

UNITED STATES STEEL CORP  
Form 10-Q  
July 29, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the Quarterly Period Ended June 30, 2015

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 ☒ No ☐

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

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

Large accelerated filer	<input checked="" type="checkbox"/> P	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
				(Do not check if a smaller reporting company)			

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

Yes ☐ No ☒ P

Common stock outstanding at July 23, 2015 – 146,249,443 shares

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, we have identified such forward-looking statements by using the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “target”, “forecast”, “aim,” “will” and similar expressions, or by using future dates in connection with any discussion of, among other things, operating performance, trends, events or developments that we expect or anticipate will occur in the future, statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. Forward-looking statements are not historical facts, but instead represent only the Company’s beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company’s control. It is possible that the Company’s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Management believes that these forward-looking statements are reasonable as of the time made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company’s historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to the risks and uncertainties described in this report and in “Item 1A. Risk Factors” and “Supplementary Data - Disclosures About Forward-Looking Statements” in our Annual Report on Form 10-K for the year ended December 31, 2014, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

References in this Quarterly Report on Form 10-Q to "U. S. Steel", "the Company", "we", "us", and "our" refer to United States Steel Corporation and its consolidated subsidiaries unless otherwise indicated by the context.

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UNITED STATES STEEL CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions, except per share amounts)	2015	2014	2015	2014
Net sales:				
Net sales	\$2,509	\$4,128	\$5,455	\$8,297
Net sales to related parties (Note 19)	391	272	717	551
Total	2,900	4,400	6,172	8,848
Operating expenses (income):				
Cost of sales (excludes items shown below)	2,792	4,097	5,858	8,135
Selling, general and administrative expenses	107	143	209	281
Depreciation, depletion and amortization	138	165	282	331
Earnings from investees	(17)	(57)	(23)	(53)
Loss on write-down of retained interest in USSC (Note 22)	255	—	255	—
Restructuring and other charges (Note 20)	19	18	172	18
Net gain on disposal of assets (Note 21)	(1)	(1)	(1)	(21)
Other income, net	(1)	—	(1)	—
Total	3,292	4,365	6,751	8,691
(Loss) earnings before interest and income taxes (EBIT)	(392)	35	(579)	157
Interest expense	53	60	104	121
Interest income	—	(1)	—	(2)
Other financial costs	2	5	13	14
Net interest and other financial costs (Note 7)	55	64	117	133
(Loss) earnings before income taxes	(447)	(29)	(696)	24
Income tax benefit (Note 9)	(186)	(11)	(360)	(10)
Net (loss) earnings	(261)	(18)	(336)	34
Less: Net earnings attributable to noncontrolling interests	—	—	—	—
Net (loss) earnings attributable to United States Steel Corporation	\$(261)	\$(18)	\$(336)	\$34
Earnings (loss) per common share (Note 11):				
Earnings (loss) per share attributable to United States Steel Corporation stockholders:				
-Basic	\$(1.79)	\$(0.12)	\$(2.31)	\$0.23
-Diluted	\$(1.79)	\$(0.12)	\$(2.31)	\$0.23

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



UNITED STATES STEEL CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2015	2014	2015	2014
Net (loss) earnings	\$(261	) \$(18	) \$(336	) \$34
Other comprehensive (loss) income, net of tax:				
Changes in foreign currency translation adjustments	25	(12	) (78	) (14
Changes in pension and other employee benefit accounts	44	72	87	122
Total other comprehensive income, net of tax	69	60	9	108
Comprehensive (loss) income including noncontrolling interest	(192	) 42	(327	) 142
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive (loss) income attributable to United States Steel Corporation	\$(192	) \$42	\$(327	) \$142

