UNITED STATES STEEL CORP
Form 10-K
February 15, 2013
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2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012

Commission file number 1-16811

(Exact name of registrant as specified in its charter)

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

600 Grant Street, Pittsburgh, PA 15219-2800

(Address of principal executive offices)

Tel. No. (412) 433-1121

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No ______

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

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

Large accelerated filer ü	Accelerated filer ______
Non-accelerated filer ______	Smaller reporting company ______

(Do not check if a smaller reporting company)

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

Aggregate market value of Common Stock held by non-affiliates as of June 29, 2012 (the last business day of the registrant s most recently completed second fiscal quarter): $3 billion. The amount shown is based on the closing price of the registrant s Common Stock on the New York Stock Exchange composite tape on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 under the Securities Act of 1933.

There were 144,282,358 shares of United States Steel Corporation Common Stock outstanding as of February 7, 2013.

Documents Incorporated By Reference:

Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated into Part III.

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FORWARD-LOOKING STATEMENTS

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

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PART I

Item 1. BUSINESS

U. S. Steel is an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. U. S. Steel has annual raw steel production capability of 29.3 million net tons (tons) (24.3 million tons in North America and 5.0 million tons in Europe). According to World Steel Association s latest published statistics, we were the thirteenth largest steel producer in the world in 2011. U. S. Steel is also engaged in other business activities consisting primarily of transportation services (railroad and barge operations) and real estate operations.

On January 31, 2012, U. S. Steel sold U. S. Steel Serbia d.o.o. (USSS) to the Republic of Serbia for a purchase price of one dollar. In addition, U. S. Steel Ko ice received a $40 million payment for certain intercompany balances owed by U. S. Steel Serbia for raw materials and support services. U. S. Steel recorded a total non-cash charge of $399 million in the first quarter of 2012, which includes the loss on the sale and a charge of approximately $50 million to recognize the cumulative currency translation adjustment related to USSS.

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Segments

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

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

Flat-rolled has annual raw steel production capability of 24.3 million tons. Raw steel production was 19.1 million tons in 2012, 18.6 million tons in 2011 and 18.4 million tons in 2010. Raw steel production averaged 78 percent of capability in 2012, 77 percent of capability in 2011 and 76 percent of capability in 2010.

The USSE segment includes the operating results of U. S. Steel Ko ice (USSK), U. S. Steel s integrated steel mill and coke production facilities in Slovakia. Prior to January 31, 2012, the USSE segment also included the operating results of USSS, U. S. Steel s integrated steel mill and other facilities in Serbia, and an equity investee, which were sold on January 31, 2012. USSE primarily serves customers in the European construction, service center, conversion, container, transportation (including automotive), appliance and electrical, and oil, gas and petrochemical markets. USSE produces and sells slabs, sheet, strip mill plate, tin mill products and spiral welded pipe, as well as heating radiators and refractory ceramic materials.

USSE has annual raw steel production capability of 5.0 million tons from USSK. Prior to January 31, 2012, USSE had raw steel production capability of 7.4 million tons, which consisted of 5.0 million and 2.4 million tons from USSK and USSS, respectively. USSE s raw steel production was 4.5 million tons in 2012, 5.6 million tons in 2011 and 6.1 million tons in 2010. USSE s raw steel production averaged 87 percent of capability in 2012, 76 percent of capability in 2011 and 82 percent of capability in 2010.

USSK s raw steel production was 4.4 million tons in 2012, 4.2 million tons in 2011 and 4.7 million tons in 2010. USSK s raw steel production averaged 88 percent of capability in 2012, 84 percent of capability in 2011 and 94 percent of capability in 2010.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities, located primarily in the United States, and equity investees in the United States and Brazil. These operations produce and sell seamless and electric resistance welded (ERW) steel casing and tubing (commonly known as oil country tubular goods or OCTG), standard and line pipe and mechanical tubing and primarily serve customers in the oil, gas and petrochemical markets. Tubular s annual production capability is 2.8 million tons.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses include transportation services (railroad and barge operations) and real estate operations.

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

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Financial and Operational Highlights

Net Sales

Net Sales by Segment

(Dollars in millions, excluding intersegment sales)	2012	2011	2010
Flat-rolled	**$ 12,908**	$ 12,367	$ 10,848
USSE	**2,949**	4,306	3,989
Tubular	**3,283**	3,034	2,403
Total sales from reportable segments	**19,140**	19,707	17,240
Other Businesses	**188**	177	134
Net sales	**$ 19,328**	$ 19,884	$ 17,374

Income (Loss) from Operations by Segment[(a)]

	Year Ended December 31,		
(Dollars in Millions)	2012	2011	2010
Flat-rolled[(b)]	**$ 400**	$ 469	$ (261)
USSE[(c)]	**34**	(162)	(33)
Tubular[(b)]	**366**	316	353
Total income (loss) from reportable segments[(b)]	**800**	623	59
Other Businesses[(b)]	**55**	46	55
Reportable segments and Other Businesses income (loss) from operations[(b)]	**855**	669	114
Postretirement benefit expenses[(b)]	**(297)**	(386)	(231)
Other items not allocated to segments:			
Labor agreement lump sum payments	**(35)**		
Net (loss) gain on the sale of assets	**(310)**		6
Property tax settlements	**19**		
Supplier contract dispute settlement	**15**		
Environmental remediation charge		(18)	
Total income (loss) from operations	**$ 247**	$ 265	$ (111)

(a) See Note 3 to the Consolidated Financial Statements for reconciliations and other disclosures required by Accounting Standards Codification Topic 280.
(b) Amounts prior to 2011 have been restated to reflect a change in our segment allocation methodology for postretirement benefit expenses as disclosed in Note 3 to the Consolidated Financial Statements.
(c) Includes the results of USSS through the disposition date of January 31, 2012. See Note 4 to the Consolidated Financial Statements for further details.

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Reportable Segments and Other Businesses   Income (Loss) from Operations (IFO)

(a) Amounts prior to 2011 have been restated to reflect a change in our segment allocation methodology for postretirement benefit expenses as disclosed in Note 3 to the Consolidated Financial Statements.

Steel Shipments

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Steel Shipments by Product and Segment

The following table does not include shipments to end customers by joint ventures and other equity investees of U. S. Steel, but instead reflects the shipments of substrate materials, primarily hot-rolled and cold-rolled sheets, to those entities.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Product 2012				
Hot-rolled Sheets	**5,733**	**1,197**		**6,930**
Cold-rolled Sheets	**4,476**	**558**		**5,034**
Coated Sheets	**3,490**	**772**		**4,262**
Tin Mill Products	**1,220**	**388**		**1,608**
Oil country tubular goods (OCTG)			**1,339**	**1,339**
Standard and line pipe		**82**	**396**	**478**
Semi-finished and Plates	**1,055**	**819**		**1,874**
Other			**151**	**151**
TOTAL	**15,974**	**3,816**	**1,886**	**21,676**
Memo: Intersegment Shipments from Flat-rolled to Tubular				
Hot-rolled sheets	**938**			
Rounds	**865**			
Memo: Intersegment Shipments from USSE to Flat-rolled				
Slabs	**249**			
Product 2011				
Hot-rolled Sheets	5,421	1,940		7,361
Cold-rolled Sheets	4,311	707		5,018
Coated Sheets	3,136	816		3,952
Tin Mill Products	1,177	528		1,705
Oil country tubular goods (OCTG)			1,276	1,276
Standard and line pipe		8	408	416
Semi-finished and Plates	1,464	865		2,329
Other		68	128	196
TOTAL	15,509	4,932	1,812	22,253
Memo: Intersegment Shipments from Flat-rolled to Tubular				
Hot-rolled sheets	1,554			
Rounds	686			
Memo: Intersegment Shipments from USSE to Flat-rolled				
Slabs	71			
Product 2010				
Hot-rolled Sheets	4,963	2,191		7,154
Cold-rolled Sheets	4,340	752		5,092
Coated Sheets	2,893	878		3,771
Tin Mill Products	1,340	583		1,923
Oil country tubular goods (OCTG)			1,103	1,103
Standard and line pipe		9	360	369
Semi-finished, Bars and Plates	1,765	982		2,747
Other		69	88	157

TOTAL	15,301	5,464	1,551	22,316
Memo: Intersegment Shipments from Flat-rolled to Tubular				
Hot-rolled sheets	895			
Rounds	706			
Memo: Intersegment Shipments from USSE to Flat-rolled				
Slabs				

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Steel Shipments by Market and Segment

The following table does not include shipments to end customers by joint ventures and other equity investees of U. S. Steel. Shipments of materials to these entities are included in the Further Conversion Joint Ventures market classification. No single customer accounted for more than 10 percent of gross annual revenues.

(Thousands of Tons)

	Flat-rolled	USSE	Tubular	Total
Major Market 2012				
Steel Service Centers	**2,882**	**567**		**3,449**
Further Conversion Trade Customers	**5,119**	**310**		**5,429**
Joint Ventures	**1,823**			**1,823**
Transportation (Including Automotive)	**2,511**	**650**		**3,161**
Construction and Construction Products	**869**	**1,350**	**144**	**2,363**
Containers	**1,290**	**387**		**1,677**
Appliances and Electrical Equipment	**727**	**272**		**999**
Oil, Gas and Petrochemicals		**20**	**1,601**	**1,621**
Exports from the United States	**409**		**141**	**550**
All Other	**344**	**260**		**604**
TOTAL	**15,974**	**3,816**	**1,886**	**21,676**
Major Market 2011				
Steel Service Centers	2,988	943		3,931
Further Conversion Trade Customers	4,805	539	(6)	5,338
Joint Ventures	1,803			1,803
Transportation (Including Automotive)	2,268	707		2,975
Construction and Construction Products	870	1,622	128	2,620
Containers	1,221	525		1,746
Appliances and Electrical Equipment	650	328		978
Oil, Gas and Petrochemicals		14	1,526	1,540
Exports from the United States	572		164	736
All Other	332	254		586
TOTAL	15,509	4,932	1,812	22,253
Major Market 2010				
Steel Service Centers	3,214	1,106		4,320
Further Conversion Trade Customers	4,243	676	13	4,932
Joint Ventures	1,835			1,835
Transportation (Including Automotive)	2,136	629	3	2,768
Construction and Construction Products	821	1,764	38	2,623
Containers	1,398	586		1,984
Appliances and Electrical Equipment	703	319		1,022
Oil, Gas and Petrochemicals		11	1,438	1,449

Exports from the United States	687		59	746
All Other	264	373		637
TOTAL	15,301	5,464	1,551	22,316

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Business Strategy

Over the long term, our strategy is to be forward-looking, grow responsibly, generate a competitive return on capital and meet our financial and stakeholder obligations. We remain committed to being a world leader in safety and environmental stewardship; producing innovative value added steel products, improving our quality, cost competitiveness and customer service; and attracting, developing and retaining a diverse workforce with the talent and skills needed for our long-term success.

Safety

We believe improving safety performance is consistent with the Company s other strategic objectives such as improving quality, cost competiveness and customer service. Through 2012, the eight-year trends for our global key safety measurements: recordable injuries, days away from work rate and severity rate showed improvement of 40 percent, 69 percent and 93 percent respectively, as shown in the following graphs.

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Environmental Stewardship

U. S. Steel maintains a comprehensive environmental policy. The Executive Environmental Committee, which is comprised of U. S. Steel officers, meets regularly to review environmental issues and compliance. The Board of Directors and the Corporate Governance and Public Policy Committee receive regular updates on environmental matters. Also, U. S. Steel, largely through the American Iron and Steel Institute, the Canadian Steel Producers Association, World Steel and European Confederation of Iron and Steel Industries (Eurofer), is involved in the promotion of cost effective environmental strategies through the development of appropriate air, water, waste and climate change laws and regulations at the local, state, national and international levels.

We are committed to reducing emissions as well as our carbon footprint. We have an established program to investigate, share and create innovative, best practice solutions throughout U. S. Steel to manage and reduce energy consumption and CO_2 emissions. We are also committed to investing in technology to move the steelmaking process in an even more environmentally responsible direction by investing in low emission technologies. At our Granite City Works, we have a 15 year coke supply agreement, which began in 2009 with Gateway Energy & Coke Company, LLC (Gateway) in connection with its heat recovery coke plant. The plant uses process technology that produces less CO_2 emissions than the technology it replaced.

We have achieved air opacity performance improvements at our domestic coke plants. Continuous process improvements have allowed us to make environmental progress through the utilization of enhanced refractory repair programs and strategically timed maintenance on the structural integrity of our coke batteries. We have also implemented data analysis to track our coke oven performance allowing us to proactively prioritize maintenance activity. In addition, we continue to focus on implementing energy reduction strategies, use of efficient energy sources, waste reduction management and the utilization of by-product fuels.

All of our major production facilities have Environmental Management Systems certified to the ISO 14001 Standard. This standard, published by the International Organization for Standardization, provides the framework for the measurement and improvement of environmental impacts of the certified facility.

We have submitted an application seeking approval for an innovative approach to environmental permitting for Minntac air and water compliance for particulate matter, Mercury, SO_2 and Sulfate. Once approved, this will be the first multi-media compliance solution of its type for iron ore operations in the United States.

Not only is environmental stewardship one of the Company s key values, our environmental stewardship is also externally focused on education and active involvement with local sponsorship of academic programs designed to produce an inter-active learning experience for the participants on the importance of environmental responsibility and awareness.

We are certified from the Wildlife Habitat Council (WHC) for our Corporate Lands for Learning (CLL) program at our South Taylor Environmental Park (STEP) facility near Pittsburgh, Pennsylvania, which incorporates inter-action with elementary school programs in Western Pennsylvania. Gary Works and Clairton Works are also CLL-certified. In addition, the STEP, the Clairton Plant, the Irvin Plant, Gary Works, Great Lakes Works and the Keetac and Minntac facilities have certifications under the WHC Wildlife at Work Program.

The Compensation and Organization Committee has made annual safety performance and environmental improvements two of four performance measures for short-term incentive compensation for the Company s officers.

Commercial Strategy

Our commercial strategy is focused on providing value-added steel products, including advanced high strength steel and coated sheets for the automotive and appliance industries, electrical steel sheets for the manufacture of motors and electrical equipment, galvanized and Galvalume® sheets for construction, tin mill products for the container industry and oil country tubular goods for the oil and gas industry, inclusive of providing steel to the developing North American shale oil and gas markets.

We are committed to meeting our customers requirements by developing new steel products and uses for steel. In connection with this commitment, we have research centers in Pittsburgh, Pennsylvania, and Ko ice, Slovakia. We also have an automotive center in Troy, Michigan and an innovation and technology center for Tubular products in Houston, Texas. The focus of these centers is to develop new products and work with our customers to better serve their needs. Examples of our customer focused product innovation include the development of advanced high strength steels, including Dual-Ten® and TRIP steels, that provide high strength to meet automobile passenger safety requirements while significantly reducing weight to meet fuel efficiency requirements; and our PATRIOT TC® tubular, USS CDC HTQ and USS Liberty FJM connections as well as Low Plasticity Burnishing couplings to meet our tubular customers needs in horizontal drilling and deep well applications such as Marcellus Shale.

Our decisions concerning what facilities to operate and at what levels are made based upon our customers orders for products as well as the capabilities and cost performance of our locations. In depressed markets such as those experienced in the recent recession, we concentrated production operations at several plant locations and did not operate others in response to customer demand. We are not currently operating the iron and steelmaking facilities at Hamilton Works.

Capital Projects and Other Investments

During 2012, we completed or neared completion of several key projects of strategic importance. We have made significant progress to improve our self-sufficiency and reduce our reliance on coke for the steel making process through the application of advanced technologies, upgrades to our existing coke facilities and the increased use of natural gas and injection coal in our operations. This may enable us to minimize additional capital investments in coke and carbon alloy projects in the future. We have completed the construction of a technologically and environmentally advanced battery at the Mon Valley Works Clairton Plant with a projected capacity of 960,000 tons per year. Initial start-up of the battery began in November 2012 with full production expected in the first quarter of 2013. We are constructing a carbon alloy facility at Gary Works, which utilizes an environmentally compliant, energy efficient and flexible production technology to produce a coke substitute product. The facility has a projected capacity of 500,000 tons per year. Construction of the first of two modules is complete and production started in 2012 with full production expected at the end of the third quarter of 2013. Construction of the second module is projected to be completed in the fourth quarter of 2013, with full production expected by the end of the second quarter of 2014.

In December 2012, U. S. Steel and Butch Gilliam Enterprises LLC formed a new joint venture, Patriot Premium Threading Services located in Midland, Texas, which provides tubular accessory threading and repair services, in addition to rig site services to exploration and production companies located principally in the Permian Basin. In order to more efficiently serve our tubular product customers increased focus on North American shale resources, the construction of an additional quench and temper line was completed during the third quarter of 2011 along with the installation of a hydrotester, threading and coupling and inspection stations at our Lorain Tubular Operations in Ohio. We are currently developing additional projects, such as facility enhancements and additional premium connections that will further enhance our ability to support our North American Tubular customers evolving requirements.

In an effort to increase our participation in the automotive market as vehicle emission and safety requirements become more stringent, PRO-TEC Coating Company, our joint venture in Ohio with Kobe Steel, Ltd., has a new automotive continuous annealing line under construction that is being financed at the joint-venture level and is expected to begin operations in the first half of 2013. Additionally we are working with Carpenter Technology Corporation to develop a steel designed to reduce overall vehicle weight to meet increased Corporate Average Fuel Economy standards.

We are also continuing our efforts to implement an enterprise resource planning (ERP) system to replace our existing information technology systems, which will enable us to operate more efficiently. The completion of the ERP project is expected to provide further opportunities to streamline, standardize and centralize business processes in order to maximize cost effectiveness, efficiency and control across our global

operations.

Over the longer term, we are considering business strategies to leverage our significant iron ore position in the United States, and to exploit opportunities related to the availability of reasonably priced natural gas as an

alternative to coke in the iron reduction process to improve our cost competitiveness, while reducing our dependence on coal and coke. We are considering an expansion of our iron ore pellet operations at Keewatin, MN (Keetac) facility, which would increase our production capability by approximately 3.6 million tons thereby increasing our iron ore self-sufficiency. The total cost of this project, as currently conceived, is broadly estimated to be approximately $820 million. Final permitting for the expansion was completed in December 2011. We are examining alternative iron and steelmaking technologies such as gas-based, direct-reduced iron and electric arc furnace (EAF) steelmaking. Our capital investments in the future may reflect such strategies, although we expect that iron and steelmaking through the blast furnace and basic oxygen furnace manufacturing processes will remain our primary processing technology for the long term.

We continue to assess North American and international expansion and divestment opportunities and carefully weigh them in light of the changing global steel market, financial market conditions and long-term value considerations for our stakeholders. We may consider 100 percent acquisition opportunities, joint ventures and other arrangements.

The foregoing statements regarding expected capital expenditures, capital projects, emissions reductions and expected benefits from the implementation of the ERP project and environmental projects are forward-looking statements. Factors that may affect our capital spending and the associated projects include: (i) levels of cash flow from operations; (ii) changes in tax laws; (iii) general economic conditions; (iv) steel industry conditions; (v) cost and availability of capital; (vi) receipt of necessary permits; (vii) unforeseen hazards such as contractor performance, material shortages, weather conditions, explosions or fires; and (viii) the requirements of applicable laws and regulations. There is also a risk that the completed projects will not produce at the expected levels and within the costs currently projected. Predictions regarding benefits resulting from the implementation of the ERP project are subject to uncertainties. Actual results could differ materially from those expressed in these forward-looking statements.

Workforce

At U. S. Steel, we are committed to attracting, developing, and retaining a workforce of talented, diverse people all working together in an environment where our employees contribute and excel as they deliver results for our Company, shareholders, customers and communities. We regularly review our human capital needs and focus on the selection, development and retention of employees in order to sustain and enhance our competitive position within the markets in which we compete.

Capital Structure and Liquidity

Our financial goals are to maintain or enhance our liquidity, maintain a solid capital structure, focus capital investments on key projects of long-term strategic importance and position ourselves for success in the longer term. During 2012, we issued $400 million of 7.50% Senior Notes due March 15, 2022 and used the majority of the proceeds to redeem our $300 million 5.65% Senior Notes due on June 1, 2013. Additionally, we entered into loan agreements with several local authorities in connection with the issuance and sale of $94 million of Environmental Improvement Revenue Bonds due August 1, 2042 to fund certain capital projects at our Gary Works, Clairton Plant and Granite City Works. We reached new competitive labor agreements with the United Steel Workers (USW) that included changes to our Other Post Employment Benefits (OPEB) plans, which resulted in a reduction to our OPEB benefit obligation of $520 million. We made a voluntary contribution of $140 million to our main defined benefit pension plan and a $75 million contribution to a restricted account within our trust for represented retiree health care and life insurance benefits as required by collective bargaining agreements. Overall, we reduced net debt by approximately $450 million while enhancing liquidity, ending the year with $570 million of cash on hand and total liquidity of $2.4 billion.

Steel Industry Background and Competition

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

According to World Steel Association s latest published statistics, we were the thirteenth largest steel producer in the world in 2011. We believe we are currently the largest integrated steel producer headquartered in North America, one of the largest integrated flat-rolled producers in Central Europe and the largest tubular producer in

North America. U. S. Steel competes with many North American and international steel producers. Competitors include integrated producers, which, like U. S. Steel, use iron ore and coke as primary raw materials for steel production, and EAF producers, which primarily use steel scrap and other iron-bearing feedstocks as raw materials. In addition, other products, such as aluminum, plastics and composites, compete with steel in some applications.

EAF producers typically require lower capital expenditures for construction of facilities and may have lower total employment costs; however, these competitive advantages may be minimized or eliminated by the cost of scrap when scrap prices are high. Some mini-mills utilize thin slab casting technology to produce flat-rolled products and are increasingly able to compete directly with integrated producers in a number of flat-rolled product applications previously produced only by integrated steelmaking.

U. S. Steel provides defined benefit pension and other postretirement benefits to approximately 142,000 retirees and their beneficiaries. Most of our other competitors do not have comparable retiree obligations.

International competitors may have lower labor costs than U.S. producers and some are owned, controlled or subsidized by their governments, artificially reducing their costs and allowing production and pricing decisions to be influenced by political, social and economic policy considerations, as well as prevailing market conditions.

Through our wholly owned operations and our share of joint ventures, we have adequate iron ore pellet production to cover a significant portion of our North American needs and have secured the remaining iron ore pellets for our North American operations through contracts. With our existing coke production facilities, the Clairton coke and Gary carbon alloy projects discussed above, the long-term coke supply agreement with Gateway and the continued use of natural gas and coal as a partial substitute for coke, we will have the capability to be self sufficient for coke in North America at normal operating levels. We also have multi-year contracts for some of our North American coking coal requirements. Our relatively balanced raw materials position in North America and limited dependence on purchased steel scrap have helped mitigate some of the volatility of our production costs.

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

USSE conducts business primarily in Europe. Like our domestic operations, USSE is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions. The sovereign debt issues and the resulting economic uncertainties are adversely affecting markets in the European Union (EU). We are subject to market conditions in those areas, which are influenced by many of the same factors that affect U.S. markets, as well as matters specific to international markets such as quotas, tariffs and other protectionist measures.

Demand for energy related tubular products depends on several factors, most notably the number of oil and natural gas wells being drilled, completed and re-worked, the depth and drilling conditions of these wells and the drilling techniques utilized. The level of these activities depends primarily on the demand for natural gas and oil and expectations about future prices for these commodities. Demand for our tubular products is also affected by the continuing development of shale oil and gas resources, the level of production by domestic manufacturers, inventories maintained by manufacturers, distributors, and end users and by the level of new capacity and imports in the markets we serve.

Steel sheet imports to the United States accounted for an estimated 14 percent of the U.S. steel sheet market in 2012 and 13 percent of the U.S. steel sheet market in 2011 and 2010. Increases in future levels of imported steel could reduce future market prices and demand levels for steel produced in our North American facilities.

Imports of flat-rolled steel to Canada accounted for an estimated 34 percent of the Canadian market for flat-rolled steel products in 2012, 35 percent in 2011 and 40 percent in 2010.

Energy related tubular products imported into the United States accounted for an estimated 52 percent of the U.S. domestic market in 2012, 47 percent in 2011 and 46 percent in 2010.

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

The Department of Commerce (DOC) and the International Trade Commission (ITC) concluded their five-year (sunset) reviews of an Anti-Dumping (AD) order on seamless standard, line, and pressure pipe from Germany in August 2012. The DOC determined that revoking this order would likely lead to the continuation or recurrence of dumping, and the ITC determined that revoking the order would likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time. As a result, the order remains in place.

In response to a decision by the U.S. Court of Appeals for the Federal Circuit, legislation was enacted in the first quarter of 2012 clarifying its intent that the United States CVD law applies to non-market economy (NME) countries, such as China. The legislation will apply to future sunset reviews of 25 current CVD orders against NME imports of steel products (24 on Chinese products, 1 on Vietnamese products) as well as any new matters.

The following international trade orders of interest to U. S. Steel are currently undergoing five-year (sunset) reviews in the United States: (i) AD and CVD orders on corrosion-resistant steel from Korea, (ii) an AD order on corrosion-resistant steel from Germany, and (iii) an AD order on welded large-diameter line pipe from Japan.

U. S. Steel is also participating in litigation at the DOC and the ITC where domestic producers are seeking to obtain AD and CVD relief against circular welded pipe from Oman, the United Arab Emirates, Vietnam, and India (the AD case against India would cover a producer that is not subject to the AD order currently in place against imports of circular welded pipe from India).

Total imports of flat-rolled carbon steel products (excluding quarto plates and wide flats) to the 27 countries currently comprising the EU were 13 percent of the EU market in 2012, 17 percent of the EU market in 2011 and 14 percent in 2010. Increases in future levels of imported steel could reduce market prices and demand levels for steel produced by USSE.

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

U. S. Steel s businesses are subject to numerous federal, state and local laws and regulations relating to the storage, handling, emission and discharge of environmentally sensitive materials. U. S. Steel believes that our major North American and many European and Japanese integrated steel competitors are confronted by substantially similar environmental conditions and thus does not believe that our relative position with regard to such competitors is materially affected by the impact of environmental laws and regulations. However, the costs and operating

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

Many nations have adopted or are considering regulation of carbon dioxide (CO_2) emissions. The integrated steel process involves a series of chemical reactions involving carbon that create CO_2 emissions. This distinguishes integrated steel producers from mini-mills and many other industries where CO_2 generation is generally linked to energy usage. In the United States, the Environmental Protection Agency (EPA) has published rules for regulating greenhouse gas emissions for certain facilities and has implemented various reporting requirements. In a previous Congressional session, legislation regulating CO_2 emissions was passed in the House of Representatives and was introduced in the Senate. We do not know what action, if any, may be taken by the current or future sessions of Congress. The EU has established greenhouse gas regulations and Canada has published details of a regulatory framework for greenhouse gas emissions. Such regulations may entail substantial costs for emission allowances, restriction of production, and higher prices for coking coal, natural gas and electricity generated by carbon-based systems. Some foreign nations such as China and India are not aggressively pursuing regulation of CO_2 and integrated steel producers in such countries may achieve a competitive advantage over U. S. Steel. For further information, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

U. S. Steel is subject to foreign currency exchange risks as a result of its European and Canadian operations. USSE s revenues are primarily in Euros and its costs are primarily in U.S. dollars and Euros. U. S. Steel Canada s (USSC s) revenues and costs are denominated in both Canadian and U.S. dollars. In addition, international cash requirements have been and in the future may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currencies of the entities involved, which can impact income when they are remeasured at the end of each period. Prior to January 1, 2012, a $1.6 billion U.S. dollar-denominated intercompany loan from a U.S. subsidiary to a European subsidiary had significant implications for U. S. Steel as a result of foreign currency accounting remeasurement effects. Effective January 1, 2012, the functional currency of the European entity was changed from the Euro to the U.S. dollar because of significant changes in economic facts and circumstances, including the sale of USSS.

Facilities and Locations

Flat-rolled

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

Gary Works, located in Gary, Indiana, has annual raw steel production capability of 7.5 million tons. Gary Works has three coke batteries, four blast furnaces, six steelmaking vessels, a vacuum degassing unit and four slab casters. Gary Works generally consumes all the coke it produces and sells coke by-products. Finishing facilities include a hot strip mill, two pickling lines, two cold reduction mills, three temper mills, a double cold reduction line, four annealing facilities and two tin coating lines. Principal products include hot-rolled, cold-rolled and coated sheets and tin mill products. Gary Works also produces strip mill plate in coil. We are constructing a carbon alloy facility at Gary Works, which utilizes an environmentally compliant, energy efficient and flexible production technology to produce a coke substitute product. The facility has a projected capacity of 500,000 tons per year. Construction of the first of two modules is complete and production started in 2012 with full production expected at the end of the third quarter of 2013. Construction of the second module is projected to be completed in the fourth quarter of 2013, with full production expected by the end of the second quarter of 2014. The Midwest Plant and East Chicago Tin are operated as part of Gary Works.

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

reduction mill, two annealing facilities, two hot dip galvanizing lines, a tin coating line and a tin-free steel line.

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

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

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

The Clairton Plant is comprised of ten coke batteries. Almost all of the coke we produce is consumed by U. S. Steel facilities, or swapped with other domestic steel producers. Coke by-products are sold to the chemicals and raw materials industries. We completed the construction of a technologically and environmentally advanced coke battery with a projected capacity of 960,000 tons at the Clairton Plant. Initial start-up began in November 2012 with full production expected in the first quarter of 2013.

Granite City Works, located in Granite City, Illinois, has annual raw steel production capability of 2.8 million tons. Granite City s facilities include two coke batteries, two blast furnaces, two steelmaking vessels, two slab casters, a hot strip mill, a pickling line, a tandem cold reduction mill, a hot dip galvanizing line and a hot dip galvanizing/Galvalume® line. Granite City Works generally consumes all the coke it produces and sells coke by-products. Principal products include hot-rolled and coated sheets. Gateway constructed a coke plant, which began operating in October 2009 to supply Granite City Works under a 15 year agreement. U. S. Steel owns and operates a cogeneration facility that utilizes by-products from the Gateway coke plant to generate heat and power.

Lake Erie Works, located in Nanticoke, Ontario, has annual raw steel production capability of 2.6 million tons. Lake Erie Works facilities include a coke battery, a blast furnace, two steelmaking vessels, a slab caster, a hot strip mill and three pickling lines. Principal products include slabs and hot-rolled sheets.

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

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

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

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

U. S. Steel has iron ore pellet operations located at Mt. Iron (Minntac) and Keewatin (Keetac), Minnesota with annual iron ore pellet production capability of 22.4 million tons. During 2012, 2011 and 2010 these operations produced 21.4 million, 21.1 million and 20.0 million net tons of iron ore pellets, respectively.

U. S. Steel has a 14.7 percent ownership interest in Hibbing Taconite Company (Hibbing), which is based in Hibbing, Minnesota. Hibbing s rated annual production capability is 9.1 million tons of iron ore pellets, of which our share is about 1.3 million tons, reflecting our ownership interest. Our share of 2012, 2011, and 2010 production was 1.4 million, 1.2 million, and 1.0 million tons, respectively.

U. S. Steel has a 15 percent ownership interest in Tilden Mining Company (Tilden), which is based in Ishpeming, Michigan. Tilden s rated annual production capability is 8.7 million tons of iron ore pellets, of which our share is about 1.3 million tons, reflecting our ownership interest. Our share of 2012 production was 1.5 million tons and our share of 2011 and 2010 production was 1.4 million tons in both years.

U. S. Steel participates in a number of additional joint ventures that are included in Flat-rolled, most of which are conducted through subsidiaries or other separate legal entities. All of these joint ventures are accounted for under the equity method. The significant joint ventures and other investments are described below. For information regarding joint ventures and other investments, see Note 9 to the Consolidated Financial Statements.

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

U. S. Steel and Kobe Steel, Ltd. of Japan participate in a 50-50 joint venture, PRO-TEC Coating Company (PRO-TEC). PRO-TEC owns and operates two hot dip galvanizing lines in Leipsic, Ohio, which primarily serve the automotive industry. PRO-TEC s annual production capability is approximately 1.2 million tons. U. S. Steel supplies PRO-TEC with all of its requirements of cold-rolled sheets and markets all of its products. PRO-TEC is constructing a $400 million automotive continuous annealing line (CAL) at the facility, with a projected operating capability of 500,000 tons. This facility is expected to begin operations in the first half of 2013. The CAL will produce high strength, lightweight steels that are an integral component in automotive manufacturing as vehicle emission and safety requirements become increasingly stringent.

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

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

U. S. Steel and Worthington Industries, Inc. participate in Worthington Specialty Processing (Worthington), a joint venture with locations in Jackson, Canton and Taylor, Michigan in which U. S. Steel has a 49 percent interest. Worthington slits, cuts to length and presses blanks from steel coils to desired specifications. Worthington s annual production capability is approximately 890,000 tons.

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

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

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

Feralloy Processing Company (FPC), a joint venture between U. S. Steel and Feralloy Corporation, converts coiled hot strip mill plate into sheared and flattened plates for shipment to customers. U. S. Steel has a 49 percent interest. The plant, located in Portage, Indiana, has annual production capability of approximately 275,000 tons.

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

USSE

USSE consists of USSK and its subsidiaries. Prior to January 31, 2012, USSE also included USSS and an equity investee. On January 31, 2012, USSS and the interest in an equity investee, were sold. See Note 4 to the Consolidated Financial Statements for further details.

USSK operates an integrated facility in Ko ice, Slovakia, which has annual raw steel production capability of 5.0 million tons. This facility has two coke batteries, three blast furnaces, four steelmaking vessels, a vacuum degassing unit, two dual strand casters, a hot strip mill, two pickling lines, two cold reduction mills, three annealing facilities, a temper mill, a temper/double cold reduction mill, three hot dip galvanizing lines, two tin coating lines, three dynamo lines, a color coating line and two spiral welded pipe mills. Principal products include hot-rolled, cold-rolled and coated sheets, tin mill products and spiral welded pipe. USSK also has facilities for manufacturing heating radiators and refractory ceramic materials.

In addition, USSK has a research laboratory, which, in conjunction with our Research and Technology Center, supports efforts in cokemaking, electrical steels, design and instrumentation, and ecology.

USSS consisted of an integrated plant in Smederevo, Serbia, which had annual raw steel production capability of 2.4 million tons. Facilities at this plant included two blast furnaces, three steelmaking vessels, two slab casters, a hot strip mill, two pickling lines, a cold reduction mill, two annealing facilities, a temper mill and a temper/double cold reduction mill. Other facilities included a tin mill in abac with one tin coating line, a limestone mine in Kučevo and a river port in Smederevo, all located in Serbia. Principal products included hot-rolled and cold-rolled sheets and tin mill products.

Tubular

Tubular manufactures seamless and welded OCTG, standard and line pipe and mechanical tubing.

Seamless products are produced on a mill located at Fairfield Works in Fairfield, Alabama, and on two mills located in Lorain, Ohio. The Fairfield mill has annual production capability of 750,000 tons and is supplied with steel rounds from Flat-rolled s Fairfield Works. The Fairfield mill has the capability to produce outer diameter (O.D.) sizes from 4.5 to 9.875 inches and has quench and temper, hydrotester, threading and coupling and inspection capabilities. The Lorain mills have combined annual production capability of 780,000 tons and use steel rounds supplied by Fairfield Works and external sources. Lorain #3 Mill has the capability to produce O.D. sizes from 10.125 to 26 inches and has quench and temper, hydrotester, cutoff and inspection capabilities. Lorain #4 Mill has the capability to produce O.D. sizes from 1.9 to 4.5 inches and has quench and temper, hydrotester, threading and coupling and inspection capabilities for OCTG casing and uses Tubular Processing Services in Houston for oil field production tubing finishing. In August of 2011, Lorain Tubular Operations commissioned its new #6 Mill quench and temper line, which is able to heat treat O.D. sizes from 2.375 to 7.625 inches, and also installed hydrotester, threading and coupling, and inspection stations.

Texas Operations, located in Lone Star, Texas, manufactures welded OCTG, standard and line pipe and mechanical tubing products. Texas Operations #1 Mill has the capability to produce O.D. sizes from 7 to 16 inches. Texas Operations #2 Mill has the capability to produce O.D. sizes from 1.088 to 7.15 inches. Both mills have quench and temper, hydrotester, threading and coupling and inspection capabilities. Bellville Operations, in Bellville, Texas, manufactures welded tubular products primarily for OCTG with the capability to produce O.D. sizes from 2.375 to 4.5 inches and has limited hydrotester and cutoff capabilities and uses Tubular Processing Services in Houston for oil field production tubing finishing. Texas Operations and Bellville Operations have combined annual production capability of 1.0 million tons and are supplied with hot rolled bands from Flat-rolled s facilities.

Welded products are also produced at a mill located in McKeesport, Pennsylvania, which, prior to May 1, 2011, was operated by a third party operator. The McKeesport mill has annual production capability of 315,000 tons and processes hot-rolled bands from several Flat-rolled locations. This mill has the capability to produce, hydrotest, cut to length and inspect O.D. sizes from 8.625 to 20 inches.

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

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

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

U. S. Steel, POSCO and SeAH Steel Corporation, a Korean manufacturer of tubular products, participate in United Spiral Pipe LLC which owns and operates a manufacturing facility in Pittsburg, California with annual production capability of 300,000 tons of spiral welded tubular products with O.D. product sizes ranging from 24 to 60 inches. U. S. Steel and POSCO each hold a 35-percent ownership interest in the joint venture, with the remaining 30-percent ownership interest being held by SeAH.

We have a 10,000 square foot Innovation & Technology Center in Houston, Texas. The complex houses exhibits for six areas of interest, an amphitheater, two conference rooms and a lab-themed meeting room. Designed to serve as a training and education center for both internal and external audiences, the facility hosts events such as customer lunch-and-learn sessions, industry association meetings and employee trainings.

In December 2012, U. S. Steel and Butch Gilliam Enterprises LLC formed a new joint venture, Patriot Premium Threading Services located in Midland, Texas, which provides tubular accessory threading and repair services, in addition to rig site services to exploration and production companies located principally in the Permian Basin.

Other Businesses

U. S. Steel s Other Businesses include transportation services (railroad and barge operations) and real estate operations.

U. S. Steel owns the Gary Railway Company in Indiana; Lake Terminal Railroad Company and Lorain Northern Company in Ohio; Union Railroad Company and McKeesport Connecting Railroad Company in Pennsylvania; Fairfield Southern Company, Inc. and Warrior and Gulf Navigation Company, both located in Alabama; Delray Connecting Railroad Company in Michigan and Texas & Northern Railroad Company in Texas; all of which comprise U. S. Steel s transportation business. On February 1, 2012, U. S. Steel completed the sale of the majority of operating assets of Birmingham Southern Railroad Company and the Port Birmingham Terminal. On December 21, 2010, U. S. Steel sold all of the operating assets of Mobile River Terminal Company Inc., and certain assets of Warrior and Gulf Navigation Company. See Note 4 to the Consolidated Financial Statements for further information. McKeesport Connecting Railroad Company merged into Union Railroad Company effective January 1, 2013.

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

Raw Materials and Energy

As an integrated producer, U. S. Steel s primary raw materials are iron units in the form of iron ore pellets and sinter ore, carbon units in the form of coal and coke (which is produced from coking coal) and steel scrap. U. S. Steel s raw materials supply strategy consists of acquiring and expanding captive sources of these primary raw materials and entering into flexible supply contracts for certain raw materials at competitive market prices which are subject to fluctuations based on market conditions at the time.

The amounts of such raw materials needed to produce a ton of steel will fluctuate based upon the specifications of the final steel products, the quality of raw materials and, to a lesser extent, differences among steel producing equipment. In broad terms, U. S. Steel estimates that it consumes about 1.4 tons of coal to produce one ton of coke and that it consumes approximately 0.4 tons of coke, 0.2 tons of steel scrap (40 percent of which is internally generated) and 1.3 tons of iron ore pellets to produce one ton of raw steel. At normal operating levels, we also consume approximately 6 mmbtu s of natural gas per ton produced. While we believe that these estimates are useful for planning purposes, substantial variations occur. They are presented in order to give a general sense of raw material and energy consumption related to steel production.

