UNITED STATES STEEL CORP
Form 10-Q
July 31, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

Or

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

(Exact name of registrant as specified in its charter)

Delaware	1-16811	25-1897152
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

600 Grant Street, Pittsburgh, PA	15219-2800
(Address of principal executive offices)	(Zip Code)

(412) 433-1121

(Registrant s telephone number, including area code)

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 Ö No__

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

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

Large accelerated filer Ö	Accelerated filer __	Non-accelerated filer __ (Do not check if a smaller reporting company)	Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes __ No Ö

Common stock outstanding at July 25, 2012 144,278,385 shares

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share amounts)	**Three Months Ended June 30, 2012**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2012**	**Six Months Ended June 30, 2011**
Net sales:				
Net sales	**$ 4,695**	$ 4,784	**$ 9,528**	$ 9,341
Net sales to related parties *(Note 18)*	**322**	336	**661**	643
Total	**5,017**	5,120	**10,189**	9,984
Operating expenses (income):				
Cost of sales (excludes items shown below)	**4,477**	4,498	**9,103**	9,119
Selling, general and administrative expenses	**173**	189	**346**	369
Depreciation, depletion and amortization *(Note 5)*	**164**	171	**327**	340
Income from investees	**(44)**	(31)	**(68)**	(39)
Net (gain) loss on disposal of assets *(Notes 4 and 19)*	**-**	(4)	**309**	(10)
Other income, net	**(6)**	(3)	**(8)**	(4)
Total	**4,764**	4,820	**10,009**	9,775
Income from operations	**253**	300	**180**	209
Interest expense *(Note 7)*	**66**	48	**115**	98
Interest income	**(1)**	(1)	**(5)**	(3)
Other financial costs (income) *(Note 7)*	**17**	(34)	**22**	(103)
Net interest and other financial costs (income)	**82**	13	**132**	(8)
Income before income taxes	**171**	287	**48**	217
Income tax provision *(Note 9)*	**70**	65	**166**	81
Net income (loss)	**101**	222	**(118)**	136
Less: Net income attributable to noncontrolling interests	**-**	-	**-**	-
Net income (loss) attributable to United States Steel Corporation	**$ 101**	$ 222	**$ (118)**	$ 136
Income (loss) per common share *(Note 11)*:				
Net income (loss) per share attributable to United States Steel Corporation shareholders:				
- Basic	**$ 0.70**	$ 1.54	**$ (0.82)**	$ 0.95
- Diluted	**$ 0.62**	$ 1.33	**$ (0.82)**	$ 0.85

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Net income (loss) attributable to United States Steel Corporation	**$ 101**	$ 222	**$ (118)**	$ 136
Other comprehensive income (loss), net of tax:				
Changes in foreign currency translation adjustments	**(91)**	22	**16**	97
Changes in pension and other employee benefit accounts	**66**	67	**136**	131
Other comprehensive income (loss)	**(25)**	89	**152**	228
Comprehensive income attributable to United States Steel Corporation	**$ 76**	$ 311	**$ 34**	$ 364

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 565**	$ 408
Receivables, less allowance of $54 and $64	**2,296**	1,921
Receivables from related parties *(Note 18)*	**173**	132
Receivables sold to third party conduits *(Note 14)*	**-**	380
Inventories *(Note 12)*	**2,412**	2,775
Deferred income tax benefits *(Note 9)*	**116**	114
Other current assets	**63**	44
Total current assets	**5,625**	5,774
Property, plant and equipment	**16,459**	16,572
Less accumulated depreciation and depletion	**10,143**	9,993
Total property, plant and equipment, net	**6,316**	6,579
Investments and long-term receivables, less allowance of $3 in both periods	**643**	683
Intangibles net *(Note 5)*	**257**	262
Goodwill *(Note 5)*	**1,781**	1,783
Assets held for sale *(Note 4)*	**-**	41
Deferred income tax benefits *(Note 9)*	**472**	649
Other noncurrent assets	**310**	302
Total assets	**$ 15,404**	$ 16,073
Liabilities		
Current liabilities:		
Accounts payable	**$ 1,920**	$ 1,977
Accounts payable to related parties *(Note 18)*	**110**	86
Bank checks outstanding	**56**	24
Payroll and benefits payable	**1,019**	1,003
Accrued taxes	**152**	118
Accrued interest	**48**	41
Short-term debt and current maturities of long-term debt *(Note 14)*	**5**	20
Borrowings under Receivables Purchase Agreement *(Note 14)*	**-**	380
Total current liabilities	**3,310**	3,649
Long-term debt, less unamortized discount *(Note 14)*	**3,801**	3,828
Employee benefits	**4,287**	4,600
Deferred credits and other noncurrent liabilities	**473**	495
Total liabilities	**11,871**	12,572
Contingencies and commitments *(Note 19)*		
Stockholders Equity *(Note 17)*:		
Common stock (150,925,911 shares issued) *(Note 11)*	**151**	151
Treasury stock, at cost (6,647,626 and 6,921,952 shares)	**(521)**	(550)
Additional paid-in capital	**3,633**	3,650
Retained earnings	**3,484**	3,616

Accumulated other comprehensive loss		**(3,215)**		(3,367)
Total United States Steel Corporation stockholders equity		**3,532**		3,500
Noncontrolling interests		**1**		1
Total liabilities and stockholders equity	**$**	**15,404**	$	16,073

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

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UNITED STATES STEEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net (loss) income	**$ (118)**	$ 136
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization *(Note 5)*	**327**	340
Provision for doubtful accounts	**(3)**	5
Pensions and other postretirement benefits	**(111)**	55
Deferred income taxes	**107**	43
Net loss (gain) on disposal of assets *(Notes 4 and 19)*	**309**	(10)
Currency remeasurement loss (gain)	**6**	(145)
Distributions received, net of equity investees income	**(7)**	(26)
Changes in:		
Current receivables	**(159)**	(591)
Inventories	**252**	(275)
Current accounts payable and accrued expenses	**158**	346
Income taxes receivable/payable	**22**	151
Bank checks outstanding	**31**	4
All other, net	**47**	5
Net cash provided by operating activities	**861**	38
Investing activities:		
Capital expenditures [(a)]	**(397)**	(401)
Disposal of assets	**133**	16
Change in restricted cash, net	**10**	22
Investments, net	**(1)**	(16)
Net cash used in investing activities	**(255)**	(379)
Financing activities:		
Revolving credit facilities borrowings	**523**	1,273
repayments	**(653)**	(1,100)
Receivables Purchase Agreement Payments	**(380)**	-
Issuance of long-term debt, net of financing costs	**392**	-
Repayment of long-term debt	**(315)**	(14)
Common stock issued	**-**	4
Dividends paid	**(14)**	(14)
Net cash (used in) provided by financing activities	**(447)**	149
Effect of exchange rate changes on cash	**(2)**	7
Net increase (decrease) in cash and cash equivalents	**157**	(185)
Cash and cash equivalents at beginning of year	**408**	578

Cash and cash equivalents at end of period	**$ 565**	$ 393

(a) Excludes the change in accrued capital expenditures of $40 million for the six months ended June 30, 2012. The change in accrued capital expenditures was immaterial for the six months ended June 30, 2011.

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

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

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

2. New Accounting Standards

On May 12, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments are intended to create comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a material impact on U. S. Steel s financial statements.

On June 16, 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The amendments in ASU 2011-05 require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. On December 23, 2011, the FASB issued Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12) to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. Companies are still required to adopt the other requirements contained in ASU 2011-05. U. S. Steel adopted ASU 2011-05 and has provided the required disclosures in a separate statement immediately following the Consolidated Statement of Operations.

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

3. Segment Information

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

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

The accounting principles applied at the operating segment level in determining income from operations are generally the same as those applied at the consolidated financial statement level. The transfer value for steel rounds from Flat-rolled to Tubular is based on cost. All other intersegment sales and transfers are accounted for at market-based prices and are eliminated at the corporate consolidation level. Corporate-level selling, general and administrative expenses and costs related to certain former businesses are allocated to the reportable segments and Other Businesses based on measures of activity that management believes are reasonable.

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

(In millions) **Second Quarter 2012**	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	**$ 3,356**	**$ 539**	**$ 3,895**	**$ 45**	**$ 177**
USSE	**763**	**26**	**789**	**-**	**34**
Tubular	**871**	**2**	**873**	**-**	**103**
Total reportable segments	**4,990**	**567**	**5,557**	**45**	**314**
Other Businesses	**27**	**36**	**63**	**(1)**	**16**
Reconciling Items and Eliminations	**-**	**(603)**	**(603)**	**-**	**(77)**
Total	**$ 5,017**	**$ -**	**$ 5,017**	**$ 44**	**$ 253**
Second Quarter 2011					
Flat-rolled	$ 3,304	$ 362	$ 3,666	$ 34	$ 374
USSE	1,096	60	1,156	-	(18)
Tubular	695	2	697	(3)	31
Total reportable segments	5,095	424	5,519	31	387
Other Businesses	25	127	152	-	9
Reconciling Items and Eliminations	-	(551)	(551)	-	(96)
Total	$ 5,120	$ -	$ 5,120	$ 31	$ 300

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

(In millions) **First Six Months 2012**	Customer Sales	Intersegment Sales	Net Sales	Income (loss) from investees	Income (loss) from operations
Flat-rolled	**$ 6,656**	**$ 990**	**$ 7,646**	**$ 73**	**$ 360**
USSE	**1,578**	**75**	**1,653**	**-**	**-**
Tubular	**1,817**	**3**	**1,820**	**(3)**	**232**
Total reportable segments	**10,051**	**1,068**	**11,119**	**70**	**592**
Other Businesses	**138**	**92**	**230**	**(2)**	**33**
Reconciling Items and Eliminations	**-**	**(1,160)**	**(1,160)**	**-**	**(445)**
Total	**$ 10,189**	**$ -**	**$ 10,189**	**$ 68**	**$ 180**
First Six Months 2011					
Flat-rolled	$ 6,273	$ 651	$ 6,924	$ 47	$ 338
USSE	2,319	61	2,380	-	(23)
Tubular	1,337	3	1,340	(9)	63
Total reportable segments	9,929	715	10,644	38	378
Other Businesses	55	136	191	1	22
Reconciling Items and Eliminations	-	(851)	(851)	-	(191)
Total	$ 9,984	$ -	$ 9,984	$ 39	$ 209

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

(In millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Items not allocated to segments:				
Postretirement benefit expense [a]	**$ (77)**	$ (96)	**$ (154)**	$ (191)
Other items not allocated to segments:				
Net loss on the sale of assets *(Note 4)*	**-**	-	**$ (310)**	-
Property tax settlements [b]	**-**	-	**19**	-
Total other items not allocated to segments	**-**	-	**(291)**	-
Total reconciling items	**$ (77)**	$ (96)	**$ (445)**	$ (191)

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

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

4. Dispositions

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

U. S. Steel Serbia

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

Birmingham Southern Railroad Company

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

5. Goodwill and Intangible Assets

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

	Flat-rolled Segment	USSE Segment	Tubular Segment	Total

Balance at December 31, 2011	$ 945	$ 4	$ 834	$ 1,783
Currency translation	(2)	-	-	(2)
Balance at June 30, 2012	$ 943	$ 4	$ 834	$ 1,781

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired. We have two reporting units that have a significant amount of goodwill. Our Flat-rolled reporting unit was allocated goodwill from the Stelco Inc. (Stelco) and Lone Star Technologies Inc. (Lone Star) acquisitions in 2007. These amounts reflect the benefits the Flat-rolled reporting unit realizes from expanding our flexibility in meeting our customers needs and running our Flat-rolled facilities at higher operating rates to source our semi-finished product needs. Our Texas Operations reporting unit, which is part of our Tubular reportable segment, was allocated goodwill from the Lone Star acquisition, reflecting the benefits the reporting unit is realizing from the expansion of our tubular operations.

Goodwill is tested for impairment at the reporting unit level annually in the third quarter and whenever events or circumstances indicate that the carrying value may not be recoverable. U. S. Steel completed its annual goodwill impairment test during the third quarter of 2011 and determined that there was no goodwill impairment for any of the reporting units. On January 1, 2012, U. S. Steel adopted ASU 2011-08 which provides the option of performing a qualitative assessment before performing the first step of the two-step impairment test (see note 2).

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

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

		As of June 30, 2012			As of December 31, 2011		
(In millions)	**Useful Lives**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Amount**
Customer relationships	22-23 Years	**$ 219**	**$ 49**	**$ 170**	$ 219	$ 44	$ 175
Other	2-20 Years	**22**	**10**	**12**	22	10	12
Total amortizable intangible assets		**$ 241**	**$ 59**	**$ 182**	$ 241	$ 54	$ 187

The carrying amount of acquired water rights with indefinite lives as of June 30, 2012 and December 31, 2011 totaled $75 million. The water rights are tested for impairment annually in the third quarter by comparing the fair value of acquired water rights with their carrying amount. The 2011 and prior year tests indicated that the fair value of the water rights exceeded the carrying value. Accordingly, no impairment loss was recognized.

Amortization expense was $2 million and $3 million for the three months ended June 30, 2012 and 2011, respectively and was $5 million and $6 million for the six months ended June 30, 2012 and 2011, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is $6 million for the remaining portion of 2012 and $11 million each year from 2013 to 2016.

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6. Pensions and Other Benefits

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

(In millions)	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Service cost	**$ 30**	$ 28	**$ 8**	$ 6
Interest cost	**117**	130	**46**	53
Expected return on plan assets	**(153)**	(158)	**(29)**	(27)
Amortization of prior service cost	**4**	5	**5**	7
Amortization of actuarial net loss	**88**	88	**-**	1
Net periodic benefit cost, excluding below	**86**	93	**30**	40
Multiemployer plans	**17**	16	**-**	-
Net periodic benefit cost	**$ 103**	$ 109	**$ 30**	$ 40

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

(In millions)	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Service cost	**$ 59**	$ 56	**$ 15**	$ 12
Interest cost	**233**	256	**91**	105
Expected return on plan assets	**(306)**	(312)	**(57)**	(53)
Amortization of prior service cost	**9**	10	**11**	13
Amortization of net actuarial loss	**176**	176	**-**	3
Net periodic benefit cost, excluding below	**171**	186	**60**	80
Multiemployer plans	**34**	31	**-**	-
Settlement, termination and curtailment benefits	**(2)**	-	**-**	-
Net periodic benefit cost	**$ 203**	$ 217	**$ 60**	$ 80

Employer Contributions

During the first six months of 2012, U. S. Steel made a voluntary contribution of $140 million to its main defined benefit pension plan. U. S. Steel also made $46 million in required cash contributions to the USSC pension plans, cash payments of $34 million to the Steelworkers Pension Trust and $16 million to other defined benefit pension plans.

During the first six months of 2012, cash payments of $152 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $11 million and $9 million for the three months ended June 30, 2012 and 2011, respectively. Company contributions to defined contribution plans totaled $21 million and $19 million for the six months ended June 30, 2012 and 2011, respectively.