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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$1,210	\$1,354
Receivables, less allowance of \$28 and \$45	1,270	1,632
Receivables from related parties, less allowance of \$235 and \$218 (Note 19)	227	310
Inventories (Note 12)	2,330	2,496
Deferred income tax benefits (Note 9)	353	602
Other current assets	46	37
Total current assets	5,436	6,431
Property, plant and equipment	14,703	15,139
Less accumulated depreciation and depletion	10,272	10,565
Total property, plant and equipment, net	4,431	4,574
Investments and long-term receivables, less allowance of \$8 in both periods	564	577
Long-term receivables from related parties, less allowance of \$1,415 and \$1,188	108	362
Intangibles – net (Note 5)	200	204
Deferred income tax benefits (Note 9)	365	46
Other noncurrent assets	109	120
Total assets	\$11,213	\$12,314
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	\$1,678	\$1,870
Accounts payable to related parties (Note 19)	133	131
Bank checks outstanding	12	1
Payroll and benefits payable	879	1,003
Accrued taxes	126	134
Accrued interest	52	52
Short-term debt and current maturities of long-term debt (Note 14)	362	378
Total current liabilities	3,242	3,569
Long-term debt, less unamortized discount (Note 14)	3,124	3,120
Employee benefits	952	1,117
Deferred income tax liabilities (Note 9)	16	301
Deferred credits and other noncurrent liabilities	398	407
Total liabilities	7,732	8,514
Contingencies and commitments (Note 21)		
Stockholders' Equity (Note 17):		
Common stock (150,925,911 shares issued) (Note 11)	151	151
Treasury stock, at cost (4,691,339 and 5,270,872 shares)	(345)	(396)
Additional paid-in capital	3,596	3,623
Retained earnings	1,510	1,862
Accumulated other comprehensive loss (Note 18)	(1,432)	(1,441)
Total United States Steel Corporation stockholders' equity	3,480	3,799
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	\$11,213	\$12,314
The accompanying notes are an integral part of these consolidated financial statements.		





UNITED STATES STEEL CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 30,	
(Dollars in millions)	2015	2014
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net (loss) earnings	\$(336)	) \$34
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	282	331
Loss on write-down of retained interest in USSC (Note 22)	255	—
Restructuring and other charges (Note 20)	172	18
Provision for doubtful accounts	(16)	) 1
Pensions and other postretirement benefits	(24)	) (59)
Deferred income taxes	(345)	) 16
Net gain on disposal of assets (Note 21)	(1)	) (21)
Distributions received, net of equity investees earnings	(18)	) (52)
Changes in:		
Current receivables	371	(102)
Inventories	142	341
Current accounts payable and accrued expenses	(287)	) 594
Income taxes receivable/payable	18	153
Bank checks outstanding	11	44
All other, net	(9)	) 55
Net cash provided by operating activities	215	1,353
Investing activities:		
Capital expenditures	(276)	) (186)
Acquisitions	(25)	) —
Disposal of assets	1	26
Change in restricted cash, net	7	15
Investments, net	(2)	) (2)
Net cash used in investing activities	(295)	) (147)
Financing activities:		
Repayment of long-term debt	(18)	) (322)
Receipts from exercise of stock options	1	1
Dividends paid	(15)	) (15)
Net cash used in financing activities	(32)	) (336)
Effect of exchange rate changes on cash	(32)	) (3)
Net (decrease) increase in cash and cash equivalents	(144)	) 867
Cash and cash equivalents at beginning of year	1,354	604
Cash and cash equivalents at end of period	\$1,210	\$1,471

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

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Significant Accounting Policies

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

The consolidated results for the three and six months ended June 30, 2015 do not reflect the results of U. S. Steel Canada Inc. (USSC) due to USSC's filing for creditor protection pursuant to Canada's Companies' Creditors Arrangement Act (CCAA) on September 16, 2014. The consolidated statement of operations and the consolidated statement of comprehensive income (loss) for the three and six months ended June 30, 2014 and the consolidated statement of cash flows for the six months ended June 30, 2014 include the results for USSC.

The year-end consolidated balance sheet data was derived from audited statements but does not include all disclosures required for complete financial statements by accounting principles generally accepted in the United States of America (U.S. GAAP). The other information in these financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair statement 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 U.S. GAAP for complete financial statements. Additional information is contained in the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which should be read in conjunction with these financial statements.

