AK STEEL HOLDING CORP
Form 10-K
February 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

T Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011
OR
£ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to
Commission File No. 1-13696
AK STEEL HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	31-1401455
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9227 Centre Pointe Drive, West Chester, Ohio	45069
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (513) 425-5000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock $0.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 T 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes T No £

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	T	Accelerated filer	£

Non-accelerated filer	£	Smaller reporting company	£

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes £ No T

Aggregate market value of the registrant's voting stock held by non-affiliates at June 30, 2011: $1,716,524,245
There were 110,633,660 shares of common stock outstanding as of February 23, 2012.

DOCUMENTS INCORPORATED BY REFERENCE
The information required to be furnished pursuant to Part III of this Form 10-K will be set forth in, and incorporated by reference from, the registrant's definitive proxy statement for the annual meeting of stockholders (the "2012 Proxy Statement"), which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2011.

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(Dollars in millions, except per share and per ton amounts or as otherwise specifically noted)

PART I

Item 1. Business.

Operations Overview

AK Steel Holding Corporation ("AK Holding") is a corporation formed under the laws of Delaware in 1993 and is an integrated producer of flat-rolled carbon, stainless and electrical steels and tubular products through its wholly-owned subsidiary, AK Steel Corporation ("AK Steel" and, together with AK Holding, the "Company"). AK Steel is the successor through merger in 1999 to Armco Inc., which was formed in 1900.

The Company's operations consist of seven steelmaking and finishing plants located in Indiana, Kentucky, Ohio and Pennsylvania that produce flat-rolled carbon steels, including premium-quality coated, cold-rolled and hot-rolled products, and specialty stainless and electrical steels that are sold in sheet and strip form. The Company's operations also include AK Tube LLC ("AK Tube"), a wholly-owned subsidiary of the Company, which further finishes flat-rolled carbon and stainless steel at two tube plants, located in Ohio and Indiana, into welded steel tubing used in the automotive, large truck and construction markets. In addition, the Company's operations include European trading companies that buy and sell steel and steel products and other materials. During 2011, the Company entered into a joint venture ("Magnetation JV") whereby it acquired a 49.9% equity interest in Magnetation LLC, a company headquartered in Minnesota that produces iron ore concentrate from previously mined ore reserves, and purchased Solar Fuel Company, Inc., a company headquartered in Pennsylvania which controls, through ownership and lease, metallurgical coal reserves and which it renamed AK Coal Resources, Inc. ("AK Coal").

Customers and Markets

For carbon and stainless steels, the Company principally directs its marketing efforts toward those customers who require the highest quality flat-rolled steel with precise "just-in-time" delivery and technical support. The Company's enhanced product quality and delivery capabilities, as well as its emphasis on customer technical support and product planning, are critical factors in its ability to serve this segment of the market. For electrical steels, the Company focuses its efforts on customers who desire iron-silicon alloys that provide the low core loss and high permeability attributes required for more efficient and economical electrical transformers. The Company's iron-silicon alloys are among the most energy efficient in the world. As with customers of its other steel products, the Company also ensures that its electrical steel customers have outstanding technical support and product development assistance. The Company's standards of excellence in each of its product categories have been embraced by a wide array of diverse customers and, accordingly, no single customer accounted for more than 10% of net sales of the Company during 2011.

The Company's flat-rolled carbon steel products are sold primarily to automotive manufacturers and to customers in the infrastructure and manufacturing markets. The infrastructure and manufacturing market includes electrical transmission, heating, ventilation and air conditioning equipment, and appliances. The Company also sells coated, cold-rolled, and hot-rolled carbon steel products to distributors, service centers and converters who may further process these products prior to reselling them. To the extent it believes necessary, the Company carries increased inventory levels to meet the requirements of certain of its customers for "just-in-time" delivery.

The Company sells its stainless steel products to manufacturers and their suppliers in the automotive industry, to manufacturers of food handling, chemical processing, pollution control, medical and health equipment, and to distributors and service centers.

The Company sells its electrical steel products in the infrastructure and manufacturing markets. These products are sold primarily to manufacturers of power transmission and distribution transformers, both for new and replacement installation. The principal driver in the demand for new transformers is housing starts, while the demand for replacement transformers is driven more by age and obsolescence. The Company also sells electrical steel products for use in the manufacture of electrical motors and generators.

The Company sells its carbon products principally to customers in the United States. The Company's electrical and stainless steel products are sold both domestically and internationally. The Company's customer base is geographically diverse and there is no single country outside of the United States as to which sales are material relative to the Company's total sales revenue. The Company attributes revenue from foreign countries based upon the destination of physical shipment of a product. Revenue from direct sales and sales as a percentage of total sales in 2011, 2010 and 2009, domestically and internationally, were as follows:

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Geographic Area	2011 Net Sales	%	2010 Net Sales	%	2009 Net Sales	%
United States	$5,521.6	85 %	$5,145.0	86 %	$3,309.8	81 %
Foreign countries	946.4	15 %	823.3	14 %	767.0	19 %
Total	$6,468.0	100 %	$5,968.3	100 %	$4,076.8	100 %

The Company does not have any material long-lived assets located outside of the United States.

The following table sets forth the percentage of the Company's net sales attributable to each of its markets:

Market	2011	2010	2009
Automotive	36 %	36 %	36 %
Infrastructure and Manufacturing	24 %	25 %	31 %
Distributors and Converters	40 %	39 %	33 %

Approximately 57% of the Company's shipments of flat-rolled steel products in 2011 were made to contract customers, with the balance to customers in the spot market at prevailing prices at the time of sale. The Company is a party to contracts with all of its major automotive and most of its infrastructure and manufacturing industry customers. These contracts set forth prices to be paid for each product during their term. Approximately 93% of the Company's shipments to contract customers permit price adjustments during the term of the contract to reflect changes in prevailing market conditions of certain energy and raw material costs. In most instances, the term of the contract is one year.

The Company's sales in 2011 and 2010 were adversely affected by the lingering effects of the severe recession in the domestic and global economies which started in the fall of 2008. In 2010, however, the automotive industry began to recover from the effects of the recession. As a result, North American light vehicle production improved significantly in 2010 from 2009 and continued to improve in 2011. It remained, however, substantially below pre-recession levels and, although a further increase in light vehicle production volumes is projected during 2012, it appears likely that light vehicle production levels will continue to be below pre-recession levels through at least 2014. Because the automotive market continues to be an important element of the Company's business, reduced North American light vehicle production adversely impacts the Company's total sales and shipments.

The recession also severely affected the housing industry. Housing starts remained substantially below pre-recession levels and it appears likely that they will continue to be below pre-recession levels throughout 2012. The housing slowdown adversely affected production by the manufacturers of power transmission and distribution transformers, to which the Company sells its electrical steels, and production by the manufacturers of appliances, to which the Company sells its stainless steels. To the extent that domestic housing starts remain at a very low level, it is likely that the Company's electrical and stainless steel sales and shipments will continue to be negatively affected.

Raw Materials and Other Inputs

The principal raw materials required for the Company's steel manufacturing operations are iron ore, coal, coke, chrome, nickel, silicon, manganese, zinc, limestone, and carbon and stainless steel scrap. The Company also uses large volumes of natural gas, electricity and oxygen in its steel manufacturing operations. In addition, the Company historically has purchased carbon steel slabs from other steel producers to supplement the production from its own steelmaking facilities and purchased approximately 192,000 tons of carbon slabs in 2011.

The Company typically purchases carbon steel slabs, carbon and stainless steel scrap, natural gas, a substantial portion of its electricity, and most other raw materials at prevailing market prices, which are subject to price fluctuations in accordance with supply and demand. The Company, however, makes most of its purchases of coke and oxygen and a portion of its electricity at negotiated prices under annual and multi-year agreements with periodic price adjustments. The Company also purchases iron ore and coal under such agreements, but in 2011 it made strategic investments with respect to iron ore and coal that, over time, it expects will enable it to acquire approximately one half of its annual iron ore and coal needs at prices that are less exposed to market fluctuations and are below current market prices. The Company enters into financial instruments from time to time to hedge portions of its purchases of energy and certain raw materials, the prices of which may be subject to volatile fluctuations.

In addition to making strategic investments in iron ore and coal, the Company also continues to attempt to reduce the risk of future supply shortages through other means. To the extent that multi-year contracts are available in the marketplace, the Company has used such contracts to secure adequate sources of supply to satisfy key raw materials needs for the next three to five years. Where multi-year contracts are not available, or are not available on terms acceptable to the Company, the Company continues to seek to secure the remainder of its raw materials needs through annual contracts or spot purchases. The Company currently believes that it either has secured, or will be able to secure, adequate sources of supply for its raw materials and energy requirements for the next three to five years. The Company also regularly evaluates the use of alternative sources and substitute materials.

The Company historically has produced most of the coke it consumes in its blast furnaces, but in 2008 the Company entered into an agreement with Middletown Coke Company, LLC (“SunCoke Middletown”), an affiliate of SunCoke Energy, Inc. (“SunCoke”), to construct a new state-of-the-art, environmentally-friendly heat-recovery coke battery contiguous to the Company’s Middletown Works. The new facility will supply approximately 550,000 net tons of metallurgical-grade coke and approximately 45 megawatts of electrical power annually to the Company’s Middletown Works under a long-term purchase agreement. The facility began production in the fourth quarter of 2011. In 2009, the Company also entered into a long-term supply agreement with Haverhill North Coke Company (“SunCoke Haverhill”), another affiliate of SunCoke, to provide the Company with metallurgical-grade coke from an existing SunCoke Haverhill coke battery (the “Haverhill Coke Battery”) in southern Ohio. Under that agreement, SunCoke Haverhill provides AK Steel with up to 550,000 tons of coke annually, and electricity co-generated from the Haverhill Coke Battery. In June 2011, the Company permanently closed its Ashland, Kentucky, coke plant because the plant was no longer cost competitive due to increased maintenance and increasingly stringent environmental regulations. To the extent, if at all, that the Company cannot satisfy all of its needs through its remaining coke plant at Middletown Works and its arrangements described above with SunCoke, the Company enters into supply contracts with third parties to provide coke at negotiated prices.

Research and Development

The Company conducts a broad range of research and development activities aimed at improving existing products and manufacturing processes and developing new products and processes. Research and development costs incurred in 2011, 2010 and 2009 were $13.2, $9.7 and $6.2, respectively.

Employees

At December 31, 2011, the Company employed approximately 6,600 employees, of which approximately 5,000 are represented by labor unions under various contracts that expire between 2012 and 2015. See the discussion under Labor Agreements in Item 7 for additional information on these agreements.

Competition

The Company competes with domestic and foreign flat-rolled carbon, stainless and electrical steel producers (both integrated steel producers and mini-mill producers) and producers of plastics, aluminum and other materials that can be used in lieu of flat-rolled steels in manufactured products. Mini-mills generally offer a narrower range of products than integrated steel mills, but can have some competitive cost advantages as a result of their different production processes and typically non-union work forces. Price, quality, on-time delivery and customer service are the primary competitive factors in the steel industry and vary in relative importance according to the category of product and customer requirements.

Domestic steel producers, including the Company, face significant competition from foreign producers. For a variety of reasons, these foreign producers often are able to sell products in the United States at prices substantially lower than domestic producers. These reasons include lower labor, raw material, energy and regulatory costs, as well as significant government subsidies, the maintenance of artificially low exchange rates against the U.S. dollar, and preferential trade practices in their home countries. The annual level of imports of foreign steel into the United States also is affected to varying degrees by the strength of demand for steel outside the United States and the relative strength or weakness of the U.S. dollar against various foreign currencies. U.S. imports of finished steel accounted for approximately 22%, 21% and 22% of domestic steel market sales in 2011, 2010 and 2009, respectively.

The Company continues to provide pension and healthcare benefits to a significant portion of its retirees, resulting in a competitive disadvantage compared to certain other domestic integrated steel companies and the mini-mills that do not provide such benefits to any or most of their retirees. Over the course of the last several years, however, the Company has negotiated progressive labor agreements that have significantly reduced total employment costs at all of its union-represented facilities. In addition, the Company has entered into agreements with various groups of retirees to transfer all responsibility for their healthcare benefits from the Company to Voluntary Employee Benefits Associations funded by the Company. These actions have increased the Company's ability to compete in the highly competitive global steel market while, at the same time, continuing to provide support for its retirees' pension and healthcare benefits.

The Company also is facing increased competition from foreign-based and domestic steel producers who have expanded or restarted shutdown steel production and/or finishing facilities in the United States.

Environmental

Information with respect to the Company's environmental compliance, remediation and proceedings is included in Note 9 to the

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Consolidated Financial Statements in Item 8 and is incorporated herein by reference.

Executive Officers of the Registrant

The following table sets forth the name, age and principal position with the Company of each of its executive officers as of February 23, 2012:

Name	Age	Positions with the Company
James L. Wainscott	54	Chairman of the Board, President and Chief Executive Officer
David C. Horn	60	Executive Vice President, General Counsel and Secretary
John F. Kaloski	62	Executive Vice President and Operating Officer
Albert E. Ferrara, Jr.	63	Senior Vice President, Finance and Chief Financial Officer
Gary T. Barlow	49	Vice President, Sales and Customer Service
Keith J. Howell	46	Vice President, Carbon Steel Operations
Roger K. Newport	47	Vice President, Business Planning and Development
Kirk W. Reich	43	Vice President, Specialty Steel Operations
Lawrence F. Zizzo, Jr.	63	Vice President, Human Resources

James L. Wainscott was named Chairman of the Board of Directors of the Company in January 2006, and became President and Chief Executive Officer in October 2003. Previously, Mr. Wainscott had been the Company's Chief Financial Officer and had served as Treasurer upon joining the Company in April 1995. Before joining the Company, Mr. Wainscott held a number of increasingly responsible financial positions for National Steel Corporation.

David C. Horn was named Executive Vice President, General Counsel and Secretary in May 2010. Mr. Horn was named Senior Vice President in January 2005. Mr. Horn became Vice President and General Counsel in April 2001 and assumed the additional position of Secretary in August 2003. Before joining the Company as Assistant General Counsel in December 2000, Mr. Horn was a partner in the Cincinnati-based law firm now known as Frost Brown Todd LLC.

John F. Kaloski was named Executive Vice President and Operating Officer in May 2010. Mr. Kaloski was named Senior Vice President, Operations in January 2005. Prior to joining the Company in October 2002, Mr. Kaloski served as a Senior Vice President at National Steel Corporation and held senior management positions at United States Steel Corporation.

Albert E. Ferrara, Jr. was named Senior Vice President, Finance and Chief Financial Officer in May 2010. Mr. Ferrara was named Vice President-Finance and Chief Financial Officer in November 2003. Prior to joining the Company in June 2003, Mr. Ferrara was Vice President, Corporate Development, for NS Group, Inc., a tubular products producer, and previously held positions as Senior Vice President and Treasurer with United States Steel Corporation and Vice President, Strategic Planning, at USX Corporation.

Gary T. Barlow was named Vice President, Sales and Customer Service in September 2010. Mr. Barlow joined the Company in May 2010 as Director, Sales and Customer Service, Carbon Steel. Prior to joining the Company, Mr. Barlow was President, Northeast Region, for Ryerson Inc., a metals processing and distributing company from October 2007 to July 2009 and Vice President, Carolinas Region, from January 2005 to September 2007. Mr. Barlow also previously served in several auditing and financial service capacities at Bank of America.

Keith J. Howell was named Vice President, Carbon Steel Operations, in May 2010. Mr. Howell was named Director, Engineering and Raw Materials, in March 2009. He was named General Manager, Butler Works, in August 2005. Prior to that, Mr. Howell served in a variety of other capacities since joining the Company in 1997, including

General Manager, Middletown Works, General Manager, Ashland Works, Manager, Aluminized, and Manager, Steelmaking, at Middletown Works.

Roger K. Newport was named Vice President, Business Planning and Development, in May 2010. Mr. Newport was named Controller and Chief Accounting Officer in July 2004 and Controller in September 2001. Prior to that, Mr. Newport served in a variety of other capacities since joining the Company in 1985, including Assistant Treasurer, Investor Relations, Manager-Financial Planning and Analysis, Product Manager, Senior Product Specialist and Senior Auditor.

Kirk W. Reich was named Vice President, Specialty Steel Operations, in May 2010. Mr. Reich was named General Manager, Middletown Works, in October 2006. Prior to that, Mr. Reich served in a variety of other capacities since joining the Company in 1989 including Manager, Mobile Maintenance/Maintenance Technology, General Manager, Mansfield Works, Manager, Processing and Shipping, Technical Manager, Process Manager and Civil Engineer.

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Lawrence F. Zizzo, Jr. was named Vice President, Human Resources, in January 2004 upon joining the Company. Before joining the Company, Mr. Zizzo was Vice President, Human Resources, at National Steel Corporation.

Available Information

The Company maintains a website at www.aksteel.com. Information about the Company is available on the website free of charge, including the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Information on the Company's website is not incorporated by reference into this report.

Item 1A. Risk Factors.

The Company cautions readers that its business activities involve risks and uncertainties that could cause actual results to differ materially from those currently expected by the Company. The most significant of those risks are:

- Risk of reduced selling prices and shipments associated with a cyclical industry and weakened economy. Historically, the steel industry has been a cyclical industry. The recovery from the dramatic downturn in the domestic and global economies which began in the fall of 2008 has been slow and uneven across various industries and sectors. The lingering effects of the recession continue to adversely affect demand for AK Steel's products. Although pricing and shipments have improved compared to the severe recessionary conditions of 2009, net sales have not yet returned to pre-2009 levels. This continued weakness in market conditions has been worsened by an increase in supply to some of the markets served by AK Steel. These conditions may adversely impact AK Steel's efforts to negotiate higher prices with its contract customers, particularly with respect to electrical steel. At this time, it is impossible to determine when or if the domestic and/or global economies will return to pre-recession levels. Thus there is a risk of continued adverse impact on demand for AK Steel's products, the prices for those products, and AK Steel's sales and shipments of those products as a result of the ongoing weakness in the economy. In addition, global economic conditions remain fragile and the possibility remains that the domestic or global economies, or certain industry sectors of those economies that are key to AK Steel's sales, may not recover as quickly as anticipated, or could deteriorate, which likely would result in a corresponding fall in demand for AK Steel's products and negatively impact AK Steel's business, financial results and cash flows.
- Risk of changes in the cost of raw materials and energy. The price which AK Steel pays for energy and key raw materials, such as iron ore, coal, natural gas and scrap, can fluctuate significantly based on market factors. The prices at which AK Steel sells steel will not necessarily change in tandem with changes in its raw material and energy costs. A portion of AK Steel's shipments are in the spot market, and pricing for these products fluctuates based on prevailing market conditions. The remainder of AK Steel's shipments are pursuant to contracts typically having durations of six months or more. A portion of those contracts contain fixed prices that do not allow AK Steel to pass through changes in the event of increases or decreases in raw material and energy costs. However, a significant majority of AK Steel's shipments to contract customers are pursuant to contracts with variable-pricing mechanisms that allow AK Steel to adjust the price or to impose a surcharge based upon changes in certain raw material and energy costs. Those adjustments, however, do not always reflect all of AK Steel's underlying raw material and energy cost changes. The scope of the adjustment may be limited by the terms of the negotiated language or by the timing of when the adjustment is effective relative to a cost increase. For shipments made to the spot market, market conditions or timing of sales may not allow AK Steel to recover the full amount of an increase in raw material or energy costs. As a result of the factors set forth above with respect to spot market sales and contract sales, AK Steel is not always able to recover though the price of its steel the full amount of cost increases associated with its purchase of energy or key raw

materials. In such circumstances a significant increase in raw material or energy costs likely would adversely impact AK Steel’s financial results and cash flows. The impact of this risk is particularly significant with respect to iron ore because of the volume used by AK Steel’s operations and the associated costs. The exposure of the Company to the risk of price increases with respect to iron ore and coal has been reduced by virtue of its recent investments in an iron ore joint venture and in the acquisition of coal reserves. These investments are expected over time to enable the Company to acquire approximately one half of its annual iron ore and coal needs at prices that are less exposed to market fluctuations and are below current market prices, but there is a risk that the volume of iron ore and coal acquired by the Company through these investments will be less than that. To the extent that the Company must acquire its iron ore and coal at market prices, the overall trend of these prices remains high in comparison to historical prices. Going forward, cost increases could be significant again with respect to iron ore and coal, as well as certain other raw materials, such as scrap. The impact of significant fluctuations in the price AK Steel pays for its raw materials can be exacerbated by AK Steel’s “last in, first out” (“LIFO”) method for valuing inventories when there are significant changes in the cost of raw materials or energy or in AK Steel's raw material inventory levels as well as AK Steel’s finished and semi-finished inventory levels. The impact of LIFO accounting may be particularly significant with respect to period-to-period comparisons.

• Risk of severe financial hardship or bankruptcy of one or more of the Company’s major customers. Many, if not most,

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of the Company's customers have shared the financial and operational challenges faced by the Company during the severe recession that began in late 2008 and the measured and uneven economic domestic and global recovery that has followed. For example, with respect to the Company's customers in the automotive industry, although total light vehicle sales in the United States rose in 2011 as compared to 2010, the domestic automotive industry continues to experience significantly reduced light vehicle sales compared to recent historical levels. In the event of a significant weakening of economic conditions, whether as a result of secular or cyclical issues, it could lead to financial difficulties or even bankruptcy filings by customers of AK Steel. AK Steel could be adversely impacted by such financial hardships or bankruptcies. The nature of that impact most likely would be lost sales or losses associated with the potential inability to collect all outstanding accounts receivables. Such an event could negatively impact AK Steel's financial results and cash flows.