7. Interest Expense and Other Financial Costs (Income)

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

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Other financial costs (income) include financing costs, derivatives gains and losses and foreign currency gains and losses. Foreign currency gains and losses are a result of foreign currency denominated assets and liabilities that require remeasurement. During the three months ended June 30, 2012 and 2011, net foreign currency losses of $10 million and gains of $41 million, respectively, were recorded in other financial costs (income). During the six months ended June 30, 2012 and 2011, net foreign currency losses of $8 million and gains of $118 million, respectively, were recorded in other financial costs (income). The net foreign currency gains during the three and six months ended June 30, 2011 were primarily due to the accounting remeasurement of a U.S. dollar-denominated intercompany loan to a European entity, partially offset by losses on euro-U.S. dollar derivatives activity. Effective January 1, 2012, the functional currency of the European entity changed from the euro to the U.S. dollar because of significant changes in economic facts and circumstances, including the sale of U. S. Steel Serbia. This change in functional currency has been applied on a prospective basis since January 1, 2012.

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

8. Stock-Based Compensation Plans

U. S. Steel has outstanding stock-based compensation awards that were granted by the Compensation & Organization Committee of the Board of Directors under several stock-based employee compensation plans, which are more fully described in note 14 of the United States Steel Corporation 2011 Annual Report on Form 10-K. An aggregate of 15,450,000 shares of U. S. Steel common stock may be issued under the plans. As of June 30, 2012, 5,352,217 shares are available for future grants.

U. S. Steel recognized pre-tax stock-based compensation cost in the amount of $10 million and $8 million in the three months ended June 30, 2012 and 2011, respectively, and $19 million and $16 million in the first six months of 2012 and 2011, respectively.

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

	May 2012 Grant		May 2011 Grant	
Grant Details	**Shares [a]**	**Fair Value [b]**	**Shares [a]**	**Fair Value [b]**
Stock Options	**1,449,380**	**$ 11.95**	707,060	$ 24.39
Restricted Stock Units	**867,600**	**$ 22.31**	421,000	$ 45.81
Performance Awards [c]	**286,470**	**$ 25.36**	85,040	$ 65.47

(a) The share amounts shown in this table do not reflect an adjustment for estimated forfeitures.
(b) Per share amounts
(c) The number of Performance Awards shown represents the target value of the award.

As of June 30, 2012, total future compensation cost related to nonvested stock-based compensation arrangements was $58 million, and the weighted average period over which this cost is expected to be recognized is approximately 1.5 years.

Compensation expense for stock options is recorded over the vesting period based on the fair value on the date of grant, as calculated by U. S. Steel using the Black-Scholes model and the assumptions listed below. The stock options vest ratably over a three-year service period and have a term of ten years.

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

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

Restricted stock units generally vest ratably over three years. The fair value of the restricted stock units is the market price of the underlying common stock on the date of the grant.

Performance awards vest at the end of a three-year performance period as a function of U. S. Steel s total shareholder return compared to the total shareholder return of a group of peer companies over the three-year performance period. Performance awards can vest at between zero and 200 percent of the target award. The fair value of the performance awards is calculated using a Monte-Carlo simulation.

9. Income Taxes

Tax provision

For the six months ended June 30, 2012 and 2011, we recorded a tax provision of $166 million on our pretax income of $48 million and a tax provision of $81 million on our pretax income of $217 million, respectively. The tax provision does not reflect any tax benefit for pretax losses in Canada and Serbia (USSS was sold on January 31, 2012), which are jurisdictions where we have recorded full valuation allowances on deferred tax assets, and also does not reflect any tax provision or benefit for certain foreign currency remeasurement gains and losses that are not recognized in any tax jurisdiction. In addition, no material tax benefit was recorded on the loss on the sale of USSS.

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

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Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance found in ASC Topic 740 on income taxes. The total amount of unrecognized tax benefits was $108 million at June 30, 2012 and $110 million at December 31, 2011. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $99 million and $100 million as of June 30, 2012 and December 31, 2011, respectively.

U. S. Steel is under examination by tax authorities in multiple jurisdictions for various tax years. In conjunction with the conclusion of certain audits, U. S. Steel expects to reduce its liability for unrecognized tax benefits by $17 million and record a corresponding tax benefit during the third quarter of 2012.

U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the Statement of Operations. Any penalties are recognized as part of selling, general and administrative expenses. As of June 30, 2012 and December 31, 2011, U. S. Steel had accrued liabilities of $8 million and $6 million, respectively, for interest related to uncertain tax positions. U. S. Steel currently does not have any liabilities recorded for income tax penalties.

Deferred taxes

As of June 30, 2012, the net domestic deferred tax asset was $526 million compared to $697 million at December 31, 2011. A substantial amount of U. S. Steel s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

As of June 30, 2012, the net foreign deferred tax asset was $62 million, net of established valuation allowances of $979 million. At December 31, 2011, the net foreign deferred tax asset was $66 million, net of established valuation allowances of $1,018 million. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the Canadian dollar and the euro. At December 31, 2011, a full valuation allowance was recorded for both the Canadian and Serbian deferred tax assets primarily due to cumulative losses in these jurisdictions in recent years. On January 31, 2012, U. S. Steel sold USSS (see note 4) and the Serbian deferred tax assets and offsetting valuation allowance were removed in the first quarter 2012 in connection with the sale.

If evidence changes and it becomes more likely than not that the Company will realize the foreign deferred tax assets, the valuation allowance of $975 million for Canadian deferred tax assets as of June 30, 2012, would be partially or fully reversed. Any reversal of this amount would result in a decrease to income tax expense.

10. Significant Equity Investments

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

(In millions)	**2012**	**2011**
Net sales	**$ 1,305**	$ 1,114
Cost of sales	**915**	878
Operating income	**337**	214
Net income	**333**	211
Net income attributable to significant equity investments	**333**	211

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Net income (loss) attributable to United States Steel Corporation shareholders	**$ 101**	$ 222	**$ (118)**	$ 136
Plus income effect of assumed conversion-interest on convertible notes	**6**	5	**-**	11
Net income (loss) after assumed conversion	**$ 107**	$ 227	**$ (118)**	$ 147
Weighted-average shares outstanding (in thousands):				
Basic	**144,176**	143,922	**144,123**	143,863
Effect of convertible notes	**27,059**	27,059	**-**	27,059
Effect of stock options, restricted stock units and performance awards	**181**	610	**-**	661
Adjusted weighted-average shares outstanding, diluted	**171,416**	171,591	**144,123**	171,583
Basic income (loss) per common share	**$ 0.70**	$ 1.54	**$ (0.82)**	$ 0.95
Diluted income (loss) per common share	**$ 0.62**	$ 1.33	**$ (0.82)**	$ 0.85

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Securities granted under the 2005 Stock Incentive Plan	**4,330**	1,943	**5,575**	1,366
Securities convertible under the Senior Convertible Notes	**-**	-	**27,059**	-
Total	**4,330**	1,943	**32,634**	1,366

Dividends Paid Per Share

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

12. Inventories

Inventories are carried at the lower of cost or market. The first-in, first-out method is the predominant method of inventory costing in Europe and Canada. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At June 30, 2012 and December 31, 2011, the LIFO method accounted for 60 percent and 54 percent of total inventory values, respectively.

(In millions)	June 30, 2012	December 31, 2011
Raw materials	**$ 821**	$ 1,178
Semi-finished products	**963**	953
Finished products	**534**	548
Supplies and sundry items	**94**	96
Total	**$ 2,412**	$ 2,775

Current acquisition costs were estimated to exceed the above inventory values by $1.3 billion and $1.1 billion at June 30, 2012 and December 31, 2011, respectively. Cost of sales was reduced by $6 million and increased by $9 million in the three months ended June 30, 2012 and 2011, respectively, as a result of liquidations of LIFO inventories. Cost of sales was reduced by $11 million and $3 million in the six months ended June 30, 2012 and 2011, respectively, as a result of liquidations of LIFO inventories.

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

13. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European and Canadian operations. USSE s revenues are primarily in euros and costs are primarily in U.S. dollars and euros. USSC s revenues and costs are denominated in both Canadian and U.S. dollars. In addition, foreign cash requirements have been, and in the future, may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved, which can affect income when remeasured at the end of each period.

U. S. Steel uses euro forward sales contracts with maturities no longer than 12 months to exchange euros for U.S. dollars to manage our exposure to foreign currency exchange rate fluctuations. Derivative instruments are required to be recognized at fair value in the balance sheet. U. S. Steel has not elected to designate these euro forward sales contracts as hedges. Therefore, changes in their fair value are recognized immediately in the results of operations. The gains and losses recognized on these euro forward sales contracts may also partially offset the accounting remeasurement gains and losses recognized on intercompany loans.

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

Additionally, we routinely enter into fixed-price forward physical purchase contracts to partially manage our exposure to price risk related to the purchases of natural gas and certain nonferrous metals used in the production process. During 2012 and 2011, all forward physical purchase

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contracts for natural gas and nonferrous metals have qualified for the normal purchases and normal sales exemption described in ASC Topic 815 and were not subject to mark-to-market accounting.

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

(In millions)	Balance Sheet Location	Fair Value June 30, 2012	Fair Value December 31, 2011
Foreign exchange forward contracts	Accounts receivable	**$23**	$31

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months ended June 30, 2012	Amount of Gain (Loss) Six Months ended June 30, 2012
Foreign exchange forward contracts	Other financial costs/income	**$26**	$13

	Statement of Operations Location	Amount of Gain (Loss) Three Months ended June 30, 2011	Amount of Gain (Loss) Six Months ended June 30, 2011
Foreign exchange forward contracts	Other financial costs/income	**($9)**	($34)

In accordance with the guidance found in ASC Topic 820 on fair value measurements and disclosures, the fair value of our euro forward sales contracts was determined using Level 2 inputs, which are defined as significant other observable inputs. The inputs used are from market sources that aggregate data based upon market transactions.

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14. Debt

(In millions)	Interest Rates %	Maturity	June 30, 2012	December 31, 2011
2037 Senior Notes	6.65	2037	**$ 350**	$ 350
2022 Senior Notes	7.50	2022	**400**	-
2020 Senior Notes	7.375	2020	**600**	600
2018 Senior Notes	7.00	2018	**500**	500
2017 Senior Notes	6.05	2017	**450**	450
2014 Senior Convertible Notes	4.00	2014	**863**	863
2013 Senior Notes	5.65	2013	**-**	300
Province Note (C$150 million)	1.00	2015	**147**	147
Environmental Revenue Bonds	5.38 - 6.88	2015 - 2030	**455**	455
Recovery Zone Facility Bonds	6.75	2040	**70**	70
Fairfield Caster Lease		2012	**-**	11
Other capital leases and all other obligations		2012 - 2014	**5**	10
Amended Credit Agreement, $875 million	Variable	2016	**-**	-
USSK Revolver, 200 million	Variable	2013	**-**	129
USSK credit facilities, 80 million	Variable	2012 - 2015	**-**	-
USSS credit facilities, 20 and 1 billion Serbian Dinar	Variable	N/A	**-**	-
Total Debt			**3,840**	3,885
Less Province Note fair value adjustment			**26**	28
Less unamortized discount			**8**	9
Less short-term debt and long-term debt due within one year			**5**	20
Long-term debt			**$ 3,801**	$ 3,828

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

Issuance of Senior Notes due 2022

On March 15, 2012, U. S. Steel issued $400 million of 7.50% Senior Notes due March 15, 2022 (2022 Senior Notes). U. S. Steel received net proceeds from the offering of $392 million after fees of $8 million related to the underwriting discount and third party expenses. The majority of the net proceeds from the issuance of the 2022 Senior Notes was used in April 2012 to redeem all of our $300 million of 5.65% Senior Notes due June 1, 2013.

The 2022 Senior Notes are senior and unsecured obligations that rank equally in right of payment with all of our other existing and future senior indebtedness. U. S. Steel will pay interest on the notes semi-annually in arrears on March 15th and September 15th of each year, commencing on September 15, 2012. The 2022 Senior Notes were issued under U. S. Steel s shelf registration statement and are not listed on any national securities exchange.

Similar to our other senior notes, the 2022 Senior Notes restrict our ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all of our assets. They also contain provisions requiring the purchase of the 2022 Senior Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

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U. S. Steel may redeem the 2022 Senior Notes, in whole or in part, at our option at any time or from time to time on or after March 15, 2017 at the redemption price for such notes set forth below as a percentage of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, if redeemed during the twelve-month period beginning March 15 of the years indicated below:

Year	Redemption Price
2017	103.750%
2018	102.500%
2019	101.250%
2020 and thereafter	100.000%

Amended Credit Agreement

As of June 30, 2012, there were no amounts drawn on the Amended Credit Agreement, which expires July 20, 2016, and inventory values calculated in accordance with the Amended Credit Agreement supported the full $875 million of the facility. Under the Amended Credit Agreement, U. S. Steel must maintain a fixed charge coverage ratio (as further defined in the Amended Credit Agreement) of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 10% of the total aggregate commitments and $87.5 million. Since availability was greater than $87.5 million, compliance with the fixed charge coverage ratio covenant was not applicable. If the value of inventory does not support the full amount of the facility or we are not able to meet this covenant in the future, the full amount of this facility would not be available to the Company.

Receivables Purchase Agreement

As of June 30, 2012, U. S. Steel has a Receivables Purchase Agreement (RPA) under which eligible trade accounts receivable are sold, on a daily basis without recourse, to U. S. Steel Receivables, LLC (USSR), a wholly owned, bankruptcy-remote, special purpose entity used only for the securitization program. As U. S. Steel accesses this facility, USSR sells senior undivided interests in the receivables to certain third-party commercial paper conduits for cash, while maintaining a subordinated undivided interest in a portion of the receivables. U. S. Steel has agreed to continue servicing the sold receivables at market rates.

At both June 30, 2012 and December 31, 2011, eligible accounts receivable supported $625 million of availability under the RPA. At June 30, 2012, there were no receivables sold to third-party conduits under this facility. Receivables sold to third-party conduits and borrowings under the RPA of $380 million were recorded on the Consolidated Balance Sheet at December 31, 2011.

USSR pays the conduits a discount based on the conduits borrowing costs plus incremental fees. We paid $1 million in each of the three month periods ended June 30, 2012 and 2011 and $2 million in each of the six month periods ended June 30, 2012 and 2011 relating to fees on the RPA. These costs are included in other financial costs in the statement of operations.

Generally, the facility provides that as payments are collected from the sold accounts receivables, USSR may elect to have the conduits reinvest the proceeds in new eligible accounts receivable. During the six months ended June 30, 2012 collection of accounts receivable of approximately $1,175 million were reinvested. As there were no receivables sold to third-party conduits under this facility during the six months ended June 30, 2011, there were no collections reinvested.

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

(In millions)	June 30, 2012	December 31, 2011
Balance of accounts receivable-net, eligible for sale to third-party conduits	**$ 1,309**	$ 1,214
Accounts receivable sold to third-party conduits	**-**	380
Accounts receivable-net, included in the accounts receivable balance on the balance sheet of U. S. Steel	**$ 1,309**	$ 834

The net book value of U. S. Steel s retained interest in the receivables represents the best estimate of the fair market value due to the short-term nature of the receivables. The retained interest in the receivables is recorded net of the allowance for bad debts, which historically have not been significant.

The facility may be terminated on the occurrence and failure to cure certain events, including, among others, failure of USSR to maintain certain ratios related to the collectability of the receivables and failure to make payment under its material debt obligations and may also be terminated upon a change of control. The facility expires on July 18, 2014.