2. New Accounting Standards

On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. ASU 2015-11 will not apply to inventories that are measured using either the last-in, first-out (LIFO) method or the retail inventory method. ASU 2015-11 is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years; early application is permitted. U. S. Steel is evaluating the financial statement implications of adopting ASU 2015-11.

On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 changes the presentation of debt issuance costs in financial statements and requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years; early application is permitted. An entity is required to apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. U. S. Steel is evaluating the financial statement implications of adopting ASU 2015-03.

On August 27, 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. Prior to the issuance of this standard, there was no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 is effective for all entities for interim and annual periods ending after December 15, 2016; early application is permitted. U. S. Steel does not expect any financial statement impact relating to the adoption of this ASU.

On May 28, 2014, the FASB and the International Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is effective for interim and annual

periods beginning after December 15, 2016; early application is not permitted.

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On July 9, 2015, the FASB decided on a one year deferral of the effective date of ASU 2014-09, but to permit entities to adopt the standard on the original effective date if they choose. U. S. Steel is evaluating the financial statement implications of adopting ASU 2014-09.

### 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 our railroad and real estate businesses that do not constitute reportable segments are combined and disclosed in the Other Businesses category.

The Flat-Rolled segment information subsequent to September 16, 2014 does not include USSC. Transactions between U. S. Steel and USSC subsequent to USSC applying for relief from its creditors pursuant to CCAA (CCAA filing) are considered related party transactions.

Effective January 1, 2015, the Flat-Rolled segment has been realigned to better serve customer needs through the creation of commercial entities to specifically address customers in the automotive, consumer, industrial, service center and mining market sectors. This realignment did not affect the Company's reportable segments.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being earnings (loss) before interest and income taxes (EBIT). EBIT 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 EBIT 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.

The results of segment operations for three months ended June 30, 2015 and 2014 are:

(In millions) Three Months Ended June 30, 2015	Customer Sales	Intersegment Sales	Net Sales	Earnings (loss) from investees	EBIT
Flat-Rolled	\$2,125	\$69	\$2,194	\$17	\$(64 )
USSE	600	1	601	—	20
Tubular	160	—	160	2	(66 )
Total reportable segments	2,885	70	2,955	19	(110 )
Other Businesses	15	25	40	(2 )	6
Reconciling Items and Eliminations	—	(95	) (95	) —	(288 )
Total	\$2,900	\$—	\$2,900	\$17	\$(392 )
Three Months Ended June 30, 2014					
Flat-Rolled	\$2,938	\$325	\$3,263	\$56	\$30
USSE	757	43	800	—	38
Tubular	686	1	687	3	47
Total reportable segments	4,381	369	4,750	59	115
Other Businesses	19	34	53	(2 )	17
Reconciling Items and Eliminations	—	(403	) (403	) —	(97 )
Total	\$4,400	\$—	\$4,400	\$57	\$35



The results of segment operations for the six months ended June 30, 2015 and 2014 are:

(In millions) Six Months Ended June 30, 2015	Customer Sales	Intersegment Sales	Net Sales	Earnings (loss) from investees	EBIT
Flat-Rolled	\$4,318	\$173	\$4,491	\$22	\$(131 )
USSE	1,292	1	1,293	—	57
Tubular	531	—	531	4	(65 )
Total reportable segments	6,141	174	6,315	26	(139 )
Other Businesses	31	54	85	(3 )	14
Reconciling Items and Eliminations	—	(228 )	(228 )	—	(454 )
Total	\$6,172	\$—	\$6,172	\$23	\$(579 )
Six Months Ended June 30, 2014					
Flat-Rolled	\$5,965	\$628	\$6,593	\$50	\$115
USSE	1,516	44	1,560	—	70
Tubular	1,329	2	1,331	5	71
Total reportable segments	8,810	674	9,484	55	256
Other Businesses	38	68	106	(2 )	30
Reconciling Items and Eliminations	—	(742 )	(742 )	—	(129 )
Total	\$8,848	\$—	\$8,848	\$53	\$157

