/16	31	28-7/16	26-7/8	34-3/16	25-3/8	26-3/8
– High	27-3/4	33-1/2	43-1/16	42-1/8	36-15/16	40-3/4	35-5/8	33-3/8
DISCONTINUED OPERATIONS								
Delhi Stock data:								
Net income (loss)					$ 81 [b]	$ (1)	$ (1)	$ 1
– Per share: basic					8.51 [b]	(.06)	(.16)	.15
diluted					8.46 [b]	(.06)	(.16)	.15
Dividends paid per share					–	.05	.05	.05
Price range of Delhi Stock[a]:								
– Low					14-7/8	12-1/8	12-1/4	13
– High					20-5/8	15-1/2	14-3/8	17

[a] Composite tape.

[b] Represents one month of operations and gain on disposal of the Delhi Companies.

Principal Unconsolidated Affiliates (Unaudited)

Company	Country	December 31, 1998 Ownership	Activity
Clairton 1314B Partnership, L.P.	United States	10%	Coke & Coke By-Products
CLAM Petroleum B.V.	Netherlands	50%	Oil & Gas Production
Double Eagle Steel Coating Company	United States	50%	Steel Processing
Kenai LNG Corporation	United States	30%	Natural Gas Liquification
LOCAP, Inc.	United States	50% (a)	Pipeline & Storage Facilities
LOOP LLC	United States	47% (a)	Offshore Oil Port
Minnesota Pipe Line Company	United States	33% (a)	Pipeline Facility
Nautilus Pipeline Company, LLC	United States	24%	Natural Gas Transmission
Odyssey Pipeline LLC	United States	29%	Pipeline Facility
Poseidon Oil Pipeline Company LLC	United States	28%	Crude Oil Transportation
PRO-TEC Coating Company	United States	50%	Steel Processing
RTI International Metals, Inc.[b]	United States	26%	Titanium & Specialty Metals
Sakhalin Energy Investment Company Ltd.	Russia	38%	Oil & Gas Development
Transtar, Inc.	United States	46%	Transportation
USS/Kobe Steel Company	United States	50%	Steel Products
USS-POSCO Industries	United States	50%	Steel Processing
VSZ U. S. Steel, s. r.o.	Slovakia	50%	Tin Mill Products
Worthington Specialty Processing	United States	50%	Steel Processing

(a) Represents the ownership of MAP.
(b) Formerly RMI Titanium Company.

Supplementary Information on Mineral Reserves (Unaudited)

Mineral Reserves (other than oil and gas)

	Reserves at December 31[a]			Production		
(Million tons)	1998	1997	1996	1998	1997	1996
Iron[b]	738.6	754.8	716.3	15.8	16.8	15.1
Coal[c]	789.7	798.8	859.5	7.3	7.5	7.1

(a) Commercially recoverable reserves include demonstrated (measured and indicated) quantities which are expressed in recoverable net product tons.
(b) In 1998, iron ore reserves decreased due to production and engineering revisions. In 1997, iron ore reserves increased 55.3 million tons due to lease exchanges.
(c) In 1998, coal reserves decreased due to production, lease activity and engineering revisions. In 1997, coal reserves decreased 53.2 million tons due to a lease termination.

Supplementary Information on Oil and Gas Producing Activities (Unaudited)

Capitalized Costs and Accumulated Depreciation, Depletion and Amortization[a]

(In millions) December 31	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
1998						
Capitalized costs:						
Proved properties	$ 8,366	$ 4,432	$ 1,273	$ 14,071	$ 621	$ 14,692
Unproved properties	400	43	105	548	7	555
Total	8,766	4,475	1,378	14,619	628	15,247
Accumulated depreciation, depletion and amortization:						
Proved properties	5,020	2,685	135	7,840	156	7,996
Unproved properties	91	-	5	96	-	96
Total	5,111	2,685	140	7,936	156	8,092
Net capitalized costs	$ 3,655	$ 1,790	$ 1,238	$ 6,683	$ 472	$ 7,155
1997						
Capitalized costs:						
Proved properties	$ 8,117	$ 4,384	$ 163	$ 12,664	$ 405	$ 13,069
Unproved properties	335	68	75	478	4	482
Total	8,452	4,452	238	13,142	409	13,551
Accumulated depreciation, depletion and amortization:						
Proved properties	4,915	2,517	76	7,508	127	7,635
Unproved properties	86	-	4	90	-	90
Total	5,001	2,517	80	7,598	127	7,725
Net capitalized costs	$ 3,451	$ 1,935	$ 158	$ 5,544	$ 282	$ 5,826

(a) Excludes assets specifically related to Other production-related earnings.

Supplementary Information on Oil and Gas Producing Activities (Unaudited) CONTINUED

Results of Operations for Oil and Gas Producing Activities, Excluding Corporate Overhead and Interest Costs[a]

(In millions)	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
1998: Revenues:						
Sales[b]	$ 518	$ 454	$ 71	$ 1,043	$ 28	$ 1,071
Transfers	536	–	51	587	–	587
Total revenues	1,054	454	122	1,630	28	1,658
Expenses:						
Production costs	(295)	(153)	(57)	(505)	(8)	(513)
Exploration expenses[c]	(179)	(45)	(86)	(310)	(5)	(315)
Depreciation, depletion and amortization[d]	(339)	(150)	(68)	(557)	(8)	(565)
Other expenses	(37)	(3)	(11)	(51)	–	(51)
Total expenses	(850)	(351)	(222)	(1,423)	(21)	(1,444)
Other production-related earnings[e]	1	15	3	19	1	20
Results before income taxes	205	118	(97)	226	8	234
Income taxes (credits)	61	22	(28)	55	3	58
Results of operations	$ 144	$ 96	$ (69)	$ 171	$ 5	$ 176
1997: Revenues:						
Sales[b]	$ 581	$ 572	$ 21	$ 1,174	$ 42	$ 1,216
Transfers	724	–	38	762	–	762
Total revenues	1,305	572	59	1,936	42	1,978
Expenses:						
Production costs	(337)	(162)	(12)	(511)	(15)	(526)
Exploration expenses	(127)	(34)	(25)	(186)	(1)	(187)
Depreciation, depletion and amortization	(300)	(130)	(16)	(446)	(8)	(454)
Other expenses	(32)	(3)	(13)	(48)	–	(48)
Total expenses	(796)	(329)	(66)	(1,191)	(24)	(1,215)
Other production-related earnings[e]	–	28	1	29	1	30
Results before income taxes	509	271	(6)	774	19	793
Income taxes (credits)	170	79	4	253	4	257
Results of operations	$ 339	$ 192	$ (10)	$ 521	$ 15	$ 536
1996: Revenues:						
Sales[b]	$ 451	$ 736	$ 24	$ 1,211	$ 45	$ 1,256
Transfers	858	–	43	901	–	901
Total revenues	1,309	736	67	2,112	45	2,157
Expenses:						
Production costs[f]	(340)	(202)	(12)	(554)	(14)	(568)
Exploration expenses	(97)	(24)	(24)	(145)	(3)	(148)
Depreciation, depletion and amortization	(302)	(160)	(14)	(476)	(12)	(488)
Other expenses	(31)	(5)	(15)	(51)	–	(51)
Total expenses	(770)	(391)	(65)	(1,226)	(29)	(1,255)
Other production-related earnings[e]	1	28	–	29	1	30
Results before income taxes	540	373	2	915	17	932
Income taxes (credits)	192	115	(1)	306	7	313
Results of operations	$ 348	$ 258	$ 3	$ 609	$ 10	$ 619

(a) Includes the results of using derivative instruments to manage commodity and foreign currency risks.

(b) Includes net gains on asset dispositions and natural gas contract settlements, as of December 31, 1998, 1997 and 1996, of $43 million, $7 million and $25 million, respectively.

(c) Includes international property impairments and suspended exploration well write-offs of $73 million.

(d) Includes international property impairments of $10 million.

(e) Includes revenues, net of associated costs, from third-party activities that are an integral part of USX's production operations. Third-party activities may include the processing and/or transportation of third-party production, and the purchase and subsequent resale of gas utilized in reservoir management.

(f) Includes domestic production tax charges of $11 million related to prior periods.

Supplementary Information on Oil and Gas Producing Activities (Unaudited) CONTINUED

Costs Incurred for Property Acquisition, Exploration and Development – Including Capital Expenditures

(In millions)	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
1998: Property acquisition:						
Proved	$ 3	$ 3	$ 1,051	$ 1,057	$ –	$ 1,057
Unproved	82	–	57	139	–	139
Exploration	217	39	75	331	11	342
Development	431	40	46	517	170	687
1997: Property acquisition:						
Proved	$ 16	$ –	$ –	$ 16	$ –	$ 16
Unproved	50	–	–	50	–	50
Exploration	170	53	43	266	3	269
Development	477	67	27	571	142	713
1996: Property acquisition:						
Proved	$ 36	$ –	$ –	$ 36	$ –	$ 36
Unproved	44	–	2	46	19	65
Exploration	134	26	34	194	1	195
Development	268	31	15	314	3	317

Estimated Quantities of Proved Oil and Gas Reserves

The following estimates of net reserves have been determined by deducting royalties of various kinds from USX's gross reserves. The reserve estimates are believed to be reasonable and consistent with presently known physical data concerning size and character of the reservoirs and are subject to change as additional knowledge concerning the reservoirs becomes available. The estimates include only such reserves as can reasonably be classified as proved; they do not include reserves which may be found by extension of proved areas or reserves recoverable by secondary or tertiary recovery methods unless these methods are in operation and are showing successful results. Undeveloped reserves consist of reserves to be recovered from future wells on undrilled acreage or from existing wells where relatively major expenditures will be required to realize production. Liquid hydrocarbon production amounts for international operations principally reflect tanker liftings of equity production. USX did not have any quantities of oil and gas reserves subject to long-term supply agreements with foreign governments or authorities in which USX acts as producer.

(Millions of barrels)	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
Liquid Hydrocarbons						
Proved developed and undeveloped reserves:						
Beginning of year – 1996	558	183	23	764	–	764
Purchase of reserves in place	26	–	–	26	–	26
Revisions of previous estimates	3	(1)	3	5	–	5
Improved recovery	19	–	–	19	–	19
Extensions, discoveries and other additions	54	13	15	82	–	82
Production	(45)	(18)	(3)	(66)	–	(66)
Sales of reserves in place	(26)	–	(12)	(38)	–	(38)
End of year – 1996	589	177	26	792	–	792
Purchase of reserves in place	2	–	–	2	–	2
Revisions of previous estimates	9	(1)	3	11	–	11
Improved recovery	22	–	–	22	–	22
Extensions, discoveries and other additions	31	–	–	31	82	113
Production	(42)	(15)	(3)	(60)	–	(60)
Sales of reserves in place	(2)	–	–	(2)	–	(2)
End of year – 1997	609	161	26	796	82	878
Purchase of reserves in place	1	–	156 (a)	157	–	157
Revisions of previous estimates	(1)	(28)	1	(28)	(2)	(30)
Improved recovery	3	–	–	3	–	3
Extensions, discoveries and other additions	10	4	18	32	–	32
Production	(49)	(15)	(7)	(71)	–	(71)
Sales of reserves in place	(5)	–	–	(5)	–	(5)
End of year – 1998	568	122	194	884	80	964
Proved developed reserves:						
Beginning of year – 1996	470	182	21	673	–	673
End of year – 1996	443	163	11	617	–	617
End of year – 1997	486	161	12	659	–	659
End of year – 1998	489	119	67	675	–	675

(a) Represents reserves related to the acquisition of Tarragon Oil and Gas Limited in August 1998.

