

UNITED STATES STEEL CORP  
Form 10-Q  
October 30, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended September 30, 2012

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other

jurisdiction of

incorporation)

1-16811  
(Commission

File Number)

25-1897152  
(IRS Employer

Identification No.)

600 Grant Street, Pittsburgh, PA  
(Address of principal executive offices)

15219-2800  
(Zip Code)

(412) 433-1121

(Registrant's telephone number,

including area code)

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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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 [☒] No [☐]

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 ☒

Accelerated filer ☐ Non-accelerated filer ☐  
(Do not check if a smaller  
reporting company)

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 ☒

Common stock outstanding at October 24, 2012 144,281,184 shares

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**UNITED STATES STEEL CORPORATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

(Unaudited)

| (Dollars in millions, except per share amounts)                                           | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |               |
|-------------------------------------------------------------------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
|                                                                                           | 2012                                | 2011         | 2012                               | 2011          |
| <b>Net sales:</b>                                                                         |                                     |              |                                    |               |
| Net sales                                                                                 | \$ 4,310                            | \$ 4,769     | \$ 13,838                          | \$ 14,110     |
| Net sales to related parties (Note 19)                                                    | 342                                 | 312          | 1,003                              | 955           |
| Total                                                                                     | 4,652                               | 5,081        | 14,841                             | 15,065        |
| <b>Operating expenses (income):</b>                                                       |                                     |              |                                    |               |
| Cost of sales (excludes items shown below)                                                | 4,311                               | 4,560        | 13,414                             | 13,679        |
| Selling, general and administrative expenses                                              | 166                                 | 181          | 512                                | 550           |
| Depreciation, depletion and amortization (Note 5)                                         | 163                                 | 172          | 490                                | 512           |
| Income from investees                                                                     | (48)                                | (27)         | (116)                              | (66)          |
| Net (gain) loss on disposal of assets (Notes 4 and 20)                                    | (1)                                 | -            | 308                                | (10)          |
| Other income, net                                                                         | (1)                                 | (4)          | (9)                                | (8)           |
| Total                                                                                     | 4,590                               | 4,882        | 14,599                             | 14,657        |
| <b>Income from operations</b>                                                             | <b>62</b>                           | <b>199</b>   | <b>242</b>                         | <b>408</b>    |
| Interest expense (Note 7)                                                                 | 45                                  | 47           | 160                                | 145           |
| Interest income                                                                           | (1)                                 | (1)          | (6)                                | (4)           |
| Other financial costs (income) (Note 7)                                                   | 1                                   | 98           | 23                                 | (5)           |
| Net interest and other financial costs                                                    | 45                                  | 144          | 177                                | 136           |
| <b>Income before income taxes</b>                                                         | <b>17</b>                           | <b>55</b>    | <b>65</b>                          | <b>272</b>    |
| Income tax (benefit) provision (Note 9)                                                   | (27)                                | 33           | 139                                | 114           |
| Net income (loss)                                                                         | 44                                  | 22           | (74)                               | 158           |
| Less: Net income attributable to noncontrolling interests                                 | -                                   | -            | -                                  | -             |
| <b>Net income (loss) attributable to United States Steel Corporation</b>                  | <b>\$ 44</b>                        | <b>\$ 22</b> | <b>\$ (74)</b>                     | <b>\$ 158</b> |
| <b>Income (loss) per common share (Note 11):</b>                                          |                                     |              |                                    |               |
| Net income (loss) per share attributable to United States Steel Corporation shareholders: |                                     |              |                                    |               |
| - Basic                                                                                   | \$ 0.30                             | \$ 0.15      | \$ (0.51)                          | \$ 1.10       |
| - Diluted                                                                                 | \$ 0.28                             | \$ 0.15      | \$ (0.51)                          | \$ 1.02       |

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

**UNITED STATES STEEL CORPORATION**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**(Unaudited)**

| <b>(Dollars in millions)</b>                                                | <b>Three Months Ended<br/>September 30,</b> |                | <b>Nine Months Ended<br/>September 30,</b> |               |
|-----------------------------------------------------------------------------|---------------------------------------------|----------------|--------------------------------------------|---------------|
|                                                                             | <b>2012</b>                                 | <b>2011</b>    | <b>2012</b>                                | <b>2011</b>   |
| Net income (loss) attributable to United States Steel Corporation           | <b>\$ 44</b>                                | <b>\$ 22</b>   | <b>\$ (74)</b>                             | <b>\$ 158</b> |
| Other comprehensive income (loss), net of tax:                              |                                             |                |                                            |               |
| Changes in foreign currency translation adjustments                         | <b>60</b>                                   | <b>(136)</b>   | <b>76</b>                                  | <b>(39)</b>   |
| Changes in pension and other employee benefit accounts                      | <b>224</b>                                  | <b>67</b>      | <b>360</b>                                 | <b>198</b>    |
| Other comprehensive income (loss)                                           | <b>284</b>                                  | <b>(69)</b>    | <b>436</b>                                 | <b>159</b>    |
| Comprehensive income (loss) attributable to United States Steel Corporation | <b>\$ 328</b>                               | <b>\$ (47)</b> | <b>\$ 362</b>                              | <b>\$ 317</b> |

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

## UNITED STATES STEEL CORPORATION

## CONSOLIDATED BALANCE SHEET

| (Dollars in millions)                                                        | (Unaudited)<br>September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                |                                      |                      |
| Current assets:                                                              |                                      |                      |
| Cash and cash equivalents                                                    | \$ 536                               | \$ 408               |
| Receivables, less allowance of \$55 and \$64                                 | 2,239                                | 1,921                |
| Receivables from related parties (Note 19)                                   | 173                                  | 132                  |
| Receivables sold to third party conduits (Note 14)                           | -                                    | 380                  |
| Inventories (Note 12)                                                        | 2,525                                | 2,775                |
| Deferred income tax benefits (Note 9)                                        | 119                                  | 114                  |
| Other current assets                                                         | 54                                   | 44                   |
| Total current assets                                                         | 5,646                                | 5,774                |
| Property, plant and equipment                                                | 16,711                               | 16,572               |
| Less accumulated depreciation and depletion                                  | 10,321                               | 9,993                |
| Total property, plant and equipment, net                                     | 6,390                                | 6,579                |
| Investments and long-term receivables, less allowance of \$3 in both periods | 645                                  | 683                  |
| Intangibles net (Note 5)                                                     | 257                                  | 262                  |
| Goodwill (Note 5)                                                            | 1,814                                | 1,783                |
| Assets held for sale (Note 4)                                                | -                                    | 41                   |
| Deferred income tax benefits (Note 9)                                        | 363                                  | 649                  |
| Other noncurrent assets                                                      | 381                                  | 302                  |
| Total assets                                                                 | \$ 15,496                            | \$ 16,073            |
| <b>Liabilities</b>                                                           |                                      |                      |
| Current liabilities:                                                         |                                      |                      |
| Accounts payable                                                             | \$ 1,864                             | \$ 1,977             |
| Accounts payable to related parties (Note 19)                                | 84                                   | 86                   |
| Bank checks outstanding                                                      | 49                                   | 24                   |
| Payroll and benefits payable                                                 | 1,048                                | 1,003                |
| Accrued taxes                                                                | 149                                  | 118                  |
| Accrued interest                                                             | 72                                   | 41                   |
| Short-term debt and current maturities of long-term debt (Note 14)           | 1                                    | 20                   |
| Borrowings under Receivables Purchase Agreement (Note 14)                    | -                                    | 380                  |
| Total current liabilities                                                    | 3,267                                | 3,649                |
| Long-term debt, less unamortized discount (Note 14)                          | 3,939                                | 3,828                |
| Employee benefits                                                            | 3,989                                | 4,600                |
| Deferred credits and other noncurrent liabilities                            | 438                                  | 495                  |
| Total liabilities                                                            | 11,633                               | 12,572               |
| Contingencies and commitments (Note 20)                                      |                                      |                      |
| <b>Stockholders' Equity (Note 18):</b>                                       |                                      |                      |
| Common stock (150,925,911 shares issued) (Note 11)                           | 151                                  | 151                  |
| Treasury stock, at cost (6,644,945 and 6,921,952 shares)                     | (521)                                | (550)                |
| Additional paid-in capital                                                   | 3,642                                | 3,650                |
| Retained earnings                                                            | 3,520                                | 3,616                |
| Accumulated other comprehensive loss                                         | (2,931)                              | (3,367)              |

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|                                                            |           |           |
|------------------------------------------------------------|-----------|-----------|
| Total United States Steel Corporation stockholders' equity | 3,861     | 3,500     |
| Noncontrolling interests                                   | 2         | 1         |
| Total liabilities and stockholders' equity                 | \$ 15,496 | \$ 16,073 |

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

**UNITED STATES STEEL CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

|                                                                        | Nine Months Ended<br>September 30, |              |
|------------------------------------------------------------------------|------------------------------------|--------------|
| (Dollars in millions)                                                  | 2012                               | 2011         |
| <b>Increase (decrease) in cash and cash equivalents</b>                |                                    |              |
| <b>Operating activities:</b>                                           |                                    |              |
| Net (loss) income                                                      | \$ (74)                            | \$ 158       |
| Adjustments to reconcile to net cash provided by operating activities: |                                    |              |
| Depreciation, depletion and amortization <i>(Note 5)</i>               | 490                                | 512          |
| Provision for doubtful accounts                                        | (3)                                | 4            |
| Pensions and other postretirement benefits                             | (112)                              | (74)         |
| Deferred income taxes                                                  | 86                                 | 10           |
| Net loss (gain) on disposal of assets <i>(Notes 4 and 20)</i>          | 308                                | (10)         |
| Currency remeasurement gain                                            | (13)                               | (26)         |
| Distributions received, net of equity investees income                 | (33)                               | (49)         |
| Changes in:                                                            |                                    |              |
| Current receivables                                                    | (86)                               | (576)        |
| Inventories                                                            | 168                                | (511)        |
| Current accounts payable and accrued expenses                          | 108                                | 443          |
| Income taxes receivable/payable                                        | 27                                 | 148          |
| Bank checks outstanding                                                | 25                                 | 21           |
| All other, net                                                         | 67                                 | 58           |
| <b>Net cash provided by operating activities</b>                       | <b>958</b>                         | <b>108</b>   |
| <b>Investing activities:</b>                                           |                                    |              |
| Capital expenditures <sup>(a)</sup>                                    | (536)                              | (626)        |
| Disposal of assets                                                     | 141                                | 16           |
| Change in restricted cash, net                                         | (67)                               | 21           |
| Investments, net                                                       | (4)                                | (22)         |
| <b>Net cash used in investing activities</b>                           | <b>(466)</b>                       | <b>(611)</b> |
| <b>Financing activities:</b>                                           |                                    |              |
| Revolving credit facilities borrowings                                 | 523                                | 3,316        |
| repayments                                                             | (653)                              | (3,163)      |
| Receivables Purchase Agreement proceeds                                | (380)                              | 75           |
| Issuance of long-term debt, net of financing costs                     | 485                                | -            |
| Repayment of long-term debt                                            | (319)                              | (18)         |
| Common stock issued                                                    | -                                  | 4            |
| Distributions from noncontrolling interests                            | -                                  | 1            |
| Dividends paid                                                         | (22)                               | (22)         |
| <b>Net cash (used in) provided by financing activities</b>             | <b>(366)</b>                       | <b>193</b>   |
| <b>Effect of exchange rate changes on cash</b>                         | <b>2</b>                           | <b>2</b>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>            | <b>128</b>                         | <b>(308)</b> |
| <b>Cash and cash equivalents at beginning of year</b>                  | <b>408</b>                         | <b>578</b>   |

|                                                   |               |               |
|---------------------------------------------------|---------------|---------------|
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 536</b> | <b>\$ 270</b> |
|---------------------------------------------------|---------------|---------------|

- (a) Excludes the change in accrued capital expenditures of \$50 million for the nine months ended September 30, 2012. The change in accrued capital expenditures was immaterial for the nine months ended September 30, 2011.

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

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**Notes to Consolidated Financial Statements (Unaudited)**

**1. Basis of Presentation**

United States Steel Corporation (U. S. Steel) produces and sells steel mill products, including flat-rolled and tubular products, in North America and Central Europe. Operations in North America also include transportation services (railroad and barge operations) and real estate operations.

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required for complete financial statements by accounting principles generally accepted in the United States of America (U.S. GAAP). The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the year ended December 31, 2011 which should be read in conjunction with these financial statements.

**2. New Accounting Standards**

On May 12, 2011, the Financial Accounting Standards Board (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. 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 is effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a material impact on U. S. Steel's financial statements.

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 is 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 are 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 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 is effective for interim and annual periods beginning after December 15, 2011. U. S. Steel adopted ASU 2011-08 on January 1, 2012.

On July 27, 2012 the 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 above. 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.

### 3. Segment Information

U. S. Steel has three reportable segments: Flat-rolled Products (Flat-rolled), U. S. Steel Europe (USSE), and Tubular Products (Tubular). The results of several other operating segments that do not constitute reportable segments are combined and disclosed in the Other Businesses category. Prior to January 31, 2012, our USSE reportable segment consisted of U. S. Steel Košice (USSK) and U. S. Steel Serbia (USSS). On January 31, 2012, U. S. Steel sold USSS (see note 4). The USSE segment information subsequent to January 31, 2012 reflects the results of USSK only.

