UNITED STATES STEEL CORP
Form 10-Q
August 02, 2018

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, 2018
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 ü 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 [ü] 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ü	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company[(a)] __
		(Do not check if a smaller reporting company)		

[(a)] If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ___
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No ü

Common stock outstanding at July 27, 2018 – 177,223,476 shares

INDEX

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements" within the meaning of Section 27 of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in those sections. Generally, we have identified such forward-looking statements by using the words "believe," "expect," "intend," "estimate," "anticipate," "project," "target," "forecast," "aim," "should," "will" and similar expressions or by using fu 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" in our Annual Report on Form 10-K for the year ended December 31, 2017, in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, 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.

UNITED STATES STEEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in millions, except per share amounts)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net sales:				
Net sales	$3,242	$2,787	$6,063	$5,199
Net sales to related parties (Note 20)	367	357	695	670
Total (Note 5)	3,609	3,144	6,758	5,869
Operating expenses (income):				
Cost of sales (excludes items shown below)	3,121	2,723	5,929	5,282
Selling, general and administrative expenses	92	67	170	148
Depreciation, depletion and amortization	130	121	258	258
Earnings from investees	(19)	(16)	(22)	(20)
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 23)	—	(72)	—	(72)
Restructuring and other charges (Note 21)	—	(1)	—	32
Net gain on disposal of assets	(17)	—	(16)	(1)
Other expense (income), net	1	(5)	1	(5)
Total	3,308	2,817	6,320	5,622
Earnings before interest and income taxes	301	327	438	247
Interest expense	43	55	93	113
Interest income	(5)	(4)	(10)	(8)
Loss on debt extinguishment (Note 9)	28	1	74	1
Other financial (benefits) costs	(8)	16	2	25
Net periodic benefit cost (other than service cost) (Note 3) [a]	17	14	34	32
Net interest and other financial costs (Note 9)	75	82	193	163
Earnings before income taxes	226	245	245	84
Income tax provision (benefit) (Note 11)	12	(16)	13	3
Net earnings	214	261	232	81
Less: Net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings attributable to United States Steel Corporation	$214	$261	$232	$81
Earnings per common share (Note 12):				
Earnings per share attributable to United States Steel Corporation stockholders:				
-Basic	$1.21	$1.49	$1.32	$0.46
-Diluted	$1.20	$1.48	$1.30	$0.46

[a] Represents postretirement benefit expense as a result of the adoption of Accounting Standards Update 2017-07, Compensation - Retirement Benefits on January 1, 2018.

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)	2018	2017	2018	2017
Net earnings	$214	$261	$232	$81
Other comprehensive (loss) income, net of tax:				
Changes in foreign currency translation adjustments	(87)	82	(47)	105
Changes in pension and other employee benefit accounts	47	46	93	92
Changes in derivative financial instruments	(3)	(3)	(19)	(3)
Total other comprehensive (loss) income, net of tax	(43)	125	27	194
Comprehensive income including noncontrolling interest	171	386	259	275
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive income attributable to United States Steel Corporation	$171	$386	$259	$275

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET
(Unaudited)

(Dollars in millions)	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (Note 6)	$1,231	$ 1,553
Receivables, less allowance of $28 and $28	1,430	1,173
Receivables from related parties (Note 20)	226	206
Inventories (Note 13)	1,848	1,738
Other current assets	77	85
Total current assets	4,812	4,755
Property, plant and equipment	15,378	15,086
Less accumulated depreciation and depletion	10,977	10,806
Total property, plant and equipment, net	4,401	4,280
Investments and long-term receivables, less allowance of $11 and $11	498	480
Intangibles – net (Note 7)	162	167
Deferred income tax benefits (Note 11)	56	56
Other noncurrent assets	129	124
Total assets	$10,058	$ 9,862
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$2,239	$ 2,096
Accounts payable to related parties (Note 20)	92	74
Payroll and benefits payable	386	347
Accrued taxes	135	132
Accrued interest	46	69
Current portion of long-term debt (Note 15)	4	3
Total current liabilities	2,902	2,721
Long-term debt, less unamortized discount and debt issuance costs (Note 15)	2,541	2,700
Employee benefits	692	759
Deferred income tax liabilities (Note 11)	6	6
Deferred credits and other noncurrent liabilities	311	355
Total liabilities	6,452	6,541
Contingencies and commitments (Note 22)		
Stockholders' Equity (Note 18):		
Common stock (177,179,937 and 176,424,554 shares issued) (Note 12)	177	176
Treasury stock, at cost (31,240 shares and 1,203,344 shares)	(1)	(76)
Additional paid-in capital	3,900	3,932
Retained earnings	347	133
Accumulated other comprehensive loss (Note 19)	(818)	(845)
Total United States Steel Corporation stockholders' equity	3,605	3,320
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	$10,058	$ 9,862