Carbon Strategy

Our carbon strategy in North America is to achieve the lowest cost fuel rate to produce hot metal in our blast furnaces. We have made investments in new facilities at Clairton and Gary to become self-sufficient in coke and to eliminate the need to purchase merchant market coke. We have aggressively worked to adjust our coal blends that feed our coke batteries in order to use lower cost coals. We also have increased the natural gas injection capabilities on our blast furnaces to utilize the abundant supply of competitively priced natural gas. This strategy has improved our flexibility to use the lowest cost combination of coke, injection coal, and natural gas in our blast furnaces to achieve the lowest cost fuel rate in a dynamic pricing environment.

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Iron Ore

The iron ore facilities at Minntac and Keetac contain an estimated 833 million short tons of recoverable reserves and our share of recoverable reserves at the Hibbing and Tilden joint ventures is 55 million short tons. Recoverable reserves are defined as the tons of product that can be used internally or delivered to a customer after considering mining and beneficiation or preparation losses. Minntac and Keetac s annual capability and our share of annual capability for the Hibbing and Tilden joint ventures total approximately 25 million tons. Through our wholly owned operations and our share of joint ventures, we have adequate iron ore pellet production to cover a significant portion of our North American needs and have secured the remaining iron ore pellets through contracts. Over the longer term, we are considering an expansion of our iron ore pellet operations at our Keetac facility, which would increase our production capability by approximately 3.6 million tons thereby increasing our iron ore self-sufficiency. Final permitting for the expansion was completed in December 2011. The total cost of this project as currently conceived is broadly estimated to be approximately $820 million. Smaller projects are also being considered at Minntac and Keetac that could increase production in future years.

Lower than anticipated operating levels in 2011 and contractual obligations to purchase iron ore pellets resulted in excess inventory levels at the end of 2011 and 2012. A portion of the excess iron ore pellets were sold on the global market throughout 2012. Depending on our production requirements, inventory levels and other factors we may sell additional pellets in the future.

Substantially all of USSE s iron ore requirements are purchased from outside sources, primarily Russian and Ukrainian mining companies. However, in prior years, USSE has also received iron ore from U. S. Steel s iron ore facilities in North America. We believe that supplies of iron ore, adequate to meet USSE s needs, are available at competitive market prices.

Coking Coal

All of U. S. Steel s coal requirements for our cokemaking facilities are purchased from outside sources. U. S. Steel has entered into multi-year contracts for a portion of Flat-rolled s coking coal requirements. Prices for these North American contracts for 2013 are set at what we believe are competitive market prices. Prices in subsequent years will be negotiated in accordance with contractual provisions on an annual basis at prevailing market prices.

Prices for European contracts are negotiated at defined intervals (no less than quarterly) with regional suppliers.

We believe that supplies of coking coal adequate to meet our needs are available from outside sources at competitive market prices. The main sources of coking coal for Flat-rolled are the United States and Canada; and for USSE include Poland, the Czech Republic, the United States, Canada, Russia and Ukraine.

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Coke

In North America, the Flat-rolled segment operates cokemaking facilities at the Clairton Plant of Mon Valley Works, Gary Works, Granite City Works, Hamilton Works and Lake Erie Works. At our Granite City Works, we have a 15 year coke supply agreement with Gateway, which began in 2009. In Europe, the USSE segment operates cokemaking facilities at USSK. Blast furnace injection of coal, natural gas and self-generated coke oven gas is also used to reduce coke usage. The decrease in coke production in 2009 resulted from the temporary idling of cokemaking facilities at the Clairton Plant, Granite City Works, Hamilton Works and Lake Erie Works for part of the year as well as the permanent shut down of three coke batteries at the Clairton Plant. In 2010, we restarted the facilities that were idled in 2009, resulting in an increase in coke production. We have taken a number of steps to ensure long-term access to high quality coke for our blast furnaces as further described in *Item I, Business, Capital Projects and Other Investments* .

With Flat-rolled s cokemaking facilities and the Gateway long-term supply agreement, it has the capability to be self-sufficient with respect to its annual coke requirements at normal operating levels. To the extent that it is necessary or appropriate, considering existing needs and/or applicable transportation costs, coke is purchased from, sold to, or swapped with suppliers and other end-users.

With the sale of USSS, USSE has the capability to be self-sufficient for coke at normal operating levels.

Steel Scrap and Other Materials

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

Limestone

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

USSE s limestone requirements are purchased from outside sources. We believe that supplies of limestone, adequate to meet USSE s needs, are available from outside sources at competitive market prices.

Zinc and Tin

We believe that supplies of zinc and tin required to fulfill the requirements for Flat-rolled and USSE are available from outside sources at competitive market prices. We routinely execute fixed-price forward physical purchase contracts for a portion of our expected business needs in order to partially manage our exposure to the volatility of the zinc and tin markets.

Natural Gas

All of U. S. Steel s natural gas requirements are purchased from outside sources.

We believe that supplies adequate to meet Flat-rolled s needs are available at competitive market prices. In order to partially manage our exposure to natural gas price increases, we routinely execute fixed-price forward physical

purchase contracts for natural gas. During 2012, about 60 percent of our natural gas purchases in Flat-rolled were based on bids solicited on a monthly basis from various vendors; the remainder was made daily or with term agreements or with fixed-price forward physical purchase contracts.

We believe that supplies adequate to meet USSE s needs are normally available at competitive market prices.

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

Industrial Gases

U. S. Steel purchases its industrial gas requirements under long-term contracts with various suppliers.

Commercial Sales of Product

U. S. Steel characterizes sales as contract sales if sold pursuant to an agreement with a defined volume and pricing and a duration of longer than three months, and as spot if sold without a defined volume and pricing agreement. In 2012, approximately 68 percent, 43 percent and 11 percent of sales by Flat-rolled, USSE and Tubular, respectively, were contract sales. Some contract pricing agreements include fixed price while others are adjusted periodically based upon published prices of steel products or cost components. U. S. Steel does not consider sales backlog to be a meaningful measure since volume commitments in most contracts are based on each customer s specific periodic requirements.

Environmental Matters

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

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

revisions and becoming increasingly stringent.

USSK is subject to the environmental laws of Slovakia and the EU. A related law of the EU commonly known as Registration, Evaluation, Authorization and Restriction of Chemicals, Regulation 1907/2006 (REACH) requires the registration of certain substances that are produced in the EU or imported into the EU. Although USSK is currently compliant with REACH, this regulation is becoming increasingly stringent. Slovakia is also currently considering a law implementing an EU Waste Framework Directive that would more strictly regulate waste disposal and increase existing fees for waste disposed of in landfills including privately owned landfills. The intent of the waste directive is to encourage recycling and because Slovakia has not adopted implementing legislation, we cannot estimate the full financial impact of this prospective legislation at this time.

The EU s Industry Emission Directive will require implementation of EU determined best available techniques (BATs) to reduce environmental impacts as well as compliance with BAT associated emission levels. It contains

operational requirements for air emissions, waste water discharges, solid waste disposal and energy conservation, dictates certain operating practices and imposes stricter emission limits. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are currently evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is approximately $400 million over the 2013 to 2016 period. We are currently investigating the possibility of obtaining EU grants to fund a portion of those capital expenditures. We also believe there will be increased operating costs, such as increased energy and maintenance costs, but we are currently unable to reliably estimate this amount.

U. S. Steel has incurred and will continue to incur substantial capital, operating and maintenance and remediation expenditures as a result of environmental laws and regulations, which in recent years have been mainly for process changes in order to meet CAA obligations and similar obligations in Europe and Canada. In the future, compliance with CO_2 emission requirements may include substantial costs for emission allowances, restriction of production and higher prices for coking coal, natural gas and electricity generated by carbon based systems. Since it is difficult to predict what requirements will ultimately be imposed in the United States, Canada and Europe, it is difficult to estimate the likely impact on U. S. Steel, but it could be substantial. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of U. S. Steel s products and services, operating results will be reduced. U. S. Steel believes that our major North American and many European integrated steel competitors are confronted with substantially similar conditions and thus does not believe that its relative position with regard to such competitors will be materially affected by the impact of environmental laws and regulations. However, if the final requirements do not recognize the fact that the integrated steel process involves a series of chemical reactions involving carbon that create CO_2 emissions, our competitive position relative to mini mills will be adversely impacted. Our competitive position compared to producers in developing nations, such as China and India, will be harmed unless such nations require commensurate reductions in CO_2 emissions. Competing materials such as plastics may not be similarly impacted. The specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to former and present operating locations and disposal of environmentally sensitive materials. Many of our competitors, including North American producers, or their successors, that have been the subject of bankruptcy relief have no or substantially lower liabilities for such matters.

Greenhouse Gas Emissions Regulation

The current and potential regulation of greenhouse gas emissions remains a significant issue for the steel industry, particularly for integrated steel producers such as U. S. Steel. The regulation of greenhouse gases such as CO_2 emissions has either become law or is being considered by legislative bodies of many nations, including countries where we have operating facilities. In the United States, the EPA has published rules for regulating greenhouse gas emissions for certain facilities and has implemented various reporting requirements as further described below.

In Utility Air Regulatory Group v. EPA, No. 11-1037 (consolidating various challenges); and Texas v. EPA, No. 10-1425, the U.S. Court of Appeals for the District of Columbia issued an opinion essentially upholding the EPA s greenhouse gas authority. The court rejected challenges to the endangerment finding, giving the EPA authority to regulate greenhouse gases under the CAA on the basis that they pose a risk to human health. The court also rejected arguments by petitioners to dismiss inclusion of greenhouse emissions under the tailpipe rule, giving the EPA the authority to regulate greenhouse gas emissions from mobile sources and triggering regulation for stationary sources. The court dismissed challenges to the timing and tailoring rules citing that it lacked jurisdiction to decide the case on its merits since none of the petitioners had legal standing to challenge the timing and tailoring rules. Finally, the court declined to decide challenges to other State Implementation Plan (SIP) related rules issued by the EPA regarding greenhouse gas, stating that it also lacked jurisdiction over these SIP related rules. The rules are being challenged in different tribunals.

The EU has established greenhouse gas regulations for the EU member states, while in Canada, a regulatory framework for greenhouse gas emissions has been published, details of which are discussed below. International negotiations to supplement and eventually replace the 1997 Kyoto Protocol are ongoing.

Since 2009, the federal government has committed to reducing Canada s total greenhouse gas emissions by 17 percent from 2005 levels by 2020. The Ontario government has committed to its own greenhouse gas emission

reduction targets for the province. This plan announced greenhouse gas emission reduction targets of six percent below 1990 levels by 2014, 15 percent below 1990 levels by 2020 and 80 percent below 1990 levels by 2050.

If federal or provincial greenhouse gas reduction legislation for the steel sector becomes law in Canada, it could have economic and operational consequences for U. S. Steel. At the present time, it is not possible to estimate the timing or impact of these or other future government actions on U. S. Steel.

The EPA has classified greenhouse gases such as CO_2 as harmful gases. Under this premise, it has implemented a greenhouse gas emission monitoring and reporting requirement for all facilities emitting 25,000 metric tons or more per year of carbon dioxide, methane and nitrous oxide in CO_2 equivalent quantities. In accordance with EPA greenhouse gas emissions reporting requirements, reports for the year 2011 were completed and submitted for all required facilities by the March 31, 2012 deadline. As with previous year s reporting, fourteen facilities submitted reports including Gary Works, East Chicago Tin, Midwest Plant, Clairton Plant, Edgar Thomson Plant, Irvin Plant, Fairless Plant, Fairfield Sheet, Fairfield Tubular, Granite City Works, Great Lakes Works, Lorain, Minntac and Keetac. The Texas Operations is the only significant operation not required to report as its emissions were well below the 25,000 ton reporting threshold.

New requirements were adopted in 2011 related to monitoring and reporting of greenhouse gas emissions for vacuum degassing (decarburization), and methane emissions from on-site landfills. Facilities for which greenhouse gas emissions from decarburization were determined and reported included Gary Works, Great Lakes Works, and the Edgar Thomson Plant. Calculation of landfill methane emissions from U. S. Steel facilities were completed earlier this year. New provisions for incorporating electronic reporting of on-site landfill methane emissions were added in 2012 enabling those subject to the rule to report greenhouse gas emissions from on-site landfills for 2011.

As with previous year s reports, the EPA intends to make this information publicly available from all facilities.

The European Commission (EC) has created an Emissions Trading System (ETS). Under the ETS, the EC establishes CO_2 emissions limits for every EU member state and approves grants of CO_2 emission allowances to individual emitting facilities pursuant to national allocation plans that are proposed by each of the member states. The allowances can be bought and sold by emitting facilities to cover the quantities of CO_2 they emit in their operations.

In July 2008, Slovakia granted USSK CO_2 emission allowances as part of the national allocation plan for the 2008 to 2012 trading period (NAP II) approved by the European Commission. USSK was allocated sufficient allowances for the NAP II period and did not have to purchase additional allowances. During the years ended December 31, 2012, 2011 and 2010, USSK entered into transactions to sell and swap a portion of our emissions allowances and recognized gains of $10 million, $22 million and $7 million, respectively.

In December 2010, Slovakia enacted an 80 percent tax on excess emission allowances registered in 2011 and 2012. U. S. Steel recorded expense of $14 million for the year ended December 31, 2011. The law was changed to eliminate the tax for 2012.

For the period after 2012, the ETS will employ centralized allocation, rather than national allocation plans, that are expected to be more stringent than the current requirements. The new ETS also includes a cap designed to achieve an overall reduction of greenhouse gases for the ETS sectors of 21 percent in 2020 compared to 2005 emissions and auctioning as the basic principle for allocating emissions allowances, with some transitional free allocation provided on the basis of benchmarks for manufacturing industries under risk of carbon leakage. Manufacturing of

sinter, coke oven products, basic iron and steel, ferro-alloys and cast iron tubes have all been recognized as exposing companies to a significant risk of carbon leakage, but the new ETS is still expected to lead to additional costs for steel companies in Europe. We cannot reliably estimate the future market value of CO_2 emission allowances and the cost of complying with the new ETS at this time.

For further information, see Item 1A. Risk Factors, Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

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Air

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

The principal impact of the MACT standards on U. S. Steel operations includes those that are specific to cokemaking, ironmaking, steelmaking and iron ore processing. In addition, in December 2012, the EPA reissued Boiler MACT regulations, which impose standards and limitations for fuels, including coke oven gas, used in boilers and process heaters and their resulting emissions at U. S. Steel facilities. Because the rule was signed in late December, has not yet been published in the Federal Register and is currently being evaluated, the impact of the anticipated Boiler MACT rule upon U. S. Steel cannot be estimated at this time. According to the rule, compliance with the Boiler MACT standards, with regards to fuel specifications or emission limits, is required within three years of the final published rule, which is expected by early 2016.

In September 2011, the EPA sent U. S. Steel s integrated steel facilities Information Collection Requests for information regarding emissions from various iron and steel operations to be used in a new Iron and Steel MACT rule. The current or existing Iron and Steel MACT rule is subject to a legal challenge by the Sierra Club. In June 2010, the United States Court of Appeals for the District of Columbia Circuit granted the EPA s motion for voluntary remand of the Iron and Steel MACT. As a result, while the existing standards are still in effect, the EPA anticipates promulgating new Iron and Steel MACT rules in response to the challenge by the Sierra Club. Because the EPA is currently reviewing industry information and data that it received pursuant to its information collection requests that would be used in determining the new standards, the anticipated impact of the new Iron and Steel MACT rules upon U. S. Steel cannot be estimated at this time.

U. S. Steel s cokemaking facilities are subject to two categories of MACT standards. The first category applies to emissions from the pushing and quenching processes. The EPA was required to make a risk-based determination for pushing and quenching emissions, but is currently working on an Information Request to determine whether additional emissions reductions are necessary. The EPA expects to issue information collection requests in 2013. Since the EPA has yet to publish or propose any residual risk standards for cokemaking facilities, the impact if any, on U. S. Steel cannot be estimated at this time. The second category of MACT standards pertaining to cokemaking facilities applies to emissions from charging, coke oven battery tops and coke oven doors. With regard to these standards, U. S. Steel chose to install more stringent controls than MACT standards require on some of its batteries, called Lowest Achievable Emissions Reductions (LAER). Such LAER batteries are not required to comply with certain residual risk standards until 2020. Because the scope of these anticipated changes are distant and relatively uncertain, the magnitude of the impact of these anticipated changes on U. S. Steel cannot be estimated at this time.

The CAA also requires the EPA to develop and implement National Ambient Air Quality Standards (NAAQS) for criteria pollutants, which include, among others, particulate matter consisting of PM_{10} and $PM_{2.5}$, lead carbon monoxide, nitrogen dioxide, sulfur dioxide, and ozone. In 1997, the EPA established 24-hour and annual standards for fine particles that are less than 2.5 micrometers in size and in 2006, the EPA tightened the 24-hour standard but retained the annual standard. In response to a legal challenge to the EPA s 2006 $PM_{2.5}$ rule making in which the U.S. Court of Appeals for the District of Columbia remanded the primary annual standard to the EPA, on December 14, 2012, the EPA lowered the annual standard for $PM_{2.5}$ from 15 ug/m^3 to 12 ug/m^3, and retained the $PM_{2.5}$ 24-hour and PM_{10} NAAQS rules. U. S. Steel could face increased capital, operating and compliance costs related to reductions of $PM_{2.5}$ from affected sources. At this time, the anticipated impacts on U. S. Steel cannot be estimated, because the EPA must first determine area designations by December 2014, which would become effective in early 2015. SIPs would be due to the EPA in 2018, and compliance with the standard would generally be required by 2020, with possible extensions to 2025.

States were required to demonstrate compliance with the 1997 fine particle standard by April 2010, unless the EPA granted the state or local jurisdiction an extension, which could be granted through April 2015. Many states

and jurisdictions in which U. S. Steel operates received a five year extension, requiring that the area demonstrate compliance by April 2015. In addition, since the annual standard has been lowered, as disclosed in the remand noted above, some states may be required to modify their SIPs to meet the new standard, which could result in additional capital, operating and compliance costs to U. S. Steel.

On December 22, 2008, the EPA designated areas in which U. S. Steel operates as nonattainment and unclassified/attainment for the 2006 fine particle standard. SIPs for the 2006 24-hour standard were due December 14, 2012, with attainment demonstrations with the 2006 standard expected to be made sometime between 2014 and 2019, unless an extension is granted pursuant to the CAA.

It is not possible to estimate the magnitude of any costs associated with the SIPs for the 2006 24-hour standard or the remand of the annual standard since the state and federal agencies are still developing regulations for the programs and implementation for the 2006 24-hour standard.

In response to a legal challenge to the 2008 standards, in 2010, the EPA voluntarily proposed to lower the ground level ozone air quality standards, which could affect sources of nitrogen oxide and volatile organic compounds, including coke plants, and iron and steel facilities. However, in 2011, the EPA withdrew the proposed rule. The EPA has advised the regulated community that it would move forward with implementation of the 2008 standard. States must submit SIPs outlining how they will reduce pollution to meet the standards by a date that is no later than three years after the EPA s final designations. Since the EPA has made such designations in 2012, states SIPs are due no later than 2015. States are required to meet the standards by deadlines that may vary based on the severity of the problem in the area. It is anticipated the ozone NAAQS revisions could result in significant costs to U. S. Steel; however, it is not possible to estimate the magnitude of these costs at this time since any implementation requirements will not be known until after areas are designated and SIPs are developed.

In 2010, the EPA retained the annual nitrogen dioxide NAAQS standard, but created a new 1-hour NAAQS and established new data reduction and monitoring requirements. While the EPA has classified all areas as being in attainment or unclassifiable, it is requiring implementation of a network of monitoring stations to assess air quality. Until the network is implemented and further designations are made, the impact on operations at U. S. Steel facilities cannot be estimated at this time.

Also in 2010, the EPA revised the primary sulfur dioxide standard by establishing a new 1-hour standard at a level of 75 parts per billion. In the rulemaking, the EPA also revoked the two previously existing primary standards of 140 parts per billion for 24-hour periods, and the annual standard of 30 parts per billion. While it is expected that compliance with the new standard could result in additional capital expenditures in the coming years, since the EPA has not yet made area designations with regards to the new 1-hour NAAQS for sulfur dioxide and states have not yet begun preparing implementation plans, the impact on current operations at U. S. Steel facilities cannot be estimated at this time.

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

Water

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

Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Solid Waste

U. S. Steel facilities generate solid and hazardous wastes regulated by RCRA. Each state also regulates solid and hazardous waste activities by local statute. In addition to regulating waste handling and disposal practices, these Federal and State statutes also regulate the environmental remediation of some prior waste disposal operations,

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the recycling of wastes and the operation and maintenance of waste storage tanks. RCRA Corrective Action, a mandatory remediation program required by Federal law and related to past waste disposal activities as well as State mandated programs similar to RCRA Corrective Action, are discussed below under Remediation. Slovakia is considering legislation implementing an EU Directive, which is expected to increase existing fees upon USSK for the use of its landfill. Because the legislation has not yet been adopted, the impact on operations at USSK facilities cannot be estimated at this time. For additional information regarding significant enforcement actions, capital expenditures and costs of compliance, see Item 3. Legal Proceedings Environmental Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters, Litigation and Contingencies.

Remediation

A significant portion of U. S. Steel s currently identified environmental remediation projects relate to the remediation of former and present operating locations. A number of these locations are no longer owned or operated by U. S. Steel and are subject to cost sharing and remediation provisions in the sales agreements. Projects include remediation of the former Geneva Works, the former Duluth Works, ground water issues at Gary Works and the closure of permitted hazardous and non-hazardous waste landfills.

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

Property, Plant and Equipment Additions

For property, plant and equipment additions, including capital leases, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Cash Flows and Note 10 to the Consolidated Financial Statements.

Employees

As of December 31, 2012, U. S. Steel had approximately 26,000 employees in North America and approximately 13,000 in Europe.

Most hourly employees of U. S. Steel s flat-rolled, tubular, cokemaking and iron ore pellet facilities in the United States are covered by collective bargaining agreements with the USW entered into effective September 1, 2012 (the 2012 Labor Agreements) that expire on September 1, 2015. The 2012 Labor Agreements provided for a $2,000 lump sum payment that was paid to each covered active USW member in October of 2012 and an additional lump sum payment of $500, to each covered USW member active on April 15, 2014. Employees will receive a 2 percent wage increase effective September 1, 2013 and a 2.5 percent wage increase effective January 1, 2015.

The 2012 Labor Agreements also provide for pension and other benefit adjustments for current and future retirees and modifications to the profit sharing plan beginning in 2013 (see Note 16 to the Consolidated Financial Statements). U. S. Steel made voluntary contributions of $140 million to our main domestic defined benefit pension plan in both 2012 and 2011. In addition, we made a $75 million contribution in 2012 to a restricted account within our trust for represented retiree health care and life insurance benefits as required by collective bargaining agreements. U. S. Steel is similarly required to make $75 million contributions to that trust account during each annual period from 2013 to 2015.

At USSC, the collective bargaining agreement with the USW covering employees at Lake Erie Works expires in April 2013. The collective bargaining agreement with the USW covering employees at Hamilton Works expires in October 2014. All of the agreements in North America contain no-strike clauses.

In Europe, most represented employees at USSK are represented by the OZ Metalurg union and are covered by an agreement that expires at the end of December 2014.

A small number of workers at some of our North American facilities and at our transportation operations are covered by agreements with the USW or other unions that have varying expiration dates.

Available Information

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

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

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

U. S. Steel does not intend to incorporate into this document the contents of any website or the documents referred to in the immediately preceding paragraph.

Other Information

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

For significant operating data for U. S. Steel for each of the last five years, see Five-Year Operating Summary (Unaudited) on pages F-61 and F-62.

Item 1A. RISK FACTORS

Risk Factors Related to the Challenging Regional and Global Economic Conditions

All segments of our business continue to be impacted by the challenging economic conditions that began with the global economic recession in 2008. U. S. Steel cannot predict the duration of the difficult economic conditions and the trajectory of the recovery but both will have a significant impact on U. S. Steel both regionally and globally.

U. S. Steel and its end-product markets continue to be impacted by challenging economic and political conditions.

The global economic recession that began in 2008 resulted in significantly lower demand and decreased profitability across all of our segments and major markets. According to published sources, apparent steel consumption in the United States and Canada have shown slight improvement in each of the last 3 years, but consumption remains below levels experienced in the period from 2003 2007. In Europe, steel consumption has recovered at a slower pace and little, if any, improvement is forecasted for 2013.

While some of our end customer markets supplied by our Flat-rolled and USSE segments saw modest recoveries during 2011 and 2012, others, such as construction, remain depressed. Our tubular business is heavily dependent upon the level of oil and natural gas drilling activity in the United States. Lower natural gas prices in 2012 resulted in less natural gas drilling. Since our Flat-rolled segment supplies the majority of the substrate used by our Tubular segment, any decrease in Tubular demand also adversely affects our Flat-rolled segment. Our operating levels and prices may remain at depressed levels until demand increases.

The ongoing EU sovereign debt crisis and economic declines in EU markets have affected product demand and prices for USSE. Should conditions worsen in these markets, product demand and pricing may further deteriorate. While USSE does not directly or indirectly hold any sovereign debt investments, dissolution and replacement of the Euro currency and the potential reintroduction of individual EU currencies could further adversely impact USSE and expose USSE to increased foreign exchange risk.

Ongoing domestic fiscal issues have adversely affected product demand as many customers are deferring major capital investment projects until there is clear direction surrounding these uncertainties. The ultimate outcome of these matters may also adversely affect our costs.

Domestic monetary policy, particularly the quantitative easing and the suppression of interest rates by the Federal Reserve, can have significant impacts on U. S. Steel. Continued suppression of interest rates may negatively affect certain calculations for our defined benefit pension and retiree medical obligations, which are discussed in more detail below. An eventual increase in interest rates may increase our borrowing costs. Changes in monetary policy may also affect our customers and suppliers in ways that may be detrimental to U. S. Steel.

China and certain other steel markets were affected less by the global recession and have rebounded more quickly in some cases to, and even beyond 2008 levels. As a result, steel production serving these markets has increased, which has caused prices for iron ore, metallurgical coal and other raw materials to increase. This development has caused, and may continue to cause, our costs to increase regardless of the state of recovery in our end markets.

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

As the economy continues to recover, our customers and suppliers have been forced to increase their working capital. We believe some of our customers and suppliers may not have sufficient credit available to them, which could reduce orders and delay payments from customers, resulting in increased customer defaults and cause our suppliers to delay filling, or to be unable to fill, our needs.

U. S. Steel s joint ventures and other equity investees are also being affected by ongoing challenging economic conditions.

U. S. Steel s joint ventures and other equity affiliates are also engaged in the production of steelmaking, procurement of raw materials and finishing of flat-rolled and tubular products. As such, they face many of the same issues we do. Since these entities are smaller than U. S. Steel, they may have fewer resources available to them to respond to ongoing challenging economic conditions. Since the other participants in these joint ventures face many of the same issues, their ability to make capital contributions or do business with these ventures may also be reduced.

Risk Factors Concerning the Steel Industry

Worldwide overcapacity and excess supply in the steel industry may negatively affect the profitability of steel producers, including U. S. Steel.

The steel industry has historically been characterized by excess global capacity and supply, which has led to substantial price decreases during periods of economic recession. There has also been a pattern of worldwide capacity increases, which have been in excess of the growth in demand of steel products during periods when steel markets are stronger. Continued excess capacity, especially in developing, non-market economies such as China, will potentially result in an over-supply of steel causing downward pricing pressures, which may further reduce our domestic market share, profitability and financial results.

Imports of tubular products to the United States have continued to increase over the past several years. As foreign and other domestic producers increase their capacity and the availability of tubular products through importation and the construction of new manufacturing facilities in the United States, supply of certain energy related tubular products to the domestic markets we serve will increase and may adversely affect our market share, profit margins, operating results and financial position.

The steel industry is highly cyclical, which can potentially have an adverse effect on our operations.

Steel consumption is highly cyclical and generally follows economic and industrial conditions both worldwide and in regional markets. As the overall North American economy continues to recover, we have experienced shorter business cycles with durations measured in months rather than the traditional multi-year cycles. This volatility makes it difficult to balance the procurement of raw materials and energy with our steel production and customer product demand and can negatively impact our operations.

We face increased competition from alternative materials, which could impact the price of steel and adversely affect our profitability and cash flow.

As a result of increasingly stringent regulatory requirements, designers, engineers and industrial manufacturers, especially those in the automotive industry, are increasing their use of lighter weight and alternative materials, such as aluminum, composites, plastics and carbon fiber in their products. Increased government incentives and requirements for the use of such materials to meet regulatory requirements could reduce the demand for steel products, which could potentially reduce our profitability and cash flows.

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

Over the last several years, steel consumption in China and other developing economies has increased at a rapid pace. Steel companies have responded by rapidly increasing steel production capability in those countries and published reports state that further capacity increases are likely. Steel production capability, especially in China, now appears to be well in excess of China s home market demand. Because China is now the largest worldwide steel producer by a significant margin, any excess Chinese supply could have a major impact on world steel trade and prices if this excess and subsidized production is exported to other markets. Since the Chinese steel industry is largely government owned, it has not been as adversely impacted by the ongoing difficult economic conditions, and it can make production and sales decisions for non-market reasons.

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

Steel sheet imports to the United States accounted for an estimated 14 percent in 2012 and 13 percent of the U.S. steel sheet market in 2011 and 2010. Imports of energy related tubular products to the United States remain at high levels and accounted for an estimated 52 percent in 2012, 47 percent in 2011 and 46 percent in 2010. Foreign competitors may have lower labor costs, and some are owned, controlled or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions.

Imports of flat-rolled steel to Canada accounted for an estimated 34 percent of the Canadian market for flat-rolled steel products in 2012, 35 percent in 2011 and 40 percent in 2010.

Total imports of flat-rolled carbon steel products to the EU27 (the 27 countries currently comprising the EU) were 13 percent of the EU market in 2012, 17 percent in 2011 and 14 percent in 2010.

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

We have been and continue to be adversely affected by violations of international trade laws.

Imports into the United States, Canada and the EU have often violated the international trade laws of these jurisdictions. While in some cases, U. S. Steel and others have been successful in obtaining relief under these laws, in other circumstances, relief has been denied. When received, such relief is generally subject to automatic or discretionary review, rescission or reduction. There can be no assurance that any such relief will be obtained or continued in the future or that such relief as obtained will be adequate. Since the DOC is a cabinet level

department and the ITC is headed by Commissioners nominated by the President and confirmed by the Senate, there may be political factors that reduce the level of protection against violation of international trade laws. There is also a risk that international bodies such as the World Trade Organization or judicial bodies in the United States, Canada or the EU may change their interpretations of these laws in ways unfavorable to U. S. Steel.

Limited availability of raw materials and energy may constrain operating levels and reduce profit margins.

U. S. Steel and other steel producers have periodically been faced with problems in obtaining sufficient raw materials and energy in a timely manner due to delays, defaults or force majeure events by suppliers, shortages or transportation problems (such as shortages of barges, ocean vessels, rail cars or trucks, or disruption of rail lines, waterways or natural gas transmission lines), resulting in production curtailments. As a result, we may be exposed to risks concerning pricing and availability of raw materials from third parties. As other areas of the world have recovered faster than North America and Europe, raw materials demand and prices have increased. USSE purchases substantially all of its iron ore and coking coal requirements from outside sources. USSE is also dependent upon availability of natural gas produced in Russia and transported through Ukraine. Any curtailments and escalated costs may further reduce profit margins.

If our newly constructed coke battery or our carbon alloy facility, currently under various stages of start-up and construction, do not produce the anticipated quality or volume of products, we may become dependent upon purchased coke as some of our existing batteries are approaching the end of their useful lives.

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

Steel producers in the United States, along with their customers and suppliers, are subject to numerous federal, state and local laws and regulations relating to the protection of the environment. Steel producers in the EU are also subject to similar laws. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Environmental laws and regulations, particularly the CAA, could result in substantially increased capital, operating and compliance costs.

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

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

The integrated steel process involves a series of chemical reactions involving carbon that create CO_2. This distinguishes integrated steel producers from mini-mills and many other industries where CO_2 generation is generally linked to energy usage. In the United States, the EPA has published rules for regulating greenhouse gas emissions for certain facilities and has implemented various reporting requirements. In a previous Congressional session, legislation regulating CO_2 emissions was passed in the House of Representatives and introduced in the Senate. We do not know what action, if any, may be taken by the current or future sessions of Congress. The EU has established greenhouse gas regulations and Canada has published details of a regulatory framework for greenhouse gas emissions. For a discussion of these, see PART I Business Environmental Matters. We cannot predict the final requirements that may be adopted in the United States and Canada, or the form of future actions that may be taken by the EU; however, such actions could entail substantial costs for emission allowances, restriction of

production and higher prices for coking coal, natural gas and electricity generated by carbon based systems. This could have a negative effect on results of our operations and cash flows. Since mini-mill production does not involve the same chemical reactions as integrated production, mini-mills may have a competitive advantage. Additionally, since China and many other developing nations have not instituted greenhouse gas regulations, and since past international agreements such as the Kyoto Protocol provided exemptions and lesser standards for developing nations, we may be at a competitive disadvantage with certain foreign steel producers. Many of our customers in the United States, Canada and Europe may experience similar impacts, which could result in decreased demand and lower prices for our products.

Risk Factors Concerning U. S. Steel Legacy Obligations

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

We maintain retiree health care and life insurance and defined benefit pension plans covering many of our North American employees and former employees upon their retirement. As of December 31, 2012, approximately 142,000 current employees, retirees and beneficiaries are participating in the plans to receive pension and/or healthcare and life insurance benefits. At December 31, 2012, on an accounting basis, U. S. Steel s retiree medical and life insurance plans were underfunded by $2.2 billion and our pension plans were underfunded by $2.7 billion.

Most of our employee benefits are subject to collective bargaining agreements and will be subject to future negotiations. About two thirds of our costs for the domestic USW participants retiree health benefits in the Company s main domestic other benefit plan are limited to a per capita dollar maximum calculation based on 2006 base year actual costs incurred under the main U. S. Steel benefit plan for USW participants (the cost cap). The full effect of the cost cap was deferred in the 2012 Labor Agreements until 2015. If the cost cap was not in place, our accumulated postretirement benefit obligation for our other benefit plans could increase by $1.3 billion.

Minimum contributions to domestic qualified pension plans (other than contributions to the Steelworkers Pension Trust (SPT) described below) are regulated under ERISA and the Pension Protection Act of 2006 (the PPA). Minimum contributions to USSC pension plans are governed by an agreement entered into by Stelco Inc. (Stelco) and the Province of Ontario that U. S. Steel assumed in conjunction with the acquisition of Stelco (the Agreement). The Agreement requires USSC to fund annually a C$70 million flat dollar contribution plus special contributions for cost of living adjustments (COLA) indexing and other amendments adopted since 2006 for the four main USSC pension plans through 2015. After this time, the minimum contribution requirements for USSC s plans are subject to provincial rules for funding defined benefit plans which generally require the funding of solvency deficiencies over a five year period. This may require significantly more annual contributions than is currently required under the Agreement.

Assets held by the trusts under our pension plans and our trust for retiree health care and life insurance benefits are subject to the risks, uncertainties and variability of the financial markets. Additionally, certain corporate bond rates are utilized in determining the discount rate used to measure our pension and other benefit obligations for both U.S. GAAP and funding purposes. The Federal Reserve Board has continued to suppress interest rates in an attempt to stimulate the broader American economy, which has had the direct effect of lowering the bond rates used in the determination of the appropriate discount rate. A lower discount rate reduces the funded position of these plans. The pension stabilization legislation, enacted during 2012, includes a revised interest rate formula used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula for funding purposes is expected to result in higher interest rates compared to prior law over the next few years which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions, but does not impact the Company s accumulated benefit obligation for U.S. GAAP measurement and financial statement recognition purposes. This reduces, but does not eliminate, the risk of mandatory contributions.

The level of cash funding for our defined benefit pension plans in future years depends upon various factors including voluntary contributions that we may make, future pension plan asset performance, actual interest rates under the law, and the impacts of business acquisitions or divestitures, union negotiated benefit changes and future government regulations, many of which are not within our control.

If there is significant underfunding of the obligations under our defined benefit pension plans, U. S. Steel may be required, or may choose to make substantial contributions to these plans, which may divert committed capital to satisfy funding requirements related to these obligations and delay or cancel capital projects that we believe would increase our ability to meet our customers needs as well as improve our profitability.

U. S. Steel contributes domestically to a multiemployer defined benefit pension plan, the SPT, for USW-represented employees formerly employed by National Steel and represented employees hired after May 2003.

We have legal requirements for future funding of this plan should the SPT become significantly underfunded or we decide to withdraw from the plan. Either of these scenarios may negatively impact our future cash flows. The 2012 Labor Agreements with the USW continue to require the same contribution rate from the previous 2008 labor agreements of $2.65 per hour for most steelworker employees. Collectively bargained company contributions to the plan could increase as a result of future changes agreed to by the Company and the USW.

Despite the global recession, domestic health care costs continue to increase each year, and could accelerate due to inflationary pressures on the overall health care trend rates, government mandates such as the Patient Protection and Affordable Care Act of 2010, and advances in medicine and pharmacology. These may adversely affect our results of operations and cash flow. Benefit obligations under our plans are not tied to operating rates or financial results; therefore, our costs do not change to reflect general economic conditions.

Many domestic and international competitors do not provide retiree health care and life insurance or defined benefit pension plans to their employees. Many other international competitors operate in jurisdictions with government sponsored retirement and health care plans that may offer them a cost advantage.

We have higher environmental remediation costs than our competitors. This may create a competitive disadvantage and negatively affect our results of operations and cash flows.

U. S. Steel is involved in numerous remediation projects at currently operating facilities, facilities that have been closed or sold to unrelated parties and other sites where material generated by U. S. Steel was deposited. In addition, there are numerous other former operating or disposal sites that could become the subject of remediation. For example, we recorded a charge of $18 million in 2011 related to a component of the Gary Works RCRA corrective action program.

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

Other Risk Factors Applicable to U. S. Steel

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

Our steel production depends on the operation of critical structures and pieces of equipment, such as blast furnaces, casters, hot strip mills and various structures and operations that support them. It is possible that we could experience prolonged periods of reduced production and increased maintenance and repair costs due to equipment failures at our facilities or those of our key suppliers. For example, we experienced a structural failure at Gary Works in 2010 that disrupted operations for several weeks. It is also possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. We are also exposed to similar risks involving major customers and suppliers such as force majeure events of raw materials suppliers that have occurred and may occur in the future. Availability of raw materials and delivery of products to customers could be affected by logistical disruptions, such as shortages of barges, ocean vessels, rail cars or trucks, or unavailability of rail lines or of locks on the Great Lakes or other bodies of water. To the extent that lost production could not be compensated for at unaffected facilities and depending on the length of the outage, our sales and our

unit production costs could be adversely affected.

We may be adversely impacted by volatility in prices for raw materials, energy, and steel.

In 2012, approximately 68 percent of U. S. Steel s Flat-rolled segment sales in the United States are based on sales contracts with volume commitments and durations of at least one quarter, while lesser percentages of Tubular and USSE segment sales are made pursuant to such contracts. These contracts generally have a fixed price or a price that will fluctuate with changes in a defined index and do not always have firm volume commitments. During periods of rapid escalation of raw materials, energy and other costs, U. S. Steel may not be

able to recover these cost increases from customers with existing fixed price agreements. Conversely, some purchase contracts require annual commitments, or we may elect to make multi-year commitments, and in periods of rapid decline, U. S. Steel may be faced with having agreed to purchase raw materials and energy at prices that are above the then current market price or in greater volumes than required. If steel prices decline, our profit margins on market-based indexed contracts and spot business will be reduced.