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), 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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The results of segment operations for the three months ended September 30, 2012 and 2011 are:

| (In millions)                      | Customer Sales | Intersegment Sales | Net Sales | Income (loss) from investees | Income (loss) from operations |
|------------------------------------|----------------|--------------------|-----------|------------------------------|-------------------------------|
| <b>Third Quarter 2012</b>          |                |                    |           |                              |                               |
| Flat-rolled                        | \$ 3,142       | \$ 415             | \$ 3,557  | \$ 49                        | \$ 29                         |
| USSE                               | 696            | 68                 | 764       | -                            | 27                            |
| Tubular                            | 787            | 3                  | 790       | (1)                          | 102                           |
| Total reportable segments          | 4,625          | 486                | 5,111     | 48                           | 158                           |
| Other Businesses                   | 27             | 13                 | 40        | -                            | 13                            |
| Reconciling Items and Eliminations | -              | (499)              | (499)     | -                            | (109)                         |
| Total                              | \$ 4,652       | \$ -               | \$ 4,652  | \$ 48                        | \$ 62                         |
| <b>Third Quarter 2011</b>          |                |                    |           |                              |                               |
| Flat-rolled                        | \$ 3,136       | \$ 351             | \$ 3,487  | \$ 29                        | \$ 203                        |
| USSE                               | 1,072          | 6                  | 1,078     | -                            | (50)                          |
| Tubular                            | 846            | 2                  | 848       | (2)                          | 134                           |
| Total reportable segments          | 5,054          | 359                | 5,413     | 27                           | 287                           |
| Other Businesses                   | 27             | 74                 | 101       | -                            | 8                             |
| Reconciling Items and Eliminations | -              | (433)              | (433)     | -                            | (96)                          |
| Total                              | \$ 5,081       | \$ -               | \$ 5,081  | \$ 27                        | \$ 199                        |

The results of segment operations for the nine months ended September 30, 2012 and 2011 are:

| (In millions)                      | Customer Sales | Intersegment Sales | Net Sales | Income (loss) from investees | Income (loss) from operations |
|------------------------------------|----------------|--------------------|-----------|------------------------------|-------------------------------|
| <b>First Nine Months 2012</b>      |                |                    |           |                              |                               |
| Flat-rolled                        | \$ 9,798       | \$ 1,297           | \$ 11,095 | \$ 122                       | \$ 389                        |
| USSE                               | 2,274          | 143                | 2,417     | -                            | 27                            |
| Tubular                            | 2,604          | 6                  | 2,610     | (4)                          | 334                           |
| Total reportable segments          | 14,676         | 1,446              | 16,122    | 118                          | 750                           |
| Other Businesses                   | 165            | 105                | 270       | (2)                          | 46                            |
| Reconciling Items and Eliminations | -              | (1,551)            | (1,551)   | -                            | (554)                         |
| Total                              | \$ 14,841      | \$ -               | \$ 14,841 | \$ 116                       | \$ 242                        |
| <b>First Nine Months 2011</b>      |                |                    |           |                              |                               |
| Flat-rolled                        | \$ 9,409       | \$ 1,002           | \$ 10,411 | \$ 76                        | \$ 541                        |
| USSE                               | 3,391          | 67                 | 3,458     | -                            | (73)                          |
| Tubular                            | 2,183          | 5                  | 2,188     | (11)                         | 197                           |
| Total reportable segments          | 14,983         | 1,074              | 16,057    | 65                           | 665                           |
| Other Businesses                   | 82             | 210                | 292       | 1                            | 30                            |
| Reconciling Items and Eliminations | -              | (1,284)            | (1,284)   | -                            | (287)                         |
| Total                              | \$ 15,065      | \$ -               | \$ 15,065 | \$ 66                        | \$ 408                        |

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

| (In millions)                                      | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|----------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                    | 2012                                | 2011    | 2012                               | 2011     |
| Items not allocated to segments:                   |                                     |         |                                    |          |
| Postretirement benefit expense <sup>(a)</sup>      | \$ (74)                             | \$ (96) | \$ (228)                           | \$ (287) |
| Other items not allocated to segments:             |                                     |         |                                    |          |
| Labor agreement lump sum payments <i>(Note 16)</i> | \$ (35)                             | \$ -    | \$ (35)                            | \$ -     |
| Net loss on the sale of assets <i>(Note 4)</i>     | -                                   | -       | (310)                              | -        |
| Property tax settlements <sup>(b)</sup>            | -                                   | -       | 19                                 | -        |
| Total other items not allocated to segments        | (35)                                | -       | (326)                              | -        |
| Total reconciling items                            | \$ (109)                            | \$ (96) | \$ (554)                           | \$ (287) |

(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.

(b) Reflects the effects of Michigan property tax settlements that occurred in the first quarter 2012.

#### 4. Dispositions

The net loss on disposal of assets for the first nine months of 2012 primarily relates to the following dispositions:

##### 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 a \$40 million payment for certain intercompany balances owed by USSS for raw materials and support services. As a result of this transaction, U. S. Steel recorded a total non-cash pretax charge of \$399 million.

##### Birmingham Southern Railroad Company

On February 1, 2012, U. S. Steel completed the sale of the majority of the 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.

#### 5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2012 are as follows:

|                              | Flat-rolled<br>Segment | USSE<br>Segment | Tubular<br>Segment | Total    |
|------------------------------|------------------------|-----------------|--------------------|----------|
| Balance at December 31, 2011 | \$ 945                 | \$ 4            | \$ 834             | \$ 1,783 |
| Currency translation         | 31                     | -               | -                  | 31       |

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|                               |        |      |        |          |
|-------------------------------|--------|------|--------|----------|
| Balance at September 30, 2012 | \$ 976 | \$ 4 | \$ 834 | \$ 1,814 |
|-------------------------------|--------|------|--------|----------|

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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 have a significant amount of goodwill. Our Flat-rolled reporting unit was allocated goodwill from the Stelco Inc. (Stelco) and Lone Star Technologies Inc. (Lone Star) acquisitions in 2007. These amounts reflect the benefits the Flat-rolled reporting unit realizes from expanding our flexibility in meeting our customers' needs and running our Flat-rolled facilities at higher operating rates to source our semi-finished product needs. Our Texas Operations reporting unit, which is part of our Tubular reportable segment, was allocated goodwill from the Lone Star acquisition, reflecting the benefits the reporting unit is realizing from the expansion of our tubular operations.

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. 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, that there was no indication of goodwill impairment for any of the reporting units.

Goodwill impairment tests in prior years also indicated that goodwill was not impaired for any reporting unit. Accordingly, there are no accumulated impairment losses for goodwill.

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

| (In millions)                       | Useful Lives | As of September 30, 2012 |                          |            | As of December 31, 2011 |                          |            |
|-------------------------------------|--------------|--------------------------|--------------------------|------------|-------------------------|--------------------------|------------|
|                                     |              | Gross Carrying Amount    | Accumulated Amortization | Net Amount | Gross Carrying Amount   | Accumulated Amortization | Net Amount |
| Customer relationships              | 22-23 Years  | \$ 222                   | \$ 51                    | \$ 171     | \$ 219                  | \$ 44                    | \$ 175     |
| Other                               | 2-20 Years   | 22                       | 11                       | 11         | 22                      | 10                       | 12         |
| Total amortizable intangible assets |              | \$ 244                   | \$ 62                    | \$ 182     | \$ 241                  | \$ 54                    | \$ 187     |

The carrying amount of acquired water rights with indefinite lives as of September 30, 2012 and December 31, 2011 totaled \$75 million. The water rights are tested for impairment annually in the third quarter. During the third quarter of 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 that the water rights were not impaired. Accordingly, no impairment loss was recognized.

Amortization expense was \$3 million and \$2 million in the three months ended September 30, 2012 and 2011, respectively and was \$8 million in both the nine months ended September 30, 2012 and 2011, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is \$3 million for the remaining portion of 2012 and \$11 million each year from 2013 to 2016.

## 6. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended September 30, 2012 and 2011:

| (In millions)                              | Pension Benefits |        | Other Benefits |       |
|--------------------------------------------|------------------|--------|----------------|-------|
|                                            | 2012             | 2011   | 2012           | 2011  |
| Service cost                               | \$ 29            | \$ 28  | \$ 7           | \$ 6  |
| Interest cost                              | 117              | 128    | 42             | 52    |
| Expected return on plan assets             | (154)            | (157)  | (29)           | (26)  |
| Amortization of prior service cost         | 6                | 6      | 3              | 6     |
| Amortization of actuarial net loss         | 88               | 88     | 1              | 1     |
| Net periodic benefit cost, excluding below | 86               | 93     | 24             | 39    |
| Multiemployer plans                        | 18               | 17     | -              | -     |
| Net periodic benefit cost                  | \$ 104           | \$ 110 | \$ 24          | \$ 39 |

The following table reflects the components of net periodic benefit cost for the nine months ended September 30, 2012 and 2011:

| (In millions)                                    | Pension Benefits |        | Other Benefits |        |
|--------------------------------------------------|------------------|--------|----------------|--------|
|                                                  | 2012             | 2011   | 2012           | 2011   |
| Service cost                                     | \$ 88            | \$ 84  | \$ 22          | \$ 18  |
| Interest cost                                    | 350              | 384    | 133            | 157    |
| Expected return on plan assets                   | (460)            | (469)  | (86)           | (79)   |
| Amortization of prior service cost               | 15               | 16     | 14             | 19     |
| Amortization of net actuarial loss               | 264              | 264    | 1              | 4      |
| Net periodic benefit cost, excluding below       | 257              | 279    | 84             | 119    |
| Multiemployer plans                              | 52               | 48     | -              | -      |
| Settlement, termination and curtailment benefits | (2)              | -      | -              | -      |
| Net periodic benefit cost                        | \$ 307           | \$ 327 | \$ 84          | \$ 119 |

U. S. Steel and its U. S. Steel Tubular Products, Inc. subsidiary reached new labor agreements with the United Steelworkers (USW) in September 2012 (the 2012 Labor Agreements, see Note 16) which required remeasurement of the other post-employment benefit (OPEB) plans effective September 1, 2012, to reflect the changes in the benefits provided. 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, the OPEB accumulated postretirement benefit obligation is \$270 million lower than at 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. After the remeasurement, net periodic OPEB expense for 2012 is now projected to total approximately \$100 million as compared to \$120 million at the January 1, 2012 measurement date.

## **Employer Contributions**

During the first nine months of 2012, U. S. Steel made a voluntary contribution of \$140 million to its main defined benefit pension plan. U. S. Steel also made \$68 million in required cash contributions to the USSC pension plans, cash payments of \$51 million to the Steelworkers Pension Trust and \$21 million to other defined benefit pension plans.

During the first nine months of 2012, cash payments of \$237 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled \$10 million for both the three months ended September 30, 2012 and 2011. Company contributions to defined contribution plans totaled \$31 million and \$29 million for the nine months ended September 30, 2012 and 2011, respectively.

## **7. Interest Expense and Other Financial Costs (Income)**

Interest expense for the nine months of 2012 includes an \$18 million premium associated with the April 2012 redemption of all of our \$300 million 5.65% Senior Notes due June 1, 2013.

Other financial costs (income) include financing costs, derivatives gains and losses and foreign currency gains and losses. Foreign currency gains and losses are a result of foreign currency denominated assets and liabilities that require remeasurement. During the three months ended September 30, 2012 and 2011, net foreign currency gains of \$6 million and losses of \$92 million, respectively, were recorded in other financial costs (income). During the nine months ended September 30, 2012 and 2011, net foreign currency losses of \$2 million and gains of \$26 million, respectively, were recorded in other financial costs (income). The net foreign currency gains and losses during the three and nine months ended September 30, 2011 were primarily due to the accounting remeasurement of a U.S. dollar-denominated intercompany loan to a European entity, partially offset by losses on euro-U.S. dollar derivatives activity. 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 U. S. Steel Serbia. This change in functional currency has been applied on a prospective basis since January 1, 2012.

See note 13 for additional information on U. S. Steel's use of derivatives to mitigate its foreign currency exchange rate exposure.

## **8. Stock-Based Compensation Plans**

U. S. Steel has outstanding stock-based compensation awards that were granted by the Compensation & Organization Committee of the Board of Directors under several stock-based employee compensation plans, which are more fully described in note 14 of the United States Steel Corporation 2011 Annual Report on Form 10-K. An aggregate of 15,450,000 shares of U. S. Steel common stock may be issued under the plans. As of September 30, 2012, 5,060,618 shares are available for future grants.

U. S. Steel recognized pre-tax stock-based compensation cost in the amount of \$10 million and \$8 million in the three months ended September 30, 2012 and 2011, respectively, and \$29 million and \$24 million in the first nine months of 2012 and 2011, respectively.

Recent grants of stock-based compensation consist of stock options, restricted stock units and performance awards. The following table is a general summary of the awards made under the Plan.

| Grant Details                     | May 2012 Grant        |                           | May 2011 Grant        |                           |
|-----------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
|                                   | Shares <sup>(a)</sup> | Fair Value <sup>(b)</sup> | Shares <sup>(a)</sup> | Fair Value <sup>(b)</sup> |
| Stock Options                     | 1,449,380             | \$ 11.95                  | 707,060               | \$ 24.39                  |
| Restricted Stock Units            | 867,600               | \$ 22.31                  | 421,000               | \$ 45.81                  |
| Performance Awards <sup>(c)</sup> | 286,470               | \$ 25.36                  | 85,040                | \$ 65.47                  |

(a) The share amounts shown in this table do not reflect an adjustment for estimated forfeitures.

(b) Per share amounts

(c) The number of Performance Awards shown represents the target value of the award.

As of September 30, 2012, total future compensation cost related to nonvested stock-based compensation arrangements was \$51 million, and the weighted average period over which this cost is expected to be recognized is approximately 1.3 years.

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 stock options vest ratably over a three-year service period and have a term of ten years.

| Black-Scholes Assumptions                                                          | May 2012 Grant | May 2011 Grant |
|------------------------------------------------------------------------------------|----------------|----------------|
| Grant date price per share of option award                                         | \$ 22.31       | \$ 45.81       |
| Expected annual dividends per share, at grant date                                 | \$ 0.20        | \$ 0.20        |
| Expected life in years                                                             | 5.0            | 5.0            |
| Expected volatility                                                                | 68%            | 64%            |
| Risk-free interest rate                                                            | 0.8%           | 1.8%           |
| Grant date fair value per share of unvested option awards as calculated from above | \$ 11.95       | \$ 24.39       |

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.

Restricted stock units generally vest ratably over three years. The fair value of the restricted stock units is the market price of the underlying common stock on the date of the 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 group of peer companies over the three-year performance period. Performance awards can vest at between zero and 200 percent of the target award. The fair value of the performance awards is calculated using a Monte-Carlo simulation.