Change in control event

In the event of a change in control of U. S. Steel, debt obligations totaling $3,163 million at June 30, 2012, which includes the Senior Notes and Senior Convertible Notes, may be declared immediately due and payable. In addition, the Amended Credit Agreement and the RPA may be terminated and any amount outstanding thereunder may be declared immediately due and payable. In such event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for $19 million or provide a letter of credit to secure the remaining obligation.

U. S. Steel Ko ice (USSK) credit facilities

At June 30, 2012, USSK had no borrowings under its 200 million (approximately $252 million) unsecured revolving credit facility.

At June 30, 2012, USSK had no borrowings under its 80 million credit facilities (which approximated $101 million) and the availability was approximately $100 million due to approximately $1 million of customs and other guarantees outstanding.

U. S. Steel Serbia (USSS) credit facilities

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

15. Asset Retirement Obligations

U. S. Steel s asset retirement obligations (AROs) primarily relate to mine and landfill closure and post-closure costs. The following table reflects changes in the carrying values of AROs:

(In millions)	June 30, 2012	December 31, 2011
Balance at beginning of year	**$ 38**	$ 39
Additional obligations incurred	**-**	2
Obligations settled [(a)]	**(7)**	(5)
Foreign currency translation effects	**-**	-
Accretion expense	**1**	2

Balance at end of period	**$ 32**	$ 38

(a) Includes $2 million as a result of the sale of USSS on January 31, 2012. See note 4 for additional details.

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

16. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, current accounts and notes receivable, accounts payable, bank checks outstanding, accrued interest, receivables sold to third party conduits and borrowings under the Receivables Purchase Agreement included in the Consolidated Balance Sheet approximate fair value. See note 13 for disclosure of U. S. Steel s derivative instruments, which are accounted for at fair value on a recurring basis.

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

	June 30, 2012		December 31, 2011	
(In millions)	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**
Financial assets:				
Investments and long-term receivables [(a)]	**$ 51**	**$ 51**	$ 45	$ 45
Financial liabilities:				
Debt [(b)]	**$ 3,766**	**$ 3,802**	$ 3,874	$ 3,827

(a) Excludes equity method investments.

(b) Excludes borrowings under the Receivables Purchase Agreement and capital lease obligations.

The following methods and assumptions were used to estimate the fair value of financial instruments included in the table above:

Investments and long-term receivables: Fair value was based on Level 2 inputs which were discounted cash flows. U. S. Steel is subject to market risk and liquidity risk related to its investments.

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

Fair value of the financial assets and liabilities disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

Financial guarantees are U. S. Steel s only unrecognized financial instrument. For details relating to financial guarantees see note 19.

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17. Statement of Changes in Stockholders Equity

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

Six Months Ended June 30, 2012	Total	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	**$ 3,501**		**$ 3,616**	**$ (3,367)**	**$ 151**	**$ (550)**	**$ 3,650**	**$ 1**
Comprehensive income:								
Net loss	**(118)**	**(118)**	**(118)**					
Other comprehensive income (loss), net of tax:								
Pension and other benefit adjustments	**136**	**136**		**136**				
Currency translation adjustment	**16**	**16**		**16**				
Employee stock plans	**12**					**29**	**(17)**	
Dividends paid on common stock	**(14)**		**(14)**					
Balance at June 30, 2012	**$ 3,533**	**$ 34**	**$ 3,484**	**$ (3,215)**	**$ 151**	**$ (521)**	**$ 3,633**	**$ 1**

Six Months Ended June 30, 2011	Total	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	$ 3,852		$ 3,698	$ (3,068)	$ 151	$ (580)	$ 3,650	$ 1
Comprehensive income:								
Net income	136	136	136					
Other comprehensive income (loss), net of tax:								
Pension and other benefit adjustments	131	131		131				
Currency translation adjustment	97	97		97				
Employee stock plans	15					30	(15)	
Dividends paid on common stock	(14)		(14)					
Other	(1)		(1)					
Balance at June 30, 2011	$ 4,216	$ 364	$ 3,819	$ (2,840)	$ 151	$ (550)	$ 3,635	$ 1

18. Related Party Transactions

Net sales to related parties and receivables from related parties primarily reflect sales of steel products to equity investees. Generally, transactions are conducted under long-term market-based contractual arrangements. Related party sales and service transactions were $322 million and $336 million for the three months ended June 30, 2012 and 2011, respectively, and $661 million and $643 million for the six months ended June 30, 2012 and 2011, respectively.

Purchases from related parties for outside processing services provided by equity investees amounted to $15 million and $16 million for the three months ended June 30, 2012 and 2011, respectively, and $28 million for both the six months ended June 30, 2012 and 2011. Purchases of

iron ore pellets from related parties amounted to $61 million and $65 million for the three months ended June 30, 2012 and 2011, respectively, and $120 million and $109 million for the six months ended June 30, 2012 and 2011, respectively.

Accounts payable to related parties include amounts collected on behalf of PRO-TEC Coating Company (PRO-TEC) of $107 million and $84 million at June 30, 2012 and December 31, 2011, respectively. U. S. Steel, as PRO-TEC s exclusive sales agent, is responsible for credit risk related to PRO-TEC s receivables. U. S. Steel also provides PRO-TEC marketing, selling and customer service functions. Payables to other related parties totaled $3 million and $2 million at June 30, 2012 and December 31, 2011, respectively.

19. Contingencies and Commitments

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

U. S. Steel accrues for estimated costs related to existing lawsuits, claims and proceedings when it is probable that it will incur these costs in the future.

Asbestos matters As of June 30, 2012, U. S. Steel was a defendant in approximately 735 active cases involving approximately 3,275 plaintiffs. Many of these cases involve multiple defendants (typically from fifty to more than one hundred). About 2,570, or approximately 78 percent, of these plaintiff claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. During the six months ended June 30, 2012, U. S. Steel paid approximately $7 million in settlements. These settlements and other dispositions resolved approximately 80 claims. New case filings in the first six months of 2012 added approximately 120 claims. At December 31, 2011, U. S. Steel was a defendant in approximately 695 active cases involving approximately 3,235 plaintiffs. During 2011, U. S. Steel paid approximately $8 million in settlements. These settlements and other dispositions resolved approximately 130 claims. New case filings in the year ended December 31, 2011 added approximately 275 claims. Most claims filed in 2012 and 2011 involved individual or small groups of claimants as many jurisdictions no longer permit the filing of mass complaints.

Historically, these claims against U. S. Steel fall into three major groups: (1) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); (2) claims made by industrial workers allegedly exposed to products manufactured by U. S. Steel; and (3) claims made under certain federal and general maritime laws by employees of former operations of U. S. Steel. In general, the only insurance available to U. S. Steel with respect to asbestos claims is excess casualty insurance, which has multi-million dollar retentions. To date, U. S. Steel has received minimal payments under these policies relating to asbestos claims.

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 245 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

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

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because it is not possible to determine whether any loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. The vast majority of pending claims against U. S. Steel allege so-called premises liability-based alleged exposure on U. S. Steel s current or former premises. These claims are made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers. In most cases the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely as do the nature and severity of the injury claimed.

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

Environmental matters U. S. Steel is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Changes in accrued liabilities for remediation activities are summarized in the following table:

(In millions)	**Six Months Ended June 30, 2012**
Beginning of period	**$ 206**
Accruals for environmental remediation deemed probable and reasonably estimable	**9**
Payments	**(8)**
End of period	**$ 207**

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

(In millions)	**June 30, 2012**	**December 31, 2011**
Accounts payable	**$ 20**	$ 20
Deferred credits and other noncurrent liabilities	**187**	186
Total	**$ 207**	$ 206

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Expenses related to remediation are recorded in cost of sales and totaled $6 million and $4 million for the three months ended June 30, 2012 and 2011, respectively, and $9 million and $5 million for the six months ended June 30, 2012 and 2011, respectively. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred. Due to uncertainties inherent in remediation projects and the associated liabilities, it is possible that total remediation costs for active matters and projects with ongoing study and scope development may exceed the accrued liabilities by as much as 15 to 30 percent.

Remediation Projects

U. S. Steel is involved in environmental remediation projects at or adjacent to several current and former U. S. Steel facilities and other locations that are in various stages of completion ranging from initial characterization through post-closure monitoring. Based on the anticipated scope and degree of uncertainty of projects, we categorize projects as follows:

(1*) Projects with Ongoing Study and Scope Development* are those projects which are still in the study and development phase. For these projects the extent of remediation that may be required is not yet known, the remediation methods and plans are not yet developed, and cost estimates cannot be determined. Therefore, material costs, in addition to the accrued liabilities for these projects, are reasonably possible.

(2*) Significant Projects with Defined Scope* are those projects with significant accrued liabilities, a defined scope and little likelihood of material additional costs.

(3) *Other Projects* are those projects with relatively small accrued liabilities for which we believe that, while additional costs are possible, they are not likely to be material, and those projects for which we do not yet possess sufficient information to estimate potential costs to U. S. Steel.

Projects with Ongoing Study and Scope Development There are five environmental remediation projects where reasonably possible additional costs for completion are not currently estimable, but could be material. These projects are four Resource Conservation and Recovery Act (RCRA) programs (at Fairfield Works, Lorain Tubular, USS-POSCO Industries (UPI) and the Fairless Plant) and a voluntary remediation program at the former steel making plant at Joliet, Illinois. As of June 30, 2012, accrued liabilities for these projects totaled $3 million for the costs of ongoing studies, investigations, and design. It is reasonably possible that additional liabilities associated with future requirements regarding studies, investigations, design and remediation for these projects could be as much as $25 million to $45 million. Depending on agency negotiations and other factors, a portion of the UPI project may become defined in 2012.

Significant Projects with Defined Scope As of June 30, 2012, a total of $65 million was accrued for projects at or related to Gary Works where the scope of work is defined.

Additional projects with defined scope greater than or equal to $5 million are the St. Louis Estuary and Upland Project in Duluth, Minnesota and a project at U. S. Steel s former Geneva Works in Geneva, Utah. As of June 30, 2012, accrued liabilities for these two additional projects totaled $88 million. U. S. Steel does not expect material additional costs related to these projects.

Other Projects There are four other environmental remediation projects which each had an accrued liability of between $1 million and $5 million. The total accrued liability for these projects at June 30, 2012 was $10 million. These projects have progressed through a significant portion of the design phase and material additional costs are not expected.

The remaining environmental remediation projects each had an accrued liability of less than $1 million. The total accrued liability for these projects at June 30, 2012 was $8 million. We do not foresee material additional liabilities for any of these sites.

Post-Closure Costs Accrued liabilities for post-closure site monitoring and other costs at various closed landfills totaled $27 million at June 30, 2012 and were based on known scopes of work.

Administrative and Legal Costs As of June 30, 2012, U. S. Steel had an accrued liability of $6 million for administrative and legal costs related to environmental remediation projects. These accrued liabilities were based on projected administrative and legal costs for the next three years and do not change significantly from year to year.

Capital Expenditures For a number of years, U. S. Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In the first six months of 2012 and 2011, such capital expenditures totaled $29 million and $44 million, respectively. U. S. Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

CO_2 Emissions Current and potential regulation of Greenhouse Gas (GHG) emissions remains a significant issue for the steel industry, particularly for integrated steel producers such as U. S. Steel. The regulation of carbon dioxide (CO_2) emissions has either become law or is being considered by legislative bodies of many nations, including countries where we have operating facilities. The European Union (EU) has established GHG regulations based upon national allocations and a cap and trade system. In Canada, both the federal and Ontario governments have issued proposed requirements for GHG emissions. In the United States, the Environmental Protection Agency (EPA) has published rules for regulating GHG emissions for certain facilities and has implemented various reporting requirements as further described below. In the last Congress, legislation was passed in the House of Representatives and introduced in the Senate. The federal courts are considering several suits that challenge the EPA s authority to regulate GHG emissions under the Clean Air Act. We do not know what action, if any, may be taken by the current or a new session of Congress. The EU has issued proposed regulations under their cap and trade system for the period 2013-2020 which appear to be more stringent than the current requirements.

On May 13, 2010, the EPA published its final Greenhouse Gas Tailoring Rule establishing a mechanism for regulating GHG emissions from facilities through the Clean Air Act s Prevention of Significant Deterioration (PSD) permitting process. U. S. Steel reported its emissions under these rules in accordance with the regulation and its deadlines. Starting in 2011, new projects that increase GHG emissions by more than 75,000 tons per year have new PSD requirements based on best available control technology (BACT), but only if the project also significantly increases emissions of at least one non-GHG pollutant. Only existing sources with Title V permits or new sources obtaining Title V permits for non-GHG pollutants will also be required to address GHG emissions. Starting July 1, 2011, new sources not already subject to Title V requirements that emit over 100,000 tons per year, or modifications to existing permits that increase GHG emissions by more than 75,000 tons per year, will be subject to PSD and Title V requirements. On November 17, 2010 the EPA issued its PSD and Title V Permitting Guidance for Greenhouse Gases and Available and Emerging Technologies for Reducing Greenhouse Gas Emissions from the Iron and Steel Industry. With this guidance, EPA intends to help state and local air permitting authorities identify greenhouse gas reductions under the Clean Air Act. Additionally, the EPA revised the National Ambient Air Quality Standards (NAAQS) for nitrogen oxide, sulfur dioxide and lead in 2010 and is in the process of revising the NAAQS for 2.5 micron particulate matter, ozone and sulfur dioxides.

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

In July 2008, Slovakia granted USSK CO_2 emission allowances as part of the national allocation plan for the 2008 to 2012 trading period (NAP II) approved by the European Commission. Based on actual CO_2 emissions to date, USSK will have sufficient allowances for the NAP II period without purchasing additional allowances. In the first six months of 2011, U. S. Steel entered into transactions to swap a portion of our emissions allowances and recognized a gain of $6 million.

In December 2010, Slovakia enacted an 80 percent tax on excess emission allowances registered in 2011 and 2012. In June 2012, the law was changed to eliminate the tax for 2012. As a result, U. S. Steel recorded a credit to expense of $2 million in the three months ended June 30, 2012 to reverse the expense previously recorded for 2012. U. S. Steel recorded expense of $5 million and $10 million for the three and six months ended June 30, 2011, respectively. On June 28, 2012, the Constitutional Court of the Slovak Republic published its decision suspending the effectiveness of this tax pending its decision on the merits. Because the court s decision is not yet final for 2011, none of the 2011 expense has been reversed.

European Union (EU) Environmental Requirements Slovakia is currently considering a law implementing an EU Waste Framework Directive that would more strictly regulate waste disposal and increase fees for waste disposed of in landfills including privately owned landfills. The intent of the waste directive is to encourage recycling and because Slovakia has not adopted implementing legislation, we cannot estimate the full financial impact of this prospective legislation at this time.

The EU s Industry Emission Directive will require implementation of EU determined best available techniques (BATs) to reduce environmental impacts as well as compliance with BAT associated emission levels. It contains operational requirements for air emissions, waste water discharges, solid waste disposal and energy conservation, dictates certain operating practices and imposes stricter emission limits. Slovakia is required to adopt the directive by January 7, 2013 and is allowed only limited discretion in implementing the legislation. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is $350 million to $400 million over the 2013 to 2016 period. We also believe that there will be increased operating costs but are currently unable to estimate this amount.