Supplementary Information on Oil and Gas Producing Activities (Unaudited) CONTINUED

Estimated Quantities of Proved Oil and Gas Reserves (continued)

(Billions of cubic feet)	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
Natural Gas						
Proved developed and undeveloped reserves:						
Beginning of year – 1996	2,210	1,344	35	3,589	131	3,720
Purchase of reserves in place	10	–	–	10	–	10
Revisions of previous estimates	(27)	26	(14)	(15)	9	(6)
Improved recovery	10	–	–	10	–	10
Extensions, discoveries and other additions	308	2	5	315	8	323
Production	(247)	(166)	(5)	(418)	(16)	(434)
Sales of reserves in place	(25)	(28)	–	(53)	–	(53)
End of year – 1996	2,239	1,178	21	3,438	132	3,570
Purchase of reserves in place	31	–	–	31	–	31
Revisions of previous estimates	(39)	9	6	(24)	(6)	(30)
Improved recovery	–	–	–	–	–	–
Extensions, discoveries and other additions	262	–	–	262	–	262
Production	(264)	(139)	(4)	(407)	(15)	(422)
Sales of reserves in place	(9)	–	–	(9)	–	(9)
End of year – 1997	2,220	1,048	23	3,291	111	3,402
Purchase of reserves in place	10	–	782 (a)	792	–	792
Revisions of previous estimates	(16)	10	(1)	(7)	6	(2)
Improved recovery	–	–	–	–	–	–
Extensions, discoveries and other additions	238	32	55	325	5	330
Production	(272)	(124)	(29)	(425)	(11)	(436)
Sales of reserves in place	(29)	–	–	(29)	–	(29)
End of year – 1998	2,151	966	830	3,947	110	4,057
Proved developed reserves:						
Beginning of year – 1996	1,517	1,300	35	2,852	105	2,957
End of year – 1996	1,720	1,133	16	2,869	100	2,969
End of year – 1997	1,702	1,024	19	2,745	78	2,823
End of year – 1998	1,678	909	534	3,121	76	3,197

(a) Represents reserves related to the acquisition of Tarragon Oil and Gas Limited in August 1998.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

Estimated discounted future net cash flows and changes therein were determined in accordance with Statement of Financial Accounting Standards No. 69. Certain information concerning the assumptions used in computing the valuation of proved reserves and their inherent limitations are discussed below. USX believes such information is essential for a proper understanding and assessment of the data presented.

Future cash inflows are computed by applying year-end prices of oil and gas relating to USX's proved reserves to the year-end quantities of those reserves. Future price changes are considered only to the extent provided by contractual arrangements in existence at year-end.

The assumptions used to compute the proved reserve valuation do not necessarily reflect USX's expectations of actual revenues to be derived from those reserves nor their present worth. Assigning monetary values to the estimated quantities of reserves, described on the preceding page, does not reduce the subjective and ever-changing nature of such reserve estimates.

Additional subjectivity occurs when determining present values because the rate of producing the reserves must be estimated. In addition to uncertainties inherent in predicting the future, variations from the expected production rate also could result directly or indirectly from factors outside of USX's control, such as unintentional delays in development, environmental concerns, changes in prices or regulatory controls.

The reserve valuation assumes that all reserves will be disposed of by production. However, if reserves are sold in place or subjected to participation by foreign governments, additional economic considerations also could affect the amount of cash eventually realized.

Future development and production costs, including abandonment and dismantlement costs, are computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Future income tax expenses are computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to USX's proved oil and gas reserves. Permanent differences in oil and gas related tax credits and allowances are recognized.

Discount was derived by using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.

Supplementary Information on Oil and Gas Producing Activities (Unaudited) CONTINUED

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves (continued)

(In millions)	United States	Europe	Other Intl.	Consolidated	Equity Affiliates	Total
December 31, 1998:						
Future cash inflows	$ 8,615	$ 3,850	$ 2,686	$ 15,151	$ 1,036	$ 16,187
Future production costs	(3,781)	(2,240)	(950)	(6,971)	(586)	(7,557)
Future development costs	(585)	(130)	(323)	(1,038)	(124)	(1,162)
Future income tax expenses	(850)	(630)	(542)	(2,022)	(45)	(2,067)
Future net cash flows	3,399	850	871	5,120	281	5,401
10% annual discount for estimated timing of cash flows	(1,498)	(256)	(392)	(2,146)	(136)	(2,282)
Standardized measure of discounted future net cash flows relating to proved oil and gas reserves	$ 1,901	$ 594	$ 479	$ 2,974	$ 145	$ 3,119
December 31, 1997:						
Future cash inflows	$ 13,902	$ 6,189	$ 484	$ 20,575	$ 1,714	$ 22,289
Future production costs	(4,739)	(2,310)	(172)	(7,221)	(643)	(7,864)
Future development costs	(702)	(162)	(18)	(882)	(200)	(1,082)
Future income tax expenses	(2,413)	(1,371)	(62)	(3,846)	(232)	(4,078)
Future net cash flows	6,048	2,346	232	8,626	639	9,265
10% annual discount for estimated timing of cash flows	(2,696)	(1,011)	(52)	(3,759)	(367)	(4,126)
Standardized measure of discounted future net cash flows relating to proved oil and gas reserves	$ 3,352	$ 1,335	$ 180	$ 4,867	$ 272	$ 5,139
December 31, 1996:						
Future cash inflows	$ 19,640	$ 8,177	$ 631	$ 28,448	$ 390	$ 28,838
Future production costs	(5,442)	(2,454)	(177)	(8,073)	(153)	(8,226)
Future development costs	(762)	(179)	(45)	(986)	(35)	(1,021)
Future income tax expenses	(4,151)	(2,256)	(115)	(6,522)	(78)	(6,600)
Future net cash flows	9,285	3,288	294	12,867	124	12,991
10% annual discount for estimated timing of cash flows	(4,232)	(1,033)	(69)	(5,334)	(40)	(5,374)
Standardized measure of discounted future net cash flows relating to proved oil and gas reserves	$ 5,053	$ 2,255	$ 225	$ 7,533	$ 84	$ 7,617

Summary of Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

	Consolidated			Equity Affiliates			Total		
(In millions)	1998	1997	1996	1998	1997	1996	1998	1997	1996
Sales and transfers of oil and gas produced, net of production costs	$ (1,125)	$ (1,424)	$ (1,558)	$ (20)	$ (28)	$ (31)	$ (1,145)	$ (1,452)	$ (1,589)
Net changes in prices and production costs related to future production	(3,662)	(3,677)	3,651	(372)	(36)	37	(4,034)	(3,713)	3,688
Extensions, discoveries and improved recovery, less related costs	284	458	1,572	4	263	9	288	721	1,581
Development costs incurred during the period	517	571	314	170	142	3	687	713	317
Changes in estimated future development costs	(306)	(302)	(316)	(105)	(128)	(10)	(411)	(430)	(326)
Revisions of previous quantity estimates	(110)	43	15	(2)	(5)	9	(112)	38	24
Net changes in purchases and sales of minerals in place	636	14	(58)	–	–	–	636	14	(58)
Accretion of discount	639	1,065	658	39	13	11	678	1,078	669
Net change in income taxes	869	1,350	(1,342)	57	(29)	(11)	926	1,321	(1,353)
Other	365	(764)	(365)	102	(4)	(8)	467	(768)	(373)
Net change for the year	(1,893)	(2,666)	2,571	(127)	188	9	(2,020)	(2,478)	2,580
Beginning of year	4,867	7,533	4,962	272	84	75	5,139	7,617	5,037
End of year	$ 2,974	$ 4,867	$ 7,533	$ 145	$ 272	$ 84	$ 3,119	$ 5,139	$ 7,617

Five-Year Operating Summary – Marathon Group

	1998	1997	1996	1995	1994
Net Liquid Hydrocarbon Production (thousands of barrels per day)					
United States (by region)					
Alaska	–	–	8	9	9
Gulf Coast	55	29	30	33	12
Southern	6	8	9	11	12
Central	4	5	4	8	9
Mid-Continent – Yates	23	25	25	24	23
Mid-Continent – Other	21	21	20	19	18
Rocky Mountain	26	27	26	28	27
Total United States	135	115	122	132	110
International					
Abu Dhabi	–	–	–	–	1
Canada	6	–	–	–	–
Egypt	8	8	8	5	7
Indonesia	–	–	–	10	3
Gabon	5	–	–	–	–
Norway	1	2	3	2	2
Tunisia	–	–	–	2	3
United Kingdom	41	39	48	54	46
Total International	61	49	59	73	62
Total	196	164	181	205	172
Natural gas liquids included in above	17	17	17	17	15
Net Natural Gas Production (millions of cubic feet per day)					
United States (by region)					
Alaska	144	151	145	133	123
Gulf Coast	84	78	88	94	79
Southern	208	189	161	142	134
Central	117	119	109	105	110
Mid-Continent	125	125	122	112	89
Rocky Mountain	66	60	51	48	39
Total United States	744	722	676	634	574
International					
Canada	65	–	–	–	–
Egypt	16	11	13	15	17
Ireland	168	228	259	269	263
Norway	27	54	87	81	81
United Kingdom – equity	165	130	140	98	39
– other[(a)]	23	32	32	35	–
Total International	464	455	531	498	400
Consolidated	1,208	1,177	1,207	1,132	974
Equity affiliate[(b)]	33	42	45	44	40
Total	1,241	1,219	1,252	1,176	1,014
Average Sales Prices					
Liquid Hydrocarbons (dollars per barrel)[(c)]					
United States	$10.42	$16.88	$18.58	$14.59	$13.53
International	12.24	18.77	20.34	16.66	15.61
Natural Gas (dollars per thousand cubic feet)[(c)]					
United States	$ 1.79	$ 2.20	$ 2.09	$ 1.63	$ 1.94
International	1.94	2.00	1.97	1.80	1.58
Net Proved Reserves at year-end (developed and undeveloped)					
Liquid Hydrocarbons (millions of barrels)					
United States	568	609	589	558	553
International	316	187	203	206	242
Consolidated	884	796	792	764	795
Equity affiliate[(d)]	80	82	–	–	–
Total	964	878	792	764	795
Developed reserves as % of total net reserves	70%	75%	78%	88%	90%
Natural Gas (billions of cubic feet)					
United States	2,151	2,220	2,239	2,210	2,127
International	1,796	1,071	1,199	1,379	1,527
Consolidated	3,947	3,291	3,438	3,589	3,654
Equity affiliate[(b)]	110	111	132	131	153
Total	4,057	3,402	3,570	3,720	3,807
Developed reserves as % of total net reserves	79%	83%	83%	80%	79%

(a) Represents gas acquired for injection and subsequent resale.
(b) Represents Marathon's equity interest in CLAM Petroleum B.V.
(c) Prices exclude gains/losses from hedging activities.
(d) Represents Marathon's equity interest in Sakhalin Energy Investment Company Ltd.