The following is a schedule of reconciling items to EBIT:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Items not allocated to segments:				
Postretirement benefit expense <sup>(a)</sup>	\$(14 )	\$(32 )	\$(27 )	\$(64 )
Other items not allocated to segments:				
Loss on write-down of retained interest in USSC (Note 22)	(255 )	—	(255 )	—
Restructuring and other charges <sup>(b)</sup>	(19 )	—	(19 )	—
Loss on shutdown of coke production facilities <sup>(b)</sup>	—	—	(153 )	—
Litigation reserves (Note 21)	—	(70 )	—	(70 )
Loss on assets held for sale <sup>(b)</sup>	—	(14 )	—	(14 )
Curtailment gain (Note 6)	—	19	—	19
Total other items not allocated to segments	(274 )	(65 )	(427 )	(65 )
Total reconciling items	\$(288 )	\$(97 )	\$(454 )	\$(129 )

<sup>(a)</sup> Consists of the net periodic benefit cost elements, other than service cost and amortization of prior service cost for active

employees, associated with our defined pension, retiree health care and life insurance benefit plans.

<sup>(b)</sup> Included in Restructuring and Other Charges on the Consolidated Statements of Operations. See Note 20 to the Consolidated Financial Statements.

#### 4. Acquisition

On May 29, 2015, the Company purchased the 50 percent joint venture interest in Double Eagle Steel Coating Company (DESCO) that it did not previously own for \$25 million. DESCO's electrolytic galvanizing line (EGL) has become part of the larger operational footprint of U. S. Steel's Great Lakes Works within the Flat-Rolled segment. The EGL is increasing our ability to provide industry leading advanced high strength steels, including Gen 3 grades under

development, as well as to provide high quality exposed steel for automotive body and closure applications. The Company's previously held 50 percent equity interest of \$3 million was recorded at

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fair market value resulting in a net gain of approximately \$3 million which has been recognized in the earnings from investees line in the consolidated statement of operations. Goodwill of approximately \$3 million was recognized and is included as a component of other noncurrent assets in the Company's consolidated balance sheet. The fair value of the DESCO acquisition was measured using both cost and market approaches, Level 2 inputs, in accordance with ASC No. 820, Fair Value Measurement. Transaction costs associated with the acquisition were insignificant. The amount of revenue recognized in the consolidated statement of operations as a result of the acquisition was not significant to the three month period ended June 30, 2015.

#### 5. Intangible Assets

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

(In millions)	Useful Lives	As of June 30, 2015			As of December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22-23 Years	\$132	\$49	\$83	\$132	\$46	\$86
Other	2-20 Years	23	14	9	23	13	10
Total amortizable intangible assets		\$155	\$63	\$92	\$155	\$59	\$96

Identifiable intangible assets with finite lives are reviewed for impairment whenever events or circumstances indicate that the carrying values may not be recoverable.

The carrying amount of acquired water rights with indefinite lives as of June 30, 2015 and December 31, 2014 totaled \$75 million. The water rights are tested for impairment annually in the third quarter. U. S. Steel performed a qualitative impairment evaluation of its water rights for 2014. The 2014 and prior year tests indicated the water rights were not impaired.

During 2013, U. S. Steel acquired indefinite-lived intangible assets for \$12 million and entered into an agreement to make future payments contingent upon certain factors. The aggregate purchase price was \$36 million, and U. S. Steel allocated \$33 million to indefinite-lived intangible assets, based upon their estimated fair value. The liability for contingent consideration is reassessed each quarter. The maximum potential liability for contingent consideration is \$53 million. As of June 30, 2015, U. S. Steel has recorded a liability of \$24 million to reflect the estimated fair value of the contingent consideration. Contingent consideration was valued using a probability weighted discounted cash flow using both Level 2 inputs based on 2013 Standard and Poor's Bond Guide as well as Level 3, significant other unobservable inputs, based on internal forecasts and the weighted average cost of capital derived from market data. Amortization expense was \$2 million in the three months ended June 30, 2015 and \$3 million in the three months ended June 30, 2014. Amortization expense was \$4 million in the six months ended June 30, 2015 and \$5 million in the six months ended June 30, 2014. The estimated future amortization expense of identifiable intangible assets during the next five years is \$3 million for the remaining portion of 2015 and \$7 million each year from 2016 to 2019.