Environmental and other indemnifications Throughout its history, U. S. Steel has sold numerous properties and businesses and many of these sales included indemnifications and cost sharing agreements related to the assets that were sold. These indemnifications and cost sharing agreements have related to the condition of the property, the approved use, certain representations and warranties, matters of title and environmental matters. While most of these provisions have not specifically dealt with environmental issues, there have been transactions in which U. S. Steel indemnified the buyer for non-compliance with past, current and future environmental laws related to existing conditions and there can be questions as to the applicability of more general indemnification provisions to environmental matters. Most recent indemnifications and cost sharing agreements are of a limited nature only applying to non-compliance with past and/or current laws. Some indemnifications and cost sharing agreements only run for a specified period of time after the transactions close and others run indefinitely. In addition, current owners of property formerly owned by U. S. Steel may have common law claims and contribution rights against U. S. Steel for environmental matters. The amount of potential environmental liability associated with these transactions and properties is not estimable due to the nature and extent of

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the unknown conditions related to the properties sold. Aside from the environmental liabilities already recorded as a result of these transactions due to specific environmental remediation activities and cases (included in the $207 million of accrued liabilities for remediation discussed above), there are no other known environmental liabilities related to these transactions.

Guarantees The maximum outstanding guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled $29 million at June 30, 2012. In the event that any default related to the guaranteed indebtedness occurs, U. S. Steel has access to its interest in the assets of the investees to reduce its potential losses under the guarantees.

Contingencies related to the Separation from Marathon In the event of a bankruptcy of Marathon Oil Corporation, $24 million related to the Fairfield Works Caster Lease and the coke battery lease at the Clairton Plant may be declared immediately due and payable.

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

Randle Reef The Canadian and Ontario governments have identified for remediation a sediment deposit, commonly referred to as Randle Reef, in Hamilton Harbor near USSC s Hamilton Works, for which the regulatory agencies estimate expenditures of approximately C$120 million (approximately $118 million). The national and provincial governments have each allocated C$30 million (approximately $29 million) for this project and may be willing to increase the amount to C$40 million, respectively, provided that local sources, including industry, also agree to fund C$40 million (approximately $39 million). Current local funding commitments are C$35 million (approximately $34 million). USSC has committed to contribute approximately 11,000 tons of hot rolled steel and to fund C$2 million (approximately $2 million). The steel contribution is expected to be made in 2014. As of June 30, 2012, U. S. Steel has an accrued liability of approximately $10 million reflecting the contribution commitment.

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

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

U. S. Steel uses surety bonds, trusts and letters of credit to provide whole or partial financial assurance for certain obligations such as workers compensation. The total amount of active surety bonds, trusts and letters of credit being used for financial assurance purposes was

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approximately $168 million as of June 30, 2012, which reflects U. S. Steel s maximum exposure under these financial guarantees, but not its total exposure for the underlying obligations. Most of the trust arrangements and letters of credit are collateralized by restricted cash. Restricted cash, which is recorded in other current and noncurrent assets, totaled $150 million at June 30, 2012, of which $7 million was classified as current, and $160 million at December 31, 2011, of which $14 million was classified as current.

Capital Commitments At June 30, 2012, U. S. Steel s contractual commitments to acquire property, plant and equipment totaled $218 million.

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

Remainder of 2012	2013	2014	2015	2016	Later Years	Total
$1,103	$704	$535	$320	$303	$2,067	$ 5,032

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

Total payments relating to unconditional purchase obligations were approximately $185 million and $210 million for the three months ended June 30, 2012 and 2011, respectively, and $370 million and $360 million for the six months ended June 30, 2012 and 2011, respectively.

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

Certain sections of Management s Discussion and Analysis include forward-looking statements concerning trends or events potentially affecting the businesses of United States Steel Corporation (U. S. Steel). These statements typically contain words such as anticipates, believes, estimates, expects, intends or similar words indicating that future outcomes are not known with certainty and are subject to risk factors that could cause these outcomes to differ significantly from those projected. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors that could cause future outcomes to differ materially from those set forth in forward-looking statements. For discussion of risk factors affecting the businesses of U. S. Steel, see Item 1A. Risk Factors and Supplementary Data Disclosures About Forward-Looking Statements in U. S. Steel s Annual Report on Form 10-K for the year ended December 31, 2011 and Item 1A. Risk Factors in this Form 10-Q. References in this Quarterly Report on Form 10-Q to U. S. Steel, the Company, we, us and our refer to U. S. Steel and its consolidated subsidiaries unless otherwise indicated by the context.

RESULTS OF OPERATIONS

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

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

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

(Dollars in millions except average realized price amounts)	Second Quarter 2012	Second Quarter 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
USSK results				
Income from operations	**$ 34**	$ 26	**$ 17**	$ 57
Shipments [(a)]	**955**	826	**1,927**	1,859
Raw steel production [(a)]	**1,173**	1,036	**2,325**	2,220
Raw steel capability utilization	**94%**	83%	**93%**	90%
Average realized price ($/net ton)	**$ 767**	$ 951	**$ 761**	$ 891

(a) Thousands of net tons

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

(Dollars in millions, excluding intersegment sales)	Quarter Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Flat-rolled Products (Flat-rolled)	**$ 3,356**	$ 3,304	2%	**$ 6,656**	$ 6,273	6%
U. S. Steel Europe (USSE)	**763**	1,096	-30%	**1,578**	2,319	-32%
Tubular Products (Tubular)	**871**	695	25%	**1,817**	1,337	36%
Total sales from reportable segments	**4,990**	5,095	-2%	**10,051**	9,929	1%
Other Businesses	**27**	25	8%	**138**	55	151%
Net sales	**$ 5,017**	$ 5,120	-2%	**$ 10,189**	$ 9,984	2%

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

Quarter Ended June 30, 2012 versus Quarter Ended June 30, 2011

	Steel Products [a] Volume	Price	Mix	FX [b]	Coke & Other	Net Change
Flat-rolled	3%	-5%	0%	0%	4%	2%
USSE	-14%	-4%	-2%	-10%	0%	-30%
Tubular	15%	8%	2%	0%	0%	25%

(a) Excludes intersegment sales

(b) Currency translation effects

Net sales were $5,017 million in the second quarter of 2012, compared with $5,120 million in the same quarter last year. The slight increase in sales for the Flat-rolled segment reflected higher shipments (increase of 50 thousand tons) offset by lower average realized prices (decrease of $31 per ton). The decrease in sales for the European segment was primarily due to decreased shipments (decrease of 183 thousand tons) primarily due to the sale of USSS, decreased average realized prices (decrease of $163 per ton) and changes in foreign currency translation effects. The increase in sales for the Tubular segment primarily reflected higher average realized prices (increase of $141 per ton) and shipments (increase of 69 thousand tons) as a result of increased drilling activity, mainly due to the continued strength of oil directed drilling.

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

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

	Steel Products [a] Volume	Price	Mix	FX [b]	Coke & Other	Net Change
Flat-rolled	3%	1%	0%	0%	2%	6%

USSE	-21%	-4%	-1%	-6%	0%	-32%
Tubular	20%	15%	1%	0%	0%	36%

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

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Net sales were $10,189 million in the first six months of 2012, compared with $9,984 million in the same period last year. The increase in sales for the Flat-rolled segment primarily reflected higher shipments (increase of 188 thousand tons) and average realized prices (increase of $7 per ton) as a result of improved end user demand and higher average contract prices. The decrease in sales for the European segment was primarily due to decreased shipments (decrease of 583 thousand tons) primarily due to the sale of USSS, and decreased average realized prices (decrease of $113 per ton) and changes in foreign currency translation effects. The increase in sales for the Tubular segment primarily reflected higher average realized prices (increase of $211 per ton) and shipments (increase of 173 thousand tons) as a result of increased drilling activity, mainly due to the continued strength of oil directed drilling.

Pension and other benefits costs

Defined benefit and multiemployer pension plan costs totaled $103 million in the second quarter of 2012, compared to $109 million in the second quarter of 2011. Defined benefit and multiemployer pension plan costs totaled $203 million in the first six months of 2012, compared to $217 million in the first six months of 2011. The $6 million and $14 million decrease for the quarter and six month period, respectively, are primarily due to the natural maturation of our pension plans and a higher market related value of assets, partially offset by a decrease in the discount rate and the expected rate of return period over period.

The recently enacted pension stabilization legislation includes a revised interest rate formula used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula is expected to result in higher interest rates compared to prior law over the next few years which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions. U. S. Steel made voluntary contributions to our main U.S. defined benefit plan of $140 million in the first quarter of 2012 and for several prior years. U. S. Steel will likely make voluntary contributions of similar amounts in future periods in order to continue to mitigate potentially larger mandatory contributions in later years. Assuming future asset performance consistent with our expected long-term earnings rate assumption of 7.75%, we anticipate that the pension stabilization legislation interest rate changes will allow us to continue to make voluntary contributions of approximately $140 million per year through 2015 before we could be required to contribute more than that amount should the current low interest rate environment persist.

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

Net periodic pension cost, including multiemployer plans, is expected to total approximately $410 million in 2012. Total other benefits costs in 2012 are expected to total approximately $120 million. The discount rate and plan asset performance are significant assumption inputs used in the calculation of pension and other benefits net periodic benefit costs.

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

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

Costs related to defined contribution plans totaled $11 million and $21 million in the second quarter and first six months of 2012, respectively, compared to $9 million and $19 million in the comparable periods in 2011.

Other benefits costs, including multiemployer plans, totaled $30 million and $60 million in the second quarter and first six months of 2012, respectively, compared to $40 million and $80 million in the corresponding periods of 2011. The decrease in other benefit costs is primarily a result of Medicare program changes, especially those related to the adoption of the new Employer Group Waiver Plan structure. As additional actual cost experience becomes available under the Employer Group Waiver Plan structure, the Company will re-evaluate its initial assessment of savings under this program.

Selling, general and administrative expenses

Selling, general and administrative expenses were $173 million and $346 million in the second quarter and first six months of 2012, compared to $189 million and $369 million in the second quarter and first six months of 2011. The decrease in both periods is primarily related to the sale of USSS offset with a slight increase in employee costs as a result of an increase in the number of employees.

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

	Quarter Ended June 30,		%	Six Months Ended June 30,		%
(Dollars in millions)	2012	2011	Change	2012	2011	Change
Flat-rolled	**$ 177**	$ 374	-53%	**$ 360**	$ 338	7%
USSE	**34**	(18)	NM		(23)	100%
Tubular	**103**	31	NM	**232**	63	NM
Total income from reportable segments	**314**	387	-19%	**592**	378	57%
Other Businesses	**16**	9	78%	**33**	22	50%
Segment income from operations	**330**	396	-17%	**625**	400	56%
Postretirement benefit expense	**(77)**	(96)	-20%	**(154)**	(191)	-19%
Other items not allocated to segments:						
Net loss on sale of assets				**(310)**		
Property tax settlements				**19**		
Total income from operations	**$ 253**	$ 300	-16%	**$ 180**	$ 209	-14%

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Segment results for Flat-rolled

	Quarter Ended June 30,		%	Six Months Ended June 30,		%
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Income from operations ($ millions)	**$ 177**	$ 374	-53%	**$ 360**	$ 338	7%
Gross margin	**9.5%**	15.6%	-39%	**10.2%**	10.3%	-1%
Raw steel production (mnt)	**4,688**	4,894	-4%	**9,731**	9,492	3%
Capability utilization	**77%**	81%	-5%	**80%**	79%	1%
Steel shipments (mnt)	**3,986**	3,936	1%	**8,078**	7,890	2%
Average realized steel price per ton	**$ 772**	$ 803	-4%	**$ 768**	$ 761	1%

The decrease in Flat-rolled results in the second quarter of 2012 compared to the same period in 2011 resulted from a decrease of $31 per ton in average realized prices (approximately $120 million), increased other operating costs (approximately $65 million, which includes facility maintenance and outage costs), higher raw materials costs (approximately $45 million) and unfavorable changes from steel substrate sales to our Tubular segment (approximately $40 million). These decreases were partially offset by reduced energy costs primarily due to lower natural gas prices (approximately $65 million) and an increase of 50 thousand tons in shipments (approximately $10 million).

The improvement in Flat-rolled results in the first half of 2012 compared to the same period in 2011 resulted mainly from decreased energy costs primarily due to a reduction in natural gas prices (approximately $110 million) and an increase of $7 per ton in average realized prices (approximately $60 million) and an increase of 188 thousand tons in shipments (approximately $30 million). These improvements were partially offset by increased other operating costs (approximately $75 million, which includes facility maintenance and outage costs), unfavorable changes from steel substrate sales to our Tubular segment (approximately $35 million) higher accruals for profit-based payments (approximately $30 million), decreased shipment volumes (approximately $25 million) and higher raw material costs (approximately $15 million).

Segment results for USSE

	Quarter Ended June 30,		%	Six Months Ended June 30,		%
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Income (loss) from operations ($ millions)	**$ 34**	($ 18)	NM	**$**	($ 23)	100%
Gross margin	**12.0%**	6.3%	90%	**7.7%**	5.9%	31%
Raw steel production (mnt)	**1,173**	1,431	-18%	**2,413**	3,112	-22%
Capability utilization	**94%**	78%	21%	**89%**	85%	5%
Steel shipments (mnt)	**955**	1,138	-16%	**2,000**	2,583	-23%
Average realized steel price per ton	**$ 767**	$ 930	-18%	**$ 757**	$ 870	-13%

The improvement in USSE results in the second quarter of 2012 compared to the same period in 2011 was primarily due to lower raw materials costs (approximately $75 million), the elimination of operating losses subsequent to January 31, 2012 associated with our former Serbian operations (which were approximately $45 million in the 2011 period), decreased other operating costs (approximately $40 million, which includes operating efficiencies due to increased production volume at USSK) and an increase of 129 thousand tons in shipments at USSK (approximately $15 million). These improvements were partially offset by a decrease in average realized prices for USSK (approximately $90 million), unfavorable foreign currency translation effects (approximately $25 million) and increased energy costs primarily due to an increase in electricity costs (approximately $5 million).

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The improvement in USSE results in the first half of 2012 compared to the same period in 2011 was primarily due to lower raw materials costs (approximately $120 million), the elimination of operating losses subsequent to January 31, 2012 associated with our former Serbian operations (approximately $65 million), decreased other operating costs (approximately $30 million, which includes operating efficiencies due to increased production volume at USSK) and an increase of 68 thousand tons in shipments at USSK (approximately $10 million). These improvements were partially offset by a decrease in average realized prices for USSK (approximately $140 million), unfavorable foreign currency translation effects (approximately $35 million) and increased energy costs primarily due to an increase in electricity costs (approximately $25 million).

Segment results for Tubular

	Quarter Ended June 30,		%	Six Months Ended June 30,		%
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Income from operations ($ millions)	**$ 103**	$ 31	NM	**$ 232**	$ 63	NM
Gross margin	**14.5%**	8.4%	73%	**15.8%**	8.9%	78%
Steel shipments (mnt)	**493**	424	16%	**1,022**	849	20%
Average realized steel price per ton	**$ 1,706**	$ 1,565	9%	**$ 1,717**	$ 1,506	14%

The improvement in Tubular results in the second quarter of 2012 as compared to the same period in 2011 resulted mainly from an increase of $141 per ton in average realized prices (approximately $60 million), lower raw materials costs (approximately $30 million) and an increase of 69 thousand tons in shipments (approximately $15 million) partially offset by increased other operating costs (approximately $30 million, which includes spending for operating supplies).