Five-Year Operating Summary – Marathon Group CONTINUED

	1998[a]	1997	1996	1995	1994
U.S. Refinery Operations (thousands of barrels per day)					
In-use crude oil capacity at year-end	935	575	570	570	570
Refinery runs – crude oil refined	894	525	511	503	491
– other charge and blend stocks	127	99	96	94	107
In-use crude oil capacity utilization rate	96%	92%	90%	88%	86%
Source of Crude Processed (thousands of barrels per day)					
United States	317	202	229	254	218
Europe	15	10	12	6	31
Middle East and Africa	394	241	193	183	171
Other International	168	72	79	58	70
Total	894	525	513	501	490
Refined Product Yields (thousands of barrels per day)					
Gasoline	545	353	345	339	340
Distillates	270	154	155	146	146
Propane	21	13	13	12	13
Feedstocks and special products	64	36	35	38	33
Heavy fuel oil	49	35	30	31	38
Asphalt	68	39	36	36	30
Total	1,017	630	614	602	600
Refined Products Yields (% breakdown)					
Gasoline	54%	56%	56%	57%	57%
Distillates	27	24	25	24	24
Other products	19	20	19	19	19
Total	100%	100%	100%	100%	100%
U.S. Refined Product Sales (thousands of barrels per day)					
Gasoline	671	452	468	445	443
Distillates	318	198	192	180	183
Propane	21	12	12	12	16
Feedstocks and special products	67	40	37	44	32
Heavy fuel oil	49	34	31	31	38
Asphalt	72	39	35	35	31
Total	1,198	775	775	747	743
Matching buy/sell volumes included in above	39	51	71	47	73
Refined Products Sales by Class of Trade (as a % of total sales)					
Wholesale – independent private-brand marketers and consumers	65%	61%	62%	61%	62%
Marathon and Ashland brand jobbers and dealers	11	13	13	13	13
Speedway SuperAmerica retail outlets	24	26	25	26	25
Total	100%	100%	100%	100%	100%
Refined Products (dollars per barrel)					
Average sales price	$21.43	$26.38	$27.43	$23.80	$22.75
Average cost of crude oil throughput	13.02	19.00	21.94	18.09	16.59
Petroleum Inventories at year-end (thousands of barrels)					
Crude oil, raw materials and natural gas liquids	35,630	19,351	20,047	22,224	22,987
Refined products	32,334	20,598	21,283	22,102	23,657
U.S. Refined Product Marketing Outlets at year-end					
MAP operated terminals	88	51	51	51	51
Retail – Marathon and Ashland brand outlets	3,117	2,465	2,392	2,380	2,356
– Speedway SuperAmerica outlets	2,257	1,544	1,592	1,627	1,659
Pipelines (miles of common carrier pipelines)[b]					
Crude Oil – gathering lines	2,827	1,003	1,052	1,115	1,115
– trunklines	4,859	2,665	2,665	2,666	2,672
Products – trunklines	2,861	2,310	2,310	2,311	2,311
Total	10,547	5,978	6,027	6,092	6,098
Pipeline Barrels Handled (millions)[c]					
Crude Oil – gathering lines	47.8	43.9	43.2	43.8	43.4
– trunklines	571.9	369.6	378.7	371.3	353.0
Products – trunklines	329.7	262.4	274.8	252.3	282.2
Total	949.4	675.9	696.7	667.4	678.6
River Operations					
Barges – owned/leased	169	–	–	–	–
Boats – owned/leased	8	–	–	–	–

(a) 1998 statistics include 100% of MAP and should be considered when compared to prior periods.
(b) Pipelines for downstream operations also include non-common carrier, leased and equity affiliates.
(c) Pipeline barrels handled on owned common carrier pipelines, excluding equity affiliates.

Five-Year Operating Summary – U. S. Steel Group

(Thousands of net tons, unless otherwise noted)	1998	1997	1996	1995	1994
Raw Steel Production					
Gary, IN	6,468	7,428	6,840	7,163	6,768
Mon Valley, PA	2,594	2,561	2,746	2,740	2,669
Fairfield, AL	2,152	2,361	1,862	2,260	2,240
Total	11,214	12,350	11,448	12,163	11,677
Raw Steel Capability					
Continuous cast	12,800	12,800	12,800	12,500	11,990
Total production as % of total capability	87.6	96.5	89.4	97.3	97.4
Hot Metal Production	9,743	10,591	9,716	10,521	10,328
Coke Production[a]	4,835	5,757	6,777	6,770	6,777
Iron Ore Pellets – Minntac, MN					
Shipments	15,446	16,319	14,962	15,218	16,174
Coal Production	8,150	7,528	7,283	7,509	7,424
Coal Shipments	7,670	7,811	7,117	7,502	7,698
Steel Shipments by Product					
Sheet and semi-finished steel products	7,608	8,170	8,677	8,721	7,988
Tubular, plate and tin mill products	3,078	3,473	2,695	2,657	2,580
Total	10,686	11,643	11,372	11,378	10,568
Total as % of domestic steel industry	10.3	10.9	11.3	11.7	11.1
Steel Shipments by Market					
Steel service centers	2,563	2,746	2,831	2,564	2,780
Transportation	1,785	1,758	1,721	1,636	1,952
Further conversion:					
Joint ventures	1,473	1,568	1,542	1,332	1,308
Trade customers	1,140	1,378	1,227	1,084	1,058
Containers	794	856	874	857	962
Construction	987	994	865	671	722
Oil, gas and petrochemicals	509	810	746	748	367
Export	382	453	493	1,515	355
All other	1,053	1,080	1,073	971	1,064
Total	10,686	11,643	11,372	11,378	10,568

[a] The reduction in coke production in 1997 and 1998 reflected U. S. Steel's entry into a strategic partnership with two limited partners on June 1, 1997, to acquire an interest in three coke batteries at its Clairton (Pa.) Works.

Five-Year Financial Summary

(Dollars in millions, except as noted)	1998[a]	1997	1996	1995	1994
Statement of Operations					
Revenues	$ 28,335	$ 22,588	$ 22,977	$ 20,413	$ 19,055
Income from operations	1,517	1,705	1,779	726	1,174
Includes:					
Inventory market valuation charges (credits)	267	284	(209)	(70)	(160)
Gain on ownership change in MAP	245	–	–	–	–
Impairment of long-lived assets	–	–	–	675	–
Income from continuing operations	$ 674	$ 908	$ 946	$ 217	$ 532
Income (loss) from discontinued operations	–	80	6	4	(31)
Extraordinary loss	–	–	(9)	(7)	–
Net Income	$ 674	$ 988	$ 943	$ 214	$ 501
Applicable to Marathon Stock					
Income (loss) before extraordinary loss	$ 310	$ 456	$ 671	$ (87)	$ 315
Income (loss) before extraordinary loss per share – basic (in dollars)	1.06	1.59	2.33	(.31)	1.10
– diluted (in dollars)	1.05	1.58	2.31	(.31)	1.10
Net income (loss)	310	456	664	(92)	315
Net income (loss) per share – basic (in dollars)	1.06	1.59	2.31	(.33)	1.10
– diluted (in dollars)	1.05	1.58	2.29	(.33)	1.10
Dividends paid per share (in dollars)	.84	.76	.70	.68	.68
Applicable to Steel Stock					
Income before extraordinary loss	$ 355	$ 449	$ 253	$ 279	$ 176
Income before extraordinary loss per share – basic (in dollars)	4.05	5.24	3.00	3.53	2.35
– diluted (in dollars)	3.92	4.88	2.97	3.43	2.33
Net income	355	449	251	277	176
Net income per share – basic (in dollars)	4.05	5.24	2.98	3.51	2.35
– diluted (in dollars)	3.92	4.88	2.95	3.41	2.33
Dividends paid per share (in dollars)	1.00	1.00	1.00	1.00	1.00
Balance Sheet Position at year-end					
Cash and cash equivalents	$ 146	$ 54	$ 55	$ 131	$ 48
Total assets	21,133	17,284	16,980	16,743	17,517
Capitalization:					
Notes payable	$ 145	$ 121	$ 81	$ 40	$ 1
Total long-term debt	3,991	3,403	4,212	4,937	5,599
Minority interest in MAP	1,590	–	–	–	–
Preferred stock of subsidiary and trust preferred securities	432	432	250	250	250
Redeemable Delhi Stock	–	195	–	–	–
Preferred stock	3	3	7	7	112
Common stockholders' equity	6,402	5,397	5,015	4,321	4,190
Total capitalization	$ 12,563	$ 9,551	$ 9,565	$ 9,555	$ 10,152
% of total debt to capitalization[b]	36.4	41.4	47.5	54.7	57.6
Cash Flow Data					
Net cash from operating activities	$ 1,803	$ 1,458	$ 1,649	$ 1,632	$ 817
Capital expenditures	1,580	1,373	1,168	1,016	1,033
Disposal of assets	86	481	443	157	293
Dividends paid	342	316	307	295	301
Employee Data					
Total employment costs[c][d]	$ 2,372	$ 2,289	$ 2,179	$ 2,186	$ 2,281
Average number of employees[c][d]	44,860	41,620	41,553	42,133	42,596
Number of pensioners at year-end	95,429	97,051	99,713	102,449	105,227

(a) 1998 statistics, other than employee data, include 100% of MAP, which should be considered when making comparisons to prior periods.

(b) Total debt represents the sum of notes payable, total long-term debt and preferred stock of subsidiary and trust preferred securities.

(c) Excludes the Delhi Companies sold in 1997.

(d) Data for 1998 includes Ashland employees from the date of their payroll transfer to MAP, which occurred at various times throughout 1998. These employees were contracted to MAP in 1998, prior to their payroll transfer.

Management's Discussion and Analysis

USX Corporation ("USX") is a diversified company engaged primarily in the energy business through its Marathon Group, and in the steel business through its U. S. Steel Group.

Effective October 31, 1997, USX sold Delhi Gas Pipeline Corporation and other subsidiaries of USX that comprised all of the USX – Delhi Group ("Delhi Companies"). On January 26, 1998, USX used the $195 million net proceeds from the sale to redeem all of the 9.45 million outstanding shares of USX – Delhi Group Common Stock. For additional information, see Note 5 to the USX Consolidated Financial Statements.

During 1997, Marathon Oil Company ("Marathon") and Ashland Inc. ("Ashland") agreed to combine the major elements of their refining, marketing and transportation ("RM&T") operations. On January 1, 1998, Marathon transferred certain RM&T net assets to Marathon Ashland Petroleum LLC ("MAP"), a new consolidated subsidiary. Also on January 1, 1998, Marathon acquired certain RM&T net assets from Ashland in exchange for a 38 percent interest in MAP. Financial measures such as revenues, income from operations and capital expenditures in 1998 include 100 percent of MAP and are not comparable to prior period amounts. Income from continuing operations, net income and related per share amounts for 1998 are net of the minority interest. For further discussion of MAP and pro forma information, see Note 3 to the USX Consolidated Financial Statements.

On August 11, 1998, Marathon acquired Tarragon Oil and Gas Limited ("Tarragon"), a Canadian oil and gas exploration and production company. The purchase price included $686 million in cash payments, the assumption of $345 million in debt and the issuance of Exchangeable Shares of an indirect Canadian subsidiary of Marathon valued at $29 million. The Exchangeable Shares are exchangeable at any time on a one-for-one basis for shares of USX – Marathon Group Common Stock ("Marathon Stock"). On November 4, 1998, USX sold 17 million shares of Marathon Stock. The proceeds to USX of $528 million, were used to reduce indebtedness incurred to fund the Tarragon acquisition. Financial measures such as revenues, income from operations and capital expenditures in 1998 include operations of Marathon Canada Limited, formerly known as Tarragon, commencing August 12, 1998. For further discussion of Tarragon and pro forma information, see Note 3 to the USX Consolidated Financial Statements.

Management's Discussion and Analysis of USX Consolidated Financial Statements provides certain information about the Marathon and U. S. Steel Groups, particularly in Management's Discussion and Analysis of Operations by Group. More expansive Group information is provided in Management's Discussion and Analysis of the Marathon Group and U. S. Steel Group, which are included in the USX 1998 Form 10-K. Management's Discussion and Analysis should be read in conjunction with the USX Consolidated Financial Statements and Notes to USX Consolidated Financial Statements.