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

We sell to the automotive, service center, converter, energy and appliance and construction-related industries, all of which have been significantly impacted by the ongoing challenging economic conditions. Low demand from customers in these key markets may adversely affect our results of operations.

We face risks concerning new technologies, products and increasing customer requirements.

Technologies such as direct iron reduction and carbon substitution may be more cost effective than our current production methods. However, we may not have sufficient capital to invest in such technologies and may, from time to time, incur cost over-runs and difficulties adapting and fully integrating these technologies into our existing operations. We may also encounter control or production restrictions, or not realize the cost benefit from such capital intensive technology adaptations to our current production processes. Customers such as the automotive industry are demanding stronger and lighter products. Tubular customers are increasingly requesting pipe producers to supply connections and other ancillary parts as well as inspection and other services. We may not be successful in meeting these technological challenges and there may be increased liability exposures connected with the supply of additional products and services.

Product liability claims could have an adverse effect on our financial position, results of operations and cash flows.

Events such as well failures, line pipe leaks, blowouts, bursts, fires and product recalls could result in claims that our products or services were defective and caused death, personal injury, property damage or environmental pollution. The insurance we maintain may not be adequate, available to protect us in the event of a claim, or its coverage may be limited, canceled or otherwise terminated, or the amount of our insurance may be less than the related impact on our enterprise value after a loss.

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

The Amended Credit Agreement is secured by a lien on a majority of our domestic inventory and certain of our accounts receivable and includes a fixed charge coverage ratio covenant that applies to the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 10% of the total aggregate commitments and $87.5 million. The value or levels of inventory may decrease or we may not be able to meet this covenant in the future, and either or both of these situations would limit our ability to borrow under the Amended Credit Agreement.

In addition, beginning on February 13, 2014 and extending until the repayment or conversion of the 4.00% senior convertible notes, we must maintain minimum liquidity (as further defined in the Amended Credit Agreement) of at least $350 million, if the aggregate outstanding principal amount of the 4.00% senior convertible notes is $350 million or greater; or minimum liquidity of $175 million, if the outstanding principal amount is lower than $350 million. The minimum liquidity must include at least $145 million of availability under the Amended Credit Agreement. This may be a particular problem as market conditions and order levels continue to improve when U. S. Steel may need the liquidity to build working capital. We have granted the lenders under the Amended Credit Agreement a secured position in our most liquid assets, which may be a detriment to other creditors.

We also have a Receivables Purchase Agreement (RPA) that provides liquidity depending on the amount of eligible domestic trade accounts receivables. Reductions in accounts receivable would reduce the amount of receivables available for sale.

The Amended Credit Agreement, our Senior Convertible Notes issued in 2009 and our $2.3 billion of Senior Notes also contain covenants limiting our ability to create liens and engage in sale-leasebacks. Additionally, the repayment of amounts outstanding under the Amended Credit Agreement and repurchase of the Senior Convertible Notes and Senior Notes is required upon a change of control under specified circumstances, as well as other customary provisions. The Amended Credit Agreement, the Senior Convertible Notes and the RPA have provisions that certain defaults under a material debt obligation could cause a default under the Amended Credit Agreement or the Senior Convertible Notes or termination of the RPA. These terms may affect our liquidity, our ability to operate our business and may limit our ability to take advantage of potential business opportunities.

At December 31, 2012, in the event of a change in control of U. S. Steel, holders of U. S. Steel debt obligations totaling approximately $3.2 billion, which includes the Senior Notes and the Senior Convertible Notes, may require U. S. Steel to repurchase such obligations in whole or in part for cash at a price equal to 100 percent of the principal amount plus accrued and unpaid interest. In such an event, U. S. Steel may also be required to either repurchase the leased Fairfield caster for $19 million, or provide a letter of credit to secure the remaining obligation.

We face substantial debt maturities.

Over the next six years, we have $2.1 billion of debt maturing (see Note 14 to the Consolidated Financial Statements). We may not be able to refinance this debt or may be forced to do so on terms substantially less favorable to U. S. Steel than our currently outstanding debt. We may be forced to delay or not make capital expenditures, which may adversely affect our competitive position and financial results.

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

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

Change in control clauses in our financial and labor agreements grant the other parties to those agreements rights to accelerate obligations and to terminate or extend our labor agreements.

Upon the occurrence of change in control events specified in our Senior Notes, Amended Credit Agreement, Senior Convertible Notes and various other contracts and leases, the holders of our indebtedness may require us to immediately repurchase or repay that debt on less than favorable terms. Additionally, the 2012 Labor Agreements give the USW the right to either terminate the collective bargaining agreement or extend it for an additional three years. Among other things, these provisions may make a takeover of U. S. Steel more difficult.

A change of control is generally defined to include any of the following: (a) the acquisition by a person or group of at least 35 percent of our common stock, (b) a merger in which holders of our common stock own less than a majority of the equity in the resulting entity, or (c) replacement of a majority of the members of our Board of Directors by persons who were not nominated by our current directors.

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

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

USSK, located in Slovakia and USSC, located in Canada, constitute 34 percent of our global raw steel production capability. Both of them are subject to economic conditions, including credit and capital market conditions, and political factors in the countries in which they are located, and USSK is subject to economic conditions and political

factors associated with the EU and the Euro currency. Changes in any of these economic conditions or political factors could negatively affect our results of operations, cash flows and liquidity. Political factors include, but are not limited to, taxation, nationalization, inflation, government instability, civil unrest, increased regulation and quotas, tariffs and other protectionist measures. An example of such a change is the increase of the Slovak corporate tax rate from 19% to 23% effective January 1, 2013.

Any future foreign acquisitions or expansions could expose us to similar risks.

U. S. Steel has incurred and may incur in the future, facility carrying costs when production capacity is idled, increased costs to resume production at idled facilities, or costs to idle facilities.

Our decisions concerning what facilities to operate and at what levels are made based upon our customers orders for products as well as the capabilities and cost performance of our locations. In depressed markets such as those experienced in the recent recession, we concentrated production operations at several plant locations and did not operate others in response to customer demand.

When we restart idled facilities, we incur costs to replenish raw material inventories, prepare the previously idled facilities for operation, perform the required repair and maintenance activities and prepare employees to return to work safely and resume production responsibilities.

Faced with temporary or structural overcapacity in various markets, we may in the future seek to rationalize operations through asset sales, temporary shutdowns or closures of facilities. These initiatives may lead to significant costs or charges.

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

Our foreign operations accounted for approximately 27 percent of our net sales in 2012. The financial condition and results of operations of USSK and USSC are reported in various foreign currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our financial statements. The appreciation of the U.S. dollar against these foreign currencies could have a negative impact on our consolidated results of operations.

In addition, international cash requirements have been and in the future may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currencies of the entities involved, which can have a non-cash impact on income when they are remeasured at the end of each period.

If the EU abandons the Euro, or if one or more members withdraw, the re-introduction of individual currencies would expose us to foreign exchange rate risks for each currency. Any future foreign acquisitions or expansions may increase such risks.

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

With $3.9 billion of long-term debt outstanding as of December 31, 2012, we have significant debt service requirements.

Our operations are capital intensive. For the five-year period ended December 31, 2012, total capital expenditures were $3.5 billion. At December 31, 2012, our contractual commitments to acquire property, plant and equipment totaled $248 million and we were obligated to make aggregate lease payments of $215 million under operating leases.

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

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As of December 31, 2012, we had contingent obligations consisting of indemnity obligations under active surety bonds, trusts and letters of credit totaling approximately $185 million and contractual purchase commitments, including take or pay arrangements, totaling approximately $10.6 billion.

Our business may not generate sufficient operating cash flow or external financing sources may not be available in amounts sufficient, to enable us to service or refinance our indebtedness or to fund capital expenditures and other liquidity needs. The limitations under our Amended Credit Agreement and RPA, described above, may limit our availability to draw upon these facilities. We intend to indefinitely reinvest undistributed foreign earnings outside the United States; however, if we repatriate funds in the future in excess of our intercompany loan balances, which at the end of 2012 total approximately $2.1 billion, the tax consequences would reduce income and cash flow.

U. S. Steel is exposed to uninsured losses.

Our insurance coverage against catastrophic casualty and business interruption exposures contains certain common exclusions, substantial deductibles and self insured retentions.

Our collective bargaining agreements may limit our flexibility.

Most hourly employees of U. S. Steel s flat-rolled, tubular, cokemaking and iron ore pellet facilities in the United States are covered by the 2012 Labor Agreements, which expire on September 1, 2015. These agreements contain provisions that prohibit us from pursuing any North American transaction involving steel or steel-related assets without the consent of the USW, grant the USW a right to bid on any sale of one or more facilities covered by the 2012 Labor Agreements, require us to make reasonable and necessary capital expenditures to maintain the competitive status of our domestic facilities and require mandatory pre-funding of a trust for retiree health care and life insurance. These agreements also restrict our ability to trade, sell or use foreign-produced coke and iron ore in North America, and further require that the ratio of non-USW employees to USW employees at our domestic facilities not exceed one to five.

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

In Europe, most represented employees at USSK are represented by the OZ Metalurg union and are covered by an agreement that expires at the end of December 2014.

At USSC, the collective bargaining agreement with the USW covering employees at the Lake Erie Works and Hamilton Works expires in April 2013 and October 2014, respectively.

Many international competitors operate in jurisdictions where employees have significantly fewer rights, which may give an advantage to such competitors.

We are at risk of labor stoppages.

Our collective bargaining agreements covering most of our domestic employees expire September 1, 2015.

At USSC, the collective bargaining agreement with the USW covering employees at Lake Erie Works expires in April 2013. The collective bargaining agreement with the USW covering employees at Hamilton Works expires in October 2014.

In Europe, most represented employees at USSK are represented by the OZ Metalurg union and are covered by an agreement that expires at the end of December 2014.

We are at risk for work stoppages thereafter or if unauthorized job actions occur.

We are exposed to potential impairment of goodwill recorded on our balance sheet.

As of December 31, 2012, we have $1.8 billion of goodwill, which exposes us to the risk of future impairment charges. Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. The evaluation of impairment allows for either a review of certain economic, cost, market and other qualitative factors, or a quantitative analysis comparing the estimated fair value of the associated reporting unit to its carrying value, including goodwill. Fair value is determined based on consideration of the income, market and cost approaches as applicable in accordance with the guidance in Accounting Standards Codification (ASC) Topic 820.

As of December 31, 2012, the Flat-rolled and Texas Operations, which is part of the Tubular segment, reporting units have $984 million and $834 million of goodwill, respectively. U. S. Steel completed its 2012 annual goodwill impairment evaluation and determined on the basis of a number of economic, cost, market and other qualitative factors, including consideration of certain factors from the 2011 annual goodwill impairment evaluation, there was no indication of goodwill impairment for any of the reporting units. The 2011 annual goodwill impairment test showed the estimated fair values of our Flat-rolled and Texas Operations, which is a part of our Tubular segment, reporting units exceeded their carrying values by approximately $1.5 billion and $375 million, respectively. A 75 basis point increase in the discount rate, a critical assumption in which even a minor change can have a significant impact on the estimated fair value of the reporting unit, would decrease the fair value of the Flat-rolled and Texas Operations reporting units by approximately $1.2 billion and $210 million, respectively.

If business conditions deteriorate or other factors have an adverse effect on our qualitative and quantitative estimates, inclusive of discounted future cash flows or assumed growth rates, or if we experience a sustained decline in our market capitalization, future evaluations of goodwill impairment may result in impairment charges.

There are risks associated with future acquisitions

The success of any future acquisitions will depend substantially on the accuracy of our analysis concerning such businesses and our ability to complete such acquisitions on favorable terms, as well as to finance such acquisitions and to integrate the acquired operations successfully with existing operations. If we are unable to integrate new operations successfully, our financial results and business reputation could suffer. Additional risks associated with acquisitions are the diversion of management s attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, and the inherent risks in entering markets or lines of business in which we have limited or no prior experience. International acquisitions may present unique challenges and increase the Company s exposure to the risks associated with foreign operations and countries. Antitrust and other laws may prevent us from completing acquisitions. Future acquisitions may result in additional goodwill.

There are risks associated with existing and potential accounting and tax requirements.

We do not recognize a tax benefit for pretax losses in jurisdictions where we have recorded a full valuation allowance for accounting purposes. As a result, the pretax losses associated with USSC do not provide any tax benefit for accounting purposes. Significant changes in the mix of pretax results among the jurisdictions in which we operate could have a material impact on our effective tax rate. Similarly, our use of intercompany loans has and in the future may have significant impacts on our financial statements as a result of foreign currency accounting remeasurement effects. Potential future accounting changes could negatively affect our profitability and cash flow. Even if the impacts are non cash, they may materially impact perceptions and judgments about us by rating agencies and investors. Changes in tax law could also negatively affect our profitability and cash flow.

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

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

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

Certain provisions of Delaware law, our certificate of incorporation and by-laws could make it more difficult or delay our acquisition by means of a tender offer, a proxy contest or otherwise and the removal of incumbent directors. Such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price and therefore may be appealing to some or all stockholders.

A person or group could establish a substantial position in U. S. Steel stock.

Our rights plan expired on December 31, 2011 and was not renewed. The absence of a rights plan may make it easier for a person or group to acquire a substantial position in U. S. Steel stock. Such person or group may have interests adverse to the interests of other stockholders.

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

Over the last few years we have intensified our recruitment, training and retention efforts so that we may continue to optimally staff our operations. If we are unable to hire sufficient qualified replacements for those employees that leave U. S. Steel, our future performance may be adversely impacted. With respect to our represented employees, we may be adversely impacted by the loss of employees who retired or obtained other employment during the time they were laid off or subject to a work stoppage.

A failure of our information technology infrastructure could adversely affect our business and operations.

We rely upon the capacity, reliability and security of our information technology infrastructure and our ability to expand and update this infrastructure in response to the changing needs of our business. For example, we continue to deploy an ERP system at our various locations to help us operate more efficiently. This is a complex project, which is expected to be implemented in several phases over the next few years. We may not be able to successfully implement the ERP program without experiencing difficulties. In addition, the expected benefits of implementing the ERP system, such as increased productivity and operating efficiencies, may not be fully realized or the costs of implementation may outweigh the realized benefits. Along with modifying the implementation schedule in early 2009 to reduce near-term costs, we modified the implementation schedule in 2012 to extend the time period for system stabilization following deployments, which extends the overall timeline for project completion. This action will delay the realization of benefits from this project and may add to final project costs. Further, if we experience a problem with the functioning of an important information technology system, the resulting disruptions could have an adverse affect on our business.

Increased global information technology security requirements, vulnerabilities, threats and a rise in sophisticated and targeted computer crime pose a risk to the security of our systems, networks and the confidentiality, availability and integrity of our data. Despite our efforts to protect sensitive information, confidential and personal data, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches. This could lead to disclosure, modification or destruction of proprietary and other key information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations. We may face greater risks in this area than our competitors as we implement the ERP system because among other things, we must simultaneously protect both the ERP and legacy systems until the ERP project is complete.

We have several operations conducted by joint ventures and other equity investees that we cannot operate solely for our benefit.

Several of our joint ventures and other equity investees are strategically important to U. S. Steel. Under joint venture and other equity investee arrangements, we share ownership and management of an entity with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do. In general, joint ventures and other equity investees are intended to be operated for the benefit of all of the investors, rather than for our sole benefit. The benefits from a successful joint venture or other equity arrangement are shared among the investors, so that we do not receive all the benefits from our successful joint ventures. For additional information with respect to our joint ventures and other equity investees, see Note 9 to the Consolidated Financial Statements.

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We depend on third parties for transportation services, and increases in costs or the availability of transportation could adversely affect our business and operations.

Our business depends on the transportation of a large number of products, both domestically and internationally. We rely primarily on third parties for transportation of the products we manufacture or distribute as well as delivery of our raw materials.

If any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture and deliver our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at a reasonable cost.

In addition, such failure of a third-party transportation provider could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our financial position and results of operations.

A significant portion of the goods we manufacture and raw materials we use in our production processes are transported by railroad, trucks, barges and ships, which are highly regulated. Changes in these regulations could increase our costs or reduce the availability of such transportation. In addition, an increase in transportation rates or fuel surcharges could materially adversely affect our sales and profitability.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

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

North American Operations

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

(a) Equity investee

(b) Formed on December 3, 2012

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Other Operations

Property	Location	Products and Services
U. S. Steel Ko ice	Ko ice, Slovakia	Slabs; Sheets; Tin mill; Strip mill plate; Tubular; Coke; Radiators; Refractories
U. S. Steel Serbia[(a)]	Smederevo, abac and Kučevo, Serbia	Slabs; Sheets; Tin mill; Strip mill plate; Limestone
Apolo Tubulars S.A.[(b)]	Lorena, Sao Paulo, Brazil	Welded Tubular

(a) Sold on January 31, 2012
(b) Equity Investee

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

The slab caster facility at Fairfield, Alabama is subject to a lease. During the fourth quarter of 2012, U. S. Steel exercised an option to renew the lease for a nine year term and purchase the facility at the expiration of the renewal period in June 2022. For further information, see Note 14 to the Consolidated Financial Statements.

At the Midwest Plant in Indiana, U. S. Steel has a supply agreement for various utility services with a company that owns a cogeneration facility located on U. S. Steel property. The Midwest Plant agreement expires in 2028.

The headquarters office space in Pittsburgh, Pennsylvania used by U. S. Steel is leased through September 2017.

For property, plant and equipment additions, including capital leases, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Cash Flows and Note 10 to the Consolidated Financial Statements.

Item 3. LEGAL PROCEEDINGS

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

General Litigation

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

Asbestos Litigation

At December 31, 2012, U. S. Steel was a defendant in approximately 790 active cases involving approximately 3,330 plaintiffs. As of December 31, 2011, U. S. Steel was a defendant in approximately 695 active cases

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involving approximately 3,235 plaintiffs. During 2012, settlements and dismissals resulted in the disposition of approximately 190 claims and U. S. Steel paid approximately $15 million in settlements. New filings added approximately 285 claims.

About 2,560, or approximately 77 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. Most of the claims filed in 2012, 2011 and 2010 involve individual or small groups of claimants.

Historically, these claims against U. S. Steel fall into three major groups: (1) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); (2) claims made by industrial workers allegedly exposed to products formerly manufactured by U. S. Steel; and (3) claims made under certain federal and general maritime laws by employees of former operations of U. S. Steel. The ultimate outcome of any claim depends upon a myriad of legal and factual issues, including whether the plaintiff can prove actual disease, if any; actual exposure, if any, to U. S. Steel products; the duration of exposure to asbestos, if any, on U. S. Steel s premises and the plaintiff s exposure to other sources of asbestos. In general, the only insurance available to U. S. Steel with respect to asbestos claims is excess casualty insurance, which has multi-million dollar self-insured retentions. To date, U. S. Steel has received minimal payments under these policies relating to asbestos claims.

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 280 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

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

In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Historically, approximately 89 percent of the cases against U. S. Steel did not specify any damage amount or stated that the damages sought exceeded the amount required to establish jurisdiction of the court in which the case was filed. (Jurisdictional amounts generally range from $25,000 to $75,000.) U. S. Steel does not consider the amount of damages alleged, if any, in a complaint to be relevant in assessing our potential exposure to asbestos liabilities.

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

The following table shows activity with respect to asbestos litigation:

Year ended December 31,	Opening Number of Claims	Claims Dismissed, Settled and Resolved	New Claims	Closing Number of Claims	Amounts Paid to Resolve Claims (in millions)
2010	3,040	200	250	3,090	$ 8
2011	3,090	130	275	3,235	$ 8
2012	3,235	190	285	3,330	$ 15

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because it is not possible to determine whether any

loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. The vast majority of pending claims against us allege so-called premises liability-based exposure on U. S. Steel s current or former premises. These claims may be made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers. In most cases, the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely as do the nature and severity of the injury claimed.

We are unable to estimate the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company s financial condition, although the resolution of such matters could significantly impact results of operations for a particular period. Among the factors considered in reaching this conclusion are: (1) it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; (2) most asbestos containing material was removed or remediated at U. S. Steel facilities many years ago and (3) U. S. Steel s history of trial outcomes, settlements and dismissals.

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

Environmental Proceedings

The following is a summary of the proceedings of U. S. Steel that were pending or contemplated as of December 31, 2012, under federal and state environmental laws. Except as described herein, it is not possible to accurately predict the ultimate outcome of these matters.

CERCLA Remediation Sites

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

Projections, provided in the following paragraphs, of spending for and/or timing of completion of specific projects are forward-looking statements. These forward-looking statements are based on certain assumptions including, but not limited to, the factors provided in the preceding paragraph. To the extent these assumptions prove to be inaccurate, future spending for, or timing of completion of environmental projects may differ materially from what was stated in forward-looking statements.

At December 31, 2012, U. S. Steel had been identified as a PRP at a total of 21 CERCLA sites where liability is not resolved. Based on currently available information, which is in many cases preliminary and incomplete, management believes that U. S. Steel s liability for CERCLA cleanup

and remediation costs will be less than $100,000 for 6 sites, between $100,000 and $1 million for 12 sites, between $1 million and $5 million for 2 sites and over $5 million for 1 site. The one site over $5 million is the former Duluth Works, which was listed by the Minnesota Pollution Control Agency (MPCA) under the Minnesota Environmental Response and Liability Act on its Permanent List of Priorities. The EPA has included the Duluth Works site with the St. Louis River Interlake Duluth Tar site on its National Priorities List. The Duluth Works cleanup has proceeded since 1989. U. S. Steel has prepared a conceptual habitat enhancement plan (HEP) that includes measures to address contaminated

sediments in the St. Louis River Estuary. MPCA (on behalf of the EPA) has completed its second five-year review for the site. As a result, additional data collection has been undertaken to address data gaps identified in the five-year review and corrective measures are being implemented to address the discovered areas of contamination on the upland property. Additional study, investigation and oversight costs along with implementation of corrective measures on the upland property and implementation of the HEP are currently estimated at $22 million.

In addition, there are 13 sites related to U. S. Steel where information requests have been received or there are other indications that U. S. Steel may be a PRP under CERCLA, but where sufficient information is not presently available to confirm the existence of liability or to make any judgment as to the amount thereof.

Other Remediation Activities

There are 39 additional sites where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. Based on currently available information, which is in many cases preliminary and incomplete, management believes that liability for cleanup and remediation costs in connection with 10 of these sites will be under $100,000 per site, another 17 sites have potential costs between $100,000 and $1 million per site, and 6 sites may involve remediation costs between $1 million and $5 million per site. As described below, costs for remediation, investigation, restoration or compensation are estimated to be in excess of $5 million per site at 2 sites. Potential costs associated with remediation at the remaining 4 sites are not presently determinable.

Gary Works

On March 4, 2010 the EPA notified U. S. Steel that the requirements of the January 26, 1998 CWA consent decree in United States of America v. USX (Northern District of Indiana) had been satisfied. A joint motion to terminate the CWA consent decree was granted by the court on June 25, 2012, thereby terminating the consent decree in its entirety. As of December 31, 2012, project costs have amounted to $60.7 million. In 1998, U. S. Steel also entered into an additional consent decree with the public trustees, which resolves liability for natural resource damages on the same section of the Grand Calumet River. Work continues to complete and terminate the Natural Resource Damages order. U. S. Steel has released the $1 million payment to the public trustee for ecological monitoring. In addition, U. S. Steel is obligated to perform, and has completed the ecological restoration in this section of the Grand Calumet River. In total, the accrued liability for the above projects based on the estimated remaining costs was approximately $773,000 at December 31, 2012.

At Gary Works, U. S. Steel has agreed to close three hazardous waste disposal sites: D5, along with an adjacent solid waste disposal unit, Terminal Treatment Plant (TTP) Area; T2; and D2 combined with a portion of the Refuse Area, where a solid waste disposal unit overlaps with the hazardous waste disposal unit. The sites are located on plant property. The Indiana Department of Environmental Management (IDEM) has approved the closure plans for all three sites. U. S. steel continues technical discussions with IDEM though on the conditions of the D2 approval. Closure is complete at D5, TTP and T2, with IDEM approval of the closure certification reports on February 1, 2012 (D5), April 3, 2012 (TTP) and November 1, 2012 (T2). As of December 31, 2012, the accrued liability for estimated costs to close these sites is approximately $16 million.

On October 23, 1998, EPA issued a final Administrative Order on Consent (Order) addressing Corrective Action for Solid Waste Management Units (SWMU) throughout Gary Works. This order requires U. S. Steel to perform a Resource Conservation and Recovery Act (RCRA) Facility Investigation (RFI), a Corrective Measure Study (CMS) and Corrective Measure Implementation at Gary Works. Reports of field investigation findings for Phase I work plans have been submitted to the EPA. Through December 31, 2012, U. S. Steel had spent $43.5 million for corrective action studies, Vessel Slip Turning Basin interim measures and other corrective actions. U. S. Steel has completed one year of a facility wide perimeter groundwater monitoring program and submitted a report with recommendations for future continuation of the program and additional

localized groundwater assessment work to the EPA. U. S. Steel has also submitted and partially completed a Baseline Ecological Risk Assessment work plan for addressing sediments behind the East Breakwall. In addition, U. S. Steel has received approval from the EPA to proceed with an interim stabilization measure to address certain components of the East Side Groundwater Solid Waste Management Area as required by the Order. Until the remaining Phase I work and Phase II field

investigations are completed, it is not possible to assess what additional expenditures will be necessary for Corrective Action projects at Gary Works. In total, the accrued liability for projects is approximately $44 million as of December 31, 2012, based on the estimated remaining costs.

Mon Valley Works

On March 17, 2008, U. S. Steel entered a Consent Order and Agreement (COA) with the Allegheny County Health Department (ACHD) to resolve alleged opacity limitation and pushing and traveling violations from older coke oven batteries at its Clairton Plant and to resolve alleged opacity violations from its Edgar Thomson Plant. Under the COA, U. S. Steel paid a civil penalty of $301,800 on March 25, 2008. The COA requires U. S. Steel to conduct interim repairs on existing batteries and make improvements at the Ladle Metallurgical Facility and Steelmaking Shop at the Edgar Thomson Plant. The COA also required that Batteries 1, 2 and 3 be shutdown by August 11, 2015. On September 30, 2010, U. S. Steel and ACHD amended the COA to require U. S. Steel to install two new Low Emissions Quench Towers to replace existing towers and bring Batteries 1, 2 and 3 into compliance rather than shutting them down. We are repairing existing Batteries 19 and 20 and we continue to make improvements on Batteries 1, 2 and 3. Total costs for the quench towers are estimated to be approximately $68 million while the cost of improvements at Batteries 1, 2 and 3 cannot be estimated at this time. U. S. Steel is also completing upgrades at its Edgar Thomson Plant that would reduce emissions. U. S. Steel shut down Batteries 7, 8 and 9 in 2009 as required by the COA.

On October 8, 2009, Mon Valley Clairton Plant received an NOV from ACHD alleging that the Clairton Plant was culpable for hydrogen sulfide (H_2S) Pennsylvania ambient air quality standard exceedances. The NOV requires U. S. Steel to submit a plan with milestones to reduce and minimize fugitive emissions of coke oven gas from the coke producing operations at Clairton including identification of coke oven gas emission sources and method of improved emission prevention and control. While U. S. Steel appealed the NOV on October 16, 2009, U. S. Steel submitted an Action Plan to ACHD that was required by the NOV. U. S. Steel and ACHD have performed H_2S modeling and are in the process of evaluating all potential sources of H_2S in the area. U. S. Steel and ACHD continue to meet and discuss resolution.

Midwest Plant

A former disposal area located on the east side of the Midwest Plant was designated a SWMU (East Side SWMU) by IDEM before U. S. Steel acquired this plant from National Steel Corporation. U. S. Steel submitted a Closure Plan to IDEM recommending consolidation and in-place closure of the East Side SWMU. IDEM approved the Closure Plan in January 2010. Implementation of the Closure Plan began during the third quarter of 2010 and fieldwork was completed early in the second quarter of 2011. A full vegetative cover over the project area is in place and the Closure Completion Report was approved by IDEM on November 21, 2011. As of December 31, 2012, $4.3 million has been spent on the project. The remaining cost is estimated to be $138,000 for post construction monitoring work and was recorded as an accrued liability as of December 31, 2012.

Fairless Plant

In January 1992, U. S. Steel commenced negotiations with the EPA regarding the terms of an Administrative Order on consent, pursuant to RCRA, under which U. S. Steel would perform an RFI and a CMS at our Fairless Plant. A Phase I RFI report was submitted during the third quarter of 1997. The cost to U. S. Steel to continue to maintain the interim measures, develop a Phase II/III RFI Work Plan and implement certain corrective measures is estimated to be $583,000. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See Note 22 to the Consolidated Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Fairfield Works

A consent decree was signed by U. S. Steel, the EPA and the U.S. DOJ and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997. In accordance with the consent decree, U. S. Steel initiated a RCRA corrective action program at the Fairfield Works facility. The Alabama Department of Environmental Management (ADEM) with the approval of the EPA

assumed primary responsibility for regulation and oversight of the RCRA corrective action program at Fairfield Works. The Phase I RFI for waste disposed of at the Exum Materials Management Area was voluntarily implemented in October 2011, completed in December 2011 with the final completion report submitted to ADEM in June 2012. A Phase II RFI for the Fairfield Facility property was completed in December 2012 with the completion report scheduled for submittal to ADEM in the second quarter of 2013. In total, the accrued liability for remaining work under the Corrective Action Program including the former Ensley facility was $414,000 at December 31, 2012, based on estimated remaining costs. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See Note 22 to the Consolidated Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Lorain Tubular Operations

In September 2006, U. S. Steel received a letter from the Ohio Environmental Protection Agency (OEPA) inviting U. S. Steel to enter into discussions about RCRA Corrective Action at Lorain Tubular Operations. A Phase I RFI on the identified SWMUs and Area of Contamination was submitted in March 2012 and a Phase II workplan that addresses additional soil investigations, site wide groundwater and the pipe mill lagoon was submitted to the OEPA. As of December 31, 2012, U. S. Steel has spent $831,000 on studies at this site. Costs to complete additional projects are estimated to be $409,000. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See Note 22 to the Consolidated Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Construction and start-up of a seep collection system at the D2 landfill was completed in the third and fourth quarters of 2011. The system was required by OEPA as part of a revised Post-Closure Care Plan for the landfill. Based on subsequent system influent and effluent water quality data, additional seep water treatment will be necessary to meet future permit limits. A permit to install was submitted to, and approved by the OEPA during the fourth quarter that permits installation of the new equipment. As of December 31, 2012, project costs have amounted to $1.4 million. The remaining cost of the project is expected to be $344,000 and was recorded as an accrued liability as of December 31, 2012.

Great Lakes Works

On February 13, 2007, Michigan Department of Environmental Quality (MDEQ) and U. S. Steel agreed to an Administrative Consent Order (the Order) that resolves alleged violations of CWA NPDES permits at the Great Lakes Works facility. As required by the Order, U. S. Steel has paid a civil penalty of $300,000 and has reimbursed MDEQ $50,000 in costs. The Order identified certain compliance actions to address the alleged violations. U. S. Steel has completed work on most of these compliance actions, and has initiated work on the others. As of December 31, 2012, $1.8 million has been spent on the project. In addition, $161,000 remains accrued for possible additional requirements.

On April 20, 2011, U. S. Steel Great Lakes Works received an NOV from MDEQ regarding an alleged Basic Oxygen Process (BOP) roof monitor opacity violation that was to have occurred on April 14, 2011. On May 11, 2011, U. S. Steel responded to the NOV stating that the alleged exceedance was caused by a desulfurization lance failure and that it has implemented corrective actions to prevent its recurrence.

On May 10, 2011, the MDEQ issued a violation notice alleging that fallout from a bleeder incident on April 20, 2011 caused an unreasonable interference with the comfortable enjoyment of life and property in Windsor, Canada. U. S. Steel responded to the notice to MDEQ.

On October 10, 2012, the MDEQ issued a violation notice alleging the No. 2 baghouse at the No. 2 BOP exceeded applicable emission limits based upon stack testing conducted earlier in 2012. On October 31, 2012, U. S. Steel responded to the notice indicating that corrective actions at the baghouse have been employed and stack tests conducted after the repairs were made to demonstrate the stack complies with emission limits.

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Granite City Works

U. S. Steel received two NOVs, dated February 20, 2004 and March 25, 2004, for air violations at the coke batteries, the blast furnace and the steel shop at our Granite City Works facility. All of the issues have been resolved except for an issue relating to air emissions that occurs when coke is pushed out of the ovens, for which a compliance plan has been submitted to the Illinois Environmental Protection Agency (IEPA). On December 18, 2007, U. S. Steel and IEPA entered into a consent order (the Order) (State of Illinois ex. rel. Lisa Madigan vs. United States Steel Corporation), which resolved the issues raised in the two NOVs. The Order required that U. S. Steel: (1) pay a penalty of $300,000, which U. S. Steel paid on January 10, 2008; (2) demonstrate compliance with Coke Oven Pushing Operations in accordance with the compliance schedule provided in the Order; (3) comply with the basic oxygen furnace (BOF) opacity emissions in accordance with the schedule provided in the Order; and (4) submit to the IEPA a revised permit application with the correct sulfur dioxide emission factors. In February 2011, U. S. Steel demonstrated compliance with the applicable requirements and in March 2011, U. S. Steel certified compliance with the applicable regulations. U. S. Steel continues to negotiate permit modifications to address the blast furnace gas sulfur dioxide emission factor as required by the Order.

On July 1, 2010, U. S. Steel entered into a Memorandum of Understanding (MOU) with the IEPA that requires Granite City Works to achieve reductions in emissions of particulate matter. U. S. Steel will evaluate and install appropriate controls to achieve this purpose. To complete the obligations pursuant to the MOU, U. S. Steel anticipates incurring a capital expenditure of approximately $50 million to install additional pollution controls at the BOF.

To comply with the Illinois State NOx RACT rule, U. S. Steel will install Flue Gas Recirculation and Continuous Emission Monitors on Boilers 11 and 12 at Granite City Works with expenditures of approximately $4 million. U. S. Steel will also install a NOx continuous emissions monitor for the slab reheat furnaces with expenditures of approximately $1 million.

On November 30, 2012, the IEPA issued a Violation Notice alleging violations of emission standards from the facility s BOF. In the notice, the IEPA also alleged the facility failed to comply with associated CAA regulations and the facility did not use steam rings at the BOP as required by the facility s Title V permit. U. S. Steel is currently preparing a response to the notice and intends on meeting with the IEPA in early 2013 to discuss resolution.

Minnesota Ore Operations

U. S. Steel is currently commenting on a Federal Implementation Plan proposed rule that would apply to taconite facilities in Minnesota. The proposed rule is not yet final, but if promulgated as proposed, it would establish and require the use of low NOx burners on indurating furnaces as Best Available Retrofit Technology. While U. S. Steel has already installed low NOx burners on Minntac Lines 6 and 7 and is currently obligated to install low NOx burners on Lines 3, 4, and 5 pursuant to existing agreements and permits, the rule would require the installation of low NOx burners for the existing line at Keetac for which U. S. Steel does not have an existing obligation. U. S. Steel estimates the expenditures associated with the installation of low NOx burners are approximately $20 million.

On March 2, 2012, U. S. Steel s Keetac facility received an NOV from the Minnesota Pollution Control Agency (MPCA) for alleged violations of the Minnesota Fugitive Dust Rule. U. S. Steel responded to the notice on March 30, 2012 in which it respectfully contested the allegations provided in the notice.

U. S. Steel and the MPCA reached agreement on a Schedule of Compliance (SOC) to reduce air emissions at the Minntac and Keetac facilities and to address alleged water quality issues at the Minntac facility. The SOC incorporates the Keetac Expansion Mercury Agreement associated with the MPCA s mercury Total Maximum Daily Load requirements and Minntac s Title V NOx reduction requirements. A dry control system will be installed at the Minntac facility to reduce PM, PM_{10}, $PM_{2.5}$, SO2, and mercury emissions. Parts of the SOC became effective on June 9, 2011, while other parts became effective on October 19, 2011. U. S. Steel expects expenditures of approximately $220 million to install dry waste gas controls at Minntac.

Geneva Works

At U. S. Steel s former Geneva Works, liability for environmental remediation, including the closure of three hazardous waste impoundments and facility-wide corrective action, has been allocated between U. S. Steel and

the current property owner pursuant to an agreement and a permit issued by the Utah Department of Environmental Quality. As of December 31, 2012, U. S. Steel has spent $17.8 million to complete remediation on certain areas of the site. Having completed the investigation on a majority of the remaining areas identified in the permit, U. S. Steel has determined that the most effective means to address the remaining impacted material is to manage those materials in a previously approved on-site Corrective Action Management Unit. U. S. Steel has an accrued liability of $65 million as of December 31, 2012, for our estimated share of the remaining costs of remediation.

Duluth Works

The former U. S. Steel Duluth Works site was placed on the National Priorities List under CERCLA in 1983 and on the State of Minnesota s Superfund list in 1984. Liability for environmental remediation at the site is governed by a Response Order by Consent executed with the MPCA in 1985 and a Record of Decision signed by MPCA in 1989. As of December 31, 2012, U. S. Steel has spent $19.9 million to complete remediation on certain areas of the site. Current activity at the site is focused on completing the feasibility study and remedial design of the two St. Louis River Estuary Operable Units (OUs) along with completing a feasibility study on several Upland OUs, as defined during the latest 5-year review of the site, conducted by the MPCA in 2008. The remaining cost of the project is estimated to be $23 million and was recorded as an accrued liability as of December 31, 2012.

Municipal Industrial Disposal Company (MIDC)

MIDC was a licensed disposal facility where U. S. Steel disposed coal tar and other wastes. The site was mismanaged by the operator and subsequently on August 30, 2002, U. S. Steel entered into a COA with the Pennsylvania Department of Environmental Protection to address the environmental issues at the site. While U. S. Steel was not the only entity to use the facility, U. S. Steel is the single remaining viable company responsible for the cleanup. An engineered remedy for the three locations at the site requiring remediation was implemented in July 2011 and completed in December 2011. The final completion report was submitted to the agency in December 2012. As of December 31, 2012, U. S. Steel has spent $11.9 million related to the project. The remaining cost of the project is estimated to be $208,000 and was recorded as an accrued liability as of December 31, 2012.

USS-POSCO Industries (UPI)

At UPI, a joint venture between subsidiaries of U. S. Steel and POSCO, corrective measures have been implemented for the majority of the former SWMUs. Prior to the formation of UPI, U. S. Steel owned and operated the Pittsburg, California facility and retained responsibility for the existing environmental conditions. Seven SWMUs remain at the facility. Based on their constituents, six of these SWMUs have been combined into two groups of three, while one SWMU remains a single entity. Investigation of the single SWMU is complete and an engineered remedy is in development for submission to the Department of Toxic Substances Control (DTSC). As of December 31, 2012, $594,000 remains for ongoing environmental studies and investigations. For the remaining two SWMU groups, investigations continue. One group may not require further action pending a No Further Action decision by the California DTSC. For the other SWMU group, it is likely that corrective measures will be required, but it is not possible at this time to define a scope or estimate costs for what may be required by the DTSC. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See Note 22 to the Consolidated Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

EPA Region V Federal Lawsuit

On August 1, 2012, the U.S. government, joined by the States of Illinois, Indiana and Michigan, filed a complaint in the Northern District of Indiana alleging various CAA and State air regulatory violations that were to have allegedly occurred at Gary Works, Granite City Works, and Great Lakes Works, our three integrated iron and steel facilities located in the EPA s Region V. The Complaint alleges that Gary Works failed to obtain the proper pre-construction permit for a routine reline of its Blast Furnace No. 4 in 1990, and that the three facilities failed to meet certain operational, maintenance, opacity, and recordkeeping requirements under the CAA and its implementing regulations. The Complaint requests relief in the form of statutory penalties for each violation and for injunctive relief. U. S. Steel believes that the claims asserted in the complaint are not justified and are without statutory

foundation. On September 21, 2012, U. S. Steel filed a motion to dismiss the U.S. government s claims for relief regarding the 1990 reline of the Gary Blast Furnace No. 4 and filed an answer to the remaining allegations in the Complaint. U. S. Steel will continue to vigorously defend against these claims. At this time, the potential outcome is not reasonably estimable.