## 9. Income Taxes

### Tax provision

For the nine months ended September 30, 2012 and 2011, we recorded a tax provision of \$139 million on our pretax income of \$65 million and a tax provision of \$114 million on our pretax income of \$272 million, respectively. 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 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 material tax benefit was recorded on the loss on the sale of USSS. Included in the third quarter 2012 income tax benefit is a tax benefit of \$20 million relating to adjustments to tax reserves related to the conclusion of certain audits, as noted below, 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.

The tax provision for the first nine months of 2012 is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income or loss. During the year, management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, plant operating performance and cost estimates. To the extent that actual 2012 pretax results for U.S. and foreign income or loss vary from estimates applied at the end of the most recent interim period, the actual tax provision or benefit recognized in 2012 could be materially different from the forecasted amount used to estimate the tax provision for the nine months ended September 30, 2012.

#### **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 found in ASC Topic 740 on income taxes. The total amount of gross unrecognized tax benefits was \$82 million at September 30, 2012 and \$110 million at December 31, 2011. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$59 million and \$76 million as of September 30, 2012 and December 31, 2011, respectively.

U. S. Steel is under examination by tax authorities in multiple jurisdictions for various tax years. In conjunction with the conclusion of certain audits, U. S. Steel reduced its liability for unrecognized tax benefits by \$28 million, of which \$20 million was recorded as a tax benefit, during the third quarter of 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 both September 30, 2012 and December 31, 2011, U. S. Steel had accrued liabilities of \$6 million for interest related to uncertain tax positions. U. S. Steel currently does not have any liabilities recorded for income tax penalties.

#### **Deferred taxes**

As of September 30, 2012, the net domestic deferred tax asset was \$424 million compared to \$697 million at December 31, 2011. 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. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

As of September 30, 2012, the net foreign deferred tax asset was \$58 million, net of established valuation allowances of \$1,040 million. At December 31, 2011, the net foreign deferred tax asset was \$66 million, net of established valuation allowances of \$1,018 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the Canadian dollar and the euro. At December 31, 2011, 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 assets and offsetting valuation allowance were removed in the first quarter 2012 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.

# 10. Significant Equity Investments

Summarized unaudited income statement information for our significant equity investments for the nine months ended September 30, 2012 and 2011 is reported below (in millions, amounts represent 100% of investee financial information):

|                                                           | 2012     | 2011     |
|-----------------------------------------------------------|----------|----------|
| Net sales                                                 | \$ 1,982 | \$ 1,660 |
| Cost of sales                                             | 1,421    | 1,290    |
| Operating income                                          | 533      | 339      |
| Net income                                                | 521      | 331      |
| Net income attributable to significant equity investments | 521      | 331      |

# 11. Net Income (Loss) and Dividends Per Common Share

## Net Income (Loss) Per Share Attributable to United States Steel Corporation Shareholders

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

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

The computations for basic and diluted income (loss) per common share from continuing operations are as follows:

|                                                                                   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|-----------------------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
| (Dollars in millions, except per share amounts)                                   | 2012                                | 2011    | 2012                               | 2011    |
| Net income (loss) attributable to<br>United States Steel Corporation shareholders | \$ 44                               | \$ 22   | \$ (74)                            | \$ 158  |
| Plus income effect of assumed conversion-interest on convertible<br>notes         | 5                                   | -       | -                                  | 16      |
| Net income (loss) after assumed conversion                                        | \$ 49                               | \$ 22   | \$ (74)                            | \$ 174  |
| Weighted-average shares outstanding (in thousands):                               |                                     |         |                                    |         |
| Basic                                                                             | 144,350                             | 144,067 | 144,199                            | 143,932 |
| Effect of convertible notes                                                       | 27,059                              | -       | -                                  | 27,059  |
| Effect of stock options, restricted stock units and and performance<br>awards     | 264                                 | 385     | -                                  | 543     |
| Adjusted weighted-average shares outstanding, diluted                             | 171,673                             | 144,452 | 144,199                            | 171,534 |
| Basic income (loss) per common share                                              | \$ 0.30                             | \$ 0.15 | \$ (0.51)                          | \$ 1.10 |

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|                                        |    |             |    |      |    |               |    |      |
|----------------------------------------|----|-------------|----|------|----|---------------|----|------|
| Diluted income (loss) per common share | \$ | <b>0.28</b> | \$ | 0.15 | \$ | <b>(0.51)</b> | \$ | 1.02 |
|----------------------------------------|----|-------------|----|------|----|---------------|----|------|

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

| (in thousands)                                            | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |              |
|-----------------------------------------------------------|-------------------------------------|---------------|------------------------------------|--------------|
|                                                           | 2012                                | 2011          | 2012                               | 2011         |
| Securities granted under the 2005 Stock Incentive Plan    | 4,352                               | 2,657         | 4,353                              | 1,924        |
| Securities convertible under the Senior Convertible Notes | -                                   | 27,059        | 27,059                             | -            |
| <b>Total</b>                                              | <b>4,352</b>                        | <b>29,716</b> | <b>31,412</b>                      | <b>1,924</b> |

### Dividends Paid Per Share

The dividend for each of the first three quarters of 2012 and 2011 was five cents per common share.

## 12. Inventories

Inventories are carried at the lower of cost or market. The first-in, first-out method is the predominant method of inventory costing in Europe and Canada. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At September 30, 2012 and December 31, 2011, the LIFO method accounted for 56 percent and 54 percent of total inventory values, respectively.

| (In millions)             | September 30,<br>2012 | December 31,<br>2011 |
|---------------------------|-----------------------|----------------------|
| Raw materials             | \$ 917                | \$ 1,178             |
| Semi-finished products    | 925                   | 953                  |
| Finished products         | 585                   | 548                  |
| Supplies and sundry items | 98                    | 96                   |
| <b>Total</b>              | <b>\$ 2,525</b>       | <b>\$ 2,775</b>      |

Current acquisition costs were estimated to exceed the above inventory values by \$1.2 billion and \$1.1 billion at September 30, 2012 and December 31, 2011, respectively. Cost of sales was reduced by \$5 million and increased by \$3 million in the three months ended September 30, 2012 and 2011, respectively, as a result of liquidations of LIFO inventories. Cost of sales was reduced by \$16 million and less than \$1 million in the nine months ended September 30, 2012 and 2011, respectively, as a result of liquidations of LIFO inventories.

Lower of cost or market related charges were approximately \$45 million and \$15 million in the three months ended September 30, 2012 and 2011, respectively and were approximately \$45 million and \$25 million in the nine months ended September 30, 2012 and 2011, respectively.

Inventory includes \$88 million and \$87 million of land held for residential or commercial development as of September 30, 2012 and December 31, 2011, respectively.

## 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 these euro forward sales contracts may also partially offset the accounting remeasurement gains and losses recognized on intercompany loans.

As of September 30, 2012, U. S. Steel held euro forward sales contracts with a total notional value of approximately \$468 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Additionally, we routinely enter into 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 and 2011, all forward physical purchase contracts for natural gas and nonferrous metals have qualified for the normal purchases and normal sales exemption described in ASC Topic 815 and were not subject to mark-to-market accounting.

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in U. S. Steel's financial statements as of September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011:

| (In millions)                      | Balance Sheet Location | Fair Value<br>September 30, 2012 | Fair Value<br>December 31, 2011 |
|------------------------------------|------------------------|----------------------------------|---------------------------------|
| Foreign exchange forward contracts | Accounts receivable    | \$ 6                             | \$ 31                           |
| Foreign exchange forward contracts | Accounts payable       | \$ 7                             | -                               |

| (In millions)                      | Statement of Operations Location | Amount of Gain (Loss)<br>Three Months ended<br>September 30, 2012 | Amount of Gain (Loss)<br>Nine Months ended<br>September 30, 2012 |
|------------------------------------|----------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------|
| Foreign exchange forward contracts | Other financial costs/income     | (\$12)                                                            | \$1                                                              |

| (In millions)                      | Statement of Operations Location | Amount of Gain (Loss)<br>Three Months ended<br>September 30, 2011 | Amount of Gain (Loss)<br>Nine Months ended<br>September 30, 2011 |
|------------------------------------|----------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------|
| Foreign exchange forward contracts | Other financial costs/income     | \$28                                                              | (\$6)                                                            |

In accordance with the guidance found 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<br>Rates % | Maturity    | September 30,<br>2012 | December 31,<br>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        | 152                   | 147                  |
| Environmental Revenue Bonds                                 | 5.38 - 6.88         | 2015 - 2042 | 549                   | 455                  |
| Recovery Zone Facility Bonds                                | 6.75                | 2040        | 70                    | 70                   |
| Fairfield Caster Lease                                      |                     | Various     | 38                    | 11                   |
| Other capital leases and all other obligations              |                     | 2012 - 2014 | 1                     | 10                   |
| Amended Credit Agreement, \$875 million                     | Variable            | 2016        | -                     | -                    |
| USSK Revolver, 200 million                                  | Variable            | 2013        | -                     | 129                  |
| USSK credit facilities, 80 million                          | Variable            | 2012 - 2015 | -                     | -                    |
| USSS credit facilities, 20 and 1 billion Serbian Dinar      | Variable            | N/A         | -                     | -                    |
| <b>Total Debt</b>                                           |                     |             | <b>3,973</b>          | <b>3,885</b>         |
| Less Province Note fair value adjustment                    |                     |             | 25                    | 28                   |
| Less unamortized discount                                   |                     |             | 8                     | 9                    |
| Less short-term debt and long-term debt due within one year |                     |             | 1                     | 20                   |
| <b>Long-term debt</b>                                       |                     |             | <b>\$ 3,939</b>       | <b>\$ 3,828</b>      |

To the extent not otherwise discussed below, information concerning the Senior Notes, the Senior Convertible Notes and other listed obligations can be found in note 16 of the audited financial statements in the 2011 Annual Report on Form 10-K.

#### 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 15<sup>th</sup> and September 15<sup>th</sup> 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%         |

#### **Environmental Revenue Bonds**

On August 17, 2012, U. S. Steel entered into loan agreements in connection with the issuance and sale by the Indiana Finance Authority, the Allegheny County Industrial Development Authority and the Southwestern Illinois Development Authority of \$29 million, \$25 million and \$40 million, respectively, of Environmental Revenue Bonds due August 1, 2042 (collectively the 2042 Environmental Revenue Bonds). The proceeds from the sale of the 2042 Environmental Revenue Bonds, reflected as restricted cash in other noncurrent assets, were loaned to U. S. Steel to fund certain capital projects at Gary Works, our Clairton Plant and Granite City Works. The proceeds become unrestricted as capital expenditures for these projects are made. At September 30, 2012, \$78 million of this restricted cash remained. The interest rate on the loans is 5.75 percent and interest is payable semi-annually on February 1<sup>st</sup> and August 1<sup>st</sup> of each year.

#### **Fairfield Caster Lease**

The slab caster facility at Fairfield, Alabama is subject to a 24-year lease which expires in June 2013. U. S. Steel has the option to purchase the caster or to renew the lease at the end of the basic term. During the third quarter of 2012, U. S. Steel entered into an agreement granting the Company the option to either purchase the slab caster for \$40.8 million, or to elect certain lease renewal options, including the purchase of the slab caster for a fixed price at the expiration of the selected renewal period. U. S. Steel recorded the slab caster lease at the weighted average present value of the future expected cash flows.

#### **Amended Credit Agreement**

As of September 30, 2012, there were no amounts drawn on the Amended Credit Agreement, which expires 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. 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**

As of September 30, 2012, U. S. Steel has a Receivables Purchase Agreement (RPA) under which eligible 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 both September 30, 2012 and December 31, 2011, eligible accounts receivable supported \$625 million of availability under the RPA. At September 30, 2012, there were no receivables sold to third-party conduits under this facility. Receivables sold to third-party conduits and borrowings under the RPA of \$380 million were recorded on the Consolidated Balance Sheet at December 31, 2011.

USSR pays the conduits a discount based on the conduits' borrowing costs plus incremental fees. We paid \$1 million in each of the three month periods ended September 30, 2012 and 2011 and \$3 million in each of the nine month periods ended September 30, 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 the nine months ended September 30, 2012 and 2011, collection of accounts receivable of approximately \$1,175 million and \$141 million, respectively, were reinvested.

The eligible accounts receivable and receivables sold to third-party conduits are summarized below:

| (In millions)                                                                 | September 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------------------------------------------|-----------------------|----------------------|
| Balance of accounts receivable-net, eligible for sale to third-party conduits | \$ 1,365              | \$ 1,214             |
| Accounts receivable sold to third-party conduits                              | -                     | 380                  |
| <b>Balance included in Receivables on the balance sheet of U. S. Steel</b>    | <b>\$ 1,365</b>       | <b>\$ 834</b>        |

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.

#### Change in control event

In the event of a change in control of U. S. Steel, debt obligations totaling \$3,163 million at September 30, 2012, which includes the Senior Notes and Senior Convertible Notes, may be declared immediately due and payable. In addition, the Amended Credit Agreement and the RPA may be terminated and any amount outstanding thereunder may be declared immediately due and payable. In such event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for \$20 million or provide a letter of credit to secure the remaining obligation.

**U. S. Steel Koosick (USSK) credit facilities** At September 30, 2012, USSK had no borrowings under its \$200 million (approximately \$259 million) unsecured revolving credit facility.

At September 30, 2012, USSK had no borrowings under its \$80 million unsecured credit facilities (which approximated \$103 million) and the availability was approximately \$102 million due to approximately \$1 million of customs and other guarantees outstanding.

## U. S. Steel Serbia (USSS) credit facilities

The facilities were terminated on January 31, 2012 as a result of the sale of USSS (see note 4).