Certain sections of Management's Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting USX. These statements typically contain words such as "anticipates", "believes", "estimates", "expects" or similar words indicating that future outcomes are uncertain. In accordance with "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements. For additional risk factors affecting the businesses of USX, see Supplementary Data – Disclosures About Forward-Looking Statements in the USX 1998 Form 10-K.

Management's Discussion and Analysis CONTINUED

Management's Discussion and Analysis of Income

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

(Dollars in millions)	1998	1997	1996
Revenues[a][b]			
Marathon Group	$22,075	$15,754	$16,394
U. S. Steel Group	6,283	6,941	6,670
Eliminations	(23)	(107)	(87)
Total USX Corporation revenues	28,335	22,588	22,977
Less:			
Matching crude oil and refined product buy/sell transactions[c]	3,948	2,436	2,912
Consumer excise taxes on petroleum products and merchandise[c]	3,581	2,736	2,768
Revenues adjusted to exclude above items	$20,806	$17,416	$17,297

[a] Consists of sales, dividend and affiliate income, gain on ownership change in MAP, net gains on disposal of assets, gain on affiliate stock offering and other income.

[b] Effective October 31, 1997, USX sold the Delhi Companies. Excludes revenues of the Delhi Companies, which have been reclassified as discontinued operations for 1997 and 1996.

[c] Included in both revenues and costs and expenses for the Marathon Group and USX Consolidated, resulting in no effect on income.

Adjusted revenues increased by $3,390 million in 1998 as compared with 1997, reflecting a 37 percent increase for the Marathon Group, partially offset by a 9 percent decrease for the U. S. Steel Group. Adjusted revenues increased by $119 million in 1997 as compared with 1996, reflecting a 4 percent increase for the U. S. Steel Group, partially offset by a 1 percent decrease for the Marathon Group. For further discussion, see Management's Discussion and Analysis of Operations by Group, herein.

Income from operations for each of the last three years are summarized in the following table:

(Dollars in millions)	1998	1997	1996
Reportable segments			
Marathon Group			
Exploration & production	$ 278	$ 773	$ 900
Refining, marketing & transportation	896	563	249
Other energy related businesses	33	48	57
Income for reportable segments – Marathon Group	1,207	1,384	1,206
U. S. Steel Group			
U. S. Steel Operations	330	618	248
Income for reportable segments – USX Corporation	1,537	2,002	1,454
Items not allocated to reportable segments:			
Marathon Group	(269)	(452)	90
U. S. Steel Group	249	155	235
Total income from operations – USX Corporation	$ 1,517	$ 1,705	$ 1,779

For further discussion, see Management's Discussion and Analysis of Operations by Group, herein.

Management's Discussion and Analysis CONTINUED

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

(Dollars in millions)	1998	1997	1996
Interest and other financial income	$ 39	$ 5	$ 7
Interest and other financial costs	318	352	428
Net interest and other financial costs	279	347	421
Less:			
Favorable (unfavorable) adjustment to carrying value of Indexed Debt[a]	44	10	(6)
Net interest and other financial costs adjusted to exclude above item	$ 323	$ 357	$ 415

[a] In December 1996, USX issued $117 million in aggregate principal amount of 6-3/4% Notes Due February 1, 2000 ("Indexed Debt"), mandatorily exchangeable at maturity for common stock of RTI International Metals, Inc. (formerly RMI Titanium Company) ("RTI") or for the equivalent amount of cash, at USX's option. The carrying value of indexed debt is adjusted quarterly to settlement value based on changes in the value of RTI common stock. Any resulting adjustment is charged or credited to income and included in interest and other financial costs. At December 31, 1998, the adjusted carrying value of Indexed Debt was $69 million. USX's 26 percent interest in RTI continues to be accounted for under the equity method.

Excluding the effect of the adjustment to the carrying value of Indexed Debt, net interest and other financial costs decreased by $34 million in 1998 as compared with 1997, and by $58 million in 1997 as compared with 1996. The decrease in 1998 was primarily due to increased interest income levels and increased capitalized interest on Exploration & Production projects, partially offset by increased interest costs resulting from higher average debt levels. The decrease in 1997 was primarily due to decreased interest costs resulting from lower average debt levels and increased capitalized interest on Exploration & Production projects. For additional information, see Note 7 to the USX Consolidated Financial Statements.

The **provision for estimated income taxes** was $315 million in 1998, compared with $450 million in 1997 and $412 million in 1996. The decrease in 1998 was primarily due to a decline in income from continuing operations. The 1998 provision included $33 million of favorable adjustments related to foreign operations. Provisions included credits other than foreign tax credits of $24 million and $48 million in 1997 and 1996, respectively (primarily nonconventional source fuel credits). A significant portion of the reduction in these credits in 1997 as compared with 1996 resulted from USX's entry into a strategic partnership with two limited partners to acquire an interest in three coke batteries at its U. S. Steel Group's Clairton (Pa.) Works. For reconciliation of the federal statutory rate to total provisions on income from continuing operations, see Note 13 to the USX Consolidated Financial Statements.

Extraordinary loss in 1996 reflected unfavorable aftertax effects of early extinguishment of debt. In December 1996, USX irrevocably called for redemption on January 30, 1997, 8-1/2% Sinking Fund Debentures Due 2006, with a carrying value of $120 million, resulting in an extraordinary loss of $9 million, net of an income tax benefit of $5 million.

Income from discontinued operations reflects aftertax income of the Delhi Group. Income in 1997 included an $81 million gain on disposal of the Delhi Companies (net of income taxes). For additional discussion, see Note 5 to the USX Consolidated Financial Statements.

Net income was $674 million in 1998, $988 million in 1997 and $943 million in 1996. Excluding the gain on change of ownership in MAP in 1998, the effects of the $81 million gain on disposal related to discontinued operations in 1997, and adjustments to the inventory market valuation reserve in each of 1998, 1997 and 1996, net income decreased by $462 million in 1998 as compared with 1997, and increased by $275 million in 1997 as compared with 1996.

Noncash credit from exchange of preferred stock was $10 million, or 12 cents per share of Steel Stock, in 1997. In May 1997, USX exchanged 3.9 million 6.75% Convertible Quarterly Income Preferred Securities ("Trust Preferred Securities") of USX Capital Trust I for an equivalent number of shares of its outstanding 6.50% Cumulative Convertible Preferred Stock ("6.50% Preferred Stock"). The

Management's Discussion and Analysis CONTINUED

U. S. Steel Group's Clairton Works and $15 million from the sale of the plate mill at the U. S. Steel Group's former Texas Works. Proceeds in 1996 primarily reflected the sale of the U. S. Steel Group's investment in National-Oilwell (an oil field service joint venture); the sale of a portion of its investment in RTI common stock; disposal of the Marathon Group's interests in Alaskan oil properties and certain domestic and international oil and gas production properties; and the sale of the Marathon Group's equity interest in a domestic pipeline company.

The net change in **restricted cash** was a net withdrawal of $174 million in 1998, which was primarily the result of redeeming all of the outstanding shares of USX – Delhi Group Common Stock with the $195 million of net proceeds from the sale of the Delhi Companies that had been classified as restricted cash in 1997. The net deposit of $97 million in 1997 mainly represents the deposit of the $195 million of net proceeds from the sale of the Delhi Companies, partially offset by cash withdrawn from an interest-bearing escrow account that was established in 1996 in connection with the disposal of oil production properties in Alaska.

Financial obligations (the net of debt repayments, borrowings, commercial paper and revolving credit arrangements on the Consolidated Statement of Cash Flows) increased by $315 million in 1998, compared with decreases of $734 million in 1997 and $673 million in 1996. The increase in 1998 is primarily the result of borrowings against a revolving credit agreement to fund the acquisition of Tarragon in August 1998. The decrease in financial obligations in 1997 and 1996 primarily reflected cash flows provided from operating activities and asset sales in excess of cash used for capital expenditures and dividend payments (and with respect to 1997, in excess of $249 million of cash used for investments in equity affiliates).

Issuance of long-term debt and Trust Preferred Securities for each of the last three years is summarized in the following table:

(Dollars in millions)	1998	1997	1996
Aggregate principal amounts of:			
6.85% Notes due 2008	$ 400	$ –	$ –
Trust preferred securities[(a)]	–	182	–
Indexed debt[(b)]	–	–	117
Environmental bonds and capital leases[(c)]	280	–	78
Total	$ 680	$ 182	$ 195

(a) In 1997, USX exchanged 3.9 million 6.75% Convertible Quarterly Income Preferred Securities ("Trust Preferred Securities") of USX Capital Trust I for an equivalent number of shares of USX's 6.50% Cumulative Convertible Preferred Stock. This was a noncash transaction. For additional discussion, see Note 26 to the USX Consolidated Financial Statements.

(b) See Note 17 to the USX Consolidated Financial Statements for a description of Indexed Debt.

(c) Issued to refinance an equivalent amount of environmental improvement refunding bonds and capital leases.

USX filed with the Securities and Exchange Commission a shelf registration statement, which became effective July 31, 1998, that allows USX to offer and issue unsecured debt securities, common and preferred stock and warrants in an aggregate principal amount of up to $1 billion in one or more separate offerings on terms to be determined at the time of sale. Including this shelf registration statement, USX had a total of $986 million available under existing shelf registration statements at December 31, 1998. In January 1999, USX issued $300 million in aggregate principal amount of 6.65% Notes due 2006, reducing the availability under existing shelf registration statements to $686 million.

In the event of a change in control of USX, debt and guaranteed obligations totaling $4.0 billion at year-end 1998 may be declared immediately due and payable or required to be collateralized. See Notes 12, 14 and 17 to the USX Consolidated Financial Statements.

Dividends paid increased by $26 million in 1998 as compared with 1997, due primarily to a two-cents-per-share increase in the quarterly Marathon Stock dividend rate effective January 1998. Dividends paid increased by $9 million in 1997 as compared with 1996, due primarily to the full-year effect of a two-cents-per-share increase in the quarterly Marathon Stock dividend rate effective October 1996. The increase was partially offset by decreased dividends on preferred stock, reflecting 6.50% Preferred Stock exchanged for Trust Preferred Securities during 1997

Management's Discussion and Analysis CONTINUED

Benefit Plan Activity

USX contributed $49 million in 1997 to fund the U. S. Steel Group's principal pension plan for the 1996 plan year. Also in 1997, USX contributed $80 million for elective funding of retiree life insurance of union and nonunion participants, and $70 million to the United Steelworkers of America ("USWA") Voluntary Employee Benefit Association Trust ("VEBA"). A total of $40 million of the $70 million VEBA contribution represented prefunding for the years 1998 and 1999.

Debt and Preferred Stock Ratings

Standard & Poor's Corp. currently rates USX and Marathon Oil Company ("Marathon") senior debt as investment grade, following an upgrade in November 1996 to BBB- from BB+. USX's subordinated debt and preferred stock were also upgraded to BB+ from BB-. Moody's Investors Services, Inc., following upgrades in June 1998, currently rates USX's and Marathon's senior debt as investment grade at Baa2, USX's subordinated debt at Baa3 and USX's preferred stock as Ba1. Duff & Phelps Credit Rating Co. currently rates USX's senior notes as investment grade at BBB and USX's subordinated debt as BBB-.

Derivative Instruments

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

Liquidity

USX management believes that its short-term and long-term liquidity is adequate to satisfy its obligations as of December 31, 1998, and to complete currently authorized capital spending programs. Future requirements for USX's business needs, including the funding of capital expenditures, debt maturities for the years 1999, 2000 and 2001, and any amounts that may ultimately be paid in connection with contingencies (which are discussed in Note 29 to the USX Consolidated Financial Statements), are expected to be financed by a combination of internally generated funds, proceeds from the sale of stock, borrowings or other external financing sources.