Other

In April 2003, U. S. Steel and Salomon Smith Barney Holdings, Inc. (SSB) entered into a consent order with the Kansas Department of Health & Environment (KDHE) concerning a former zinc smelting operation in Cherryvale, Kansas. Remediation was essentially completed in 2007 and U. S. Steel and SSB continue to work with KDHE to address the remaining issues. At December 31, 2012, an accrual of $268,000 remains available for these outstanding issues.

On January 18, 2011, KDHE signed a Consent Agreement and Final Order (CAFO), which obligates U. S. Steel to prepare and implement a corrective action plan for two sites in Girard, Kansas. The sites are referred to as the Girard Zinc Works and the Cherokee Lanyon #2 site. The CAFO recognizes a single project incorporating the corrective action for both sites. A Final Corrective Action Completion Report was submitted to KDHE on June 4, 2012 and conditionally approved on June 14, 2012, for onsite issues. U. S. Steel continues to work with KDHE in addressing an offsite issue. As of December 31, 2012, U. S. Steel has an accrued liability of approximately $109,000 to address this offsite issue.

In January of 2004, U. S. Steel received notice of a claim from the Texas Commission on Environmental Quality (TCEQ) and notice of claims from citizens of a cap failure at the Dayton Landfill. U. S. Steel s allocated share is approximately 16 percent. The Remedial Action Plan for the site was approved by TCEQ in June 2009. Implementation of remedial measures was initiated in July, 2010 and all fieldwork was completed in November, 2011. The accrued liability for U. S. Steel s share to implement the post-closure monitoring program was $774,000 as of December 31, 2012.

In May 2010, MPCA notified Canadian National Railroad Company (CN) of apparent environmental impacts on their property adjacent to the former U. S. Steel Duluth Works. U. S. Steel subsequently obtained information indicating U. S. Steel s connection to the site as well as reviewed a site investigation report that CN prepared and submitted to MPCA in August 2011. On December 6, 2011, U. S. Steel agreed to purchase the site and to take responsibility for addressing the identified environmental impacts. The property transaction was closed on June 26, 2012. As of December 31, 2012, U. S. Steel has an accrued liability of approximately $2 million.

The Canadian and Ontario governments have identified for remediation a sediment deposit, commonly referred to as Randle Reef, in Hamilton Harbor near USSC s Hamilton Works, for which the regulatory agencies estimate expenditures with a net present value of approximately C$120 million (approximately $121 million). The national and provincial governments have each allocated C$40 million (approximately $40 million) for this project. Local sources, including industry, have also agreed to provide funding of C$40 million (approximately $40 million) for the project. USSC has committed to contribute approximately 11,000 tons of hot rolled steel and to fund C$2 million (approximately $2 million). The steel contribution is expected to be made in 2014. As of December 31, 2012, U. S. Steel has an accrued liability of approximately $10 million reflecting the contribution commitment.

U. S. Steel is identified as a PRP at the former Breslube-Penn operating site, an oil recycling and solvent recovery operation located in Coraopolis, PA. U. S. Steel s allocated share of the cost among the participating PRPs is approximately 29 percent. A Record of Decision was issued by the EPA in August 2007 and a Remedial Design was preliminarily approved in 2011 and is still under review by the agencies. As of December 31, 2012, U. S. Steel has an accrued liability of approximately $2 million reflecting U. S. Steel s share of the cost to implement remedial measures at the site.

Item 4. MINE SAFETY DISCLOSURE

The information concerning mine safety violations and other regulatory matters required by Section 150 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) and Item 104 of Regulation S-K is included in Exhibit 95 to this Form 10-K.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of U. S. Steel and their ages as of February 1, 2013, are as follows:

Name	Age	Title	Executive Officer Since
George F. Babcoke	56	Senior Vice President Europe & Global Operations Services	March 1, 2008
Larry T. Brockway	53	Senior Vice President and Chief Risk Officer	August 1, 2011
James D. Garraux	60	General Counsel & Senior Vice President Corporate Affairs	February 1, 2007
Gretchen R. Haggerty	57	Executive Vice President & Chief Financial Officer	December 31, 2001
David H. Lohr	59	Senior Vice President Strategic Planning, Business Services & Administration	June 1, 2008
Mario Longhi	58	Executive Vice President and Chief Operating Officer	July 2, 2012
Douglas R. Matthews	47	Senior Vice President Tubular Operations	July 2, 2012
John P. Surma	58	Chairman of the Board of Directors and Chief Executive Officer	December 31, 2001
Susan M. Suver	53	Vice President Human Resources	November 1, 2007
Michael S. Williams	52	Senior Vice President North American Flat-Rolled Operations	July 2, 2012
Gregory A. Zovko	51	Vice President & Controller	April 1, 2009

All of the executive officers mentioned above have held responsible management or professional positions with U. S. Steel or our subsidiaries for more than the past five years, with the exception of Mr. Longhi. Prior to joining U. S. Steel, Mr. Longhi served as President from 2005 to 2006, and President and Chief Executive Officer from 2006 to 2011, of Gerdau Ameristeel Corporation, a producer of long steel products. Prior to joining Gerdau Ameristeel Corporation, Mr. Longhi served in a variety of senior management positions with Alcoa Inc., a producer of aluminum products.

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

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PART II

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

Common Stock Information

The principal market on which U. S. Steel common stock is traded is the New York Stock Exchange. U. S. Steel common stock is also traded on the Chicago Stock Exchange. Information concerning the high and low sales price for the common stock as reported in the consolidated transaction reporting system and the frequency and amount of dividends paid during the last two years is set forth in Selected Quarterly Financial Data (Unaudited) on page F-59.

As of January 31, 2013, there were 17,669 registered holders of U. S. Steel common stock.

The Board of Directors intends to declare and pay dividends on U. S. Steel common stock based on the financial condition and results of operations of U. S. Steel, although it has no obligation under Delaware law or the U. S. Steel Certificate of Incorporation to do so. Dividends have been considered and declared by U. S. Steel on a quarterly basis. For all four quarters in 2012 and 2011, the dividend declared per share of U. S. Steel common stock was $0.05. Dividends on U. S. Steel common stock are limited to legally available funds.

Shareholder Return Performance

The graph below compares the yearly change in cumulative total shareholder return of our common stock with the cumulative total return of the Standard & Poor s (S&P s) 500 Stock Index and the S&P Steel Index.

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Recent Sales of Unregistered Securities

U. S. Steel had no sales of unregistered securities during the period covered by this report.

Item 6. SELECTED FINANCIAL DATA

Dollars in millions (except per share data)

	2012	2011	2010	2009	2008
Statement of Operations Data:					
Net sales[(a)]	**$ 19,328**	$ 19,884	$ 17,374	$ 11,048	$ 23,754
Income (loss) from operations[(b)]	**247**	265	(111)	(1,684)	3,069
Net (loss) income attributable to United States Steel Corporation[(b)]	**(124)**	(53)	(482)	(1,401)	2,112
Per Common Share Data:					
Net (loss) income attributable to United States Steel Corporation[(c)] basic	**(0.86)**	(0.37)	(3.36)	(10.42)	18.04
diluted	**(0.86)**	(0.37)	(3.36)	(10.42)	17.96
Dividends per share declared and paid	**0.20**	0.20	0.20	0.45	1.10
Balance Sheet Data December 31:					
Total assets	**$ 15,217**	$ 16,073	$ 15,350	$ 15,422	$ 16,087
Capitalization:					
Debt[(d)]	**$ 3,938**	$ 4,228	$ 3,733	$ 3,364	$ 3,145
United States Steel Corporation stockholders equity	**3,477**	3,500	3,851	4,676	4,895
Total capitalization	**$ 7,415**	$ 7,728	$ 7,584	$ 8,040	$ 8,040

(a) For discussion of changes between the years 2012, 2011 and 2010, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase in net sales from 2009 to 2010 resulted mainly from increased shipments and higher average realized prices due to the improving economic conditions. The decrease in net sales from 2008 to 2009 resulted mainly from decreased shipments and lower average realized prices due to weaker demand caused by the difficult economic conditions.

(b) For discussion of changes between the years 2012, 2011 and 2010, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase from 2009 to 2010 mainly resulted from higher prices and shipments due to the improving economic conditions as well as operating efficiencies due to increased capability utilization and reduced energy costs. These increases were partially offset by higher raw materials costs as well as increased costs for facility repair and maintenance costs due to more extensive structural inspection and repair activities in 2010. The decrease from 2008 to 2009 resulted mainly from lower shipments and average realized prices due to the difficult economic environment, operating inefficiencies related to idled facilities and facility restart costs. This decrease was partially offset by lower raw materials costs as well as lower costs for employee profit sharing.

(c) See Note 6 to the Consolidated Financial Statements for the basis of calculating earnings per share.

(d) For discussion of changes between the years 2012 and 2011 see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The increase from 2010 to 2011 was mainly due to outstanding borrowings of $380 million under our Receivables Purchase Agreement and outstanding borrowings under USSK s unsecured revolving credit facilities. The increase from 2009 to 2010 was mainly due to the issuance of $600 million of 7.375% Senior Notes due April 1, 2020 and the issuance of $70 million of 6.75% Recovery Zone Facility Bonds with a maturity date of 2040 partially offset by the repayment of the outstanding borrowings under USSK s unsecured revolving credit facilities. The increase from 2008 to 2009 was mainly due to the issuance of $863 million principal amount of 4% Senior Convertible Notes due 2014, partially offset by the repayment of $655 million outstanding under our three-year term loan due October 2010 and five-year term loan due May 2012.

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

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

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

Overview

According to the World Steel Association s latest published statistics, U. S. Steel was the thirteenth largest steel producer in the world in 2011. We believe we are currently the largest integrated steel producer headquartered in North America, one of the largest integrated flat-rolled producers in Central Europe and the largest tubular producer in North America. U. S. Steel has a broad and diverse mix of products and customers. U. S. Steel uses iron ore, coal, coke, steel scrap, zinc, tin and other metallic additions to produce a wide range of flat-rolled and tubular steel products, concentrating on value-added steel products for customers with demanding technical applications in the automotive, appliance, container, industrial machinery, construction and oil, gas and petrochemical industries. In addition to our facilities in the United States, U. S. Steel has significant operations in Canada through U. S. Steel Canada (USSC) and in Europe through U. S. Steel Ko ice (USSK), located in Slovakia. U. S. Steel s financial results are primarily determined by the combined effects of shipment volume, selling prices, production costs and product mix. While the operating results of our various businesses are affected by a number of business-specific factors (see Item 1. Business Steel Industry Background and Competition), the primary drivers for U. S. Steel are general economic conditions in North America, Europe and, to a lesser extent, other steel-consuming regions; the levels of worldwide steel production and consumption; pension and other benefits costs; and raw materials (iron ore, coal, coke, steel scrap, zinc, tin and other metallic additions) and energy (natural gas and electricity) costs.

U. S. Steel s long-term success depends on our ability to earn a competitive return on capital employed by implementing our strategy to be a world leader in safety and environmental stewardship; to continue to increase our value-added product mix; to further expand our global business platform; to maintain a strong capital structure and liquidity position; to continue to improve our reliability and cost competitiveness; and to attract and retain a diverse and talented workforce. For a fuller description of our strategy, see Item 1. Business Description Business Strategy. Some of the other key issues which are impacting the global steel industry, including U. S. Steel, are the level of unfunded pension and other benefits obligations; the degree of industry consolidation; the impact of production and consumption of steel in China and other developing countries; and the levels of steel imports into the markets we serve.

Critical Accounting Estimates

Management s discussion and analysis of U. S. Steel s financial condition and results of operations is based upon U. S. Steel s financial statements, which have been prepared in accordance with accounting standards generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the

disclosure of contingent assets and liabilities at year-end and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates, including those related to employee benefits liabilities and assets held in trust relating to such liabilities; the carrying value of property, plant and equipment; goodwill and intangible assets; valuation allowances for receivables, inventories and deferred income tax assets; liabilities for deferred income taxes, potential tax deficiencies, environmental obligations and potential litigation claims and

settlements. Management s estimates are based on historical experience, current business and market conditions, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from current expectations under different assumptions or conditions.

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

Inventories LIFO (last-in, first-out) is the predominant method of inventory costing for inventories in the United States and FIFO (first-in, first-out) is the predominant method used in Canada and Europe. The LIFO method of inventory costing was used for 56 percent and 54 percent of consolidated inventories at December 31, 2012 and December 31, 2011, respectively. Changes in U.S. GAAP rules or tax law, such as the elimination of the LIFO method of accounting for inventories, could negatively affect our profitability and cash flow.

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

Income from investees includes U. S. Steel s share of income from equity method investments, which is generally recorded a month in arrears, except for significant and unusual items which are recorded in the period of occurrence. Gains or losses from changes in ownership of unconsolidated investees are recognized in the period of change. Intercompany profits and losses on transactions with equity investees have been eliminated in consolidation subject to lower of cost or market inventory adjustments.

U. S. Steel evaluates impairment of its equity method investments whenever circumstances indicate that a decline in value below carrying value is other than temporary. Under these circumstances, we would adjust the investment down to its estimated fair value, which then becomes its new carrying value.

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

U. S. Steel s investment strategy for its U.S. pension and other benefits plan assets provides for a diversified mix of public equities, high quality bonds and selected smaller investments in private equities, investment trusts and partnerships, and timber and mineral interests. For its U.S. Pension and Other Benefits plans, U. S. Steel has a target allocation for plan assets of 60 percent and 70 percent in equities, respectively, with the balance primarily invested in corporate bonds, Treasury bonds and government-backed mortgages. U. S. Steel believes that returns on equities over the long term will be higher than returns from fixed-income securities as actual historical returns from U. S. Steel s trusts have shown. Returns on bonds tend to offset some of the short-term volatility of stocks. Both equity and fixed-income investments are made across a broad range of industries and companies to provide protection against the impact of volatility in any single industry as well as company specific developments. U. S. Steel will use a 7.75 percent assumed rate of return on assets for the development of net periodic cost for the main defined benefit pension plan and domestic OPEB plans in 2013. This 2013 assumed rate of return is the same as the rate of return used for 2012 domestic expense and was determined by taking into account the intended asset mix and some moderation of the historical premiums that fixed-income and equity investments have yielded above government bonds. Actual returns since the inception of the plans have exceeded this

7.75 percent rate and while recent annual returns have been volatile, it is U. S. Steel s expectation that rates will achieve this level in future periods.

For USSC defined benefit pension plans, U. S. Steel s investment strategy is similar to its strategy for U.S. plans, whereby the Company seeks a diversified mix of large and mid-cap equities, high quality corporate and

government bonds and selected smaller investments with a target allocation for plan assets of 65 percent equities. U. S. Steel will use a 7.25 percent assumed rate of return on assets for the development of net periodic costs for the USSC defined benefit expense in 2013. The 2013 assumed rate of return is the same as the rate of return used for 2012 USSC expense.

To determine the discount rate used to measure our pension and other benefit obligations, certain corporate bond rates are utilized for both U.S. GAAP and funding purposes. As a result of lower interest rates at December 31, 2012 and the continued volatility in the financial markets, U. S. Steel decreased the discount rate used to measure both domestic pension and other benefits obligations to 3.75 percent from 4.5 percent. The discount rate reflects the current rate at which we estimate the pension and other benefits liabilities could be effectively settled at the measurement date. In setting the domestic rates, we utilize several AAA and AA corporate bond rates as an indication of interest rate movements and levels. For Canadian benefit plans, a discount rate was selected through a similar review process using Canadian bond rates and indices and at December 31, 2012, U. S. Steel decreased the discount rate to 3.75 percent from 4.5 percent for its Canadian-based pension and other benefits.

U. S. Steel reviews its own actual historical rate experience and expectations of future health care cost trends to determine the escalation of per capita health care costs under U. S. Steel s benefit plans. About two thirds of our costs for the domestic United Steelworkers (USW) participants retiree health benefits in the Company s main domestic benefit plan are limited to a per capita dollar maximum calculation based on 2006 base year actual costs incurred under the main U. S. Steel benefit plan for USW participants (the Cost Cap). The full effect of the Cost Cap was deferred in the 2012 Labor Agreements until 2015. After 2015, the Company s costs for a majority of USW retirees and their dependents are expected to remain fixed with the application of the cost cap and as a result, the cost impact of health care escalation on the Company is projected to be limited for this group (See Footnote 16 to the Consolidated Financial Statements). For measurement of its domestic retiree medical plans where health care cost escalation is applicable, U. S. Steel has assumed an initial escalation rate of 7.0 percent for 2013. This rate is assumed to decrease gradually to an ultimate rate of 5.0 percent in 2017 and remain at that level thereafter. For measurement of its Canadian retiree medical plans, U. S. Steel has assumed an initial escalation rate of 6.0 percent for 2013. This rate is assumed to decrease gradually to an ultimate rate of 5.0 percent in 2017 and remain at that level thereafter.

Net periodic pension cost, including multiemployer plans, is expected to total approximately $385 million in 2013 compared to $412 million in 2012. The decrease in expected expense in 2013 is primarily due to the natural maturation of our pension plans and a higher market related value of assets partially offset by a decrease in the discount rate. Total other benefits costs in 2013 are expected to be approximately $55 million, compared to $100 million in 2012. The decrease in expected expense in 2013 is primarily a result of the changes negotiated as part of the 2012 Labor Agreements.

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

(In millions)	Hypothetical Rate Increase 1%	Hypothetical Rate (Decrease) (1%)
Expected return on plan assets		
Incremental (decrease) increase in:		
Net periodic pension costs for 2013	$ (103)	$ 103
Discount rate		
Incremental (decrease) increase in:		
Net periodic pension & other benefits costs for 2013	$ (58)	$ 53
Pension & other benefits obligations at December 31, 2012	$ (1,425)	$ 1,654
Health care cost escalation trend rates		
Incremental increase (decrease) in:		
Service and interest costs components	$ 11	$ (9)

Changes in the assumptions for expected annual return on plan assets and the discount rate used for accounting purposes do not impact the funding calculations used to derive minimum funding requirements for the pension

plans. However, the discount rates required for minimum funding purposes are also based on corporate bond related indices and as such, the same general sensitivity concepts as above can be applied to increases or decreases to the funding obligations of the plans assuming the same hypothetical rate changes. (See Note 16 to the Consolidated Financial Statements for a discussion regarding legislation enacted in July 2012 that impacts the discount rate used for funding purposes.) For further cash flow discussion see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Cash Flows and Liquidity Liquidity.

Goodwill and identifiable intangible assets Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate the carrying value may not be recoverable. The evaluation of impairment involves comparing the estimated fair value of the associated reporting unit to its carrying value, including goodwill. We have two reporting units that hold nearly all of our goodwill: our Flat-rolled reporting unit and our Texas Operations reporting unit, which is part of our Tubular operating segment.

On January 1, 2012, U. S. Steel adopted ASU 2011-08 which provides the option of performing a qualitative assessment before performing the first step of the two-step impairment test (see Note 11 to the Consolidated Financial Statements). U. S. Steel completed its annual goodwill impairment evaluation during the third quarter of 2012 and determined, on the basis of a number of economic, cost, market and other qualitative factors, including consideration of certain factors from the 2011 annual goodwill impairment evaluation, there was no indication of goodwill impairment for any of the reporting units.

If business conditions deteriorate or other factors have an adverse effect on our qualitative and quantitative estimates, inclusive of discounted future cash flows or assumed growth rates, or if we experience a sustained decline in our market capitalization, future assessments of goodwill for impairment may result in impairment charges.

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

On January 1, 2012, U. S. Steel adopted ASU 2012-02, which provides the option of allowing companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment assessment noted above. U. S. Steel completed its evaluation of its indefinite lived water rights during the third quarter of 2012 and determined on the basis of qualitative factors, there was no indication of impairment.

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable.

Long-lived assets U. S. Steel evaluates long-lived assets, including property, plant and equipment and finite-lived intangible assets for impairment whenever changes in circumstances indicate that the carrying amounts of those productive assets exceed their projected undiscounted cash flows. We evaluate the impairment of long-lived assets at the asset group level.

Taxes U. S. Steel records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. A full valuation allowance was recorded for both our Canadian and Serbian deferred tax assets primarily due to cumulative losses in these jurisdictions

in recent years. Accordingly, losses in Canada and Serbia do not generate a tax benefit for accounting purposes. On January 31, 2012, U. S. Steel sold USSS and the Serbian deferred tax asset and the offsetting valuation allowance were removed in connection with the sale. If evidence changes and it becomes more likely than not that the Company will realize the Canadian deferred tax asset, the valuation allowance would be partially or fully reversed. Likewise, should U. S. Steel determine that it would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the valuation allowance for deferred tax assets would be charged to income tax expense in the period such determination was made. U. S. Steel expects to generate future taxable income to realize the benefits of our net deferred tax assets.

U. S. Steel makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of December 31, 2012, it remained management s intention to continue to indefinitely reinvest such earnings in foreign operations. See Note 8 to the Consolidated Financial Statements. Undistributed foreign earnings at December 31, 2012 amounted to approximately $2.7 billion. If such earnings were not indefinitely reinvested, a U.S. deferred tax liability of approximately $800 million would have been required.

U. S. Steel records liabilities for potential tax deficiencies. These liabilities are based on management s judgment of the risk of loss for items that have been or may be challenged by taxing authorities. In the event that U. S. Steel were to determine that tax-related items would not be considered deficiencies or that items previously not considered to be potential deficiencies could be considered potential tax deficiencies (as a result of an audit, court case, tax ruling or other authoritative tax position), an adjustment to the liability would be recorded through income in the period such determination was made.

Environmental Remediation U. S. Steel provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. U. S. Steel regularly monitors the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination was made. As of December 31, 2012, the total accrual for environmental remediation was $203 million, excluding liabilities related to asset retirement obligations. Due to uncertainties inherent in remediation projects, it is possible that total remediation costs for active matters may exceed the accrued liability by as much as 15 to 30 percent.

Segments

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

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

Flat-rolled has annual raw steel production capability of 24.3 million tons. Raw steel production was 19.1 million tons in 2012, 18.6 million tons in 2011 and 18.4 million tons in 2010. Raw steel production averaged 78 percent of capability in 2012, 77 percent of capability in 2011 and 76 percent of capability in 2010.

The USSE segment includes the operating results of USSK, U. S. Steel s integrated steel mill and coke and other production facilities in Slovakia. Prior to January 31, 2012, the USSE segment also included USSS, U. S. Steel s integrated steel mill and other facilities in Serbia, and an equity investee, which were sold on January 31, 2012 (see Note 4 to the Consolidated Financial Statements). USSE primarily serves customers in the European construction, service center, conversion, container, transportation (including automotive), appliance and electrical, and oil, gas and petrochemical markets. USSE produces and sells slabs, sheet, strip mill plate, tin mill products and spiral welded pipe, as well as heating radiators and refractory ceramic materials.

Subsequent to January 31, 2012, USSE s annual steel capacity is 5.0 million tons. Prior to that date, USSE had annual raw steel production capability of 7.4 million tons. USSE s raw steel production was 4.5 million tons in 2012, 5.6 million tons in 2011 and 6.1 million tons in 2010. USSE s raw steel production averaged 87 percent of capability in 2012, 76 percent of capability in 2011 and 82 percent of capability in 2010.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities, located primarily in the United States, and equity investees in the United States and Brazil. These operations produce and sell seamless and electric resistance welded (ERW) steel casing and tubing (commonly known as oil country tubular goods or OCTG), standard and line pipe and mechanical tubing and primarily serve customers in the oil, gas and petrochemical markets. Tubular s annual production capability is 2.8 million tons.

All other U. S. Steel businesses not included in reportable segments are reflected in Other Businesses. These businesses include transportation services (railroad and barge operations) and real estate operations.

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

Net Sales

Net Sales by Segment

(Dollars in millions, excluding intersegment sales)	**2012**	**2011**	**2010**
Flat-rolled	**$ 12,908**	$ 12,367	$ 10,848
USSE	**2,949**	4,306	3,989
Tubular	**3,283**	3,034	2,403
Total sales from reportable segments	**19,140**	19,707	17,240
Other Businesses	**188**	177	134
Net sales	**$ 19,328**	$ 19,884	$ 17,374

Management s analysis of the percentage change in net sales for U. S. Steel s reportable business segments is set forth in the following tables:

Year Ended December 31, 2012 versus Year Ended December 31, 2011

	Steel Products[(a)]					
	Volume	**Price**	**Mix**	**FX[(b)]**	**Other**	**Net Change**
Flat-rolled	4%	-2%	0%	0%	2%	4%
USSE	-21%	-4%	-1%	-6%	0%	-32%
Tubular	4%	4%	0%	0%	0%	8%

(a) Excludes intersegment sales
(b) Foreign currency translation effects

The increase in sales for the Flat-rolled segment primarily reflected increased shipments (increase of 465 thousand net tons) partially offset by lower average realized prices (decrease of $9 per net ton). The decrease in sales for the European segment primarily reflected decreased shipments (decrease of 1.1 million net tons) primarily due to the sale of USSS, lower average realized euro-based prices (decrease of 30 per net ton) and the strengthening of the U.S. dollar versus the euro in 2012 compared to 2011. The increase in sales for the Tubular segment resulted primarily from higher average realized prices (increase of $75 per net ton) and increased shipments (increase of 74 thousand net tons) as a result of increased drilling activity.

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Year Ended December 31, 2011 versus Year Ended December 31, 2010

	Steel Products[a]					
	Volume	Price	Mix	FX[b]	Other	Net Change
Flat-rolled	1%	12%	0%	0%	1%	14%
USSE	-9%	12%	1%	4%	0%	8%
Tubular	15%	9%	2%	0%	0%	26%

(a) Excludes intersegment sales
(b) Foreign currency translation effects

The increase in sales for the Flat-rolled segment primarily reflected higher average realized prices (increase of $84 per net ton) and increased shipments (increase of 208 thousand net tons) as a result of improved economic conditions. The increase in sales for the European segment was primarily due to higher average realized euro-based transaction prices (increase of 76 per net ton) and the weakening of the U.S. dollar versus the euro in 2011 compared to 2010 partially offset by decreased shipments as a result of weaker demand due to the difficult economic conditions in Europe (decrease of 532 thousand net tons). The increase in sales for the Tubular segment resulted primarily from higher shipments (increase of 261 thousand net tons) and higher average realized prices (increase of $118 per net ton) as a result of improved energy market conditions.

Operating Expenses

Union profit-sharing costs

	Year Ended December 31		
(Dollars in millions)	**2012**	**2011**	**2010**
Allocated to segment results	**$ 53**	$ 37	$ 28

Profit-based amounts per the agreements with the USW are calculated and paid on a quarterly basis as a percentage of consolidated income from operations (as defined in the agreements) based on 7.5 percent of profit between $10 and $50 per ton and 10 percent of profit above $50 per ton. Profit-based amounts used to reduce retiree medical premiums are derived from the same initial profit calculation as these profit sharing amounts (see Note 16 to the Consolidated Financial Statements).

The amounts above represent profit-sharing amounts to active USW-represented employees (excluding employees of USSC) and are included in cost of sales on the statement of operations.

Pension and other benefits costs

Defined benefit and multiemployer pension plan costs totaled $412 million in 2012, $443 million in 2011 and $276 million during 2010. The $31 million decrease in expense from 2011 to 2012 is primarily due to the natural maturation of our pension plans and a higher market related value of assets, partially offset by a decrease in the discount rate. The $167 million increase in expense from 2010 to 2011 is primarily due to higher amortization of unrecognized losses and lower asset returns, both of which relate to a lower market-related value of assets caused by the

recognition of remaining deferred 2008 investment losses. U. S. Steel calculates its market-related value of assets such that investment gains or losses as compared to expected returns are recognized over a three-year period. To the extent that deferred gains and losses on plan assets are not yet reflected in this calculated value, the amounts do not impact expected asset returns or the net actuarial gains or losses subject to amortization within the net periodic pension expense calculation. (See Note 16 to the Consolidated Financial Statements.)

The pension stabilization legislation enacted in 2012 includes a revised interest rate formula used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula is expected to result in higher interest rates for minimum funding calculations compared to prior law over the next few years which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions. U. S. Steel made voluntary contributions to our main U.S. defined benefit plan of $140 million in

2012 and for several prior years. U. S. Steel will likely make voluntary contributions of similar amounts in future periods to mitigate potentially larger mandatory contributions in later years. Assuming future asset performance consistent with our expected long-term earnings rate assumption of 7.75 percent, we anticipate that the pension stabilization legislation interest rate changes will allow us to continue to make voluntary contributions of approximately $140 million per year through 2016 before we could be required to contribute more than that amount should the current low interest rate environment persist.

The foregoing statements regarding future minimum required cash contributions to our main defined benefit pension plan are forward-looking statements. Factors that may affect our future minimum required contributions to our main defined benefit pension plan include: any voluntary contributions that we may make, future pension plan asset performance, actual interest rates under the law, and the impacts of business acquisitions or divestitures, union negotiated benefit changes and future government regulations.

Costs related to defined contribution plans totaled $42 million during 2012, $37 million during 2011 and $22 million during 2010.

Other benefits costs, which are included in income from operations, totaled $100 million in 2012, $159 million in 2011 and $152 million in 2010. The decrease in expense from 2011 to 2012 is primarily a result of Medicare program changes.

For additional information on pensions and other benefits, see Note 16 to the Consolidated Financial Statements.

Selling, general and administrative expenses

Selling, general and administrative expenses were $654 million in 2012, $733 million in 2011 and $610 million in 2010. The decrease from 2011 to 2012 is primarily related to the sale of USSS. The increase from 2010 to 2011 is primarily related to an $80 million increase in pension and other benefits costs, which is a portion of the $167 million increase discussed under pension and other benefits costs above, and increased employee costs as a result of an increase in the number of employees from 2010.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses were $661 million in 2012, $681 million in 2011 and $658 million in 2010.

Income (Loss) from Operations[a]

(Dollars in Millions)	Year Ended December 31, 2012	2011	2010
Flat-rolled[b]	**$ 400**	$ 469	$ (261)
USSE[c]	**34**	(162)	(33)
Tubular[b]	**366**	316	353
Total income (loss) from reportable segments[b]	**800**	623	59
Other Businesses[b]	**55**	46	55
Reportable segments and Other Businesses income from operations[b]	**855**	669	114
Postretirement benefit expenses[b]	**(297)**	(386)	(231)
Other items not allocated to segments:			
Loss on sale of U. S. Steel Serbia	**(399)**		
Gain on sale of transportation assets	**89**		
Supplier contract dispute settlement	**15**		
Property tax settlements	**19**		
Labor agreement lump sum payments	**(35)**		
Net gain on the sale of assets			6
Environmental remediation charge		(18)	
Total income (loss) from operations	**$ 247**	$ 265	$ (111)

(a) See Note 3 to the Consolidated Financial Statements for reconciliations and other disclosures required by Accounting Standards Codification Topic 280.

(b) Amounts prior to 2011 have been restated to reflect a change in our segment allocation methodology for postretirement benefit expenses as disclosed in Note 3 to the Consolidated Financial Statements.

(c) Includes the results of USSS through the disposition date of January 31, 2012. See Note 4 to the Consolidated Financial Statements.

Gross Margin by Segment

(USSE includes the results of USSS through the disposition date of January 31, 2012)

	Year Ended December 31, 2012	2011	2010
Flat-rolled	**8%**	9%	4%
USSE	**8%**	3%	7%
Tubular	**15%**	14%	19%

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Segment results for Flat-rolled

The Flat-rolled segment had income of $400 million for the year ended December 31, 2012 compared to income of $469 million for the year ended December 31, 2011. The decrease in Flat-rolled results for 2012 compared to 2011 resulted mainly from a decrease in average realized prices (approximately $150 million), unfavorable changes from steel substrate sales to our Tubular segment (approximately $65 million), increased facility repairs and maintenance and other operating costs (approximately $70 million) and higher costs for employee profit sharing (approximately $25 million). These decreases were partially offset by reduced energy costs, primarily due to lower natural gas costs (approximately $180 million) and an increase in shipment volumes (approximately $60 million).

The Flat-rolled segment had income of $469 million for the year ended December 31, 2011 compared to a loss of $261 million for the year ended December 31, 2010. The significant improvement in Flat-rolled results for the year ended December 31, 2011 compared to the same period in 2010 resulted mainly from an increase in average realized prices (approximately $1,260 million), favorable changes from increased steel substrate sales to our Tubular segment (approximately $195 million), decreased facility restart costs (approximately $50 million), higher income from our joint ventures (approximately $25 million), decreased energy costs primarily due to a reduction in natural gas costs (approximately $20 million) and decreased lower of cost or market charges for inventory (approximately $10 million). These improvements were partially offset by higher raw materials costs (approximately $490 million), increased facility repairs and maintenance and other operating costs (approximately $225 million), accounting losses on transactions to sell excess iron ore pellets (approximately $70 million), higher costs for employee profit sharing (approximately $30 million) and operating inefficiencies related to idled facilities (approximately $15 million).

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Segment results for USSE

(Includes the results of USSS through the disposition date of January 31, 2012)

The USSE segment had income of $34 million for the year ended December 31, 2012 compared to a loss of $162 million for the year ended December 31, 2011. The improvement in USSE results in 2012 compared to 2011 was primarily due to lower raw materials costs (approximately $335 million), the elimination of operating losses subsequent to January 31, 2012 associated with our former Serbian operations (approximately $195 million), decreased facility repairs and maintenance and other operating costs (approximately $5 million) and increased shipment volumes (approximately $5 million). These improvements were partially offset by a decrease in average realized euro-based prices for USSK (approximately $250 million), the strengthening of the U.S. dollar versus the euro in 2012 compared to 2011 (approximately $70 million) and increased energy costs primarily due to increased electricity costs (approximately $25 million).

The USSE segment had a loss of $162 million for the year ended December 31, 2011 compared to a loss of $33 million for the year ended December 31, 2010. The decrease in USSE results for the year ended December 31, 2011 compared to the same period in 2010 was primarily due to higher raw materials costs (approximately $365 million), increased facility repairs and maintenance and other operating costs (approximately $90 million), increased energy costs primarily due to an increase in electricity costs (approximately $50 million), increased inventory charges (approximately $30 million) and decreased shipment volumes (approximately $15 million) partially offset by an increase in average realized euro-based prices (approximately $395 million) and the weakening of the U.S. dollar versus the euro in 2011 compared to 2010 (approximately $30 million).

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On January 31, 2012, U. S. Steel sold USSS and subsequent to this sale, the USSE segment includes only USSK results. In order to provide a better understanding of the impact on USSE segment results of the sale of USSS, we include certain non-GAAP financial measures to show USSK 2012 and 2011 results included in the USSE segment. USSE year ended December 31, 2012 and 2011 results included the following for USSK:

	Year ended December 31,	
(Dollars in millions except average realized price amounts)	**2012**	**2011**
USSK results		
Income from operations	$ 51	$ 44
Shipments[a]	3,743	3,690
Raw steel production[a]	4,434	4,201
Raw steel capability utilization	88%	84%
Average realized price ($/net ton)	$ 743	$ 862

(a) Thousands of net tons

Segment results for Tubular

The Tubular segment had income of $366 million for the year ended December 31, 2012 compared to income of $316 million for the year ended December 31, 2011. The improvement in Tubular results in 2012 as compared to 2011 resulted mainly from an increase in average realized prices (approximately $100 million), lower substrate costs primarily supplied by the Flat-rolled segment (approximately $65 million), and an increase of 74 thousand tons in shipments (approximately $45 million). These improvements were partially offset by increased facility repairs and maintenance and other operating costs (approximately $155 million) and higher costs for employee profit sharing (approximately $5 million).

The Tubular segment had income of $316 million for the year ended December 31, 2011 compared to income of $353 million for the year ended December 31, 2010. The decrease in Tubular results for the year ended December 31, 2011 as compared to the same period in 2010 resulted mainly from increased costs for steel substrate primarily supplied by the Flat-rolled segment (approximately $220 million), increased facility repairs and maintenance and other operating costs (approximately $55 million) and higher costs for employee profit sharing (approximately $5 million) partially offset by an increase in average realized prices (approximately $165 million) and an increase of 261 thousand tons in shipments (approximately $80 million).

Results for Other Businesses

Other Businesses had income of $55 million, $46 million and $55 million for 2012, 2011 and 2010, respectively.

Items not allocated to segments:

The decrease in **postretirement benefit expense** in 2012 as compared to 2011 resulted from lower pension expense due to the natural maturation of the pension plans and lower retiree medical expense caused by a number of Medicare program changes. Postretirement benefit expense increased from 2010 to 2011 as a result of higher amortization of unrecognized losses and lower asset returns, both of which relate to a lower market-related value of assets caused by the recognition of the deferred 2008 investment losses.

We recorded a $310 million pretax **net loss on the sale of assets** in 2012 which consisted of a pretax loss of $399 million related to the sale of USSS and a pretax gain of $89 million related to the sale of a majority of the operating assets of the Birmingham Southern Railroad.

We recorded a $15 million pretax favorable settlement in 2012 related to a **supplier contract dispute settlement**.

We recorded a pretax gain of $19 million related to **property tax settlements** that occurred in 2012. This was reflected as a reduction to our cost of sales.

The 2012 Labor Agreements provided for lump sum payments of $2,000 to each covered active USW member. These **labor agreement lump sum payments** resulted in a pretax charge of $35 million in 2012.

We recorded an $18 million **environmental remediation charge** in 2011 as a component of the Gary Works RCRA corrective action program was defined.

We recorded a $6 million pretax **net gain on the sale of assets** in 2010 related to the sale of transportation assets in Alabama, the sale of the bar mill and bloom and billet mill assets located at Hamilton Works and the sale of the majority of the operating assets of Fintube Technologies.

Net Interest and Other Financial Costs

	Year Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Interest income	**$ (7)**	$ (6)	$ (7)
Interest expense	**214**	190	195
Other financial costs	**34**	54	86
Net interest and other financial costs	**$ 241**	$ 238	$ 274

Net interest and other financial costs for 2012 was comparable to 2011 as an $18 million redemption premium associated with the April 2012 redemption of all of our $300 million 5.65% Senior Notes due June 1, 2013 was offset by reduced net foreign currency losses resulting from the

accounting remeasurement effects on a U.S. dollar-denominated intercompany loan (the Intercompany Loan) from a U.S. subsidiary to a European entity. Effective January 1, 2012, the functional currency of the European entity changed from the euro to the U.S. dollar because of significant changes in economic facts and circumstances, including the sale of USSS. This change in functional currency has been applied on a prospective basis since January 1, 2012.

The favorable change in net interest and other financial costs from 2010 to 2011 was mainly due to reduced net foreign currency losses in 2011 as compared to 2010. The foreign currency effects primarily resulted from the accounting remeasurement effects of the Intercompany Loan partially offset by euro-U.S. dollar derivatives activity, which we use to mitigate our foreign currency exchange rate exposure.

For additional information on U. S. Steel s foreign currency exchange activity see Note 13 to the Consolidated Financial Statements and Item 7A**.** Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

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Income Taxes

The income tax provision for the year ended December 31, 2012 was $131 million compared to $80 million in 2011 and $97 million in 2010. The tax provision does not reflect any tax benefit for pretax losses in Canada and Serbia (USSS was sold on January 31, 2012), which are jurisdictions where we have, or had, recorded a full valuation allowance on deferred tax assets, and also does not reflect any tax provision or benefit for certain foreign currency remeasurement gains and losses that are not recognized in any tax jurisdiction. (See Item 7A. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk for further details.) In addition, no significant tax benefit was recorded for the $399 million loss on the sale of USSS in 2012. Included in the 2012 income tax provision is a tax benefit of $20 million relating to adjustments to tax reserves related to the conclusion of certain audits, as well as a tax benefit of $26 million to adjust our estimated 2011 federal tax liability to our actual tax liability reflected in our tax return as filed. Included in the 2010 tax provision is a net tax benefit of $39 million resulting from the conclusion of certain tax return examinations and the remeasurement of existing tax reserves, offset by a tax charge of $27 million as a result of the U.S. health care legislation enacted in 2010.