- Risk of reduced demand in key product markets. The automotive and housing markets are important elements of AK Steel's business. Though conditions have improved since the severe economic downturn that started in the fall of 2008, particularly with respect to the automotive market, both markets continue to be significantly depressed compared to pre-recession levels. If demand from one or more of AK Steel's major automotive customers were to be reduced significantly as a result of a renewed severe economic downturn or other causes, it likely would negatively affect AK Steel's sales, financial results and cash flows. Similarly, if demand for AK Steel's products sold to the housing market were to be further reduced significantly, it could negatively affect AK Steel's sales, financial results and cash flows.
- Risk of increased global steel production and imports. Actions by AK Steel's foreign or domestic competitors to increase production in and/or exports to the United States could result in an increased supply of steel in the United States, which could result in lower prices for and shipments of AK Steel's products and negatively impact AK Steel's sales, financial results and cash flows. In fact, significant planned increases in production capacity in the United States have been announced, and in some cases completed, by competitors of AK Steel and new steelmaking and finishing facilities have begun production. In addition, foreign competitors, especially those in China, have substantially increased their production capacity in the last few years, while others have seemingly targeted the U.S. market for imports of certain higher value products, including electrical steels. These and other factors have contributed to a high level of imports of foreign steel into the United States in recent years and create a risk of even greater levels of imports, depending upon foreign market and economic conditions, the value of the U.S. dollar relative to other currencies, and other such variables beyond AK Steel's control. A significant increase in foreign imports would adversely affect AK Steel's sales, financial results and cash flows.
- Risks of excess inventory of raw materials. AK Steel has certain raw material supply contracts, particularly with respect to iron ore, which have terms providing for minimum annual purchases, subject to exceptions for force majeure and other circumstances. If AK Steel's need for a particular raw material is reduced for an extended period significantly below what was projected at the time the applicable contract was entered into, or what was projected at the time an annual nomination was made under that contract, AK Steel could be required to purchase quantities of raw materials, particularly iron ore, which exceed its anticipated annual needs. If that circumstance were to occur, and if AK Steel were not successful in reaching agreement with a particular raw material supplier to reduce the quantity of raw materials it purchases from that supplier, then AK Steel would likely be required to purchase more of a particular raw material in a given year than it needs, negatively impacting its financial results and cash flows. The impact on financial results could be exacerbated by AK Steel's LIFO method for valuing inventories, which could be affected by changes in AK Steel's raw material inventory levels, as well as AK Steel's finished and semi-finished inventory levels. The impact of LIFO accounting may be particularly significant with respect to period-to-period comparisons.
- Risk of supply chain disruptions or poor quality of raw materials. The Company's sales, financial results and cash flows could be adversely impacted by transportation, raw material or energy supply disruptions, or poor quality of raw materials, particularly scrap, coal, coke, iron ore, alloys and purchased carbon slabs. Such disruptions or quality issues, whether the result of severe financial hardships or bankruptcies of suppliers, natural disasters or other adverse weather events, or other unforeseen circumstances or events, could reduce production or increase costs at one or more of AK Steel's plants.
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Risk of production disruption or reduced production levels. When business conditions permit, AK Steel operates its facilities at production levels at or near capacity. High levels of production are important to AK Steel's financial results because they enable AK Steel to spread its fixed costs over a greater number of tons. Production disruptions could be caused by the idling of facilities due to reduced demand, such as resulting from the recent economic downturn. Such production disruptions also could be caused by unanticipated plant outages or equipment failures, particularly under circumstances where AK Steel lacks adequate redundant facilities, such as with respect to its hot mill. In addition, the occurrence of natural disasters, adverse weather conditions, or similar events or circumstances could significantly disrupt AK Steel's operations, negatively impact the operations of other companies or contractors AK Steel depends upon in its operations, or adversely affect customers or markets to which AK Steel sells its products. Any such significant disruptions or reduced levels of production would adversely affect AK Steel's sales, financial results and cash flows.

- Risks associated with the Company's healthcare obligations. AK Steel provides healthcare coverage to its active employees and to a significant portion of its retirees, as well as to certain members of their families. AK Steel is self-insured with respect

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to substantially all of its healthcare coverage. While AK Steel has substantially mitigated its exposure to rising healthcare costs through cost sharing, healthcare cost caps and the establishment of Voluntary Employee Benefit Associations, the cost of providing such healthcare coverage may be greater on a relative basis for AK Steel than for other steel companies against whom AK Steel competes because such competitors either provide a lesser level of benefits, require that their participants pay more for the benefits they receive, or do not provide coverage to as broad a group of participants (e.g., they do not provide retiree healthcare benefits). In addition, existing or new federal healthcare legislation could adversely affect AK Steel's financial condition through increased costs in the future.

- Risks associated with the Company's pension obligations. AK Steel's pension trust is currently underfunded to meet its long-term obligations, primarily as a result of below-expectation investment returns in the early years of the prior decade, as well as the dramatic decline in the financial markets that began in late 2008. The extent of underfunding is directly affected by changes in interest rates and asset returns in the securities markets. It also is affected by the rate and age of employee retirements, along with actual experience compared to actuarial projections. These items affect pension plan assets and the calculation of pension obligations and expenses. Such changes could increase the cost to AK Steel of those obligations, which could have a material adverse effect on AK Steel's results and its ability to meet those obligations. In addition, changes in the law, rules, or governmental regulations with respect to pension funding could also materially and adversely affect the cash flow of AK Steel and its ability to meet its pension obligations. In addition, under the method of accounting used by AK Steel with respect to its pension obligations, AK Steel is required to recognize into its results of operations, as a non-cash "corridor" adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. A corridor adjustment, if required after a re-measurement of AK Steel's pension obligations, historically has been recorded in the fourth quarter of the fiscal year. In past years, corridor adjustments have had a significant negative impact on AK Steel's financial statements in the year in which a charge was recorded (though the immediate recognition of the charge in that year has the beneficial effect of reducing its impact on future years).
- Risk of not reaching new labor agreements on a timely basis. Most of AK Steel's hourly employees are represented by various labor unions and are covered by collective bargaining agreements with expiration dates between May 2012 and January 2015. Two of those labor contracts expire in 2012. The labor contract with the United Auto Workers, Local 4104, which represents approximately 180 hourly employees at the Company's Zanesville Works located in Zanesville, Ohio, expires on May 20, 2012. The labor agreement with the United Auto Workers, Local 3303, which represents approximately 1,280 hourly employees at the Company's Butler Works located in Butler, Pennsylvania, expires on September 30, 2012. The Company intends to negotiate with these unions in 2012 to reach new, competitive labor agreements in advance of the current respective expiration dates. The Company cannot predict at this time, however, when new, competitive labor agreements with the unions at the Zanesville Works and Butler Works will be reached or what the impact of such agreements will be on the Company's operating costs, operating income and cash flow. There is the potential of a work stoppage at these locations in 2012 as their respective collective bargaining agreements expire if the Company and the unions cannot reach a timely agreement in contract negotiations. If there were to be a work stoppage, it could have a material impact on the Company's operations, financial results and cash flows. To the extent that the Company has labor contracts with unions at other locations which expire after 2012, a similar risk applies.
- Risks associated with major litigation, arbitrations, environmental issues and other contingencies. The Company has described several significant legal and environmental proceedings in Note 9 to the Consolidated Financial Statements in Item 8. An adverse result in one or more of those proceedings could negatively impact AK Steel's financial results and cash flows.
- Risks associated with environmental compliance. Due to the nature and extent of environmental issues affecting AK Steel's operations and obligations, changes in application or scope of environmental regulations applicable to AK Steel could have a significant adverse impact. For example, in 2010 the United States Environmental Protection Agency ("EPA") revised the National Ambient Air Quality Standards ("NAAQS") for nitrogen oxide, sulfur dioxide and lead and is in the process of revising the NAAQS for certain other matters. Among other things, these new standards effectively mandate states to use emissions modeling rather than

monitoring data in making sulfur dioxide recommendations to the EPA on which areas are in or out of attainment with the standard. Although a variety of parties are seeking changes to these new standards, including the mandate to use modeling, if they remain in place, it could require the Company to make significant capital expenditures to ensure compliance and could make it more difficult for the Company to obtain required permits in the future. Other adverse impacts could include, among others, costs for emission allowances, restriction of production, and higher prices for certain raw materials. These and other changes in the application or scope of environmental regulations applicable to AK Steel may adversely affect in a significant manner AK Steel's operations and financial results and cash flows.

- Risk associated with regulatory compliance and changes. AK Steel's business and the business of its customers and suppliers are subject to a wide variety of government oversight and regulation. The regulations promulgated or adopted by various government agencies, and the interpretations and application of such regulations, are dynamic and constantly evolving. To the extent new regulations arise, the application of existing regulations expands, or the interpretation of applicable regulations changes, AK Steel may incur additional costs for compliance, including capital expenditures. AK Steel may also be indirectly

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affected through regulatory changes impacting its customers or suppliers. Such changes could reduce the competitiveness or even the viability of AK Steel products to AK Steel customers or cause AK Steel suppliers to pass their increased costs of compliance through to AK Steel in the form of higher prices for their goods or services. For example, on February 1, 2012, the United States Department of Energy ("DOE") proposed revised energy efficiency standards for certain types of electrical distribution transformers which, subject to public comment and possible legal challenges, would become effective starting in January 2016. The manufacturers of these transformers currently use significant quantities of electrical steel in the manufacturing process. Many of these transformer manufacturers are customers of AK Steel. While the new efficiency standards, as proposed, are not expected to have a major impact on such competitiveness, they are subject to public comment before they become final and to legal challenges. It is expected that certain interested parties will advocate that the efficiency standards should be raised from the levels established by the standards currently proposed by the DOE. There thus is a risk that the DOE, on its own or pursuant to court order, may change the currently proposed efficiency standards in a way that could substantially reduce or even eliminate the competitiveness of electrical steel for use in certain electrical distribution transformers. This would result in a decrease in AK Steel's sales of electrical steel and adversely affect its financial results and cash flows.

- Risks associated with climate change and greenhouse gas emission limitations. The United States has not ratified the 1997 Kyoto Protocol Treaty (the "Kyoto Protocol") and AK Steel does not produce steel in a country that has ratified that treaty. Negotiations for a treaty that would succeed the Kyoto Protocol are ongoing and it is not known yet what the terms of that successor treaty ultimately will be or if the United States will ratify it. It is possible, however, that limitations on greenhouse gas emissions may be imposed in the United States at some point in the future through federally-enacted legislation or regulation. The EPA already has issued and/or proposed regulations addressing greenhouse gas emissions, including regulations which will require reporting of greenhouse gas emissions from large sources and suppliers in the United States. Legislation previously has been introduced in the United States Congress aimed at limiting carbon emissions from companies that conduct business that is carbon-intensive. Among other potential material items, such bills could include a proposed system of carbon emission credits issued to certain companies, similar to the European Union's existing "cap and trade" system. It is impossible at this time, however, to forecast what the final regulations and legislation, if any, will look like and the resulting effects on AK Steel. Depending upon the terms of any such regulations or legislation, however, AK Steel could suffer negative financial impact as a result of increased energy, environmental and other costs in order to comply with the limitations that would be imposed on greenhouse gas emissions. In addition, depending upon whether similar limitations are imposed globally, the regulations and/or legislation could negatively impact AK Steel's ability to compete with foreign steel companies situated in areas not subject to such limitations. Unless and until all of the terms of such regulation and legislation are known, however, AK Steel cannot reasonably or reliably estimate their impact on its financial condition, operating performance or ability to compete.
- Risks associated with financial, credit, capital and banking markets. In the ordinary course of business, AK Steel seeks to access competitive financial, credit, capital and/or banking markets. Currently, AK Steel believes it has adequate access to these markets to meet its reasonably anticipated business needs. AK Steel both provides and receives normal trade financing to and from its customers and suppliers. To the extent access to competitive financial, credit, capital and/or banking markets by AK Steel, or its customers or suppliers, is impaired, AK Steel's operations, financial results and cash flows could be adversely impacted.
- Risk associated with the value of the Company's net deferred tax assets. U.S. internal revenue laws and regulations and similar state laws applicable to the Company and the rates at which it is taxed have a significant effect on its financial results. For instance, the Company has recorded net deferred tax assets, including loss carryforwards and tax credit carryforwards, on its Consolidated Balance Sheets to reflect the economic benefit of tax positions that become deductible in future tax periods. For more detail concerning the Company's net deferred tax assets, see the discussion in the Critical Accounting Policies section in Item 7 and in Note 4 to the Consolidated Financial Statements in Item 8. Tax deductions associated with deferred tax assets are recognized at the tax rate that is expected when they will be taken. Changes in tax laws or rates can materially affect the future deductible amounts related to deferred tax assets. For example, a reduction in the tax rate would decrease the amount of tax benefit to be realized in the future

and result in a charge to the income statement, which has the effect of reducing the Company’s income at the time the tax rate change is enacted. In addition, the Company has recognized deferred tax assets based on its ability to realize the assets, primarily through the generation of future taxable income. If future taxable income is less than the amounts that have been projected in determining the value of the deferred tax assets, then an increase in the tax valuation allowance could be required, which would necessitate a corresponding charge against income by AK Steel. Thus, though beneficial in the long-run in the form of lower cash taxes, changes in certain tax laws or a reduction in tax rates (such as the reduction in corporate tax rates recently proposed by the Obama Administration), or a reduction in the value of the deferred tax assets because of lower than projected taxable income, could have a short-term material adverse effect on the Company’s financial results and financial condition.

- Risk of lower quantities or quality of estimated coal reserves of AK Coal. AK Steel has based estimated reserve information of its wholly-owned subsidiary, AK Coal, on engineering, economic and geological data assembled and analyzed by third-party engineers and geologists, with review by and involvement of Company employees. There are numerous uncertainties inherent in estimating quantities and qualities of, and costs to mine, recoverable reserves, including many factors beyond AK Coal’s

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control. Estimates of economically-recoverable coal reserves necessarily depend upon a number of variables and assumptions, such as geological and mining conditions that may not be fully identified by available exploration data or that may differ from experience in current operations, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning coal prices, operating costs, development costs and reclamation costs, all of which may vary considerably from actual results. As a result, actual coal tonnage recovered from AK Coal's properties and the related costs may vary materially from AK Steel's estimates. In addition, actual or alleged defects in title in or the boundaries of the property that AK Coal owns or its loss of any material leasehold interests could limit or eliminate its ability to mine these properties, which may reduce the estimated reserves controlled by AK Coal or result in significant unanticipated costs incurred in obtaining the property rights to mine such reserves.

- Risk of increased governmental regulation of mining activities. AK Steel's ability to realize fully the expected benefits from AK Coal and Magnetation JV could be materially adversely affected by increased governmental regulation of mining and related activities, including difficulties or delays in or their failure to receive, maintain or modify environmental permits required for their operations. With respect to AK Coal, the coal mining industry is subject to numerous and extensive federal, state and local environmental laws and regulations, including laws and regulations pertaining to permitting and licensing requirements, air quality standards, plant and wildlife protection, reclamation and restoration of mining properties, the discharge of materials into the environment, the storage, treatment and disposal of wastes, surface subsidence from underground mining and the effects of mining on groundwater quality and availability. With respect to Magnetation JV, although the construction and operation of its iron ore concentrate plants are considered environmentally friendly and require limited environmental permits, its construction and operation of a proposed iron ore pelletizing plant will be subject to most, if not all, of the federal, state and local environmental laws and regulations previously mentioned in regards to AK Coal. The costs, liabilities and requirements associated with these laws and regulations are significant and may increase the costs of, delay or even preclude the commencement or continuation of, AK Coal's mining activities and Magnetation JV's proposed pellet plant operations.
- Risk of inability to hire or retain skilled labor and experienced manufacturing and mining managers. Modern steel-making and mining uses specialized techniques and advanced equipment and requires experienced managers and skilled laborers. The manufacturing and mining industries in the United States are in the midst of a shortage of experienced managers and skilled labor. This shortage is due in large part to demographic changes, as such laborers and managers are retiring at a faster rate than replacements are entering the workforce or achieving a comparable level of experience. If AK Steel or AK Coal is unable to hire or contract sufficient experienced managers and skilled laborers, there could be an adverse impact on the productivity of these operations and the ultimate benefits to AK Steel. For example, although AK Coal has hired a senior executive with substantial coal mining experience to oversee its operations, additional experienced managers and labor will be necessary, whether through hiring employees or through third party contractors, prior to commencing mining operations in earnest.

While the previously listed items represent the most significant risks to the Company, the Company regularly monitors and reports risks to Management and the Board of Directors by means of a formal Total Enterprise Risk Management program.

Item 1B. Unresolved Staff Comments.

The Company has no unresolved Securities and Exchange Commission staff comments.

Item 2. Properties.

The Company leases a building in West Chester, Ohio, for use as its corporate headquarters. The initial term of the lease for the building expires in 2019 and there are two five-year options to extend the lease. The Company owns its research building located in Middletown, Ohio. Steelmaking, finishing and tubing operations are conducted at nine facilities located in Indiana, Kentucky, Ohio and Pennsylvania. All of these facilities are owned by the Company, either directly or through wholly-owned subsidiaries.

Middletown Works is located in Middletown, Ohio, and consists of a coke facility, blast furnace, basic oxygen furnaces and continuous caster for the production of carbon steel. Also located at the Middletown site are a hot rolling mill, cold rolling mill, two pickling lines, four annealing facilities, two temper mills and three coating lines for finishing the product.

Ashland Works is located in Ashland, Kentucky, and consists of a blast furnace, basic oxygen furnaces and continuous caster for the production of carbon steel. A coating line at Ashland also helps to complete the finishing operation of material processed at the Middletown plant.

Rockport Works is located near Rockport, Indiana, and consists of a continuous cold rolling mill, a continuous hot-dip galvanizing and galvannealing line, a continuous carbon and stainless steel pickling line, a continuous stainless steel annealing and pickling line, hydrogen annealing facilities and a temper mill.

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Butler Works is situated in Butler, Pennsylvania, and produces stainless, electrical and carbon steel. Melting takes place in a new, highly-efficient electric arc furnace that feeds an argon-oxygen decarburization unit for the specialty steels. A new ladle metallurgy furnace feeds two double-strand continuous casters. The Butler Works also includes a hot rolling mill, annealing and pickling units and two fully automated tandem cold rolling mills. It also has various intermediate and finishing operations for both stainless and electrical steels.

Coshocton Works is located in Coshocton, Ohio, and consists of a stainless steel finishing plant containing two Sendzimer mills and two Z-high mills for cold reduction, four annealing and pickling lines, nine bell annealing furnaces, four hydrogen annealing furnaces, two bright annealing lines and other processing equipment, including temper rolling, slitting and packaging facilities.

Mansfield Works is located in Mansfield, Ohio, and produces stainless steel. Operations include a melt shop with two electric arc furnaces, an argon-oxygen decarburization unit, a thin-slab continuous caster and a six-stand hot rolling mill.

Zanesville Works is located in Zanesville, Ohio, and consists of a finishing plant for some of the stainless and electrical steel produced at Butler Works and Mansfield Works and has a Sendzimer cold rolling mill, annealing and pickling lines, high temperature box anneal and other decarburization and coating units.

AK Tube, a Company subsidiary, has a plant in Walbridge, Ohio, which operates six electric resistance weld tube mills and two slitters. AK Tube also has a plant in Columbus, Indiana, which operates eight electric resistance weld and two laser weld tube mills.

AK Coal, another Company subsidiary, controls, through ownership and lease, metallurgical coal reserves in Somerset County, Pennsylvania. The Company currently estimates that AK Coal owns or leases existing proven and probable coal reserves of over 20 million tons of low-volatile metallurgical coal. At the present time, AK Coal leases approximately 5 million tons of its estimated reserves to third-party miners and collects royalties from their production. The balance of the coal reserves is not currently being mined.

Item 3. Legal Proceedings.

Information with respect to this item may be found in Note 9 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

AK Holding’s common stock has been listed on the New York Stock Exchange since April 5, 1995 (symbol: AKS). The table below sets forth, for the calendar quarters indicated, the reported high and low sales prices of the common stock:

	2011		2010	
	High	Low	High	Low

First Quarter	$17.88	$14.00	$26.75	$19.22
Second Quarter	17.07	13.79	25.12	11.84
Third Quarter	16.75	6.50	15.70	11.34
Fourth Quarter	9.35	5.51	16.85	12.08

As of February 23, 2012, there were 110,633,660 shares of common stock outstanding and held of record by 4,647 stockholders. The closing stock price on February 23, 2012 was $8.05 per share. Because depositories, brokers and other nominees held many of these shares, the number of record holders is not representative of the number of beneficial holders.

Since March 2008, the Company has established a dividend policy of the payment of a quarterly common stock dividend at the rate of $0.05 per share. The Company's Credit Facility contains certain restrictive covenants with respect to the Company's payment of dividends. Under these covenants, dividends are permitted providing (i) availability exceeds $247.5 or (ii) availability exceeds $192.5 and the Company meets a fixed charge coverage ratio of one to one as of the most recently ended fiscal quarter. If the Company cannot meet either of these thresholds, dividends would be limited to $12.0 annually. Currently, the availability under the Credit Facility significantly exceeds $247.5. Accordingly, there currently are no covenant restrictions on the Company's ability to declare and pay a dividend to its stockholders. Cash dividends paid in 2011 and 2010 by the Company to its shareholders were determined to be a return of capital under

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the United States Internal Revenue Code.

Information concerning the amount and frequency of dividends declared and paid in 2011 and 2010 is as follows:
2011 COMMON STOCK DIVIDENDS

Record Date	Payment Date	Per Share
February 11, 2011	March 10, 2011	$0.05
May 13, 2011	June 10, 2011	0.05
August 15, 2011	September 9, 2011	0.05
November 15, 2011	December 9, 2011	0.05
		$0.20

2010 COMMON STOCK DIVIDENDS

Record Date	Payment Date	Per Share
February 12, 2010	March 10, 2010	$0.05
May 14, 2010	June 10, 2010	0.05
August 13, 2010	September 10, 2010	0.05
November 12, 2010	December 10, 2010	0.05
		$0.20

On January 24, 2012, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.05 per share of common stock, payable on March 9, 2012, to shareholders of record on February 10, 2012.

There were no unregistered sales of equity securities in the quarter or year ended December 31, 2011.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
October 2011	2,428	$6.52	—	
November 2011	—	—	—	
December 2011	—	—	—	
Total	2,428	6.52	—	$125.6

(1) During the quarter, the Company repurchased 2,428 shares of common stock owned by participants in its restricted stock awards program under the terms of the AK Steel Holding Corporation Stock Incentive Plan. In order to satisfy the requirement that an amount be withheld that is sufficient to pay federal, state and local taxes due upon the vesting of the restricted stock, employees are permitted to have the Company withhold shares having a fair market value equal to the minimum statutory withholding rate which could be imposed on the transaction. The

Company repurchases the withheld shares at the quoted average of the reported high and low sales prices on the day the shares are withheld.

(2) In October 2008, the Board of Directors authorized the Company to repurchase, from time to time, up to $150.0 of its outstanding equity securities. There is no expiration date specified in the Board of Directors' authorization.