USX management's opinion concerning liquidity and USX'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 affect the availability of financing include the performance of each Group (as indicated by levels of cash provided from operating activities and other measures), the state of the 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, levels of USX's outstanding debt and credit ratings by rating agencies. For a summary of long-term debt, see Note 17 to the USX Consolidated Financial Statements.

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

USX has incurred and will continue to incur substantial capital, operating and maintenance, and remediation expenditures as a result of environmental laws and regulations. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of USX's products and services, operating results will be adversely affected. USX believes that domestic competitors of the U. S. Steel Group and substantially all the competitors of the Marathon Group 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, marketing areas, production processes and the specific products and services it provides.

Management's Discussion and Analysis CONTINUED

The following table summarizes USX's environmental expenditures for each of the last three years[a]:

(Dollars in millions)	1998	1997	1996
Capital			
Marathon Group[b]	$ 124	$ 81	$ 66
U. S. Steel Group	49	43	90
Discontinued operations	–	10	9
Total capital	$ 173	$ 134	$ 165
Compliance			
Operating & maintenance			
Marathon Group[b]	$ 126	$ 84	$ 75
U. S. Steel Group	198	196	199
Discontinued operations	–	4	4
Total operating & maintenance	324	284	278
Remediation[c]			
Marathon Group[b]	10	19	26
U. S. Steel Group	19	29	33
Total remediation	29	48	59
Total compliance	$ 353	$ 332	$ 337

(a) Amounts for the Marathon Group are calculated based on American Petroleum Institute survey guidelines. Amounts for the U. S. Steel Group are based on previously established U.S. Department of Commerce survey guidelines.

(b) Amounts in 1998 include 100% of MAP

(c) Amounts do not include noncash provisions recorded for environmental remediation, but include spending charged against such reserves, net of recoveries where permissible.

USX's environmental capital expenditures accounted for 11%, 10% and 14% of total consolidated capital expenditures in 1998, 1997 and 1996, respectively.

USX's environmental compliance expenditures averaged 1% of total consolidated costs and expenses in 1998, and 2% in both 1997 and 1996. Remediation spending primarily reflected ongoing clean-up costs for soil and groundwater contamination associated with underground storage tanks and piping at retail gasoline stations, and remediation activities at former and present operating locations.

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.

A significant portion of USX's currently identified environmental remediation projects relate to the remediation of former and present operating locations. These projects include continuing remediation at an *in situ* uranium mining operation, the remediation of former coke-making facilities, a closed and dismantled refinery site and the closure of permitted hazardous and non-hazardous waste landfills.

USX has been notified that it is a potentially responsible party ("PRP") at 46 waste sites under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as of December 31, 1998. In addition, there are 25 sites where USX has received information requests or other indications that USX may be a PRP under CERCLA but where sufficient information is not presently available to confirm the existence of liability. There are also 126 additional sites, excluding retail gasoline stations, where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. Of these sites, 16 were associated with properties conveyed to MAP by Ashland for which Ashland has retained liability for all costs associated with remediation. At many of these sites, USX is one of a number of parties involved and the total cost of remediation, as well as USX's share thereof, is frequently dependent upon the outcome of investigations and remedial studies. USX 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 29 to the USX Consolidated Financial Statements.

Management's Discussion and Analysis CONTINUED

In October 1998, the National Enforcement Investigations Center and Region V of the United States Environmental Protection Agency conducted a multi-media inspection of MAP's Detroit refinery. Subsequently, in November 1998, Region V conducted a multi-media inspection of MAP's Robinson refinery. These inspections covered compliance with the Clean Air Act (New Source Performance Standards, Prevention of Significant Deterioration, and the National Emission Standards for Hazardous Air Pollutants for Benzene), the Clean Water Act (Permit exceedances for the Waste Water Treatment Plant), reporting obligations under the Emergency Planning and Community Right to Know Act and the handling of process waste. Although MAP has been advised as to certain compliance issues, including one contested Notice of Violation regarding MAP's Detroit refinery, it is not known when complete findings on the results of the inspections will be issued. In an action separate from the multi-media inspection, the Department of Justice filed a civil complaint in February 1999, alleging violation of the Clean Air Act with respect to benzene releases at the Robinson refinery.

In 1998, USX entered into a consent decree with the Environmental Protection Agency ("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, USX 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. USX has agreed to pay civil penalties of $2.9 million for the alleged water act violations and $0.5 million in natural resource damages assessment costs. which will be paid in 1999. In addition, USX will pay the EPA $1 million at the end of the remediation project for future monitoring costs. During the negotiations leading up to the settlement with EPA, capital improvements were made to upgrade plant systems to comply with the NPDES requirements. The sediment remediation project is an approved final interim measure under the corrective action program for Gary Works and is expected to cost approximately $30 million over the next six years. Estimated remediation and monitoring costs for this project have been accrued.

New or expanded environmental requirements, which could increase USX's environmental costs, may arise in the future. USX 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, USX does not anticipate that environmental compliance expenditures (including operating and maintenance and remediation) will materially increase in 1999. USX expects environmental capital expenditures in 1999 to be approximately $96 million, or approximately 5% of total estimated consolidated capital expenditures. Predictions beyond 1999 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, among other matters. Based upon currently identified projects, USX anticipates that environmental capital expenditures in 2000 will total approximately $110 million; 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.

Effective January 1, 1997, USX adopted American Institute of Certified Public Accountants Statement of Position No. 96-1 – "Environmental Remediation Liabilities", which requires that companies include certain direct costs and post-closure monitoring costs in accruals for remediation liabilities. USX income from operations in the first quarter of 1997 included charges of $27 million (net of expected recoveries) related to adoption, primarily for accruals of post-closure monitoring costs, study costs and administrative costs. See Note 2 to the USX Consolidated Financial Statements for additional discussion.

Income from operations in 1997 also included net favorable effects of $13 million related to other environmental accrual adjustments.

Management's Discussion and Analysis CONTINUED

USX is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that USX will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

Outlook and Year 2000

For Outlook with respect to the Marathon Group and U. S. Steel Group, see Management's Discussion and Analysis of Operations by Group, herein.

For discussion of the Year 2000 issue as it affects the Marathon Group and the U. S. Steel Group, see Management's Discussion and Analysis of Operations by Group, herein.

Accounting Standards

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidelines for companies to capitalize or expense costs incurred to develop or obtain internal-use software. USX adopted SOP 98-1 effective January 1, 1999. The incremental impact on results of operations of adoption of SOP 98-1 is likely to be initially favorable since certain qualifying costs will be capitalized and amortized over future periods.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This new standard requires recognition of all derivatives as either assets or liabilities at fair value. This new standard may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses resulting from changes in the fair value of derivative instruments. At adoption this new standard requires a comprehensive review of all outstanding derivative instruments to determine whether or not their use meets the hedge accounting criteria. It is possible that there will be derivative instruments employed in our businesses that do not meet all of the designated hedge criteria and they will be reflected in income on a mark-to-market basis. Based upon the strategies currently used by USX and the level of activity related to forward exchange contracts and commodity-based derivative instruments in recent periods, USX does not anticipate the effect of adoption to have a material impact on either financial position or results of operations. USX plans to adopt the standard effective January 1, 2000, as required.

Management's Discussion and Analysis of Operations by Group

The Marathon Group

The Marathon Group includes Marathon Oil Company ("Marathon") and certain other subsidiaries of USX Corporation ("USX"), which are engaged in worldwide exploration and production of crude oil and natural gas; domestic refining, marketing and transportation of petroleum products primarily through Marathon Ashland Petroleum LLC ("MAP"), owned 62% by Marathon; and other energy related businesses.

The Marathon Group's 1998 financial performance was significantly impacted by the lowest oil prices in 24 years, lower natural gas prices and decreased refining crack spreads (the difference between light products prices and crude costs). Nevertheless, in 1998, Marathon upstream operations achieved nearly a 20% growth in worldwide liquids production and MAP had a highly successful first year of operations, achieving annual repeatable operating efficiencies of approximately $150 million.

Management's Discussion and Analysis CONTINUED

Marathon Group revenues for each of the last three years are summarized in the following table, which is covered by the report of independent accountants.

(Dollars in millions)	1998	1997	1996
Sales by product:			
Refined products	$ 9,091	$ 7,012	$ 7,132
Merchandise	1,873	1,045	1,000
Liquid hydrocarbons	1,818	941	1,111
Natural gas	1,144	1,331	1,194
Transportation and other products	271	167	180
Gain on ownership change in MAP[a]	245	–	–
Other[b]	104	86	97
Subtotal	14,546	10,582	10,714
Matching buy/sell transactions[c][e]	3,948	2,436	2,912
Excise taxes[d][e]	3,581	2,736	2,768
Total revenues	$22,075	$15,754	$16,394

[a] See Note 3 to the USX Consolidated Financial Statements for a discussion of the gain on ownership change in MAP.

[b] Includes dividend and affiliate income, net gains on disposal of assets and other income.

[c] Matching crude oil and refined products buy/sell transactions settled in cash.

[d] Consumer excise taxes on petroleum products and merchandise.

[e] Included in both revenues and costs and expenses, resulting in no effect on income.

In 1998, Marathon Group revenues included 100% of MAP revenues, and MCL's revenues commencing August 12, 1998. On a pro forma basis, assuming the acquisitions of Tarragon's operations and Ashland's RM&T net assets had occurred on January 1, 1997, revenues (excluding matching buy/sell transactions and excise taxes) for 1997 would have been $16,278 million.

Revenues (excluding matching buy/sell transactions and excise taxes) decreased by $1,732 million in 1998 from pro forma 1997. The decrease in 1998 mainly reflected lower prices for refined products, lower worldwide liquid hydrocarbon prices and lower domestic natural gas prices, partially offset by higher liquid hydrocarbon sales volumes. The increase in liquid hydrocarbon sales volumes was due to a higher volume of upstream production being sold to third parties.

Revenues (excluding matching buy/sell transactions and excise taxes) decreased $132 million in 1997 (as reported) from 1996, mainly due to lower average refined product prices and lower worldwide liquid hydrocarbon prices and volumes, partially offset by increased volumes of refined products and higher domestic natural gas volumes and prices.

Management's Discussion and Analysis CONTINUED

Marathon Group **income from operations** for each of the last three years is summarized in the following table:

(Dollars in millions)	1998	1997	1996
Exploration & production ("E&P")			
Domestic	$ 190	$ 500	$ 547
International	88	273	353
Income for E&P reportable segment	278	773	900
Refining, marketing & transportation[(a)]	896	563	249
Other energy related businesses[(b)]	33	48	57
Income for reportable segments	1,207	1,384	1,206
Items not allocated to reportable segments:			
Administrative expenses[(c)]	(106)	(168)	(133)
IMV reserve adjustment[(d)]	(267)	(284)	209
Gain on ownership change & transition charges – MAP[(e)]	223	–	–
Int'l investment write-offs, suspended exploration well write-offs & gas contract settlement[(f)]	(119)	–	–
Other items (net)	–	–	14
Total income from operations	$ 938	$ 932	$ 1,296

(a) In 1998, segment income includes 100% of MAP and is not comparable to prior periods.

(b) Includes marketing and transportation of domestic natural gas and crude oil, and power generation.

(c) Includes the portion of the Marathon Group's administrative costs not charged to the operating components and the portion of USX corporate general and administrative costs allocated to the Marathon Group.

(d) The inventory market valuation ("IMV") reserve reflects the extent to which the recorded LIFO cost basis of crude oil and refined products inventories exceeds net realizable value.

(e) The gain on ownership change and one-time transition charges relate to the formation of MAP. For additional discussion of the gain on ownership change in MAP, see Note 3 to the USX Consolidated Financial Statements.