The net domestic deferred tax asset was $538 million at December 31, 2012 compared to $697 million at December 31, 2011. The decrease in the net domestic deferred tax asset from 2011 to 2012 was primarily due to the remeasurement of the OPEB plans (see Note 16 to the Consolidated Financial Statements). A substantial amount of U. S. Steel s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. We continue to believe it is more likely than not that the domestic deferred tax assets will be realized.

At December 31, 2012, the foreign deferred tax assets recorded were $57 million, net of established valuation allowances of $1,099 million. At December 31, 2011, the foreign deferred tax assets recorded were $66 million, net of established valuation allowances of $1,018 million. Net foreign deferred tax assets fluctuate as the value of the U.S. dollar changes with respect to the euro and the Canadian dollar. A full valuation allowance was recorded for both the Canadian and Serbian deferred tax assets primarily due to cumulative losses in these jurisdictions in recent years. On January 31, 2012, U. S. Steel sold USSS and the Serbian deferred tax assets and offsetting valuation allowance were removed in connection with the sale. If evidence changes and it becomes more likely than not that the Company will realize the Canadian deferred tax asset, the valuation allowance would be partially or fully reversed. Any reversal of this amount would result in a decrease to tax expense.

In January 2013, the President signed into law the American Taxpayer Relief Act of 2012 which retroactively extended various tax provisions applicable to U. S. Steel from January 1, 2012 through December 31, 2013. As a result, we expect that our income tax provision for the first quarter of 2013 will include a tax benefit which will reduce the annual effective tax rate for 2013 by an immaterial amount.

For further information on income taxes see Note 8 to the Consolidated Financial Statements.

Net loss attributable to U. S. Steel

Net loss attributable to U. S. Steel in 2012 was $124 million compared to $53 million and $482 million in 2011 and 2010, respectively. The changes primarily reflected the factors discussed above.

Financial Condition, Cash Flows and Liquidity

Financial Condition

Receivables decreased by $343 million from December 31, 2011 primarily due to the sale of USSS. Additionally, sales in the latter part of a period typically represent the majority of the receivables as of the end of that period. The decrease in receivables at year-end 2012 as compared to year-end 2011 primarily reflected lower average realized prices in the 2012 period.

Inventories decreased by $272 million from December 31, 2011 primarily due to the sale of USSS and a reduction in raw material inventories.

Investments and long-term receivables decreased by $74 million from December 31, 2011 primarily due to cash distributions received from several of our equity method investees.

Property, plant and equipment, net decreased by $171 million from December 31, 2011 primarily due to the sale of USSS.

Assets held for sale as of December 31, 2011 reflected the majority of the operating assets of Birmingham Southern Railroad and the Port Birmingham Terminal that were sold on February 1, 2012 (See Note 4 to the Consolidated Financial Statements).

Total deferred income tax benefits decreased by $168 million from December 31, 2011 primarily due to the remeasurement of the OPEB plans. See Notes 8 and 16 to the Consolidated Financial Statements.

Accounts payable decreased by $263 million from December 31, 2011 primarily due to decreased business volume, the sale of USSS and decreased accrued capital expenditures.

Borrowings under Receivables Purchase Agreement as of December 31, 2011 reflects the outstanding borrowings under our RPA. As of December 31, 2012, there were no borrowings outstanding under our RPA.

Long-term debt, less unamortized discount increased by $108 million due to the issuance of our $400 million 7.50% Senior Notes due 2022, the issuance of $94 million 5.75% Environmental Improvement Revenue Bonds due August 1, 2042 and the renewal of the Fairfield caster lease, offset by the redemption of our $300 million 5.65% Senior Notes in April 2012 and the repayment of the outstanding borrowings under USSK s unsecured revolving credit facilities.

Employee benefits decreased by $184 million from December 31, 2011 primarily due to a reduction of approximately $520 million in our other post-employment benefits (OPEB) obligations as a result of benefit and plan design changes in the 2012 Labor Agreements as well as an increase in the market value of the assets in our pension and OPEB plans in 2012 (see Note 16 to the Consolidated Financial Statements). Additionally, U. S. Steel made a $140 million voluntary pension contribution to its main defined benefit pension plan in 2012 and a $75 million contribution to a restricted account within our trust for represented retiree health care and life insurance benefits. These decreases were partially offset by an increase in the pension and OPEB liabilities due to a reduced discount rate used to value the obligations.

Cash Flows

Net cash provided by operating activities was $1,135 million in 2012 compared to $168 million in 2011 and net cash used in operating activities of $379 million in 2010. The improvement is primarily due to changes in working capital from 2011 to 2012 and improved operating results partially offset by increased employee benefit payments as further detailed below. Changes in working capital can vary significantly depending on factors such as the timing of inventory production and purchases, which is affected by the length of our business cycles as well as our captive raw materials position, customer payments of accounts receivable and payments to vendors in the regular course of business. Our key working capital components include accounts receivable and inventory. The accounts receivable and inventory turnover ratios for the years ended December 31, 2012 and 2011 are as follows:

	Year Ended December 31,

	2012	2011
Accounts Receivable Turnover	**9.3**	9.8
Inventory Turnover	**6.7**	7.1

Net cash provided by (used in) operating activities for 2012, 2011 and 2010 reflects employee benefits payments as shown in the following table.

Employee Benefits Payments

	Year Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Voluntary contributions to main defined benefit pension plan	**$ 140**	$ 140	$ 140
Required contributions to other defined benefit pension plans	**94**	90	81
Other employee benefits payments not funded by trusts	**303**	309	237
Contributions to trusts for retiree health care and life insurance[a]	**76**		
Payments to a multiemployer pension plan	**69**	63	56
Pension related payments not funded by trusts[b]	**25**	24	20
Reductions in cash flows from operating activities	**$ 707**	$ 626	$ 534

(a) Includes $75 million of contributions to a restricted account within our trust for represented retiree health care and life insurance benefits as required by collective bargaining agreements.

(b) Includes a one time payment of $5 million in 2012 related to fees paid by the Company on behalf of the main defined benefit pension plan and a one time payment of $13 million in 2010 related to early retirement programs.

Capital expenditures in 2012 were $723 million compared to $848 million in 2011 and $676 million in 2010.

Flat-rolled capital expenditures were $625 million and included spending for construction of carbon alloy facilities (coke substitute) at Gary Works, construction of a technologically and environmentally advanced coke battery at the Mon Valley Works Clairton Plant, ongoing implementation of an enterprise resource planning (ERP) system and various other infrastructure and environmental projects. Tubular capital expenditures of $42 million primarily related to an upgrade to the Lorain No. 4 Seamless Hot Mill, infrastructure and environmental capital projects. USSE capital expenditures of $38 million consisted of spending for infrastructure and environmental projects.

Flat-rolled capital expenditures of $616 million included spending for construction of carbon alloy facilities at Gary Works, construction of a technologically and environmentally advanced coke battery at the Mon Valley Works Clairton Plant, ongoing implementation of an ERP system and various other infrastructure, environmental and strategic projects. USSE capital expenditures of $109 million included spending for environmental projects and for blast furnace coal injection projects. Tubular capital expenditures of $104 million primarily related to construction of a heat treat and finishing facility at our Lorain Tubular Operations in Ohio.

Flat-rolled capital expenditures of $499 million in 2010 included spending for implementation of an ERP system, the construction of carbon alloy facilities at Gary Works, blast furnace infrastructure projects, a technologically and environmentally advanced coke battery at the Mon Valley Works Clairton Plant, large mobile equipment purchases for iron ore operations and various other infrastructure, environmental and strategic projects. USSE capital expenditures of $120 million included spending for environmental projects and for blast furnace coal injection projects. Tubular capital expenditures of $45 million were primarily related to spending for a quench and temper line at our Lorain Tubular operations in Ohio.

U. S. Steel s contract commitments to acquire property, plant and equipment at December 31, 2012, totaled $248 million.

Capital expenditures for 2013 are expected to total approximately $800 million and remain focused largely on strategic, infrastructure and environmental projects. During 2012, we completed or neared completion on several key projects of strategic importance. We have made significant progress to improve our coke self-sufficiency and reduce our reliance on purchased coke for the steel making process through the application of advanced

technologies, upgrades to our existing coke facilities and increased use of natural gas and pulverized coal in our operations. We have completed the construction of a technologically and environmentally advanced battery at the Mon Valley Works Clairton Plant with a projected capacity of 960,000 tons per year. Initial start-up of the battery began in November 2012 with full production expected in the first quarter of 2013. We are constructing a carbon alloy facility at Gary Works, which utilizes an environmentally compliant, energy efficient and flexible production technology to produce a coke substitute product. The facility has a projected capacity of 500,000 tons per year. Construction of the first of two modules is complete with production starting in 2012 and full production expected at the end of the third quarter of 2013. Construction of the second module is projected to be completed in the fourth quarter of 2013, with full production expected by the end of the second quarter of 2014.

In an effort to increase our participation in the automotive market as vehicle emission and safety requirements become increasingly stringent, PRO-TEC Coating Company, our joint venture in Ohio with Kobe Steel, Ltd., has a new automotive continuous annealing line (CAL) under construction that is being financed at the joint venture level and is expected to begin operations in the first half of 2013. We are also continuing our efforts to implement an enterprise resource planning (ERP) system to replace our existing information technology systems, which will enable us to operate more efficiently. The completion of the ERP project is expected to provide further opportunities to streamline, standardize and centralize business processes in order to maximize cost effectiveness, efficiency and control across our global operations. We are also currently developing additional projects within our Tubular segment, such as facility enhancements and additional premium connections that will further enhance our ability to support our Tubular customers evolving needs.

Over the longer term, we are considering business strategies to leverage our significant iron ore position in the United States and to exploit opportunities related to the availability of reasonably priced natural gas as an alternative to coke in the iron reduction process to improve our cost competitiveness, while reducing our dependence on coal and coke. We are considering an expansion of our iron ore pellet operations at our Keewatin, MN (Keetac) facility which would increase our production capability by approximately 3.6 million tons thereby increasing our iron ore self-sufficiency. The total cost of this project as currently conceived is broadly estimated to be approximately $820 million. Final permitting for the expansion was completed in December 2011. We are examining alternative iron and steel making technologies such as gas-based, direct-reduced iron and electric arc furnace (EAF) steelmaking. Our capital investments in the future may reflect such strategies, although we expect that iron and steel-making through the blast furnace and basic oxygen furnace manufacturing processes will remain our primary processing technology for the long term.

The foregoing statements regarding expected capital expenditures, capital projects and expected benefits from the implementation of the ERP project are forward-looking statements. Factors that may affect our capital spending and the associated projects include: (i) levels of cash flow from operations; (ii) changes in tax laws; (iii) general economic conditions; (iv) steel industry conditions; (v) cost and availability of capital; (vi) receipt of necessary permits; (vii) unforeseen hazards such as contractor performance, material shortages, weather conditions, explosions or fires; and (viii) the requirements of applicable laws and regulations. There is also a risk that the completed projects will not produce at the expected levels and within the costs currently projected. Predictions regarding benefits resulting from the implementation of the ERP project are subject to uncertainties. Actual results could differ materially from those expressed in these forward-looking statements.

Disposal of assets in 2012 primarily reflects proceeds from the sale of the majority of the operating assets of Birmingham Southern Railroad Company and the Port Birmingham Terminal. Disposal of assets in 2011 primarily reflects cash proceeds of approximately $22 million from transactions to sell and swap a portion of the emissions allowances at USSK as well as various other transactions, none of which were individually material. Disposal of assets in 2010 primarily reflects cash proceeds of approximately $60 million from the sale of U. S. Steel s 44.6 percent interest in the Wabush Mines Joint Venture, approximately $35 million from the sale of the bar mill and bloom and billet mill assets location at Hamilton Works, approximately $35 million from the sale of transportation assets in Alabama, and approximately $22 million from the sale of a majority of the operating assets of Fintube.

Restricted cash in 2012 primarily reflects the issuance of $94 million of 2042 Environmental Revenue Bonds, the proceeds of which were placed in escrow and restricted for certain capital projects at Gary Works, our Clairton Plant and Granite City Works. The proceeds become unrestricted as capital expenditures for these projects are

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made. At December 31, 2012, $67 million of this restricted cash remained. This increase was partially offset by a reduction in collateralized letters of credit. Restricted cash in 2011 and 2010 primarily relates to the receipt and use of the proceeds received from the issuance of $70 million of Recovery Zone Facility Bonds in 2010. The proceeds of which were placed in escrow and restricted for the heat treat and finishing facilities capital project at our Tubular operations in Lorain, Ohio. The proceeds became unrestricted as capital expenditures for this project were made. This project was completed in 2011.

Borrowings against revolving credit facilities in 2012 and 2011 reflect amounts drawn under USSK s unsecured revolving credit facilities.

Repayments of revolving credit facilities in 2012, 2011 and 2010 reflect USSK s repayment of the outstanding borrowings under its unsecured revolving credit facilities.

Receivables Purchase Agreement (payments) proceeds in 2012 and 2011 reflect activity under the Receivables Purchase Agreement.

Issuance of long-term debt, net of financing costs in 2012 reflects the issuance of $400 million of 7.50% Senior Notes due 2022 and the issuance of $94 million 5.75% 2042 Environmental Revenue Bonds (ERBs). U. S. Steel received net proceeds of $392 million and $93 million, respectively after related discounts and other fees. Issuance of long-term debt, net of financing costs in 2011 reflects the issuance of $195 million of ERBs maturing from 2015 to 2029. Issuance of long-term debt, net of financing costs in 2010 primarily reflects the issuance of $600 million of 7.375% Senior Notes due in 2020. U. S. Steel received net proceeds of $582 million after related discounts and other fees. Also in 2010, we issued $89 million of ERBs maturing in 2026 and $70 million of Recovery Zone Facility Bonds maturing in 2040. See Liquidity.

Repayment of long-term debt in 2012 reflects the redemption of our $300 million 5.65% Senior Notes due 2013. Repayment of long-term debt in 2011 primarily reflects the refunding of $196 million of ERBs. Repayment of long-term debt in 2010 primarily reflects the refunding of $89 million of ERBs. See Liquidity.

Dividends paid

(In Dollars)	Dividends Paid per Share U. S. Steel Common Stock			
	4th Qtr.	**3rd Qtr.**	**2nd Qtr.**	**1st Qtr.**
2012	$ 0.05	$ 0.05	$ 0.05	$ 0.05
2011	$ 0.05	$ 0.05	$ 0.05	$ 0.05
2010	$ 0.05	$ 0.05	$ 0.05	$ 0.05

Liquidity

The following table summarizes U. S. Steel s liquidity as of December 31, 2012:

(Dollars in millions)		
Cash and cash equivalents	$	570
Amount available under $875 Million Credit Facility		875
Amount available under Receivables Purchase Agreement		625
Amounts available under USSK credit facilities		288
Total estimated liquidity	$	2,358

(a) Excludes $1 million of cash at December 31, 2008 related to our variable interest entties.

In 2012 we reduced net debt by approximately $450 million while enhancing liquidity, ending the year with $570 million of cash on hand and total liquidity of $2.4 billion. As of December 31, 2012, $257 million of the total cash and cash equivalents was held by our foreign subsidiaries. Substantially all of the liquidity attributable to our foreign subsidiaries can be accessed without the imposition of income taxes through repayment of intercompany loans.

On March 15, 2012, U. S. Steel issued $400 million of 7.50% Senior Notes due March 15, 2022 (2022 Senior Notes). U. S. Steel received net proceeds from the offering of $392 million. The majority of the net proceeds from the issuance of the 2022 Senior Notes was used to redeem the 2013 Senior Notes, which were redeemed in April of 2012.

On August 17, 2012, U. S. Steel entered into loan agreements with several local authorities in connection with the issuance and sale of $94 million of Environmental Revenue Bonds due August 1, 2042. The proceeds from the sale, reflected as restricted cash in other noncurrent assets, were loaned to U. S. Steel to fund certain capital projects at our Gary Works, Clairton Plant and Granite City Works. The proceeds become unrestricted as capital expenditures for these projects are made. At December 31, 2012, $67 million of this restricted cash remained. The interest rate on the loans is 5.75 percent and interest is payable semi-annually on February 1st and August 1st of each year.

As of December 31, 2012, there were no amounts drawn under our $875 million credit facility agreement (Amended Credit Agreement) which expires on July 20, 2016 and inventory values calculated in accordance with the Amended Credit Agreement supported the full $875 million of the facility. Under the Amended Credit Agreement, U. S. Steel must maintain a fixed charge coverage ratio (as further defined in the Amended Credit Agreement) of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 10% of the total aggregate commitments and $87.5 million.

As of December 31, 2012, U. S. Steel has a Receivables Purchase Agreement (RPA) that provides liquidity and letters of credit depending upon the number of eligible domestic receivables generated by U. S. Steel. Domestic trade accounts receivables are sold, on a daily basis, without recourse, to U. S. Steel Receivables, LLC (USSR), a consolidated wholly owned special purpose entity used only for the securitization program. As U. S. Steel accesses this facility, USSR sells senior undivided interests in the receivables to certain third-part commercial paper conduits for cash, while maintaining a subordinated undivided interest in a portion of the receivables. The conduits issue commercial paper to finance the purchase of their interest in the receivables and if any of them are unable to fund such purchases, two banks are committed to do so. U. S. Steel has agreed to continue servicing the sold receivables at market rates.

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The RPA may be terminated on the occurrence and failure to cure certain events, including, among others, failure by U. S. Steel to make payments under our material debt obligations and any failure to maintain certain ratios related to the collectability of the receivables. The maximum amount of receivables eligible for sale is $625 million and the facility expires on July 18, 2014. As of December 31, 2012, eligible accounts receivable supported $625 million of availability and there were no outstanding borrowings under this facility.

On March 16, 2010, U. S. Steel issued $600 million of 7.375% Senior Notes due 2020 (2020 Senior Notes). U. S. Steel received net proceeds of $582 million after fees of $13 million related to the underwriting discount and third party expenses. The 2020 Senior Notes contain covenants restricting our ability to create liens and engage in sale-leasebacks and requiring the purchase of the 2020 Senior Notes upon a change of control under specified circumstances, as well as other customary provisions. As of December 31, 2012, the principal amount outstanding under the 2020 Senior Notes was $600 million.

At December 31, 2012, USSK had no borrowings under its 200 million (approximately $264 million) revolving unsecured credit facility which expires in August 2013. At December 31, 2011, USSK had 100 million (approximately $129 million) borrowed under this facility.

During 2012, credit facilities totaling 60 million expired reducing the total of these facilities from 80 million to 20 million. At December 31, 2012, USSK had no borrowings under its 20 million credit facility (which approximated $26 million) and the availability was approximately $24 million due to approximately $2 million of customs and other guarantees outstanding. At December 31, 2011, USSK had no borrowings against its 80 million total unsecured revolving credit facilities (which approximated $104 million) and the availability was approximately $103 million due to approximately $1 million of customs and other guarantees outstanding.

USSK is the sole obligor on these facilities and is obligated to pay a commitment fee on the undrawn portion of the facilities. These facilities bear interest at the applicable inter-bank offer rate plus a margin and they contain customary terms and conditions.

We may from time to time seek to retire or purchase our outstanding debt in open market purchases, privately negotiated transactions, exchange transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors and may be commenced or suspended at any time. The amounts involved may be material.

We use surety bonds, trusts and letters of credit to provide financial assurance for certain transactions and business activities. The use of some forms of financial assurance and collateral have a negative impact on liquidity. U. S. Steel has committed $104 million of liquidity sources for financial assurance purposes as of December 31, 2012. Increases in these commitments which use collateral are reflected in restricted cash on the Consolidated Statement of Cash Flows.

At December 31, 2012, in the event of a change in control of U. S. Steel, holders of U. S. Steel debt obligations totaling $3,163 million, which includes the Senior Notes and the Senior Convertible Notes, may require U. S. Steel to repurchase such obligations in whole or in part for cash at a price equal to 100% of the principal amount plus accrued and unpaid interest. In such event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for $19 million or provide a letter of credit to secure the remaining obligation.

The slab caster facility at Fairfield, Alabama is subject to a capital lease. In December 2012, U. S. Steel exercised an option to renew the lease for a nine year term and purchase the facility at the expiration of the renewal period in June 2022.

The maximum outstanding guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled $29 million at December 31, 2012. In the event that any default related to the guaranteed indebtedness occurs, U. S. Steel has access to its interest in the assets of the investee to reduce its potential losses under the guarantee.

U. S. Steel made voluntary contributions of $140 million to the main domestic defined benefit pension plan in both 2012 and 2011. U. S. Steel will likely make voluntary contributions of similar or greater amounts in 2013 and later

periods in order to mitigate potentially larger mandatory contributions under the Pension Protection Act of 2006 in later years. The contributions actually required will be greatly influenced by the level of voluntary contributions, the performance of pension fund assets in the financial markets, the election of the use of existing credit balances in future periods and various other economic factors and actuarial assumptions that may come to influence the level of the funded position in future years. See Note 16 to the Consolidated Financial Statements for a discussion regarding legislation enacted in July 2012 that impacts the discount rate used for funding purposes.

Additionally, we made a $75 million contribution to a restricted account within our trust for represented retiree health care and life insurance benefits as required by collective bargaining agreements. U. S. Steel is similarly required to make $75 million contributions to that trust account during each annual period from 2013 to 2015.

In conjunction with the acquisition of Stelco, now USSC, U. S. Steel assumed the pension plan funding agreement (the Pension Agreement) that Stelco had entered into with the Superintendent of Financial Services of Ontario (the Province) on March 31, 2006 that covers USSC s four main pension plans. The Pension Agreement requires minimum contributions of C$70 million (approximately $70 million) per year in 2011 through 2015 plus additional annual contributions for benefit improvements, primarily related to cost of living provisions. With the Hamilton Works and Lake Erie Works collective bargaining agreement settlements in 2011 and 2010, respectively, cost of living provisions are no longer provided through the pension plan covering former represented employees. The Pension Agreement remains in effect with its defined annual contributions as noted above until the earlier of full solvency funding for the four main plans or until December 31, 2015, when minimum funding requirements for the plans resume under the provincial pension legislation.

In its acquisition of Stelco on October 31, 2007, U. S. Steel assumed liability for a note issued to the Province of Ontario (Province Note). The face amount of the Province Note is C$150 million (approximately $151 million at December 31, 2012) and is payable on December 31, 2015. The Province Note is unsecured and is subject to a 75 percent discount if the solvency deficiencies in the four main USSC pension plans (see Note 14 to the Consolidated Financial Statements) are eliminated on or before the maturity date.

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The following table summarizes U. S. Steel s contractual obligations at December 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

(Dollars in millions)

			Payments Due by Period		
			2014 through	2016 through	Beyond
Contractual Obligations	**Total**	**2013**	**2015**	**2017**	**2017**
Long-term debt (including interest) and capital leases[a]	$ 6,168	$ 247	$ 1,565	$ 921	$ 3,435
Operating leases[b]	215	55	91	62	7
Contractual purchase commitments[c]	10,617	7,132	1,089	680	1,716
Capital commitments[d]	248	187	61		
Environmental commitments[d]	203	21			182[e]
Steelworkers Pension Trust	407[f]	74	160[f]	173[f]	[f]
Pensions[g]	1,140	85	160	575	320
Other benefits	1,605[h]	355	740	510	[h]
Unrecognized tax positions	85				85[e]
Total contractual obligations	$ 20,688	$ 8,156	$ 3,866	$ 2,921	$ 5,745

(a) See Note 14 to the Consolidated Financial Statements.
(b) See Note 21 to the Consolidated Financial Statements. Amounts exclude subleases.
(c) Reflects contractual purchase commitments under purchase orders and take or pay arrangements. Take or pay arrangements are primarily for purchases of gases and certain energy and utility services. Additionally, includes coke and steam purchase commitments related to a coke supply agreement with Gateway Energy & Coke Company LLC (See Note 22 to the Consolidated Financial Statements).
(d) See Note 22 to the Consolidated Financial Statements.
(e) Timing of potential cash flows is not reasonably determinable.
(f) While it is difficult to make a prediction of cash requirements beyond the term of the 2012 Labor Agreements with the USW, which expire on September 1, 2015, projected amounts shown through 2017 assume that the current $2.65 contribution rate per hour will apply.
(g) Amounts shown represent projected cash requirements for the USSC pension plans, most of which relates to a mandated schedule of fixed minimum payments of C$70 million (approximately $70 million) per year for the four main USSC pension plans that remains in effect until 2016. In 2016, minimum funding requirements under the Pension Benefits Act (PBA) will resume for the four main USSC plans. The amounts shown for 2016, 2017, and beyond are estimates for the minimum owed by all USSC plans under the PBA for the respective plan years. U.S. dollar equivalents of contributions are based on foreign exchange rates as of December 31, 2012. Projections for 2017 and beyond also include estimates of the minimum required contributions to the main domestic defined benefit pension plan which have been estimated assuming future asset performance consistent with our expected long-term earnings rate assumption and that the current low interest rate environment persists.
(h) The amounts reflect corporate cash outlays expected for required contributions to benefit trusts and benefit payments expected to be paid from corporate trusts. Contributions include required amounts to the USW VEBA trust (See Note 16 to the Consolidated Financial Statements). The accuracy of this forecast of future cash flows depends on various factors such as actual asset returns, the asset trust mix, medical health care escalation rates and company decisions or restrictions related to our trusts for retiree healthcare and life insurance that impact the timing of the use of trust assets. Projected amounts do not reflect optional drawdowns from the USW VEBA trust if U. S. Steel decides to utilize certain options available under its agreements with the USW. Due to these factors, it is impossible to make a reliable prediction of cash requirements beyond five years and actual amounts experienced may differ significantly from those shown.

Contingent lease payments have been excluded from the above table. Contingent lease payments relate to operating lease agreements that include a floating rental charge, which is associated to a variable component. Future contingent lease payments are not determinable to any degree of certainty. U. S. Steel s annual incurred contingent lease expense is disclosed in Note 21 to the Consolidated Financial Statements. Additionally, recorded liabilities related to deferred income taxes and other liabilities that may have an impact on liquidity and cash flow in future periods are excluded from the above table.

In January 2013, U. S. Steel s Board of Directors authorized voluntary contributions of up to $300 million to U. S. Steel s trusts for pensions and other benefits through the end of 2014. U. S. Steel made voluntary contributions of $140 million to the main domestic defined benefit pension plan in 2012. U. S. Steel may make voluntary contributions of similar or greater amounts from the authorized funding in 2013 or later periods to the

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main defined benefit pension plan in the United States in order to mitigate potentially larger mandatory required contributions under the Pension Protection Act of 2006 in later years. In addition to the amounts included in the above table, U. S. Steel expects to make payments of $25 million to other pension plans not funded by trusts. The funded status of U. S. Steel s pension plans is disclosed in Note 16 to the Consolidated Financial Statements.

The following table summarizes U. S. Steel s commercial commitments at December 31, 2012, and the effect such commitments could have on our liquidity and cash flows in future periods.

(Dollars in millions)

			Scheduled Reductions by Period		
			2014 through	2016 through	Beyond
Commercial Commitments	**Total**	**2013**	**2015**	**2017**	**2017**
Standby letters of credit[a]	$ 89	$ 77	$ 1	$	$ 11[b]
Surety bonds[a]	69				69[b]
Funded Trusts[a]	28				28[b]
Total commercial commitments	$ 186	$ 77	$ 1	$	$ 108

(a) Reflects a commitment or guarantee for which future cash outflow is not considered likely.
(b) Timing of potential cash outflows is not determinable.

Our major cash requirements in 2013 are expected to be for capital expenditures, employee benefits and operating costs, including purchases of raw materials. We finished 2012 with $570 million of available cash and $2.4 billion of total liquidity. Available cash is left on deposit with financial institutions or invested in highly liquid securities with parties we believe to be creditworthy.

U. S. Steel management believes that U. S. Steel s liquidity will be adequate to satisfy our obligations for the foreseeable future, including obligations to complete currently authorized capital spending programs. Future requirements for U. S. Steel s business needs, including the funding of acquisitions and capital expenditures, scheduled debt maturities, contributions to employee benefit plans, and any amounts that may ultimately be paid in connection with contingencies, are expected to be financed by a combination of internally generated funds (including asset sales), proceeds from the sale of stock, borrowings, refinancings and other external financing sources.

Our opinion regarding liquidity is a forward-looking statement based upon currently available information. To the extent that operating cash flow is materially lower than recent levels or external financing sources are not available on terms competitive with those currently available, future liquidity may be adversely affected.

Off-Balance Sheet Arrangements

U. S. Steel has invested in several joint ventures that are reported as equity investments. Several of these investments involved a transfer of assets in exchange for an equity interest. In some cases, U. S. Steel has supply arrangements. In some cases, a portion of the labor force used by the investees is provided by U. S. Steel, the cost of which is reimbursed; however, failing reimbursement, U. S. Steel is ultimately responsible for the cost of these employees. The terms of these arrangements were a result of negotiations in arms-length transactions with the other joint

venture participants, who are not affiliates of U. S. Steel.

U. S. Steel s other off-balance sheet arrangements include guarantees, indemnifications, unconditional purchase obligations, surety bonds, trusts and letters of credit disclosed in Note 22 to the Consolidated Financial Statements as well as operating leases disclosed in Note 21 to the Consolidated Financial Statements.

Derivative Instruments

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk for discussion of derivative instruments and associated market risk for U. S. Steel.

Environmental Matters, Litigation and Contingencies

Environmental Matters

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

Our U.S. facilities are subject to the U.S. environmental standards, including the CAA, the Clean Water Act, the Resource Conservation and Recovery Act (RCRA) and the Comprehensive Environmental Response, Compensation and Liability Act, as well as state and local laws and regulations.

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

The Canadian and Ontario governments have identified for remediation a sediment deposit, commonly referred to as Randle Reef, in Hamilton Harbor near USSC s Hamilton Works, for which the regulatory agencies estimate expenditures of approximately C$120 million (approximately $121 million). The national and provincial governments have each allocated C$40 million (approximately $40 million) for this project. Local sources, including industry, have also agreed to provide funding of C$40 million (approximately $40 million) for this project. USSC has committed to contribute approximately 11,000 tons of hot rolled steel and to fund C$2 million (approximately $2 million). The steel contribution is expected to be made in 2014. As of December 31, 2012, U. S. Steel has an accrued liability of approximately $10 million reflecting the contribution commitment.

USSK is subject to the environmental laws of Slovakia and the EU. A related law of the EU commonly known as Registration, Evaluation, Authorization and Restriction of Chemicals, Regulation 1907/2006 (REACH) requires the registration of certain substances that are produced in the EU or imported into the EU. Although USSK is currently compliant with REACH, this regulation is becoming increasingly stringent. Slovakia is also currently considering a law implementing an EU Waste Framework Directive that would more strictly regulate waste disposal and increase fees for waste disposed of in landfills including privately owned landfills. The intent of the waste directive is to encourage recycling and because Slovakia has not adopted implementing legislation, we cannot estimate the full financial impact of this prospective legislation at this time.

The EU s Industry Emission Directive will require implementation of EU determined best available techniques (BATs) to reduce environmental impacts as well as compliance with BAT associated emission levels. It contains operational requirements for air emissions, waste water discharges, solid waste disposal and energy conservation, dictates certain operating practices and imposes stricter emission limits. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are currently evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is approximately $400 million over the 2013

to 2016 period. We are currently investigating the possibility of obtaining EU grants to fund a portion of those capital expenditures. We also believe there will be increased operating costs, such as increased energy and maintenance costs, but we are currently unable to reliably estimate this amount.

U. S. Steel has incurred and will continue to incur substantial capital, operating and maintenance and remediation expenditures as a result of environmental laws and regulations, which in recent years have been mainly for process changes in order to meet CAA obligations and similar obligations in Europe and Canada. In the future, compliance with carbon dioxide (CO_2) emission requirements may include substantial costs for emission allowances, restriction of production and higher prices for coking coal, natural gas and electricity generated by carbon based systems. Since it is difficult to predict what requirements will ultimately be imposed in the United States, Canada and Europe, it is difficult to estimate the likely impact on U. S. Steel, but it could be substantial. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of U. S. Steel s products and services, operating results will be reduced. U. S. Steel believes that our major North American and many European integrated steel competitors are confronted with substantially similar conditions and thus does not believe that its relative position with regard to such competitors will be materially affected by the impact of environmental laws and regulations. However, if the final requirements do not recognize the fact that the integrated steel process involves a series of chemical reactions involving carbon that create CO_2 emissions, our competitive position relative to mini mills will be adversely impacted. Our competitive position compared to producers in developing nations, such as China and India, will be harmed unless such nations require commensurate reductions in CO_2 emissions. Competing materials such as plastics may not be similarly impacted. The specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to former and present operating locations and disposal of environmentally sensitive materials. Many of our competitors, including North American producers, or their successors, that have been the subject of bankruptcy relief have no or substantially lower liabilities for such matters.

U. S. Steel s environmental expenditures were as follows:

(Dollars in millions)

	2012	2011	2010
North America:			
Capital	**$ 48**	$ 73	$ 69
Compliance			
Operating & maintenance	**347**	350	325
Remediation[(a)]	**34**	35	30
Total North America	**$ 429**	$ 458	$ 424
USSE:			
Capital	**$ 5**	$ 27	$ 73
Compliance			
Operating & maintenance	**14**	19	15
Remediation[(a)]	**7**	10	8
Total USSE	**$ 26**	$ 56	$ 96
Total U. S. Steel	**$ 455**	$ 514	$ 520

(a) These amounts include spending charged against remediation reserves, net of recoveries where permissible, but do not include non-cash provisions recorded for environmental remediation.

U. S. Steel s environmental capital expenditures accounted for seven percent of total capital expenditures in 2012, 12 percent in 2011 and 21 percent in 2010.

Environmental compliance expenditures represented two percent of U. S. Steel s total costs and expenses in all three years 2012, 2011 and 2010. Remediation spending during 2010 through 2012 was mainly related to remediation activities at former and present operating locations.

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.

U. S. Steel is in the study phase of RCRA corrective action programs at our Fairless Plant and Lorain Tubular Operations. RCRA corrective action programs have been initiated at Gary Works, Fairfield Works and USS-POSCO Industries. Until the studies are completed at these facilities, U. S. Steel is unable to estimate the total cost of remediation activities that will be required.

For discussion of other relevant environmental items see Item 3. Legal Proceedings Environmental Proceedings.

The following table shows activity with respect to environmental remediation liabilities for the years ended December 31, 2012 and December 31, 2011. These amounts exclude liabilities related to asset retirement obligations accounted for in accordance with ASC Topic 410. See Note 17 to the Consolidated Financial Statements.

(Dollars in millions)	**2012**	**2011**
Beginning Balance	**$ 206**	$ 198
Plus: Additions	**13**	36
Less: Payments	**(16)**	(28)
Ending Balance	**$ 203**	$ 206

New or expanded environmental requirements, which could increase U. S. Steel s environmental costs, may arise in the future. U. S. Steel intends to comply with all legal requirements regarding the environment, but since many of them are not fixed or presently determinable (even under existing legislation) and may be affected by future legislation, it is not possible to predict accurately the ultimate cost of compliance, including remediation costs which may be incurred and penalties which may be imposed. However, based on presently available information and existing laws and regulations as currently implemented, U. S. Steel does not anticipate that environmental compliance expenditures (including operating and maintenance and remediation) will materially increase in 2013. U. S. Steel s environmental capital expenditures are expected to be approximately $132 million in 2013, $33 million of which is related to projects at USSE. Predictions beyond 2013 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, U. S. Steel anticipates that environmental capital expenditures will be approximately $202 million in 2014, including $116 million for USSE; 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.

Asbestos Litigation

As of December 31, 2012, U. S. Steel was a defendant in approximately 790 active asbestos cases involving approximately 3,330 plaintiffs. Almost 2,560, or approximately 77 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs.

We are unable to estimate the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on U. S. Steel s financial condition, although the resolution of such matters could significantly impact results of operations for a particular period. Among the factors considered in reaching this conclusion are: (1) it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; (2) most asbestos containing material was removed or remediated at U. S. Steel facilities many years ago; and (3) U. S. Steel s history of trial outcomes, settlements and dismissals. For additional details concerning asbestos litigation

see Item 3. Legal Proceedings Asbestos Litigation.

General Litigation

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

On August 1, 2012, the U.S. government, joined by the States of Illinois, Indiana and Michigan, filed a complaint in the Northern District of Indiana alleging various CAA and State air regulatory violations that were to have allegedly occurred at Gary Works, Granite City Works, and Great Lakes Works, our three integrated iron and steel facilities located in EPA Region V. The Complaint alleges that Gary Works failed to obtain the proper pre-construction permit for a routine reline of its Blast Furnace No. 4 in 1990, and that the three facilities failed to meet certain operational, maintenance, opacity, and recordkeeping requirements under the CAA and its implementing regulations. The Complaint requests relief in the form of statutory penalties for each violation and for injunctive relief. U. S. Steel believes that the claims asserted in the Complaint are not justified and are without statutory foundation. On September 21, 2012, U. S. Steel filed a motion to dismiss the U.S. government s claims for relief regarding the 1990 reline of the Gary Blast Furnace No. 4 and filed an answer to the remaining allegations in the Complaint. U. S. Steel will continue to vigorously defend against these claims. At this time, the potential outcome is not reasonably estimable.

U. S. Steel is the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment, certain of which are discussed in Note 22 to the Consolidated Financial Statements. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the U. S. Steel Financial Statements. However, management believes that U. S. Steel will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably to U. S. Steel.

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

Outlook for First Quarter 2013

We continue to be challenged by uncertain global economic and steel market conditions. We expect a slight improvement in the European and Tubular segment operating results with Flat-rolled segment results expected to be near breakeven. Total reportable segment and Other Businesses operating results are expected to be comparable to the fourth quarter.

We expect Flat-rolled segment results to be near breakeven in the first quarter. Steel buyers in North America continued to exhibit caution early in the year, but recent increases in our daily order entry rates suggest increased spot market demand as the quarter progresses. We expect higher shipments in the first quarter than the fourth quarter with increases across many of our industry segments. Average spot prices are expected to be higher than the fourth quarter as recently announced price increases take effect. Lower prices for market-based contracts, which tend to lag the spot market, are expected to offset the higher spot market prices with overall first quarter average realized prices for the Flat-rolled segment being comparable to the fourth quarter. Raw materials costs are expected to decrease slightly as lower coal prices are partially offset by higher scrap prices. Total operating costs are expected to be slightly higher compared to the fourth quarter.

First quarter results for our European segment are projected to improve compared to the fourth quarter due to a significant increase in shipments. Despite continued economic challenges, shipments are anticipated to increase due to additional contract volume and improving spot market activity caused by service center and distributor restocking. Average realized prices are expected to decrease due to a higher mix of hot-rolled shipments as well as the effect of lower firm contract prices, which are partially offset by increasing spot market prices. Iron ore costs are projected to increase in the first quarter.

We expect first quarter results for our Tubular segment to improve compared to the fourth quarter due to decreased operating costs and a slight increase in shipments as drilling activity begins to improve. Average realized prices are expected to be slightly lower as compared to the fourth quarter, while operating costs are expected to decrease due to reduced repairs and maintenance costs and improved operating efficiencies.

Accounting Standards

See Note 2 to the Consolidated Financial Statements in Part II Item 8 of this Form 10-K.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

U. S. Steel is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding U. S. Steel s exposure to the risks of changing foreign currency exchange rates, commodity prices and interest rates.