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The following graph compares cumulative total stockholder return on the Company's common stock for the five-year period from January 1, 2007 through December 31, 2011, with the cumulative total return for the same period of (i) the Standard & Poor's 500 Stock Index and (ii) Standard & Poor's 500 Metals & Mining Index. The S&P 500 Metals & Mining Index is made up of Alcoa Inc., Allegheny Technologies Inc., Cliffs Natural Resources, Inc., Freeport-McMoRan Copper & Gold Inc., Newmont Mining Corporation, Nucor Corporation, Titanium Metals Corporation and United States Steel Corporation. These comparisons assume an investment of $100 at the commencement of the period and reinvestment of dividends.

Cumulative Total Returns
January 1, 2007 through December 31, 2011
(Value of $100 invested on January 1, 2007)

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Item 6. Selected Financial Data.

The following selected historical consolidated financial data for each of the five years in the period ended December 31, 2011 have been derived from the audited Consolidated Financial Statements. The selected historical consolidated financial data presented herein are qualified in their entirety by, and should be read in conjunction with, the Consolidated Financial Statements set forth in Item 8 and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7.

	2011	2010	2009	2008	2007
	(dollars in millions, except per share and per ton data)				
Statement of Operations Data:					
Net sales	$6,468.0	$5,968.3	$4,076.8	$7,644.3	$7,003.0
Operating profit (loss) (a)(b)	(201.3)	(133.9)	(70.1)	28.0	624.4
Net income (loss) attributable to AK Steel Holding Corporation	(155.6)	(128.9)	(74.6)	4.0	387.7
Basic earnings per share	(1.41)	(1.17)	(0.68)	0.04	3.50
Diluted earnings per share	(1.41)	(1.17)	(0.68)	0.04	3.46
Other Data:					
Cash dividends declared per common share	$0.20	$0.20	$0.20	$0.20	$—
Total shipments (in thousands of tons)	5,698.8	5,660.9	3,935.5	5,866.0	6,478.7
Selling price per ton	$1,131	$1,054	$1,036	$1,303	$1,081

	2011	2010	2009	2008	2007
	(dollars in millions)				
Balance Sheet Data:					
Cash and cash equivalents	$42.0	$216.8	$461.7	$562.7	$713.6
Working capital	137.3	559.6	889.4	1,268.6	1,453.9
Total assets	4,449.9	4,188.6	4,274.7	4,682.0	5,197.4
Current portion of long-term debt	0.7	0.7	0.7	0.7	12.7
Long-term debt (excluding current portion)	650.0	650.6	605.8	632.6	652.7
Current portion of pension and other postretirement benefit obligations	130.0	145.7	144.1	152.4	158.0
Pension and other postretirement benefit obligations (excluding current portion)	1,744.8	1,706.0	1,856.2	2,144.2	2,537.2
Total stockholders' equity	377.2	641.1	880.1	970.7	877.3

(a) In 2010, the Company recorded $63.7 related to the announced shutdown of the Company's Ashland coke plant and $9.1 related to the Butler Retiree Settlement. For more information on the Butler Retiree Settlement, see Note 6 to the Consolidated Financial Statements.

(b) Under its method of accounting for pensions and other postretirement benefits, the Company recorded a non-cash pension corridor charge in 2011 of $268.1 and in 2008 of $660.1. Included in 2008 is a curtailment charge of $39.4 associated with a benefit cap imposed on a defined benefit pension plan for salaried employees. Included in 2007 are curtailment charges of $15.1 and $24.7 associated with new labor agreements at the Company's Mansfield Works and Middletown Works, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operations Overview

The Company's operations consist primarily of seven steelmaking and finishing plants that produce flat-rolled carbon steels, including premium-quality coated, cold-rolled and hot-rolled products, and specialty stainless and electrical steels that are sold in sheet and strip form. These products are sold to the automotive, infrastructure and manufacturing, and distributors and converters markets. The Company sells its carbon products principally to domestic customers. The Company's electrical and stainless steel products are sold both domestically and internationally. The Company's operations also include two plants operated by AK Tube where flat-rolled carbon and stainless steel is further finished into welded steel tubing, European trading companies that buy and sell steel and steel products and other materials, a 49.9% equity interest in Magnetation JV, which produces iron ore concentrate from previously mined ore reserves, and AK Coal, which controls metallurgical coal reserves in Pennsylvania.

Safety, quality and productivity are the focal points of AK Steel's operations and the hallmarks of its success. In 2011, the Company experienced another year of outstanding safety performance and continued to lead the steel industry in OSHA recordable safety performance by a wide margin. Leading the way was the Company's Zanesville Works, which did not experience a single OSHA recordable case in 2011. Several of the Company's plants received safety awards in 2011. The Company's Coshocton Works was honored in 2011 by the Ohio Bureau of Workers Compensation with three awards for its safety performance in 2010. The Company's Zanesville Works received two awards in 2011 from the Ohio Bureau of Workers Compensation for its 2010 safety performance. AK Tube's Columbus and Walbridge plants were recognized in 2011 for their outstanding safety performances in 2010 by the Fabricators & Manufacturers Association, International. Moreover, in 2011 the Company's Ashland, Kentucky and Middletown, Ohio coke plants both received the Max Eward Safety Award from the American Coke and Coal Chemicals Institute, recognizing them for operating the safest cokemaking facilities in the United States in 2010.

In terms of quality, the Company again performed extraordinarily well, experiencing one of the best years in its history. The Company's rates of internal rejections and retreated products were at record low levels at many of its plants, beating the previous records set the prior year. The Company continued to be recognized by Jacobson and Associates, based upon an independent customer survey, for being best among its most direct competitors in quality, service, on-time delivery and overall customer satisfaction for carbon steels and quality, service and overall customer satisfaction for specialty steels. The Company also received "Supplier of the Year" awards from three of its customers.

With respect to productivity, the Company set new yield records at numerous operating units and plant locations in 2011. But the Company's average capacity utilization across all of its plants remained relatively flat compared to 2010, declining slightly to 81% in 2011 from 84% in 2010. During 2011, however, the Company set the stage for improved productivity by completing the installation and start up of a new state-of-the-art electric arc furnace, a ladle metallurgy furnace and additional electrical steel finishing equipment at its Butler Works plant. The new electric arc furnace installed at Butler Works is expected to be capable of producing approximately 40% more steel than the three 1960s-vintage electric arc furnaces which it replaced. In June 2011, the Company received an award for the "Best Operational Improvement" in 2011 from the American Metal Market, a leading industry publication, recognizing the Company for Butler Works and Zanesville Works capital investments.

2011 Financial Results Overview

The Company faced challenging times throughout 2011 as it and the entire steel industry continued to be adversely impacted by the effects of the domestic and global recession that began in late 2008. Although there was some improvement in early 2011, overall demand for steel products remained soft and constrained prices in 2011. Despite that softness in steel product demand, the prices for certain of the raw materials used to make steel, especially iron ore, increased substantially in early 2011, driven in large part by Chinese steel companies' demand for such raw materials to support continued strong steel production in China, before declining in the second half of 2011. The Company was adversely affected by these increases in raw material costs. The Company also faced increased competition from foreign-based and domestic steel producers who expanded or restarted shutdown steel production and/or finishing facilities in the United States.

Although sales improved in 2011 versus 2010, the lingering effects of the recession on each of the Company's markets continued to have a negative effect on shipments and average selling prices in virtually every product category for the Company, particularly in the second half of the year. The Company reported shipments in 2011 of approximately 5.7 million tons, which was a slight increase over shipments in 2010. The Company reported revenues in 2011 of approximately $6.5 billion, which was an increase of approximately $499.7, or approximately 8%, over 2010 revenues.

Because the automotive market continues to be an important element of the Company's business, North American light vehicle production levels directly affect the Company's total sales and shipments. In 2011, the North American automotive industry continued a recovery that began in 2010 from the economic recession. That improvement in the automotive market had a positive impact on the Company's sales and shipments in 2011, but light vehicle production levels in 2011 were still well below pre-recession levels.

The housing industry also continues to be important to the Company's business. Unlike the automotive sector, the housing industry struggled in 2011 to make any noticeable improvement and continues to be severely impacted by the recession and its after-effects. Housing starts in the United States in 2011 remained near historically low levels for the third consecutive year compared to pre-recession levels. The housing slowdown adversely affected production by manufacturers of power transmission and distribution transformers, to which the Company sells its electrical steels, and production by the manufacturers of appliances, to which the Company sells its stainless steels. To the extent that domestic housing starts remain at a very low level, it is likely that the Company's electrical and stainless steel sales and shipments will continue to be negatively affected.

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The Company achieved both operating profit and net income attributable to AK Steel Holding Corporation in the first half of 2011, but for the full year the Company reported an operating loss of $201.3 and a net loss attributable to AK Steel Holding Corporation of $155.6, or $1.41 per diluted share. The principal reason for the annual loss was the pension corridor charge explained below. In addition, however, the Company could not overcome the negative effect on the second half of 2011 of the decline in underlying customer demand for value-added steel and the increased costs of raw materials carried over from the first half of the year.

The operating and net results noted above included a non-cash pre-tax pension corridor charge of $268.1 for 2011. Excluding this charge, the Company would have reported an adjusted operating profit for 2011 of $66.8, or $12 per ton, and adjusted net income of $10.3, or $0.09 per diluted share. The Company reported an operating loss in 2010 of $133.9, or $24 per ton, and a net loss attributable to AK Steel Holding Corporation in 2010 of $128.9, or $1.17 per diluted share. Reconciliations for the non-GAAP financial measures presented in this paragraph are provided in the Non-GAAP Financial Measures section.

In April 2011, AK Steel entered into a new five-year, $1.0 billion asset-backed revolving credit facility ("Credit Facility") with a group of lenders. In October 2011, AK Steel exercised a portion of the "accordion" feature of the Credit Facility and increased its total credit limit under the Credit Facility to $1.1 billion. The Credit Facility, which is secured by most of the Company's product inventory and accounts receivable, expires in April 2016. Availability under the Credit Facility can fluctuate monthly based on the varying levels of eligible collateral. The Company's eligible collateral, after application of applicable advance rates, was $922.3 as of December 31, 2011. As a result of borrowings under the Credit Facility and effective cash management throughout the year, the Company had cash of $42.0 at the end of 2011. That cash position, along with $516.7 of availability under the Credit Facility, resulted in total liquidity of $558.7 as of December 31, 2011.

On October 4, 2011, the Company acquired a 49.9% equity interest in Magnetation JV, a joint venture that produces iron ore concentrate. In a separate transaction on the same day, the Company also acquired all of the stock of a company now known as AK Coal, which controls, through ownership or lease, the rights to significant reserves of low-volatile metallurgical coal in Somerset County, Pennsylvania. These investments represent significant steps toward achieving the Company's top strategic initiative of vertically integrating the business through increased ownership of some of its key steelmaking raw materials.

2011 Compared to 2010

Shipments

Steel shipments in 2011 were 5,698,800 tons, compared to 5,660,900 tons in 2010. Although overall shipments increased slightly in 2011 compared to 2010, a decline in demand during the second half of 2011 resulted in a reduction in value-added shipments for the full year. As a result, the Company's value-added shipments as a percent of total volume shipped declined to 82.1% in 2011 compared to 84.6% in 2010. The decline in shipments of coated and cold-rolled steel products was offset by an increase in hot-rolled steel products, resulting in the year-over-year slight increase in total shipments. Tons shipped by product category for 2011 and 2010, with percent of total shipments, were as follows:

	2011			2010		
Value-added Shipments	(tons in thousands)					
Stainless/electrical	900.3	15.8	%	866.0	15.3	%
Coated	2,441.5	42.9	%	2,558.4	45.2	%
Cold-rolled	1,204.1	21.1	%	1,241.2	21.9	%
Tubular	130.1	2.3	%	123.8	2.2	%

Subtotal value-added shipments	4,676.0	82.1	%	4,789.4	84.6	%
Non Value-added Shipments						
Hot-rolled	873.5	15.3	%	706.3	12.5	%
Secondary	149.3	2.6	%	165.2	2.9	%
Subtotal non value-added shipments	1,022.8	17.9	%	871.5	15.4	%
Total shipments	5,698.8	100.0	%	5,660.9	100.0	%

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8.

Net Sales

Net sales in 2011 were $6,468.0, up 8% from net sales of $5,968.3 in 2010. The increase resulted primarily from higher selling prices in 2011 compared to 2010. The average selling price was $1,131 per net ton in 2011, an increase of 7% compared to $1,054 per net ton in 2010. The Company has variable-pricing mechanisms with most of its contract customers, under which a portion of both rising and falling commodity costs are passed through to the customer during the life of the contract. The Company had such variable-pricing mechanisms with respect to approximately 93% of its contract shipments in 2011 compared to 89% in 2010. In 2011, the Company experienced a significant increase in its raw material costs. In addition, the majority of the variable-pricing mechanisms for carbon sales were changed from annual adjustments in 2010 to quarterly adjustments in 2011. As a consequence, surcharges to customers were increased, contributing to both the higher average selling price and the higher net sales for the year.

Net sales to customers outside the United States were $946.4, or 15% of total sales, for 2011, compared to $823.3, or 14% of total sales, for 2010. A substantial majority of the revenue from sales outside of the United States is associated with electrical and stainless steel products.

The following table sets forth the percentage of the Company's net sales attributable to each of its markets:

Market	2011		2010	
Automotive	36	%	36	%
Infrastructure and Manufacturing	24	%	25	%
Distributors and Converters	40	%	39	%

Operating Costs

Costs of products sold in 2011 and 2010 were $6,036.8 and $5,643.2, respectively. Cost of products sold for 2011 were higher as a result of increased raw material costs, in particular for iron ore. This increase in raw material costs was offset in part by a reduction in the Company's LIFO charge, year over year. The Company recorded a LIFO charge of $9.8 in 2011 compared to $109.0 in 2010. Costs in 2010 included the one-time, non-recurring charges of $63.7 for the Ashland coke plant shutdown and $9.1 associated with the Butler Retiree Settlement.

Selling and Administrative Expense

The Company's selling and administrative expense increased to $215.4 in 2011 from $204.0 in 2010. The increase was due primarily to additional costs incurred by SunCoke Middletown of $5.9 as a result of its start-up in the fourth quarter of 2011, and increased compensation costs.

Depreciation Expense

Depreciation expense declined to $185.0 in 2011 from $197.1 in 2010, due to existing older assets becoming fully depreciated and as a result of the shutdown of the Ashland coke plant in 2011, partially offset by the depreciation related to major capital projects at the Butler plant that were substantially completed during the second quarter of 2011. Depreciation expense is expected to increase slightly in 2012 as a result of the start-up of the SunCoke Middletown plant in the fourth quarter of 2011.

Pension and Other Postretirement Employee Benefit Charges

The Company recorded a pension and OPEB credit of $36.0 in 2011 compared to $14.9 in 2010. The increase in the credit in 2011 was largely a result of a decrease in the interest cost on the obligations and an increase in the expected investment return on a higher amount of plan assets at the beginning of each year.

The Company recognizes into its results of operations, as a non-cash “corridor” adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. Amounts inside this 10% corridor are amortized over the plan participants’ life expectancy. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the benefit plans, or when the assumptions change, as they may each year when a valuation is performed. The effect of prevailing interest rates on the discount rate used to value projected plan obligations as of the December 31 measurement date and actual return on plan assets compared to the expected return are two of the more important factors used to determine the Company’s year-end liability, corridor adjustment and subsequent year’s expense for these benefit plans. Under the Company’s method of accounting for pension and other postretirement benefit plans, it incurred a pre-tax pension corridor charge of $268.1 in 2011, but did not incur a corridor adjustment in 2010.

Operating Profit (Loss) and Adjusted Operating Profit (Loss)

The Company reported an operating loss for 2011 of $201.3, compared to an operating loss of $133.9 for 2010. Included in the 2011

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amount was a pre-tax pension corridor charge of $268.1. Annual results for 2010 included two pre-tax charges which are described above in Operating Costs. The exclusion of these charges for 2011 and 2010 would have resulted in an adjusted operating profit of $66.8 in 2011 compared to an adjusted operating loss of $61.1 in 2010. Exclusion of the pre-tax charges from the operating results is presented in order to clarify the effects of those charges on the Company's operating results and to reflect more clearly the operating performance of the Company on a comparative basis for 2011 and 2010.

Interest Expense

The Company's interest expense for 2011 was $47.5, which was higher than interest expense for 2010 of $33.0. The net increase over the comparable periods in 2010 was related to an increase in borrowings under the revolving credit agreement in 2011 and interest on the additional long-term debt issued in 2010, as well as the effect of higher capitalized interest credits during 2010. The capitalized interest was primarily related to the major capital projects at the Butler plant that were substantially completed during the second quarter of 2011.

Other Income (Expense)

The Company reported other expense of $5.3 for 2011 and $7.6 for 2010. Other income (expense) is primarily related to foreign exchange gains and losses. In addition, in 2010 there was a loss of $1.5 on the retirement of debt.

Income Taxes

In 2011, the Company had an income tax benefit of $94.0 compared to $43.8 in 2010. Included in each year were charges for tax law changes, consisting of $2.0 in 2011 for state tax law changes and $25.3 in 2010 for changes under federal healthcare legislation related to Medicare Part D reimbursements. The remainder of the change in tax benefit was primarily due to a higher pre-tax loss in 2011.

Net Income (Loss) Attributable to AK Steel Holding Corporation

The Company's net loss attributable to AK Steel Holding Corporation in 2011 was $155.6, or $1.41 per diluted share, compared to $128.9, or $1.17 per diluted share, in 2010. The net loss in 2011 included a pretax pension corridor charge of $268.1. The net loss in 2010 included a pretax charge of $63.7 for the announced shutdown of the Ashland coke plant and a $9.1 pretax charge taken in connection with the Butler Retiree Settlement. Also, in 2010 the Company recorded the $25.3 income tax charge noted above related to a reduction in the value of the Company's deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D reimbursements. The exclusion of these charges in 2011 and 2010 would have resulted in adjusted net income attributable to AK Steel Holding Corporation in 2011 of $10.3, or $0.09 per diluted share, compared to adjusted net loss attributable to AK Steel Holding Corporation in 2010 of $59.8, or $0.54 per diluted share.

Non-GAAP Financial Measures

In certain of its disclosures in this filing, the Company has adjusted its operating profit (loss) and net income (loss) to exclude a pension corridor accounting charge, Ashland coke plant shutdown charges, Butler Retiree Settlement costs and healthcare tax law change. The Company has made these adjustments because Management believes that it enhances the understanding of the Company's financial results. Management believes that reporting adjusted operating profit (loss) and adjusted net income (loss) attributable to AK Steel Holding Corporation (as a total and on a per ton or per share basis) with these items excluded more clearly reflects the Company's current operating results and provides investors with a better understanding of the Company's overall financial performance. In addition, the adjusted results, although not financial measures under generally accepted accounting principles ("GAAP"), facilitate the ability to compare the Company's financial results to those of its competitors and to the Company's prior financial performance by excluding items which otherwise would distort the comparison. For example, the Company believes that the corridor method of accounting for pension and other postretirement obligations is rarely used by other publicly traded companies. In addition, although the corridor charge reduces reported operating and net income, it is a non-cash charge. With respect to the Ashland coke plant shutdown charges and the Butler Retiree Settlement costs, these are one-time charges that do not relate to the normal operations of the Company. With respect to the healthcare tax law change, this was a one-time charge caused by the enactment of federal laws reducing the tax benefits of future medical benefits for retirees and is unrelated to normal and ongoing operations. Management views the reported results of adjusted operating profit (loss) and adjusted net income (loss) attributable to AK Steel Holding Corporation as important operating performance measures and believes that the GAAP financial measure most directly comparable to them are operating profit (loss) and net income (loss) attributable to AK Steel Holding Corporation. Adjusted operating profit (loss) and adjusted net income (loss) attributable to AK Steel Holding Corporation are used by Management as supplemental financial measures to evaluate the performance of the business. Management believes that the non-GAAP measures, when analyzed in conjunction with the Company's GAAP results and the accompanying reconciliations, provide additional insight into the financial trends of the Company's business versus the GAAP results alone. Neither current shareholders nor potential investors in the Company's securities should rely on adjusted operating profit (loss) and adjusted net income (loss) attributable to AK Steel Holding Corporation as a substitute for any GAAP financial measure and the Company encourages

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investors and potential investors to review the reconciliations of adjusted operating profit (loss) and adjusted net income (loss) attributable to AK Steel Holding Corporation to the comparable GAAP financial measures.

The following tables reflect the reconciliation of non-GAAP financial measures for the full year 2011 and 2010 results (dollars in millions, except per ton data):

Reconciliation to Operating Profit (Loss)

	2011	2010
Adjusted operating profit (loss)	$66.8	$(61.1)
Pension corridor charge	(268.1)	—
Ashland coke plant shutdown charges	—	(63.7)
Butler Retiree Settlement costs	—	(9.1)
Operating profit (loss)	$(201.3)	$(133.9)

Reconciliation to Operating Profit (Loss) per Ton

	2011	2010
Adjusted operating profit (loss) per ton	$12	$(11)
Pension corridor charge	(47)	—
Ashland coke plant shutdown charges	—	(11)
Butler Retiree Settlement costs	—	(2)
Operating profit (loss) per ton	$(35)	$(24)

Reconciliation to Net Income (Loss) Attributable to AK Steel Holding Corporation

	2011	2010
Adjusted net income (loss) attributable to AK Steel Holding Corporation	$10.3	$(59.8)
Pension corridor charge ($268.1 less tax of $102.2)	(165.9)	—
Ashland coke plant shutdown charges ($63.7 less tax of $25.4)	—	(38.3)
Butler Retiree Settlement costs ($9.1 less tax of $3.6)	—	(5.5)
Healthcare tax law change	—	(25.3)
Net income (loss) attributable to AK Steel Holding Corporation, as reported	$(155.6)	$(128.9)

Reconciliation to Basic and Diluted Earnings (Losses) per Share

	2011	2010
Adjusted basic and diluted earnings (losses) per share	$0.09	$(0.54)
Pension corridor charge	(1.50)	—
Ashland coke plant shutdown charges	—	(0.35)
Butler Retiree Settlement costs	—	(0.05)
Healthcare tax law change	—	(0.23)
Basic and diluted earnings (losses) per share, as reported	$(1.41)	$(1.17)

2010 Compared to 2009

Shipments

Steel shipments in 2010 were 5,660,900 tons, compared to 3,935,500 tons in 2009. Although overall demand for steel products remained relatively soft by historical standards until near the end of 2010, shipments increased in all reported product categories in 2010 compared to 2009. The percentage of increase was greatest with respect to hot-rolled steel products. As a result, the Company's value-added shipments as a percent of total volume shipped declined somewhat to 84.6% in 2010 compared to 85.5% in 2009. Tons shipped by product category for 2010 and 2009, with percent of total shipments, were as follows:

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	2010			2009		
Value-added Shipments	(tons in thousands)					
Stainless/electrical	866.0	15.3	%	670.0	17.0	%
Coated	2,558.4	45.2	%	1,791.6	45.5	%
Cold-rolled	1,241.2	21.9	%	821.4	20.9	%
Tubular	123.8	2.2	%	83.2	2.1	%
Subtotal value-added shipments	4,789.4	84.6	%	3,366.2	85.5	%
Non Value-added Shipments						
Hot-rolled	706.3	12.5	%	414.4	10.5	%
Secondary	165.2	2.9	%	154.9	4.0	%
Subtotal non value-added shipments	871.5	15.4	%	569.3	14.5	%
Total shipments	5,660.9	100.0	%	3,935.5	100.0	%

Net Sales

Net sales in 2010 were $5,968.3, up 46% from net sales of $4,076.8 in 2009. The increase resulted from higher volumes across all of the Company's product categories as a result of higher demand for steel products driven by the economic recovery. The average selling price was $1,054 per net ton in 2010, a slight increase compared to $1,036 per net ton in 2009. The Company has variable-pricing mechanisms with most of its contract customers, under which a portion of both rising and falling commodity costs are passed through to the customer during the life of the contract. The Company had such variable-pricing mechanisms with respect to approximately 89% of its contract shipments in 2010 compared to 83% in 2009. In 2010, the Company experienced a significant increase in its raw material costs. As a consequence, surcharges to customers were increased, contributing to both the higher average selling price and the higher net sales for the year.