## 6. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended June 30, 2015 and 2014:

(In millions)	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Service cost	\$27	\$27	\$6	\$6
Interest cost	65	109	25	37
Expected return on plan assets	(111	) (154	) (39	) (34
Amortization of prior service cost	5	5	(1	) (4
Amortization of actuarial net loss (gain)	64	71	1	(1
Net periodic benefit cost, excluding below	50	58	(8	) 4
Multiemployer plans	16	19	—	—
Settlement, termination and curtailment losses/(gains)	2	8	—	(19
Net periodic benefit cost	\$68	\$85	\$(8	) \$(15

The following table reflects the components of net periodic benefit cost for the six months ended June 30, 2015 and 2014:

(In millions)	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Service cost	\$53	\$54	\$11	\$12
Interest cost	131	218	49	73
Expected return on plan assets	(221	) (307	) (77	) (69
Amortization of prior service cost	9	11	(3	) (7
Amortization of actuarial net loss (gain)	128	141	3	(2
Net periodic benefit cost, excluding below	100	117	(17	) 7
Multiemployer plans	34	37	—	—
Settlement, termination and curtailment losses/(gains)	5	15	—	(19
Net periodic benefit cost	\$139	\$169	\$(17	) \$(12

## Settlements and Curtailments

During the first six months of 2015, the non-qualified pension plan incurred settlement charges of \$5 million due to lump sum payments for certain individuals. In 2014, pension settlements were recorded in the non-qualified pension plan related to the retirement of several U. S. Steel executives that occurred throughout 2013. In accordance with Internal Revenue Code requirements, these executives were required to wait six months before receiving their non-qualified pension payments.

A curtailment gain of \$19 million was recognized in the three months ended June 30, 2014 due to a change to the post retirement medical benefits for non-union, pre-Medicare retirees that will take effect after 2017.

## Employer Contributions

During the first six months of 2015, U. S. Steel made cash payments of \$33 million to the Steelworkers' Pension Trust and \$14 million of pension payments not funded by trusts.

During the first six months of 2015, cash payments of \$89 million were made for other postretirement benefit payments not funded by trusts. In addition, U. S. Steel made a required contribution of \$10 million in the first six months of 2015 to our trust for represented retiree health care and life insurance benefits.

Company contributions to defined contribution plans totaled \$11 million and \$12 million in the three months ended June 30, 2015 and 2014, respectively. Company contributions to defined contribution plans totaled \$21 million and \$24 million for the six months ended June 30, 2015 and 2014, respectively.

#### Non-retirement postemployment benefits

U. S. Steel incurred costs of approximately \$25 million and \$40 million for the three and six months ended June 30, 2015 related to the accrual of employee costs for supplemental unemployment benefits and the continuation of health care benefits and life insurance coverage for employees associated with the temporary idling of certain facilities and reduced production at others. Payments for these benefits during the three and six months ended June 30, 2015 were \$13 million and \$14 million, respectively. There were no significant similar costs incurred during the three and six months ended June 30, 2014.

#### Pension Funding

In November 2013, U. S. Steel's Board of Directors authorized voluntary contributions to U. S. Steel's trusts for pensions and other benefits of up to \$300 million through the end of 2015. In August 2014, U. S. Steel made a voluntary contribution of \$140 million to our main U.S. defined benefit plan.

#### 7. Net Interest and Other Financial Costs

Net interest and other financial costs includes interest expense (net of capitalized interest), interest income, financing costs, derivatives gains and losses and foreign currency remeasurement gains and losses. Foreign currency gains and losses are primarily a result of foreign currency denominated assets and liabilities that require remeasurement and the impacts of euro-U.S. dollar derivatives activity.