The improvement in Tubular results in the first half of 2012 as compared to the same period in 2011 resulted mainly from an increase of $211 per ton in average realized prices (approximately $165 million), an increase of 173 thousand tons in shipments (approximately $50 million), and lower raw materials costs (approximately $35 million) partially offset by increased other operating costs (approximately $80 million, which includes facility maintenance and spending for operating supplies).

Results for Other Businesses

Other Businesses had income of $16 million and $33 million in the second quarter and first half of 2012, compared to income of $9 million and $22 million in the second quarter and first half of 2011.

Items not allocated to segments

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

The decrease in **postretirement benefit expense** in the second quarter and first half of 2012 as compared to the same period in 2011 resulted from lower pension expense primarily due to the natural maturation of the pension plans and lower retiree medical expense caused by a number of Medicare program changes, particularly the adoption of a new Employer Group Waiver Plan structure for most medicare drug participants.

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

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Net interest and other financial costs

	Quarter Ended June 30,		%	Six Months Ended June 30,		%
(Dollars in millions)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Interest and other financial costs	**$ 73**	$ 55	33%	**$ 129**	$ 113	14%
Interest income	**(1)**	(1)	0%	**(5)**	(3)	67%
Foreign currency (gains) losses	**10**	(41)	NM	**8**	(118)	NM
Total	**$ 82**	$ 13	NM	**$ 132**	$ (8)	NM

The unfavorable change in net interest and other financial costs in the second quarter and first six months of 2012 as compared to the same periods last year were primarily due to an $18 million redemption premium associated with the April 2012 redemption of all of our $300 million 5.65% Senior Notes due June 1, 2013. The foreign currency gains during the three and six months ended June 30, 2011 primarily resulted from the accounting remeasurement effects on a U.S. dollar-denominated intercompany loan from a U.S. subsidiary to a European entity partially offset by euro-U.S. dollar derivatives activity, which we use to mitigate our foreign currency exchange rate exposure. Effective January 1, 2012, the functional currency of the European entity changed from the euro to the U.S. dollar because of significant changes in economic facts and circumstances, including the sale of USSS. This change in functional currency has been applied on a prospective basis since January 1, 2012. For additional information on U. S. Steel s foreign currency exchange activity, see note 13 to the Financial Statements and Item 3. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

The **income tax provision** was $70 million and $166 million in the second quarter and first six months of 2012 compared to $65 million and $81 million in the respective periods of 2011. The tax provision does not reflect any tax benefit for pretax losses in Canada and Serbia (USSS was sold on January 31, 2012), which are jurisdictions where we have recorded a full valuation allowance on deferred tax assets, and also does not reflect any tax provision or benefit for certain foreign currency remeasurement gains and losses that are not recognized in any tax jurisdiction. In addition, no material tax benefit was recorded on the loss on the sale of USSS.

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

The net domestic deferred tax asset was $526 million at June 30, 2012 compared to $697 million at December 31, 2011. A substantial amount of U. S. Steel s domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. As a result of our cumulative historical earnings, we continue to believe it is more likely than not that the domestic deferred tax assets will be realized.

At June 30, 2012, the net foreign deferred tax asset was $62 million, net of established valuation allowances of $979 million. At December 31, 2011, the net foreign deferred tax asset was $66 million, net of established valuation allowances of $1,018 million. At December 31, 2011, a full valuation allowance was recorded for both the Canadian and Serbian deferred tax assets primarily due to cumulative losses in these jurisdictions in recent years. On January 31, 2012, U. S. Steel sold USSS and the Serbian deferred tax assets and the offsetting valuation allowance were removed in the first quarter of 2012 in connection with the sale. Net foreign deferred tax assets will fluctuate as the value of the U.S. dollar changes with respect to the Canadian dollar and the euro. If evidence changes and it becomes more likely than not that the Company will realize the foreign deferred tax assets, the valuation allowance of $975 million for Canadian deferred tax assets as of June 30, 2012, would be partially or fully reversed. Any reversal of this amount would result in a decrease to income tax expense.

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

Net income (loss) attributable to United States Steel Corporation was $101 million and $(118) million in the second quarter and first six months of 2012, respectively, compared to net income of $222 million and $136 million in the second quarter and first six months of 2011, respectively. The changes primarily reflect the factors discussed above.

BALANCE SHEET

Receivables increased by $416 million, or 20%, from year-end 2011. Sales in the latter part of a quarter typically represent the majority of the receivables as of the end of the quarter. The increase in receivables at the end of the second quarter compared to year-end 2011 primarily reflected increased average realized prices partially offset by the sale of USSS.

Receivables sold to third party conduits as of December 31, 2011 reflect accounts receivable sold to third party conduits under our Receivables Purchase Agreement (RPA). As of June 30, 2012, there were no receivables sold to third party conduits under the RPA.

Inventories decreased by $363 million from year-end 2011 due to the sale of USSS and a reduction in raw material inventories.

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

Property, plant and equipment, net decreased by $263 million from year-end 2011 primarily due to the sale of USSS.

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

Employee benefits decreased by $313 million from year-end 2011 primarily due to U. S. Steel s $140 million voluntary pension contribution to its main defined benefit pension plan as well as additional benefit payments and contributions made in excess of the net periodic benefit expense recognized in the first six months of 2012.

Long-term debt, less unamortized discount decreased by $27 million due to the issuance of our $400 million 7.50% Senior Notes due 2022, which was offset by the redemption of our $300 million 5.65% Senior Notes in April 2012 and the repayment of the outstanding borrowings under USSK s 200 million unsecured revolving credit facility.

CASH FLOW

Net cash provided by operating activities was $861 million for the first six months of 2012, compared to $38 million in the same period last year. The improvement is primarily due to improved net income, excluding a net loss of $309 million on the sale of assets, favorable changes in non-cash adjustments for foreign currency effects, changes in income taxes receivable/payable of $129 million and changes in working capital period over period partially offset by voluntary pension contributions of $140 million to our main defined benefit pension plan. Changes in working capital can vary significantly depending on factors such as the timing of inventory production and purchases, which is affected by the length of our business cycles as well as our captive raw materials position, customer payments of accounts receivable and payments to vendors in the regular course of business. Our key working capital components include accounts receivable and inventory. The accounts receivable and inventory turnover ratios for the three months and twelve months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30,		**Twelve Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Accounts Receivable Turnover	**2.0**	1.9	**7.8**	7.4
Inventory Turnover	**1.8**	1.8	**7.2**	7.5

Cash payments for capital expenditures, excluding $40 million of changes in accrued capital expenditures in the first six months of 2012, were $397 million, compared with $401 million in the same period in 2011. Flat-rolled cash payments for capital expenditures were $367 million and included spending for construction of carbon alloy facilities (coke substitute) at Gary Works, construction of a technologically and environmentally advanced coke battery at the Mon Valley Works Clairton Plant, ongoing implementation of an enterprise resource planning (ERP) system and various other infrastructure and environmental projects. Tubular expenditures of $18 million consisted primarily of cash payments for capital expenditures related to heat treatment, infrastructure and environmental capital projects. USSE cash payments for capital expenditures of $9 million consisted of spending for infrastructure and environmental projects.

U. S. Steel s contractual commitments to acquire property, plant and equipment at June 30, 2012, totaled $218 million.

Capital expenditures for 2012 are expected to total approximately $800 million and remain focused largely on strategic infrastructure and environmental projects. With regard to capital investments, we remain focused on a number of key projects of strategic importance. We have made significant progress to improve our coke self-sufficiency and reduce our reliance on purchased coke for the steel making process through the application of advanced technologies, upgrades to our existing coke facilities and increased use of natural gas and pulverized coal in our operations. Engineering and construction of a technologically and environmentally advanced coke battery at the Mon Valley Works Clairton Plant in Clairton, Pennsylvania with a projected capacity of 960,000 tons is underway with completion expected near year-end 2012. We are constructing a carbon alloy facility at our Gary Works in Indiana which utilizes an environmentally compliant, energy efficient and flexible production technology to produce a coke substitute product. The facility has a projected capacity of 500,000 tons per year with completion expected in the first quarter of 2013. We expect both of these projects to reach full production capability in 2013. We continue to pursue the use of natural gas in our operations, primarily in North America, given the significant cost and environmental advantages of this fuel. Related projects tend to be smaller with limited capital cost. This may enable us to minimize additional capital investments in coke and carbon alloy projects in the future. In an effort to increase our participation in the automotive market as vehicle emission and safety requirements become more stringent, PRO-TEC Coating Company, our joint venture in Ohio with Kobe Steel, Ltd., has a new automotive continuous annealing line under construction that is being financed at the joint venture level and is expected to reach full production by the end of 2013. We are also continuing our efforts to implement an ERP system to replace outdated information technology systems and to help us operate more efficiently. The completion of the ERP project is expected to provide further opportunities to streamline, standardize and centralize business processes in order to maximize cost effectiveness, efficiency and control across our global operations.

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

The foregoing statements regarding expected 2012 capital expenditures, capital projects and expected benefits from the implementation of the ERP project are forward-looking statements. Factors that may affect our capital spending and the projects include: (i) levels of cash flow from operations; (ii) changes in tax laws; (iii) general economic conditions; (iv) steel industry conditions; (v) cost and availability of capital; (vi) receipt of necessary permits; and (vii) unforeseen hazards such as contractor performance, material shortages, weather conditions, explosions or fires. There is also a risk that the completed projects will not produce at the expected levels and within the costs currently projected. Predictions regarding benefits resulting from the implementation of the ERP project are subject to uncertainties. Actual results could differ materially from those expressed in these forward-looking statements.

Disposal of assets in the first six months of 2012 primarily reflects proceeds from the sale of the majority of the operating assets of Birmingham Southern Railroad Company and the Port Birmingham Terminal. Disposal of assets in the first six months of 2011 primarily reflects cash proceeds of approximately $6 million from transactions to swap a portion of the emissions allowances at USSK as well as various other transactions, none of which were individually material.

Borrowings against revolving credit facilities in the first six months of 2012 reflect amounts drawn under USSK s 280 million total unsecured revolving credit facilities.

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

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

Issuance of long-term debt, net of financing costs in the first six months of 2012 reflects the issuance of $400 million of 7.50% Senior Notes due 2022. U. S. Steel received net proceeds of $392 million after related discounts and other fees.

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

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LIQUIDITY AND CAPITAL RESOURCES

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

(Dollars in millions)

Cash and cash equivalents	$ 565
Amount available under $875 Million Credit Facility	875
Amount available under Receivables Purchase Agreement	625
Amounts available under USSK credit facilities	352
Total estimated liquidity	$ 2,417

As of June 30, 2012, $149 million of the total cash and cash equivalents was held by our foreign subsidiaries, which has been indefinitely reinvested.

On March 15, 2012, U. S. Steel issued $400 million of 7.50% Senior Notes due March 15, 2022 (2022 Senior Notes). U. S. Steel received net proceeds from the offering of $392 million. The majority of the net proceeds from the issuance of the 2022 Senior Notes was used in April 2012 to redeem all of our $300 million of 5.65% Senior Notes due June 1, 2013.

As of June 30, 2012, there were no amounts drawn under our $875 million credit facility agreement (Amended Credit Agreement) and inventory values calculated in accordance with the Amended Credit Agreement supported the full $875 million of the facility. Under the Amended Credit Agreement, U. S. Steel must maintain a fixed charge coverage ratio (as further defined in the Amended Credit Agreement) of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Amended Credit Agreement is less than the greater of 10% of the total aggregate commitments and $87.5 million.

As of June 30, 2012, U. S. Steel has a Receivables Purchase Agreement (RPA) that provides liquidity and letters of credit depending upon the number of eligible domestic receivables generated by U. S. Steel. As of June 30, 2012, eligible accounts receivable supported the maximum amount eligible for sale of $625 million and there were no outstanding borrowings under this facility.

At June 30, 2012, USSK had no borrowings under its 200 million (approximately $252 million) unsecured revolving credit facility.

At June 30, 2012, USSK had no borrowings under its 80 million credit facilities (which approximated $101 million) and the availability was approximately $100 million due to approximately $1 million of outstanding customs and other guarantees.

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

We use surety bonds, trusts and letters of credit to provide financial assurance for certain transactions and business activities. The use of some forms of financial assurance and collateral have a negative impact on liquidity. U. S. Steel has committed $138 million of liquidity sources for financial assurance purposes as of June 30, 2012.

At June 30, 2012, in the event of a change in control of U. S. Steel, debt obligations totaling $3,163 million, which includes the Senior Notes and the Senior Convertible Notes, may be declared immediately due and payable. In such an event, U. S. Steel may also be required to either repurchase the leased Fairfield slab caster for $19 million or provide a letter of credit to secure the remaining obligation.

The slab caster facility at Fairfield, Alabama is subject to a 24-year lease which expires in June 2013. U. S. Steel has the option to purchase the caster or to renew the lease at the end of the basic term. As required in the lease agreement, U. S. Steel issued an irrevocable notice in June 2012 stating its intent to either purchase the caster or renew the lease. Prior to lease expiration, a second irrevocable notice must be provided specifically stating whether U. S. Steel will purchase the facility or renew the lease.

The maximum outstanding guarantees of the indebtedness of unconsolidated entities of U. S. Steel totaled $29 million at June 30, 2012. In the event that any default related to the guaranteed indebtedness occurs, U. S. Steel has access to its interest in the assets of the investees to reduce its potential losses under the guarantees.

Our major cash requirements in 2012 are expected to be for capital expenditures, employee benefits and working capital requirements, including purchases of raw materials. We finished the second quarter of 2012 with $565 million of available cash and $2.4 billion of total liquidity. Available cash is left on deposit with financial institutions or invested in highly liquid securities with parties we believe to be creditworthy.

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

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

Off-balance Sheet Arrangements

U. S. Steel did not enter into any new material off-balance sheet arrangements during the first six months of 2012.

Environmental Matters, Litigation and Contingencies

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

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

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

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

The EU s Industry Emission Directive will require implementation of EU determined best available techniques (BATs) to reduce environmental impacts as well as compliance with BAT associated emission levels. It contains operational requirements for air emissions, waste water discharges, solid waste disposal and energy conservation, dictates certain operating practices and imposes stricter emission limits. Slovakia is required to adopt the directive by January 7, 2013 and is allowed only limited discretion in implementing the legislation. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016. We are evaluating the costs of complying with BAT, but our most recent broad estimate of likely capital expenditures is $350 million to $400 million over the 2013 to 2016 period. We also believe there will be increased operating costs but are currently unable to estimate this amount.