Net sales to customers outside the United States were $823.3, or 14% of total sales, for 2010, compared to $767.0, or 19% of total sales, for 2009. A substantial majority of the revenue from sales outside of the United States is associated with electrical and stainless steel products. The decrease in the percentage of total sales represented by international sales in 2010 was principally due to the fact that domestic sales increased proportionately more than international sales.

Although the percentage of the Company's net sales attributable to the automotive industry remained unchanged in 2010 versus 2009, its total volume of direct automotive sales increased. The increase in automotive sales was principally the result of increased light vehicle production in North America due to the improvement in the economy, which led to increased orders from the Company's automotive customers.

The Company likewise experienced an increase in its sales to the infrastructure and manufacturing markets. This increase was driven primarily by the strengthening of the global and domestic economies. Sales of the Company's electrical steel products make up a significant component of its infrastructure and manufacturing sales. The Company's grain-oriented electrical steel sales were up in 2010, resulting principally from increased sales in India, the Middle East, South America, South Asia, Turkey, Egypt and North Africa. This increase in international sales occurred despite a loss of sales in China attributable to adverse decisions in the trade cases there with respect to grain-oriented electrical steel imported from the United States and Russia. Additionally, the sale of the Company's non-oriented electrical steel, which is used primarily in electrical motors and generators in the North American market, increased in 2010 from 2009. This was due primarily to improved industrial production in the United States and an end to inventory destocking by steel customers.

The most significant sales increase in 2010 was in the distributors and converters market, particularly with respect to hot-rolled steel shipments. During 2010, spot market pricing in the steel industry increased over 2009 levels. As a result, the Company elected to increase its sales to the spot market as a means of maximizing its earnings. This led to a disproportionate increase in sales to the distributor and converter market relative to the Company's other markets, which typically are more heavily weighted toward contract sales.

The following table sets forth the percentage of the Company's net sales attributable to each of its markets:

Market	2010	2009
Automotive	36 %	36 %
Infrastructure and Manufacturing	25 %	31 %
Distributors and Converters	39 %	33 %

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Operating Costs

Operating costs in 2010 and 2009 were $6,102.2 and $4,146.9, respectively. The primary reason that operating costs for 2010 were higher was the substantial increase in sales from 2009 to 2010. Also contributing significantly in 2010, however, were increased raw material costs, in particular for iron ore, where the benchmark price almost doubled. As a result of the progressively increasing costs during the year, the Company recorded a LIFO charge of $109.0 in 2010 compared to a LIFO credit of $417.2 in 2009. In addition, 2010 costs include the one-time, non-recurring charges of $63.7 for the Ashland coke plant shutdown and $9.1 associated with the Butler Retiree Settlement.

Selling and Administrative Expense

The Company's selling and administrative expense increased to $204.0 in 2010 from $188.3 in 2009. This year-over-year increase was due primarily to a generally higher level of spending associated with the substantial increase in the Company's operating and sales volumes, along with a higher level of compensation following the reinstatement of temporary pay reductions taken by salaried employees during most of 2009.

Depreciation Expense

Depreciation expense declined to $197.1 in 2010 from $204.6 in 2009, due to existing older assets becoming fully depreciated.

Pension and Other Postretirement Employee Benefit Charges

The Company recorded a pension and OPEB credit of $14.9 in 2010 compared to an expense of $28.4 in 2009. The decrease in the expense in 2010 was largely a result of a decrease in the interest cost on the obligations and an increase in the expected investment return on a higher amount of plan assets at the beginning of each year.

The Company recognizes into its results of operations, as a non-cash "corridor" adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. Prior to January 31, 2009, amounts inside this 10% corridor were amortized over the average remaining service life of active plan participants. Effective January 31, 2009, the date of the "lock and freeze" of a defined benefit pension plan covering all salaried employees, the Company began to amortize the actuarial gains and losses over the plan participants' life expectancy. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the benefit plans, or when the assumptions change, as they may each year when a valuation is performed. The effect of prevailing interest rates on the discount rate used to value projected plan obligations as of the December 31 measurement date is one of the more important factors used to determine the Company's year-end liability, corridor adjustment and subsequent year's expense for these benefit plans. Under the Company's method of accounting for pension and other postretirement benefit plans, it did not incur a corridor adjustment in 2010 or 2009.

Operating Profit (Loss) and Adjusted Operating Profit (Loss)

The Company reported an operating loss for 2010 of $133.9, compared to an operating loss of $70.1 for 2009. Included in the 2010 annual results were two pre-tax charges which are described more fully below. The exclusion of those charges for 2010 would have resulted in an adjusted operating loss of $61.1 for 2010, which is a slight improvement over 2009 performance. Exclusion of the pre-tax charges from the operating results is presented in order to clarify the effects of those charges on the Company's operating results and to reflect more clearly the operating performance of the Company on a comparative basis for 2010 and 2009.

Interest Expense

The Company's interest expense for 2010 was $33.0, which was $4.0 lower than interest expense for 2009 of $37.0. This decrease was due primarily to a lower level of debt for most of the 2010 period. Interest expense also decreased as a result of additional capitalized interest due to the ongoing capital investments, primarily at the Company's Butler Works.

Other Income (Expense)

The Company reported other expense of $7.6 for 2010 compared to other income of $9.1 for 2009. The expense reported in 2010 was primarily due to foreign exchange losses as a result of the weakening of the euro against the dollar. In addition, in 2010 there was a loss on the retirement of debt, compared to a gain on retirement of debt in 2009.

Income Taxes

In 2010, the Company had an income tax benefit of $43.8 compared to an income tax benefit of $20.0 in 2009. Included in each year

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were charges for tax law changes, consisting of $25.3 in 2010 for changes under federal healthcare legislation related to Medicare Part D reimbursements and $5.1 in 2009 for a state tax law change. The remainder of the change in tax benefit was primarily due to a higher pre-tax loss in 2010.

Net Income (Loss) Attributable to AK Steel Holding Corporation

The Company's net loss attributable to AK Steel Holding Corporation in 2010 was $128.9, or $1.17 per diluted share. In 2009, the Company reported a net loss attributable to AK Steel Holding Corporation of $74.6, or $0.68 per diluted share. The increased loss in 2010 compared to 2009 was principally a result of the special charges of $63.7 for the announced shutdown of the Ashland coke plant and a $9.1 charge taken in connection with the Butler Retiree Settlement. Also, in 2010 the Company recorded the $25.3 income tax charge noted above related to a reduction in the value of the Company's deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D reimbursements. Excluding those special charges the Company's financial performance year-over-year would have improved, reflecting increased sales of $5,968.3 for 2010 versus $4,076.8 for 2009, the benefits of which were substantially offset by higher raw material costs in 2010 versus 2009.

Non-GAAP Financial Measures

Management believes that reporting adjusted operating loss (as a total and on a per-ton basis) and adjusted net loss attributable to AK Steel Holding Corporation (as a total and on a per share basis), which are not financial measures under generally accepted accounting principles ("GAAP"), more clearly reflects the Company's current operating results and provides investors with a better understanding of the Company's overall financial performance. In addition, the adjusted operating results facilitate the ability to compare the Company's financial results to those of its competitors and to the Company's prior financial performance. Management views the reported results of adjusted operating loss and adjusted net loss attributable to AK Steel Holding Corporation as important operating performance measures and, as such, believes that the GAAP financial measure most directly comparable to them are operating loss and net loss attributable to AK Steel Holding Corporation. Adjusted operating loss and adjusted net loss attributable to AK Steel Holding Corporation are used by Management as supplemental financial measures to evaluate the performance of the business. Management believes that the non-GAAP measures, when analyzed in conjunction with the Company's GAAP results and the accompanying reconciliations, provide additional insight into the financial trends of the Company's business versus the GAAP results alone. Neither current shareholders nor potential investors in the Company's securities should rely on adjusted operating loss and adjusted net loss attributable to AK Steel Holding Corporation as a substitute for any GAAP financial measure and the Company encourages investors and potential investors to review the reconciliations of adjusted operating loss and adjusted net loss attributable to AK Steel Holding Corporation to the comparable GAAP financial measures.

The following tables reflect the reconciliation of non-GAAP financial measures for the fourth quarter and full year 2010 results (dollars in millions, except per ton data):

Reconciliation to Operating Profit (Loss)

	Three months ended December 31, 2010	Twelve months ended December 31, 2010
Adjusted operating profit (loss)	$(81.8)	$(61.1)
Ashland coke plant shutdown charges	(63.7)	(63.7)
Butler Retiree Settlement costs	(9.1)	(9.1)
Operating profit (loss), as reported	$(154.6)	$(133.9)

Reconciliation to Operating Profit (Loss) per Ton

	Three months ended December 31, 2010	Twelve months ended December 31, 2010
Adjusted operating profit (loss) per ton	$(60)	$(11)
Ashland coke plant shutdown charges	(47)	(11)
Butler Retiree Settlement costs	(7)	(2)
Operating profit (loss) per ton, as reported	$(114)	$(24)

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Reconciliation to Net Income (Loss) Attributable to AK Steel Holding Corporation

	Twelve months ended December 31, 2010
Adjusted net income (loss) attributable to AK Steel Holding Corporation	$(59.8)
Ashland coke plant shutdown charges ($63.7 less tax of $25.4)	(38.3)
Butler Retiree Settlement costs ($9.1 less tax of $3.6)	(5.5)
Healthcare tax law change	(25.3)
Net income (loss) attributable to AK Steel Holding Corporation, as reported	$(128.9)

Reconciliation to Basic and Diluted Earnings (Losses) per Share

	Twelve months ended December 31, 2010
Adjusted basic and diluted earnings (losses) per share	$(0.54)
Ashland coke plant shutdown charges	(0.35)
Butler Retiree Settlement costs	(0.05)
Healthcare tax law change	(0.23)
Basic and diluted earnings (losses) per share, as reported	$(1.17)

Outlook

All of the statements in this Outlook section are subject to, and qualified by, the information in the Forward-Looking Statements section.

Due to continued uncertainty and volatility with respect to near-term economic conditions in the United States and in other markets served by the Company, AK Steel is not providing an outlook for the Company's first quarter results at this time. However, the Company expects to provide first quarter guidance in March. In advance of that guidance, however, the Company notes that, based upon current conditions, it can address certain factors relevant to the Company's full-year 2012 outlook. Those factors include the following:

1) The Company estimates capital investments of about $150.0 in 2012, which includes about $50.0 for the Company's recent strategic investments in iron ore and coal reserves.

2) The Company anticipates interest expense of approximately $60.0 in 2012, which reflects an increased level of borrowing under the Credit Facility as well as increased interest due to the refinancing of $73.3 of its industrial revenue bonds.

3) The Company expects a pension and other postretirement employee benefit credit of approximately $35.0 in 2012, comparable to 2011, despite a reduction in the expected return on plan assets from 8.5% to 8.0%.

4) The Company projects a book tax rate for 2012 of approximately 40% and estimates that its cash tax rate will be less than 5%.

There are many other factors that could significantly impact this outlook. The foregoing outlook thus is subject to change depending on developments in the economy, in the Company's business, and in the businesses of the Company's customers and suppliers.

Liquidity and Capital Resources

At December 31, 2011, the Company had total liquidity of $558.7, consisting of $42.0 of cash and cash equivalents and $516.7 of availability under the Company’s $1.1 billion asset-backed revolving credit facility (“Credit Facility”). At December 31, 2011, there were outstanding borrowings of $250.0 under the Credit Facility and availability was further reduced by $155.6 due to outstanding letters of credit. During the year ended December 31, 2011, utilization of the Company's credit facilities ranged from zero to $495.0, with outstanding borrowings averaging $277.2 per day. The Credit Facility is secured by the Company’s inventory and accounts receivable. Availability under the Credit Facility can fluctuate monthly based on the varying levels of eligible collateral. The Company’s eligible collateral, after application of applicable advance rates, was $922.3 as of December 31, 2011.

In October 2011, AK Steel exercised a portion of the “accordion” feature of its Credit Facility, obtaining an additional $100.0 in credit commitments from lenders and increasing its total credit limit under the Credit Facility to $1.1 billion. The increase was made pursuant to the terms of the Credit Facility and all terms and conditions of the Credit Facility remain the same as those in effect prior to the increase. As a result of the higher credit limit, certain availability thresholds with respect to the covenants under the Credit Facility increased proportionally with the increase in the credit limit.

The Company anticipates utilizing the Credit Facility as it deems necessary to fund requirements for working capital, capital investments (such as its investments in Magnetation JV and AK Coal) and other general corporate purposes. During 2011, the Company borrowed amounts on a short-term basis for uses consistent with these general purposes.

Cash used by operations totaled $180.5 for the year ended December 31, 2011. Primary uses of cash were for a $170.0 pension contribution, the final $65.0 contribution to the VEBA Trust established as part of the Middletown Retiree Settlement, the first contribution of $22.6 to the VEBA Trust established as part of the Butler Retiree Settlement, and pension and OPEB benefit payments greater than expense of $114.7, and were partially offset by cash generated from normal business activities. While working capital was essentially flat compared to the prior year, an increase in accounts receivable as a result of an increased level of sales was offset by an increase in accounts payable due to a higher level of business activity and a decrease in inventory levels.

In February 2012, AK Steel refinanced (the “IRB Refinancing”) $73.3 aggregate principal amount of variable-rate tax-exempt industrial revenue bonds (“IRBs”). The IRB Refinancing was accomplished through offerings of newly-issued fixed-rate tax-exempt IRBs in the same respective aggregate principal amounts as the prior IRBs that they replaced. The net proceeds of new IRBs will be used to redeem and extinguish the prior IRBs.

More specifically, the IRB Refinancing resulted in the issuance of the following new fixed-rate tax-exempt IRBs (the “New IRBs”): (i) $36.0 aggregate principal amount of 6.75% tax-exempt IRBs due June 1, 2024 issued by the Ohio Air Quality Development Authority (the “OAQDA”), (ii) $30.0 aggregate principal amount of 7.0% tax-exempt IRBs due June 1, 2028 issued by the City of Rockport, Indiana (the “City of Rockport”), and (iii) $7.3 aggregate principal amount of 6.25% tax-exempt IRBs due June 1, 2020 issued by the Butler County Industrial Development Authority in Butler County, Pennsylvania (the “BCIDA”, and collectively with the OAQDA and the City of Rockport, the “Tax-Exempt Issuers”). AK Steel’s obligations in connection with the New IRBs are guaranteed by AK Holding.

The New IRBs were issued by the Tax-Exempt Issuers who loaned the net proceeds of the respective issuances to AK Steel pursuant to the terms of loan agreements between AK Steel and each of the OAQDA, City of Rockport and BCIDA (collectively, the “Loan Agreements”). The Loan Agreements obligate AK Steel to provide the trustee with funds sufficient to pay, when due, the principal and premium, if any, and interest on the New IRBs. Moreover, under the Loan Agreements AK Steel agrees to comply with, and the holders of the New IRBs are entitled to the benefit of, certain covenants applicable to the 2020 Notes. The Loan Agreements further provide that the net proceeds of the New IRBs be held by the trustee for the purpose of redeeming the principal amount and accrued interest on the prior IRBs, which AK Steel called for redemption concurrently with the closing of the offering of the New IRBs. Pursuant to the redemptions, the prior IRBs will be redeemed and extinguished on or about March 13, 2012 (the “IRB Redemption”).

The prior IRBs were backed by letters of credit, which had the effect of lowering availability under the Credit Facility and, accordingly, the Company’s liquidity. The New IRBs are not backed by letters of credit, but rather, are unsecured senior debt obligations of AK Steel. Thus, following the issuance of the New IRBs and the IRB Redemption, the Company’s available credit under the Credit Facility will increase by $74.1 as a result of the IRB Refinancing without any increase in its aggregate principal amount of debt outstanding. This increase is subject to total availability under the Credit Facility, however, which is dependent upon levels of eligible collateral and can fluctuate monthly. After the issuance of the New IRBs and the IRB Redemption, the Company’s annual interest expense will be higher because of the higher fixed interest rate on the New IRBs.

Pension- and Retiree Healthcare Benefit-related Matters

The Company made pension contributions of $170.0 during 2011 to satisfy the Company’s required annual pension contributions for 2011. These contributions increased the Company’s total pension fund contributions since 2005 to over $1.3 billion. Based on current actuarial valuations, the Company estimates that its required annual pension contributions are $170.0 for 2012 (of which $28.7 already was contributed in the first quarter of 2012) and $300.0 for 2013. The calculation of estimated future pension contributions requires the use of assumptions concerning future events. The most significant of these assumptions relate to future investment performance of the pension funds, actuarial data relating to plan participants, and the interest rate used to discount future benefits to their present value. Because of the variability of factors underlying these assumptions, including the possibility of future pension legislation, the reliability of estimated future pension contributions decreases as the length of time until the contributions must be made increases. For a more detailed discussion of the pension contribution estimates, see Employee Benefit Obligations.

During the first quarter of 2011, the Company made the final $65.0 payment to the VEBA Trust for the Middletown Works retirees. See discussion of the Middletown Works class action litigation in Note 6 to the Consolidated Financial Statements for further information.

In August 2011, the Company made a total of $31.7 in payments related to a VEBA Trust for a class of Butler Works retirees and to their counsel as part of the negotiated settlement with those retirees. The Company will make additional cash contributions to the VEBA Trust of $31.7 in July 2012 and $27.6 in July 2013 as part of the settlement. See discussion of the Butler Works class action settlement in Note 6 to the Consolidated Financial Statements for further information.

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Investing and Financing Activities

Cash used by investing activities in 2011 totaled $420.2. This total included $101.1 of routine capital investments, mostly related to projects at the Company’s Butler Works, $125.4 for the investment in Magnetation JV and the purchase of AK Coal and $195.0 in capital investments related to the investment by SunCoke Middletown in capital equipment for the coke plant constructed in Middletown, Ohio. The SunCoke Middletown capital investment is funded by its parent company, SunCoke, and is reflected as a payable from SunCoke Middletown to SunCoke. That payment is reflected in other non-current liabilities on the Company’s Consolidated Balance Sheets. Because the SunCoke Middletown capital investment was funded by SunCoke, it has no effect on the net cash flows of AK Steel.

Cash generated by financing activities in 2011 totaled $425.9. This includes $250.0 in proceeds on net borrowings from the Credit Facility and $210.7 in advances from SunCoke to SunCoke Middletown, partially offset by the payment of common stock dividends in the amount of $22.0 and debt issuance costs of $10.1 related primarily to the Credit Facility.

The Company from time to time may purchase stock in accordance with the Company’s $150.0 share repurchase program, although no shares were repurchased in 2011 under this program.

On October 4, 2011, the Company acquired a 49.9% equity interest in Magnetation JV, a joint venture that produces iron ore concentrate headquartered in Grand Rapids, Minnesota and which intends to construct and operate additional concentrate plants and a pelletizing plant to produce iron ore pellets to be consumed by the Company. In a separate transaction on the same day, the Company also acquired all of the stock of a company now known as AK Coal, which controls, through ownership or lease, the rights to significant reserves of low-volatile metallurgical coal in Somerset County, Pennsylvania. These investments represent significant steps toward achieving the Company’s top strategic initiative of vertically integrating the business through increased ownership of some of its key steelmaking raw materials. These investments provide a clear path to increasing the Company’s raw material self-sufficiency. They are intended both to provide a financial hedge against global market price increases and to enable the Company to acquire key raw materials at a net cost to AK Steel representing a substantial discount to the market price. Although the full benefit of these investments likely will not be realized until 2015 or later, the Company expects to begin to see the benefit this year. Beginning in 2012, the Company will receive its 49.9% share of the net income from Magnetation JV, which will sell iron ore concentrate to third parties. AK Steel’s share of the net income from these sales will serve as a partial financial hedge for AK Steel against increases in the price of iron ore. Even absent future iron ore price increases, the Magnetation JV is expected to generate income to AK Steel as a result of its low cost production of iron ore concentrate and, in the future, iron ore pellets. Further benefits, as outlined in more detail below, are expected when Magnetation JV has constructed and is operating an iron ore pelletizing plant and when AK Coal has developed, and is mining coal from, the coal reserves it owns or leases. The initial funding of both projects was through use of the Company’s cash and borrowings under its Credit Facility and the Company may continue to use the same sources for any funding obligations in 2012. At an appropriate point in time, subject to a determination by the Board of Directors and capital market conditions, the Company anticipates that it will access the capital markets for long-term financial vehicles to implement these strategic initiatives.