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 (the Committee) under the 2005 Stock Incentive Plan (the Plan), which is more fully described in Note 13 of the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2014. An aggregate of 21,250,000 shares of U. S. Steel common stock may be issued under the Plan. As of June 30, 2015, 2,629,736 shares were available for future grants.

During the first quarter of 2014, the Committee added return on capital employed (ROCE) as a second performance measure for the Performance Awards as permitted under the terms of the Plan. Prior to the addition of the ROCE awards, performance awards were based solely on a total shareholder return (TSR) metric. ROCE awards granted are measured on a weighted average basis of the Company's consolidated worldwide EBIT, as adjusted, divided by consolidated worldwide capital employed, as adjusted, over a three year period.

Weighted average ROCE is calculated based on the ROCE achieved in the first, second and third years of the performance period, weighted at 20 percent, 30 percent and 50 percent, respectively. The ROCE awards will payout at approximately 50 percent at the threshold level, 100 percent at the target level and 200 percent at the maximum level. Amounts in between the threshold percentages are interpolated.

Compensation expense associated with the ROCE awards will be contingent based upon the achievement of the specified ROCE metric as outlined in the Plan and will be adjusted on a quarterly basis to reflect the probability of achieving the ROCE metric.

Recent grants of stock-based compensation consist of stock options, restricted stock units, and TSR and ROCE performance awards. Stock options are generally issued at the market price of the underlying stock on the date of the grant. Upon exercise of stock options, shares of U. S. Steel common stock are issued from treasury stock. The

following table is a general summary of the awards made under the Plan.

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	2015		2014	
Grant Details	Shares <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Shares <sup>(a)</sup>	Fair Value <sup>(b)</sup>
Stock Options	1,638,540	\$10.02	1,496,440	\$9.93
Restricted Stock Units	794,370	\$24.71	724,510	\$24.29
Performance Awards: <sup>(c)</sup>				
TSR	273,560	\$24.95	282,770	\$22.09
ROCE <sup>(d)</sup>	—	\$—	262,800	\$23.76

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

(b) Represents the per share weighted-average for all grants during the quarter.

(c) The number of performance awards shown represents the target value of the award.

(d) In lieu of ROCE equity awards being granted in 2015, the Company granted cash settled ROCE incentives to certain members of executive management.

U. S. Steel recognized pretax stock-based compensation expense in the amount of \$12 million and \$8 million in the three month periods ended June 30, 2015 and 2014, respectively, and \$23 million and \$17 million in the first six months of 2015 and 2014, respectively.

As of June 30, 2015, total future compensation expense related to nonvested stock-based compensation arrangements was \$54 million, and the weighted average period over which this expense is expected to be recognized is approximately 1.4 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 <sup>(a)</sup>	2015 Grants	2014 Grants	
Grant date price per share of option award	\$24.74	\$24.29	
Exercise price per share of option award	\$24.74	\$24.29	
Expected annual dividends per share, at grant date	\$0.20	\$0.20	
Expected life in years	5.0	5.0	
Expected volatility	47	%49	%
Risk-free interest rate	1.639	%1.621	%
Grant date fair value per share of unvested option awards as calculated from above	\$10.02	\$9.93	

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

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

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

TSR 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. TSR performance awards can vest at between zero and 200 percent of the target award. The fair value of the TSR performance awards is calculated using a Monte-Carlo simulation.

ROCE performance awards vest at the end of a three-year performance period contingent upon meeting the specified ROCE metric. ROCE performance awards can vest at between zero and 200 percent of the target award. The fair

value of the ROCE performance awards is the average market price of the underlying common stock on the date of grant.

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## 9. Income Taxes

### Tax provision

For the six months ended June 30, 2015 and 2014, we recorded a tax benefit of \$360 million on our pretax loss of \$696 million and a tax benefit of \$10 million on our pretax income of \$24 million, respectively. The tax provision reflects a benefit for percentage depletion in excess of cost depletion for iron ore that we produce and consume or sell. Included in the tax provision is a net benefit of \$31 million relating to the adjustment of certain tax reserves in the first six months of 2015. The tax provision does not reflect any tax benefit for pretax losses in Canada, prior to the deconsolidation on September 16, 2014, which is a jurisdiction where we had recorded a full valuation allowance on deferred tax assets.