(f) Includes a write-off of certain non-revenue producing international investments and several exploratory wells which had encountered hydrocarbons, but had been suspended pending further evaluation. It also includes a gain from the resolution of a contract dispute with a purchaser of Marathon's natural gas production from certain domestic properties.

In 1998, Marathon Group income from operations included 100% of MAP, and MCL's results of operations commencing August 12, 1998. On a pro forma basis, assuming the acquisitions of Ashland's RM&T net assets and Tarragon's operations had occurred on January 1, 1997, income for reportable segments for 1997 would have been $1,728 million. Income for reportable segments decreased by $521 million in 1998 from pro forma 1997 and increased by $178 million in 1997 (as reported) from 1996. The decrease in 1998 was primarily due to lower worldwide liquid hydrocarbon prices, lower domestic natural gas prices and lower refining crack spreads, partially offset by higher liquid hydrocarbon production. The increase in 1997 was primarily due to higher average refined product margins and higher worldwide natural gas prices, partially offset by lower worldwide liquid hydrocarbon production and prices and higher worldwide exploration expense.

Management's Discussion and Analysis CONTINUED

Average Volumes and Selling Prices

		1998	1997	1996
(thousands of barrels per day)				
Net liquids production[a]	– U.S.	135	115	122
	– International[b]	61	49	59
	– Worldwide	196	164	181
(millions of cubic feet per day)				
Net natural gas production	– U.S.	744	722	676
	– International – equity	441	423	499
	– International – other[c]	23	32	32
	– Total Consolidated	1,208	1,177	1,207
	– Equity affiliate	33	42	45
	– Worldwide	1,241	1,219	1,252
(dollars per barrel)				
Liquid hydrocarbons[a][d]	– U.S.	$ 10.42	$ 16.88	$ 18.58
	– International	12.24	18.77	20.34
(dollars per mcf)				
Natural gas[d]	– U.S.	$ 1.79	$ 2.20	$ 2.09
	– International – equity	1.94	2.00	1.97
(thousands of barrels per day)				
Refined products sold[e]		1,198	775	775
Matching buy/sell volumes included in above		39	51	71

[a] Includes crude oil, condensate and natural gas liquids.

[b] Represents equity tanker liftings, truck deliveries and direct deliveries.

[c] Represents gas acquired for injection and subsequent resale.

[d] Prices exclude gains/losses from hedging activities.

[e] In 1998, refined products sold and matching buy/sell volumes include 100% of MAP and are not comparable to prior periods.

Domestic E&P income decreased by $310 million in 1998 from 1997 following a decrease of $47 million in 1997 from 1996. The decrease in 1998 was primarily due to lower liquid hydrocarbon and natural gas prices, partially offset by increased liquid hydrocarbon production and natural gas volumes. The 17%, or 20,000 barrels per day ("bpd"), increase in liquid hydrocarbon production was mainly attributable to new production in the Gulf of Mexico, while the increase in natural gas volumes was mainly attributable to properties in east Texas.

The decrease in 1997 was primarily due to lower liquid hydrocarbon prices and production and higher exploration expense, partially offset by increased natural gas production and prices. The lower liquid hydrocarbon production was mostly due to the 1996 disposal of oil producing properties in Alaska. The increase in natural gas volumes was mainly attributable to properties in east Texas, Oklahoma and Wyoming.

International E&P income decreased by $185 million in 1998 following a decrease of $80 million in 1997. The decrease in 1998 was primarily due to lower liquid hydrocarbon and natural gas prices and higher exploration and operating expenses. These items were partially offset by increased liquid hydrocarbon production and natural gas volumes. The 24%, or 12,000 bpd, increase in liquid hydrocarbon production was mainly attributable to the acquired production in Canada and new operations in Gabon. The increase in natural gas volumes was mainly attributable to acquired production in Canada.

The decrease in 1997 was primarily due to lower liquid hydrocarbon volumes, lower natural gas volumes and lower liquid hydrocarbon prices. These items were partially offset by reduced pipeline and terminal expenses and reduced DD&A expenses, due largely to the lower volumes. The lower liquid hydrocarbon volumes primarily reflected lower production in the U.K. North Sea, while the lower natural gas volumes were mainly due to natural field declines in Ireland and Norway.

Management's Discussion and Analysis CONTINUED

Refining, marketing and transportation ("downstream") reportable segment income in 1998 included 100 percent of MAP. On a pro forma basis, assuming the acquisition of Ashland's R&M net assets had occurred on January 1, 1997, income for the reportable segments of the combined downstream operations of Marathon and Ashland for 1997 would have been $869 million. On this basis, 1998 downstream reportable segment income of $896 million was slightly higher than pro forma 1997 downstream reportable segment income. During 1998, the effects of lower refining crack spreads were offset by strong performances from MAP's asphalt and retail operations, realization of operating efficiencies as a result of combining Marathon and Ashland's downstream operations and lower energy costs.

Downstream reportable segment income in 1997 increased $314 million over 1996 due mainly to improved refined product margins as favorable effects of reduced crude oil and other feedstock costs more than offset a decrease in refined product sales prices.

Other energy related businesses reportable segment income decreased by $15 million in 1998 following a decrease of $9 million in 1997. The decrease in 1998 was mainly due to a gain on the sale of an equity interest in a domestic pipeline company included in 1997 reportable segment income.

Items not allocated to reportable segments

Administrative expenses decreased by $62 million in 1998 following an increase of $35 million in 1997 from 1996. The decrease in 1998 mainly reflected an increase in administrative costs charged to the RM&T reportable segment, lower accruals for employee benefit and compensation plans and lower litigation accruals. The increase in 1997 mainly reflected higher accruals for employee benefit and compensation plans, including Marathon's performance-based variable pay plan.

IMV reserve adjustment – When U. S. Steel Corporation acquired Marathon Oil Company in March 1982, crude oil and refined product prices were at historically high levels. In applying the purchase method of accounting, the Marathon Group's crude oil and refined product inventories were revalued by reference to current prices at the time of acquisition, and this became the new LIFO cost basis of the inventories. Generally accepted accounting principles require that inventories be carried at lower of cost or market. Accordingly, the Marathon Group has established an IMV reserve to reduce the cost basis of its inventories to net realizable value. Quarterly adjustments to the IMV reserve result in noncash charges or credits to income from operations.

When Marathon acquired the crude oil and refined product inventories associated with Ashland's RM&T operations on January 1, 1998, the Marathon Group established a new LIFO cost basis for those inventories. The acquisition cost of these inventories lowered the overall average cost of the Marathon Group's combined RM&T inventories. As a result, the price threshold at which an IMV reserve will be recorded was also lowered.

These adjustments affect the comparability of financial results from period to period as well as comparisons with other energy companies, many of which do not have such adjustments. Therefore, the Marathon Group reports separately the effects of the IMV reserve adjustments on financial results. In management's opinion, the effects of such adjustments should be considered separately when evaluating operating performance.

Outlook – Marathon Group

The outlook regarding the Marathon Group's upstream revenues and income is largely dependent upon future prices and volumes of liquid hydrocarbons and natural gas. Prices have historically been volatile and have frequently been affected by unpredictable changes in supply and demand resulting from fluctuations in worldwide economic activity and political developments in the world's major oil and gas producing and consuming areas. During 1998, worldwide liquid hydrocarbon and natural gas prices realized by Marathon were significantly lower than 1997. In 1998, West Texas Intermediate crude oil postings reached their lowest levels in 24 years. The continuation of this depressed pricing environment in 1999 will adversely impact upstream results. Expected increases in liquid hydrocarbon and natural gas production should partially offset the effects of these lower prices. Continued lower prices could adversely affect the quantity of crude oil and natural gas reserves that can be economically produced and the amount of capital available for exploration and development.

Management's Discussion and Analysis CONTINUED

In 1999, worldwide liquid hydrocarbon production, including Marathon's share of equity affiliates, is expected to increase by 17 percent, to average approximately 230,000 bpd. Most of the increase is anticipated in the second half of the year. This primarily reflects projected new production from the Phase I development of the Piltun-Astokhskoye ("P-A") field in mid-1999 (discussed below), start-up of the Tchatamba South field in the third quarter of 1999 and a full year of production by MCL, partially offset by natural production declines of mature fields. In 1999, worldwide natural gas volumes, including Marathon's share of equity affiliates, are expected to increase by 11 percent, to approximately 1.38 billion cubic feet per day. This primarily reflects increases in North American gas production, offset by natural declines in mature international fields, primarily in Ireland and Norway. In 2000, worldwide liquid hydrocarbon production and natural gas volumes are expected to remain consistent with 1999 levels. In 2001, liquid hydrocarbon production is expected to increase by 10 to 15 percent over 2000 production levels and natural gas volumes are expected to increase by approximately 4 percent over 2000 levels. These projections are based on known discoveries and do not include any additions from potential or future acquisitions or future wildcat drilling.

Petronius, in the Gulf of Mexico, was originally scheduled to begin production in the second quarter of 1999, but the project was delayed when the last platform topsides module fell into the sea during installation work. The lost module will have to be replaced. Third party insurance is expected to cover costs associated with the replacement and installation on the platform. First production is now expected to begin in the fourth quarter of 2000.

Marathon holds a 37.5% interest in Sakhalin Energy Investment Company Ltd. ("Sakhalin Energy"), an incorporated joint venture company responsible for the overall management of the Sakhalin II project. This project includes development of the P-A oil field and the Lunskoye gas-condensate field, which are located 8–12 miles offshore Sakhalin Island in the Russian Far East Region. The Russian State Reserves Committee has approved estimated combined reserves for the P-A and Lunskoye fields of one billion gross barrels of liquid hydrocarbons and 14 trillion cubic feet of natural gas.

In 1997, a Development Plan for the P-A license area, Phase I: Astokh Feature was approved. Offshore drilling and production facilities for the Astokh Feature were set in place on September 1, 1998. Drilling of development wells commenced in December of 1998. First production from the Astokh Feature is scheduled for mid-1999, with sales forecast to average 45,000 gross bpd of oil annually as early as 2000. This rate is based on six months of offshore loading operations during the ice-free weather window at an estimated daily rate of 90,000 gross barrels. Marathon's equity share of reserves from primary production in the Astokh Feature is 80 million barrels of oil.

The approved Development Plan also provides for further appraisal work for the remainder of the P-A field. An appraisal well was drilled during the summer weather window in 1998 and the results are being evaluated. Conceptual design work for further development of the P-A field, including pressure maintenance for the Astokh Feature, continues. With respect to the Lunskoye field, appraisal work and efforts to secure long-term gas sales markets continue. Commencement of gas production from the Lunskoye field, which will be contingent upon the conclusion of a gas sales contract, is anticipated to occur in 2005 or later.

Late in 1997, the Sakhalin Energy consortium arranged a limited recourse project financing facility of $348 million. Sakhalin Energy borrowed the full amount of this facility in 1998 to fund Phase I expenditures and to repay amounts previously advanced to Sakhalin Energy by its shareholders.

In the area of significant Russian legislation, the Russian Parliament passed a Production Sharing Agreement ("PSA") Amendments Law and a PSA Enabling Law, which brings other Russian legislation into conformance with the PSA Law. These laws were signed by President Yeltsin and enacted in 1999.

At December 31, 1998, Marathon's investment in the Sakhalin II project was $275 million.