The Company believes that its current sources of liquidity will be adequate to meet its obligations for the foreseeable future, though it anticipates relying upon its Credit Facility in 2012 more so than it has in recent years. Future liquidity requirements for employee benefit plan contributions, scheduled debt maturities, debt redemptions and capital investments are expected to be funded by internally-generated cash and other financing sources. To the extent, if at all, that the Company would need to fund any of its working capital or planned capital investments other than through internally-generated cash, the Company has available its Credit Facility and believes it has the ability to access the capital markets opportunistically if and when it perceives conditions are favorable. The Credit Facility expires in April 2016 and any amounts outstanding under it at that time would need to be repaid or refinanced. Otherwise, the Company has no significant scheduled debt maturities until May 2020, when its $550.0 in aggregate principal amount of 2020 Notes is due. At December 31, 2011, availability under the Credit Facility was $516.7, with availability reduced by $250.0 for outstanding borrowings and $155.6 for outstanding letters of credit. As discussed in Liquidity and Capital Resources, as a result of the IRB Refinancing, the Company will have increased its liquidity by $74.1 following the IRB Redemption without any increase in its aggregate principal amount of debt outstanding. The Company's forward-looking statements on liquidity are based on currently available information and expectations and, to the extent the information or expectations are inaccurate or conditions deteriorate, there could be a material adverse effect on the Company's liquidity.

As to longer-term obligations, the Company has significant debt maturities and other obligations that come due after 2012, including estimated cash contributions to its qualified pension plans, based on current legislation and actuarial assumptions. The Company expects to make pension contributions of approximately $170.0 and $300.0 in 2012 and 2013, respectively, as well as additional amounts thereafter. Of the $170.0 due in 2012, the Company already contributed $28.7 to the pension fund in the first quarter of 2012. For further information, see the Contractual Obligations section. The Company's Credit Facility expiring in 2016 is secured by the Company's product inventory and accounts receivable and contains restrictions on, among other things, distributions and dividends, acquisitions and investments, indebtedness, liens and affiliated transactions. The Credit Facility requires maintenance of a minimum fixed charge coverage ratio of one to one if availability under the Credit Facility falls below $137.5. The Company is in compliance with its Credit Facility covenants and, absent the occurrence of unexpected adverse events, expects that it will remain in compliance for the foreseeable future.

The Company believes that it will be able to meet its cash requirements for the foreseeable future in light of its cash generated from operations, significant availability under its Credit Facility, and ability to access the capital markets to refinance and/or repay debt and other obligations as they come due. Uncertainties related to the global and U.S. economies and financial markets, however, could restrict the Company's flexibility with respect to its available liquidity sources, such as preventing the Company from refinancing those liabilities at more favorable rates than those currently available.

Dividends

The Company has established the payment of a quarterly common stock dividend at the rate of $0.05 per share. The following table lists information related to the quarterly cash dividend:
2011 COMMON STOCK DIVIDENDS

Record Date	Payment Date	Per Share
February 11, 2011	March 10, 2011	$0.05
May 13, 2011	June 10, 2011	0.05
August 15, 2011	September 9, 2011	0.05
November 15, 2011	December 9, 2011	0.05

The Company's Credit Facility contains certain restrictive covenants with respect to the Company's payment of dividends. Under these covenants, dividends are permitted provided (i) availability exceeds $247.5 or (ii) availability exceeds $192.5 and the Company meets a fixed charge coverage ratio of one to one as of the most recently ended fiscal quarter. If the Company cannot meet either of these thresholds, dividends would be limited to $12.0 annually. Currently, the availability under the Credit Facility significantly exceeds $247.5. Accordingly, there currently are no covenant restrictions on the Company's ability to declare and pay a dividend to its stockholders. Cash dividends paid in 2011 and 2010 by the Company to its shareholders were determined to be a return of capital under the United States Internal Revenue Code.

On January 24, 2012, the Company announced that its Board of Directors had declared a quarterly cash dividend of $0.05 per share of common stock, payable on March 9, 2012, to shareholders of record on February 10, 2012.

Restrictions Under the Senior Notes and Credit Facility

The indentures governing the Company's 2020 Notes and its Credit Facility contain restrictions and covenants that may limit the Company's operating flexibility.

The 2020 Notes' indentures include customary restrictions on (a) the incurrence of additional debt by certain AK Steel subsidiaries, (b) the incurrence of liens by AK Steel and AK Holding's other subsidiaries, (c) the amount of sale/leaseback transactions, and (d) the ability of AK Steel and AK Holding to merge or consolidate with other entities or to sell, lease or transfer all or substantially all of the assets of the AK Steel and AK Holding to another entity. They also contain customary events of default.

The Credit Facility contains restrictions, including limitations on, among other things, distributions and dividends, acquisitions and investments, indebtedness, liens and affiliate transactions. In addition, the Credit Facility requires maintenance of a minimum fixed charge coverage ratio of one to one if availability under the Credit Facility is less than $137.5. The Company does not expect any of these restrictions to affect or limit its ability to conduct its business in the ordinary course.

During the period, the Company was in compliance with all the terms and conditions of its debt agreements.

Capital Investments

The Company anticipates 2012 capital investments of approximately $150.0, which includes about $50.0 for the Company's recent strategic investments in iron ore and coal reserves. In the near-term, the Company expects to fund the capital investments from cash generated from operations or from borrowings under its Credit Facility. In addition, with respect to prior capital investments, the Commonwealth of Kentucky has provided the Company the ability to receive tax incentives in the form of payroll tax and other withholdings over a 10-year period to help defray the costs for the installation of a vacuum degasser and caster modifications at its Ashland Works under the Kentucky Industrial Revitalization Act Tax Credit Program. These tax incentives are based on certain employment levels and thus may be reduced if employment levels are below the designated minimum levels. Through December 31, 2011, the Company has accumulated $20.3 in such withholdings, which amount is included as a reduction of property, plant and equipment in the Consolidated Financial Statements.

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Employee Benefit Obligations

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes, as of the Company's measurement date of December 31, any unrecognized actuarial gains and losses that exceed 10% of the larger of projected benefit obligations or plan assets (the "corridor"). In 2011, the unrecognized losses attributable to the Company's qualified pension plans exceeded the corridor, primarily as a result of a decline in the discount rate and pension asset investment returns less than the plan assumption. Accordingly, the Company incurred a pre-tax corridor charge of $268.1 in the fourth quarter of 2011. In 2010 and 2009, the Company incurred no corridor adjustments.

Based on current assumptions, the Company anticipates that its required pension funding contributions during 2012 will total approximately $170.0. A $28.7 contribution toward that total was made in the first quarter of 2012. Additionally, the Company currently estimates that its required annual pension contributions will be approximately $300.0 for 2013. The amount and timing of future required contributions to the pension trust depend on assumptions concerning future events. The most significant of these assumptions relate to future investment performance of the pension funds, actuarial data relating to plan participants and the benchmark interest rate used to discount benefits to their present value. Because of the variability of factors underlying these assumptions, including the possibility of future pension legislation, the reliability of estimated future pension contributions decreases as the length of time until the contribution must be made increases. Currently, the Company's major pension plans are significantly underfunded. As a result, absent major increases in long-term interest rates, above average returns on pension plan assets and/or changes in legislated funding requirements, the Company will be required to make contributions to its pension trusts of varying amounts in the long-term. Some of these contributions could be substantial.

The Company provides healthcare benefits to a significant portion of its employees and retirees. Based on the assumptions used to value other postretirement benefits, primarily retiree healthcare and life insurance benefits, annual cash payments for these benefits are expected to be in a range which trends down from $79.8 to $14.2 over the next 30 years. These payments do not include payments totaling $59.3 over the next two years to the Butler VEBA trust as part of the Butler Retiree Settlement. The payments include the uncapped benefits to be paid through 2014 as part of the Butler Retiree Settlement. For a more detailed description of the settlement, see the discussion below and in Note 6 to the Consolidated Financial Statements.

Accounting for retiree healthcare benefits requires the use of actuarial methods and assumptions, including assumptions about current employees' future retirement dates, the anticipated mortality rate of retirees, the benchmark interest rate used to discount benefits to their present value, anticipated future increases in healthcare costs and the obligation of the Company under future collective bargaining agreements with respect to healthcare benefits for retirees. Changing any of these assumptions could have a material impact on the calculation of the Company's total obligation for future healthcare benefits. For example, the Company's calculation of its future retiree healthcare benefit obligation as of the end of 2011 assumed that the Company would continue to provide healthcare benefits to current and future retirees. If this assumption is altered, it could have a material effect on the calculation of the Company's total future retiree healthcare benefit obligation. This assumption could be altered as a result of one or more of the following developments or other unforeseen events.

First, retirees could consent to a change in the current level of healthcare benefits provided to them. Second, in certain instances, the union that represented a particular group of retirees when they were employed by the Company could, in the course of negotiations with the Company, accept such a change. Third, in certain instances, at or following the expiration of a collective bargaining agreement that affects the Company's obligation to provide healthcare benefits to retired employees, the Company could take action to modify or terminate the benefits provided to those retirees without the agreement of those retirees or the union, subject to the right of the union subsequently to bargain to alter or reverse such action by the Company. The precise circumstances under which retiree healthcare benefits may be altered unilaterally or by agreement with a particular union vary depending on the terms of the relevant collective bargaining agreement. Some of these developments already have occurred and either already have affected, or may affect in the future, the Company's retiree healthcare benefit obligation.

For example, in the first quarter of 2011, the federal district court approved a settlement agreement (the "Butler Retiree Settlement") of the claims in litigation filed against the Company by a group of retirees of its Butler Works relating to their retiree health and welfare benefits. Pursuant to the Butler Retiree Settlement, AK Steel will continue to provide company-paid health and life insurance to the covered retirees through December 31, 2014, and will make combined lump sum payments totaling $91.0 to a Voluntary Employees Beneficiary Association trust (the "VEBA Trust") and to plaintiffs' counsel. In August 2011, the Company made a total of $31.7 in payments to a VEBA Trust for a class of Butler Works retirees and to their counsel as part of the Butler Retiree Settlement. The Company will make two additional cash contributions to the VEBA Trust of $31.7 in July 2012 and $27.6 in July 2013. Effective January 1, 2015, AK Steel will transfer to the VEBA Trust all OPEB obligations owed to the covered retirees under the Company's applicable health and welfare plans and will have no further liability for any claims incurred by those retirees after December, 31, 2014, relating to their OPEB obligations. Following entry of the judgment approving the Settlement, the Company's total OPEB liability (prior to any funding of the VEBA trust) increased by $29.6 in 2011. A one-time, pre-tax charge of $14.2 was recorded in 2011 to reverse previous amortization of the prior plan amendment. The remaining portion was recognized in other comprehensive income and will be amortized into earnings over approximately five years.

Energy and Raw Material Hedging

The Company enters into derivative transactions in the ordinary course of business to hedge the cost of natural gas, electricity and certain raw materials, including iron ore. At December 31, 2011, the Consolidated Balance Sheets included accrued liabilities of $21.6 for the fair value of these derivatives. Changes in the prices paid for the related commodities are expected to offset the effect on cash of settling these amounts.

Off-Balance Sheet Arrangements

See discussion of Magnetation JV under Iron Ore Investment for information about this equity investee. There were no other material off-balance sheet arrangements as of December 31, 2011.

Contractual Obligations

In the ordinary course of business, the Company enters into agreements under which it is obligated to make legally enforceable future payments. These agreements include those related to borrowing money, leasing equipment and purchasing goods and services. The following table summarizes by category expected future cash outflows associated with contractual obligations in effect as of December 31, 2011.

	Payment due by period				
Contractual Obligations	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt (including current portion)	$0.7	$1.4	$0.1	$649.3	$651.5
Short-term borrowings	250.0	—	—	—	250.0
Interest on debt (a)	48.0	84.5	84.5	168.0	385.0
Operating lease obligations	7.8	10.4	8.5	11.8	38.5
Purchase obligations and commitments	2,026.7	2,346.5	1,433.9	2,108.2	7,915.3
Pension and other postretirement benefit obligations (b)	130.0	186.1	106.5	1,452.2	1,874.8
Magnetation JV investment (c)	47.5	—	—	—	47.5
Other non-current liabilities	—	41.2	20.0	42.7	103.9
Total	$2,510.7	$2,670.1	$1,653.5	$4,432.2	$11,266.5

(a) Amounts include contractual interest payments using the interest rates as of December 31, 2011 applicable to the Company’s variable-rate debt and stated fixed interest rates for fixed-rate debt. On a pro forma basis after giving effect to the IRB Refinancing, these amounts are $52.4, $94.1, $94.1, $210.3 and $450.9 for Less than 1 year, 1-3 years, 3-5 years, More than 5 years and Total, respectively.

(b) The Company plans to make future cash contributions to its defined benefit pension plans (not included in the table above). The estimate for these contributions is approximately $170.0 in 2012. A $28.7 contribution toward that total was made in the first quarter of 2012. Additionally, the Company currently estimates that its required annual pension contributions will be approximately $300.0 for 2013. Estimates of cash contributions to the pension trust to be made after 2013 cannot be reliably determined at this time due to the number of variable factors that impact the calculation of defined benefit pension plan contributions. Because pension benefit payments will be made from the pension trust for at least the next five years, the net pension liability is included in the More than 5 years column. Estimated benefit payments for 2012 are $79.8 and are expected to be in a range which trends down from $79.8 to $14.2 over the next 30 years. The amounts in the table for 2012 include the $31.7 and for 2013 include the $27.6 in remaining payments pursuant to the Butler Retiree Settlement. After 2014 the Company will have no further obligation to make payments to those Butler retirees and its OPEB liability to them will have been eliminated. For a more detailed description of these obligations, see the discussion in Note 6 to the Consolidated Financial Statements.

(c) The Company's investment of capital in Magnetation JV will occur in phases. For Phase I, the Company will contribute a total of $147.5 for its interest in the joint venture, $100.0 of which was already contributed on October 4, 2011. AK Steel anticipates funding the remaining $47.5 in the third quarter of 2012 upon Magnetation JV's attainment of specified operational performance levels. For Phase II, AK Steel will contribute a total of $150.0. AK Steel's contribution of the Phase II funds will be made following Magnetation JV's satisfaction of certain conditions, primarily obtaining the necessary permits for the construction and operation of the pellet plant, and is anticipated to occur over time between 2013 and 2016. No amounts have been included in the table above for the Phase II payments because there is not a specified, fixed date by which the payments must be made until the Phase II conditions are satisfied.

In calculating the amounts for purchase obligations, the Company identified all contracts under which the Company has a legally enforceable obligation to purchase products or services from the vendor and/or make payments to the vendor for an identifiable period of time. Then for each identified contract, the Company determined its best estimate of payments to be made under the contract assuming (1) the continued operation of existing production facilities, (2) normal business levels, (3) the contract would be adhered to in good faith by both parties throughout its term and (4) prices are as set forth in the contract. Because of changes in the markets it serves, changes

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in business decisions regarding production levels or unforeseen events, the actual amounts paid under these contracts could differ significantly from the numbers presented above. For example, as is the case currently with the contracts entered into with certain of the Company's raw material suppliers, circumstances could arise which create exceptions to minimum purchase obligations that are set forth in the contracts. The purchase obligations set forth in the table above have been calculated without regard to such exceptions.

A number of the Company's purchase contracts specify a minimum volume or price for the products or services covered by the contract. If the Company were to purchase only the minimums specified, the payments set forth in the table would be reduced. Under "requirements contracts" the quantities of goods or services the Company is required to purchase may vary depending on its needs, which are dependent on production levels and market conditions at the time. If the Company's business deteriorates or increases, the amount it is required to purchase under such a contract would likely change. Many of the Company's agreements for the purchase of goods and services allow the Company to terminate the contract without penalty upon 30 to 90 days' prior notice. Any such termination could reduce the projected payments.

The Company's Consolidated Balance Sheets contain reserves for pension and other postretirement benefits and other long-term liabilities. The benefit plan liabilities are calculated using actuarial assumptions that the Company believes are reasonable under the circumstances. However, because changes in circumstances can have a significant effect on the liabilities and expenses associated with these plans including, in the case of pensions, pending or future legislation, the Company cannot reasonably and accurately project payments into the future. While the Company does include information about these plans in the above table, it also discusses these benefits elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in the notes to its Consolidated Financial Statements.

The other long-term liabilities on the Company's Consolidated Balance Sheets include reserves for environmental and legal issues, employment-related benefits and insurance, liabilities established with regard to uncertain tax positions, and other reserves. These amounts generally do not arise from contractual negotiations with the parties receiving payment in exchange for goods and services. The ultimate amount and timing of payments are subject to significant uncertainty and, in many cases, are contingent on the occurrence of future events, such as the filing of a claim or completion of due diligence investigations, settlement negotiations, audit and examinations by taxing authorities, documentation or legal proceedings.

Iron Ore Investment

On October 4, 2011, AK Steel entered into a joint venture ("Magnetation JV") with Magnetation, Inc. ("Magnetation Partner") whereby AK Steel acquired a 49.9% interest in Magnetation JV. Magnetation JV utilizes magnetic separation technology to recover iron ore from existing stockpiles of previously mined material, often referred to as "tailings". Magnetation JV's technology utilizing these tailings eliminates the need for traditional drilling, blasting and excavating. That eliminates the capital expenditures and other costs associated with traditional open pit mining and refining of mined ore, thereby enabling the production of iron ore pellets that are among the lowest cost in the United States. Magnetation Partner's primary initial contributions consisted of plant assets and a license of its proprietary technology to the Magnetation JV. Magnetation Partner will oversee the day-to-day operations of Magnetation JV by providing management and administrative services through a management services agreement.

The joint venture is expected to grow in two phases. With respect to Phase I, Magnetation JV's existing plant currently produces about 350,000 short tons of iron ore concentrate annually. Magnetation JV currently is constructing a second plant near the existing plant with a targeted annual capacity of approximately 1.1 million short tons, of which the current permitted annual capacity is approximately 900,000 short tons. Once the second plant is fully operational, which is expected during the second quarter of 2012, Phase I will be complete. Iron ore concentrate from Phase I will be loaded onto railcars at Magnetation JV's rail loadout facility, which includes a rail spur and certified scale. This rail loadout facility, which is complete and currently operational, enables Magnetation JV to ship its iron ore concentrate (and, in the future, its iron ore pellets) in a controlled and cost-effective manner. Phase I will effectively provide AK Steel with a partial hedge to the global price of iron ore, as AK Steel will recognize its share of net income from the joint venture's sale of its iron ore concentrate to third parties at market prices. If the global price of iron ore increases, AK Steel will benefit from the higher Magnetation JV net income caused by that price increase to partially offset AK Steel's higher raw material costs. AK Steel is expected to benefit from Phase I, however, even absent an increase in the global price of iron ore. Magnetation JV is a low-cost producer of iron ore concentrate and it is expected to generate net income on the sale of such concentrate even if current global iron ore prices were to fall significantly. The Company's proportionate share of the net income is included in other income (expense) on the Consolidated Statements of Operations.

Phase II will commence following Magnetation JV's satisfaction of certain conditions, principally when it obtains the necessary permits, and will involve the construction and operation of one or more additional concentrate plants and an iron ore pelletizing plant. Following the completion of this second phase, Magnetation JV is expected to have concentrate plants with a total annual capacity of up to 3.7 million short tons and a pellet plant with an annual capacity of approximately 3.3 million short tons. Upon its completion, the pellet plant is expected to consume the majority of the joint venture's iron concentrate production. Magnetation JV estimates that the aggregate price to construct the pellet plant will be approximately $300.0 and expects that plant to be completed by 2016. The total estimated construction price is lower than a typical full iron ore pellet line, primarily because of the fact that Magnetation JV's pellet plant's consumption of iron ore concentrate, a semi-refined product, eliminates the need to construct a crusher plant and concentrate plant and incur the related costs of traditional open pit mining operations. Through an offtake agreement, AK Steel will have the right to purchase all of the pellets produced by Magnetation JV. AK Steel thus expects that the iron ore pellet production will satisfy about 50% of its current iron ore pellet requirements, at a net cost to AK Steel substantially below the current world market price. After the pellet plant is in operation, AK Steel will benefit from its investment in the joint venture by (1) receiving its share of net income from the joint venture, and (2) purchasing pellets from the joint venture at favorable prices.

AK Steel's investment of capital in Magnetation JV also will occur in phases. For Phase I, AK Steel will contribute a total of $147.5 for its interest in the joint venture. AK Steel contributed $100.0 on October 4, 2011, and anticipates funding the remaining $47.5 in the third quarter of 2012 upon Magnetation JV's attainment of specified operational performance levels. For Phase II, AK Steel will contribute a total of $150.0. AK Steel's contribution of the Phase II funds will be made following Magnetation JV's satisfaction of certain conditions, primarily obtaining the necessary permits for the construction and operation of the pellet plant, and is anticipated to occur over time between 2013 and 2016.

Coal Investment

In a separate transaction on October 4, 2011, AK Steel acquired 100% of the stock of Solar Fuel Company, Inc., which AK Steel subsequently renamed AK Coal. AK Coal controls, through ownership or lease, significant reserves of low-volatile metallurgical coal, which is used to produce coke needed for iron-making blast furnaces. AK Steel agreed to pay $36.0 for Solar Fuel Company, consisting of a $24.0 payment made at closing on October 4, 2011, and payments of $2.0, $3.0 and $7.0 on the first, second and third anniversaries of the closing date. AK Steel has commenced development of a mining plan and will seek the necessary permits to mine the coal. AK Steel will determine in the future whether it will mine the coal itself or whether it will use contract miners for all or some of the mining operations. AK Steel expects to invest approximately $60.0 in capital investments in AK Coal, most of which it expects to spend between 2012 and 2015, to develop its mining operations and begin coal production. AK Coal currently anticipates commencing production in earnest in the first half of 2013, though commencement of production is contingent upon, among other things, obtaining all necessary permits. The Company estimates that AK Coal owns or leases existing proven and probable coal reserves of over 20 million tons of low-volatile metallurgical coal. The Company presently anticipates that AK Coal's reserves will benefit the Company through direct consumption by the Company and/or sales to third parties as a financial hedge to the market price of metallurgical coal. The Company also continues to conduct exploratory drilling on property controlled by AK Coal and is seeking access to additional reserves, primarily through leasing arrangements, near the reserves that it already controls. AK Coal anticipates that these activities will result in a net increase of coal reserves. At the present time, AK Coal leases a portion of its reserves to third party miners and collects royalties from their production. Net income from these activities is currently insignificant to the Company's results of operations.

Iron Ore Pricing

Iron ore is one of the principal raw materials required for the Company's steel manufacturing operations. The Company purchased approximately 5,500,000 tons of iron ore pellets in 2011. The Company makes most of its purchases of iron ore at negotiated prices under annual and multi-year agreements. Through 2010 these agreements typically had a variable-price mechanism by which the price of iron ore was adjusted annually, based in whole or in part upon a benchmark price for iron ore established by contract negotiations between the principal iron ore producers and certain of their largest customers. In order to avoid that uncertainty and reduced ability to recover its costs, in 2011 the Company negotiated new pricing terms with its principal iron ore suppliers pursuant to which prices are adjusted quarterly. In 2011 for each quarter, the price for iron ore was determined with reference to a historical iron ore index, referred to as the "IODEX". For example, the fourth quarter of 2011 iron ore price was determined with reference to the IODEX price for the preceding June, July and August period. For a substantial majority of the iron ore which the Company purchases under contract from its major suppliers, those quarterly adjustments are final. With respect to a portion of the iron ore the Company purchases from one supplier, those prices are further adjusted later in the year based on an average of the quarterly prices. With respect to another of its other major suppliers, the Company also has agreed to alter the timing of the quarterly adjustment so that it is closer in time to then-current IODEX pricing.