The tax benefit for the first six months of 2015 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 2015 pretax results for U.S. and foreign income or loss vary from estimates applied herein, the actual tax provision or benefit recognized in 2015 could be materially different from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2015.

### Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance in Accounting Standards Codification (ASC) Topic 740 on income taxes. The total amount of gross unrecognized tax benefits was \$80 million at June 30, 2015 and \$112 million at December 31, 2014. The change in unrecognized tax benefits reflects a net decrease primarily due to the conclusion of certain tax examinations. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$21 million as of June 30, 2015 and \$59 million as of December 31, 2014. U. S. Steel records interest related to uncertain tax positions as a part of net interest and other financial costs in the consolidated statement of operations. Any penalties are recognized as part of selling, general and administrative expenses. As of June 30, 2015 and December 31, 2014, U. S. Steel had accrued liabilities of \$2 million and \$7 million, respectively, for interest related to uncertain tax positions. U. S. Steel currently does not have a liability for tax penalties.

### Deferred taxes

As of June 30, 2015, the net domestic deferred tax asset was \$701 million compared to \$318 million at December 31, 2014. A substantial amount of U. S. Steel's domestic deferred tax assets relates to employee benefits that will become deductible for tax purposes over an extended period of time as cash contributions are made to employee benefit plans and retiree benefits are paid in the future. We continue to believe it is more likely than not that the net domestic deferred tax asset will be realized.

As of June 30, 2015, the net foreign deferred tax asset was \$1 million, net of an established valuation allowance of \$5 million. At December 31, 2014, the net foreign deferred tax asset was \$29 million, net of an established valuation allowance of \$5 million. The net foreign deferred tax asset will fluctuate as the value of the U.S. dollar changes with respect to the euro.

# 10. Significant Equity Investments

Summarized unaudited income statement information for our significant equity investments for the six months ended June 30, 2015 and 2014 is reported below (amounts represent 100% of investee financial information):

(In millions)	2015	2014
Net sales	\$1,466	\$1,675
Cost of sales	1,228	1,399
Earnings before interest and income taxes	199	240
Net earnings	191	228
Net earnings attributable to significant equity investments	191	228

U. S. Steel's portion of the equity in net earnings of the significant equity investments above was \$15 million and \$46 million for the six months ended June 30, 2015 and 2014, respectively, which is included in the earnings from investees line on the Consolidated Statement of Operations.

## 11. Earnings and Dividends Per Common Share

Earnings Per Share Attributable to United States Steel Corporation Stockholders

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

Diluted earnings per common share assumes the exercise of stock options, the vesting of restricted stock units and performance awards and the conversion of convertible notes, provided in each case the effect is dilutive. The "treasury stock" method is used to calculate the dilutive effect of the Senior Convertible Notes due in 2019 (2019 Senior Convertible Notes) due to our current intent and policy, among other factors, to settle the principal amount of the 2019 Senior Convertible Notes in cash upon conversion. The "if-converted" method was used to calculate the dilutive effect of the 2014 Senior Convertible Notes due May 2014 (2014 Senior Convertible Notes).



The computations for basic and diluted earnings 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)	2015	2014	2015	2014
Net (loss) earnings attributable to United States Steel Corporation stockholders	\$(261 )	\$(18 )	\$(336 )	\$34
Plus earnings effect of assumed conversion-interest on convertible notes	—	—	—	—
Net (loss) earnings after assumed conversion	\$(261 )	\$(18 )	\$(336 )	\$34
Weighted-average shares outstanding (in thousands):				
Basic	145,962	144,884	145,848	144,821
Effect of convertible notes	—	—	—	280
Effect of stock options, restricted stock units and performance awards	—	—	—	1,043
Adjusted weighted-average shares outstanding, diluted	145,962	144,884	145,848	146,144
Basic earnings per common share	\$(1.79 )	\$(0.12 )	\$(2.31 )	\$0.23
Diluted earnings per common share	\$(1.79 )	\$(0.12 )	\$(2.31 )	\$0.23

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Securities granted under the 2005 Stock Incentive Plan	9,139	8,630	9,139	3,775
Securities convertible under the Senior Convertible Notes <sup>(a)</sup>	—	4,993	—	7,446
Total	9,139	13,623	9,139	11,221

<sup>(a)</sup> On May 15, 2014, we redeemed the remaining \$322 million principal amount due under the 2014 Senior Convertible Notes. If the redemption had occurred on January 1, 2014, the antidilutive securities would be zero for the six months ended June 30, 2014.