The above discussion includes forward-looking statements with respect to worldwide liquid hydrocarbon production and natural gas volumes for 1999, 2000 and 2001, commencement of projects and dates of initial production. These statements are based on a number of assumptions, including (among others) prices, amount of capital available for exploration and development, worldwide supply and demand for petroleum products, regulatory constraints, reserve estimates, production decline rates of mature fields, timing of commencing production from new wells, timing and results of future development drilling, reserve replacement rates and other geological, operating and economic considerations. In addition, development of new production properties in countries outside the United States may require protracted negotiations with host governments and is frequently subject to political considerations, such as tax regulations, which could adversely affect the timing and economics of projects. To the extent these assumptions prove inaccurate and/or negotiations and other considerations are not satisfactorily resolved, actual results could be materially different than present expectations.

Downstream income of the Marathon Group is largely dependent upon refining crack spreads (the difference between light product prices and crude costs). Refined product margins have been historically volatile and vary with the level of economic activity in the various marketing areas, the regulatory climate and the available supply of crude oil and refined products. Key external factors look promising for the refining and marketing industry. Demand for petroleum products is expected to grow modestly, due to a leveling of fuel efficiency in the passenger car fleet, increasing sales of light-truck and sport-utility vehicles which average fewer miles per gallon than passenger cars, and an increasing number of vehicle miles traveled. Refinery utilization rates are strong, reflecting the increased demand, which should be beneficial for MAP's refining margins. Also, increased highway construction funding should benefit MAP, the largest U.S. supplier of asphalt.

As a result of Marathon and Ashland combining major elements of their downstream operations, MAP achieved approximately $150 million in annual repeatable pre-tax operating efficiencies in 1998 and has targeted an additional $100 million in 1999. MAP presently expects to derive efficiencies of $350 million annually on a pre-tax basis in 2001. This exceeds its original goal of achieving efficiencies of $200 million annually on a pre-tax basis. Efficiencies will continue to be identified in the logistical, retail marketing, wholesale marketing and refining operations, as well as administrative functions, that Marathon and Ashland transferred to MAP.

MAP and a third party are constructing facilities to produce 800 million pounds per year of polymer grade propylene and polypropylene at the Garyville refinery. MAP is building and will own and operate facilities to produce polymer grade propylene. The third party is constructing and will own and operate the polypropylene facilities and market its output. Production of the polymer grade propylene is scheduled to begin in the second quarter of 1999.

MAP plans to build a pipeline from its Catlettsburg refinery to Columbus, Ohio. The wholly owned pipeline is expected to initially move about 50,000 bpd of refined products into central Ohio. Construction is expected to commence in the summer of 1999 after final regulatory approvals. The pipeline is expected to be operational in the first half of 2000.

A project to increase crude throughput and light product output is being undertaken at MAP's Robinson, IL refinery. This project is expected to be completed in 2001.

The above statements with respect to demand for petroleum products, the amount and timing of efficiencies to be realized by MAP, and the statements with respect to the propylene, pipeline and refinery improvement projects are forward looking statements. Some factors that could potentially cause actual results to differ materially from present expectations include (among others) the price of petroleum products, unanticipated costs or delays associated with implementing shared technology, completing logistical infrastructure projects, leveraging procurement strategies, levels of cash flow from operations, obtaining the necessary construction and environmental permits, unforeseen hazards such as weather conditions and regulatory constraints.

Year 2000 Readiness Disclosure

The Marathon Group is executing action plans which include:

- prioritizing and focusing on those computerized and automated systems and processes critical to the operations in terms of material operational, safety, environmental and financial risk to the company.
- allocating and committing appropriate resources to fix the problem.

Management's Discussion and Analysis CONTINUED

• developing detailed contingency plans for those computerized and automated systems and processes critical to the operations in terms of material operational, safety, environmental and financial risk to the company.

• communicating with, and aggressively pursuing, critical third parties to help ensure the Year 2000 readiness of their products and services through use of mailings, telephone contacts, and the inclusion of Year 2000 readiness language in purchase orders and contracts.

• performing rigorous Year 2000 tests of critical systems.

• participating in, and exchanging Year 2000 information with industry trade associations, such as the American Petroleum Institute (API).

• engaging qualified outside engineering and information technology consulting firms to assist in the Year 2000 inventory, assessment and readiness.

State of Readiness

Readiness efforts and critical systems testing is 92% complete for Information Technology (IT) systems. The remaining systems are to be completed by end of the third quarter of 1999. Responses have been received from over 80% of the Marathon Group's third party software vendors, with 99% indicating that they are or will be Year 2000 ready and will provide updated software on a timely basis.

The Marathon Group has completed the inventory on 93% of the Non-Information Technology (Non-IT) systems. Assessment of these inventories is being completed to identify those systems that will require remediation. All Non-IT systems are scheduled to be ready by the end of the third quarter of 1999 with minor exceptions. Plant maintenance shutdowns scheduled for the fourth quarter of 1999 will allow us to complete any final readiness efforts.

The following chart provides the percent of completion for the inventory of systems and processes that may be affected by the Year 2000 ("Y2K Inventory"), analysis performed to determine the Year 2000 date impact of inventoried systems and processes ("Y2K Impact Assessment") and the Year 2000 readiness of the Marathon Group's Year 2000 inventory ("Y2K Readiness of Overall Inventory"). The percent of completion for Y2K Readiness of Overall Inventory includes all inventory items not date impacted, those items already Year 2000 ready and those corrected and made Year 2000 ready through the renovation/replacement, testing and implementation activities; however, the implementation of certain Year 2000 ready IT and Non-IT systems has been deferred until 1999, to avoid unnecessary disruption of operations.

	Percent Completed		
As of January 31, 1999	Y2K Inventory	Y2K Impact Assess-ment	Y2K Readiness of Overall Inventory
Information technology	100%	100%	92%
Non-information technology	93%	60%	52%

Third Parties

Third parties are suppliers, customers and vendors, excluding third party software vendors discussed previously. Contacts have been made with all critical third parties to determine if they will be able to provide services to the Marathon Group after the Year 2000. Follow-up continues with those third parties not responding or returning an unacceptable response. If it is determined that there is a significant risk, an effort will be made to work with such parties. If this is not successful, a new provider of the same services will be sought.

The Costs to Address Year 2000 Issues

The estimated costs associated with Year 2000 readiness, are approximately $36 million, including $19 million of incremental costs. This reflects an increase of $8 million from the previously reported estimate of total incremental costs. The estimated cost increase results primarily from increased use of external consultants and increased internal staffing of Y2K operational teams. Total costs incurred as of January 31, 1999, were $17 million, including $8 million of incremental costs. As

Management's Discussion and Analysis CONTINUED

Y2K impact assessment nears completion and the renovation planning, readiness implementation and testing evolve, the estimated costs may change.

The Risks of the Company's Year 2000 Issues

The most reasonably likely worst case Year 2000 scenario would be the inability of critical third party suppliers, such as utility providers, telecommunication companies, and other critical suppliers, such as drilling equipment suppliers, platform suppliers, crude oil suppliers and pipeline carriers, to continue providing their products and services. This could pose the greatest material operational, safety, environmental and/or financial risk to the company.

In addition, the lack of accurate and timely Year 2000 date impact information from suppliers of automation and process control systems and processes is a concern. Without quality information from suppliers, specifically on embedded chip technology, some Year 2000 problems could go undetected until after January 1, 2000.

Contingency Planning

Representatives of the Marathon Group have participated with a work group of the API Year 2000 Task force to develop a contingency plan format. This format includes guidelines to develop a plan that will cover the Year 2000 areas of concern. Many business unit contingency planning teams have been formed and are actively working on contingency plans for the systems and processes critical to the operations in terms of material operational, safety, environmental and financial risk to the company. These plans are to be completed and tested, when practical, by the end of the third quarter of 1999.

The foregoing Year 2000 discussion includes forward-looking statements of the Marathon Group's efforts and management's expectations relating to Year 2000 readiness. These statements are based on certain assumptions including, but not limited to, the availability of programming and testing resources, vendors' ability to install or modify proprietary hardware and software, unanticipated problems identified in the ongoing Year 2000 readiness review, the effectiveness and execution of contingency plans and the level of incremental costs associated with Year 2000 readiness efforts. If these assumptions prove to be incorrect, actual results could differ materially from present expectations.

The U. S. Steel Group

The U. S. Steel Group includes U. S. Steel, which is engaged in the production and sale of steel mill products, coke, and taconite pellets; the management of mineral resources; domestic coal mining; real estate development; and engineering and consulting services. Certain business activities are conducted through joint ventures and partially-owned companies, such as USS/Kobe Steel Company ("USS/Kobe"), USS-POSCO Industries ("USS-POSCO"), PRO-TEC Coating Company ("PRO-TEC"), Transtar, Inc. ("Transtar"), Clairton 1314B Partnership, VSZ U. S. Steel, s. r.o. and RTI International Metals, Inc. ("RTI").

In 1998, segment income for U. S. Steel operations decreased primarily due to lower average steel product prices, lower shipment volumes, and less efficient operating levels, resulting from an increase in imports and weak tubular markets.

U. S. Steel Group revenues for each of the last three years are summarized in the following table, which is covered by the report of independent accountants.

(Dollars in millions)	1998	1997	1996
Sales by product:			
Sheet and semi-finished steel products	$ 3,501	$ 3,820	$ 3,677
Tubular, plate, and tin mill products	1,513	1,754	1,635
Raw materials (coal, coke and iron ore)	591	671	757
Other[a]	578	570	466
Income from affiliates	46	69	66
Gain on disposal of assets	54	57	16
Gain on affiliate stock offering[b]	–	–	53
Total revenues	$ 6,283	$ 6,941	$ 6,670

[a] Includes revenue from the sale of steel production byproducts, engineering and consulting services, real estate development and resource management.

[b] For further details, see Note 9 to the USX Consolidated Financial Statements.

Management's Discussion and Analysis CONTINUED

Total revenues decreased by $658 million in 1998 from 1997 primarily due to lower average realized prices, lower steel shipment volumes, and lower income from affiliates. Total revenues increased by $271 million in 1997 from 1996 primarily due to higher average steel product prices and higher shipment volumes.

U. S. Steel Group **income from operations** for the last three years was:

(Dollars in millions)	1998	1997	1996
Segment income for U. S. Steel operations[(a)]	$ 330	$ 618	$ 248
Items not allocated to segment:			
Pension credits	373	313	330
Administrative expenses	(24)	(33)	(28)
Costs related to former business activities[(b)]	(100)	(125)	(120)
Gain on affiliate stock offering[(c)]	–	–	53
Total income from operations	$ 579	$ 773	$ 483

(a) Includes income from the production and sale of steel mill products, coke and taconite pellets; the management of mineral resources; domestic coal mining; real estate development; and engineering and consulting services.

(b) Includes the portion of postretirement benefit costs and certain other expenses principally attributable to former business units of the U. S. Steel Group. Results in 1997 included charges of $9 million related to environmental accruals and the adoption of SOP 96-1.

(c) For further details, see Note 9 to the USX Consolidated Financial Statements.

Segment income for U. S. Steel operations

Segment income for U. S. Steel operations, which decreased $288 million in 1998 from 1997, included a net favorable $30 million for an insurance litigation settlement pertaining to the 1995 Gary (Ind.) Works No. 8 blast furnace explosion and charges of $10 million related to a voluntary workforce reduction plan. Results in 1997 included a benefit of $40 million in insurance settlement payments related to the 1996 hearth breakout at Gary Works No. 13 blast furnace and a $15 million gain on the sale of the plate mill at U. S. Steel's former Texas Works. In addition to the effects of these items, the decrease in segment income in 1998 for U. S. Steel operations was primarily due to lower average steel prices, lower shipments, less efficient operating levels, the cost effects of the 10 day outage at Gary Works No. 13 blast furnace following a tap hole failure, and lower income from affiliates. These unfavorable items were partially offset by lower 1998 accruals for profit sharing.