The Company attempts to mitigate the effect of its increased raw material costs in the normal course of pricing its own products through increased prices in the spot market and the use of variable pricing with its contract customers that allows the Company to adjust selling prices in response to changes in the cost of certain raw materials and energy, including iron ore. It typically is unable, however, to recover 100% of its increased iron ore costs in this manner. There are a variety of factors which ultimately will affect how much of any increase in iron ore prices the Company is able to recover through its own steel price increases. These include the amount of the price increase for iron ore, the terms of the Company's agreements with its contract customers, and the extent to which competitive pressures may prevent the Company from increasing the price of the steel it sells into the spot market to sufficiently cover the full amount of the iron ore price increase. It is because of this inability to control and/or fully pass through its iron ore costs that the Company made the investment in Magnetation JV in 2011. Although the full benefit of that investment will not be realized until the completion of an iron ore pellet plant currently in the planning stage, in the interim the Company will receive a share of the net income from Magnetation JV, which will serve

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as a partial financial hedge against increases in the price of iron ore. Even absent future iron ore price increases, Magnetation JV is expected to generate income to AK Steel as a result of its low cost production of iron ore concentrate and, in the future, iron ore pellets. When the pellet plant is completed, the Company expects that the iron ore pellet production from Magnetation JV eventually will satisfy about 50% of AK Steel's iron ore pellet requirements, at a net cost to AK Steel substantially below the current world market price.

Butler Works No. 5 Electric Arc Furnace

As part of its continuing effort to reduce costs, the Company completed the installation of the new electric arc furnace ("No. 5 EAF") at its Butler Works in the second quarter of 2011. The No. 5 EAF is a state-of-the-art, highly-efficient electric arc furnace with the capacity to produce approximately 400,000 more tons of steel annually than the three older electric arc furnaces it replaced. After ramping up to full capacity, and subject to market conditions, it is expected to reduce the need for the Company to purchase merchant slabs. It also is expected to operate at a lower cost and provide greater flexibility with respect to the Company's product mix. Following the successful start-up of the No. 5 EAF, the furnace experienced a break-out of molten metal on July 1, 2011. No one was injured, but there was substantial physical damage. In October 2011, the Company completed the necessary repairs and operations of the No. 5 EAF resumed. While the No. 5 EAF was being repaired, the Company continued production and met its customer needs by continuing to use the three older electric arc furnaces that the No. 5 EAF is replacing. The No. 5 EAF, however, is expected to operate at a lower cost than those three furnaces. Accordingly, for the period that those older furnaces were used instead of the No. 5 EAF, the Company did not realize the lower cost benefits associated with the No. 5 EAF. The Company has property damage and business interruption insurance that it believes will provide coverage with respect to the No. 5 EAF incident. The Company has submitted an insurance claim relating to this matter and does not expect the resolution of this incident to have a material impact on the results for 2012.

Automotive Market

The Company sells a significant portion of its flat-rolled carbon steel products and stainless steel products to automotive manufacturers and to distributors, service centers and converters who in some cases will resell the products to the automotive industry.

Because the automotive market is an important element of the Company's business, North American light vehicle production affects the Company's total sales and shipments. In 2011, the North American automotive industry continued a recovery that began in 2010 from the economic recession. That improvement in the automotive market had a positive impact on the Company's sales and shipments in 2011, but light vehicle production levels in 2011 were still well below pre-recession levels. A further increase in light vehicle production volumes is projected for 2012. It is not expected, however, that light vehicle production levels will exceed pre-recession levels until at least 2014.

Electrical Steel Market

The Company sells its electrical steel products, which are iron-silicon alloys with unique magnetic properties, primarily to manufacturers of power transmission and distribution transformers and electrical motors and generators in the infrastructure and manufacturing markets. The Company sells its electrical steel products both domestically and internationally.

As a result of the major global recession which started in late 2008, the Company experienced a significant decrease in both its domestic and international sales of grain-oriented electrical steel ("GOES") products. Internationally, this reduction was caused principally by a decline in spending for new electric power transmission and distribution transformers in developing countries. To a lesser extent, the Company's international electrical steel sales also were negatively impacted by the determination in the China trade case to impose duties on GOES imported from the United States. The domestic GOES market likewise was negatively impacted by reduced maintenance and capital spending by utilities and the decline in the United States housing and construction markets, which principally drive the domestic need for new electrical transformers.

In 2010, the Company began to see an improvement in the GOES market. Although overall pricing for GOES declined slightly in 2011 versus 2010, GOES shipments improved as power generation and distribution activities around the world picked up. Year over year, 2011 shipments increased by 20% from 2010.

The continued weakness in the United States housing and construction markets has hampered the Company’s efforts to return its GOES shipments to the same volume it had prior to the global recession. The domestic housing and construction industry was significantly affected by the recession which began in 2008 and has struggled to make any noticeable improvement since then. Housing starts in the United States in 2011 remained near historically low levels for the third consecutive year. To the extent that domestic housing starts remain at a very low level, it is likely that the Company's electrical steel sales and shipments will continue to be negatively affected. Currently, the Company expects a gradual increase in domestic housing starts over the next several years, with a return to pre-recession levels not expected until at least 2015.

In addition, the Company’s GOES shipment volume has been affected by changes in mix and by changes in production requirements to

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meet evolving quality requirements, principally for sales to the international market. In 2008, the Company produced nearly 325,000 tons of GOES and had the capacity under then-existing market conditions to produce as much as 335,000 tons. Under current market conditions, the Company’s GOES production capacity is approximately 285,000 tons. As demand improves, the Company anticipates that it will be able to adjust its market mix and make other changes to increase its current capacity.

On February 1, 2012, the United States Department of Energy (“DOE”) proposed revised energy efficiency standards for certain types of electrical distribution transformers, which potentially could affect the use of GOES in certain types of distribution transformers. The proposed new standards are subject to public comments and will not become final until October 1, 2012. Subject to the possibility of legal challenges, those final rules then would become effective in January 2016. Many of the manufacturers of the transformers subject to the proposed new standards are customers of the Company. The new efficiency standards, as proposed, are not expected to have a major impact on the competitiveness of GOES for use in the distribution transformers covered by the new standards. Moreover, with respect to some types of distribution transformers, the new standards have the potential for increasing the market for GOES. It is anticipated, however, that certain interested parties will advocate in their public comments before the rules become final that the efficiency standards should be raised from the levels established by the standards currently proposed by the DOE and may file litigation to challenge the new standards before they become effective. Thus, there is a risk that the DOE, on its own or pursuant to court order, may change the currently proposed efficiency standards in a way that could reduce the competitiveness of GOES for use in certain electrical distribution transformers. If that were to occur, it would result in a decrease in the available market for the Company’s GOES products. The timing of any such change, if it were to occur, is unlikely to be before at least 2016 and the Company will vigorously oppose any change that would negatively impact the available market for its GOES products. The Company also will work diligently in the interim to engage in research and development to minimize any impact of the new efficiency standards, as currently proposed or as modified, on the available market for its GOES products.

Potential Impact of Climate Change Legislation

At this time the Company continues to be unable to determine whether any of the proposed or potential legislative bills in Congress relating to climate change are reasonably likely to become law. Even in the event that any of these bills are enacted, the Company cannot anticipate the final form of such laws, or the extent to which they will be applicable to the Company and its operations. As a result, the Company currently has no reasonable basis on which it can reliably predict or estimate the specific effects any eventually enacted laws may have on the Company or how the Company may be able to mitigate any negative impacts on its business and operations.

On May 13, 2010, the U.S. Environmental Protection Agency (“EPA”) issued a final “tailoring rule” providing new regulations governing major stationary sources of greenhouse gas emissions under the Clean Air Act. Generally, the tailoring rule provides that new or modified sources of high volumes of greenhouse gases would be subject to heightened permit standards and lower emissions thresholds. The EPA continues to work on further rules governing greenhouse gas emissions that would apply more broadly and to lower levels of emission sources. Litigation has been filed to challenge the new regulations, but the outcome of that litigation cannot be reliably predicted. In light of the pending litigation and the uncertainty concerning their future, the Company cannot reliably estimate the long-term impact of the new regulations. The Company does not expect, however, the current tailoring rule provision to materially adversely affect it in the near term. In the event the EPA’s tailoring rule or similar regulations are upheld, however, the Company likely will suffer negative financial impact over time as a result of increased energy, environmental and other costs in order to comply with the limitations that would be imposed on greenhouse gas emissions.

In addition, the possibility exists that further limitations on greenhouse gas emissions may be imposed in the United States at some point in the future through some form of federally-enacted legislation or by additional regulations. Bills have been introduced in the United States Congress in recent years that aim to limit carbon emissions over long periods of time from facilities that emit significant amounts of greenhouse gases. Such bills, if enacted, would apply to the steel industry, in general, and to the Company, in particular, because the process of producing steel from elemental iron results in the creation of carbon dioxide, one of the targeted greenhouse gases. Although the Company and other steel producers in the United States are actively participating in research and development efforts to develop breakthrough technology for low- or zero-emission steelmaking processes, the development of such technologies will take time and their potential for success cannot be accurately determined. To address this need for the development of new technologies, not just in the steel industry but elsewhere, some of the proposed legislative bills include a system of carbon emission credits, which would be available to certain companies for a period of time, similar to the European Union's existing "cap and trade" system. Each of these bills is likely to be altered substantially as it moves through the legislative process, making it virtually impossible at this time to forecast the provisions of any final legislation and the resulting effects on the Company.

If regulation or legislation regulating carbon emissions is enacted, however, it is reasonable to assume that the net financial impact on the Company will be negative, despite some potential beneficial aspects discussed below. On balance, such regulation or legislation likely would cause the Company to incur increased energy, environmental and other costs in order to comply with the limitations that would be imposed on greenhouse gas emissions. For example, the Company likely would incur the direct cost of purchasing carbon emissions credits for its own operations. Similarly, to the extent that the Company's raw material and/or energy suppliers likewise would have to purchase such credits, they may pass their own increased costs on to the Company through price hikes. The Company likely also

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would incur increased capital costs as a result of cap and trade legislation. Such costs could take the form of new or retrofitted equipment, or the development of new technologies (e.g., sequestration), to try to control or reduce greenhouse gas emissions. In addition, if similar cap and trade requirements were not imposed globally, the domestic legislation could negatively impact the Company's ability to compete with foreign steel companies not subject to similar requirements.

The enactment of climate control legislation or regulation also could have some beneficial impact on the Company, which may somewhat mitigate the adverse effects noted above. For example, to the extent that climate change legislation provides incentives for energy efficiency, up to certain levels, the Company could benefit from increased sales of its grain-oriented electrical steel products, which are among the most energy efficient in the world. The Company sells its electrical steels, which are iron-silicon alloys with unique magnetic properties, primarily to manufacturers of power transmission and distribution transformers and electrical motors and generators. The sale of such products may be enhanced by climate control legislation in different ways. For instance, to the extent that the legislation may promote the use of renewable energy technology, such as wind or solar technology, it could increase demand for the Company's high-efficiency electrical steel products used in power transformers, which are needed to connect these new sources to the electricity grid.

Any effect on the Company would depend on the final terms of any climate control legislation or regulation enacted. Presently, the Company is unable to predict with any reasonable degree of accuracy when or even if climate control legislation or regulation will be enacted, or if so, what will be their terms and applicability to the Company. In the meantime, the items described above provide some indication of the potential impact on the Company of climate control legislation or regulation generally. The Company will continue to monitor the progress of such legislation and/or regulation closely.

Labor Agreements

At December 31, 2011, the Company employed approximately 6,600 employees, of which approximately 5,000 are represented by labor unions under various contracts that expire between 2012 and 2015.

In April 2011, members of the International Association of Machinists and Aerospace Workers, Local 1943, ratified a new labor agreement covering approximately 1,700 hourly production and maintenance employees at the Company's Middletown Works. The new agreement is scheduled to expire September 15, 2014.

In December 2011, members of the United Steelworkers of America, Local 1915, ratified a new three-year labor agreement covering approximately 100 hourly production and maintenance employees at the Walbridge, Ohio facility of AK Tube, a wholly-owned subsidiary of AK Steel. The new agreement is scheduled to expire on January 22, 2015.

An agreement with the United Auto Workers, Local 4104, which represents approximately 180 employees at the Company's Zanesville Works, is scheduled to expire on May 20, 2012.

An agreement with the United Auto Workers, Local 3303, which represents approximately 1,280 employees at the Company's Butler Works, is scheduled to expire on September 30, 2012.

Critical Accounting Policies and Estimates

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. These principles permit choices among alternatives and require numerous estimates of financial matters. Accounting estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. The Company believes the accounting principles chosen are appropriate under the circumstances, and that the estimates, judgments and assumptions involved in its financial reporting are reasonable. There can be no assurance that actual results will not differ from these estimates. Management believes the accounting estimates discussed below represent those accounting estimates requiring the exercise of judgment where a different set of judgments could result in the greatest changes to reported results.

Inventory Costing

Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last in, first out ("LIFO") method. The LIFO method allocates the most recent costs to cost of products sold and, therefore, recognizes into operating results fluctuations in raw material, energy and other inventoriable costs more quickly than other methods. Other inventories, consisting mostly of foreign inventories and certain raw materials, are measured principally at average cost. An actual valuation of the inventory under the LIFO method can only be made at the end of the year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on Management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond Management's control, annual LIFO expense may significantly differ from the estimated amounts calculated at interim dates.

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Deferred Tax Assets

The Company recognizes deferred tax assets and liabilities based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the enacted tax laws. Furthermore, the Company evaluates uncertainty in its tax positions and only recognizes benefits when the tax position is believed to be more likely than not to be sustained upon audit. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company has tax filing requirements in many states and is subject to audit in these states, as well as at the federal level in both the U.S. and in Europe. Tax audits by their nature are often complex and can require several years to resolve. In the preparation of the consolidated financial statements, the Company exercises judgments in estimating the potential exposure of unresolved tax matters. While actual results could vary, in Management's judgment the Company has adequately accrued the ultimate outcome of these unresolved tax matters.

The Company regularly evaluates the need for a valuation allowance for deferred tax assets by assessing whether it is more likely than not that it will realize the deferred tax assets in the future. A valuation allowance assessment is performed each reporting period, with any additions or adjustments reflected in earnings in the period of assessment. In assessing the need for a valuation allowance, the Company has considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets for each jurisdiction. The Company has considered negative evidence, including a cumulative loss in recent periods and the effects of increased competition in the markets served by the Company on its ability to generate future taxable income. That includes increased competition in North America as a result of new or expanded production capacity added by domestic competitors of the Company, as well as increased imports from foreign producers. In general, the existence of cumulative losses in recent periods is deemed to be a significant piece of objective negative evidence. However, the Company has historical evidence that the steel industry and the Company operate in business cycles of seven to ten years and therefore attributes significant weight to the profitability of the Company over these business cycles in evaluating the Company's ability to generate future taxable income. In concluding that it is more likely than not that the Company will generate sufficient future taxable income to realize its deferred tax assets, the Company has considered the following positive and negative evidence:

- The Company's historical operating results, including the lack of prior expired federal loss carryforwards during the Company's prior business cycles
- Long historical Company and steel industry business cycles of seven to ten years and a current projection of positive earnings as the Company emerges from the recent cycle trough
- Lengthy loss carryforward periods
  - Federal net operating loss carryforwards do not begin to expire until 2023 and over 90% of those loss carryforwards have more than 17 years remaining before expiration
  - Temporary differences other than loss carryforwards will have a 20-year carryforward period for federal purposes from the year of deduction on the tax return if the Company is in a loss carryforward position at that time; otherwise they will reduce taxable earnings in the year of deduction
- Timing of future reversals of existing taxable temporary differences
- Projections of future taxable income, which take into consideration both positive and negative factors, sufficient to realize deferred tax assets related to loss carryforwards prior to their expiration and other temporary differences, including:
  - The slow but steady recovery in the United States, the Company's primary geographic market, from the effects of the recession
  - Positive effect on projections of future taxable income from the Company's late-2011 investments in Magnetation JV and AK Coal

Positive effects of recent Company actions to improve financial results from future operations, including the shutdown of the Ashland coke plant; implementation of cost reduction actions, including scrap reduction initiatives and reductions in employee benefit obligations; the operating benefits from the newly-installed Butler Works electric arc furnace; and benefits from the agreement with SunCoke Middletown to purchase coke and energy
Improving industry outlooks for key customers in the North American auto market and, to a lesser extent, the home building sector over the next several years from record low levels in 2009
The estimated negative effects of increased competition in the markets served by the Company
Effect on the projections of future taxable income of the selection of alternative key assumptions, including those associated with our pension and other postretirement benefit obligations

The Company has concluded that the above-noted objective and subjective positive evidence outweighs the noted negative evidence, and accordingly, that as of December 31, 2011, it is more likely than not to realize all of its federal and most of its state deferred tax assets. The Company has recorded a valuation allowance of $22.3 as of December 31, 2011, related to loss carryforwards and tax credits in certain states that have relatively short carryforward periods and annual limits on how much loss carryforward can be used to offset future taxable income. However, the Company performs an assessment of the valuation allowance each reporting period and, if the Company is unable to generate future taxable income or its estimate of future taxable income is reduced, the deferred tax assets may no longer be

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considered to be more likely than not to be realized and material charges for increases in the valuation allowance may be needed in the future.

Environmental and Legal Reserves

The Company is involved in a number of environmental and other legal proceedings. The Company records a liability when it has determined that litigation has commenced or a claim or assessment has been asserted and, based on available information, it is probable that the outcome of such litigation, claim or assessment, whether by decision or settlement, will be unfavorable and the amount of the liability is reasonably estimable. The Company measures the liability using available information, including the extent of damage, similar historical situations, its allocable share of the liability and, in the case of environmental liabilities, the need to provide site investigation, remediation and future monitoring and maintenance. Accruals of probable costs have been made based on a combination of litigation and settlement strategies on a case-by-case basis and, where appropriate, are supplemented with incurred but not reported development reserves. However, amounts recognized in the financial statements in accordance with accounting principles generally accepted in the United States exclude costs that are not probable or that may not be currently estimable. The ultimate costs of these environmental and legal proceedings may, therefore, be higher than those currently recorded on the Company’s financial statements. In addition, results of operations in any future period could be materially affected by changes in assumptions or by the effectiveness of the Company’s strategies.

Pension and Other Postretirement Benefit Plans

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes into income, as of the Company’s measurement date, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Further, amounts inside this 10% corridor are amortized over the plan participants’ life expectancy. The Company’s method results in faster recognition of actuarial net gains and losses than the minimum amortization method permitted by prevailing accounting standards and used by the vast majority of companies in the United States. Faster recognition under this method also results in the potential for highly volatile and difficult to forecast corridor adjustments.

Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the benefit plans or when the assumptions change, as they may each year when a valuation is performed. The major factors contributing to actuarial gains and losses for benefit plans are the differences from changes in the discount rate used to value plan liabilities as of the measurement date and changes in the expected lives of plan participants. The Company uses standard mortality tables for determining the expected lives of its plan participants and believes that the tables selected are most closely associated with the expected lives of its plan participants. However, the selection of other available tables would likely result in an increase in the plan obligations. In addition, a major factor contributing to actuarial gains and losses for pension plans are the differences between expected and actual returns on plan assets. For OPEB plans, differences in estimated versus actual healthcare costs and changes in assumed healthcare cost trend rates are additional major factors contributing to actuarial gains and losses. In addition to their effect on the funded status of the plans and their potential for corridor adjustments, these factors affect future net periodic benefit expenses. Changes in key assumptions can have a material effect on the amount of benefit obligation and annual expense recognized. For example, a one-quarter-percentage-point decrease in the discount rate would increase pension expense in 2012 by $0.6 and increase the OPEB credit by less than $0.1, without taking into account any potential corridor adjustments. A one-quarter-percentage-point change in the discount rate would have changed the pension obligation at December 31, 2011 by approximately $78.0 and the OPEB obligation by approximately $12.9. Based on the Company’s benefit obligation as of December 31, 2011, a one-percentage-point increase in the assumed healthcare trend rate would increase the accumulated benefit obligation by $5.7 and decrease the projected 2012 OPEB credit by approximately $0.5 before tax. A one-percentage-point decrease in the expected rate of return on pension plan assets would increase the projected 2012 pension expense by approximately $23.2 before tax. As of December 31, 2011, the Company has reduced its expected rate of return on pension plan assets from 8.5% to 8.0% as a result of Management's consideration of historical and projected investment returns in conjunction with the allocation of investments. This change in assumption has the effect of decreasing the expected return on plan assets component of pension expense by approximately $11.6 in 2012.

Asset Impairment

The Company has various assets subject to possible impairment, including investments, property, plant and equipments, goodwill and other intangible assets. Each of these assets are subject to a review for impairment, if and when circumstances indicate that a loss in value below its carrying amount has occurred. Management's judgment is used to evaluate the effect of changes in operations and to estimate future cash flows to measure fair value. Use of assumptions, such as forecasted growth rates and cost of capital, are generally considered as part of these analyses and based on Management's judgment can result in different conclusions. Management believes its use of such data to be appropriate and consistent with internal projections. The most recent annual goodwill impairment test indicated that the fair value of the Company's reporting unit was substantially in excess of its carrying value. However, the Company's businesses operate in highly cyclical industries and the valuation of these businesses can be expected to fluctuate, which may lead to impairment charges in future periods.

The Company's investment in AFSG Holdings, Inc. represents the carrying value of its discontinued insurance and finance leasing businesses, which have been largely liquidated. The activities of the remaining operating companies are being classified as "runoff" and the companies are accounted for, collectively, as a discontinued operation under the liquidation basis of accounting, whereby future cash inflows and outflows are considered. The Company is under no obligation to support the operations or liabilities of these companies.

New Accounting Pronouncements

No new accounting pronouncement issued or effective during the 2011 fiscal year has had or is expected to have a material effect on the Company's Consolidated Financial Statements.