## 15. 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:

| (In millions)                        | September 30,<br>2012 | December 31,<br>2011 |
|--------------------------------------|-----------------------|----------------------|
| Balance at beginning of year         | \$ 38                 | \$ 39                |
| Additional obligations incurred      | -                     | 2                    |
| Obligations settled <sup>(a)</sup>   | (8)                   | (5)                  |
| Foreign currency translation effects | -                     | -                    |
| Accretion expense                    | 1                     | 2                    |
| Balance at end of period             | \$ 31                 | \$ 38                |

<sup>(a)</sup> 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.

## 16. 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 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 provide for a \$2,000 lump sum payment to be paid to each covered active USW member by October 15, 2012, which resulted in U. S. Steel recognizing a pretax charge of \$35 million in the third quarter. 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 6).

## 17. 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 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.



The following table summarizes U. S. Steel's financial assets and liabilities that were not carried at fair value at September 30, 2012 and December 31, 2011.

| (In millions)                                        | September 30, 2012 |                 | December 31, 2011 |                 |
|------------------------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                                      | Fair Value         | Carrying Amount | Fair Value        | Carrying Amount |
| <b>Financial assets:</b>                             |                    |                 |                   |                 |
| Investments and long-term receivables <sup>(a)</sup> | \$ 53              | \$ 53           | \$ 45             | \$ 45           |
| <b>Financial liabilities:</b>                        |                    |                 |                   |                 |
| Debt <sup>(b)</sup>                                  | \$ 3,921           | \$ 3,901        | \$ 3,874          | \$ 3,827        |

<sup>(a)</sup> Excludes equity method investments.

<sup>(b)</sup> Excludes borrowings under the Receivables Purchase Agreement 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 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.

*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 20.

# 18. Statement of Changes in Stockholders' Equity

The following table reflects the first nine months of 2012 and 2011 reconciliation of the carrying amount of total equity, equity attributable to United States Steel Corporation and equity attributable to the noncontrolling interests:

| Nine Months Ended                              |          | Comprehensive    | Retained | Accumulated<br>Other<br>Comprehensive | Common | Treasury | Paid-in  | Non-                    |
|------------------------------------------------|----------|------------------|----------|---------------------------------------|--------|----------|----------|-------------------------|
| September 30, 2012                             | Total    | Income<br>(Loss) | Earnings | Income<br>(Loss)                      | Stock  | Stock    | Capital  | Controlling<br>Interest |
| Balance at beginning of year                   | \$ 3,501 |                  | \$ 3,616 | \$ (3,367)                            | \$ 151 | \$ (550) | \$ 3,650 | \$ 1                    |
| Comprehensive income:                          |          |                  |          |                                       |        |          |          |                         |
| Net loss                                       | (74)     | (74)             | (74)     |                                       |        |          |          |                         |
| Other comprehensive income (loss), net of tax: |          |                  |          |                                       |        |          |          |                         |
| Pension and other benefit adjustments          | 360      | 360              |          | 360                                   |        |          |          |                         |
| Currency translation adjustment                | 76       | 76               |          | 76                                    |        |          |          |                         |
| Employee stock plans                           | 21       |                  |          |                                       |        | 29       | (8)      |                         |
| Dividends paid on common stock                 | (22)     |                  | (22)     |                                       |        |          |          |                         |
| Other                                          | 1        |                  |          |                                       |        |          |          | 1                       |
| Balance at September 30, 2012                  | \$ 3,863 | \$ 362           | \$ 3,520 | \$ (2,931)                            | \$ 151 | \$ (521) | \$ 3,642 | \$ 2                    |

| Nine Months Ended                              |          | Comprehensive    | Retained | Accumulated<br>Other<br>Comprehensive | Common | Treasury | Paid-in  | Non-                    |
|------------------------------------------------|----------|------------------|----------|---------------------------------------|--------|----------|----------|-------------------------|
| September 30, 2011                             | Total    | Income<br>(Loss) | Earnings | Income<br>(Loss)                      | Stock  | Stock    | Capital  | Controlling<br>Interest |
| Balance at beginning of year                   | \$ 3,852 |                  | \$ 3,698 | \$ (3,068)                            | \$ 151 | \$ (580) | \$ 3,650 | \$ 1                    |
| Comprehensive income:                          |          |                  |          |                                       |        |          |          |                         |
| Net income                                     | 158      | 158              | 158      |                                       |        |          |          |                         |
| Other comprehensive income (loss), net of tax: |          |                  |          |                                       |        |          |          |                         |
| Pension and other benefit adjustments          | 198      | 198              |          | 198                                   |        |          |          |                         |
| Currency translation adjustment                | (39)     | (39)             |          | (39)                                  |        |          |          |                         |
| Employee stock plans                           | 23       |                  |          |                                       |        | 30       | (7)      |                         |
| Dividends paid on common stock                 | (22)     |                  | (22)     |                                       |        |          |          |                         |
| Balance at September 30, 2011                  | \$ 4,170 | \$ 317           | \$ 3,834 | \$ (2,909)                            | \$ 151 | \$ (550) | \$ 3,643 | \$ 1                    |

# 19. Related Party Transactions

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 \$342 million and \$312 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.0 billion and \$955 million for the nine months ended September 30, 2012 and 2011, respectively.

Purchases from related parties for outside processing services provided by equity investees amounted to \$16 million and \$13 million for the three months ended September 30, 2012 and

2011, respectively, and \$44 million and \$41 million for the nine months ended September 30, 2012 and 2011, respectively. Purchases of iron ore pellets from related parties amounted to \$84 million and \$55 million for the three months ended September 30, 2012 and 2011, respectively, and \$204 million and \$164 million for the nine months ended September 30, 2012 and 2011, respectively.

Accounts payable to related parties include amounts collected on behalf of PRO-TEC Coating Company (PRO-TEC) of \$80 million and \$84 million at September 30, 2012 and December 31, 2011, respectively. U. S. Steel, as PRO-TEC's exclusive sales agent, is responsible for credit risk related to PRO-TEC's receivables. U. S. Steel also provides PRO-TEC marketing, selling and customer service functions. Payables to other related parties totaled \$4 million and \$2 million at September 30, 2012 and December 31, 2011, respectively.

## 20. 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 September 30, 2012, U. S. Steel was a defendant in approximately 755 active cases involving approximately 3,295 plaintiffs. Many of these cases involve multiple defendants (typically from fifty to more than one hundred). About 2,570, or approximately 78 percent, of these plaintiff 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. During the nine months ended September 30, 2012, U. S. Steel paid approximately \$9 million in settlements. These settlements and other dispositions resolved approximately 110 claims. New case filings in the first nine months of 2012 added approximately 170 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 the year ended December 31, 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 260 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 alleged exposure on U. S. Steel's current or former premises. These claims are made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers. In most cases the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely as do the nature and severity of the injury claimed.

It is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on 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) the generally declining trend in the number of claims; (2) that it has been many years since U. S. Steel employed maritime workers or manufactured or sold asbestos containing products; and (3) U. S. Steel's history of trial outcomes, settlements and dismissals.

**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:

| (In millions)                                                                   | Nine Months Ended<br>September 30, 2012 |
|---------------------------------------------------------------------------------|-----------------------------------------|
| Beginning of period                                                             | \$ 206                                  |
| Accruals for environmental remediation deemed probable and reasonably estimable | 11                                      |
| Payments                                                                        | (14)                                    |
| End of period                                                                   | \$ 203                                  |

Accrued liabilities for remediation activities are included in the following balance sheet lines:

| (In millions)                                     | September 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------------------|-----------------------|----------------------|
| Accounts payable                                  | \$ 20                 | \$ 20                |
| Deferred credits and other noncurrent liabilities | 183                   | 186                  |
| <b>Total</b>                                      | <b>\$ 203</b>         | <b>\$ 206</b>        |

Expenses related to remediation are recorded in cost of sales and totaled \$2 million and \$5 million for the three months ended September 30, 2012 and 2011, respectively, and \$11 million and \$10 million for the nine months ended September 30, 2012 and 2011, respectively. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred. Due to uncertainties inherent in remediation projects and the associated liabilities, it is possible that total remediation costs for active matters and projects with ongoing study and scope development 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, material 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 material 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 material, 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 September 30, 2012, accrued liabilities for these projects totaled \$2 million for the costs of ongoing studies, investigations, and design. 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 September 30, 2012, a total of \$61 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 September 30, 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 September 30, 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 September 30, 2012 was \$9 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 \$27 million at September 30, 2012 and were based on known scopes of work.

*Administrative and Legal Costs* As of September 30, 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 the first nine months of 2012 and 2011, such capital expenditures totaled \$37 million and \$64 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.

*CO<sub>2</sub> Emissions* Current and potential regulation of Greenhouse Gas (GHG) emissions remains a significant issue for the steel industry, particularly for integrated steel producers such as U. S. Steel. The regulation of carbon dioxide (CO<sub>2</sub>) emissions has either become law or is being considered by legislative bodies of many nations, including countries where we have operating facilities. The European Union (EU) has established GHG regulations based upon national allocations and a cap and trade system. In Canada, both the federal and Ontario governments have issued proposed requirements for GHG emissions. In the United States, the Environmental Protection Agency (EPA) has published rules for regulating GHG emissions for certain facilities and has implemented various reporting requirements as further described below. In the last Congress, legislation was passed in the House of Representatives and introduced in the Senate. The federal courts are considering several suits that challenge the EPA's authority to regulate GHG emissions under the Clean Air Act. We do not know what action, if any, may be taken by the current or a new session of Congress. The EU has issued proposed regulations under their cap and trade system for the period 2013-2020 which appear to be more stringent than the current requirements.

On May 13, 2010, the EPA published its final Greenhouse Gas Tailoring Rule establishing a mechanism for regulating GHG emissions from facilities through the Clean Air Act's Prevention of Significant Deterioration (PSD) permitting process. U. S. Steel reported its emissions under these rules in accordance with the regulation and its deadlines. Starting in 2011, new projects that increase GHG emissions by more than 75,000 tons per year have new PSD requirements based on best available control technology (BACT), but only if the project also significantly increases emissions of at least one non-GHG pollutant. Only existing sources with Title V permits or new sources obtaining Title V permits for non-GHG pollutants will also be required to address GHG

emissions. Starting July 1, 2011, new sources not already subject to Title V requirements that emit over 100,000 tons per year, or modifications to existing permits that increase GHG emissions by more than 75,000 tons per year, will be subject to PSD and Title V requirements. On November 17, 2010 the EPA issued its PSD and Title V Permitting Guidance for Greenhouse Gases and Available and Emerging Technologies for Reducing Greenhouse Gas Emissions from the Iron and Steel Industry. With this guidance, EPA intends to help state and local air permitting authorities identify greenhouse gas reductions under the Clean Air Act. Additionally, the EPA revised the National Ambient Air Quality Standards (NAAQS) for nitrogen oxide, sulfur dioxide and lead in 2010 and is in the process of revising the NAAQS for 2.5 micron particulate matter, ozone and sulfur dioxides.

It is impossible to estimate the timing or impact of these or other future government action on U. S. Steel, although it could be significant. Such impacts may include substantial capital expenditures, costs for emission allowances, restriction of production, and higher prices for coking coal, natural gas and electricity generated by carbon based systems.

In July 2008, Slovakia granted USSK CO<sub>2</sub> emission allowances as part of the national allocation plan for the 2008 to 2012 trading period (NAP II) approved by the European Commission. Based on actual CO<sub>2</sub> emissions to date, USSK will have sufficient allowances for the NAP II period without purchasing additional allowances. In the first nine months of 2011, U. S. Steel entered into transactions to swap a portion of our emissions allowances and recognized a gain of \$6 million.

In December 2010, Slovakia enacted an 80 percent tax on excess emission allowances registered in 2011 and 2012. U. S. Steel recorded expense of \$4 million and \$14 million for the three and nine months ended September 30, 2011, respectively. The law was changed to eliminate the tax for 2012.

**European Union (EU) Environmental Requirements** Slovakia is 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. Slovakia is required to adopt the directive by January 7, 2013 and is allowed only limited discretion in implementing the legislation. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is \$350 million to \$400 million over the 2013 to 2016 period. We also believe that there will be increased operating costs but are currently unable to estimate this amount.

**Environmental and other indemnifications** Throughout its history, U. S. Steel has sold numerous properties and businesses and many of these sales included indemnifications and cost sharing agreements related to the assets that were sold. These indemnifications and cost sharing agreements have related to the condition of the property, the approved use, certain representations and warranties, matters of title and environmental matters. While most of these provisions have not specifically dealt with environmental issues, there have been transactions in which U. S. Steel indemnified the buyer for non-compliance with past, current and future environmental laws related to existing conditions and there can be questions as to the applicability

of more general indemnification provisions to environmental matters. Most recent indemnifications and cost sharing agreements are of a limited nature only applying to non-compliance with past and/or current laws. Some indemnifications and cost sharing agreements only run for a specified period of time after the transactions close and others run indefinitely. In addition, current owners of property formerly owned by U. S. Steel may have common law claims and contribution rights against U. S. Steel for environmental matters. The amount of potential environmental liability associated with these transactions and properties is not estimable due to the nature and extent of the unknown conditions related to the properties sold. Aside from the environmental liabilities already recorded as a result of these transactions due to specific environmental remediation activities and cases (included in the \$203 million of accrued liabilities for remediation discussed above), there are no other known environmental liabilities related to these transactions.

**Guarantees** The maximum outstanding guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled \$37 million at September 30, 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 investees to reduce its potential losses under the guarantees.

**Antitrust Class Actions** 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.

**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 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.

**Randle Reef** 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 \$122 million). The national and provincial governments have each allocated C\$30 million (approximately \$30 million) for this project and appear to be willing to increase the amount to C\$40 million, respectively, provided that local sources, including industry, also agree to fund C\$40 million (approximately \$41 million). Recent developments indicate that C\$40 million (approximately \$41 million), including in-kind contributions, will also be available from local sources. 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 September 30, 2012, U. S. Steel has an accrued liability of approximately \$10 million reflecting the contribution commitment.

**Other contingencies** Under certain operating lease agreements covering various equipment, U. S. Steel has the option to renew the lease or to purchase the equipment at the end of the lease term. If U. S. Steel does not exercise the purchase option by the end of the lease term, U. S. Steel guarantees a residual value of the equipment as determined at the lease inception date (totaling approximately \$11 million at September 30, 2012). No liability has been recorded for these guarantees as the potential loss is not probable.