The increase in imports and weak tubular markets negatively affected steel shipment levels, steel product prices and operating levels in 1998. U. S. Steel shipments declined 8% in 1998 compared to 1997. In 1998, raw steel production was negatively affected by a planned reline at Gary Works No. 6 blast furnace, an unplanned blast furnace outage at the Gary Works No. 13 blast furnace, and the idling of certain facilities to control inventory as a result of the increase in imports. In 1998, raw steel capability utilization averaged 87.6%, compared to 96.5% in 1997.

Segment income for U. S. Steel operations increased $370 million in 1997 compared to 1996. Results in 1996 included $39 million of charges related to repair of the Gary Works No. 13 blast furnace and $13 million of charges related to a voluntary workforce reduction at the Fairless (Pa.) Works. In addition to the effects of these items, the increase in 1997 was primarily due to higher steel shipments, higher average realized steel prices, and improved operating efficiencies, including the full year availability of the Gary Works No. 13 blast furnace. These improvements were partially offset by higher 1997 accruals for profit sharing.

The Gary Works No. 13 blast furnace, which represents about half of Gary Works iron producing capacity and roughly one-fourth of U. S. Steel's iron capacity, was idled on April 2, 1996 due to a hearth breakout. In addition to direct repair costs, 1996 operating results were adversely affected by production inefficiencies at Gary, as well as at other U. S. Steel plants, reduced shipments and higher costs for purchased iron and semifinished steel. The total effect of this unplanned outage on 1996 segment income is estimated to have been more than $100 million. USX maintained property damage and business interruption insurance coverages for the No. 13 blast furnace hearth breakout and the 1995 Gary Works No. 8 blast furnace explosion, subject to a $50 million deductible per occurrence for recoverable items. In 1998, USX and its insurance companies settled the Gary Works No. 8 blast furnace loss for approximately $30 million (net of charges and reserves) in excess of the deductible. In 1997, USX and its insurance companies settled the Gary Works No. 13 blast furnace loss for $40 million in excess of the deductible.

Segment income for U. S. Steel operations included pension costs (which are primarily noncash) allocated to the ongoing operations of U. S. Steel of $187 million, $169 million, and $172 million in 1998, 1997 and 1996, respectively. Pension costs in 1998 included $10 million for termination benefits associated to a voluntary early retirement program, the settlements for which will principally occur in the first half of 1999.

Items not allocated to segment

Pension credits associated with pension plan assets and liabilities allocated to pre-1987 retirees and former businesses are not included in segment income for U. S. Steel operations. These pension credits, which are primarily noncash, totaled $373 million in 1998, compared to $313 million and $330 million in 1997 and 1996 respectively.

Pension credits, combined with pension costs included in segment income for U. S. Steel operations, resulted in net pension credits of $186 million in 1998, $144 million in 1997 and $158 million in 1996. Net pension credits are expected to be approximately $205 million in 1999. Future net pension credits can be volatile dependent upon the future marketplace performance of plan assets, changes in actuarial assumptions regarding such factors as a selection of a discount rate and rate of return on assets, changes in the amortization levels of transition amounts or prior period service costs, 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. For additional information on pensions, see Note 11 to the USX Consolidated Financial Statements.

Outlook for 1999 – U. S. Steel Group

U. S. Steel expects that shipment volumes and average steel product prices will continue to be impacted by the effects of high levels of low priced steel imports and growing domestic minimill production capability for flat rolled products. Scrap prices are currently at low levels and provide minimills a cost advantage. In recent years, demand for steel in the United States has been at high levels. Any weakness in the U.S. economy for capital goods or consumer durables could adversely impact U. S. Steel Group's product prices and shipment levels.

On August 1, 1999, U. S. Steel, along with several major steel competitors, faces the expiration of the labor agreement with the USWA. U. S. Steel's ability to negotiate an acceptable labor contract is essential to ongoing operations. Any labor interruptions could have an adverse effect on operations, financial results and cash flow.

Steel imports to the United States accounted for an estimated 30%, 24% and 23% of the domestic steel market for the years 1998, 1997 and 1996, respectively. In November 1998, steel imports accounted for an estimated 37% of the domestic steel market. Steel imports of hot rolled and cold rolled steel increased 42% in 1998, compared to 1997. Steel imports of plates increased 75% in 1998, compared to 1997.

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 imports, 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.

Management's Discussion and Analysis CONTINUED

Year 2000 Readiness Disclosure

A multi-functional Year 2000 task force continues to execute a preparedness plan which addresses readiness requirements for business computer systems, technical infrastructure, end-user computing, third parties, manufacturing, environmental operations, systems products produced and sold, and dedicated R&D test facilities. The U. S. Steel Group is executing a Year 2000 readiness plan which includes:

- prioritizing and focusing on those computerized and automated systems and processes critical to the operations in terms of material safety, operational, environmental, quality and financial risk to the company.
- allocating and committing appropriate resources to fix the problem.
- communicating with, and aggressively pursuing, critical third parties to help ensure the Year 2000 readiness of their products and services through use of mailings, telephone contacts, on-site assessments and the inclusion of Year 2000 readiness language in purchase orders and contracts.
- performing rigorous Year 2000 tests of critical systems.
- participating in, and exchanging Year 2000 information with industry trade associations, such as the American Iron & Steel Institute, Association of Iron & Steel Engineers and the Steel Industry Systems Association.
- engaging qualified outside engineering and information technology consulting firms to assist in the Year 2000 impact assessment and readiness effort.

State of Readiness

The U. S. Steel Group's progress on achieving Year 2000 readiness is currently on pace with our objectives. Certain systems/processes are to be replaced and/or upgraded with third-party Year 2000 ready products and services. All systems and processes are targeted to be Year 2000 ready, including integration testing, by the end of the third quarter, 1999. This schedule may be impacted by the availability of information and services from third-party suppliers/vendors on the Year 2000 readiness of their products and services. Generally, efforts in 1999 will be primarily devoted to both Year 2000 systems and integration testing, tracking of the readiness of third parties, developing contingency plans and verifying the state of Year 2000 readiness.

The following chart provides the percent of completion for the inventory of systems and processes that may be affected by the year 2000 ("Y2K Inventory"), the analysis performed to determine the Year 2000 date impact on inventoried systems and processes ("Y2K Impact Assessment") and the year 2000 readiness of the U. S. Steel Group's year 2000 inventory ("Y2K Readiness of Overall Inventory"). The percent of completion for Y2K Readiness of Overall Inventory includes all inventory items not date impacted, those items already Year 2000 ready and those corrected and made Year 2000 ready through the renovation/replacement, testing and implementation activities.

	Percent Completed		
As of January 31, 1999	Y2K Inventory	Y2K Impact Assess-ment	Y2K Readiness of Overall Inventory
Information technology	100%	98%	95%
Non-information technology	100%	84%	81%

Third Parties

The U. S. Steel Group continues to review its third party (including, but not limited to outside processors, process control systems and hardware suppliers, telecommunication providers, and transportation carriers) relationships to determine those critical to its operations. The majority of contacts have been made with critical third parties to determine if they will be able to provide their product and service to the U. S. Steel Group after the Year 2000. An aggressive follow-up process with those third parties not responding or returning an unacceptable response is underway. Communications with U. S. Steel Group's third parties is an on-going process which includes mailings, telephone contacts and on-site visits. If it is determined that there is a significant risk with the third

Management's Discussion and Analysis CONTINUED

parties, an effort will be made to work with the third parties to resolve the issue, or a new provider of the same products or services will be investigated and secured. As of December 31, 1998, the U. S. Steel Group has sent out approximately 700 inquiries and received over 600 responses.

The Costs to Address Year 2000 Issues

The current estimated cost associated with Year 2000 readiness, is approximately $29 million, which includes $16 million in incremental cost. Total costs incurred as of January 31, 1999, were $14 million, including $6 million of incremental costs. As Y2K Impact Assessment nears completion and the renovation planning, readiness implementation and testing evolve, the estimated costs may change.

Year 2000 Risks to the Company

The most reasonably likely worst case Year 2000 scenario would be the inability of third party suppliers, such as utility providers, telecommunication companies, outside processors, and other critical suppliers, to continue providing their products and services. This could pose the greatest material safety, operational, environmental, quality and/or financial risk to the company.

In addition, the lack of accurate and timely Year 2000 date impact information from suppliers of automation and process control systems and processes is a concern to the U. S. Steel Group. Without timely and quality information from suppliers, specifically on embedded chip technology, schedules for attaining readiness can be impacted and some Year 2000 problems could go undetected during the transition to the year 2000.

Contingency Planning

General guidelines have been issued to all business units for creating contingency plans to address those critical facets of operations that can cause a material safety, operational, environmental, or financial risk to the company. Representatives of the U. S. Steel Group are working with the Association of Iron & Steel Engineers and the American Iron & Steel Institute to develop contingency planning guidelines to address issues specific to the steel industry. These guidelines are intended to help entities develop specific contingency plans that will cover their associated Year 2000 risks and areas of concern. The U. S. Steel Group currently expects to have contingency plans completed and tested, when practical, by the middle of 1999.

This discussion includes forward-looking statements of the U. S. Steel Group's efforts and management's expectations relating to Year 2000 readiness. The Steel Group's ability to achieve Year 2000 readiness and the level of incremental costs associated therewith, could be adversely impacted by, among other things, the availability and cost of programming and testing resources, vendors' ability to install or modify proprietary hardware and software and unanticipated problems identified in the ongoing Year 2000 readiness review. Also, the U. S. Steel Group's ability to mitigate Year 2000 risks could be adversely impacted by the ability to complete, and the effectiveness of, contingency plans.

The Delhi Group

Effective October 31, 1997, USX sold Delhi Gas Pipeline Corporation and other subsidiaries of USX that comprise all of the Delhi Group.

Quantitative and Qualitative Disclosures About Market Risk

Management Opinion Concerning Derivative Instruments

USX employs a strategic approach of limiting its use of derivative instruments principally to hedging activities, whereby gains and losses are generally offset by price changes in the underlying commodity. Based on this approach, combined with risk assessment procedures and internal controls, management believes that its use of derivative instruments does not expose USX to material risk; however, the use of derivative instruments for hedging activities could materially affect USX's results of operations in particular quarterly or annual periods. This is primarily because use of such instruments may limit the company's ability to benefit from favorable price movements. 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 1 to the USX Consolidated Financial Statements.

Commodity Price Risk and Related Risks

In the normal course of its business, USX is exposed to market risk or price fluctuations related to the purchase, production or sale of crude oil, natural gas, refined products and steel products. To a lesser extent, USX is exposed to the risk of price fluctuations on coal, coke, natural gas liquids, electricity, petroleum feedstocks and certain nonferrous metals used as raw materials. USX is also exposed to effects of price fluctuations on the value of its commodity inventories.

USX'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, USX uses fixed-price contracts and derivative commodity instruments to manage a relatively small portion of its commodity price risk. USX uses fixed-price contracts for portions of its natural gas production to manage exposure to fluctuations in natural gas prices. In addition, USX uses derivative commodity instruments such as exchange-traded futures contracts and options, and over-the-counter ("OTC") commodity swaps and options to manage exposure to market risk related to the purchase, production or sale of crude oil, natural gas, refined products, certain nonferrous metals and electricity. USX's strategic approach is to limit the use of these instruments principally to hedging activities. Accordingly, gains and losses on derivative commodity instruments are generally offset by the effects of price changes in the underlying commodity. However, certain derivative commodity instruments have the effect of restoring the equity portion of fixed-price sales of natural gas to variable market-based pricing. These instruments are used as part of USX's overall risk management programs.