U. S. Steel may enter into derivative financial instrument transactions in order to manage or reduce these market risks. The use of derivative instruments is subject to our corporate governance policies. These instruments are used solely to mitigate market exposure and would not be used for trading or speculative purposes.

U. S. Steel may elect to use hedge accounting for certain commodity or currency transactions. For those transactions, the impact of the effective portion of the hedging instrument will be recognized in other comprehensive income until the transaction is settled. Once the transaction is settled, the effect of the hedged item will be recognized in income. For further information regarding derivative instruments see Notes 1 and 13 to the Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk

U. S. Steel, through USSE and USSC, is subject to the risk of price fluctuations due to the effects of exchange rates on revenues and operating costs, firm commitments for capital expenditures and existing assets or liabilities denominated in currencies other than the U.S. dollar, particularly the Euro and the Canadian dollar. U. S. Steel historically has made limited use of forward currency contracts to manage exposure to certain currency price fluctuations. U. S. Steel has not elected to use hedge accounting for these contracts. Foreign currency derivative instruments have been marked-to-market and the resulting gains or losses recognized in the current period in net interest and other financial costs. At December 31, 2012 and December 31, 2011, U. S. Steel had open euro forward sales contracts for U.S. dollars (total notional value of approximately $408 million and $468 million, respectively). A 10 percent increase in the December 31, 2012 euro forward rates would result in a $42 million charge to income.

The fair value of our derivatives is determined using Level 2 inputs, which are defined as significant other observable inputs. The inputs used include quotes from counterparties that are corroborated with market sources.

We utilize Euro-U.S. dollar derivatives to mitigate our currency exposure at USSE. Volatility in the foreign currency markets could have significant implications for U. S. Steel as a result of foreign currency accounting remeasurement effects. Future foreign currency impacts will depend upon changes in currencies and the extent to which we engage in derivatives transactions. For additional information on U. S. Steel s foreign currency exchange activity, see Note 13 to the Consolidated Financial Statements.

Commodity Price Risk and Related Risks

In the normal course of our business, U. S. Steel is exposed to market risk or price fluctuations related to the purchase, production or sale of steel products. U. S. Steel is also exposed to price risk related to the purchase, production or sale of coal, coke, natural gas, steel scrap, iron ore and pellets, and zinc, tin and other nonferrous metals used as raw materials. See Note 13 to the Consolidated Financial Statements for further details on U. S. Steel s derivatives.

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U. S. Steel s market risk strategy has generally been to obtain competitive prices for our products and services and allow operating results to reflect market price movements dictated by supply and demand; however, U. S. Steel has made forward physical purchases to manage exposure to price risk related to the purchases of natural gas and certain non-ferrous metals used in the production process.

U. S. Steel held commodity contracts for natural gas forward buys placed for 2013 and 2014 that qualified for the normal purchases and normal sales exemption with a total notional value of approximately $278 million at December 31, 2012. Total commodity contracts for natural gas forward buys placed for 2013 at December 31, 2012 represent approximately 31 percent of our expected North American natural gas requirements.

Interest Rate Risk

U. S. Steel is subject to the effects of interest rate fluctuations on certain of our non-derivative financial instruments. A sensitivity analysis of the projected incremental effect of a hypothetical 10 percent increase/decrease in year-end 2012 and 2011 interest rates on the fair value of U. S. Steel s non-derivative financial instruments is provided in the following table:

(Dollars in millions)

	2012		**2011**	
Non-Derivative Financial Instruments[a]	**Fair Value**[b]	**Increase in Fair Value**[c]	Fair Value[b]	Increase in Fair Value[c]
Financial assets:				
Investments and long-term receivables[d]	**$ 39**	**$ 0**	$ 45	$ 0
Financial liabilities:				
Debt[e][f]	**$ 4,113**	**$ 128**	$ 3,874	$ 120

(a) Fair values of cash and cash equivalents, current accounts and notes receivable, receivables sold to third party conduits, accounts payable, bank checks outstanding, accrued interest and borrowings under the Receivables Purchase Agreement 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 18 to the Consolidated Financial Statements for carrying value of instruments.

(c) Reflects, by class of financial instrument, the estimated incremental effect of a hypothetical 10 percent decrease in interest rates at December 31, 2012 and 2011, on the fair value of U. S. Steel s non-derivative financial instruments. For financial liabilities, this assumes a 10 percent decrease in the weighted average yield to maturity of U. S. Steel s long-term debt at December 31, 2012 and December 31, 2011.

(d) Fair value was based on Level 2 inputs which were discounted cash flows. U. S. Steel is subject to market risk and liquidity risk related to its investments.

(e) Excludes capital lease obligations.

(f) Fair value was determined using Level 2 inputs which were derived from quoted market prices and is based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities.

U. S. Steel s sensitivity to interest rate declines and corresponding increases in the fair value of our debt portfolio would unfavorably affect our results and cash flows only to the extent that we elected to repurchase or otherwise retire all or a portion of our fixed-rate debt portfolio at prices above carrying value.

Safe Harbor

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

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

United States Steel Corporation

600 Grant Street

Pittsburgh, PA 15219-2800

MANAGEMENT S REPORT TO STOCKHOLDERS

February 15, 2013

To the stockholders of United States Steel Corporation:

Financial Statements and Practices

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

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

United States Steel Corporation has a comprehensive, formalized system of internal controls designed to provide reasonable assurance that assets are safeguarded, that financial records are reliable and that information required to be disclosed in reports filed with or submitted to the Securities and Exchange Commission is recorded, processed, summarized and reported within the required time limits. Appropriate management monitors the system for compliance and evaluates it for effectiveness, and the internal auditors independently measure its effectiveness and recommend possible improvements thereto.

The Board of Directors exercises its oversight role in the area of financial reporting and internal control over financial reporting through its Audit Committee. This Committee, composed solely of independent directors, regularly meets (jointly and separately) with the independent registered public accounting firm, management, internal audit and other executives to monitor the proper discharge by each of their responsibilities relative to internal control over financial reporting and United States Steel Corporation s financial statements.

Internal Control Over Financial Reporting

United States Steel Corporation s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of United States Steel Corporation s management, including the chief executive officer and chief financial officer, United States Steel Corporation conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, United States Steel Corporation s management concluded that United States Steel Corporation s internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of United States Steel Corporation s internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ JOHN P. SURMA	/s/ GRETCHEN R. HAGGERTY
John P. Surma	Gretchen R. Haggerty
Chairman of the Board of Directors and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

/s/ GREGORY A. ZOVKO
Gregory A. Zovko
Vice President and Controller

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Report of Independent Registered Public Accounting Firm

To the Stockholders of United States Steel Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders equity and cash flows present fairly, in all material respects, the financial position of United States Steel Corporation and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report to Stockholders Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

February 15, 2013

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(Dollars in millions, except per share amounts)	**2012**	**2011**	**2010**
Net sales:			
Net sales	**$ 18,025**	$ 18,626	$ 16,156
Net sales to related parties *(Note 20)*	**1,303**	1,258	1,218
Total	**19,328**	19,884	17,374
Operating expenses (income):			
Cost of sales (excludes items shown below)	**17,630**	18,326	16,259
Selling, general and administrative expenses	**654**	733	610
Depreciation, depletion and amortization *(Notes 10 and 11)*	**661**	681	658
Income from investees	**(144)**	(85)	(20)
Net loss (gain) on disposals of assets *(Note 4)*	**296**	(25)	(7)
Other income, net	**(16)**	(11)	(15)
Total	**19,081**	19,619	17,485
Income (loss) from operations	**247**	265	(111)
Interest income	**(7)**	(6)	(7)
Interest expense *(Note 5)*	**214**	190	195
Other financial costs *(Note 5)*	**34**	54	86
Net interest and other financial costs	**241**	238	274
Income (loss) before income taxes and noncontrolling interests	**6**	27	(385)
Income tax provision *(Note 8)*	**131**	80	97
Net loss	**(125)**	(53)	(482)
Less: Net loss attributable to noncontrolling interests	**(1)**	-	-
Net loss attributable to United States Steel Corporation	**$ (124)**	$ (53)	$ (482)
Loss per common share *(Note 6)*			
Net loss per share attributable to United States Steel Corporation shareholders:			
Basic	**$ (0.86)**	$ (0.37)	$ (3.36)
Diluted	**$ (0.86)**	$ (0.37)	$ (3.36)

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Net loss	**$ (125)**	$ (53)	$ (482)
Other comprehensive income (loss), net of tax:			
Changes in foreign currency translation adjustments	**114**	(44)	(10)
Changes in pension and other employee benefit accounts [a]	**(15)**	(255)	(330)
Total other comprehensive income (loss), net of tax	**99**	(299)	(340)
Comprehensive loss including noncontrolling interest	**(26)**	(352)	(822)
Comprehensive loss attributable to noncontrolling interest	**(1)**	-	-
Comprehensive loss attributable to United States Steel Corporation	**$ (25)**	$ (352)	$ (822)
[a] Related income tax benefit (provision):			
Pension and other benefits adjustments	**$ (74)**	$ 52	$ 11

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in millions)	**2012**	**2011**
Assets		
Current assets:		
Cash and cash equivalents	**$ 570**	$ 408
Receivables, less allowance of $55 and $64	**1,872**	1,921
Receivables from related parties *(Note 20)*	**218**	132
Receivables sold to third party conduits *(Note 14)*	**-**	380
Inventories *(Note 7)*	**2,503**	2,775
Deferred income tax benefits *(Note 8)*	**171**	114
Other current assets	**40**	44
Total current assets	**5,374**	5,774
Investments and long-term receivables, less allowance of $3 for both periods *(Note 9)*	**609**	683
Property, plant and equipment, net *(Note 10)*	**6,408**	6,579
Intangibles net *(Note 11)*	**253**	262
Goodwill *(Note 11)*	**1,822**	1,783
Assets held for sale *(Note 4)*	**-**	41
Deferred income tax benefits *(Note 8)*	**424**	649
Other noncurrent assets	**327**	302
Total assets	**15,217**	$ 16,073
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 1,744**	$ 1,977
Accounts payable to related parties *(Note 20)*	**56**	86
Bank checks outstanding	**15**	24
Payroll and benefits payable	**977**	1,003
Accrued taxes *(Note 8)*	**146**	118
Accrued interest	**50**	41
Short-term debt and current maturities of long-term debt *(Note 14)*	**2**	20
Borrowings under Receivables Purchase Agreement *(Note 14)*	**-**	380
Total current liabilities	**2,990**	3,649
Long-term debt, less unamortized discount *(Note 14)*	**3,936**	3,828
Employee benefits *(Note 16)*	**4,416**	4,600
Deferred credits and other noncurrent liabilities	**397**	495
Total liabilities	**11,739**	12,572
Contingencies and commitments *(Note 22)*		
Stockholders Equity		
Common stock issued 150,925,911 shares issued (par value $1 per share, authorized 400,000,000 shares)	**151**	151
Treasury stock, at cost (6,643,553 shares and 6,921,952 shares)	**(521)**	(550)
Additional paid-in capital	**3,652**	3,650
Retained earnings	**3,463**	3,616
Accumulated other comprehensive loss	**(3,268)**	(3,367)

Total United States Steel Corporation stockholders equity	**3,477**	3,500
Noncontrolling interests	**1**	1
Total liabilities and stockholders equity	**15,217**	$ 16,073

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Increase (decrease) in cash and cash equivalents			
Operating activities:			
Net loss	**$ (125)**	$ (53)	$ (482)
Adjustments to reconcile net cash (used in) provided by operating activities:			
Depreciation, depletion and amortization *(Notes 10 and 11)*	**661**	681	658
Provision for doubtful accounts	**(1)**	3	15
Pensions and other postretirement benefits	**(181)**	(24)	(111)
Deferred income taxes *(Note 8)*	**74**	(68)	206
Net loss (gain) on disposal of assets *(Note 4)*	**296**	(25)	(7)
Currency remeasurement loss/(gain)	**(15)**	40	48
Distributions received, net of equity investees income	**(45)**	(52)	(14)
Changes in:			
Current receivables	**246**	(424)	(489)
Inventories	**192**	(460)	(688)
Current accounts payable and accrued expenses	**(103)**	332	412
Income taxes receivable/payable	**17**	133	56
All other, net	**119**	85	17
Net cash provided by (used in) operating activities	**1,135**	168	(379)
Investing activities:			
Capital expenditures	**(723)**	(848)	(676)
Disposal of assets	**155**	41	169
Change in restricted cash, net	**(21)**	35	(42)
Investments, net	**(13)**	(41)	(34)
Net cash used in investing activities	**(602)**	(813)	(583)
Financing activities:			
Revolving credit facilities - borrowings	**523**	4,715	39
- repayments	**(653)**	(4,570)	(310)
(Payments on) proceeds from Receivables Purchase Agreement	**(380)**	380	-
Issuance of long-term debt, net of financing costs	**485**	193	737
Repayment of long-term debt	**(319)**	(216)	(107)
Common stock issued	**-**	3	5
Distributions from noncontrolling interests	**-**	1	-
Dividends paid	**(29)**	(29)	(29)
Net cash (used in) provided by financing activities	**(373)**	477	335
Effect of exchange rate changes on cash	**2**	(2)	(13)
Net increase (decrease) in cash and cash equivalents	**162**	(170)	(640)
Cash and cash equivalents at beginning of year	**408**	578	1,218
Cash and cash equivalents at end of year	**$ 570**	$ 408	$ 578

See Note 19 for supplemental cash flow information.

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Dollars in Millions			Shares in Thousands		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Common stock:						
Balance at beginning of year	**$ 151**	$ 151	$ 151	**150,926**	150,926	150,926
Common stock issued	**-**	-	-	**-**	-	-
Balance at end of year	**$ 151**	$ 151	$ 151	**150,926**	150,926	150,926
Treasury stock:						
Balance at beginning of year	**$ (550)**	$ (580)	$ (608)	**(6,922)**	(7,252)	(7,576)
Common stock reissued for employee/non-employee director stock plans	**29**	30	28	**278**	330	324
Balance at end of year	**$ (521)**	$ (550)	$ (580)	**(6,644)**	(6,922)	(7,252)
Additional paid-in capital:						
Balance at beginning of year	**$ 3,650**	$ 3,650	$ 3,652			
Employee stock plans	**2**	-	(2)			
Balance at end of year	**$ 3,652**	$ 3,650	$ 3,650			

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

UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Continued)

				Comprehensive (Loss) Income		
(Dollars in millions)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Retained earnings:						
Balance at beginning of year	**$ 3,616**	$ 3,698	$ 4,209			
Net loss attributable to United States Steel Corporation	**(124)**	(53)	(482)	**$ (124)**	$ (53)	$ (482)
Dividends on common stock	**(29)**	(29)	(29)			
Balance at end of year	**$ 3,463**	$ 3,616	$ 3,698			
Accumulated other comprehensive (loss) income:						
Pension and other benefit adjustments *(Note 16):*						
Balance at beginning of year	**$ (3,598)**	$ (3,343)	$ (3,013)			
Changes during year, net of taxes[(a)]	**(8)**	(230)	(341)	**(8)**	(230)	(341)
Changes during year, equity investee net of taxes[(a)]	**(7)**	(25)	11	**(7)**	(25)	11
Balance at end of year	**$ (3,613)**	$ (3,598)	$ (3,343)			
Foreign currency translation adjustments:						
Balance at beginning of year	**$ 231**	$ 275	$ 285			
Changes during year	**114**	(44)	(10)	**114**	(44)	(10)
Balance at end of year	**345**	231	275			
Total balances at end of year	**$ (3,268)**	$ (3,367)	$ (3,068)			
Total stockholders equity	**$ 3,477**	$ 3,500	$ 3,851			
Noncontrolling interests:						
Balance at beginning of year	**$ 1**	$ 1	$ 303			
Net loss	**(1)**	-	-	**(1)**	-	-
Adoption of ASC Topic 810	**-**	-	(301)			
Other	**1**	-	(1)			
Balance at end of year	**$ 1**	$ 1	$ 1			
Total comprehensive loss				**$ (26)**	$ (352)	$ (822)
[(a)] Related income tax benefit (provision):						
Pension and other benefits adjustments	**$ (74)**	$ 52	$ 11			

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

1. Nature of Business and Significant Accounting Policies

Nature of Business

United States Steel Corporation (U. S. Steel or the Company) produces and sells steel mill products, including flat-rolled and tubular products, in North America and Europe. Operations in North America also include iron ore and coke production facilities, transportation services (railroad and barge operations) and real estate operations.

Significant Accounting Policies

Principles applied in consolidation

These financial statements include the accounts of U. S. Steel and its majority-owned subsidiaries. Additionally, variable interest entities for which U. S. Steel is the primary beneficiary are included in the consolidated financial statements and their impacts are either partially or completely offset by noncontrolling interests. Intercompany accounts, transactions and profits have been eliminated in consolidation.

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

Income or loss from investees includes U. S. Steel s share of income or loss from equity method investments, which is generally recorded a month in arrears, except for significant and unusual items which are recorded in the period of occurrence. Gains or losses from changes in ownership of unconsolidated investees are recognized in the period of change. Intercompany profits and losses on transactions with equity investees have been eliminated in consolidation, subject to lower of cost or market inventory adjustments.

U. S. Steel evaluates impairment of its equity method investments whenever circumstances indicate that a decline in value below carrying value is other than temporary. Under these circumstances, we adjust the investment down to its estimated fair value, which then becomes its new carrying value.

Investments in companies whose equity has no readily determinable fair value are carried at cost and are periodically reviewed for impairment.

Use of estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment; goodwill and intangible assets; valuation allowances for receivables, inventories and deferred income tax assets and liabilities; environmental liabilities; liabilities for potential tax deficiencies; potential litigation claims and settlements; and assets and obligations related to employee benefits. Actual results could differ materially from the estimates and assumptions used.

Sales recognition

Sales are recognized when products are shipped, properties are sold or services are provided to customers; the sales price is fixed and determinable; collectability is reasonably assured; and title and risks of ownership have passed to the buyer. Shipping and other transportation costs charged to buyers are recorded in both sales and cost of sales.

Cash and cash equivalents

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

Inventories

Inventories are carried at the lower of cost or market. Fixed costs related to abnormal production capacity are expensed in the period incurred rather than capitalized into inventory.

LIFO (last-in, first-out) is the predominant method of inventory costing for inventories in the United States and FIFO (first-in, first-out) is the predominant method used in Canada and Europe. The LIFO method of inventory costing was used on 56 percent and 54 percent of consolidated inventories at December 31, 2012 and 2011, respectively.

Derivative instruments

U. S. Steel uses commodity-based and foreign currency derivative instruments to manage its exposure to price and foreign currency exchange rate risk. Forward physical purchase contracts and foreign exchange forward contracts are used to reduce the effects of fluctuations in the purchase price of natural gas and certain nonferrous metals and also certain business transactions denominated in foreign currencies. U. S. Steel has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of these derivatives are recognized immediately in results of operations. See Note 13 for further details on U. S. Steel s derivatives.

Goodwill and identifiable intangible assets

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. We have two reporting units that hold nearly all of our goodwill: Our Flat-rolled reporting unit and our Texas Operations reporting unit, which is part of our Tubular operating segment.

U. S. Steel evaluates goodwill for impairment by either performing a qualitative evaluation or a two-step quantitative test, which involves comparing the estimated fair value of the associated reporting unit to its carrying value, including goodwill. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Factors considered as part of the qualitative assessment include entity-specific, industry, market and general economic conditions. U. S. Steel may elect to bypass this qualitative assessment for some or all of its reporting units and perform a two-step quantitative test. The quantitative test involves estimating a reporting unit s fair value based upon a discounted cash flow model, using a market participant approach. There has been no impairment of goodwill as of December 31, 2012.

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

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable.

See Note 11 for further details on our evaluation of goodwill and intangible asset impairment.

Property, plant and equipment

Property, plant and equipment is carried at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets.

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

U. S. Steel evaluates impairment of its property, plant and equipment whenever circumstances indicate that the carrying value may not be recoverable. Asset impairments are recognized when the carrying value of an asset grouping exceeds its aggregate projected undiscounted cash flows.

When property, plant and equipment depreciated on a group basis is sold or otherwise disposed of, proceeds are credited to accumulated depreciation, depletion and amortization with no immediate effect on income. When property, plant and equipment depreciated on an individual basis is sold or otherwise disposed of, any gains or losses are reflected in income. Gains on disposal of long-lived assets are recognized when earned. If a loss on disposal is expected, such losses are recognized when the assets are reclassified as assets held for sale or when impaired as part of an asset group s impairment. There were no triggering events that required fixed assets to be evaluated for impairment in 2012. During the third and fourth quarters of 2011, we evaluated the U. S. Steel Europe (USSE) asset group s long-lived assets for impairment because the potential disposition of U. S. Steel Serbia (USSS) was considered a triggering event. Although we recorded a loss of $399 million as a result of the sale of USSS in the first quarter of 2012 (this transaction did not meet held-for-sale criteria at December 31, 2011), the fixed asset impairment evaluations did not indicate an impairment at December 31, 2011 since we test the fixed assets at the asset group level, which was USSE at that date. USSE consisted of both U. S. Steel Kosice (USSK) and USSS and the estimated fair value of the USSE asset group exceeded its carrying value and resulted in no impairment of fixed assets at the USSE asset group level at December 31, 2011.

Major maintenance activities

U. S. Steel incurs maintenance costs on all of its major equipment. Costs that extend the life of the asset, materially add to its value, or adapt the asset to a new or different use are separately capitalized in property, plant and equipment and are depreciated over the estimated useful life. All other repair and maintenance costs are expensed as incurred.

Environmental remediation

Environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve existing assets environmental safety or efficiency. U. S. Steel provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably estimable. The timing of remediation accruals typically coincides with completion of studies defining the scope of work to be undertaken or the commitment to a formal plan of action. Remediation liabilities are accrued based on estimates of believed environmental exposure and are discounted if the amount and timing of the cash disbursements are readily determinable.

Asset retirement obligations

Asset retirement obligations (AROs) are initially recorded at fair value and are capitalized as part of the cost of the related long-lived asset and depreciated in accordance with U. S. Steel s depreciation policies for property, plant and equipment. The fair value of the obligation is determined as the discounted value of expected future cash flows. Accretion expense is recorded each month to increase this discounted obligation over time. Certain AROs related to disposal

costs of the majority of assets at our integrated steel facilities are not recorded because they have an indeterminate settlement date. These AROs will be initially recognized in the period in which sufficient information exists to estimate their fair value.

Pensions, other postretirement and postemployment benefits

U. S. Steel has defined contribution or multi-employer arrangements for pension benefits for more than half of its North American employees and non-contributory defined benefit pension plans covering the remaining North American employees. U. S. Steel has defined benefit retiree health care and life insurance plans (Other Benefits) that cover the majority of its employees in North America upon their retirement. Non-union salaried employees in the United States hired on or after July 1, 2003 participate in a defined contribution plan. In addition, most domestic salaried employees participate in defined contribution plans (401(k) plans). The Steelworkers Pension Trust (SPT), a multi-employer pension plan, to which U. S. Steel contributes on the basis of a fixed dollar amount for each hour worked by participating employees, currently covers approximately 60 percent of our union employees in the United States. Government-sponsored programs into which U. S. Steel makes required contributions cover the majority of U. S. Steel s European employees. In Canada, the majority of employees of USSC participate in defined benefit pension plans and retiree health and life insurance plans. Union employees hired after October 15, 2011 at the Hamilton Plant and after April 16, 2010 at the Lake Erie Plant are covered by defined contribution arrangements. Non-union salaried employees in Canada hired after 1997 participate in defined contribution arrangements.

The net pension and Other Benefits obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases, the mortality of participants and the current level and future escalation of health care costs. Additionally, U. S. Steel recognizes an obligation to provide postemployment benefits for disability-related claims covering indemnity and medical payments for certain employees in North America. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions. Actuarial gains and losses are deferred and amortized over future periods.

Concentration of credit and business risks

U. S. Steel is exposed to credit risk in the event of nonpayment by customers, principally within the automotive, container, construction, steel service center, appliance and electrical, conversion, and oil, gas and petrochemical industries. Changes in these industries may significantly affect U. S. Steel s financial performance and management s estimates. U. S. Steel mitigates its exposure to credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, credit insurance, prepayments, guarantees or other collateral.

The majority of U. S. Steel s customers are located in North America and Europe. No single customer accounted for more than 10 percent of gross annual revenues.

Foreign currency translation

U. S. Steel is subject to the risk of the effects of exchange rates on revenues and operating costs and existing assets or liabilities denominated in currencies other than our reporting currency, the U.S. dollar.

The functional currency for U. S. Steel Europe (USSE) is the Euro ( ). U. S. Steel Canada Inc. s (USSC) functional currency is the Canadian dollar (C$). Assets and liabilities of these entities are translated into U.S. dollars at period-end exchange rates. Revenue and expenses are translated using the average exchange rate for the reporting period. Resulting translation adjustments are

recorded in the accumulated other comprehensive income (loss) component of stockholders equity. Gains and losses from foreign currency transactions are included in net income (loss) for the period.

Stock-based compensation

U. S. Steel accounts for its various stock-based employee compensation plans in accordance with the guidance in ASC Topic 718 on stock compensation (see Note 12).

Deferred taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The realization of deferred tax assets is assessed quarterly based on several interrelated factors. These factors include U. S. Steel s expectation to generate sufficient future taxable income and the projected time period over which these deferred tax assets will be realized. U. S. Steel records a valuation allowance when necessary to reduce deferred tax assets to the amount that will more likely than not be realized. Deferred tax liabilities have not been recognized for the undistributed earnings of certain foreign subsidiaries, primarily U. S. Steel Ko ice (USSK), because management intends to indefinitely reinvest such earnings in foreign operations. See Note 8 for further details of deferred taxes.

Insurance

U. S. Steel maintains insurance for certain property damage, equipment, business interruption and general liability exposures; however, insurance is applicable only after certain deductibles and retainages. U. S. Steel is self-insured for certain other exposures including workers compensation (where permitted by law) and automobile liability. Liabilities are recorded for workers compensation and personal injury obligations. Other costs resulting from losses under deductible or retainage amounts or not otherwise covered by insurance are charged against income upon occurrence.

Sales taxes

Sales are recorded net of sales taxes charged to customers. Sales taxes primarily relate to value-added tax on sales.

Reclassifications and out of period adjustments

Certain reclassifications of prior years data have been made to conform to the current year presentation.

In 2011, the Company recorded an out of period adjustment related to its enterprise resource planning project to recorded fixed assets with a corresponding increase to net income of approximately $10 million. Management has determined that the impact of the out of period adjustment was not material to any prior period or the year ended December 31, 2011, and as a result, recorded the adjustment in the 2011 results.

2. New Accounting Standards

On July 27, 2012 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). ASU 2012-02 is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment assessment noted below. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012.

However, early adoption is permitted. U. S. Steel early adopted ASU 2012-02 and performed the qualitative assessment of its indefinite-lived water rights during the third quarter of 2012.

On September 15, 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* (ASU 2011-08), which amends the guidance in ASC 350-20. The amendments in ASU 2011-08 provide entities with the option of performing a qualitative assessment before performing the first step of the two-step impairment test. If entities determine, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, then performing the two-step impairment test would be unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. ASU 2011-08 also provides entities with the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to the first step of the two-step impairment test. ASU 2011-08 was effective for interim and annual periods beginning after December 15, 2011. U. S. Steel adopted ASU 2011-08 on January 1, 2012.

On June 16, 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The amendments in ASU 2011-05 require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 was effective for interim and annual periods beginning after December 15, 2011. On December 23, 2011, the FASB issued Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12) to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. Companies were still required to adopt the other requirements contained in ASU 2011-05. U. S. Steel adopted ASU 2011-05 and has provided the required disclosures in a separate statement immediately following the Consolidated Statement of Operations. On February 5, 2013, the FASB issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires companies to present information about reclassification adjustments from accumulated other comprehensive income to the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 but early adoption is permitted. U. S. Steel did not elect early adoption and does not expect significant financial statement implications relating to the adoption of this ASU.

On May 12, 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. Generally Accepted Accounting Principles (U.S. GAAP) for measuring fair value and for disclosing information about fair value measurements. The amendments are intended to create comparability

of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 was effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a significant impact on U. S. Steel s financial statements.

3. Segment Information

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

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

The USSE segment includes the operating results of USSK, U. S. Steel s integrated steel mill and coke and other production facilities in Slovakia. Prior to January 31, 2012, the USSE segment also included the operating results of USSS, U. S. Steel s integrated steel mill and other facilities in Serbia, and an equity investee which were sold on January 31, 2012 (see Note 4). USSE primarily serves customers in the European construction, service center, conversion, container, transportation (including automotive), appliance and electrical, and oil, gas and petrochemical markets. USSE produces and sells sheet, slabs, strip mill plate, tin mill products and spiral welded pipe, as well as heating radiators and refractory ceramic materials.

The Tubular segment includes the operating results of U. S. Steel s tubular production facilities, primarily in the United States, and equity investees in the United States and Brazil. These operations produce and sell seamless and electric resistance welded (ERW) steel casing and tubing (commonly known as oil country tubular goods or OCTG), standard and line pipe and mechanical tubing and primarily serve customers in the oil, gas and petrochemical markets.

Other Businesses includes transportation services (railroad and barge operations) and real estate operations.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income (loss) from operations. Income (loss) from operations for reportable segments and Other Businesses does not include net interest and other financial costs, income taxes, postretirement benefit expenses (other than service cost and amortization of prior service cost for active employees) and certain other items that management believes are not indicative of future results. Information on segment assets is not disclosed, as it is not reviewed by the chief operating decision maker.

The accounting principles applied at the operating segment level in determining income from operations are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-rolled to Tubular is based on cost. All other intersegment sales and transfers are accounted for at market-based prices and are eliminated at the corporate consolidation level. Corporate-level

selling, general and administrative expenses and costs related to certain former businesses are allocated to the reportable segments and Other Businesses based on measures of activity that management believes are reasonable.

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In the second quarter 2011, we changed our segment allocation methodology for postretirement benefit expenses, which consists of pension, retiree health care and life insurance benefits. Historically, we directly attributed all service cost and amortization of prior service costs for active employees and allocated a portion of interest cost, expected return on plan assets and amortization of actuarial gains and losses to our segments. Under the revised allocation methodology, active service cost and amortization of prior service costs, which represent the cost of providing these benefits to our active employees, continue to be attributed to our segments. Interest cost, expected return on plan assets and amortization of actuarial gains and losses are included in postretirement benefit expenses within items not allocated to segments as these cost elements are managed at the corporate level. The change did not affect consolidated income (loss) from operations or net loss.

The change in our allocation methodology was made to focus on the recurring costs of operating the segments without the volatility of the financing and interest components of net periodic benefit cost. We have revised prior period segment information to conform to the current period presentation.

The results of segment operations are as follows:

(In millions)	Customer sales	Intersegment sales	Net sales	Income (loss) from equity investees	Income (loss) from operations	Depreciation, depletion & amortization	Capital expenditures
2012							
Flat-rolled	**$ 12,908**	**$ 1,647**	**$ 14,555**	**$ 152**	**$ 400**	**$ 498**	**$ 625**
USSE	**2,949**	**145**	**3,094**	**-**	**34**	**102**	**38**
Tubular	**3,283**	**8**	**3,291**	**(6)**	**366**	**51**	**42**
Total reportable segments	**19,140**	**1,800**	**20,940**	**146**	**800**	**651**	**705**
Other Businesses	**188**	**139**	**327**	**(2)**	**55**	**10**	**18**
Reconciling Items and Eliminations	**-**	**(1,939)**	**(1,939)**	**-**	**(608)**	**-**	**-**
Total	**$ 19,328**	**$ -**	**$ 19,328**	**$ 144**	**$ 247**	**$ 661**	**$ 723**
2011							
Flat-rolled	$ 12,367	$ 1,360	$ 13,727	$ 98	$ 469	$ 485	$ 616
USSE	4,306	69	4,375	1	(162)	140	109
Tubular	3,034	7	3,041	(14)	316	44	104
Total reportable segments	19,707	1,436	21,143	85	623	669	829
Other Businesses	177	345	522	-	46	12	19
Reconciling Items and Eliminations	-	(1,781)	(1,781)	-	(404)	-	-
Total	$ 19,884	$ -	$ 19,884	$ 85	$ 265	$ 681	$ 848
2010							
Flat-rolled	$ 10,848	$ 1,012	$ 11,860	$ 26	$ (261)	$ 470	$ 499
USSE	3,989	48	4,037	1	(33)	129	120
Tubular	2,403	5	2,408	(6)	353	45	45
Total reportable segments	17,240	1,065	18,305	21	59	644	664
Other Businesses	134	298	432	(1)	55	14	12
Reconciling Items and Eliminations	-	(1,363)	(1,363)	-	(225)	-	-
Total	$ 17,374	$ -	$ 17,374	$ 20	$ (111)	$ 658	$ 676

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The following is a schedule of reconciling items to income (loss) from operations:

(In millions)	2012	2011	2010
Items not allocated to segments:			
Postretirement benefit expenses[(a)]	**$ (297)**	$ (386)	$ (231)
Other items not allocated to segments:			
Net (loss) gain on the sale of assets *(Note 4)*	**(310)**	-	6
Labor agreement lump sum payments *(Note 15)*	**(35)**	-	-
Supplier contract dispute settlement	**15**	-	-
Property tax settlements	**19**	-	-
Environmental remediation charge	**-**	(18)	-
Total other items not allocated to segments	**(311)**	(18)	6
Total reconciling items	**$ (608)**	$ (404)	$ (225)

(a) Consists of the net periodic benefit cost elements, other than service cost and amortization of prior service cost for active employees, associated with our pension, retiree health care and life insurance benefit plans.

Net Sales by Product:

The following summarizes net sales by product:

(In millions)	2012	2011	2010
Flat-rolled	**$ 14,721**	$ 15,861	$ 14,126
Tubular	**3,246**	2,986	2,463
Other[(a)]	**1,361**	1,037	785
Total	**$ 19,328**	$ 19,884	$ 17,374

(a) Primarily includes sales of steel production by-products, transportation services (railroad and barge operations) and real estate operations.

Geographic Area:

The information below summarizes net sales, property, plant and equipment and equity method investments based on the location of the operating segment to which they relate.

(In millions)	Year	Net Sales	Assets
North America	**2012**	**$ 16,379**	**$ 5,907(a)**
	2011	$ 15,578	$ 5,869(a)
	2010	$ 13,385	$ 5,659(a)
Europe	**2012**	**2,949**	**1,034(b)**
	2011	4,306	1,321(b)
	2010	3,989	1,406(b)
Other Foreign Countries	**2012**	**-**	**37**
	2011	-	40
	2010	-	45
Total	**2012**	**$ 19,328**	**$ 6,978**
	2011	$ 19,884	$ 7,230
	2010	$ 17,374	$ 7,110

(a)

Assets with a book value of $4,523 million, $4,424 million and $4,103 million were located in the United States at December 31, 2012, 2011 and 2010, respectively.

(b) Assets with a book value of $1,034 million, $1,064 million and $1,177 million were located in Slovakia at December 31, 2012, 2011 and 2010, respectively.

4. Dispositions and Assets Held for Sale

Birmingham Southern Railroad Company

On February 1, 2012, U. S. Steel completed the sale of the majority of operating assets of Birmingham Southern Railroad Company and the Port Birmingham Terminal. As a result of the transaction, U. S. Steel recognized a pretax gain of $89 million. As of December 31, 2011, the assets that were eventually sold, which consisted primarily of property, plant and equipment, were classified as held for sale in accordance with ASC Topic 360.

U. S. Steel Serbia

On January 31, 2012, U. S. Steel sold USSS to the Republic of Serbia for a purchase price of one dollar. In addition, USSK received $40 million for certain intercompany balances owed by USSS for raw materials and support services. As a result of this transaction, U. S. Steel recorded a non-cash pretax charge of $399 million.

Mobile River Terminal Company

On December 21, 2010, U. S. Steel completed the sale of a majority of the operating assets of Mobile River Terminal Company, Inc. and certain assets of Warrior and Gulf Navigation LLC for approximately $35 million. U. S. Steel recognized a pretax gain of approximately $26 million as a result of this transaction.

USSC Bar Mill and Bloom and Billet Mill

On November 12, 2010, USSC completed the sale of its bar mill and bloom and billet mill located at Hamilton Works for C$41 million (approximately $41 million). U. S. Steel recognized a pretax loss of approximately $5 million as a result of this transaction.

Fintube Technologies

On September 1, 2010, U. S. Steel completed the sale of a majority of the operating assets of Fintube Technologies (Fintube) for approximately $22 million. Fintube has operations in Tulsa, Oklahoma and Monterrey, Mexico where it manufactures specialty tubular products used in heat recovery technology applications. As a result of the transaction, U. S. Steel recognized a pretax loss of approximately $15 million in 2010.

Wabush Mines Joint Venture

On February 1, 2010, USSC completed the sale of its 44.6 percent interest in the Wabush Mines Joint Venture (Wabush) for approximately $60 million. Wabush owns and operates iron ore mining and pellet facilities in Newfoundland and Labrador and Quebec, Canada. U. S. Steel recognized an insignificant gain on the sale.

5. Net Interest and Other Financial Costs

(In millions)	**2012**	**2011**	**2010**
Interest income:			
Interest income	**$ (7)**	$ (6)	$ (7)
Interest expense and other financial costs:			
Interest incurred	**255**	229	211
Less interest capitalized	**41**	39	16
Total interest expense	**214**	190	195
Foreign currency net loss [(a)]	**7**	27	58
Financial costs on:			
Sale of receivables	**4**	4	5
Amended Credit Agreement	**4**	5	6
USSK credit facilities	**3**	2	2
Amortization of discounts and deferred financing costs	**16**	16	15
Total other financial costs	**34**	54	86
Net interest and other financial costs	**$ 241**	$ 238	$ 274

(a) The functional currency for USSE is the Euro and the functional currency for USSC is the Canadian dollar. Foreign currency net loss is a result of transactions denominated in currencies other than the Euro or Canadian dollar. Additionally, foreign currency net loss includes the impacts of the remeasurement of a U.S. dollar-denominated intercompany loan to a European subsidiary and the impacts of Euro-U.S. dollar derivatives activity. Effective January 1, 2012, the functional currency of the European entity was changed from the Euro to the U.S. dollar because of significant changes in economic facts and circumstances, including the sale of U. S. Steel Serbia. The change in functional currency has been applied on a prospective basis since January 1, 2012.

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6. Income and Dividends Per Common Share

Net Loss per Share Attributable to United States Steel Corporation Shareholders

Basic net loss per common share is based on the weighted average number of common shares outstanding during the period.

Diluted net loss per common share assumes the exercise of stock options and the vesting of restricted stock, restricted stock units and performance awards and the conversion of convertible notes (under the if-converted method), provided in each case the effect is dilutive.

(Dollars in millions, except per share amounts)	2012	2011	2010
Net loss attributable to United States Steel Corporation shareholders	$ (124)	$ (53)	$ (482)
Plus income effect of assumed conversion-interest on convertible notes	-	-	-
Net loss after assumed conversion	$ (124)	$ (53)	$ (482)
Weighted-average shares outstanding (in thousands):			
Basic	144,237	143,967	143,571
Effect of convertible notes	-	-	-
Effect of stock options, restricted stock units and performance awards	-	-	-
Adjusted weighted-average shares outstanding, diluted	144,237	143,967	143,571
Basic loss per common share	$ (0.86)	$ (0.37)	$ (3.36)
Diluted loss per common share	$ (0.86)	$ (0.37)	$ (3.36)

The following table summarizes the securities that were antidilutive, and therefore, were not included in the computation of diluted loss per common share:

(in thousands)	2012	2011	2010
Securities granted under the 2005 Stock Incentive Plan	5,581	3,912	3,648
Securities convertible under the Senior Convertible Notes	27,059	27,059	27,059
Total	32,640	30,971	30,707

Dividends Paid per Share

Quarterly dividends on common stock were five cents per share for each quarter in 2012, 2011 and 2010.