**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 auto 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.

U. S. Steel uses surety bonds, trusts and letters of credit to provide whole or partial financial assurance for certain obligations such as workers' compensation. The total amount of active surety bonds, trusts and letters of credit being used for financial assurance purposes was approximately \$169 million as of September 30, 2012, which reflects U. S. Steel's maximum exposure under these financial guarantees, but not its total exposure for the underlying obligations. Most of the trust arrangements and letters of credit are collateralized by restricted cash. Restricted cash, which is recorded in other current and noncurrent assets, totaled \$227 million at September 30, 2012, of which \$6 million was classified as current, and \$160 million at December 31, 2011, of which \$14 million was classified as current. The increase in restricted cash in 2012 was primarily due to the issuance of the 2042 Environmental Revenue Bonds (see note 14).

**Capital Commitments** At September 30, 2012, U. S. Steel's contractual commitments to acquire property, plant and equipment totaled \$236 million.

**Contractual Purchase Commitments** U. S. Steel is obligated to make payments under contractual purchase commitments, including unconditional purchase obligations. Payments for contracts with remaining terms in excess of one year are summarized below (in millions):

| Remainder<br>of 2012 | 2013  | 2014  | 2015  | 2016  | Later<br>Years | Total    |
|----------------------|-------|-------|-------|-------|----------------|----------|
| \$682                | \$967 | \$638 | \$320 | \$307 | \$1,960        | \$ 4,874 |

The majority of U. S. Steel's unconditional purchase obligations relates to the supply of industrial gases, energy and utility services with terms ranging from two to 16 years. Unconditional purchase obligations also include coke and steam purchase commitments related to a coke supply agreement with Gateway Energy & Coke Company LLC under which Gateway is obligated to supply 90 percent to 105 percent of the expected annual capacity of the heat recovery coke plant, and U. S. Steel is obligated to purchase the coke from Gateway at the contract price. As of September 30, 2012, a maximum default payment of approximately \$250 million would apply if U. S. Steel terminates the agreement.

Total payments relating to unconditional purchase obligations were approximately \$180 million and \$200 million for the three months ended September 30, 2012 and 2011, respectively, and \$550 million and \$560 million for the nine months ended September 30, 2012 and 2011, respectively.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Certain sections of Management's Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of United States Steel Corporation (U. S. Steel). These statements typically contain words such as anticipates, believes, estimates, expects, intends 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 in U. S. Steel's Annual Report on Form 10-K for the year ended December 31, 2011 and Item 1A. Risk Factors in this Form 10-Q. References in this Quarterly Report on Form 10-Q 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.*

**CRITICAL ACCOUNTING ESTIMATES**

The following critical accounting estimates should be read in conjunction with those included in our Annual Report on Form 10-K for the year ended December 31, 2011.

**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 have a significant amount of goodwill: our Flat-rolled reporting unit and our Texas Operations reporting unit.

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 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, 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.

## RESULTS OF OPERATIONS

On January 31, 2012, U. S. Steel sold U. S. Steel Serbia (USSS) to the Republic of Serbia for a purchase price of one dollar. In addition, United States Steel Košice (USSK) received a \$40 million payment for certain intercompany balances owed by USSS for raw materials and support services. We recorded a total non-cash charge of \$399 million in the first quarter of 2012 related to this transaction.

Since January 31, 2012 our U. S. Steel Europe (USSE) reportable segment consists of USSK. Prior to that date, USSS was also included.

In order to provide a better understanding of USSE segment results, we include the following non-GAAP financial measures to show USSK results included in the USSE segment:

| (Dollars in millions except average realized price amounts) | Third Quarter 2012 | Third Quarter 2011 | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|-------------------------------------------------------------|--------------------|--------------------|--------------------------------------|--------------------------------------|
| USSK results                                                |                    |                    |                                      |                                      |
| Income from operations                                      | \$ 27              | \$ 9               | \$ 44                                | \$ 66                                |
| Shipments <sup>(a)</sup>                                    | 911                | 923                | 2,838                                | 2,783                                |
| Raw steel production <sup>(a)</sup>                         | 1,140              | 1,036              | 3,465                                | 3,256                                |
| Raw steel capability utilization                            | 90%                | 82%                | 92%                                  | 87%                                  |
| Average realized price (\$/net ton)                         | \$ 731             | \$ 880             | \$ 752                               | \$ 887                               |

(a) Thousands of net tons

Net sales by segment for the third quarter and first nine months of 2012 and 2011 are set forth in the following table:

| (Dollars in millions, excluding intersegment sales) | Quarter Ended September 30, |          |          | Nine Months Ended September 30, |           |          |
|-----------------------------------------------------|-----------------------------|----------|----------|---------------------------------|-----------|----------|
|                                                     | 2012                        | 2011     | % Change | 2012                            | 2011      | % Change |
| Flat-rolled Products (Flat-rolled)                  | \$ 3,142                    | \$ 3,136 | 0%       | \$ 9,798                        | \$ 9,409  | 4%       |
| U. S. Steel Europe (USSE)                           | 696                         | 1,072    | -35%     | 2,274                           | 3,391     | -33%     |
| Tubular Products (Tubular)                          | 787                         | 846      | -7%      | 2,604                           | 2,183     | 19%      |
| Total sales from reportable segments                | 4,625                       | 5,054    | -8%      | 14,676                          | 14,983    | -2%      |
| Other Businesses                                    | 27                          | 27       | 0%       | 165                             | 82        | 101%     |
| Net sales                                           | \$ 4,652                    | \$ 5,081 | -8%      | \$ 14,841                       | \$ 15,065 | -1%      |

Management's analysis of the percentage change in net sales for U. S. Steel's reportable business segments for the quarter ended September 30, 2012 versus the quarter ended September 30, 2011 is set forth in the following table:

### Quarter Ended September 30, 2012 versus Quarter Ended September 30, 2011

|             | Steel Products <sup>(a)</sup> |       |     |                   |              | Net Change |
|-------------|-------------------------------|-------|-----|-------------------|--------------|------------|
|             | Volume                        | Price | Mix | FX <sup>(b)</sup> | Coke & Other |            |
| Flat-rolled | 5%                            | -3%   | 0%  | 3%                | -5%          | 0%         |
| USSE        | -21%                          | -4%   | 0%  | -9%               | -1%          | -35%       |

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|         |     |     |    |    |    |     |
|---------|-----|-----|----|----|----|-----|
| Tubular | -4% | -3% | 0% | 0% | 0% | -7% |
|---------|-----|-----|----|----|----|-----|

- (a) Excludes intersegment sales
- (b) Currency translation effects

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Net sales were \$4,652 million in the third quarter of 2012, compared with \$5,081 million in the same quarter last year. The slight increase in sales for the Flat-rolled segment reflected higher shipments (increase of 137 thousand tons) partially offset by lower average realized prices (decrease of \$32 per ton). The decrease in sales for the European segment was primarily due to decreased shipments (decrease of 285 thousand tons) primarily due to the sale of USSS, decreased average realized euro-based prices (decrease of \$26 per ton) and the strengthening of the U.S. dollar versus the euro in the third quarter of 2012 compared to the third quarter of 2011. The slight decrease in sales for the Tubular segment was primarily due to a slight decrease in shipments (decrease of 24 thousand tons) and lower average realized prices (decrease of \$23 per ton).

Management's analysis of the **percentage change in net sales** for U. S. Steel's reportable business segments for the nine months ended September 30, 2012 versus the nine months ended September 30, 2011 is set forth in the following table:

**Nine Months Ended September 30, 2012 versus Nine Months Ended September 30, 2011**

|             | <b>Steel Products <sup>(a)</sup></b> |              |            |                          |                         | <b>Net Change</b> |
|-------------|--------------------------------------|--------------|------------|--------------------------|-------------------------|-------------------|
|             | <b>Volume</b>                        | <b>Price</b> | <b>Mix</b> | <b>FX <sup>(b)</sup></b> | <b>Coke &amp; Other</b> |                   |
| Flat-rolled | 4%                                   | -2%          | 1%         | 0%                       | 1%                      | 4%                |
| USSE        | -21%                                 | -4%          | 0%         | -7%                      | -1%                     | -33%              |
| Tubular     | 11%                                  | 7%           | 1%         | 0%                       | 0%                      | 19%               |

<sup>(a)</sup> Excludes intersegment sales

<sup>(b)</sup> Currency translation effects

Net sales were \$14,841 million in the first nine months of 2012, compared with \$15,065 million in the same period last year. The increase in sales for the Flat-rolled segment primarily reflected higher shipments (increase of 325 thousand tons) partially offset by lower average realized prices (decrease of \$6 per ton). The decrease in sales for the European segment was primarily due to decreased shipments (decrease of 868 thousand tons) primarily due to the sale of USSS, decreased average euro-based realized prices (decrease of \$33 per ton) and the strengthening of the U.S. dollar versus the euro in the first nine months of 2012 compared to the first nine months of 2011. The increase in sales for the Tubular segment primarily reflected higher average realized prices (increase of \$128 per ton) and shipments (increase of 149 thousand tons) as a result of increased drilling activity.

***Pension and other benefits costs***

Defined benefit and multiemployer pension plan costs totaled \$104 million in the third quarter of 2012, compared to \$110 million in the third quarter of 2011. Defined benefit and multiemployer pension plan costs totaled \$307 million in the first nine months of 2012, compared to \$327 million in the first nine months of 2011. The \$6 million and \$20 million decrease for the quarter and nine month periods, respectively, are 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 and the expected rate of return period over period.

The recently enacted pension stabilization legislation 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 the first quarter of 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%, 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 2015 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.

Net periodic pension cost, including multiemployer plans, is expected to total approximately \$410 million in 2012. Total other benefits costs in 2012 are expected to total approximately \$100 million as a result of the remeasurement described below. The discount rate and plan asset performance are significant assumption inputs used in the calculation of pension and other benefits net periodic benefit costs.

A sensitivity analysis of the projected incremental effect of a hypothetical  $\frac{1}{2}$  percentage point change in the significant inputs used in the calculation of pension and other benefits net periodic benefit costs is provided in the following table:

| (In millions of dollars)                       | Hypothetical Rate<br>Increase (Decrease) |        |
|------------------------------------------------|------------------------------------------|--------|
|                                                | 1/2%                                     | (1/2%) |
| <b>Expected return on plan assets</b>          |                                          |        |
| Incremental increase (decrease) in:            |                                          |        |
| Net periodic pension cost                      | \$ (50)                                  | \$ 50  |
| <b>Discount rate</b>                           |                                          |        |
| Incremental increase (decrease) in:            |                                          |        |
| Net periodic pension & other benefits costs    | \$ (30)                                  | \$ 35  |
| <b>Health care cost escalation trend rates</b> |                                          |        |
| Incremental increase (decrease) in:            |                                          |        |
| Service and interest cost components for 2012  | \$ 8                                     | \$ (6) |

Costs related to defined contribution plans totaled \$10 million and \$31 million in the third quarter and first nine months of 2012, respectively, compared to \$10 million and \$29 million in the comparable periods in 2011.

U. S. Steel and its U. S. Steel Tubular Products, Inc. (USST) subsidiary reached new labor agreements with the United Steelworkers (USW) in September 2012 (the 2012 Labor Agreements), which required remeasurement of the other post-employment benefit (OPEB) plans effective September 1, 2012, to reflect the changes in the benefits provided. 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, the OPEB accumulated postretirement benefit obligation is \$270 million lower than at December 31, 2011, primarily due to a decrease of approximately \$520 million 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. After the remeasurement, net periodic OPEB expense for 2012 is now projected to total \$100 million as compared to \$120 million at the January 1, 2012 measurement date.

Other benefits costs, including multiemployer plans, totaled \$24 million and \$84 million in the third quarter and first nine months of 2012, respectively, compared to \$39 million and \$119 million in the corresponding periods of 2011. The decrease in other benefit costs is primarily a result of Medicare program changes.

The 2008 Labor Agreements required U. S. Steel to make annual \$75 million contributions during the prior contract period to a restricted account within our trust for retiree health care and life insurance. As previously disclosed, U. S. Steel reached agreement with the USW to defer the \$75 million contributions. U. S. Steel is required to make the previously deferred contributions of \$75 million in each annual period from 2012 through 2015. The 2012 Labor Agreements did not change the previously required contributions and do not include any additional contributions.

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses were \$166 million and \$512 million in the third quarter and first nine months of 2012, compared to \$181 million and \$550 million in the third quarter and first nine months of 2011. The decrease in both periods is primarily related to the sale of USSS.