U. S. Steel has incurred and will continue to incur substantial capital, operating and maintenance and remediation expenditures as a result of environmental laws and regulations which in recent years have been mainly for process changes in order to meet CAA obligations and similar obligations in Europe and Canada. In the future, compliance with carbon dioxide (CO_2) emission requirements may include substantial costs for emission allowances, restriction of production and higher prices for coking coal, natural gas and electricity generated by carbon based systems. Since it is difficult to predict what requirements will ultimately be imposed in the United States and Canada, it is difficult to estimate the likely impact on U. S. Steel, but it could be substantial. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of U. S. Steel s products and services, operating results will be reduced. U. S. Steel believes that our major North American and many European integrated steel competitors are confronted with substantially similar conditions and thus does not believe that its

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relative position with regard to such competitors will be materially affected by the impact of environmental laws and regulations. However, if the final requirements do not recognize the fact that the integrated steel process involves a series of chemical reactions involving carbon that create CO_2 emissions, our competitive position relative to mini mills will be adversely impacted and our competitive position regarding producers in developing nations, such as China and India, will be harmed unless such nations require comensurate reductions in CO_2 emissions. Competing materials such as plastics may not be similarly impacted. The specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities and its production methods. U. S. Steel is also responsible for remediation costs related to former and present operating locations and disposal of environmentally sensitive materials. Many of our competitors, including North American producers, or their successors, that have been the subject of bankruptcy relief have no or substantially lower liabilities for such matters.

Greenhouse Gas Emissions Regulation

The current and potential regulation of greenhouse gas emissions remains a significant issue for the steel industry, particularly for integrated steel producers such as U. S. Steel. The regulation of greenhouse gases such as CO_2 emissions has either become law or is being considered by legislative bodies of many nations, including countries where we have operating facilities. In the United States, the Environmental Protection Agency (EPA) has published rules for regulating greenhouse gas emissions for certain facilities and has implemented various reporting requirements as further described below. In the last Congress, greenhouse gas legislation has passed in the House of Representatives and was introduced in the Senate. We do not know what action, if any, may be taken by the current or a new session of Congress. The U.S. Court of Appeals for the District of Columbia Circuit, recently heard oral arguments in several suits challenging the EPA s authority to regulate greenhouse gas emissions under the CAA. In the end, the court issued an opinion essentially upholding EPA s greenhouse gas authority. Namely, the court rejected challenges to the endangerment finding, giving the EPA authority to regulate greenhouse gases under the CAA on the basis that they pose a risk to human health. The court also rejected arguments by petitioners to dismiss inclusion of greenhouse gas emissions under the tailpipe rule, giving the EPA authority to regulate greenhouse gas emissions from mobile sources, and triggering regulation for stationary sources. The court dismissed challenges to the timing and tailoring rules citing that it lacked jurisdiction to decide the case on its merits since the court stated none of the petitioners had legal standing to challenge the timing and tailoring rules. Finally, the court declined to decide challenges to other State Implementation Plan (SIP) related rules issued by EPA regarding greenhouse gas, stating that it also lacked jurisdiction over these SIP related rules; and the rules are being challenged in different tribunals. See, e.g. *Utility Air Regulatory Group v. EPA*, No.11-1037 (consolidating various challenges); and *Texas v. EPA*, No.10-1425 (challenge brought by Texas).

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

The EPA has classified greenhouse gases such as CO_2 as harmful gases. Under this premise, it has implemented a greenhouse gas emission monitoring and reporting requirement for all facilities emitting 25,000 metric tons or more per year of carbon dioxide, methane and nitrous oxide in CO_2 equivalent quantities (CO_2e). In accordance with EPA greenhouse gas emissions reporting requirements, reports for the year 2011 were completed and submitted for all required facilities by the March 31, 2012 deadline. As with previous year s reporting, fourteen facilities submitted reports including Gary Works, East Chicago Tin Operations, Midwest Plant, Clairton Plant, Edgar Thomson, Irvin, Fairless, Fairfield Sheet, Fairfield Tubular, Granite City, Great Lakes, Lorain, Minntac, and Keetac. The Texas Operations Division is the only significant operation not required to report as its emissions were well below the 25,000 ton reporting threshold.

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New requirements for 2011 monitoring and reporting included greenhouse gas emissions from vacuum degassing (decarburization), and methane emissions from on-site landfills. Facilities for which greenhouse gas emissions from decarburization were determined and reported included Gary Works, Great Lakes Works, and the Edgar Thomson Plant. Calculation of landfill methane emissions from U. S. Steel facilities has been completed. However, new provisions for incorporating on-site landfill methane emissions into EPA s electronic reporting tool are still pending, and not expected to be completed until this fall.

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

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

In July 2008, Slovakia granted USSK CO_2 emission allowances as part of the national allocation plan for the 2008 to 2012 trading period (NAP II) approved by the EC. Based on actual CO_2 emissions to date, USSK will have sufficient allowances for the NAP II period without purchasing additional allowances. In the first six months 2011, U. S. Steel entered into transactions to swap a portion of our emissions allowances and recognized a gain of $6 million.

In December 2010, Slovakia enacted an 80 percent tax on excess emission allowances registered in 2011 and 2012. In June 2012, the law was changed to eliminate the tax for 2012. As a result, U. S. Steel recorded a credit to expense of $2 million in the three months ended June 30, 2012 to reverse the expense previously recorded for 2012. U. S. Steel recorded expense of $5 million and $10 million for the three and six months ended June 30, 2011, respectively. On June 28, 2012, the Constitutional Court of the Slovak Republic published its decision suspending the effectiveness of this tax pending its decision on the merits. Because the court s decision is not yet final for 2011, none of the 2011 expense has been reversed.

For the period after 2012, the ETS will employ centralized allocation rather than national allocation plans. The new ETS also includes a cap designed to achieve an overall reduction of greenhouse gases for the ETS sectors of 21 percent in 2020 compared to 2005 emissions and auctioning as the basic principle for allocating emissions allowances, with some transitional free allocation provided on the basis of benchmarks for manufacturing industries under risk of carbon leakage. Manufacturing of sinter, coke oven products, basic iron and steel, ferro-alloys and cast iron tubes have all been recognized as exposing companies to a significant risk of carbon leakage, but the new ETS is still expected to lead to additional costs for steel companies in Europe. We cannot reliably estimate the future market value of CO_2 emission allowances and the cost of complying with the new ETS at this time.

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

In December 2007, the Ontario government announced its own Action Plan on Climate Change (the Ontario Action Plan). The Ontario Action Plan targets reductions in Ontario greenhouse gas emissions of six percent below 1990 levels by 2014, 15 percent below 1990 levels by 2020 and 80 percent below 1990 levels by 2050. In December 2008, Ontario launched a consultation process towards the development of a cap-and-trade system and in May 2009, the Ontario government released a discussion paper regarding cap-and-trade. The Ontario government has amended the Environmental Protection Act in order to provide the regulatory authority to set-up a greenhouse gas cap-and-trade system; however, such a system has not yet been developed. The Ontario government also passed a Greenhouse Gas Emissions Reporting Regulation (the Regulation) on December 1, 2009. The Regulation is intended to provide the foundation for Ontario to implement a cap-and-trade program for greenhouse gases. The Regulation requires facilities that emit 25,000 tons of CO_2e or more per year to annually report their emissions, starting with 2010 emissions. The Ontario government has stated that it is working with four other Canadian provinces and seven U.S. states to design a broad-based cap and trade system.

Environmental Remediation

In the United States, U. S. Steel has been notified that we are a potentially responsible party (PRP) at 24 sites under CERCLA as of June 30, 2012. In addition, there are 13 sites related to U. S. Steel where we have received information requests or other indications that we may be a PRP under CERCLA but where sufficient information is not presently available to confirm the existence of liability or make any judgment as to the amount thereof. There are also 39 additional sites related to U. S. Steel where remediation is being sought under other environmental statutes, both federal and state, or where private parties are seeking remediation through discussions or litigation. At many of these sites, U. S. Steel is one of a number of parties involved and the total cost of remediation, as well as U. S. Steel s share thereof, is frequently dependent upon the outcome of investigations and remedial studies. U. S. Steel accrues for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. See note 19 to the Financial Statements.

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

During the second quarter of 2012, U. S. Steel recorded a net increase of $6 million to our accruals for environmental matters for U.S. and international facilities. The total accrual for such liabilities at June 30, 2012 was $207 million. These amounts exclude liabilities related to asset retirement obligations, disclosed in note 15 to the Financial Statements.

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

OUTLOOK

We expect total reportable segment and Other Businesses operating results to be positive in the third quarter but below our second quarter results, reflecting the continued weakness in the North American, European and emerging market economies. Average realized prices are expected to be lower for all three operating segments with total reportable segment shipments slightly lower than the second quarter. Our Tubular segment is expected to continue its trend of solid operating profits.

We expect near break-even results for our Flat-rolled segment in the third quarter due to lower average realized prices. Proceeds are expected to be lower compared to the second quarter as spot and index-based contract prices decrease. While average realized spot prices are projected to be lower for the third quarter, spot transaction prices are expected to increase as the quarter progresses. Shipments for our Flat-rolled segment are expected to be comparable to the second quarter, as end user demand appears stable and supply chain inventories remain balanced. Operating costs are expected to be comparable to the second quarter.

We expect our European segment results to remain positive but lower than the second quarter reflecting the continued economic challenges in Europe. Average realized prices are expected to decrease compared to the second quarter as lower spot market prices carry over into the third quarter. Shipments are expected to be lower as service centers and distributors maintain a conservative buying pattern to minimize inventory and Europe enters its summer holiday period. Operating costs should be comparable to the second quarter.

We expect third quarter 2012 results for our Tubular segment to be in line with the second quarter results. Shipments are expected to be lower as end users continue to adjust their drilling plans due to economic uncertainty and concern over energy prices. Similarly, average realized prices are projected to decline as supply has outpaced demand, mainly due to a substantial increase of imported products. Operating costs are expected to decrease compared to the second quarter due to lower substrate and facility maintenance costs.

LABOR AGREEMENT

We are currently negotiating with the United Steelworkers for a new labor agreement covering most of our domestic operations. The current agreement expires on September 1, 2012. We anticipate reaching a competitive agreement without a work stoppage.

INTERNATIONAL TRADE

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

USSE conducts business primarily in Europe. Like our North American operations, USSE is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions. The sovereign debt issues and the resulting economic uncertainties are adversely affecting markets in the EU. We are subject to market conditions in those areas which are influenced by many of the same factors that affect U.S. markets, as well as matters specific to international markets such as quotas, tariffs and other protectionist measures. As previously disclosed, we sold our Serbian operations on January 31, 2012.

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

Steel sheet imports to the United States accounted for 13 percent of the U.S. steel market in 2011 and 2010 and 15 percent in 2009. Increases in future levels of imported steel could reduce future market prices and demand levels for steel produced in our North American facilities.

Imports of flat-rolled steel to Canada accounted for 35 percent of the Canadian market for flat-rolled steel products in 2011, 40 percent in 2010 and 39 percent in 2009.

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

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

In May 2011, the U.S. International Trade Commission (ITC) concluded its five-year (sunset) reviews of antidumping (AD) orders against hot-rolled carbon steel flat products from Brazil and Japan, a CVD order against hot-rolled steel flat products from Brazil, and a suspended AD investigation concerning hot-rolled carbon steel flat products from Russia. The ITC determined that terminating the existing suspended AD duty investigation on imports of product from Russia would likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time, and that revoking the orders against product from Brazil and Japan would not likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time. As a result, the orders against product from Brazil and Japan have been terminated, while the suspended investigation against product from Russia will remain suspended. U. S. Steel has appealed the ITC s negative determinations with respect to Brazil and Japan to the U.S. Court of International Trade.

The U.S. Department of Commerce (DOC) and the ITC concluded their five-year (sunset) reviews of AD orders against seamless standard, line, and pressure pipe from Japan (large-diameter and small-diameter) and Romania (small-diameter) in August 2011 and September 2011, respectively. The DOC determined that revoking these orders would likely lead to the continuation or recurrence of dumping, and the ITC determined that revoking the orders would likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time. As a result, the orders remain in place.

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The DOC and the ITC concluded their five-year (sunset) reviews of an AD order against tin and chromium coated steel sheet from Japan in September 2011 and May 2012, respectively. The DOC determined that revoking this order would likely lead to the continuation or recurrence of dumping, and the ITC determined that revoking the order would likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time. As a result, the order remains in place.

The DOC and the ITC concluded their five-year (sunset) reviews of a CVD order against circular welded pipe from Turkey, as well as their five-year (sunset) reviews of AD orders against circular welded pipe from Brazil, India, Mexico, South Korea, Taiwan, Thailand, and Turkey, in October 2011 and June 2012, respectively. The DOC determined that revoking these orders would likely lead to the continuation or recurrence of a countervailable subsidy or dumping, and the ITC determined that revoking the orders would likely lead to the continuation or recurrence of material injury within a reasonably foreseeable time. As a result, the orders remain in place.

In response to a decision by the U.S. Court of Appeals for the Federal Circuit, Congress passed legislation in the first quarter of 2012 clarifying its intent that the United States anti-subsidy law, also known as the CVD law, applies to non-market economy (NME) countries, such as China. On March 13, 2012, the President signed this legislation into law. While this issue is subject to ongoing litigation, the legislation makes it likely that the 25 current CVD orders against NME imports (24 on Chinese products, 1 on Vietnamese) will remain in effect.

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

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

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

NEW ACCOUNTING STANDARDS

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

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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Item 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company continues implementation of a corporate-wide Enterprise Resource Planning (ERP) system. There have not been any other changes in U. S. Steel s internal control over financial reporting that occurred during the fiscal quarter covered by this quarterly report, which have materially affected, or are reasonably likely to materially affect, U. S. Steel s internal control over financial reporting.

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UNITED STATES STEEL CORPORATION

SUPPLEMENTAL STATISTICS (Unaudited)

(Dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
SEGMENT INCOME (LOSS) FROM OPERATIONS				
Flat-rolled	**$ 177**	$ 374	**$ 360**	$ 338
U. S. Steel Europe	**34**	(18)	**-**	(23)
Tubular	**103**	31	**232**	63
Total reportable segments	**314**	387	**592**	378
Other Businesses	**16**	9	**33**	22
Items not allocated to segments	**(77)**	(96)	**(445)**	(191)
Total income from operations	**$ 253**	$ 300	**$ 180**	$ 209
CAPITAL EXPENDITURES				
Flat-rolled	**$ 151**	$ 142	**$ 332**	$ 267
U. S. Steel Europe	**12**	44	**14**	67
Tubular	**4**	33	**8**	64
Other Businesses	**1**	2	**3**	3
Total	**$ 168**	$ 221	**$ 357**[(a)]	$ 401
OPERATING STATISTICS				
Average realized price: ($/net ton) [(b)]				
Flat-rolled	**$ 772**	$ 803	**$ 768**	$ 761
U. S. Steel Europe	**767**	930	**757**	870
Tubular	**1,706**	1,565	**1,717**	1,506
Steel Shipments: [(b)(c)]				
Flat-rolled	**3,986**	3,936	**8,078**	7,890
U. S. Steel Europe	**955**	1,138	**2,000**	2,583
Tubular	**493**	424	**1,022**	849
Total Steel Shipments	**5,434**	5,498	**11,100**	11,322
Raw Steel-Production: [(c)]				
Flat-rolled	**4,688**	4,894	**9,731**	9,492
U. S. Steel Europe	**1,173**	1,431	**2,413**	3,112
Raw Steel-Capability Utilization: [(d)]				
Flat-rolled	**77%**	81%	**80%**	79%
U. S. Steel Europe	**94%**	78%	**89%**	85%
USSK	**94%**	83%	**93%**	90%

(a) Capital expenditures include $40 million of changes in accrued but unpaid capital expenditures for the six months ended June 30, 2012. Changes in the accrued but unpaid capital expenditures for the six months ended June 30, 2011 were not material.