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

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

(Dollars in millions)	Six Months Ended June 30, 2018	2017
Increase (decrease) in cash, cash equivalents and restricted cash		
Operating activities:		
Net earnings	$232	$81
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	258	258
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 23)	—	(72)
Restructuring and other charges (Note 21)	—	32
Loss on debt extinguishment (Note 9)	74	1
Provision for doubtful accounts	1	1
Pensions and other postretirement benefits	37	31
Deferred income taxes (Note 11)	(1)	2
Net gain on disposal of assets	(16)	(1)
Equity investee earnings, net of distributions received	(19)	(16)
Changes in:		
Current receivables	(294)	(172)
Inventories	(123)	(125)
Current accounts payable and accrued expenses	175	98
Income taxes receivable/payable	(3)	20
Bank checks outstanding	8	7
All other, net	(36)	98
Net cash provided by operating activities	293	243
Investing activities:		
Capital expenditures	(381)	(120)
Disposal of assets	1	—
Investments, net	(1)	—
Net cash used in investing activities	(381)	(120)
Financing activities:		
Issuance of long-term debt, net of financing costs (Note 15)	640	—
Repayment of long-term debt (Note 15)	(874)	(108)
Dividends paid	(18)	(18)
Receipt from exercise of stock options	33	13
Taxes paid for equity compensation plans (Note 10)	(8)	(10)
Net cash used in financing activities	(227)	(123)
Effect of exchange rate changes on cash	(10)	10
Net (decrease) increase in cash, cash equivalents and restricted cash	(325)	10
Cash, cash equivalents and restricted cash at beginning of year (Note 6)	1,597	1,555
Cash, cash equivalents and restricted cash at end of period (Note 6)	$1,272	$1,565

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 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 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, 2017, which should be read in conjunction with these financial statements.

2. New Accounting Standards

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02). ASU 2018-02 allows a reclassification from Accumulated Other Comprehensive Income to Retained Earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. Early adoption of ASU 2018-02 is permitted. U. S. Steel is currently assessing the impact of the ASU, but does not believe this ASU will have a material impact on its overall Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which adds an impairment model that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for public companies for fiscal years beginning after December 15, 2019 including interim reporting periods, with early adoption permitted. U. S. Steel is currently assessing the impact of the ASU, but does not believe this ASU will have a material impact on its overall Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 supersedes prior lease accounting guidance. Under ASU 2016-02, for operating leases, a lessee should recognize in its statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term; recognize a single lease cost, which is allocated over the lease term, generally on a straight line basis, and classify all cash payments within operating activities in the statement of cash flows. For financing leases, a lessee is required to recognize a right-of-use asset and a lease liability; recognize interest on the lease liability separately from amortization of the right-of-use asset, and classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. In addition, at the inception of a contract, an entity should determine whether the contract is or contains a lease. ASU 2016-02 is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective approach. U. S. Steel is completing its inventory of leases and developing an estimated impact of the financial statement implications of adopting ASU 2016-02, which will include recognizing the lease liability and related right-of-use asset on our balance sheet.

3. Recently Adopted Accounting Standards

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends and simplifies hedge accounting guidance so that companies could more accurately present the economic effects of risk management activities in the financial statements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. U. S. Steel adopted the provisions of ASU 2017-12 on January 1, 2018. The adoption did not result in a material impact to our financial results; however, we expanded our use of hedge accounting effective January 1, 2018 as well as our disclosures of derivative activity. See Note 14 for further details.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation: Scope of Modification Accounting (ASU 2017-09). The amendments included in ASU 2017-09 provide guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this update will be applied prospectively to an award modified on or after the adoption date. On January 1, 2018, U. S. Steel adopted the provisions of ASU 2017-09 and the adoption did not have an impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (ASU 2017-07). ASU 2017-07 requires an employer who offers defined benefit and postretirement benefit plans to report the service cost component of the net periodic benefit cost in the same line item or items as other compensation cost arising from services rendered by employees during the period. The other components of net periodic benefit costs are required to be presented on a retrospective basis in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The ASU also allows for the service cost component of net periodic benefit cost to be eligible for capitalization into inventory when applicable. ASU 2017-07 was effective for periods beginning after December 15, 2017, including interim periods within those annual periods; early adoption was permitted. U. S. Steel adopted ASU 2017-07 on January 1, 2018. U. S. Steel has historically capitalized the service cost component of net periodic benefit cost into inventory, when applicable, and will continue to do so prospectively.