**Income (loss) from operations** by segment for the third quarter and first nine months of 2012 and 2011 is set forth in the following table:

|                                        | <b>Quarter Ended<br/>September 30,</b> |             | <b>%</b>      | <b>Nine Months Ended<br/>September 30,</b> |             | <b>%</b>      |
|----------------------------------------|----------------------------------------|-------------|---------------|--------------------------------------------|-------------|---------------|
| <b>(Dollars in millions)</b>           | <b>2012</b>                            | <b>2011</b> | <b>Change</b> | <b>2012</b>                                | <b>2011</b> | <b>Change</b> |
| Flat-rolled                            | \$ 29                                  | \$ 203      | -86%          | \$ 389                                     | \$ 541      | -28%          |
| USSE                                   | 27                                     | (50)        | 154%          | 27                                         | (73)        | 137%          |
| Tubular                                | 102                                    | 134         | -24%          | 334                                        | 197         | 70%           |
| Total income from reportable segments  | 158                                    | 287         | -45%          | 750                                        | 665         | 13%           |
| Other Businesses                       | 13                                     | 8           | 63%           | 46                                         | 30          | 53%           |
| Segment income from operations         | 171                                    | 295         | -42%          | 796                                        | 695         | 15%           |
| Postretirement benefit expense         | (74)                                   | (96)        | 23%           | (228)                                      | (287)       | 21%           |
| Other items not allocated to segments: |                                        |             |               |                                            |             |               |
| Labor agreement lump sum payments      | (35)                                   |             |               | (35)                                       |             |               |
| Net loss on sale of assets             |                                        |             |               | (310)                                      |             |               |
| Property Tax settlements               |                                        |             |               | 19                                         |             |               |
| Total income from operations           | \$ 62                                  | \$ 199      | -69%          | \$ 242                                     | \$ 408      | -41%          |

### Segment results for Flat-rolled

|                                      | Quarter Ended<br>September 30, |        |             | Nine Months Ended<br>September 30, |        |        |   |
|--------------------------------------|--------------------------------|--------|-------------|------------------------------------|--------|--------|---|
|                                      | 2012                           | 2011   | %<br>Change | 2012                               | 2011   | Change | % |
| Income from operations (\$ millions) | \$ 29                          | \$ 203 | -86%        | \$ 389                             | \$ 541 | -28%   |   |
| Gross margin                         | 4%                             | 11%    | -7%         | 8%                                 | 11%    | -3%    |   |
| Raw steel production (mnt)           | 4,699                          | 4,516  | 4%          | 14,430                             | 14,008 | 3%     |   |
| Capability utilization               | 77%                            | 74%    | 3%          | 79%                                | 77%    | 2%     |   |
| Steel shipments (mnt)                | 3,972                          | 3,835  | 4%          | 12,050                             | 11,725 | 3%     |   |
| Average realized steel price per ton | \$ 741                         | \$ 773 | -4%         | \$ 759                             | \$ 765 | -1%    |   |

The decrease in Flat-rolled results in the third quarter of 2012 compared to the same period in 2011 resulted from a decrease in average realized prices (approximately \$190 million), increased spending and other operating costs (approximately \$50 million, which includes outage costs) and lower steel substrate sales to our Tubular segment (approximately \$25 million). These decreases were partially offset by reduced energy costs, primarily due to lower natural gas costs (approximately \$50 million), lower raw material costs (approximately \$20 million) and an increase in shipment volumes (approximately \$20 million).

The decrease in Flat-rolled results in the first nine months of 2012 compared to the same period in 2011 resulted mainly from a decrease in average realized prices (approximately \$125 million), increased spending and other operating costs (approximately \$110 million, which includes outage costs), unfavorable changes from steel substrate sales to our Tubular segment (approximately \$75 million) and higher costs for employee profit sharing (approximately \$20 million). These decreases were partially offset by reduced energy costs, primarily due to lower natural gas costs (approximately \$140 million) and an increase in shipment volumes (approximately \$40 million).

### Segment results for USSE

|                                             | Quarter Ended<br>September 30, |         |             | Nine Months Ended<br>September 30, |         |        |   |
|---------------------------------------------|--------------------------------|---------|-------------|------------------------------------|---------|--------|---|
|                                             | 2012                           | 2011    | %<br>Change | 2012                               | 2011    | Change | % |
| Income (loss) from operations (\$ millions) | \$ 27                          | \$ (50) | 154%        | \$ 27                              | \$ (73) | 137%   |   |
| Gross margin                                | 12%                            | 4%      | 8%          | 9%                                 | 5%      | 4%     |   |
| Raw steel production (mnt)                  | 1,140                          | 1,317   | -13%        | 3,553                              | 4,429   | -20%   |   |
| Capability utilization                      | 90%                            | 71%     | 19%         | 90%                                | 80%     | 10%    |   |
| Steel shipments (mnt)                       | 911                            | 1,196   | -24%        | 2,911                              | 3,779   | -23%   |   |
| Average realized steel price per ton        | \$ 731                         | \$ 862  | -15%        | \$ 749                             | \$ 868  | -14%   |   |

The improvement in USSE results in the third quarter of 2012 compared to the same period in 2011 was primarily due to lower raw material costs (approximately \$100 million), the elimination of operating losses subsequent to January 31, 2012 associated with our former Serbian operations (which were approximately \$60 million) and decreased other operating costs (approximately \$10 million). These improvements were partially offset by a decrease in average realized prices for USSK (approximately \$60 million) and the strengthening of the U.S. dollar versus the euro in the third quarter of 2012 compared to the third quarter of 2011 (approximately \$30 million).

The improvement in USSE results in the first nine months of 2012 compared to the same period in 2011 was primarily due to lower raw material costs (approximately \$225 million), the elimination of

operating losses subsequent to January 31, 2012 associated with our former Serbian operations (which were approximately \$125 million), decreased other operating costs (approximately \$30 million) and increased shipment volumes (approximately \$20 million). These improvements were partially offset by a decrease in average realized prices for USSK (approximately \$205 million), the strengthening of the U.S. dollar versus the euro in the first nine months of 2012 compared to the first nine months of 2011 (approximately \$70 million) and increased energy costs primarily due to increased electricity costs (approximately \$25 million).

### Segment results for Tubular

|                                      | Quarter Ended<br>September 30, |          |        | Nine Months Ended<br>September 30, |          |        |
|--------------------------------------|--------------------------------|----------|--------|------------------------------------|----------|--------|
|                                      |                                |          | %      |                                    |          | %      |
|                                      | 2012                           | 2011     | Change | 2012                               | 2011     | Change |
| Income from operations (\$ millions) | \$ 102                         | \$ 134   | -24%   | \$ 334                             | \$ 197   | 70%    |
| Gross margin                         | 16%                            | 18%      | -2%    | 16%                                | 13%      | 3%     |
| Steel shipments (mnt)                | 457                            | 481      | -5%    | 1,479                              | 1,330    | 11%    |
| Average realized steel price per ton | \$ 1,676                       | \$ 1,699 | -1%    | \$ 1,704                           | \$ 1,576 | 8%     |

The decrease in Tubular results in the third quarter of 2012 as compared to the same period in 2011 resulted mainly from a decrease in average realized prices (approximately \$20 million) and increased spending and other costs (approximately \$30 million, which includes spending for facility maintenance). These decreases were partially offset by decreased substrate costs (approximately \$20 million).

The improvement in Tubular results in the first nine months of 2012 as compared to the same period in 2011 resulted mainly from an increase in average realized prices (approximately \$150 million), lower substrate costs (approximately \$45 million), and an increase of 149 thousand tons in shipments (approximately \$40 million). These improvements were partially offset by increased spending and other operating costs (approximately \$95 million, which includes facility maintenance costs) and higher accruals for profit-based payments (approximately \$5 million).

### Results for Other Businesses

Other Businesses had income of \$13 million and \$46 million in the third quarter and first nine months of 2012, compared to income of \$8 million and \$30 million in the third quarter and first nine months of 2011.

### Items not allocated to segments

The decrease in **postretirement benefit expense** in the third quarter and first nine months of 2012 as compared to the same period in 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, particularly the adoption of a new Employer Group Waiver Plan structure for most medicare drug participants.

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 pre-tax charge of \$35 million in the third quarter of 2012.

We recorded a \$310 million pretax **net loss on the sale of assets** in the first nine months of 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 pretax gain of \$19 million related to **property tax settlements** that occurred in the first nine months of 2012. This was reflected as a reduction to our cost of sales.

### *Net interest and other financial costs*

|                                    | Quarter Ended<br>September 30, |        |        | Nine Months Ended<br>September 30, |        |        |
|------------------------------------|--------------------------------|--------|--------|------------------------------------|--------|--------|
|                                    |                                |        | %      |                                    |        | %      |
| (Dollars in millions)              | 2012                           | 2011   | Change | 2012                               | 2011   | Change |
| Interest and other financial costs | \$ 52                          | \$ 53  | -2%    | \$ 181                             | \$ 166 | 9%     |
| Interest income                    | (1)                            | (1)    | 0%     | (6)                                | (4)    | 50%    |
| Foreign currency losses (gains)    | (6)                            | 92     | -107%  | 2                                  | (26)   | -108%  |
| Total                              | \$ 45                          | \$ 144 | -69%   | \$ 177                             | \$ 136 | 30%    |

The favorable change in net interest and other financial costs in the third quarter 2012 as compared to the same periods last year was primarily due to the accounting remeasurement of a U.S. dollar-denominated intercompany loan to a European entity, partially offset by losses on euro-U.S. dollar derivatives activity. The unfavorable change in net interest and other financial costs in the first nine months of 2012 compared to the same period last year was due to 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 as well as unfavorable changes in net foreign currency losses compared to net foreign currency gains resulting from the accounting remeasurement effects on a U.S. dollar-denominated 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. For additional information on U. S. Steel's foreign currency exchange activity see note 13 to the Consolidated Financial Statements and Item 3. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

The **income tax (benefit) provision** was \$(27) million and \$139 million in the third quarter and first nine months of 2012 compared to \$33 million and \$114 million in the comparable periods of 2011. The tax (benefit) 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 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. In addition, no material tax benefit was recorded on the loss on the sale of USSS. Included in the third quarter 2012 income tax benefit is a 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.

The tax provision for the first nine months of 2012 is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income or loss. During the year, management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, operating performance and cost estimates. To the extent that actual 2012 pretax results for U.S. and foreign income or loss vary from estimates made at the end of the most recent interim period, the actual tax provision or benefit recognized in 2012 could be materially different from the forecasted amount used to estimate the tax provision for the nine months ended September 30, 2012.

The net domestic deferred tax asset was \$424 million at September 30, 2012 compared to \$697 million at December 31, 2011. 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. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the domestic deferred tax assets will be realized.

At September 30, 2012, the net foreign deferred tax asset was \$58 million, net of established valuation allowances of \$1,040 million. At December 31, 2011, the net foreign deferred tax asset was \$66 million, net of established valuation allowances of \$1,018 million. At December 31, 2011, 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 the offsetting valuation allowance were removed in the first quarter of 2012 in connection with the sale. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the Canadian dollar and the euro. 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.

For further information on income taxes see note 9 to the Consolidated Financial Statements.

Net income (loss) attributable to United States Steel Corporation was \$44 million and \$(74) million in the third quarter and first nine months of 2012, respectively, compared to net income of \$22 million and \$158 million in the third quarter and first nine months of 2011, respectively. The changes primarily reflect the factors discussed above.

## BALANCE SHEET

**Inventories** decreased by \$250 million from year-end 2011 due to the sale of USSS and a reduction in raw material inventories.

**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).

**Property, plant and equipment, net** decreased by \$189 million from year-end 2011 primarily due to the sale of USSS.

**Accounts Payable** decreased by \$115 million from year-end 2011 due to decreased business volumes and decreased capital expenditures.

**Borrowings under Receivables Purchase Agreement** as of December 31, 2011 reflects the outstanding borrowings under our RPA. As of September 30, 2012, there were no borrowings outstanding under our RPA.

**Employee benefits** decreased by \$611 million from year-end 2011 primarily due to a \$410 million improvement in the funded status of the other post-employment benefit plans effective with the September 1, 2012 remeasurement (see note 6 to the Consolidated Financial Statements) and U. S. Steel's \$140 million voluntary pension contribution to its main defined benefit pension plan.

**Long-term debt, less unamortized discount** increased by \$111 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 recognition of the obligation to lease or purchase the Fairfield caster, 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 200 million revolving unsecured credit facility.

**CASH FLOW**

**Net cash provided by operating activities** was \$958 million for the first nine months of 2012, compared to \$108 million in the same period last year. The improvement is primarily due to changes in working capital period over period primarily related to lower inventory levels. 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 three months and twelve months ended September 30, 2012 and 2011 are as follows:

|                              | Three Months Ended<br>September 30, |      | Twelve Months Ended<br>September 30, |      |
|------------------------------|-------------------------------------|------|--------------------------------------|------|
|                              | 2012                                | 2011 | 2012                                 | 2011 |
| Accounts Receivable Turnover | 1.9                                 | 1.9  | 8.0                                  | 8.0  |
| Inventory Turnover           | 1.7                                 | 1.6  | 6.7                                  | 6.8  |

**Cash payments for capital expenditures**, excluding \$50 million of changes in accrued capital expenditures in the first nine months of 2012, were \$536 million, compared with \$626 million in the same period in 2011. Flat-rolled cash payments for capital expenditures were \$484 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 expenditures of \$25 million consisted primarily of cash payments for capital expenditures related to an upgrade to the Lorain No. 4 Seamless Hot Mill, infrastructure and environmental capital projects. USSE cash payments for capital expenditures of \$21 million consisted of spending for infrastructure and environmental projects.

U. S. Steel's contractual commitments to acquire property, plant and equipment at September 30, 2012, totaled \$236 million.

Capital expenditures for 2012 are expected to total approximately \$730 million and remain focused largely on strategic infrastructure and environmental projects. With regard to capital investments, we remain focused on a number of 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. Engineering and construction of a technologically and environmentally advanced coke battery at the Mon Valley Works - Clairton Plant in Clairton, Pennsylvania with a projected capacity of 960,000 tons is underway with completion expected near year-end 2012. We are constructing a carbon alloy facility at our Gary Works in Indiana 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. Commissioning and initial production are underway in the first of the two modules with project completion expected in the third quarter of 2013. We expect both of these projects to reach full production capability in 2013. We continue to pursue the use of natural gas in our operations, primarily in North America, given the significant cost and environmental advantages of this fuel. Related projects tend to be smaller with limited capital cost. This may enable us to minimize additional capital investments in coke and carbon alloy projects in the future. 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 ERP system to replace our existing older information technology systems. 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 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 as currently conceived is broadly estimated to be approximately \$820 million; final permitting for the expansion was completed in December 2011. We also 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 blast furnace and basic oxygen furnace manufacturing processes will remain our primary processing technology for the long term.

The foregoing statements regarding expected 2012 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 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; and (vii) unforeseen hazards such as contractor performance, material shortages, weather conditions, explosions or fires. 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.

**Restricted cash** in the first nine months of 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 made. At September 30, 2012, \$78 million of this restricted cash remained.

**Disposal of assets** in the first nine months of 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 the first nine months of 2011 primarily reflects cash proceeds of approximately \$6 million from transactions to swap a portion of the emissions allowances at USSK as well as various other transactions, none of which were individually material.