7. Inventories

(In millions)	December 31, 2012	December 31, 2011
Raw materials	**$ 945**	$ 1,178
Semi-finished products	**883**	953
Finished products	**573**	548
Supplies and sundry items	**102**	96
Total	**$ 2,503**	$ 2,775

Current acquisition costs were estimated to exceed the above inventory values at December 31 by $1.0 billion and $1.1 billion in 2012 and 2011, respectively. Cost of sales was reduced and income from operations was improved by $27 million, $3 million and $12 million in 2012, 2011 and 2010, respectively, as a result of liquidations of LIFO inventories.

During the years ended December 31, 2012, 2011 and 2010, we recorded lower of cost or market related charges totaling approximately $35 million, $85 million and $30 million, respectively.

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Inventory includes $86 million and $87 million of land held for residential/commercial development as of December 31, 2012 and 2011, respectively.

From time to time, U. S. Steel enters into coke swap agreements designed to reduce transportation costs. U. S. Steel shipped and received approximately 900,000 tons and 975,000 tons of coke under swap agreements during 2012 and 2011, respectively.

U. S. Steel also has entered into iron ore pellet swap agreements. U. S. Steel shipped and received approximately 2,855,000 tons and 2,658,000 tons of iron ore pellets during 2012 and 2011, respectively.

The coke and iron ore pellet swaps are recorded at cost as nonmonetary transactions. There was no income statement impact related to these swaps.

8. Income Taxes

Provisions (benefits) for income taxes

	2012			2011			2010		
(In millions)	**Current**	**Deferred**	**Total**	**Current**	**Deferred**	**Total**	**Current**	**Deferred**	**Total**
Federal	**$ 48**	**$ 61**	**$ 109**	$ 148	$ (92)	$ 56	$ (106)	$ 143	$ 37
State and local	**5**	**23**	**28**	(2)	15	13	(3)	42	39
Foreign	**4**	**(10)**	**(6)**	2	9	11	-	21	21
Total	**$ 57**	**$ 74**	**$ 131**	$ 148	$ (68)	$ 80	$ (109)	$ 206	$ 97

A reconciliation of the federal statutory tax rate of 35 percent to total provisions follows:

(In millions)	**2012**	**2011**	**2010**
Statutory rate applied to income (loss) before income taxes	**$ 2**	$ 9	$ (135)
Effects of foreign operations	**266**	184	282
Excess percentage depletion	**(107)**	(102)	(81)
State and local income taxes after federal income tax effects	**18**	8	25
Adjustments of prior years federal income taxes	**(46)**	(11)	(6)
Tax credits	**-**	(3)	(2)
Deduction for domestic production activities	**(7)**	(8)	10
Medicare Part D drug program subsidies	**(1)**	(6)	(6)
Other	**6**	9	10
Total provision (benefit)	**$ 131**	$ 80	$ 97

The tax provision differs from the domestic statutory rate of 35 percent because of the items listed above, and in particular because it does not reflect any tax benefit for pretax losses in Canada and Serbia (USSS was sold on January 31, 2012), which are jurisdictions where we have, or had, recorded full valuation allowances on deferred tax assets, and also does not reflect any tax provision or benefit for certain foreign currency remeasurement gains and losses that are not recognized in any tax jurisdiction. In addition, no significant tax benefit was recorded on the $399 million loss on the sale of USSS. Included in the 2012 income tax provision is a tax benefit of $20 million relating to adjustments to tax reserves related to the conclusion of certain audits as well as a tax benefit of $26 million to adjust our estimated 2011 federal tax liability to our actual tax liability reflected in our tax return as filed. Included in the 2010 tax provision is a net tax benefit of $39 million relating to adjustments to tax reserves, offset by a tax charge of $27 million as a result of the U.S. health care legislation enacted in 2010.

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Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance in ASC Topic 740 on income taxes. The total amount of unrecognized tax benefits was $85 million, $110 million and $115 million as of December 31, 2012, 2011 and 2010, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $62 million as of December 31, 2012.

U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the Statement of Operations. Any penalties are recognized as part of selling, general and administrative expenses. As of December 31, 2012, 2011 and 2010, U. S. Steel had accrued liabilities of $7 million, $6 million and $4 million, respectively, for interest related to unrecognized tax benefits. U. S. Steel currently does not have a liability for tax penalties.

A tabular reconciliation of unrecognized tax benefits follows:

(In millions)	**2012**	**2011**	**2010**
Unrecognized tax benefits, beginning of year	**$ 110**	$ 115	$ 106
Increases tax positions taken in prior years	**3**	1	49
Decreases tax positions taken in prior years	**(25)**	(4)	(25)
Increases current tax positions	**2**	3	10
Settlements	**(5)**	-	(18)
Lapse of statute of limitations	**-**	(5)	(7)
Unrecognized tax benefits, end of year	**$ 85**	$ 110	$ 115

It is reasonably expected that during the next 12 months unrecognized tax benefits related to income tax issues will not change by a significant amount.

Tax years subject to examination

Below is a summary of the tax years open to examination by major tax jurisdiction:

U.S. Federal 2008 and forward*

U.S. States 2007 and forward

Slovakia 2002 and forward

Canada Federal and Provincial 2004 and forward

*U. S. Steel s 2008 federal tax year remains open to the extent of net operating losses carried back from 2010.

Status of IRS examinations

The Internal Revenue Service (IRS) audit of U. S. Steel s 2010 and 2011 tax returns began in 2012 and is ongoing. The IRS audit of the 2008 and 2009 tax returns was completed in 2012, and the audit of the 2006 and 2007 tax returns was completed in 2010. Agreement was reached with the IRS on both audits.

Taxes on foreign income

Pretax income for 2012, 2011 and 2010 includes domestic income of $782 million, $519 million and $359 million, respectively and losses attributable to foreign sources of ($776) million, ($492) million and ($744) million, respectively. Undistributed earnings of certain consolidated foreign subsidiaries at December 31, 2012, amounted to approximately $2.7 billion. As of December 31, 2012, it remains U. S. Steel s intention to continue to indefinitely reinvest undistributed foreign earnings and, accordingly, no deferred tax liability has been recorded in connection therewith. If such earnings were not indefinitely reinvested, a U.S. deferred tax liability of approximately $800 million would have been required.

Deferred taxes

Deferred tax assets and liabilities resulted from the following:

	December 31,	
(In millions)	**2012**	**2011**
Deferred tax assets:		
State tax credit carryforwards (expiring in 2026)	**$ 2**	$ 1
State tax loss carryforwards (expiring in 2014 through 2032)	**35**	58
Minimum tax credit carryforwards	**157**	131
General business credit carryforwards	**66**	64
Foreign tax loss and credit carryforwards (expiring in 2013 through 2032)	**637**	727
Employee benefits	**1,704**	1,759
Receivables, payables and debt	**89**	71
Expected federal benefit for deducting state deferred income taxes	**51**	43
Contingencies and accrued liabilities	**133**	148
Valuation allowances:		
State	**-**	-
Foreign	**(1,099)**	(1,018)
Total deferred tax assets	**1,775**	1,984
Deferred tax liabilities:		
Property, plant and equipment	**1,041**	1,041
Investments in subsidiaries and equity investees	**97**	102
Inventory	**1**	32
Other temporary differences	**41**	46
Total deferred tax liabilities	**1,180**	1,221
Net deferred tax asset	**$ 595**	$ 763

At December 31, 2012 and 2011, the net domestic deferred tax asset was $538 million and $697 million, respectively. A substantial amount of U. S. Steel s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. We continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

At December 31, 2012 and 2011, the net foreign deferred tax asset was $57 million and $66 million, respectively, net of established valuation allowances of $1,099 million and $1,018 million, respectively. Net foreign deferred tax assets fluctuate as the value of the U.S. dollar changes with respect to the Euro and the Canadian dollar. A full valuation allowance was recorded for both the Canadian and Serbian deferred tax assets primarily due to cumulative losses in these jurisdictions in recent years. On January 31, 2012, U. S. Steel sold USSS (see Note 4) and the Serbian deferred tax asset and offsetting valuation allowance were removed in connection with the sale. If evidence changes and it becomes more likely than not that the Company will realize the Canadian deferred tax asset, the valuation allowance would be partially or fully reversed. Any reversal of this amount would result in a decrease to income tax expense. The Slovak income tax rate will increase from 19% to 23% starting in 2013. This change had an insignificant impact on deferred taxes at the end of 2012.

9. Investments and Long-Term Receivables

(In millions)	December 31, 2012	December 31, 2011
Equity method investments	**$ 570**	$ 638
Receivables due after one year, less allowance of $3 for both periods	**34**	40
Other	**5**	5
Total	**$ 609**	$ 683

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Summarized financial information of all investees accounted for by the equity method of accounting is as follows (amounts represent 100% of investee financial information):

(In millions)	2012	2011	2010
Income data year ended December 31:			
Net Sales	**$ 4,019**	$ 3,514	$ 2,979
Operating income	**650**	319	107
Net income	**602**	264	58
Balance sheet date December 31:			
Current Assets	**$ 1,028**	$ 1,023	
Noncurrent Assets	**1,981**	1,868	
Current liabilities	**569**	519	
Noncurrent Liabilities	**1,220**	1,020	

Investees accounted for using the equity method include:

Investee	Country	December 31, 2012 Interest
Acero Prime, S. R. L. de CV	Mexico	40%
Apolo Tubulars S.A.	Brazil	50%
Baycoat Limited Partnership	Canada	50%
Baycoat Limited	Canada	50%
Chrome Deposit Corporation	United States	50%
Daniel Ross Bridge, LLC	United States	50%
D.C. Chrome Limited	Canada	50%
Double Eagle Steel Coating Company	United States	50%
Double G Coatings Company L.P.	United States	50%
Feralloy Processing Company	United States	49%
Hibbing Development Company	United States	24.1%
Hibbing Taconite Company[(a)]	United States	14.7%
Leeds Retail Center, LLC	United States	38%
Patriot Premium Threading Services	United States	50%
PRO-TEC Coating Company	United States	50%
Strategic Investment Fund Partners I[(b)]	United States	8.6%
Strategic Investment Fund Partners II[(b)]	United States	4.4%
Swan Point Development Company, Inc.	United States	50%
Tilden Mining Company, L.C.[(a)]	United States	15%
United Spiral Pipe, LLC	United States	35%
USS-POSCO Industries	United States	50%
Worthington Specialty Processing	United States	49%

(a) Hibbing Taconite Company (HTC) is an unincorporated joint venture that is owned, in part, by Hibbing Development Company (HDC), which is accounted for using the equity method. Through HDC we are able to influence the activities of HTC, and as such, its activities are accounted for using the equity method.
Tilden Mining Company, L.C. is a limited liability company and in accordance with ASC Topic 323 Partnerships and Unincorporated Joint Ventures, (ASC Topic 323) its financial activities are accounted for using the equity method.

(b) Strategic Investment Fund Partners I and II are limited partnerships and in accordance with ASC Topic 323, the financial activities are accounted for using the equity method.

Dividends and partnership distributions received from equity investees were $98 million in 2012, $31 million in 2011 and $4 million in 2010.

For discussion of transactions and related receivable and payable balances between U. S. Steel and its investees, see Note 20.

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10. Property, Plant and Equipment

(In millions)	Useful Lives	December 31, 2012	2011
Land and depletable property	-	**$ 264**	$ 268
Buildings	35 years	**1,394**	1,409
Machinery and equipment	4-22 years	**14,350**	14,107
Information technology	5-6 years	**709**	631
Assets under capital lease	10-35 years	**189**	157
Total		**16,906**	16,572
Less accumulated depreciation and depletion		**10,498**	9,993
Net		**$ 6,408**	$ 6,579

Amounts in accumulated depreciation and depletion for assets acquired under capital leases (including sale-leasebacks accounted for as financings) were $153 million and $156 million at December 31, 2012 and 2011, respectively.

11. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2012 and December 31, 2011 are as follows:

(In millions)	Flat-rolled Segment	USSE Segment	Tubular Segment	Total
Balance at January 1, 2011	$ 922	$ 4	$ 834	$ 1,760
Currency translation and other adjustments	23	-	-	23
Balance at December 31, 2011	$ 945	$ 4	$ 834	$ 1,783
Currency translation	**39**	**-**	**-**	**39**
Balance at December 31, 2012	**$ 984**	**$ 4**	**$ 834**	**$ 1,822**

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. We have two reporting units that hold nearly all of our goodwill: our Flat-rolled reporting unit and our Texas Operations reporting unit, which is part of our Tubular operating segment. Other adjustments relate to revisions to purchase price allocations.

Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate the carrying value may not be recoverable. On January 1, 2012, U. S. Steel adopted ASU 2011-08 which provides the option of performing a qualitative assessment before performing the first step of the two-step impairment test (see Note 2). U. S. Steel completed its annual goodwill

impairment evaluation during the third quarter of 2012 and determined, on the basis of a number of economic, cost, market and other qualitative factors, including consideration of certain factors from the 2011 annual goodwill impairment evaluation, there was no indication of goodwill impairment for any of the reporting units.

Goodwill impairment tests in 2011 and prior years also indicated that goodwill was not impaired for any of the reporting units.

Amortizable intangible assets are amortized on a straight-line basis over their estimated useful lives and are detailed below:

		As of December 31, 2012			As of December 31, 2011		
(In millions)	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	**$ 221**	**$ 54**	**$ 167**	$ 219	$ 44	$ 175
Other	2-20 Years	**22**	**11**	**11**	22	10	12
Total amortizable intangible assets		**$ 243**	**$ 65**	**$ 178**	$ 241	$ 54	$ 187

The carrying amount of water rights with indefinite lives as of December 31, 2012 and December 31, 2011 totaled $75 million. The water rights are tested for impairment annually in the third quarter. During 2012, U. S. Steel early adopted ASU 2012-02 (see Note 2) and performed a qualitative impairment evaluation of its water rights. The 2012 and prior year tests indicated the water rights were not impaired. Accordingly, no impairment loss was recognized.

Amortization expense was $11 million, $11 million and $9 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is $11 million in each year from 2013 to 2017.

12. Stock-Based Compensation Plans

On April 26, 2005, U. S. Steel s stockholders approved the 2005 Stock Incentive Plan (the 2005 Stock Plan). The aggregate number of shares of U. S. Steel common stock that may be issued through April 26, 2020 under the 2005 Stock Plan is 15,450,000 shares, of which 5,109,342 shares are available as of December 31, 2012 for future grants. Generally, a share issued under the Plan pursuant to an award other than a stock option will reduce the number of shares available under the Stock Plan by 1.64 shares. The purposes of the 2005 Stock Plan are to attract, retain and motivate employees and non-employee directors of outstanding ability, and to align their interests with those of the stockholders of U. S. Steel. The Compensation & Organization Committee of the Board of Directors (the Compensation Committee) administers the plan pursuant to which they may make grants of stock options, restricted stock, restricted stock units (RSUs), performance awards, and other stock-based awards. Also, shares related to awards (i) that are forfeited, (ii) that terminate without shares having been issued or (iii) for which payment is made in cash or property other than shares are again available for awards under the plan; provided, however, that shares delivered to U. S. Steel or withheld for purposes of satisfying the exercise price or tax withholding obligations shall not again be available for awards.

The following table summarizes the total stock-based compensation awards granted during the years 2012, 2011 and 2010:

	Stock Options	Restricted Stock Units	Performance Awards
2012 Grants	**1,503,880**	**910,011**	**328,780**
2011 Grants	707,060	422,080	85,040
2010 Grants	612,270	359,960	105,640

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Stock-based compensation expense

The following table summarizes the total compensation expense recognized for stock-based compensation awards:

(In millions, except per share amounts)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Stock-based compensation expense recognized:			
Cost of sales	**$ 12**	$ 10	$ 9
Selling, general and administrative expenses	**26**	23	20
Total	**38**	33	29
Related deferred income tax benefit	**14**	12	11
Decrease in net income	**$ 24**	$ 21	$ 18
Decrease in basic earnings per share	**$ 0.16**	$ 0.14	$ 0.13
Decrease in diluted earnings per share	**$ 0.16**	$ 0.14	$ 0.13

As of December 31, 2012, total future compensation cost related to nonvested stock-based compensation arrangements was $41 million, and the average period over which this cost is expected to be recognized is approximately 12 months.

Stock options

Compensation expense for stock options is recorded over the vesting period based on the fair value on the date of grant, as calculated by U. S. Steel using the Black-Scholes model and the assumptions listed below. The 2012, 2011 and 2010 awards vest ratably over a three-year service period and have a term of ten years. Options are issued at the market price on the date of the grant. Upon exercise of stock options, shares of U. S. Steel stock are issued from treasury stock.

Black-Scholes Assumptions [(a)]	2012 Grants	2011 Grants	2010 Grants
Price per share of option award	**$ 22.28**	$ 45.81	$ 45.65
Expected annual dividends per share	**$ 0.20**	$ 0.20	$ 0.20
Expected life in years	**5.0**	5.0	5.0
Expected volatility	**68%**	64%	64%
Risk-free interest rate	**0.8%**	1.8%	2.1%
Average grant date fair value per share of unvested option awards as calculated from above	**$ 11.93**	$ 24.39	$ 24.31

(a) The assumptions represent a weighted-average for all grants during the year.

The expected annual dividends per share are based on the latest annualized dividend rate at the date of grant; the expected life in years is determined primarily from historical stock option exercise data; the expected volatility is based on the historical volatility of U. S. Steel stock; and the risk-free interest rate is based on the U.S. Treasury strip rate for the expected life of the option.

The following table shows a summary of the status and activity of stock options for the year ended December 31, 2012:

	Shares	Weighted-Average	Weighted-Average	Aggregate Intrinsic

		Exercise Price (per share)	Remaining Contractual Term (in years)	Value (in millions)
Outstanding at January 1, 2012	3,124,054	$ 55.06		
Granted	1,503,880	22.28		
Exercised	-			
Forfeited or expired	(308,968)	52.00		
Outstanding at December 31, 2012	4,318,966	$ 43.86	7.2	$ -
Exercisable at December 31, 2012	2,214,243	$ 57.66	5.5	-
Exercisable and expected to vest at December 31, 2012	4,122,875	$ 44.59	7.1	$ -

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The aggregate intrinsic value in the table above represents the total pretax intrinsic value (difference between our closing stock price on the last trading day of 2012 and the exercise price, multiplied by the number of in-the-money options). Intrinsic value changes are based on the fair market value of our stock. Total intrinsic value of options outstanding at December 31, 2012 was zero because the exercise price of the outstanding options was greater than the market price.

There were no stock options exercised during the year ended December 31, 2012. The total intrinsic value of stock options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the option) was $3 million in both of the years ended December 31, 2011 and 2010.

Stock awards

Compensation expense for nonvested stock awards is recorded over the vesting period based on the fair value at the date of grant.

RSUs vest ratably over three years. Their fair value is the market price of the underlying common stock on the date of grant.

Performance awards vest at the end of a three-year performance period as a function of U. S. Steel s total shareholder return compared to the total shareholder return of a peer group of companies over the three-year performance period. Performance awards can vest at between zero and 200 percent of the target award.

The following table shows a summary of the performance awards outstanding as of December 31, 2012, and their fair market value on the respective grant date:

Performance Period	Fair Value (in millions)	Minimum Shares	Target Shares	Maximum Shares
2012 - 2015	**$ 8**	**0**	**328,780**	**657,560**
2011 - 2014	$ 6	0	85,040	170,080
2010 - 2013	$ 6	0	105,640	211,280

The following table shows a summary of the status and activity of nonvested stock awards for the year ended December 31, 2012:

	Restricted Stock Units	Performance Awards [(a)]	Total	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2012	788,369	263,663	1,052,032	$ 45.49
Granted	910,011	328,780	1,238,791	23.07
Vested	(395,862)	-	(395,862)	39.50
Performance adjustment factor [(b)]	-	(89,329)	(89,329)	40.16
Forfeited or expired	(40,320)	-	(40,320)	34.59
Nonvested at December 31, 2012	1,262,198	503,114	1,765,312	$ 31.62

(a) The number of shares shown for the performance awards is based on the target number of share awards.

(b) Consists of adjustments to vested performance awards to reflect actual performance. The adjustments were required since the original grants of the awards were at 100 percent of the targeted amounts.

The following table presents information on RSUs and performance awards granted:

	2012	2011	2010
Number of awards granted	**1,238,791**	507,120	465,600
Weighted-average grant-date fair value per share	**$ 23.07**	$ 49.10	$ 48.23

During the years ended December 31, 2012, 2011, and 2010, the total fair value of shares vested was $16 million, $15 million, and $20 million, respectively.

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13. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European and Canadian operations. USSE s revenues are primarily in Euros and costs are primarily in U.S. dollars and Euros. USSC s revenues and costs are denominated in both Canadian and U.S. dollars. In addition, foreign cash requirements have been and in the future may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved, which can affect income when remeasured at the end of each period.

U. S. Steel uses euro forward sales contracts with maturities no longer than 12 months to exchange euros for U.S. dollars to manage our exposure to foreign currency exchange rate fluctuations. Derivative instruments are required to be recognized at fair value in the balance sheet. U. S. Steel has not elected to designate these euro forward sales contracts as hedges. Therefore, changes in their fair value are recognized immediately in the results of operations. The gains and losses recognized on the euro forward sales contracts may also partially offset the accounting remeasurement gains and losses recognized on intercompany loans.

As of December 31, 2012, U. S. Steel held euro forward sales contracts with a total notional value of approximately $408 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Additionally, U. S. Steel uses fixed-price forward physical purchase contracts to partially manage our exposure to price risk related to the purchases of natural gas and certain nonferrous metals used in the production process. During 2012, 2011 and 2010, the forward physical purchase contracts for natural gas and nonferrous metals qualified for the normal purchases and normal sales exemption in ASC Topic 815 and were not subject to mark-to-market accounting.

The following summarizes the location and amounts of the fair values related to derivatives included in U. S. Steel s financial statements as of December 31, 2012 and 2011:

(In millions)	Location of Fair Value in Balance Sheet	Fair Value December 31, 2012	Fair Value December 31, 2011
Foreign exchange forward contracts	Accounts receivable	**$ -**	$ 31
Foreign exchange forward contracts	Accounts payable	**$ 12**	$ -

The following summarizes the location and amounts of the gains and losses related to derivatives included in U. S. Steel s financial statements for the years ended December 31, 2012, 2011 and 2010:

(In millions)	Location of Gain (Loss) on Derivative	Amount of Gain (Loss) Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010

	in Statement of Operations			
Foreign exchange forward contracts	Other financial costs/income	**($ 7)**	$ 13	$ 3

In accordance with the guidance in ASC Topic 820 on fair value measurements and disclosures, the fair value of our euro forward sales contracts was determined using Level 2 inputs, which are defined as significant other observable inputs. The inputs used are from market sources that aggregate data based upon market transactions.

14. Debt

(In millions)	Interest Rates %	Maturity	December 31, 2012	2011
2037 Senior Notes	6.65	2037	**$ 350**	$ 350
2022 Senior Notes	7.50	2022	**400**	-
2020 Senior Notes	7.375	2020	**600**	600
2018 Senior Notes	7.00	2018	**500**	500
2017 Senior Notes	6.05	2017	**450**	450
2014 Senior Convertible Notes	4.00	2014	**863**	863
2013 Senior Notes	5.65	2013	**-**	300
Province Note (C$150 million)	1.00	2015	**151**	147
Environmental Revenue Bonds	5.38 - 6.88	2015 - 2042	**549**	455
Recovery Zone Facility Bonds	6.75	2040	**70**	70
Fairfield Caster Lease		2022	**35**	11
Other capital leases and all other obligations		2013 - 2014	**1**	10
Amended Credit Agreement	Variable	2016	**-**	-
USSK Revolver	Variable	2013	**-**	129
USSK credit facilities	Variable	2015	**-**	-
USSS credit facilities	Variable	N/A	**-**	-
Total Debt			**3,969**	3,885
Less Province Note fair value adjustment			**23**	28
Less unamortized discount			**8**	9
Less short-term debt and long-term debt due within one year			**2**	20
Long-term debt			**$ 3,936**	$ 3,828

Issuance of Senior Notes due 2022

On March 15, 2012, U. S. Steel issued $400 million of 7.50% Senior Notes due March 15, 2022 (2022 Senior Notes). U. S. Steel received net proceeds from the offering of $392 million after fees of $8 million related to the underwriting discount and third party expenses. The majority of the net proceeds from the issuance of the 2022 Senior Notes was used in April 2012 to redeem all of our $300 million of 5.65% Senior Notes due June 1, 2013.

The 2022 Senior Notes are senior and unsecured obligations that rank equally in right of payment with all of our other existing and future senior indebtedness. U. S. Steel will pay interest on the notes semi-annually in arrears on March 15th and September 15th of each year, commencing on September 15, 2012. The 2022 Senior Notes were issued under U. S. Steel s shelf registration statement and are not listed on any national securities exchange.

Similar to our other senior notes, the 2022 Senior Notes restrict our ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all of our assets. They also contain provisions requiring the purchase of the 2022 Senior Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

U. S. Steel may redeem the 2022 Senior Notes, in whole or in part, at our option at any time or from time to time on or after March 15, 2017 at the redemption price for such notes set forth below as a percentage of the principal amount, plus accrued and unpaid interest to, but excluding,

the redemption date, if redeemed during the twelve-month period beginning March 15 of the years indicated below:

Year	**Redemption Price**
2017	103.750%
2018	102.500%
2019	101.250%
2020 and thereafter	100.000%

Senior Notes

On March 16, 2010, U. S. Steel issued $600 million of 7.375 percent Senior Notes due 2020 (2020 Senior Notes). The 2020 Senior Notes were issued at 99.125 percent of their principal amount. U. S. Steel received net proceeds of $582 million after fees of $13 million for the underwriting discount and third party expenses. Interest is payable semi-annually on April 1st and October 1st of each year. The 2020 Senior Notes are not listed on any national securities exchange. The 2020 Senior Notes contain covenants limiting our ability to create liens, to enter into sale-leaseback transactions and to consolidate, merge or transfer all, or substantially all of our assets. They also contain provisions requiring the purchase of the 2020 Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

On December 10, 2007, U. S. Steel issued $500 million of 7.00 percent Senior Notes due 2018 (the 2018 Senior Notes). Interest is payable semi-annually on February 1st and August 1st of each year. The 2018 Senior Notes are not listed on any national securities exchange. The 2018 Senior Notes contain covenants limiting our ability to create liens, to enter into sale-leaseback transactions and to consolidate, merge or transfer all, or substantially all of our assets. They also contain provisions requiring the purchase of the 2018 Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

On May 21, 2007, U. S. Steel issued a total of $1,100 million of senior notes consisting of $350 million at 6.65 percent due 2037, $450 million at 6.05 percent due 2017, and $300 million at 5.65 percent due 2013, collectively, the Senior Notes (and individually, the 2037 Senior Notes, the 2017 Senior Notes and the 2013 Senior Notes, respectively). Interest is payable semi-annually on June 1st and December 1st of each year. All of the $300 million 5.65 percent Senior Notes due June 1, 2013 were redeemed in April 2012 as noted above. The Senior Notes are not listed on any national securities exchange. The Senior Notes contain covenants limiting our ability to create liens, to enter into sale-leaseback transactions and to consolidate, merge or transfer all, or substantially all of our assets. They also contain provisions requiring the purchase of the Senior Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

Senior Convertible Notes

On May 4, 2009, U. S. Steel issued $863 million of 4.00% Senior Convertible Notes due May 15, 2014 (the Senior Convertible Notes). The Senior Convertible Notes are senior and unsecured obligations that rank equally with U. S. Steel s other existing and future senior and unsecured indebtedness. Interest on the Senior Convertible Notes is payable semi-annually on May 15th and November 15th of each year. The Senior Convertible Notes are not listed on any national securities exchange.

U. S. Steel may not redeem the Senior Convertible Notes prior to their maturity date. Holders may convert their Senior Convertible Notes into shares of U. S. Steel common stock at their option at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date of May 15, 2014. The initial conversion rate for the Senior Convertible Notes is 31.3725 shares of U. S. Steel common stock per $1,000 principal amount of Senior Convertible Notes, equivalent to an initial conversion price of approximately $31.875 per share of common stock, subject to adjustment as defined in the Senior Convertible Notes. On the issuance date of the Senior Convertible Notes, the market price of U. S. Steel s common stock was below the stated conversion price of $31.875 and therefore, there was no beneficial conversion option to the holders. Based on the initial conversion rate, the Senior Convertible Notes are convertible into 27,058,781 shares of U. S. Steel common stock and we reserved for the possible issuance of 33,824,000 shares, which is the maximum amount that could be issued upon conversion. Other

than receiving cash in lieu of fractional shares, holders do not have the option to receive cash upon conversion. As of December 31, 2012, there have been an immaterial amount of conversions.

If U. S. Steel undergoes a fundamental change, as defined in the Senior Convertible Notes, holders may require us to repurchase the Senior Convertible Notes in whole or in part for cash at a price equal to 100% of the principal amount of the Senior Convertible Notes to be purchased plus any accrued and unpaid interest (including additional interest, if any) up to, but excluding the repurchase date.

The Senior Convertible Notes contain covenants limiting our ability to create liens, to enter into sale-leaseback transactions and to consolidate, merge or transfer all, or substantially all of our assets. They also contain provisions requiring the purchase of the Senior Convertible Notes upon a change of control under certain specified circumstances, as well as other customary provisions. In addition, certain payment defaults on other indebtedness are a default under the Senior Convertible Notes.

Province Note

In its acquisition of Stelco on October 31, 2007, U. S. Steel assumed a note that Stelco had issued to the Province of Ontario, Canada. The face amount of the Province Note is C$150 million (approximately $151 million and $147 million at December 31, 2012 and 2011) and is payable on December 31, 2015. The Province Note is unsecured and is subject to a 75 percent discount if the solvency deficiencies in the four main Stelco pension plans (see Note 16) are eliminated on or before the maturity date. The Province Note bears interest at a rate of one percent per annum and is payable semi-annually. Upon the acquisition, the Province Note was recorded at its present value of amounts to be paid using a current interest rate, in accordance with FAS 141. The Province Note will be accreted up to its face value over its term assuming an effective interest rate of 6.67 percent.

Obligations relating to Environmental Revenue Bonds

At December 31, 2012, U. S. Steel is the obligor on $549 million of Environmental Revenue Bonds. On August 17, 2012, U. S. Steel entered into loan agreements with several local authorities in connection with the issuance and sale of $94 million of Environmental Revenue Bonds due August 1, 2042 (2042 Environmental Revenue Bonds) to fund certain capital projects at our Gary Works, Clairton Plant and Granite City Works. The net proceeds from the sale of the 2042 Environmental Revenue Bonds were $93 million after fees of $1 million and are reflected as restricted cash in other noncurrent assets and become unrestricted as capital expenditures for these projects are made. At December 31, 2012, $67 million of this restricted cash remained. The interest rate on the loans is 5.75 percent and interest is payable semi-annually on February 1st and August 1st of each year.

Recovery Zone Facility Bonds

On December 1, 2010, U. S. Steel entered into a loan agreement in connection with the issuance and sale by the Lorain County Port Authority of $70 million of Lorain County Port Authority Recovery Zone Facility Revenue Bonds (the Recovery Zone Bonds). The proceeds from the sale of the Recovery Zone Bonds were used to fund a capital project at our Lorain Tubular Operations in Ohio. The interest rate on the loan is 6.75 percent and interest is payable semi-annually on June 1st and December 1st of each year.

Fairfield Caster Lease

U. S. Steel is the sub lessee of a slab caster at Fairfield Works in Alabama. In December 2012, U. S. Steel exercised an option to renew the lease for a nine year term and purchase the facility at the expiration of the renewal period in June 2022.

Amended Credit Agreement

On July 20, 2011, U. S. Steel entered into an amendment and restatement of its $750 million Credit Agreement dated June 12, 2009 (Amended Credit Agreement) which increased the facility to $875 million, extended the term to July 20, 2016, added a minimum liquidity requirement to address the maturity of the 4% Senior Convertible Notes due in May 2014, reduced the fixed charge coverage ratio and increased the availability by $25 million prior to its measurement and made amendments to other terms and conditions. The Amended Credit Agreement is secured with a security interest in the majority of U. S. Steel s domestic inventory, certain accounts receivable and related collateral.

The Amended Credit Agreement establishes a borrowing base formula, which limits the amounts U. S. Steel can borrow to a percent of the value of certain domestic inventory less specified reserves.

The Amended Credit Agreement provides for borrowings at interest rates based on defined, short-term, market rates plus a spread based on availability and includes other customary terms and conditions including restrictions on our ability to create certain liens and to consolidate, merge or transfer all, or substantially all, of our assets.

As of December 31, 2012, there were no amounts drawn on the Amended Credit Agreement and inventory values calculated in accordance with the Amended Credit Agreement supported the full $875 million of the facility. Under the Amended Credit Agreement, U. S. Steel must maintain a fixed charge coverage ratio (as further defined in the Amended Credit Agreement) of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 10% of the total aggregate commitments and $87.5 million. Since availability was greater than $87.5 million, compliance with the fixed charge coverage ratio covenant was not applicable. If the value of inventory does not support the full amount of the facility or we are not able to meet this covenant in the future, the full amount of this facility would not be available to the Company.

Receivables Purchase Agreement

U. S. Steel has a Receivables Purchase Agreement (RPA) under which trade accounts receivable are sold, on a daily basis without recourse, to U. S. Steel Receivables, LLC (USSR), a wholly owned, bankruptcy-remote, special purpose entity used only for the securitization program. As U. S. Steel accesses this facility, USSR sells senior undivided interests in the receivables to certain third-party commercial paper conduits for cash, while maintaining a subordinated undivided interest in a portion of the receivables. U. S. Steel has agreed to continue servicing the sold receivables at market rates.

At December 31, 2012 and December 31, 2011, eligible accounts receivable supported $625 million of availability under the RPA. There were no receivables sold to third-party conduits under this facility at December 31, 2012. Receivables Sold to Third-Party Conduits and Borrowings under Receivables Purchase Agreement of $380 million were recorded on the Consolidated Balance Sheet at December 31, 2011. The subordinated retained interest at December 31, 2012 and December 31, 2011 was $625 million and $245 million, respectively.

USSR pays the conduits a discount based on the conduits borrowing costs plus incremental fees. We paid $4 million in both 2012 and 2011 relating to fees on the RPA. These costs are included in other financial costs in the statement of operations.

Generally, the facility provides that as payments are collected from the sold accounts receivables, USSR may elect to have the conduits reinvest the proceeds in new eligible accounts receivable. During 2012 and 2011, collections of eligible accounts receivable of $1,175 million and $1,598 million, respectively, were reinvested.

The table below summarizes the trade receivables at December 31, 2012 and 2011 for USSR:

(In millions)	2012	2011
Balance of accounts receivable-net, eligible for sale to third-party conduits	$ 1,127	$ 1,214
Accounts receivable sold to third-party conduits	-	380
Balance included in Receivables on the balance sheet of U. S. Steel	$ 1,127	$ 834

The net book value of U. S. Steel s retained interest in the receivables represents the best estimate of the fair market value due to the short-term nature of the receivables. The retained interest in the receivables is recorded net of the allowance for bad debts, which historically have not been significant.

The facility may be terminated on the occurrence and failure to cure certain events, including, among others, failure of USSR to maintain certain ratios related to the collectability of the receivables and failure to make payment under its material debt obligations and may also be terminated upon a change of control. The facility expires on July 18, 2014.

U. S. Steel Ko ice (USSK) credit facilities

At December 31, 2012, USSK had no borrowings under its 200 million (approximately $264 million) revolving unsecured credit facility which expires in August 2013. At December 31, 2011, USSK had 100 million (approximately $129 million) borrowed under this facility.

During 2012, credit facilities totaling 60 million expired reducing the total of these facilities from 80 million to 20 million. At December 31, 2012, USSK had no borrowings under its 20 million credit facility (which approximated $26 million) and the availability was approximately $24 million due to approximately $2 million of customs and other guarantees outstanding. At December 31, 2011, USSK had no borrowings against its 80 million total unsecured revolving credit facilities (which approximated $104 million) and the availability was approximately $103 million due to approximately $1 million of customs and other guarantees outstanding.

The above facilities bear interest at the applicable inter-bank offer rate plus a margin and contain customary terms and conditions. USSK is the sole obligor on the facilities and is obligated to pay a commitment fee on the undrawn portion of the facilities.

U. S. Steel Serbia (USSS) credit facilities

The credit facilities for USSS were terminated on January 31, 2012 as a result of the sale of USSS (see Note 4).

Change in control event

At December 31, 2012, in the event of a change in control of U. S. Steel, holders of debt obligations (together totaling $3,163 million), which include the Senior Notes and the Senior Convertible Notes, may require U. S. Steel to repurchase such obligations in whole or in part for cash at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, the Amended Credit Agreement and the RPA may be terminated and any amount outstanding thereunder may be declared immediately due and payable. U. S. Steel may also be required to either

repurchase the leased Fairfield slab caster for $19 million or provide a letter of credit to secure the remaining obligation.

Debt Maturities Aggregate maturities of debt are as follows (in millions):

2013	2014	2015	2016	2017	Later Years	Total
$ 2	$ 865	$ 190	$ 45	$ 500	$ 2,344	$ 3,946[(a)]

(a) Debt maturities include the Province Note fair value adjustment discussed above.

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15. 2012 Labor Agreements

Effective September 1, 2012, U. S. Steel and its U. S. Steel Tubular Products, Inc. subsidiary reached new labor agreements with the United Steelworkers (USW), which cover approximately 16,600 employees at our flat-rolled, tubular, coke-making and iron ore operations in the United States (the 2012 Labor Agreements). The 2012 Labor Agreements expire on September 1, 2015. The agreements provided for a $2,000 lump sum payment that was paid to each covered active USW member in October 2012, which resulted in U. S. Steel recognizing a pretax charge of $35 million in the third quarter of 2012. The agreements also provide for a lump sum payment of $500, effective April 1, 2014, to each covered USW member active on that date which is being accrued over the requisite service period.

The 2012 Labor Agreements contain no-strike provisions and include wage increases of 2.0 percent on September 1, 2013 and 2.5 percent on January 1, 2015. The 2012 Labor Agreements also provide for pension and other benefit changes for both current employees and retirees (see Note 16).

16. Pensions and Other Benefits

U. S. Steel has defined contribution or multi-employer retirement benefits for more than half of its North American employees and non-contributory defined benefit pension plans covering the remaining North American employees. In the United States, benefits under the defined benefit pension 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 for most salaried employees in the United States under these plans are based upon a percent of total career pensionable earnings. Most salaried employees in the United States, including those not participating in the defined benefit pension plans of the Company, participate in defined contribution plans (401(k) plans) whereby the Company matches a certain percentage of salary based on the amount contributed by the participant. For those without defined benefit coverage, the Company also provides a retirement account benefit based on salary and attained age. The main U. S. Steel defined benefit pension plan was closed to new participants in 2003. At December 31, 2012, approximately 60 percent of U. S. Steel s union employees in the United States are covered by the Steelworkers Pension Trust (SPT), a multi-employer pension plan, to which U. S. Steel contributes on the basis of a fixed dollar amount for each hour worked.

The majority of employees and retirees of USSC participate in defined benefit pension plans and retiree health and life insurance plans. The majority of USSC union employees participate in defined benefit pension plans for which benefits are based upon years of service multiplied by a flat dollar rate. The main Hamilton bargaining unit defined benefit pension plan was closed to new entrants effective October 15, 2011, and the main Lake Erie bargaining unit defined benefit pension plan was closed to new entrants effective April 16, 2010. Hamilton and Lake Erie union employees hired on or after those respective dates are covered by defined contribution arrangements. The salaried Hamilton and Lake Erie defined benefit pension plans were closed to new participants in 1997 and currently less than half of active salaried USSC employees participate in these plans where benefits are based on final average pensionable earnings or a flat dollar rate. The balance of salaried employees participates in defined contribution arrangements.