(b) Excludes intersegment transfers.

(c) Thousands of net tons.

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

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS
GENERAL LITIGATION

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

ENVIRONMENTAL PROCEEDINGS

Gary Works

On March 4, 2010 the EPA notified U. S. Steel that the requirements of the January 26, 1998 Clean Water Act consent decree in United States of America v. USX (Northern District of Indiana) had been satisfied. By order on June 25, 2012, the U. S. District Court terminated the consent decree in its entirety. As of June 30, 2102, project costs have amounted to $60.7 million. In 1998, U. S. Steel also entered into a consent decree with the public trustees, which resolves liability for natural resource damages on the same section of the Grand Calumet River. U. S. Steel, will pay the public trustees $1 million for ecological monitoring costs after a subsequent order is entered by the court. In addition, U. S. Steel is obligated to perform, and has completed the ecological restoration in this section of the Grand Calumet River. In total, the accrued liability for the above projects based on the estimated remaining costs was approximately $2 million at June 30, 2012.

At Gary Works, U. S. Steel has agreed to close three hazardous waste disposal sites: D5, along with an adjacent solid waste disposal unit, Terminal Treatment Plant (TTP) Area; T2; and D2 combined with a portion of the Refuse Area, where a solid waste disposal unit overlaps with the hazardous waste disposal unit. The sites are located on plant property. The Indiana Department of Environmental Management (IDEM) has approved the closure plans for D5 and T2; the closure plan for D2 has been through a public comment period but has not yet been approved by IDEM. D5 and TTP Area closure is complete with IDEM approval of the closure certification reports on February 1 and April 3, 2012, respectively. T2 closure is essentially complete. As of June 30, 2012, the accrued liability for estimated costs to close these sites is $17 million.

On October 23, 1998, EPA issued a final Administrative Order on Consent (Order) addressing Corrective Action for Solid Waste Management Units (SWMU) throughout Gary Works. This Order requires U. S. Steel to perform a Resource Conservation and Recovery Act (RCRA) Facility Investigation (RFI), a Corrective Measure Study (CMS) and Corrective Measure Implementation at Gary Works. Reports of field investigation findings for Phase I work plans have been submitted to EPA. Through June 30, 2012, U. S. Steel had spent $37.1 million for corrective action studies, Vessel Slip Turning Basin interim measures and other corrective actions. U. S. Steel has completed one year of a facility wide perimeter groundwater monitoring program and submitted a report with recommendations for future continuation of the program to USEPA. U. S. Steel has also submitted a Baseline Ecological Risk Assessment work plan for addressing sediments behind the East Breakwall. In addition, U. S. Steel has received approval from USEPA to proceed with an interim stabilization measure workplan to address certain components of the East Side Groundwater Solid Waste Management Area as required by the Order. Until the remaining Phase I work and Phase II field investigations are

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completed, it is not possible to assess what additional expenditures will be necessary for Corrective Action projects at Gary Works. In total, the accrued liability for all of the above projects is approximately $46 million as of June 30, 2012, based on the estimated remaining costs.

On November 26, 2007, IDEM issued a Notice of Violation (NOV) alleging three pushing violations and one door violation on the No. 2 Battery that were to have occurred on July 11, 2007. On December 20, 2007, IDEM made a verbal penalty demand of $123,000 to resolve these alleged violations. U. S. Steel provided written responses to the NOVs. Negotiations regarding these NOVs are ongoing.

On October 3, 2007, November 26, 2007, March 2, 2008 and March 18, 2008, IDEM issued NOVs alleging opacity limitation violations from the coke plant and Blast Furnaces Nos. 4 and 8. To date, no penalty demand has been made by IDEM regarding these NOVs. U. S. Steel is currently negotiating resolution of these NOVs with IDEM.

On July 3, 2008, EPA Region V issued a Notice of Violation/Finding of Violation (NOV/FOV) alleging violations resulting from a multi-media inspection conducted in May 2007 and subsequent information collection requests. These alleged violations include those currently being prosecuted by IDEM that are identified above. Other alleged violations include the reline of No. 4 Blast Furnace in 1990 without a New Source Review/Prevention of Significant Deterioration permit, and opacity limit excursions from hot iron transfer cars, slag skimming, slag pits, and the blast furnace casting house. The NOV/FOV also alleges violations relating to hydrochloric acid pickling, blast furnace relief valves and blast furnace flares. While a penalty demand is expected, EPA Region V has not yet made such a demand. Since issuing the NOV/FOV, EPA Region V has issued additional information requests to Gary Works. U. S. Steel has responded to the requests and is currently negotiating resolution of the NOV/FOV and other request issues with EPA Region V and IDEM. The EPA has indicated that it has referred the matter to the Department of Justice (DOJ).

On February 18, 2009, U. S. Steel received a letter from IDEM alleging that Gary Works was culpable for an ambient air quality exceedance for PM10 at the IITRI Monitoring Site. In November 2010, U. S. Steel and IDEM amended the December 2006 Air Agreed Order to resolve this matter. The resolution requires U. S. Steel to continue monitoring PM10 at the IITRI monitor through December 31, 2011; implement specific best management practices at the Sinter Plant storage piles; and to complete a Supplemental Environmental Project consisting of the installation of a compressed natural gas (CNG) fueling station and adding at least seven CNG vehicles to its fleet. U. S. Steel has constructed the CNG fueling station and spent $490,000 on the project, excluding costs associated with five CNG vehicles.

On April 13, 2009, Gary Works received an NOV from EPA Region V for alleged violations of New Source Review rules for the reline of No. 13/14 during 2004-2005. U. S. Steel continues to meet with IDEM and EPA to negotiate resolution of the NOV. EPA has indicated that it has referred the matter to the DOJ. U. S. Steel, EPA, DOJ, and the Indiana Attorney General continue to discuss resolution of the matter.

On June 17, 2011, U. S. Steel received a NOV/FOV from the EPA alleging that Gary Works violated the National Emission Standards for Hazardous Air Pollutants and the Indiana State Implementation Plan and Operating Permit requirements. This NOV/FOV stems from an EPA facility inspection in August 2008 and subsequent requests for information. EPA alleges that U. S. Steel failed to properly control air emissions from the top of Blast Furnace No. 4 while beaching iron and opening blast furnace relief valves. In addition, the EPA alleged that excessive emissions from the top of Blast Furnace No. 4 occurred on December 15, 2009. Excessive levels of particulate matter opacity are alleged to have occurred as a result of the above actions. U. S. Steel provided a written response to the EPA on August 19, 2011 and continues to discuss resolution of the NOV/FOV with EPA, the DOJ, and the Indiana Attorney General.

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Mon Valley Works

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

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

Midwest Plant

A former disposal area located on the east side of the Midwest Plant was designated a SWMU (East Side SWMU) by IDEM before U. S. Steel acquired this plant from National Steel Corporation. U. S. Steel submitted a Closure Plan to IDEM recommending consolidation and in-place closure of the East Side SWMU. IDEM approved the Closure Plan in January 2010. Implementation of the Closure Plan began during the third quarter of 2010 and field work was completed early in the second quarter of 2011. A full vegetative cover over the project area is in place and the Closure Completion Report was approved by IDEM on November 21, 2011. As of June 30, 2012, $4.3 million has been spent on the project. The remaining cost is estimated to be $186,000 for post construction monitoring work and was recorded as an accrued liability as of June 30, 2012.

Fairless Plant

In January 1992, U. S. Steel commenced negotiations with EPA regarding the terms of an Administrative Order on consent, pursuant to RCRA, under which U. S. Steel would perform an RFI and a CMS at our Fairless Plant. A Phase I RFI report was submitted during the third quarter of 1997. The cost to U. S. Steel to continue to maintain the interim measures, develop a Phase II/III RFI Work Plan and implement certain corrective measures is estimated to be $550,000. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See note 19 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

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Fairfield Works

A consent decree was signed by U. S. Steel, EPA and the U.S. DOJ and filed with the United States District Court for the Northern District of Alabama (United States of America v. USX Corporation) on December 11, 1997. In accordance with the consent decree, U. S. Steel initiated a RCRA corrective action program at the Fairfield Works facility. The Alabama Department of Environmental Management (ADEM) with the approval of EPA assumed primary responsibility for regulation and oversight of the RCRA corrective action program at Fairfield Works. ADEM approved the Phase II RFI work plan. In June, 2012, U. S. Steel submitted to ADEM the completion report for the Phase I Investigation of the Exum Materials Management Area that was undertaken voluntarily in October 2011. In total, the accrued liability for remaining work under the Corrective Action Program including the former Ensley facility was $591,000 at June 30, 2012, based on estimated remaining costs. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See note 19 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Lorain Tubular Operations

In September 2006, U. S. Steel received a letter from the Ohio Environmental Protection Agency (OEPA) inviting U. S. Steel to enter into discussions about RCRA Corrective Action at Lorain Tubular Operations. A Phase I RFI on identified SWMUs and Areas of Contamination is complete and a Phase II workplan that addresses additional soil investigations, site wide groundwater, and the pipe mill lagoon has been agreed upon by OEPA. As of June 30, 2012, U. S. Steel has spent $806,000 on studies at this site. Costs to complete additional projects are estimated to be $434,000. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See note 19 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Construction and start-up of a seep collection system at the D2 landfill was completed in the third and fourth quarters of 2011. The system was required by OEPA as part of a revised Post-Closure Care Plan for the landfill. Based on system influent and effluent water quality data, additional seep water treatment will be necessary, and is being designed to meet future permit limits. As of June 30, 2012, project costs have amounted to $1.4 million. The remaining cost of the project is expected to be $84,000 and was recorded as an accrued liability as of June 30, 2012.

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

Great Lakes Works

On February 13, 2007, Michigan Department of Environmental Quality (MDEQ) and U. S. Steel agreed to an Administrative Consent Order (the Order) that resolves alleged violations of Clean Water Act National Pollutant Discharge Elimination System (NPDES) permits at the Great Lakes Works facility. As required by the Order, U. S. Steel has paid a civil penalty of $300,000 and has reimbursed MDEQ $50,000 in costs. The Order identified certain compliance actions to address the alleged violations. U. S. Steel has completed work on most of these compliance actions, and has initiated work on the others. As of June 30, 2012, $1.8 million has been spent on the project. In addition, $161,000 remains accrued for possible additional requirements.

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On October 5, 2009, after an inspection of Great Lakes Works, as part of EPA Region V s regional enforcement initiative, U. S. Steel received an NOV/FOV from EPA Region V alleging that Great Lakes Works violated casthouse roof monitor and baghouse opacity limits; slag pit opacity limits; Basic Oxygen Process (BOP) roof monitor opacity limits; and certain permit recordkeeping and parametric monitoring requirements. U. S. Steel has met with EPA regarding the alleged violations and continues to negotiate resolution of the matter. EPA advised U. S. Steel that it has referred the matter to the DOJ. U. S. Steel EPA, DOJ and the Michigan Attorney General continue to discuss resolution of the allegations.

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

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

On June 17, 2011, U. S. Steel received a NOV/FOV from the EPA alleging that Great Lakes Works violated the National Emission Standards for Hazardous Air Pollutants and Michigan State Implementation Plan and Operating Permit requirements. This NOV/FOV stems from an EPA facility inspection in August 2008 and subsequent requests for information. EPA alleges that U. S. Steel failed to properly control air emissions while beaching iron and opening blast furnace relief valves. Excessive levels of particulate matter opacity are alleged to have occurred as a result of the above actions. U. S. Steel provided a written response to EPA on August 19, 2011, and continues to discuss resolution with EPA. EPA referred the matter to the DOJ. U. S. Steel, EPA, DOJ and the Michigan Attorney General continue to discuss resolution of the allegations.

Granite City Works

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

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

On February 2, 2009, U. S. Steel received an NOV from IEPA alleging approximately 16 separate violations at Granite City Works, including inappropriate charging of a coke battery while off the collecting main; failing to perform some required MACT monthly and quarterly inspections; failing to timely repair the baffles on the quench tower; failing to adequately wash the baffles on the quench tower; inappropriately using the emergency pour station at the BOP; failing to sufficiently apply a wetting agent to the slag from Blast Furnace A and failing to update and properly implement its Fugitive Dust Program. On November 16, 2009, U. S. Steel received a notice of intent to pursue legal action regarding the alleged violations from IEPA. Resolution of these issues continues to be negotiated with IEPA.

On March 17, 2009, U. S. Steel received an NOV from IEPA alleging the following at Granite City Works: door leaks from B Battery; volatile organic compounds from pressure relief valves from gas blanketing tank; coke by products process unit and information (lacking); failure to report retagging project for benzene in service equipment; and, failure to maintain records for benzene in service equipment repairs. IEPA has not made a penalty demand to date. Resolution of the issues identified in the NOV continues to be negotiated with IEPA. On November 16, 2009, Granite City Works received a notice of intent to pursue legal action regarding the alleged violations from IEPA. U. S. Steel continues to discuss resolution with the IEPA.

On October 5, 2009, U. S. Steel received an NOV/FOV from EPA Region V alleging that Granite City Works: failed to apply for and obtain a Prevention of Significant Deterioration/New Source Review permit for the 1994 B Blast Furnace reline (while the furnace was owned by National Steel Corporation); exceeded BOP roof monitor opacity limits, exceeded blast furnace casthouse roof monitor opacity limits; and failed to complete certain permit recordkeeping and parametric monitoring requirements. Granite City Works has met with EPA regarding the alleged violations and continues to negotiate resolution of the matter. EPA advised U. S. Steel that it has referred the matter to the DOJ. U. S. Steel, EPA, DOJ, and the Illinois Attorney General continue to discuss resolution of the allegations.

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

On August 19, 2010, U. S. Steel notified the IEPA that it could not certify compliance with air emission requirements for the coke plant with regards to coke doors and the coke scrubber car. U. S. Steel submitted compliance plans indicating that it would make repairs to the coke oven doors, evaluate the heating system and the scrubber car by November 30, 2010, certify compliance by February 28, 2011 and update the compliance plan after the results of the evaluation are known. U. S. Steel has completed its self-imposed obligations pursuant to the schedule it submitted to IEPA. IEPA issued a Violation Notice on November 10, 2010 alleging violations for noncompliance with coke door and coke scrubber car standards. On June 17, 2011, U. S. Steel received a Notice of Intent to Pursue Legal Action from IEPA regarding the NOV. On July 5, 2011, U. S. Steel met with IEPA to discuss resolution. On August 1, 2011, U. S. Steel provided a supplemental response to IEPA.

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

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Minnesota Ore Operations

U. S. Steel is currently responding to three separate Clean Air Act 114 Requests issued by EPA Region V regarding compliance with the Taconite MACT standards; and the installation and performance of low NOx burners at its Minnesota Ore Operations.

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

U. S. Steel and the Minnesota Pollution Control Agency (MPCA) reached agreement on a Schedule of Compliance (SOC) to reduce air emissions at the Minntac and Keetac facilities and to address alleged water quality issues at the Minntac facility. The SOC incorporates the Keetac Expansion Mercury Agreement associated with the MPCA s mercury Total Maximum Daily Load (TMDL) requirements and Minntac s Title V NOx reduction requirements. A dry control system will be installed at the Minntac facility to reduce PM, PM10, PM2.5, SO2, and mercury emissions. Parts of the SOC became effective on June 9, 2011, while other parts became effective on October 19, 2011 (effective date of the Keetac Expansion Air permit). U. S. Steel expects expenditures of approximately $210 million to install dry waste gas controls at Minntac; and approximately $16 million to install low NOx burners.