**Borrowings against revolving credit facilities** in the first nine months of 2012 reflect amounts drawn under USSK's \$280 million total unsecured revolving credit facilities.

**Repayments of revolving credit facilities** in both the first nine months of 2012 and 2011 reflect USSK's repayment of the outstanding borrowings under its \$280 million total unsecured revolving credit facilities.

**Receivables Purchase Agreement Payments** in the first nine months of 2012 reflect activity under the Receivables Purchase Agreement.

**Issuance of long-term debt, net of financing costs** in the first nine months of 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. U. S. Steel received net proceeds of \$392 million and \$93 million, respectively after related discounts and other fees.

**Repayment of long-term debt** in the first nine months of 2012 reflects the redemption of our \$300 million 5.65% Senior Notes due 2013.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes U. S. Steel's liquidity as of September 30, 2012:

(Dollars in millions)

|                                                       |          |
|-------------------------------------------------------|----------|
| Cash and cash equivalents                             | \$ 536   |
| Amount available under \$875 Million Credit Facility  | 875      |
| Amount available under Receivables Purchase Agreement | 625      |
| Amounts available under USSK credit facilities        | 361      |
| Total estimated liquidity                             | \$ 2,397 |

As of September 30, 2012, \$238 million of the total cash and cash equivalents was held by our foreign subsidiaries, which has been indefinitely reinvested.

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 in connection with the issuance and sale by the Indiana Finance Authority, the Allegheny County Industrial Development Authority and the Southwestern Illinois Development Authority of \$29 million, \$25 million and \$40 million, respectively, 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 September 30, 2012, \$78 million of this restricted cash remained. The interest rate on the loans is 5.75 percent and interest is payable semi-annually on February 1<sup>st</sup> and August 1<sup>st</sup> of each year.

As of September 30, 2012, there were no amounts drawn under our \$875 million credit facility agreement (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.

As of September 30, 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. As of September 30, 2012, eligible accounts receivable supported the maximum amount eligible for sale of \$625 million and there were no outstanding borrowings under this facility.

At September 30, 2012, USSK had no borrowings under its 200 million (approximately \$259 million) unsecured revolving credit facility.

At September 30, 2012, USSK had no borrowings under its 80 million unsecured credit facilities (which approximated \$103 million) and the availability was approximately \$102 million due to approximately \$1 million of outstanding customs and other guarantees. On October 8, 2012, one of these facilities expired reducing the credit availability by 40 million (which approximated \$52 million).

We may from time to time seek to retire or purchase our outstanding long-term 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 \$140 million of liquidity sources for financial assurance purposes as of September 30, 2012.

At September 30, 2012, in the event of a change in control of U. S. Steel, debt obligations totaling \$3,163 million, which includes the Senior Notes and the Senior Convertible Notes, may be declared immediately due and payable. In such an event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for \$20 million or provide a letter of credit to secure the remaining obligation.

The slab caster facility at Fairfield, Alabama is subject to a 24-year lease which expires in June 2013. U. S. Steel has the option to purchase the caster or to renew the lease at the end of the basic term. During the third quarter of 2012, U. S. Steel entered into an agreement granting the Company the option to either purchase the slab caster for \$40.8 million, or to elect certain lease renewal options, including the purchase of the slab caster for a fixed price at the expiration of the selected renewal periods. U. S. Steel recorded the slab caster lease at the weighted average present value of the future expected cash flows.

The maximum outstanding guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled \$37 million at September 30, 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 investees to reduce its potential losses under the guarantees.

Our major cash requirements in 2012 are expected to be for capital expenditures, employee benefits and working capital requirements, including purchases of raw materials. We finished the third quarter of 2012 with \$536 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 did not enter into any new material off-balance sheet arrangements during the first nine months of 2012.

### **Environmental Matters, Litigation and Contingencies**

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 (CERCLA), as well as state and local laws and regulations.

U. S. Steel Canada (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 delegates 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.

USSK is subject to the environmental laws of Slovakia and the European Union (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. Slovakia is required to adopt the directive by January 7, 2013 and is allowed only

limited discretion in implementing the legislation. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is \$350 million to \$400 million over the 2013 to 2016 period. We also believe there will be increased operating costs but are currently unable to 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<sub>2</sub>) 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 and Canada, 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<sub>2</sub> emissions, our competitive position relative to mini mills will be adversely impacted and our competitive position regarding producers in developing nations, such as China and India, will be harmed unless such nations require commensurate reductions in CO<sub>2</sub> 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<sub>2</sub> 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 Environmental Protection Agency (EPA) has published rules for regulating greenhouse gas emissions for certain facilities and has implemented various reporting requirements as further described below. In the last Congress, greenhouse gas legislation has 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 a new session of Congress. 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 Circuit issued an opinion essentially upholding EPA's greenhouse gas authority. Namely, 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 gas emissions under the tailpipe rule, giving the EPA 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 the court stated 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 EPA regarding greenhouse gas, stating that it also lacked jurisdiction over these SIP related rules; and the rules are being challenged in different tribunals.

The EU has established greenhouse gas regulations 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.

The EPA has classified greenhouse gases such as CO<sub>2</sub> 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<sub>2</sub> equivalent quantities (CO<sub>2</sub>e). 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 Operations, Midwest Plant, Clairton Plant, Edgar Thomson, Irvin, Fairless, Fairfield Sheet, Fairfield Tubular, Granite City, Great Lakes, Lorain, Minntac, and Keetac. The Texas Operations Division is the only significant operation not required to report as its emissions were well below the 25,000 ton reporting threshold.

New requirements for 2011 monitoring and reporting included greenhouse gas emissions from 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 on-site landfill methane emissions into the EPA's electronic reporting tool were added this fall enabling those subject to the rule to report greenhouse gas emissions from on-site landfills for 2011.

As with previous year's reports, 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<sub>2</sub> emissions limits for every EU member state and approves grants of CO<sub>2</sub> 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<sub>2</sub> they emit in their operations.

In July 2008, Slovakia granted USSK CO<sub>2</sub> emission allowances as part of the national allocation plan for the 2008 to 2012 trading period (NAP II) approved by the EC. Based on actual CO<sub>2</sub> emissions to date, USSK will have sufficient allowances for the NAP II period without purchasing additional allowances. In the first nine months of 2011, U. S. Steel entered into transactions to swap a portion of our emissions allowances and recognized a gain of \$6 million.

In December 2010, Slovakia enacted an 80 percent tax on excess emission allowances registered in 2011 and 2012. U. S. Steel recorded expense of \$4 million and \$14 million for the three and nine months ended September 30, 2011, respectively. 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. 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<sub>2</sub> emission allowances and the cost of complying with the new ETS at this time.

In 2007, Canada's federal government announced a framework climate change plan that involved mandatory reduction targets for all major greenhouse gas producing industries. To date, federal greenhouse gas regulations have been adopted for Canada's transportation and electricity sectors only. The federal government has indicated that it is committed to reducing Canada's total greenhouse gas emissions by 17 percent from 2005 levels by 2020, but also stated that this target is subject to adjustment in order to remain aligned with the United States. At this point, it is unclear when Canadian federal regulations on greenhouse gas emissions for other major-emitting sectors will be developed and whether they will reflect the targets or approach of the previously announced plan. On June 12, 2009, Canada's federal government also released for comment two draft guides related to the establishment of an Offset System in Canada. These draft documents propose rules and provide guidance on the requirements and processes to create offset credits and the requirements and processes to verify the eligible greenhouse gas reductions achieved from an offset project. Canada's federal government has stated that, once in place, the Offset System will complement the proposed cap-and-trade system and help in generating greenhouse gas emissions reductions across the country. On December 12, 2011, the government announced that Canada was exercising its legal right to formally withdraw from the 1997 Kyoto Protocol. U. S. Steel does not know what impact, if any, this action may have on greenhouse gas emission regulations and its Canadian operations. If federal greenhouse gas reduction legislation for the steel sector becomes law in Canada, it could have economic and operational consequences for U. S. Steel. It is not possible at this time to estimate the timing or impact of these or other future government actions on U. S. Steel.

In December 2007, the Ontario government announced its own Action Plan on Climate Change (the Ontario Action Plan). The Ontario Action Plan targets reductions in Ontario greenhouse gas emissions of six percent below 1990 levels by 2014, 15 percent below 1990 levels by 2020 and 80 percent below 1990 levels by 2050. In December 2008, Ontario launched a consultation process towards the development of a cap-and-trade system and in May 2009, the Ontario government released a discussion paper regarding cap-and-trade. The Ontario government has amended the Environmental Protection Act in order to provide the regulatory authority to set-up a greenhouse gas cap-and-trade system; however, such a system has not yet been developed. The Ontario government also passed a Greenhouse Gas Emissions Reporting Regulation (the Regulation) on December 1, 2009. The Regulation is intended to provide the foundation for Ontario to implement a cap-and-trade program for greenhouse gases. The Regulation requires facilities that emit 25,000 tons of CO<sub>2</sub>e or more per year to annually report their emissions, starting with 2010 emissions. The Ontario government has stated that it is working with four other Canadian provinces and seven U.S. states to design a broad-based cap and trade system.

#### **Environmental Remediation**

In the United States, U. S. Steel has been notified that we are a potentially responsible party (PRP) at 23 sites under CERCLA as of September 30, 2012. In addition, there are 13 sites related to U. S. Steel where we have received information requests or other indications that we may be a PRP under CERCLA but where sufficient information is not presently available to confirm the existence of liability or make any judgment as to the amount thereof. There are also 39 additional sites related to U. S. Steel where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. At many of these sites, U. S. Steel is one of a number of parties involved and the total cost of remediation, as well as U. S. Steel's share thereof, is frequently dependent upon the outcome of investigations and remedial studies. U. S. Steel accrues for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. See note 20 to the Consolidated Financial Statements.

For discussion of relevant environmental items, see Part II. Other Information Item 1. Legal Proceedings Environmental Proceedings.

During the third quarter of 2012, U. S. Steel recorded a net increase of \$2 million to our accruals for environmental matters for U.S. and international facilities. The total accrual for such liabilities at September 30, 2012 was \$203 million. These amounts exclude liabilities related to asset retirement obligations, disclosed in note 15 to the Financial Statements.

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. 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 these contingencies could be resolved unfavorably.

## **OUTLOOK**

Our results are expected to reflect continued weakness in the European and emerging market economies, as well as economic uncertainty in North America. We expect total reportable segment and Other Businesses operating results to be around breakeven for the fourth quarter with decreased results in all reportable segments.

We expect a loss for our Flat-rolled segment due to slightly lower average realized prices, as well as lower shipments and higher operating costs. Average realized prices and shipments are expected to be lower compared to the third quarter as a result of cautious purchasing patterns early in the quarter created by the uncertain global economic outlook; however, market conditions have recently begun improving in North America, and we believe that we are already beyond the spot price trough of the fourth quarter. New spot orders are being transacted at higher prices for delivery later this quarter. Operating costs are expected to increase due to scheduled blast furnace and other maintenance projects.

We expect our European segment results to be around breakeven. Average realized prices are expected to decrease reflecting lower spot market and quarterly contract pricing. Shipments are projected to decrease compared to the third quarter due to lower consumption in automotive and other end user industries. Operating costs are expected to decrease compared to the third quarter primarily due to lower raw materials costs.

We expect fourth quarter results for our Tubular segment to remain profitable but well below third quarter results. Average realized prices are expected to be lower and shipments are projected to be significantly lower than the third quarter as imports continue at high levels despite end users decreasing drilling activity in order to operate within their 2012 capital budgets. Inventory management by our customers may also be a considerable factor as we approach year-end. Operating costs are expected to increase due to operating inefficiencies caused by lower production volumes.

We expect a minimal tax provision/benefit in the fourth quarter primarily due to the full valuation allowance on deferred tax assets in Canada.

## **INTERNATIONAL TRADE**

Demand for flat-rolled products is influenced by a wide variety of factors, including but not limited to macroeconomic 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 North American 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 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. As previously disclosed, we sold our Serbian operations on January 31, 2012.

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

Steel sheet imports to the United States accounted for 13 percent of the U.S. steel market in 2011 and 2010 and 15 percent in 2009. 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 35 percent of the Canadian market for flat-rolled steel products in 2011, 40 percent in 2010 and 39 percent in 2009.

Energy related tubular products imported into the United States accounted for an estimated 47 percent of the market in 2011, 46 percent in 2010 and 58 percent in 2009.

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 benefit of the production, manufacture, or exportation of the product. For many years, U. S. Steel, other producers, customers and the United Steelworkers 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' anti-subsidy law, also known as the CVD law, applies to non-market economy (NME) countries, such as China. While this issue is subject to ongoing litigation, the legislation makes it likely that the 25 current CVD orders against NME imports of steel products (24 on Chinese products, 1 on Vietnamese) will remain in effect.

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).

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

#### **NEW ACCOUNTING STANDARDS**

See note 2 to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes in U. S. Steel's exposure to market risk from December 31, 2011 except as noted below.

Historically, volatility in the foreign currency markets has had significant implications for U. S. Steel as a result of foreign currency accounting remeasurement effects, primarily on a U.S. dollar denominated intercompany loan from a U.S. subsidiary to a European entity. As of January 1, 2012, the functional currency of this European entity was changed from the euro to the U.S. dollar primarily because of significant changes in economic facts and circumstances, including the sale of U. S. Steel Serbia. This change in functional currency has been applied on a prospective basis since January 1, 2012. The remaining foreign currency remeasurement exposure is not expected to have significant effects on U. S. Steel's financial results going forward.

**Item 4. CONTROLS AND PROCEDURES**  
**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

U. S. Steel has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2012. These disclosure controls and procedures are the controls and other procedures that were designed to ensure that information required to be disclosed in reports that are filed with or submitted to the U.S. Securities and Exchange Commission is: (1) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in applicable law and regulations. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2012, U. S. Steel's disclosure controls and procedures were effective.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have not been any changes in U. S. Steel's internal control over financial reporting that occurred during the fiscal quarter covered by this quarterly report, which have materially affected, or are reasonably likely to materially affect, U. S. Steel's internal control over financial reporting.