U.S. Steel s defined benefit retiree health care and life insurance plans (Other Benefits) cover the majority of its employees in North America upon their retirement. Health care benefits are provided through hospital, surgical, major medical and drug benefit provisions or through health maintenance organizations, both subject to various cost sharing features, and in most cases

domestically, an employer cap on total costs. Upon their retirement, most salaried employees in the United States are provided with a flat dollar pre-Medicare benefit and a death benefit.

The majority of U. S. Steel s European employees are covered by government-sponsored programs into which U. S. Steel makes required contributions. Also, U. S. Steel sponsors defined benefit plans for most European employees covering benefit payments due to employees upon their retirement, some of which are government mandated. These same employees receive service awards throughout their careers based on stipulated service and, in some cases, age and service.

U. S. Steel and its U. S. Steel Tubular Products, Inc. subsidiary reached new labor agreements with the USW in September 2012 (the 2012 Labor Agreements, see Note 15) which required remeasurement of the other post-employment benefit (OPEB) plans effective September 1, 2012. The discount rate used for the September 1, 2012 remeasurement was 3.75 percent, as compared to 4.50 percent at December 31, 2011.

As remeasured on September 1, 2012, the OPEB accumulated postretirement benefit obligation is $270 million lower than December 31, 2011, primarily due to a reduction of approximately $520 million resulting from benefit and plan design changes in the 2012 Labor Agreements partially offset by an increase of $250 million primarily as a result of the reduced discount rate. With the obligation reduction and an increase in the market value of the assets for these OPEB plans at September 1, 2012, the funded status of the OPEB plans improved by approximately $410 million.

U. S. Steel uses a December 31 measurement date for its plans and may have an interim measurement date if significant events occur. Details relating to Pension Benefits and Other Benefits are below.

	Pension Benefits		**Other Benefits**	
(In millions)	**2012**	**2011**	**2012**	**2011**
Change in benefit obligations				
Benefit obligations at January 1	**$ 10,770**	$ 10,630	**$ 4,186**	$ 4,340
Service cost	**118**	111	**28**	25
Interest cost	**467**	511	**170**	209
Plan amendments	**29**	5	**(522)**	(26)
Actuarial losses (gains)	**848**	505	**375**	(26)
Exchange rate loss (gain)	**81**	(59)	**19**	(13)
Settlements, curtailments and termination benefits	**(28)**	(20)	**-**	-
Benefits paid	**(938)**	(913)	**(316)**	(323)
Benefit obligations at December 31	**$ 11,347**	$ 10,770	**$ 3,940**	$ 4,186
Change in plan assets				
Fair value of plan at January 1	**$ 8,353**	$ 8,655	**$ 1,473**	$ 1,407
Actual return on plan assets	**945**	419	**196**	80
Employer contributions	**234**	229	**76**	-
Exchange rate gain (loss)	**56**	(42)	**-**	-
Benefits paid from plan assets	**(929)**	(908)	**(13)**	(14)
Fair value of plan assets at December 31	**$ 8,659**	$ 8,353	**$ 1,732**	$ 1,473
Funded status of plans at December 31	**$ (2,688)**	$ (2,417)	**$ (2,208)**	$ (2,713)

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Amounts recognized in accumulated other comprehensive loss:

(In millions)	12/31/2011	2012 Amortization	2012 Activity	12/31/2012
Pensions				
Prior Service Cost	$ 97	$ (22)	$ 24	**$ 99**
Actuarial losses	4,530	(352)	478	**4,656**
Other Benefits				
Prior Service Cost	352	(11)	(521)	**(180)**
Actuarial Losses	307	(8)	314	**613**

As of December 31, 2012 and 2011, the following amounts were recognized in the balance sheet:

	Pension Benefits		Other Benefits	
(In millions)	2012	2011	2012	2011
Noncurrent assets	**$ 11**	$ 14	**$ -**	$ -
Current liabilities	**(245)**	(236)	**(360)**	(416)
Noncurrent liabilities	**(2,454)**	(2,195)	**(1,848)**	(2,297)
Accumulated other comprehensive loss [(a)]	**4,755**	4,589	**433**	658
Net amount recognized	**$ 2,067**	$ 2,172	**$ (1,775)**	$ (2,055)

(a) Accumulated other comprehensive loss effects associated with accounting for pensions and other benefits in accordance with ASC Topic 715 at December 31, 2012 and December 31, 2011, respectively, are reflected net of tax of $1,568 million and $1,714 million respectively, on the Statement of Stockholders Equity.

The Accumulated Benefit Obligation (ABO) for all defined benefit pension plans was $10,817 million and $10,296 million at December 31, 2012 and 2011, respectively.

	December 31,	
(In millions)	2012	2011
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Aggregate accumulated benefit obligations (ABO)	**$ (10,782)**	$ (10,263)
Aggregate projected benefit obligations (PBO)	**(11,313)**	(10,737)
Aggregate fair value of plan assets	**8,614**	8,307

The aggregate ABO in excess of plan assets reflected above is included in the payroll and benefits payable and employee benefits lines on the balance sheet.

Following are the details of net periodic benefit costs related to Pension and Other Benefits:

	Pension Benefits			Other Benefits		
(In millions)	2012	2011	2010	2012	2011	2010
Components of net periodic benefit cost:						
Service cost	**$ 118**	$ 111	$ 101	**$ 28**	$ 25	$ 21

Interest cost	**467**	511	543	**170**	209	227
Expected return on plan assets	**(614)**	(623)	(670)	**(117)**	(105)	(108)
Amortization - prior service costs	**22**	21	24	**11**	25	23
- actuarial losses	**352**	352	219	**8**	5	(11)
Net periodic benefit cost, excluding below	**345**	372	217	**100**	159	152
Multiemployer plans [(a)]	**70**	65	56	**-**	-	-
Settlement, termination and curtailment (gains)/losses	**(3)**	6	3	**-**	-	-
Net periodic benefit cost	**$ 412**	$ 443	$ 276	**$ 100**	$ 159	$ 152

(a) Primarily represents pension expense for the SPT covering USW employees hired from National Steel Corporation and new USW employees hired after May 21, 2003.

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Prior to the 2012 Labor Agreements, profit-based amounts were used to reduce retiree medical premiums. These amounts were calculated as a percentage of consolidated income from operations (as defined in the 2008 Collective Bargaining Agreements) based on 7.5 percent of profit between $10 and $50 per ton and 10 percent of profit above $50 per ton. This amount was recognized on a deferred basis and estimated as part of the actuarial calculations used to derive Other Benefit expense. Other Benefit expense in 2012, 2011 and 2010 included approximately $40 million in costs to reflect the profit-based payments.

Net periodic benefit cost for pensions and other benefits is projected to be approximately $385 million and approximately $55 million, respectively, in 2013. The pension cost projection includes $74 million of contributions to the SPT. The amounts in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit cost during 2013 are as follows:

(In millions)	Pension Benefits 2013	Other Benefits 2013
Amortization of actuarial loss	$ 368	$ 31
Amortization of prior service cost	24	(13)
Total recognized from accumulated other comprehensive income	$ 392	$ 18

Assumptions used to determine the benefit obligation at December 31 and net periodic benefit cost for the year ended December 31 are detailed below:

	Pension Benefits				Other Benefits			
	2012		2011		2012		2011	
	U.S.	International	U.S.	International	U.S.	International	U.S.	International
Actuarial assumptions used to determine benefit obligations at December 31:								
Discount rate	**3.75%**	**3.75%**	4.50%	4.50%	**3.75%**	**3.75%**	4.50%	4.50%
Increase in compensation rate	**4.00%**	**3.00%**	4.00%	3.00%	**4.00%**	**3.00%**	4.00%	3.00%

	Pension Benefits					
	2012		2011		2010	
	U.S.	International	U.S.	International	U.S.	International
Actuarial assumptions used to determine net periodic benefit cost for the year ended December 31:						
Discount rate	**4.50%**	**4.50%**	5.00%	5.00%	5.50%	6.00%
Expected annual return on plan assets	**7.75%**	**7.25%**	8.00%	7.50%	8.00%	7.43%
Increase in compensation rate	**4.00%**	**3.00%**	4.00%	3.00%	4.00%	3.00%

	Other Benefits					
	2012		2011		2010	
	U.S.	International	U.S.	International	U.S.	International
Discount rate	**4.50%**	**4.50%**	5.00%	5.00%	5.50%	6.00%
Expected annual return on plan assets	**7.75%**	**n/a**	8.00%	n/a	8.00%	n/a
Increase in compensation rate	**4.00%**	**3.00%**	4.00%	3.00%	4.00%	3.00%

The discount rate reflects the current rate at which the pension and other benefit liabilities could be effectively settled at the measurement date. In setting the domestic rates, we utilize several AAA and AA corporate bond indices as an indication of interest rate movements and levels. Based on

this evaluation at December 31, 2012, U. S. Steel decreased the discount rate used to measure both domestic Pension and Other Benefits obligations to 3.75 percent. For USSC benefit plans, a discount rate was selected through a similar review process using Canadian bond rates and indices and at December 31, 2012, U. S. Steel decreased the discount rate to 3.75 percent for its Canadian-based pension and other benefits.

	2012		2011	
Assumed health care cost trend rates at December 31:	**U.S.**	**Canada**	**U.S.**	**Canada**
Health care cost trend rate assumed for next year	**7.00%**	**6.00%**	7.00%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00%**	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2017**	**2017**	2016	2014

A one-percentage-point change in the assumed return on plan assets, discount rate or health care cost trend rates would have the following effects:

(In millions)	**1-Percentage-Point Increase**	**1-Percentage-Point Decrease**
Expected return on plan assets		
Incremental (decrease) increase in:		
Net periodic pension costs for 2013	$ (103)	$ 103
Discount rate		
Incremental (decrease) increase in:		
Net periodic pension & other benefits costs for 2013	$ (58)	$ 53
Pension & other benefits liabilities at December 31, 2012	$ (1,425)	$ 1,654
Health care cost escalation trend rates		
Incremental increase (decrease) in:		
Other postretirement benefit obligations	$ 245	$ (205)
Service and interest costs components	$ 11	$ (9)

U. S. Steel reviews its own actual historical rate experience and expectations of future health care cost trends to determine the escalation of per capita health care costs under U. S. Steel s benefit plans. About two thirds of our costs for the domestic USW participants retiree health benefits in the Company s main domestic benefit plan are limited to a per capita dollar maximum calculation based on 2006 base year actual costs incurred under the main U. S. Steel benefit plan for USW participants (the cost cap). The full effect of the cost cap was deferred in the 2012 Labor Agreements until 2015. After 2015, the Company s costs for a majority of USW retirees and their dependents are expected to remain fixed with the application of the cost cap and as a result, the cost impact of health care escalation for the Company is projected to be limited for this group.

In our Canadian retiree medical plans, most health care cost escalation results from the drug programs since most hospital and physician benefits are provided by the Government which incurs the escalation. Health care cost escalation applies to most other groups within the Company s benefit plans, but does not apply to most domestic non-union retirees since their benefits are limited to flat dollar amounts or are not existent.

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Plan Assets

ASC Topic 820 on fair value measurements includes a three-tier hierarchy as a framework for the inputs used in measuring fair value. The categories for determining fair market value are summarized below:

Level 1 quoted prices in active markets for identical investments
Level 2 other significant and observable comparable investments (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
Level 3 investments lacking easily comparable data (including the plan s own assumptions in determining the fair value of investments)

U. S. Steel s Pension plan and Other Benefits plan assets are classified as follows:

Level 1	Level 2	Level 3
Investment Trusts	Internally Managed Partnerships	Private Equities
Exchange-traded Funds	Non-public Investment Partnerships	Timberlands
Short-term Investments	Debt Securities - U.S.	Real Estate
Equity Securities - U.S.	Debt Securities - Foreign	Mineral Interests
Equity Securities - Foreign	Pooled Funds	
Government Bonds - U.S.	Government Bonds - Foreign	

An instrument s level is based on the lowest level of any input that is significant to the fair value measurement. Investments in investment trusts and exchange-traded funds are valued using a market approach at the closing price reported in an active market. Short term investments are valued at amortized cost which approximates fair value due to the short-term maturity of the instruments. Equity Securities U.S. and Equity Securities Foreign are valued at the closing price reported on the active exchange on which the individual securities are traded. Government Bonds U.S. are valued by accepting a price from a public pricing source. Investments in Internally Managed Partnerships are valued using a market approach at the net asset value of units held, however investment opportunities in these partnerships are restricted to the benefit plans of U. S. Steel, its subsidiaries and current and former affiliates. Investments in non-public investment partnerships and pooled funds are valued using a market approach based on the aggregated value of the underlying investments. Government Bonds Foreign, Debt Securities U.S. and Debt Securities Foreign are valued by accepting a price from a public pricing source or broker quotes. Private Equities are valued using information provided by external managers for each individual investment held in the fund. Real estate and timberland investments are either appraised or valued using the investment managers assessment of the assets within the fund. Mineral Interests are valued at the present value of estimated future cash flows discounted at estimated market rates for assets of similar quality and duration.

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The following is a summary of U. S. Steel s Pension plan assets carried at fair value at December 31, 2012 and 2011:

	Fair Value Measurements at December 31, 2012 (in millions)			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Interest in Internally Managed Partnership Fixed Income[(a)]	$ 1,688	$ -	$ 1,688	$ -
Interest in Internally Managed Partnership Equity[(b)]	3,491	-	3,491	-
Interest in Investment Partnerships[(c)]	608	-	608	-
Equity securities Foreign[(d)]	514	514	-	-
Government bonds Foreign[(e)]	499	-	499	-
Pooled funds[(f)]	280	-	280	-
Private equities	342	-	-	342
Real estate	300	-	-	300
Other[(g)]	937	503	193	241
Total	$ 8,659	$ 1,017	$ 6,759	$ 883

(a) **UCF Fixed Income Fund LP -** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Debt Securities U.S.	$ 1,112
Government Bonds U.S.	473
Agency Mortgages	85
Other	18
Total	$ 1,688

(b) **UCF Equity Fund LP -** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Equity Securities U.S.	$ 3,166
Equity Securities Foreign	149
Investment sales receivable	111
Other	65
Total	$ 3,491

(c) Private investment partnerships whose investment objectives are to achieve long-term capital appreciation by investing in global equity markets.
(d) Includes investments held in a diversified portfolio of Canadian equity securities with no single sector representing more than 30 percent of the portfolio by value.
(e) Includes investments in Canadian National and Provincial government bonds.
(f) Investments in funds incorporated in Canada that invest in diversified portfolios of global debt and equity securities.
(g) Asset categories that are greater than 3% of investments at fair value are disclosed separately. All Other includes interests in investment trusts, exchange-traded funds, short-term investments, government bonds U.S., debt securities U.S., debt securities foreign, timberlands, mineral interests and miscellaneous receivables and payables.

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	Fair Value Measurements at December 31, 2011 (in millions)			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Interest in Internally Managed Partnership Fixed Income[(a)]	$ 1,657	$ -	$ 1,657	$ -
Interest in Internally Managed Partnership Equity[(b)]	3,418	-	3,418	-
Interest in Investment Partnerships[(c)]	485	-	485	-
Equity securities Foreign[(d)]	556	556	-	-
Government bonds Foreign[(e)]	488	-	488	-
Pooled funds[(f)]	308	-	308	-
Private equities	334	-	-	334
Real estate	274	-	-	274
Other[(g)]	833	405	186	242
Total	$ 8,353	$ 961	$ 6,542	$ 850

(a) **UCF Fixed Income Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Debt Securities U.S.	$ 1,179
Government Bonds U.S.	335
Agency Mortgages	129
Other	14
Total	$ 1,657

(b) **UCF Equity Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Equity Securities U.S.	$ 3,009
Equity Securities Foreign	143
Investment sales receivable	237
Other	29
Total	$ 3,418

(c) Private investment partnerships whose investment objectives are to achieve long-term capital appreciation by investing in global equity markets.
(d) Includes investments held in a diversified portfolio of Canadian equity securities with no single sector representing more than 30 percent of the portfolio by value.
(e) Includes investments in Canadian National and Provincial government bonds.
(f) Investments in funds incorporated in Canada that invest in diversified portfolios of global debt and equity securities.
(g) Asset categories that are greater than 3% of investments at fair value are disclosed separately. All Other includes interests in investment trusts, exchange-traded funds, equity securities U.S., short-term investments, government bonds U.S., debt securities U.S., debt securities foreign, timberlands, mineral interests and miscellaneous receivables and payables.

The following table sets forth a summary of changes in the fair value of U. S. Steel s Pension plan level 3 assets for the years ended December 31, 2012 and 2011 (in millions):

	Other (level 3 assets only)	
	2012	**2011**
Balance at beginning of period	**$ 850**	$ 752

Transfers in and/or out of level 3	**-**	-
Actual return on plan assets:		
Realized gain	**69**	25
Net unrealized gain	**8**	59
Purchases, sales, issuances and settlements:		
Purchases	**98**	108
Sales	**(142)**	(94)
Balance at end of period	**$ 883**	$ 850

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The following is a summary of U. S. Steel s Other Benefits plan assets carried at fair value at December 31, 2012 and 2011:

	Fair Value Measurements at December 31, 2012 (in millions)			
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Asset Classes				
Interest in Internally Managed Partnership Fixed Income[a]	$ 468	$ -	$ 468	$ -
Interest in Internally Managed Partnership Equity[b]	1,061	-	1,061	-
Interest in Investment Partnerships[c]	94	-	94	-
All Other[d]	109	38	-	71
Total	$ 1,732	$38	$ 1,623	$71

(a) **UCF Fixed Income Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Debt Securities U.S.	$ 308
Government Bonds U.S.	131
Agency Mortgages	24
Other	5
Total	$ 468

(b) **UCF Equity Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Equity Securities U.S.	$ 950
Equity Securities Foreign	45
Investment sales receivable	33
Other	33
Total	$ 1,061

(c) Private investment partnerships whose investment objectives are to achieve long-term capital appreciation by investing in global equity markets.

(d) Asset categories that are greater than 3% of investments at fair value are disclosed separately. All Other includes Short-term investments, Exchange-traded funds, Private Equities, Real Estate, Timberlands and miscellaneous receivables and payables.

	Fair Value Measurements at December 31, 2011 (in millions)			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Interest in Internally Managed Partnership Fixed Income[(a)]	$ 405	$ -	$ 405	$ -
Interest in Internally Managed Partnership Equity[(b)]	893	-	893	-
Interest in Investment Partnerships[(c)]	80	-	80	-
All Other[(d)]	95	38	-	57
Total	$ 1,473	$ 38	$ 1,378	$ 57

(a) **UCF Fixed Income Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Debt Securities U.S.	$ 274
Government Bonds U.S.	89
Agency Mortgages	31
Other	11
Total	$ 405

(b) **UCF Equity Fund LP** a Delaware limited partnership that offers interests to employee benefit plans for which United States Steel and Carnegie Pension Fund (UCF) acts as trustee, investment advisor and/or investment manager. Looking through the limited partnership, the plan s holdings are as follows:

Equity Securities U.S.	$ 791
Equity Securities Foreign	37
Investment sales receivable	60
Other	5
Total	$ 893

(c) Private investment partnerships whose investment objectives are to achieve long-term capital appreciation by investing in global equity markets.
(d) Asset categories that are greater than 3% of investments at fair value are disclosed separately. All Other includes Short-term investments, Exchange-traded funds, Private Equities, Real Estate, Timberlands and miscellaneous receivables and payables.

The following table sets forth a summary of changes in the fair value of U. S. Steel s Other Benefits plan level 3 assets for the years ended December 31, 2012 and 2011 (in millions):

	Other (level 3 assets only)	
	2012	**2011**
Balance at beginning of period	**$ 57**	$ 46
Transfers in and/or out of level 3	**-**	-
Actual return on plan assets:		
Realized gain	**2**	1
Net unrealized gain	**3**	3
Purchases, sales, issuances and settlements:		
Purchases	**17**	12
Sales	**(8)**	(5)

Balance at end of period	**$ 71**	$ 57

U. S. Steel s investment strategy for its U.S. pension and other benefits plan assets provides for a diversified mix of public equities, high quality bonds and selected smaller investments in private equities, investment trusts and partnerships, timber and mineral interests. For its U.S. Pension and Other Benefit plans, U. S. Steel has a target allocation for plan assets of 60 percent and 70

percent in equities, respectively, with the balance primarily invested in corporate bonds, Treasury bonds and government-backed mortgages. U. S. Steel believes that returns on equities over the long term will be higher than returns from fixed-income securities as actual historical returns from U. S. Steel s trusts have shown. Returns on bonds tend to offset some of the short-term volatility of stocks. Both equity and fixed-income investments are made across a broad range of industries and companies to provide protection against the impact of volatility in any single industry as well as company specific developments. U. S. Steel will use a 7.75 percent assumed rate of return on assets for the development of net periodic cost for the main defined benefit pension plan and domestic OPEB plans in 2013. The 2013 assumed rate of return is the same as the rate of return used for 2012 domestic expense and was determined by taking into account the intended asset mix and some moderation of the historical premiums that fixed-income and equity investments have yielded above government bonds. Actual returns since the inception of the plans have exceeded this 7.75 percent rate and while recent annual returns have been volatile, it is U. S. Steel s expectation that rates will achieve this level in future periods.

For USSC defined benefit pension plans, U. S. Steel s investment strategy is similar to its strategy for U.S. plans, whereby the Company seeks a diversified mix of large and mid-cap equities, high quality corporate and government bonds and selected smaller investments with a target allocation for plan assets of 65 percent equities. U. S. Steel will use a 7.25 percent assumed rate of return on assets for the development of net periodic costs for the USSC defined benefit expense in 2013. This is lower than the U.S. pension plan assumption as subcategories within the asset mix are from a more limited investment universe and, as a result, have a lower expected return. The 2013 assumed rate of return is the same as the rate of return used for 2012 USSC expense.

Steelworkers Pension Trust

U. S. Steel participates in a multi-employer defined benefit pension plan, the Steelworkers Pension Trust (SPT). For most bargaining unit employees participating in the SPT, U. S. Steel contributes to the SPT a fixed dollar amount for each hour worked of $2.65; a rate negotiated as part of the 2008 Collective Bargaining Agreement, and agreed to again as part of the 2012 Labor Agreements, which is set to expire on September 1, 2015. U. S. Steel s contributions to the SPT represented greater than 5% of the total combined contributions of all employers participating in the plan for the years ended December 31, 2012, 2011 and 2010.

Participation in a multi-employer pension plan agreed to under the terms of a collective bargaining agreement differ from a traditional qualified single employer defined benefit pension plan. The SPT shares risks associated with the plan in the following respects:

a. Contributions to the SPT by U. S. Steel may be used to provide benefits to employees of other participating employers;

b. If a participating employer stops contributing to the SPT, the unfunded obligations of the plan may be borne by the remaining participating employers;

c. If U. S. Steel chooses to stop participating in the SPT, U. S. Steel may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

On March 21, 2011 the Board of Trustees of the SPT elected funding relief which has the effect of decreasing the amount of required minimum contributions in near-term years, but will increase the minimum funding requirements during later plan years. As a result of the election of funding relief, the SPT s zone funding under the Pension Protection Act may be impacted.

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In addition to the funding relief election, the Board of Trustees also elected a special amortization rule, which allows the SPT to separately amortize investment losses incurred during the SPT s December 31, 2008 plan year-end over a 29 year period, whereas they were previously required to be amortized over a 15 year period.

U. S. Steel s participation in the SPT for the annual periods ended December 31, 2012, 2011 and 2010 is outlined in the table below.

Pension Fund	Employer Identification Number/ Pension Plan Number	Pension Protection Act Zone Status as of December 31[a]		FIP/RP Status Pending/ Implemented[b]	U.S. Steel Contributions (in millions)			Surcharge Imposed[c]		Expiration Date of Collective Bargaining Agreement
		2012	2011		2012	2011	2010	2012	2011	
Steelworkers Pension Trust	23-6648508/499	Green	Green	No	$ 69	$ 63	$ 56	No	No	September 1, 2015

(a) The zone status is based on information that U. S. Steel received from the plan and is certified by the plan s actuary. Among other factors, plans in the green zone are at least 80 percent funded, while plans in the yellow zone are less than 80 percent funded and plans in the red zone are less than 65 percent funded.

(b) Indicates if a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

(c) Indicates whether there were charges to U. S. Steel from the plan.

Cash Flows

Employer Contributions In addition to the contributions to the Steelworkers Pension Trust noted in the table above, U. S. Steel made voluntary contributions in 2012 of $140 million to its main defined benefit pension plan, $94 million in required contributions to the USSC plans and $20 million of pension payments not funded by trusts. In 2011, U. S. Steel made a $140 million voluntary contribution to its main defined benefit pension plan, $92 million in required contributions to the USSC plans and $23 million of pension payments not funded by trusts.

Cash payments totaling $303 million and $309 million were made for other postretirement benefit payments not funded by trusts in 2012 and 2011, respectively. In addition, in 2012, we made a $75 million contribution to a restricted account within our trust for represented retiree health care and life insurance benefits as required by collective bargaining agreements. U. S. Steel is similarly required to make $75 million contributions to that trust account during each annual period from 2013 to 2015.

In conjunction with the acquisition of Stelco, now USSC, U. S. Steel assumed the pension plan funding agreement (the Pension Agreement) that Stelco had entered into with the Superintendent of Financial Services of Ontario (the Province) on March 31, 2006 that covers USSC s four main pension plans. The Pension Agreement requires minimum contributions of C$70 million (approximately $70 million) per year in 2011 through 2015 plus additional annual contributions for benefit improvements, primarily related to union retiree indexing provisions. With the Hamilton Works and Lake Erie Works collective bargaining agreement settlements in 2011 and 2010, respectively, cost of living provisions are no longer provided through the pension plan covering former represented employees. The Pension Agreement remains in effect with its defined annual contributions as noted above until the earlier of full solvency funding for the four main plans or until December 31, 2015, when minimum funding requirements for the plans resume under the provincial pension legislation.

Estimated Future Benefit Payments The following benefit payments, which reflect expected future service as appropriate, are expected to be paid from U. S. Steel s defined benefit plans:

(In millions)	Pension Benefits	Other Benefits
2013	$ 935	$ 285
2014	845	295
2015	835	315
2016	820	270
2017	815	255
Years 2018 - 2022	3,755	1,160

Defined contribution plans

U. S. Steel also contributes to several defined contribution plans for its salaried employees. Approximately 64% of non-union salaried employees in North America receive pension benefits through a defined contribution pension plan with contribution percentages based on age, for which company contributions totaled $17 million, $15 million and $11 million in 2012, 2011 and 2010, respectively. U. S. Steel s matching contributions to salaried employees defined contribution savings fund plans, which for the most part are based on a percentage of the employees contributions, totaled $23 million in 2012, $20 million in 2011 and $11 million in 2010. Most union employees are eligible to participate in a defined contribution savings fund plan where there is no company match on savings except for certain Canadian hourly employees whose company contributions totaled $2 million in both 2012 and 2011. U. S. Steel also maintains a supplemental thrift plan to provide benefits which are otherwise limited by the Internal Revenue Service for qualified plans. U. S. Steel s costs under these defined contribution plans totaled $1 million in 2012, $2 million in 2011 and less than $1 million in 2010.

Other postemployment benefits

The Company provides benefits to former or inactive employees after employment but before retirement. Certain benefits including workers compensation and black lung benefits represent material obligations to the Company and under the guidance for nonretirement postemployment benefits, have historically been treated as accrued benefit obligations, similar to the accounting treatment provided for pensions and other benefits. APBO liabilities for these benefits recorded at December 31, 2012, totaled $102 million as compared to $104 million at December 31, 2011. APBO amounts were developed assuming a discount rate of 3.75 and 4.5 percent at December 31, 2012 and 2011. Net periodic benefit cost for these benefits is projected to be $13 million in 2013 compared to $12 million in 2012 and $11 million in 2011. The projected cost in 2013 includes $1 million in unrecognized actuarial gains that will be recorded against accumulated other comprehensive income.

Health Care Legislation

The Patient Protection and Affordable Care Act of 2010 (PPACA) includes many provisions impacting health care and health insurance coverage in the U.S. Beginning in 2013, PPACA eliminated the tax deductibility of retiree prescription drug expenses allocable to the Medicare Part D subsidies received by an employer. U. S. Steel recorded a tax charge of $27 million in the first quarter of 2010 to adjust deferred tax assets in order to recognize the estimated future tax effects. The Company believes that its retiree health indemnity plans are exempt from the PPACA s group market reform requirements, but that the HMO plans in which many retirees participate will be required to implement these new requirements, thereby potentially resulting in higher premiums for these retirees. Based on the guidance that has been issued with respect to the PPACA provision which imposes an excise tax on high-cost employer-sponsored health plan coverage beginning in 2018, the Company believes it has a de minimis exposure for future excise taxes on retiree medical benefits, and no amount has been included for this potential liability in Other Benefits.

Pension Funding

In January 2013, U. S. Steel s Board of Directors authorized voluntary contributions to U. S. Steel s trusts for pensions and other benefits of up to $300 million through the end of 2014.

In July 2012, pension stabilization legislation was enacted that includes a revised interest rate formula to be used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula results in higher interest rates for minimum funding calculations as compared to prior law over the next few years, which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions. U. S. Steel made voluntary contributions to our main U.S. defined benefit plan of $140 million in 2012 and 2011. U. S. Steel will likely make voluntary contributions of similar amounts in future periods in order to mitigate potentially larger mandatory contributions in later years. Assuming future asset performance consistent with our expected long-term earnings rate assumption of 7.75%, we anticipate that the pension stabilization legislation interest rate changes will allow us to continue to make voluntary contributions of approximately $140 million per year through 2016 before we could be required to contribute more than that amount should the current low interest rate environment persist.

17. Asset Retirement Obligations

U. S. Steel s asset retirement obligations (AROs) primarily relate to mine and landfill closure and post-closure costs. The following table reflects changes in the carrying values of AROs for the years ended December 31, 2012 and 2011:

	December 31,	
(In millions)	**2012**	**2011**
Balance at beginning of year	**$ 38**	$ 39
Additional obligations incurred	**2**	2
Obligations settled [(a)]	**(9)**	(5)
Accretion expense	**2**	2
Balance at end of year	**$ 33**	$ 38

(a) Includes $2 million as a result of the sale of USSS on January 31, 2012. See Note 4 for additional details.

Certain AROs related to disposal costs of the majority of fixed assets at our integrated steel facilities have not been recorded because they have an indeterminate settlement date. These AROs will be initially recognized in the period in which sufficient information exists to estimate their fair value.

18. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, current accounts and notes receivable, accounts payable, bank checks outstanding, accrued interest, receivables sold to third party conduits and borrowings under the Receivables Purchase Agreement (RPA) included in the Consolidated Balance Sheet approximate fair value. See Note 13 for disclosure of U. S. Steel s derivative instruments, which are accounted for at fair value on

a recurring basis.

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The following table summarizes U. S. Steel s financial assets and liabilities that were not carried at fair value at December 31, 2012 and 2011.

(In millions)	December 31, 2012 Fair Value	December 31, 2012 Carrying Amount	December 31, 2011 Fair Value	December 31, 2011 Carrying Amount
Financial assets:				
Investments and long-term receivables [a]	**$ 39**	**$ 39**	$ 45	$ 45
Financial liabilities:				
Debt [b]	**$ 4,113**	**$ 3,902**	$ 3,874	$ 3,827

(a) Excludes equity method investments.
(b) Excludes borrowings under the RPA and capital lease obligations.

The following methods and assumptions were used to estimate the fair value of financial instruments included in the table above:

Investments and long-term receivables: Fair value is based on level 2 inputs which were discounted cash flows. U. S. Steel is subject to market risk and liquidity risk related to its investments.

Long-term debt instruments: Fair value was determined using Level 2 inputs which were derived from quoted market prices and is based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities.

Fair value of the financial assets and liabilities 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.

Financial guarantees are U. S. Steel s only unrecognized financial instrument. For details relating to financial guarantees see Note 22.

19. Supplemental Cash Flow Information

(In millions)	2012	2011	2010
Net cash used in operating activities included:			
Interest and other financial costs paid (net of amount capitalized)	**$ (239)**	$ (222)	$ (195)
Income taxes (paid) refunded	**$ (71)**	$ 13	$ (63)
Noncash investing and financing activities:			
Change in accrued capital expenditures	**$ (52)**	(a)	(a)
Assets acquired under capital lease	**$ 35**	$ -	$ -
U. S. Steel common stock issued for employee stock plans	**$ 2**	$ -	$ (2)

(a) The change in accrued capital expenditures was insignificant for the years ended December 31, 2011 and 2010.

20. Transactions with Related Parties

Net sales to related parties and receivables from related parties primarily reflect sales of steel products to equity investees. Generally, transactions are conducted under long-term market-based contractual arrangements. Related party sales and service transactions were $1,303 million, $1,258 million and $1,218 million in 2012, 2011 and 2010, respectively.

Purchases from related parties for outside processing services provided by equity investees amounted to $58 million, $54 million and $85 million during 2012, 2011 and 2010, respectively. Purchases of iron ore pellets from related parties amounted to $298 million, $215 million and $151 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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Accounts payable to related parties include balances due to PRO-TEC Coating Company (PRO-TEC) of $53 million and $84 million at December 31, 2012 and 2011, respectively for invoicing and receivables collection services provided by U. S. Steel. U. S. Steel, as PRO-TEC s exclusive sales agent, is responsible for credit risk related to those receivables. U. S. Steel also provides PRO-TEC marketing, selling and customer service functions. Payables to other related parties totaled $3 million and $2 million at December 31, 2012 and 2011, respectively.

21. Leases

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

(In millions)	Capital Leases	Operating Leases
2013	$ 6	$ 55
2014	5	48
2015	5	43
2016	5	38
2017	5	24
Later years	20	7
Sublease rentals	-	-
Total minimum lease payments	46	$ 215
Less imputed interest costs	18	
Present value of net minimum lease payments included in long-term debt *(see Note 14)*	$ 28	

Operating lease rental expense:

(In millions)	2012	2011	2010
Minimum rentals	**$ 91**	$ 95	$ 93
Contingent rentals	**12**	11	10
Sublease rentals	**-**	-	(5)
Net rental expense	**$ 103**	$ 106	$ 98

U. S. Steel leases a wide variety of facilities and equipment under operating leases, including land and building space, office equipment, production equipment and transportation equipment. Most long-term leases include renewal options and, in certain leases, purchase options. See the discussion of residual value guarantees under other contingencies in Note 22. Contingent rental payments are determined based on operating lease agreements that include floating rental charges that are directly associated to variable operating components.

22. Contingencies and Commitments

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

U. S. Steel accrues for estimated costs related to existing lawsuits, claims and proceedings when it is probable that it will incur these costs in the future.

Asbestos matters As of December 31, 2012, U. S. Steel was a defendant in approximately 790 active cases involving approximately 3,330 plaintiffs. Many of these cases involve multiple defendants (typically from fifty to more than one hundred). About 2,560, or approximately 77 percent, of these claims are currently pending in jurisdictions which permitted filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. During 2012, U. S. Steel paid approximately $15 million in settlements. These settlements and other dispositions resolved approximately 190 claims. New case filings in 2012 added approximately 285 claims. At December 31, 2011, U. S. Steel was a defendant in approximately 695 active cases involving approximately 3,235 plaintiffs. During 2011, U. S. Steel paid approximately $8 million in settlements. These settlements and other dispositions resolved approximately 130 claims. New case filings in 2011 added approximately 275 claims. Most claims filed in 2012 and 2011 involved individual or small groups of claimants as many jurisdictions no longer permit the filing of mass complaints.

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

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 280 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

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

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

We are unable to estimate the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on U. S. Steel s financial condition, although the resolution of such matters could significantly impact results of operations for a particular quarter. Among the factors considered in reaching this conclusion are: (1) it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; (2) most asbestos containing material was removed or remediated at U. S. Steel facilities many years ago; and (3) U. S. Steel s history of trial outcomes, settlements and dismissals.

Environmental Matters U. S. Steel is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Changes in accrued liabilities for remediation activities are summarized in the following table:

	Twelve Months Ended December 31,	
(In millions)	**2012**	**2011**
Beginning of period	**$ 206**	$ 198
Accruals for environmental remediation deemed probable and reasonably estimable	**13**	36
Payments	**(16)**	(28)
End of period	**$ 203**	$ 206

Accrued liabilities for remediation activities are included in the following balance sheet lines:

(In millions)	**December 31, 2012**	**December 31, 2011**
Accounts payable	**$ 21**	$ 20
Deferred credits and other noncurrent liabilities	**182**	186
Total	**$ 203**	$ 206

Expenses related to remediation are recorded in cost of sales and totaled $13 million, $36 million and $8 million for the years ended December 31, 2012, 2011 and 2010, 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. Due to uncertainties inherent in remediation projects and the associated liabilities, it is possible that total remediation costs for active matters may exceed the accrued liabilities by as much as 15 to 30 percent.

Remediation Projects

U. S. Steel is involved in environmental remediation projects at or adjacent to several current and former U. S. Steel facilities and other locations that are in various stages of completion ranging from initial characterization through post-closure monitoring. Based on the anticipated scope and degree of uncertainty of projects, we categorize projects as follows:

(1) *Projects with Ongoing Study and Scope Development* are those projects which are still in the study and development phase. For these projects the extent of remediation that may be required is not yet known, the remediation methods and plans are not yet developed, and cost estimates cannot be determined. Therefore, significant costs, in addition to the accrued liabilities for these projects, are reasonably possible.

(2) *Significant Projects with Defined Scope* are those projects with significant accrued liabilities, a defined scope and little likelihood of significant additional costs.

(3) *Other Projects* are those projects with relatively small accrued liabilities for which we believe that, while additional costs are possible, they are not likely to be significant, and those projects for which we do not yet possess sufficient information to estimate potential costs to U. S. Steel.

Projects with Ongoing Study and Scope Development There are five environmental remediation projects where reasonably possible additional costs for completion are not currently estimable, but could be material. These projects are four Resource Conservation and Recovery Act (RCRA) programs (at Fairfield Works, Lorain Tubular, USS-POSCO Industries (UPI) and the Fairless Plant) and a voluntary remediation program at the former steel making plant at Joliet, Illinois. As of December 31, 2012, accrued liabilities for these projects totaled $2 million for the costs of studies, investigations, interim measures, design and/or remediation. It is reasonably possible that additional liabilities associated with future requirements regarding studies, investigations, design and remediation for these projects could be as much as $25 million to $45 million. Depending on agency negotiations and other factors, the UPI project may become defined in 2013.

Significant Projects with Defined Scope As of December 31, 2012, a total of $60 million was accrued for projects at or related to Gary Works where the scope of work is defined.

Additional projects with defined scope greater than or equal to $5 million are the St. Louis Estuary and Upland Project in Duluth, Minnesota and a project at U. S. Steel s former Geneva Works in Geneva, Utah. As of December 31, 2012, accrued liabilities for these two additional projects totaled $87 million. U. S. Steel does not expect material additional costs related to these projects.

Other Projects There are five other environmental remediation projects which each had an accrued liability of between $1 million and $5 million. The total accrued liability for these projects at December 31, 2012 was $11 million. These projects have progressed through a significant portion of the design phase and material additional costs are not expected.

The remaining environmental remediation projects each had an accrued liability of less than $1 million. The total accrued liability for these projects at December 31, 2012 was $8 million. We do not foresee material additional liabilities for any of these sites.

Post-Closure Costs Accrued liabilities for post-closure site monitoring and other costs at various closed landfills totaled $29 million at December 31, 2012 and were based on known scopes of work.

Administrative and Legal Costs As of December 31, 2012, U. S. Steel had an accrued liability of $6 million for administrative and legal costs related to environmental remediation projects. These accrued liabilities were based on projected administrative and legal costs for the next three years and do not change significantly from year to year.

Capital Expenditures For a number of years, U. S. Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 2012 and 2011, such capital expenditures totaled $53 million and $100 million, respectively. U. S. Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.