Forward-Looking Statements

Certain statements made or incorporated by reference in this Form 10-K, or made in press releases or in oral presentations made by Company employees, reflect Management's estimates and beliefs and are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "believes," "intends," "plans," "estimates" and other similar references to future periods typically identify such forward-looking statements. These forward-looking statements reflect the current belief and judgment of the Company's Management, but are not guarantees of future performance or outcomes. They are based on a number of assumptions and estimates that are inherently subject to economic, competitive, regulatory, and operational risks, uncertainties and contingencies that are beyond the Company's control, and upon assumptions with respect to future business decisions and conditions that are subject to change. In particular, these include, but are not limited to, statements in the Outlook and Liquidity and Capital Resources sections and Item 7A, Quantitative and Qualitative Disclosure about Market Risk.

The Company cautions readers that such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those currently expected by Management. See Item 1A, Risk Factors for more information on certain of these risks and uncertainties.

Any forward-looking statement made by the Company in this document speaks only as of the date on which it is made. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company's primary areas of market risk include changes in (a) interest rates, (b) the prices of raw materials and energy sources, and (c) foreign currency exchange rates. The Company manages interest rate risk by issuing variable- and fixed-rate debt, and had total long-term debt of $651.5 and $652.3 outstanding at December 31, 2011 and 2010, respectively. The amount outstanding at December 31, 2011, consisted of $552.2 of fixed-rate debt and $99.3 of variable-rate debt, prior to the IRB Refinancing. In addition, at December 31, 2011, the Company had $250.0 of short-term borrowings outstanding under its Credit Facility that bears interest at variable interest rates. No borrowings were outstanding under the Company's credit facility at December 31, 2010. An increase in prevailing interest rates would increase interest expense and interest paid for the variable-rate debt. For example, a 1% increase in interest rates would result in an increase in annual interest expense of approximately $3.5 on the Company's outstanding debt at December 31, 2011. As a result of the IRB Refinancing in February 2012 addressed above in Liquidity and Capital Resources, a higher proportion of the Company's outstanding debt now has a fixed rate of interest and, therefore, the impact of a change in interest rates has been reduced from what it was as of December 31, 2011.

With regard to raw materials and energy sources, the cost of iron ore, in particular, and the cost of scrap both have been volatile over the course of the last several years. In addition, natural gas prices have been highly volatile at times. To address such cost volatility, where competitively possible, the Company attempts to increase the price of steel it sells to the spot market and to negotiate a variable-pricing mechanism with its contract customers that allows the Company to adjust selling prices in response to changes in the cost of certain raw materials and energy. While the Company still does not recover all of its raw material cost increases through these mechanisms, it has made significant progress in that respect through 2011, particularly with respect to variable-pricing terms with its contract customers. In addition, in the case of stainless steel, increased costs for nickel, chrome and molybdenum can usually be recovered through established price surcharges. Therefore, fluctuations in the price of energy (particularly natural gas and electricity), raw materials (such as scrap, purchased slabs, coal, iron ore, zinc and nickel) or other commodities will be, in part, passed on to the Company's customers rather than absorbed solely by the Company.

In addition, in order to further minimize its exposure to fluctuations in raw material costs, and to secure an adequate supply of raw materials, the Company has entered into multi-year purchase agreements for certain raw materials that provide for fixed prices or only a limited variable-price mechanism. While enabling the Company to reduce its exposure to fluctuations in raw material costs, this also exposes the Company to an element of market risk relative to its sales contracts. After new contracts are negotiated with the Company's

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customers, the average sales prices could increase or decrease. If that average sales price decreases, the Company may not be able to reduce its raw material costs to a corresponding degree due to the multi-year term and fixed-price nature of some of its raw material purchase contracts. In addition, some of the Company's existing multi-year supply contracts, particularly with respect to iron ore, have required minimum purchase quantities. Under adverse economic conditions, those minimums may exceed the Company's needs. Subject to exceptions for force majeure and other circumstances affecting the legal enforceability of the contracts, such minimum purchase requirements could require the Company to purchase quantities of raw materials, particularly iron ore, which significantly exceed its anticipated needs. Under such circumstances, the Company would attempt to negotiate agreements for new purchase quantities. There is a risk, however, that in one or more instances the Company would not be successful in securing lower purchase quantities, either through negotiation or litigation. In that event, the Company would likely be required to purchase more of a particular raw material in a particular year than it needs, negatively affecting its cash flows.

The Company uses cash-settled commodity price swaps and options (including collars) to hedge the market risk associated with the purchase of certain of its raw materials and energy requirements. Such hedges routinely are used with respect to a portion of the Company's natural gas and nickel requirements and are sometimes used with respect to its aluminum, zinc, electricity and iron ore requirements. The Company's hedging strategy is designed to protect it against excessive pricing volatility. However, abnormal price increases in any of these commodity markets might still negatively affect operating costs, as the Company does not typically hedge 100% of its exposure.

For derivatives designated in cash flow hedging relationships, the effective portion of the gains and losses from the use of these instruments for natural gas and electricity are recorded in accumulated other comprehensive income on the Consolidated Balance Sheets and recognized into cost of products sold in the same period as the earnings recognition of the associated underlying transaction. At December 31, 2011, accumulated other comprehensive income included $10.9 in unrealized after-tax losses for the fair value of these derivative instruments. All other commodity price swaps and options are marked to market and recognized into cost of products sold with the offset recognized as other current assets or other accrued liabilities. At December 31, 2011, accrued liabilities of $21.6 were included on the Consolidated Balance Sheets for the fair value of these commodity derivatives. At December 31, 2010, accrued liabilities of $0.1 and other current assets of $0.8 were included on the Consolidated Balance Sheets for the fair value of these commodity derivatives.

The following table presents the negative effect on pre-tax income of a hypothetical change in the fair value of derivative instruments outstanding at December 31, 2011, due to an assumed 10% and 25% decrease in the market price of each of the indicated commodities.

	Negative Effect on Pre-tax Income	
Commodity Derivative	10% Decrease	25% Decrease
Natural Gas	$ 10.3	$ 24.7
Nickel	0.5	1.2
Zinc	1.8	4.4
Iron Ore	3.9	9.8

Because these instruments are structured and used as hedges, these hypothetical losses would be offset by the benefit of lower prices paid for the physical commodity used in the normal production cycle. The Company currently does not enter into swap or option contracts for trading purposes.

The Company also is subject to risks of exchange rate fluctuations on a small portion of intercompany receivables that are denominated in foreign currencies. The Company uses forward currency contracts to manage exposures to certain of these currency price fluctuations. At December 31, 2011 and 2010, the Company had outstanding forward currency contracts with a total contract value of $16.9 and $23.4, respectively, for the sale of euros. At December 31, 2011 and 2010, other current assets of $1.0 and $0.2, respectively, were included on the Consolidated Balance Sheets for the fair value of these contracts. Based on the contracts outstanding at December 31, 2011, a 10% change in the dollar to euro exchange rate would result in an approximate $1.7 pretax impact on the value of these contracts on a mark-to-market basis, which would offset the effect of a change in the exchange rate on the underlying receivable.

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Item 8. Financial Statements and Supplementary Data.

AK Steel Holding Corporation and Subsidiaries

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles permit choices among alternatives and require numerous estimates of financial matters. The Company believes the accounting principles chosen are appropriate under the circumstances, and that the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The Company's Management is responsible for the integrity and objectivity of the financial information presented in its consolidated financial statements. It maintains a system of internal accounting controls designed to provide reasonable assurance that Company employees comply with stated policies and procedures, that the Company's assets are safeguarded and that its financial reports are fairly presented. On a regular basis, the Company's financial Management discusses internal accounting controls and financial reporting matters with its independent registered public accounting firm and its Audit Committee, composed solely of independent outside directors. The independent registered public accounting firm and the Audit Committee also meet privately to discuss and assess the Company's accounting controls and financial reporting.

Dated: February 27, 2012

/s/ James A. Wainscott
James L. Wainscott
Chairman of the Board, President
and Chief Executive Officer

Dated: February 27, 2012

/s/ Albert E. Ferrara, Jr.
Albert E. Ferrara, Jr.
Senior Vice President, Finance and
Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
AK Steel Holding Corporation
West Chester, Ohio

We have audited the accompanying consolidated balance sheets of AK Steel Holding Corporation and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the accompanying consolidated financial statements, the Company has changed its method of presenting comprehensive income in 2011, due to the adoption of Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Cincinnati, Ohio
February 27, 2012

AK STEEL HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2011, 2010 and 2009
(dollars in millions, except per share data)

	2011	2010	2009
Net sales	$6,468.0	$5,968.3	$4,076.8
Cost of products sold (exclusive of items shown below)	6,036.8	5,643.2	3,725.6
Selling and administrative expenses (exclusive of items shown below)	215.4	204.0	188.3
Depreciation	185.0	197.1	204.6
Pension and OPEB expense (income) (exclusive of corridor charge shown below)	(36.0)	(14.9)	28.4
Pension corridor charge	268.1	—	—
Other operating items:			
Ashland coke plant shutdown charges	—	63.7	—
Butler retiree benefit settlement costs	—	9.1	—
Total operating costs	6,669.3	6,102.2	4,146.9
Operating profit (loss)	(201.3)	(133.9)	(70.1)
Interest expense	47.5	33.0	37.0
Other income (expense)	(5.3)	(7.6)	9.1
Income (loss) before income taxes	(254.1)	(174.5)	(98.0)
Income tax provision due to tax law changes	2.0	25.3	5.1
Income tax provision (benefit)	(96.0)	(69.1)	(25.1)
Total income tax provision (benefit)	(94.0)	(43.8)	(20.0)
Net income (loss)	(160.1)	(130.7)	(78.0)
Less: Net loss attributable to noncontrolling interests	(4.5)	(1.8)	(3.4)
Net income (loss) attributable to AK Steel Holding Corporation	$(155.6)	$(128.9)	$(74.6)
Basic and diluted earnings per share:			
Net income (loss) attributable to AK Steel Holding Corporation common stockholders	$(1.41)	$(1.17)	$(0.68)

See notes to consolidated financial statements.

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AK STEEL HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2011, 2010 and 2009
(dollars in millions)

	2011	2010	2009
Other comprehensive income (loss), before tax:			
Foreign currency translation gain (loss)	$(0.7)	$(0.8)	$1.0
Cash flow hedges:			
Gains (losses) arising in period	(21.0)	(23.2)	(19.3)
Reclassification of losses (gains) to net income (loss)	4.0	29.1	62.2
Unrealized holding gains (losses) on securities:			
Unrealized holding gains (losses) arising in period	(0.5)	1.7	3.7
Reclassification of losses (gains) to net income (loss)	—	0.3	—
Pension and OPEB plans:			
Prior service cost arising in period	(20.6)	1.1	0.3
Reclassification of prior service cost (credits) included in net income (loss)	(58.5)	(76.0)	(75.9)
Gains (losses) arising in period	(319.4)	(64.8)	23.0
Reclassification of losses (gains) included in net income (loss)	272.0	13.1	14.6
Other comprehensive income (loss), before tax	(144.7)	(119.5)	9.6
Income tax provision (benefit)	(54.8)	(44.2)	1.3
Other comprehensive income (loss)	(89.9)	(75.3)	8.3
Net income (loss) attributable to AK Steel Holding Corporation	(155.6)	(128.9)	(74.6)
Comprehensive income (loss) attributable to AK Steel Holding Corporation	$(245.5)	$(204.2)	$(66.3)

See notes to consolidated financial statements.

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AK STEEL HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010
(dollars in millions, except per share data)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$42.0	$216.8
Accounts receivable, net	564.2	482.8
Inventory, net	418.7	448.7
Deferred tax assets, current	216.5	225.7
Other current assets	33.0	30.1
Total current assets	1,274.4	1,404.1
Property, plant and equipment	5,967.2	5,668.2
Accumulated depreciation	(3,797.0)	(3,635.0)
Property, plant and equipment, net	2,170.2	2,033.2
Other non-current assets:		
Investment in AFSG Holdings, Inc.	55.6	55.6
Investment in Magnetation LLC	101.2	—
Goodwill	37.1	37.1
Deferred tax assets, non-current	716.5	581.5
Other non-current assets	94.9	77.1
Total other non-current assets	1,005.3	751.3
TOTAL ASSETS	$4,449.9	$4,188.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under credit facility	$250.0	$—
Accounts payable	583.6	553.1
Accrued liabilities	172.8	145.0
Current portion of long-term debt	0.7	0.7
Current portion of pension and other postretirement benefit obligations	130.0	145.7
Total current liabilities	1,137.1	844.5
Non-current liabilities:		
Long-term debt	650.0	650.6
Pension and other postretirement benefit obligations	1,744.8	1,706.0
Other non-current liabilities	540.8	346.4
Total non-current liabilities	2,935.6	2,703.0
TOTAL LIABILITIES	4,072.7	3,547.5
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, authorized 25,000,000 shares	—	—
Common stock, authorized 200,000,000 shares of $.01 par value each; issued 123,229,210 and 122,829,975 shares in 2011 and 2010; outstanding 110,284,228 and 109,986,790 shares in 2011 and 2010	1.2	1.2
Additional paid-in capital	1,922.2	1,909.4
Treasury stock, common shares at cost, 12,944,982 and 12,843,185 shares in 2011 and 2010	(171.6)	(170.1)
Accumulated deficit	(1,366.0)	(1,188.4)

Accumulated other comprehensive income	2.7	92.6
Total AK Steel Holding Corporation stockholders’ equity	388.5	644.7
Noncontrolling interests	(11.3)	(3.6)
TOTAL STOCKHOLDERS’ EQUITY	377.2	641.1
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$4,449.9	$4,188.6

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The Consolidated Balance Sheets as of December 31, 2011 and 2010, include the following amounts related to consolidated variable interest entities. See Note 14 for more information concerning variable interest entities.

	2011	2010
SunCoke Middletown		
Accounts receivable, net	$0.6	$—
Inventory, net	23.8	—
Property, plant and equipment	432.3	240.6
Accumulated depreciation	(1.4)	—
Accounts payable	29.8	19.5
Accrued liabilities	2.1	0.5
Other non-current liabilities	436.8	226.2
Non-controlling interests	(13.4)	(5.6)
Other variable interest entities		
Property, plant and equipment	$11.2	$11.0
Accumulated depreciation	(8.6)	(8.3)
Other assets (liabilities), net	1.6	1.5
Non-controlling interests	2.1	2.0

See notes to consolidated financial statements.

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AK STEEL HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011, 2010 and 2009
(dollars in millions)

	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$(160.1)	$(130.7)	$(78.0)
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation	185.0	197.1	204.6
Amortization	15.5	16.8	12.1
Provision for doubtful accounts	(1.1)	1.4	7.2
Deferred income taxes	(92.7)	(37.7)	47.3
Contributions to pension trust	(170.0)	(110.0)	(210.0)
Ashland coke plant shutdown charges	—	63.7	—
Butler retiree benefit settlement costs	—	9.1	—
Pension corridor charge	268.1	—	—
Contributions to Middletown and Butler retirees VEBAs	(87.6)	(65.0)	(65.0)
Other operating items, net	14.6	43.4	82.5
Changes in assets and liabilities:			
Accounts receivable	(81.3)	(21.1)	(1.0)
Accounts receivable—SunCoke Middletown	0.5	(1.7)	—
Inventories	55.1	(32.0)	150.1
Inventories—SunCoke Middletown	(23.8)	—	—
Accounts payable and other current liabilities	35.8	14.0	(8.5)
Accounts payable and other current liabilities—SunCoke Middletown	14.0	1.9	(1.9)
Other assets	(13.1)	26.6	10.2
Other assets—SunCoke Middletown	—	0.1	(0.1)
Pension obligations	(3.9)	14.1	49.9
Postretirement benefit obligations	(110.8)	(118.8)	(108.5)
Other liabilities	(24.7)	(3.6)	(32.1)
Net cash flows from operating activities	(180.5)	(132.4)	58.8
Cash flows from investing activities:			
Capital investments	(101.1)	(117.1)	(109.5)
Capital investments—SunCoke Middletown	(195.0)	(149.2)	(24.0)
Investments in Magnetation LLC and AK Coal Resources	(125.4)	—	—
Other investing items, net	1.3	—	0.1
Net cash flows from investing activities	(420.2)	(266.3)	(133.4)
Cash flows from financing activities:			
Net borrowings under credit facility	250.0	—	—
Proceeds from issuance of long-term debt	—	549.1	—
Redemption of long-term debt	(0.7)	(506.3)	(23.5)
Debt issuance costs	(10.1)	(11.3)	—
Proceeds from exercise of stock options	0.2	1.3	0.5
Purchase of treasury stock	(1.5)	(7.9)	(11.4)
Common stock dividends paid	(22.0)	(22.0)	(22.0)

Advances from noncontrolling interest owner to SunCoke Middletown	210.7	151.7	29.0
Other financing items, net	(0.7)	(0.8)	1.0
Net cash flows from financing activities	425.9	153.8	(26.4)
Net decrease in cash and cash equivalents	(174.8)	(244.9)	(101.0)
Cash and cash equivalents, beginning of year	216.8	461.7	562.7
Cash and cash equivalents, end of year	$42.0	$216.8	$461.7

See notes to consolidated financial statements.

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AK STEEL HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in millions)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
December 31, 2008	$1.2	$1,898.9	$(150.8)	$(940.9)	$159.6	$2.7	$970.7
Net income (loss)				(74.6)		(3.4)	(78.0)
Share-based compensation		13.1					13.1
Stock options exercised		0.5					0.5
Tax provision from common stock compensation		(1.1)					(1.1)
Purchase of treasury stock			(11.4)				(11.4)
Change in accumulated other comprehensive income					8.3		8.3
Common stock dividends				(22.0)			(22.0)
December 31, 2009	$1.2	$1,911.4	$(162.2)	$(1,037.5)	$167.9	$(0.7)	$880.1
Net income (loss)				(128.9)			(128.9)
Noncontrolling interests—net income (loss)						(2.9)	(2.9)
Share-based compensation		15.8					15.8
Stock options exercised		1.3					1.3
Tax provision from common stock compensation		(19.1)					(19.1)
Purchase of treasury stock			(7.9)				(7.9)
Change in accumulated other comprehensive income					(75.3)		(75.3)
Common stock dividends				(22.0)			(22.0)
December 31, 2010	$1.2	$1,909.4	$(170.1)	$(1,188.4)	$92.6	$(3.6)	$641.1
Net income (loss)				(155.6)		(4.5)	(160.1)
Share-based compensation		14.9					14.9
Stock options exercised		0.2					0.2
Tax provision from common stock compensation		(2.3)					(2.3)
Purchase of treasury stock			(1.5)				(1.5)
Change in accumulated other comprehensive income					(89.9)		(89.9)
Common stock dividends				(22.0)			(22.0)
Distributions to noncontrolling interests						(3.2)	(3.2)
December 31, 2011	$1.2	$1,922.2	$(171.6)	$(1,366.0)	$2.7	$(11.3)	$377.2

See notes to consolidated financial statements.

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AK STEEL HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except per share amounts or as otherwise specifically noted)

NOTE 1 - Summary of Significant Accounting Policies

Basis of Presentation: These financial statements consolidate the operations and accounts of AK Steel Holding Corporation ("AK Holding"), its wholly-owned subsidiary AK Steel Corporation ("AK Steel," and together with AK Holding, the "Company"), all subsidiaries in which the Company has a controlling interest, and two variable interest entities for which the Company is the primary beneficiary. The Company also operates European trading companies that buy and sell steel and steel products and other materials. All intercompany transactions and balances have been eliminated.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported. These estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. Significant items subject to estimates and assumptions include the carrying value of long-lived assets, including goodwill; valuation allowances for receivables, inventories and deferred income tax assets; legal and environmental liabilities; workers compensation and asbestos liabilities; share-based compensation; investment in AFSG Holdings, Inc.; excess cost of operations; and assets and obligations related to employee benefit plans. There can be no assurance that actual results will not differ from these estimates.

Revenue Recognition: Revenue from sales of products is recognized at the time that title and the risks and rewards of ownership pass. This is when the products are shipped per customers' instructions, the sales price is fixed or determinable, and collection is reasonably assured. Revenue is not recognized for sales taxes collected from customers; rather these taxes are recorded on a net basis in the Consolidated Statements of Operations.

Costs of Products Sold: Cost of products sold consists primarily of raw materials, energy costs, supplies consumed in the manufacturing process, manufacturing labor, contract labor and direct overhead expense necessary to manufacture the finished steel product, as well as distribution and warehousing costs. The Company's proportionate shares of the income (loss) of investments in associated companies accounted for under the equity method are included in costs of products sold since these operations are integrated with the Company's overall steelmaking operations, except for its proportionate shares of the income (loss) of Magnetation LLC that is included in other income (expense). Operating profit (loss) includes income (loss) from equity companies of $8.4, $3.7 and $(2.0) in 2011, 2010 and 2009, respectively.

Share-Based Compensation: Compensation costs related to all stock awards granted under the Company's Stock Incentive Plan are charged against income during their vesting period using the straight-line method.

Income Taxes: The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. Deferred tax assets do not include certain amounts that arise from tax deductions related to share-based compensation in excess of compensation recognized for financial reporting when net operating loss carryforwards are created. The Company uses tax law ordering for purposes of determining when excess tax benefits have been realized.

Earnings per Share: Earnings per share is calculated using the "two-class" method. Under the "two-class" method, undistributed earnings are allocated to both common shares and participating securities. The sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders is divided by the weighted-average number of common shares outstanding during the period. The restricted stock granted by AK Holding is entitled to dividends and meets the criteria of a participating security.

Cash Equivalents: Cash equivalents include short-term, highly-liquid investments that are readily convertible to known amounts of cash and are of an original maturity of three months or less.

Inventories: Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last-in, first-out (LIFO) method. Other inventories are measured principally at average cost and consist mostly of foreign inventories and certain raw materials.

Property, Plant and Equipment: Plant and equipment are depreciated under the straight-line method over their estimated lives. Estimated lives are as follows: land improvements over 20 years, leaseholds over the life of the lease, buildings over 40 years and machinery and equipment over two to 20 years. The estimated weighted-average life of the Company’s machinery and equipment is 17.8 years. The Company recognizes costs associated with major maintenance activities at its operating facilities in the period in which they occur.

The Company reviews the carrying value of long-lived assets to be held and used and long-lived assets to be disposed of when events and circumstances warrant such a review. If the carrying value of a long-lived asset exceeds its fair value an impairment has occurred and a loss is recognized based on the amount by which the carrying value exceeds the fair value, less cost to dispose, for assets to be sold or abandoned. Fair value is determined using quoted market prices, estimates based on prices of similar assets or anticipated cash flows discounted at a rate commensurate with risk.