## UNITED STATES STEEL CORPORATION

## SUPPLEMENTAL STATISTICS (Unaudited)

| (Dollars in millions)                               | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|-----------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                     | 2012                                | 2011   | 2012                               | 2011   |
| <b>SEGMENT INCOME (LOSS) FROM OPERATIONS</b>        |                                     |        |                                    |        |
| Flat-rolled                                         | \$ 29                               | \$ 203 | \$ 389                             | \$ 541 |
| U. S. Steel Europe                                  | 27                                  | (50)   | 27                                 | (73)   |
| Tubular                                             | 102                                 | 134    | 334                                | 197    |
| Total reportable segments                           | 158                                 | 287    | 750                                | 665    |
| Other Businesses                                    | 13                                  | 8      | 46                                 | 30     |
| Items not allocated to segments                     | (109)                               | (96)   | (554)                              | (287)  |
| Total income from operations                        | \$ 62                               | \$ 199 | \$ 242                             | \$ 408 |
| <b>CAPITAL EXPENDITURES</b>                         |                                     |        |                                    |        |
| Flat-rolled                                         | \$ 89                               | \$ 160 | \$ 421                             | \$ 427 |
| U. S. Steel Europe                                  | 15                                  | 26     | 29                                 | 93     |
| Tubular                                             | 17                                  | 30     | 25                                 | 94     |
| Other Businesses                                    | 8                                   | 9      | 11                                 | 12     |
| Total                                               | \$ 129                              | \$ 225 | \$ 486 <sup>(a)</sup>              | \$ 626 |
| <b>OPERATING STATISTICS</b>                         |                                     |        |                                    |        |
| Average realized price: (\$/net ton) <sup>(b)</sup> |                                     |        |                                    |        |
| Flat-rolled                                         | \$ 741                              | \$ 773 | \$ 759                             | \$ 765 |
| U. S. Steel Europe                                  | 731                                 | 862    | 749                                | 868    |
| Tubular                                             | 1,676                               | 1,699  | 1,704                              | 1,576  |
| Steel Shipments: <sup>(b)(c)</sup>                  |                                     |        |                                    |        |
| Flat-rolled                                         | 3,972                               | 3,835  | 12,050                             | 11,725 |
| U. S. Steel Europe                                  | 911                                 | 1,196  | 2,911                              | 3,779  |
| Tubular                                             | 457                                 | 481    | 1,479                              | 1,330  |
| Total Steel Shipments                               | 5,340                               | 5,512  | 16,440                             | 16,834 |
| Raw Steel-Production: <sup>(c)</sup>                |                                     |        |                                    |        |
| Flat-rolled                                         | 4,699                               | 4,516  | 14,430                             | 14,008 |
| U. S. Steel Europe                                  | 1,140                               | 1,317  | 3,553                              | 4,429  |
| Raw Steel-Capability Utilization: <sup>(d)</sup>    |                                     |        |                                    |        |
| Flat-rolled                                         | 77%                                 | 74%    | 79%                                | 77%    |
| U. S. Steel Europe                                  | 90%                                 | 71%    | 90%                                | 80%    |
| USSK                                                | 90%                                 | 82%    | 92%                                | 87%    |

(a) Capital expenditures include \$50 million of changes in accrued but unpaid capital expenditures for the nine months ended September 30, 2012. Changes in the accrued but unpaid capital expenditures for the nine months ended September 30, 2011 were not material.

(b) Excludes intersegment transfers.

(c) Thousands of net tons.

(d) Based on annual raw steel production capability of 24.3 million net tons for Flat-rolled and 7.4 million net tons for USSE. Subsequent to the sale of USSS on January 31, 2012, annual raw steel production capability for USSE is 5.0 million tons.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS 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.

### **ENVIRONMENTAL PROCEEDINGS**

#### **Gary Works**

On March 4, 2010 the EPA notified U. S. Steel that the requirements of the January 26, 1998 Clean Water Act consent decree in *United States of America v. USX* (Northern District of Indiana) had been satisfied. By order on June 25, 2012, the U. S. District Court terminated the consent decree in its entirety. As of September 30, 2012, project costs have amounted to \$60.7 million. In 1998, U. S. Steel also entered into a consent decree with the public trustees, which resolves liability for natural resource damages on the same section of the Grand Calumet River. On August 20, 2012, U. S. Steel paid the public trustees \$1 million for ecological monitoring costs. 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 \$676,000 at September 30, 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 D5 and T2; the closure plan for D2 has been through a public comment period but has not yet been approved by IDEM. D5 and TTP Area closure is complete with IDEM approval of the closure certification reports on February 1 and April 3, 2012, respectively. T2 closure is complete and the closure certification report has been submitted to IDEM. As of September 30, 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 EPA. Through September 30, 2012, U. S. Steel had spent \$42.3 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 to EPA. U. S. Steel has also submitted a Baseline Ecological Risk Assessment work plan for addressing sediments behind the East Breakwall. In addition, U. S. Steel has received approval from 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 the projects is approximately \$45 million as of September 30, 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, U. S. Steel received a Notice of Violation (NOV) from ACHD alleging our Mon Valley Clairton Plant was culpable for hydrogen sulfide (H<sub>2</sub>S) 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<sub>2</sub>S modeling and are in the process of evaluating all potential sources of H<sub>2</sub>S 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 field work 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 September 30, 2012, \$4.3 million has been spent on the project. The remaining cost is estimated to be \$157,000 for post construction monitoring work and was recorded as an accrued liability as of September 30, 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 \$584,000. 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 20 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, EPA and the Department of Justice (DOJ) and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997. 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 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 Facility was voluntarily implemented in October 2011, completed in December 2011 with the final completion report submitted to ADEM in June 2012. Following ADEM approval, the Phase II RFI for Fairfield Works was initiated in September 2012. In total, the accrued liability for remaining work under the Corrective Action Program including the former Ensley facility was \$547,000 at September 30, 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 20 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 identified SWMUs and Areas of Contamination is complete and a Phase II workplan that addresses additional soil investigations, site wide groundwater, and the pipe mill lagoon has been agreed upon by OEPA. As of September 30, 2012, U. S. Steel has spent \$821,000 on studies at this site. Costs to complete additional projects are estimated to be \$419,000. 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 20 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 system influent and effluent water quality data, additional seep water treatment will be necessary, and is being designed to meet future permit limits. As of September 30, 2012, project costs have amounted to \$1.4 million. The remaining cost of the project is expected to be \$384,000 and was recorded as an accrued liability as of September 30, 2012.

On November 16, 2010, OEPA issued an NOV to U. S. Steel for allegedly not submitting a complete and timely NOx Reasonably Available Control Technology (RACT) study of Lorain Tubular Operations, as required by OEPA RACT rules. To comply with OEPA NOx RACT rules, U. S. Steel installed ultra low NOx burners on the No. 4 seamless rotary furnace which were completed in April 2012. U. S. Steel is currently negotiating with OEPA on establishing appropriate RACT limits for the furnace based upon testing results.

### **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 Clean Water Act National Pollutant Discharge Elimination System (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 September 30, 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 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.

### **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 (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 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.

At Granite City Works, U. S. Steel and Gateway Energy & Coke Company, LLC (Gateway), a subsidiary of SunCoke Energy, Inc., have agreed with two environmental advocacy groups to establish an Environmental Trust Fund (Trust), which requires the permittees (U. S. Steel and Gateway) to collectively deposit \$1.0 million by September 30th of each year, beginning September 30, 2008 and ending September 30, 2012. To date, all payments have been made by U. S. Steel and Gateway.

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 expenditures of approximately \$50 million to install additional emission 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.

### **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 (BART). 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 in the range of \$3 million to \$5 million per line.

On March 2, 2012, U. S. Steel's Keetac facility received a 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 (TMDL) requirements and Minntac's Title V NOx reduction requirements. A dry control system will be installed at the Minntac facility to reduce PM, PM10, PM2.5, 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; and approximately \$20 million to install low NOx burners.

### **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 September 30, 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 approximately \$65 million as of September 30, 2012, for its 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 (ROD) signed by MPCA in 1989. As of September 30, 2012, U. S. Steel has spent \$19.2 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 identified during the 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 September 30, 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. Submission of the final completion report to the agency is scheduled for the fourth quarter 2012. As of September 30, 2012, U. S. Steel has spent \$11.8 million related to the project. The remaining cost of the project is estimated to be \$396,000 and was recorded as an accrued liability as of September 30, 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 Department of Toxic Substances Control (DTSC). As of September 30, 2012, \$571,000 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 20 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 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.

#### **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 September 30, 2012, an accrual of \$519,000 is 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 September 30, 2012, U. S. Steel has an accrued liability of approximately \$37,000 to conduct outstanding measures.

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 field work was completed in November, 2011. The accrued liability representing U. S. Steel's share to implement the post closure monitoring program is \$774,000 as of September 30, 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 September 30, 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 \$122 million). The national and provincial governments have each allocated C\$30 million (approximately \$30 million) for this project and appear to be willing to increase that amount to C\$40 million (approximately \$41 million), respectively, provided that local sources, including industry, agree to fund C\$40 million (approximately \$41 million). Recent developments indicate that C\$40 million (approximately \$41 million), including in-kind contributions, will also be available from local sources. 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 September 30, 2012, U. S. Steel has an accrued liability of approximately \$10 million reflecting the contribution commitment.

U. S. Steel is identified as a Potentially Responsible Party (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 September 30, 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.

#### **ASBESTOS LITIGATION**

At September 30, 2012, U. S. Steel was a defendant in approximately 755 active cases involving approximately 3,295 plaintiffs. As of December 31, 2011, U. S. Steel was a defendant in approximately 695 active cases involving approximately 3,235 plaintiffs. For the period ended September 30, 2012, settlements and dismissals resulted in the disposition of approximately 110 claims and U. S. Steel paid approximately \$9 million in settlements. New filings added approximately 170 claims.

About 2,570, or approximately 78 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 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 2009 through 2012 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 260 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

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

In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Historically, approximately 78 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:

| Period ended       | Opening<br>Number<br>of Claims | Claims<br>Dismissed,<br>Settled<br>and Resolved | New<br>Claims | Closing<br>Number<br>of Claims | Amounts<br>Paid to<br>Resolve<br>Claims<br>(in millions) |
|--------------------|--------------------------------|-------------------------------------------------|---------------|--------------------------------|----------------------------------------------------------|
| December 31, 2009  | 3,050                          | 200                                             | 190           | 3,040                          | \$ 7                                                     |
| December 31, 2010  | 3,040                          | 200                                             | 250           | 3,090                          | \$ 8                                                     |
| December 31, 2011  | 3,090                          | 130                                             | 275           | 3,235                          | \$ 8                                                     |
| September 30, 2012 | 3,235                          | 110                                             | 170           | 3,295                          | \$ 9                                                     |

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.

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

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

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**Item 1A. RISK FACTORS**

The following risk factor has been updated from U. S. Steel's Form 10-K for the year ended December 31, 2011 to reflect the potential effects from the Surface Transportation Act of 2012.

***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 most of our North American employees and former employees upon their retirement. As of December 31, 2011, approximately 115,000 current employees, retirees and beneficiaries are participating in the plans to receive pension and/or medical benefits. At December 31, 2011, on an accounting basis, U. S. Steel's retiree medical and life insurance plans were underfunded by \$2.7 billion and our pension plans were underfunded by \$2.4 billion.

Most of our employee benefits are subject to collective bargaining agreements with unionized workforces and will be subject to future negotiations. 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 U. S. Steel Canada (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. This unique 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 Ontario Canada provincial rules for funding defined benefit plans which generally require the funding of solvency deficiencies over a five year period and may require significantly more annual contributions than is currently required under a Stelco (now U. S. Steel) agreement.

The turmoil in financial markets during 2008 led to significant declines in the value of equity investments that are held by the trusts under our pension plans and the trust to pay for retiree health care and life insurance benefits. While some of the 2008 losses were recovered in 2009 and 2010, poorly performing global equity markets in 2011 negatively impacted our underfunded positions at December 31, 2011. 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 recently enacted pension stabilization legislation 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 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. 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.

If there is significant underfunding of the liabilities in 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 projects that we believe would increase our ability to meet our customers' needs as well as our profitability.

U. S. Steel contributes to a multiemployer defined benefit pension plan domestically for USW-represented employees formerly employed by National Steel and represented employees hired after May 2003 called the Steelworkers Pension Trust (SPT). 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 collective bargaining agreements with the USW entered into effective September 1, 2008 (the 2008 CBAs) increased our required contributions to this plan from \$1.80 to \$2.65 per hour 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. These pressures may in part stem from requirements legislated by the Patient Protection and Affordable Care Act enacted in 2010. This may adversely impact our results of operations and cash flow.

Many domestic and international competitors do not provide retiree health care and life insurance or defined benefit pension plans, and other international competitors operate in jurisdictions with government sponsored retirement and health care plans that may offer them a cost advantage. Benefit obligations under our plans are not tied to operating rates; therefore, our costs do not change to reflect general economic conditions.

#### **Item 4. MINE SAFETY DISCLOSURES**

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

**Item 6. EXHIBITS**

|            |                                                                                                                                                                                                                                              |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1       | Certification of Chief Executive Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2       | Certification of Chief Financial Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1       | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                            |
| 32.2       | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                            |
| 95         | Mine Safety Disclosure required under Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act                                                                                                                          |
| 101 INS    | XBRL Instance Document                                                                                                                                                                                                                       |
| 101<br>SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                      |
| 101<br>CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                        |
| 101<br>DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                         |
| 101<br>LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                              |
| 101<br>PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                       |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned chief accounting officer thereunto duly authorized.

UNITED STATES STEEL CORPORATION

By /s/ Gregory A. Zovko

Gregory A. Zovko  
Vice President and Controller  
October 30, 2012

**WEB SITE POSTING**

This Form 10-Q will be posted on the U. S. Steel web site, [www.ussteel.com](http://www.ussteel.com), within a few days of its filing.