#### Dividends Paid Per Share

The dividend for each of the first and second quarters of 2015 and 2014 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. The last-in, first-out (LIFO) method is the predominant method of inventory costing in the United States. At June 30, 2015 and December 31, 2014, the LIFO method accounted for 79 percent and 78 percent of total inventory values, respectively.

(In millions)	June 30, 2015	December 31, 2014
Raw materials	\$832	\$801
Semi-finished products	935	1,053
Finished products	494	563
Supplies and sundry items	69	79
Total	\$2,330	\$2,496

Current acquisition costs were estimated to exceed the above inventory values by \$1.0 billion at both June 30, 2015 and December 31, 2014, respectively. As a result of the liquidation of LIFO inventories, cost of sales decreased and EBIT increased by \$1 million and \$2 million in the three months ended June 30, 2015 and June 30, 2014, respectively. Cost of sales increased and EBIT decreased by \$3 million and \$7 million in the six months ended June 30, 2015 and June 30, 2014, respectively, as a result of liquidation of LIFO inventories.

Inventory includes \$67 million and \$69 million of property held for residential or commercial development as of June 30, 2015 and December 31, 2014, respectively.

### 13. Derivative Instruments

U. S. Steel is exposed to foreign currency exchange rate risks as a result of our European operations. USSE's revenues are primarily in euros and costs are primarily in U.S. dollars and euros. 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 currency requirements and exposure to foreign currency exchange rate fluctuations. Derivative instruments are required to be recognized at fair value in the consolidated 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 consolidated results of operations. The gains and losses recognized on the euro forward sales contracts may also partially offset the accounting remeasurement gains and losses recognized on intercompany loans. As of June 30, 2015, U. S. Steel held euro forward sales contracts with a total notional value of approximately \$282 million. We mitigate the risk of concentration of counterparty credit risk by purchasing our forward sales contracts from several counterparties.

Additionally, U. S. Steel uses fixed-price forward physical purchase contracts to partially manage our exposure to price risk related to the purchases of natural gas and certain nonferrous metals used in the production process. During 2015 and 2014, the forward physical purchase contracts for natural gas and nonferrous metals 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 consolidated financial statements as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and 2014:

(In millions)	Balance Sheet Location	Fair Value June 30, 2015	Fair Value December 31, 2014
Foreign exchange forward contracts	Accounts receivable	\$ 21	\$ 31
Foreign exchange forward contracts	Accounts payable	\$ 3	\$ —
(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended June 30, 2015	Amount of Gain (Loss) Six Months Ended June 30, 2015
Foreign exchange forward contracts	Other financial costs	\$(11	) \$ 32
(In millions)	Statement of Operations Location	Amount of Gain Three Months Ended June 30, 2014	Amount of Gain Six Months Ended June 30, 2014
Foreign exchange forward contracts	Other financial costs	\$ 3	\$ 3

In accordance with the guidance found in ASC Topic 820 on fair value measurements and disclosures, the fair value of our euro forward sales contracts was determined using Level 2 inputs, which are defined as "significant

other observable" inputs. The inputs used are from market sources that aggregate data based upon market transactions.

14. Debt

(In millions)	Interest Rates %	Maturity	June 30, 2015	December 31, 2014
2037 Senior Notes	6.65	2037	\$350	\$350
2022 Senior Notes	7.50	2022	400	400
2021 Senior Notes	6.875	2021	275	275
2020 Senior Notes	7.375	2020	600	600
2018 Senior Notes				