Investments: The Company has investments in associated companies that are accounted for under the equity method. Each of these investments is subject to a review for impairment when circumstances indicate that a loss in value below its carrying amount is other than temporary. No impairment was recorded in 2011, 2010 or 2009.

The Company's investment in AFSG Holdings, Inc., an indirect wholly-owned subsidiary of the Company, represents the carrying value of its discontinued insurance and finance leasing businesses, which have been largely liquidated. The activities of the remaining operating companies are being "run off" and the companies are accounted for as a discontinued operation under the liquidation basis of accounting, whereby future cash inflows and outflows are considered. The Company is under no obligation to support the operations or liabilities of these companies.

Goodwill: Goodwill relates primarily to the Company's tubular business and is reviewed for possible impairment at least annually. Considering operating results and the estimated fair value of the business, the most recent annual goodwill impairment test indicated that the fair value of the Company's reporting unit was substantially in excess of its carrying value. No goodwill impairment was recorded as a result of the 2011, 2010 and 2009 annual reviews.

Pension and Other Postretirement Benefits: The Company recognizes in income, as of the Company's measurement date, any unrecognized actuarial net gains or losses that exceed 10% of the larger of the projected benefit obligations or the plan assets, defined as the "corridor". Prior to January 31, 2009, amounts inside this corridor were amortized over the average remaining service life of active plan participants. Effective January 31, 2009, the date of the "lock and freeze" of a defined benefit pension plan covering all salaried employees, the Company began to amortize actuarial gains and losses over the plan participants' life expectancy. Actuarial net gains and losses occur when actual experience differs from the assumptions used to value the plans.

Concentrations of Credit Risk: The Company operates in a single business segment and is primarily a producer of carbon, stainless and electrical steels and steel products, which are sold to a number of markets, including automotive, industrial machinery and equipment, construction, power distribution and appliances. The following presents net sales by product line:

	2011	2010	2009
Stainless and electrical	$2,188.9	$2,136.9	$1,736.2
Carbon	4,009.5	3,620.1	2,207.6
Tubular	247.7	210.7	131.7
Other	21.9	0.6	1.3
Total	$6,468.0	$5,968.3	$4,076.8

The following sets forth the percentage of the Company's net sales attributable to various markets:

	2011		2010		2009	
Automotive	36	%	36	%	36	%
Infrastructure and Manufacturing	24	%	25	%	31	%
Distributors and Converters	40	%	39	%	33	%

The Company sells domestically to customers primarily in the Midwestern and Eastern United States and to foreign customers, primarily in Canada, Mexico and Western Europe. Net sales to customers located outside the United States totaled $946.4, $823.3 and $767.0 for 2011, 2010 and 2009, respectively. No customer accounted for more than

10% of net sales of the Company during 2011, 2010 and 2009.

Approximately 34% and 28% of trade receivables outstanding at December 31, 2011 and 2010, respectively, are due from businesses associated with the U.S. automotive industry. Except in a few situations where the risk warrants it, collateral is not required on trade receivables. While the Company believes its recorded trade receivables will be collected, in the event of default the Company would follow normal collection procedures. The Company maintains an allowance for doubtful accounts as a reserve for the loss that would be incurred if a customer is unable to pay amounts due to the Company. The Company determines this reserve based on various factors, including the customer's financial condition.

Union Contracts: At December 31, 2011, the Company employed approximately 6,600 employees, of which approximately 5,000 are represented by labor unions under various contracts that currently will expire between 2012 and 2015. An agreement with the United

Auto Workers, Local 4104, which represents approximately 180 employees at the Company's Zanesville Works, is scheduled to expire on May 20, 2012. An agreement with the United Auto Workers, Local 3303, which represents approximately 1,280 employees at the Company's Butler Works, is scheduled to expire on September 30, 2012.

Financial Instruments: Investments in debt securities are classified as held-to-maturity because the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Investments in equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported in other comprehensive income. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other than temporary declines in fair value. The Company has no investments that are considered to be trading securities. Debt and equity securities are subject to a review for impairment when circumstances indicate that a loss in value is other than temporary.

The Company is a party to derivative instruments that are designated and qualify as hedges for accounting purposes. The Company may also enter into derivative instruments to which it does not apply hedge accounting treatment. The Company's objective in using these instruments is to protect its earnings and cash flows from fluctuations in the fair value of selected commodities and currencies.

The Company's income and cash flows may be affected by fluctuations in the price of certain commodities used in its production processes. The Company has implemented raw material and energy surcharges for its spot market customers and some of its contract customers. For certain commodities where such exposure exists, the Company may use cash-settled commodity price swaps, collars and purchase options, with a duration of up to three years, to hedge the price of a portion of its natural gas, iron ore, electricity, aluminum, zinc and nickel requirements. The Company designates the natural gas, iron ore and electricity instruments as cash flow hedges and the effective portion of the changes in their fair value and settlements are recorded in accumulated other comprehensive income. Gains and losses are subsequently reclassified from accumulated other comprehensive income (loss) and recognized into cost of products sold in the same period as the earnings recognition of the associated underlying transaction. The aluminum, zinc and nickel hedges are marked to market and recognized into cost of products sold with the offset recognized as current assets or accrued liabilities.

In addition, the Company is subject to risks associated with exchange rate fluctuations on monies received from its European subsidiaries and other customers invoiced in European currencies. In order to mitigate this risk, the Company has entered into a series of agreements for the forward sale of euros at fixed dollar rates. The forward contracts are entered into with durations of up to a year. A typical contract is used as a cash flow hedge for the period from when an order is taken to when a sale is recognized, at which time it converts into a fair value hedge of a euro-denominated receivable. The Company does not classify these derivatives as hedges for accounting purposes and the hedges are marked to market on a quarterly basis with the expense or income recorded in other income (expense).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; when it is probable that the forecasted transaction will not occur; when a hedged firm commitment no longer meets the definition of a firm commitment; or when the Company determines that designation of the derivative as a hedge instrument is no longer appropriate.

Asbestos and Environmental Reserves: The Company is, and has been for a number of years, in the process of remediating sites where hazardous material may have been released, including sites no longer owned by the Company. In addition, a number of lawsuits alleging asbestos exposure have been filed and continue to be filed against the Company. The Company has established reserves for estimated probable costs related to asbestos claim settlements and environmental investigation, monitoring and remediation. If the reserves are not adequate to meet future claims, operating results and cash flows may be negatively affected. The reserves do not consider the potential for insurance recoveries, for which the Company has partial insurance coverage for some future asbestos claims. In addition, some existing insurance policies covering asbestos and environmental contingencies may serve to partially mitigate future covered expenditures.

New Accounting Pronouncements: No new accounting pronouncement issued or effective during the 2011 fiscal year has had or is expected to have a material effect on the Company’s Consolidated Financial Statements. As of December 31, 2011, the Company changed its method of presenting comprehensive income in accordance with the Financial Accounting Standards Board’s accounting standard update and retrospectively applied the guidance to the prior periods presented.

Reclassifications: Certain reclassifications of prior-year amounts have been made to conform to the current year presentation. Amounts for pension and OPEB expense (income) have been separately disclosed on the Consolidated Statement of Operations. These amounts had been included as part of costs of products sold and selling and administrative expenses in prior years.

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NOTE 2 - Acquisitions

On October 4, 2011, the Company acquired a 49.9% equity interest in Magnetation JV, a joint venture that produces iron ore concentrate and is headquartered in Grand Rapids, Minnesota. Magnetation JV intends to construct and operate additional concentrate plants and a pelletizing plant to produce iron ore pellets to be consumed by the Company. In a separate transaction on the same day, the Company also acquired all of the stock of Solar Fuel Company, Inc. (“Solar”), a company with significant reserves of low-volatile metallurgical coal in Somerset County, Pennsylvania. These investments represent a major step forward in becoming more vertically integrated, the Company’s top strategic initiative. The acquisitions will gradually provide the Company with a low-cost supply of high-quality iron ore and metallurgical coal for its steelmaking operations, as well as a financial hedge against global market price increases. Additional information concerning each of these strategic transactions is set forth below.

Iron Ore Transaction

On October 4, 2011, AK Steel entered into a joint venture whereby it acquired a 49.9% interest in Magnetation JV. Magnetation JV utilizes magnetic separation technology to recover iron ore from existing stockpiles of previously-mined material. The primary initial contributions of the other party to the joint venture, Magnetation, Inc., a private Minnesota company, consisted of plant assets and a license of its proprietary technology to the Magnetation JV. That other party will oversee the day-to-day operations of Magnetation JV by providing management and administrative services through a management services agreement. See Note 14 for more information concerning Magnetation JV.

Metallurgical Coal Transaction

In a separate transaction on October 4, 2011, AK Steel acquired 100% of the stock of a company now known as AK Coal. AK Coal controls, through ownership or lease, significant reserves of low-volatile metallurgical coal, which is used to produce coke needed for iron-making blast furnaces. AK Steel agreed to pay $36.0 for the stock, consisting of a $24.0 payment made at closing on October 4, 2011, and payments of $2.0, $3.0 and $7.0 on the first, second and third anniversaries of the closing date. The Company has allocated the cost of the investment of $35.3 (calculated using the fair value of the note payable) primarily to coal reserves (included in land, land improvements and leaseholds) for $53.4 and deferred tax liabilities for $19.5, to reflect the difference in tax and book basis. At the present time, AK Coal leases a portion of its reserves to third party miners and collects royalties from their production. The balance of its coal reserves is not currently being mined. AK Steel has commenced development of a mining plan and will seek the necessary permits to mine the coal. Commencement of mining operations and coal production is contingent upon, among other things, obtaining all necessary permits and making necessary capital investments in equipment.

NOTE 3 - Supplementary Financial Statement Information

Related Party Transactions

The Company regularly transacts business with its equity investees—Combined Metals of Chicago, LLC and Rockport Roll Shop LLC. The following relates to the Company’s transactions with these equity investees for the years indicated:

	2011	2010	2009

Sales to equity investees	$52.8	$41.2	$14.1
Purchases from equity investees	12.4	16.1	14.0

The following is the Company's outstanding receivables and payables with the equity investees as of the end of the year indicated:

	2011	2010
Accounts receivable from equity investees	$2.7	$2.1
Accounts payable to equity investees	0.9	1.0
Notes receivable from equity investees	7.6	7.6

Research and Development Costs

The Company conducts a broad range of research and development activities aimed at improving existing products and manufacturing processes and developing new products and processes. Research and development costs, which are recorded as expense when incurred, totaled $13.2, $9.7 and $6.2 in 2011, 2010 and 2009, respectively.

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Allowance for Doubtful Accounts

The following shows changes in the allowance for doubtful accounts for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Balance at beginning of year	$13.1	$13.4	$11.8
Increase (decrease) in reserve	(1.1)	1.4	7.2
Receivables written off	(0.1)	(1.7)	(5.6)
Balance at end of year	$11.9	$13.1	$13.4

Inventories

Inventories as of December 31, 2011 and 2010, consist of:

	2011	2010
Finished and semi-finished	$640.1	$702.2
Raw materials	302.6	260.7
Total cost	942.7	962.9
Adjustment to state inventories at LIFO value	(524.0)	(514.2)
Net inventories	$418.7	$448.7

During 2011, 2010 and 2009, liquidation of LIFO layers generated income of $109.9, $13.0 and $96.8, respectively.

The following shows changes in the LIFO reserve for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Balance at beginning of year	$514.2	$405.2	$822.4
Change in reserve	9.8	109.0	(417.2)
Balance at end of year	$524.0	$514.2	$405.2

Property, Plant and Equipment

The Company's property, plant and equipment balances as of December 31, 2011 and 2010 are as follows:

	2011	2010
Land, land improvements and leaseholds	$217.2	$154.7
Buildings	397.8	363.8
Machinery and equipment	5,303.9	4,688.8
Construction in progress	48.3	460.9
Total	5,967.2	5,668.2
Less accumulated depreciation	(3,797.0)	(3,635.0)
Property, plant and equipment, net	$2,170.2	$2,033.2

The amount of interest on capital projects capitalized in 2011, 2010 and 2009 was $6.7, $10.1 and $7.8, respectively.

During December 2010, the Company announced that it was permanently closing its Ashland, Kentucky coke plant during the first half of 2011 and recognized an approximate $45.9 impairment charge for the coke plant assets in the fourth quarter of 2010. The Company had historically considered the Ashland coke plant as a part of a collective asset grouping that included the operations of all the Company's steelmaking facilities. The Ashland coke plant produced coke, a commodity that is readily obtainable in the market. In 2010, the Company concluded that it could purchase coke at a price significantly below the cost to produce such coke at Ashland. As a result, the Company decided in late 2010 to permanently close the Ashland coke plant. Effectively, the Company viewed this as a make-versus-buy decision and decided to buy because it concluded that it is more beneficial to the Company to buy coke rather than continue to produce it at Ashland. As such, the Company determined that the Ashland coke facility was no longer a part of the “integrated process”, as the product produced there could be replaced cost-effectively in the market. The change that led to this determination was the added cost to produce coke resulting from increased maintenance cost due to age and more stringent environmental regulations. As it relates to asset groupings,

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the Company views this as an isolated situation that stemmed from the change in the cost-competitiveness of the Ashland coke plant. The Company has not changed its view of its other facilities from an integrated-process perspective.

Asset Retirement Obligations

The following reflects changes in the carrying amounts of asset retirement obligations for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Balance at beginning of year	$5.3	$4.9	$4.4
Accretion expense	0.5	0.4	0.5
Balance at end of year	$5.8	$5.3	$4.9

NOTE 4 - Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. This return includes all domestic companies owned 80% or more by the Company and the proportionate share of the Company's interest in partnership investments. State tax returns are filed on a consolidated, combined or separate basis depending on the applicable laws relating to the Company and its domestic subsidiaries.

The United States and foreign components of income (loss) before income taxes consist of the following:

	2011	2010	2009
United States	$(259.8)	$(179.9)	$(94.7)
Foreign	5.7	5.4	(3.3)
Income (loss) before income taxes	$(254.1)	$(174.5)	$(98.0)

Significant components of the Company's deferred tax assets and liabilities at December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Net operating loss and tax credit carryforwards	$492.4	$295.1
Postretirement benefit reserves	275.7	303.7
Pension reserves	376.8	392.9
Other reserves	82.7	84.9
Inventories	118.6	137.6
Valuation allowance	(22.3)	(21.6)
Total deferred tax assets	1,323.9	1,192.6
Deferred tax liabilities:		
Depreciable assets	(390.9)	(385.4)
Total deferred tax liabilities	(390.9)	(385.4)
Net deferred tax assets	$933.0	$807.2

Deferred taxes include the income tax effect of temporary differences between financial reporting and tax reporting. Temporary differences represent the cumulative taxable or deductible amounts recorded in the Consolidated Financial Statements in different years than recognized in the tax returns. The postretirement benefit difference includes amounts expensed in the Consolidated Financial Statements for healthcare, life insurance and other postretirement benefits, which become deductible in the tax return upon payment or funding in qualified trusts. Other temporary differences represent principally various expenses accrued for financial reporting purposes that are not deductible for tax reporting purposes until paid. The inventory difference relates primarily to differences in the LIFO reserve and tax overhead capitalized in excess of book amounts. The depreciable assets temporary difference represents generally tax depreciation in excess of financial statement depreciation. Net operating losses and tax credit carryforwards may be used to offset future taxable income, and their benefit is reflected in the deferred tax assets.

The Company regularly evaluates the need for a valuation allowance for deferred tax assets by assessing whether it is more likely than not that it will realize the deferred tax assets in the future. A valuation allowance assessment is performed each reporting period, with any additions or adjustments reflected in earnings in the period of assessment. In assessing the need for a valuation allowance, the

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Company has considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets for each jurisdiction. The Company has considered negative evidence, including a cumulative loss in recent periods and the effects of increased competition in the markets served by the Company on its ability to generate future taxable income. That includes increased competition in North America as a result of new or expanded production capacity added by domestic competitors of the Company, as well as increased imports from foreign producers. In general, the existence of cumulative losses in recent periods is deemed to be a significant piece of objective negative evidence. However, the Company has historical evidence that the steel industry and the Company operate in business cycles of seven to ten years and therefore attributes significant weight to the profitability of the Company over these business cycles in evaluating the Company's ability to generate future taxable income. In concluding that it is more likely than not that the Company will generate sufficient future taxable income to realize its deferred tax assets, the Company has considered the following positive and negative evidence:

- The Company's historical operating results, including the lack of prior expired federal loss carryforwards during the Company's prior business cycles
- Long historical Company and steel industry business cycles of seven to ten years and a current projection of positive earnings as the Company emerges from the recent cycle trough
- Lengthy loss carryforward periods
  - Federal net operating loss carryforwards do not begin to expire until 2023 and over 90% of those loss carryforwards have more than 17 years remaining before expiration
  - Temporary differences other than loss carryforwards will have a 20-year carryforward period for federal purposes from the year of deduction on the tax return if the Company is in a loss carryforward position at that time; otherwise they will reduce taxable earnings in the year of deduction
- Timing of future reversals of existing taxable temporary differences
- Projections of future taxable income, which take into consideration both positive and negative factors, sufficient to realize deferred tax assets related to loss carryforwards prior to their expiration and other temporary differences, including:
  - The slow but steady recovery in the United States, the Company's primary geographic market, from the effects of the recession
  - Positive effect on projections of future taxable income from the Company's late-2011 investments in Magnetation JV and AK Coal
  - Positive effects of recent Company actions to improve financial results from future operations, including the shutdown of the Ashland coke plant; implementation of cost reduction actions, including scrap reduction initiatives and reductions in employee benefit obligations; the operating benefits from the newly-installed Butler Works electric arc furnace; and benefits from the agreement with SunCoke Middletown to purchase coke and energy
  - Improving industry outlooks for key customers in the North American auto market and, to a lesser extent, the home building sector over the next several years from record low levels in 2009
  - The estimated negative effects of increased competition in the markets served by the Company
  - Effect on the projections of future taxable income of the selection of alternative key assumptions, including those associated with our pension and other postretirement benefit obligations

The Company has concluded that the above-noted objective and subjective positive evidence outweighs the noted negative evidence and, accordingly, that as of December 31, 2011, it is more likely than not to realize all of its federal and most of its state deferred tax assets. The Company has recorded a valuation allowance of $22.3 as of December 31, 2011, related to loss carryforwards and tax credits in certain states that have relatively short carryforward periods and annual limits on how much loss carryforward can be used to offset future taxable income.

The following reflects changes in the valuation allowance for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009

Balance at beginning of year	$21.6	$18.4	$16.9
Change in reserve	0.7	3.2	1.5
Balance at end of year	$22.3	$21.6	$18.4

At December 31, 2011, the Company had $1,358.8 in federal regular net operating loss carryforwards, and $1,260.9 in federal Alternative Minimum Tax ("AMT") net operating loss carryforwards, which will begin to expire in 2023, with most expiring between 2028 and 2031. At December 31, 2011, the Company had unused AMT credit carryforwards of $24.1 and research and development ("R&D") credit carryforwards of $1.2. These loss and credit carryforwards may be used to offset future regular and AMT income tax liabilities. These unused AMT credits can be carried forward indefinitely and the R&D credits don't begin to expire until 2027. At December 31, 2011, the Company had $59.4 in deferred tax assets before consideration of valuation allowances for state net operating loss carryforwards and tax credit carryforwards, which will expire between 2012 and 2031.

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As of December 31, 2011, there were $21.0 of unrecognized deferred tax assets that arose from tax deductions related to share-based compensation in excess of compensation recognized for financial reporting when net operating loss carryforwards were created. Additional paid-in capital will be increased when such deferred tax assets are ultimately realized.

Significant components of the provision (benefit) for income taxes are as follows:

	2011	2010	2009
Current:			
Federal	$(2.6)	$(1.2)	$(44.1)
State	(2.3)	(1.8)	0.9
Foreign	1.8	1.8	0.3
Deferred:			
Federal	(84.9)	(37.6)	14.6
State	(6.0)	(5.0)	8.3
Total income tax provision (benefit)	$(94.0)	$(43.8)	$(20.0)

The Company recognized non-cash tax charges of $2.0 and $5.1 in 2011 and 2009, respectively, as part of its income tax provision (benefit) as a result of state tax law changes. These tax charges represent the net decrease in the value of the Company's state deferred tax assets attributable to lower future effective state income tax rates resulting from the law changes. In 2010, the Company recorded a non-cash charge of $25.3 as a result of the Patient Protection and Affordable Care Act (the "Act"). The charge is due to a reduction in the value of the Company's deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D reimbursements. The Company expects to continue to receive Medicare Part D reimbursements notwithstanding passage of the Act.

The reconciliation of income tax on income (loss) before income taxes computed at the U.S. federal statutory tax rates to actual income tax expense (benefit) is as follows:

	2011	2010	2009
Income tax provision (benefit) at U.S. federal statutory rate	$(89.0)	$(61.1)	$(34.3)
State and foreign tax expense, net of federal tax	(9.9)	(8.8)	6.0
Effect of state law changes on deferred tax assets, net of federal tax	2.0	—	5.1
Effect of federal law change on deferred tax assets	—	25.3	—
Medicare Part D drug reimbursement	—	—	(0.4)
Other permanent differences	2.9	0.8	3.6
Total income tax provision (benefit)	$(94.0)	$(43.8)	$(20.0)

Federal, state and local tax returns of the Company and its subsidiaries are routinely subjected to examination by various taxing authorities. Periods beginning in 2008 are open for examination by various taxing authorities, including state and local jurisdictions; however, taxing authorities have the ability to adjust net operating loss carryforwards from years prior to 2008. The Company has established appropriate income tax reserves, and believes that the outcomes of future federal examinations as well as ongoing and future state and local examinations will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

The Company has undistributed earnings of foreign subsidiaries of approximately $18.6 at December 31, 2011. Deferred taxes have not been provided on these earnings since the balance is considered to be permanently invested in the Company's foreign subsidiaries. If such undistributed earnings were repatriated, it is estimated that the additional tax expense to be provided would be approximately $6.5.

The Company has not recognized certain tax benefits because of the uncertainty of realizing the entire value of the tax position taken on income tax returns upon review by the taxing authorities. These uncertain tax benefits will be included as an adjustment to income tax expense upon the expiration of the statutes of limitations or upon resolution with the taxing authorities.

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A reconciliation of the change in federal unrecognized tax benefits for 2011, 2010 and 2009 is presented below:

	2011	2010	2009