Geneva Works

At U. S. Steel s former Geneva Works, liability for environmental remediation, including the closure of three hazardous waste impoundments and facility-wide corrective action, has been allocated between U. S. Steel and the current property owner pursuant to an agreement and a permit issued by the Utah Department of Environmental Quality. As of June 30, 2012, U. S. Steel has spent $17.7 million to complete remediation on certain areas of the site. Having completed the investigation on a majority of the remaining areas identified in the permit, U. S. Steel has determined that the most effective means to address the remaining impacted material is to manage those materials in a previously approved on-site Corrective Action Management Unit (CAMU). U. S. Steel has an accrued liability of $65 million as of June 30, 2012, for our estimated share of the remaining costs of remediation, including the construction, waste management, closure and post closure of a CAMU.

Duluth Works

The former U. S. Steel Duluth Works site was placed on the National Priorities List under CERCLA in 1983 and on the State of Minnesota s Superfund list in 1984. Liability for environmental remediation at the site is governed by a Response Order by Consent executed with the MPCA in 1985 and a Record of Decision (ROD) signed by MPCA in 1989. As of June 30, 2012, U. S. Steel has spent $18.5 million to complete remediation on certain areas of the site. Current activity at the site is focused on completing the investigation feasibility study and remedial design of the two St. Louis River Estuary Operable Units (OUs) along with completing a feasibility study on several Upland OUs, as identified during the 5-year review of the site, conducted by the MPCA in 2008. The remaining cost of the project is estimated to be $23 million and was recorded as an accrued liability as of June 30, 2012.

Municipal Industrial Disposal Company (MIDC)

MIDC was a licensed disposal facility where U. S. Steel disposed coal tar and other wastes. The site was mismanaged by the operator and subsequently on August 30, 2002 U. S. Steel entered into a COA with the Pennsylvania Department of Environmental Protection to address the environmental issues at the site. While U. S. Steel was not the only entity to use the facility, U. S. Steel is the single remaining viable company responsible for the cleanup. An engineered remedy for the three locations at the site requiring remediation was implemented in July 2011 and is complete except for the submission of the final completion report to the agency. As of June 30, 2012, U. S. Steel has spent $11.6 million related to the project. The remaining cost of the project is estimated to be $524,000 and was recorded as an accrued liability as of June 30, 2012.

USS-POSCO Industries (UPI)

At UPI, a joint venture between subsidiaries of U. S. Steel and POSCO, corrective measures have been implemented for the majority of the former SWMUs. Prior to the formation of UPI, U. S. Steel owned and operated the Pittsburg, California facility and retained responsibility for the existing environmental conditions. Seven SWMUs remain at the facility. Based on their constituents, six of these SWMUs have been combined into two groups of three, while one SWMU remains a single entity. Investigation of the single SWMU is complete and an engineered remedy is in development for submission to Department of Toxic Substances Control (DTSC). As of June 30, 2012, $724,000 remains for ongoing environmental studies and investigations. For the remaining two SWMU groups, investigations continue. One group may not require further action pending a No Further Action decision by the California DTSC. For the other SWMU group, it is likely that corrective measures will be required, but it is not possible at this time to define a scope or estimate costs for what may be required by DTSC. It is reasonably possible that additional costs of as much as $25 million to $45 million may be incurred at this site in combination with four other projects. See note 19 to the Financial Statements Contingencies and Commitments Environmental Matters Remediation Projects Projects with Ongoing Study and Scope Development.

Other

In April 2003, U. S. Steel and Salomon Smith Barney Holdings, Inc. (SSB) entered into a consent order with the Kansas Department of Health & Environment (KDHE) concerning a former zinc smelting operation in Cherryvale, Kansas. Remediation was essentially completed in 2007 and U. S. Steel and SSB continue to work with KDHE to address the remaining issues. At June 30, 2012, an accrual of $354,000 remains available for these project contingencies.

On January 18, 2011, KDHE signed a Consent Agreement and Final Order (CAFO) which obligates U. S. Steel to prepare and implement a corrective action plan for two sites in Girard, Kansas. The sites are referred to as the Girard Zinc Works and the Cherokee Lanyon #2 site. The CAFO recognizes a single project incorporating the corrective action for both sites. A Final Corrective Action Completion Report was submitted to KDHE on June 4, 2012. As of June 30, 2012, U. S. Steel has an accrued liability of approximately $90,000 to conduct the remedial measures.

In January of 2004, U. S. Steel received notice of a claim from the Texas Commission on Environmental Quality (TCEQ) and notice of claims from citizens of a cap failure at the Dayton Landfill. U. S. Steel s allocated share is approximately 16 percent. The Remedial Action Plan for the site was approved by TCEQ in June 2009. Implementation of remedial measures was initiated in July 2010 and all field work was completed in November 2011. The accrued liability representing U. S. Steel s share to implement the post closure monitoring program was $774,000 as of June 30, 2012.

In May 2010, MPCA notified Canadian National Railroad Company (CN) of apparent environmental impacts on their property adjacent to the former U. S. Steel Duluth Works. In February 2011, CN presented U. S. Steel with information indicating U. S. Steel s connection to the site. U. S. Steel has conducted site visits as well as reviewed a site investigation report that CN prepared and submitted to MPCA in August 2011. On December 6, 2011, U. S. Steel agreed to purchase the site and to take responsibility for addressing the identified environmental impacts. On February 9, 2012, U. S. Steel and Wisconsin Central Ltd., a subsidiary of CN, executed a Binding Letter of Intent. The property transaction was closed on June 26, 2012. As of June 30, 2012, U. S. Steel has an accrued liability of approximately $2 million.

The Canadian and Ontario governments have identified for remediation a sediment deposit, commonly referred to as Randle Reef, in Hamilton Harbor near USSC s Hamilton Works, for which the regulatory agencies estimate expenditures of approximately C$120 million (approximately $118 million). The national and provincial governments have each allocated C$30 million (approximately $29 million) for this project and may be willing to increase that amount to C$40 million (approximately $39 million), respectively, provided that local sources, including industry, agree to fund C$40 million (approximately $39 million). Current local funding commitments are C$35 million (approximately $34 million). USSC has committed to contribute approximately 11,000 tons of hot rolled steel and to fund C$2 million (approximately $2 million). The steel contribution is expected to be made in 2014. As of June 30, 2012, U. S. Steel has an accrued liability of approximately $10 million reflecting the contribution commitment.

U. S. Steel is identified as a Potentially Responsible Party (PRP) at the former Breslube-Penn operating site, an oil recycling and solvent recovery operation located in Coraopolis, PA. U. S. Steel s allocated share of the cost among the participating PRPs is approximately 29 percent. A Record of Decision was issued by the US EPA in August 2007 and a Remedial Design was approved in 2011. As of June 30, 2012, U. S. Steel has an accrued liability of approximately $2 million reflecting U. S. Steel s share of the cost to implement remedial measures at the site.

ASBESTOS LITIGATION

At June 30, 2012, U. S. Steel was a defendant in approximately 735 active cases involving approximately 3,275 plaintiffs. As of December 31, 2011, U. S. Steel was a defendant in approximately 695 active cases involving approximately 3,235 plaintiffs. For the period ended June 30, 2012, settlements and dismissals resulted in the disposition of approximately 80 claims and U. S. Steel paid approximately $7 million in settlements. New filings added approximately 120 claims.

About 2,570, or approximately 78 percent, of these claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel s experience in such cases, it believes that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs. Most of the claims filed in 2009 through 2012 involve individual or small groups of claimants. Historically, these claims against U. S. Steel fall into three major groups: (1) claims made by persons who allegedly were exposed to asbestos at U. S. Steel facilities (referred to as premises claims); (2) claims made by industrial workers allegedly exposed to products formerly manufactured by U. S. Steel; and (3) claims made under certain federal and general maritime laws by employees of former operations of U. S. Steel. The ultimate outcome of any claim depends upon a myriad of legal and factual issues, including whether the plaintiff can prove actual disease, if any; actual exposure, if any, to U. S. Steel products; the duration of exposure to asbestos, if any, on U. S. Steel s premises and the plaintiff s exposure to other sources of asbestos. In general, the only insurance available to U. S. Steel with respect to asbestos claims is excess casualty insurance, which has multi-million dollar self-insured retentions. To date, U. S. Steel has received minimal payments under these policies relating to asbestos claims.

These asbestos cases allege a variety of respiratory and other diseases based on alleged exposure to asbestos. U. S. Steel is currently a defendant in cases in which a total of approximately 245 plaintiffs allege that they are suffering from mesothelioma. The potential for damages against defendants may be greater in cases in which the plaintiffs can prove mesothelioma.

In many cases in which claims have been asserted against U. S. Steel, the plaintiffs have been unable to establish any causal relationship to U. S. Steel or our products or premises; however, with the decline in mass plaintiff cases the incidence of claimants actually alleging a claim against U. S. Steel is increasing. In addition, in many asbestos cases, the plaintiffs have been unable to demonstrate that

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they have suffered any identifiable injury or compensable loss at all; that any injuries that they have incurred did in fact result from alleged exposure to asbestos; or that such alleged exposure was in any way related to U. S. Steel or our products or premises.

In every asbestos case in which U. S. Steel is named as a party, the complaints are filed against numerous named defendants and generally do not contain allegations regarding specific monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants and in no case is there any allegation of monetary damages against U. S. Steel. Historically, approximately 78 percent of the cases against U. S. Steel did not specify any damage amount or stated that the damages sought exceeded the amount required to establish jurisdiction of the court in which the case was filed. (Jurisdictional amounts generally range from $25,000 to $75,000.) U. S. Steel does not consider the amount of damages alleged, if any, in a complaint to be relevant in assessing our potential exposure to asbestos liabilities.

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

The following table shows activity with respect to asbestos litigation:

Period ended	Opening Number of Claims	Claims Dismissed, Settled and Resolved	New Claims	Closing Number of Claims	Amounts Paid to Resolve Claims (in millions)
December 31, 2009	3,050	200	190	3,040	$ 7
December 31, 2010	3,040	200	250	3,090	$ 8
December 31, 2011	3,090	130	275	3,235	$ 8
June 30, 2012	3,235	80	120	3,275	$ 7

The amount U. S. Steel has accrued for pending asbestos claims is not material to U. S. Steel s financial position. U. S. Steel does not accrue for unasserted asbestos claims because it is not possible to determine whether any loss is probable with respect to such claims or even to estimate the amount or range of any possible losses. The vast majority of pending claims against us allege so-called premises liability-based exposure on U. S. Steel s current or former premises. These claims may be made by an indeterminable number of people such as truck drivers, railroad workers, salespersons, contractors and their employees, government inspectors, customers, visitors and even trespassers. In most cases, the claimant also was exposed to asbestos in non-U. S. Steel settings; the relative periods of exposure between U. S. Steel and non-U. S. Steel settings vary with each claimant; and the strength or weakness of the causal link between U. S. Steel exposure and any injury vary widely as do the nature and severity of the injury claimed.

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

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

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Item 1A. RISK FACTORS

The following risk factor has been updated from U. S. Steel s Form 10-K for the year ended December 31, 2011 to reflect the potential effects from the recently enacted pension stabilization legislation.

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

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

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

The turmoil in financial markets during 2008 led to significant declines in the value of equity investments that are held by the trusts under our pension plans and the trust to pay for retiree health care and life insurance benefits. While some of the 2008 losses were recovered in 2009 and 2010, poorly performing global equity markets in 2011 negatively impacted our underfunded positions at December 31, 2011. Additionally, certain corporate bond rates are utilized in determining the discount rate used to measure our pension and other benefit obligations for both U.S. GAAP and funding purposes. The Federal Reserve Board has continued to suppress interest rates in an attempt to stimulate the broader American economy, which has had the direct effect of lowering the bond rates used in the determination of the appropriate discount rate. A lower discount rate reduces the funded position of these plans. The recently enacted pension stabilization legislation includes a revised interest rate formula used to measure defined benefit pension obligations for calculating minimum annual contributions. The new interest rate formula is expected to result in higher interest rates compared to prior law over the next few years which will improve the funded status of our main defined benefit pension plan and reduce minimum required contributions. This reduces, but does not eliminate, the risk of mandatory contributions.

The level of cash funding for our defined benefit pension plans in future years depends upon various factors including voluntary contributions that we may make, future pension plan asset performance, actual interest rates under the law, and the impacts of business acquisitions or divestitures, union negotiated benefit changes and future government regulations.

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

U. S. Steel contributes to a multiemployer defined benefit pension plan domestically for USW-represented employees formerly employed by National Steel and represented employees hired after May 2003 called the Steelworkers Pension Trust (SPT). We have legal requirements for future funding of this plan should the SPT become significantly underfunded or we decide to withdraw from the plan. Either of these scenarios may negatively impact our future cash flows. The collective bargaining agreements with the USW entered into effective September 1, 2008 (the 2008 CBAs) increased our required contributions to this plan from $1.80 to $2.65 per hour for most steelworker employees. Collectively bargained company contributions to the plan could increase as a result of future changes agreed to by the Company and the USW.

Despite the global recession, domestic health care costs continue to increase each year, and could accelerate due to inflationary pressures on the overall health care trend rates. These pressures may in part stem from requirements legislated by the Patient Protection and Affordable Care Act enacted in 2010. This may adversely impact our results of operations and cash flow.

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

Item 4. MINE SAFETY DISCLOSURES

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

Item 6. EXHIBITS

10.1	Form of Offer Letter to Mario Longhi. Incorporated by reference to Exhibit 10.1 to United States Steel Corporation s Form 8-K filed on July 2, 2012, Commission File Number 1-16811
10.2	Exhibit A to Offer Letter to Mario Longhi Supplemental Account. Incorporated by reference to Exhibit 10.2 to United States Steel Corporation s Form 8-K filed on July 2, 2012, Commission File Number 1-16811
10.3	Non Tax-Qualified Retirement Account Program. Incorporated by reference to Exhibit 10.3 to United States Steel Corporation s Form 8-K filed on July 2, 2012, Commission File Number 1-16811
10.4	Form of Non-Compete Agreement attached to Offer Letter to Mario Longhi. Incorporated by reference to Exhibit 10.4 to United States Steel Corporation s Form 8-K filed on July 2, 2012, Commission File Number 1-16811
10.5	Form of Retention Performance Award Grant Agreement. Incorporated by reference to Exhibit 10.5 to United States Steel Corporation s Form 8-K filed on July 2, 2012, Commission File Number 1-16811
31.1	Certification of Chief Executive Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as promulgated by the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95	Mine Safety Disclosure required under Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act
101 INS	XBRL Instance Document
101 SCH	XBRL Taxonomy Extension Schema Document
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB	XBRL Taxonomy Extension Label Linkbase Document
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

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

UNITED STATES STEEL CORPORATION

By /s/ Gregory A. Zovko

Gregory A. Zovko
Vice President and Controller
July 31, 2012

WEB SITE POSTING

This Form 10-Q will be posted on the U. S. Steel web site, www.ussteel.com, within a few days of its filing.