The effect of the retrospective presentation change related to the net periodic benefit cost of our defined benefit pension and other post-employment benefits (OPEB) plans on our consolidated statement of operations was as follows:

	Three Months Ended June 30, 2017		
Statement of Operations (In millions)	As Revised	Previously Reported	Effect of Change Higher/(Lower)
Cost of Sales	$ 2,723	$ 2,725	$ (2)
Selling, general and administrative expenses	67	79	(12)
Net periodic benefit cost (other than service cost)	14	—	14

	Six Months Ended June 30, 2017		
Statement of Operations (In millions)	As Revised	Previously Reported	Effect of Change Higher/(Lower)
Cost of Sales	$ 5,282	$ 5,286	$ (4)
Selling, general and administrative expenses	148	176	(28)
Net periodic benefit cost (other than service cost)	32	—	32

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18). The ASU reduced diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows by including restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. On January 1, 2018, U. S. Steel adopted the provisions of ASU 2016-18 using a retrospective transition method. As a result, the Change in Restricted Cash, Net line that was included in the Investing Activities section of the Consolidated Statement of Cash Flows has been eliminated as changes in restricted cash are now included in the beginning-of-period and end-of-period total cash, cash equivalents and restricted cash amounts. Expanded disclosures have been included, which describe the components of cash shown on the Company's Consolidated Statements of Cash Flows. See Note 6 for further details.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 reduced diversity in practice in how certain transactions are classified in the statement of cash flows by addressing eight specific cash receipt and cash payment issues. On January 1, 2018, U. S. Steel adopted the provisions of ASU 2016-15 using a retrospective transition method. As a result, all payments to extinguish debt will now be presented as cash outflows from financing activities on our Consolidated Statement of Cash Flows in accordance with ASU 2016-15. U. S. Steel has historically presented make-whole premiums as cash outflows from operating activities. The other cash receipt and cash payment items addressed in ASU 2016-15 did not have an impact on the Company's Consolidated Statement of Cash Flows. Since payments to extinguish debt during the six months ended June 30, 2017 were immaterial, there was no retrospective adjustment to our Consolidated Statement of Cash Flows. Additionally, the Company has elected to use the cumulative earnings approach as defined in ASU 2016-15 to classify distributions received from equity method investees.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 and its related amendments (Revenue Recognition Standard) outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most previous revenue recognition guidance. On January 1, 2018, U. S. Steel adopted the Revenue Recognition Standard using the full retrospective method. Generally, U. S. Steel's performance obligations are satisfied, control of our products is transferred, and revenue is recognized at a single point in time. The adoption did not have a financial statement impact to U. S. Steel but did result in expanded disclosures. See Note 5 for further details.

4. Segment Information

U. S. Steel has three reportable segments: (1) Flat-Rolled Products (Flat-Rolled), which consists of the following three commercial entities that directly interact with our customers and service their needs: (i) automotive solutions, (ii) consumer solutions, and (iii) industrial, service center and mining solutions; (2) U. S. Steel Europe (USSE); and (3) 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 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. Earnings (loss) before interest and income taxes for reportable segments and Other Businesses does not include net interest and other financial costs (income), income taxes, and certain other items that management believes are not indicative of future results.

The accounting principles applied at the operating segment level in determining earnings (loss) before interest and income taxes are generally the same as those applied at the consolidated financial statement level. 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 the three months ended June 30, 2018 and 2017 are:

(In millions) Three Months Ended June 30, 2018	Customer Sales	Intersegment Sales	Net Sales	Earnings from investees	Earnings (loss) before interest and income taxes
Flat-Rolled	$ 2,435	$ 59	$ 2,494	$ 17	$ 224
USSE	848	15	863	—	115
Tubular	309	2	311	2	(35)
Total reportable segments	3,592	76	3,668	19	304
Other Businesses	17	32	49	—	17
Reconciling Items and Eliminations	—	(108)	(108)	—	(20)
Total	$ 3,609	$ —	$ 3,609	$ 19	$ 301
Three Months Ended June 30, 2017					
Flat-Rolled	$ 2,151	$ 92	$ 2,243	$ 14	$ 220
USSE	740	12	752	—	55
Tubular	234	—	234	2	(29)
Total reportable segments	3,125	104	3,229	16	246
Other Businesses	19	29	48	—	9
Reconciling Items and Eliminations	—	(133)	(133)	—	72
Total	$ 3,144	$ —	$ 3,144	$ 16	$ 327

The results of segment operations for the six months ended June 30, 2018 and 2017 are:

(In millions) Six Months Ended June 30, 2018	Customer Sales	Intersegment Sales	Net Sales	Earnings from investees	Earnings (loss) before interest and income taxes
Flat-Rolled	$ 4,482	$ 116	$4,598	$ 19	$ 257
USSE	1,671	16	1,687	—	225
Tubular	575	2	577	3	(62)
Total reportable segments	6,728	134	6,862	22	420
Other Businesses	30	63	93	—	28
Reconciling Items and Eliminations	—	(197)	(197)	—	(10)
Total	$ 6,758	$ —	$6,758	$ 22	$ 438
Six Months Ended June 30, 2017					
Flat-Rolled	$ 4,016	$ 113	$4,129	$ 17	$ 132
USSE	1,413	24	1,437	—	142
Tubular	405	1	406	3	(86)
Total reportable segments	5,834	138	5,972	20	188
Other Businesses	35	60	95	—	22
Reconciling Items and Eliminations	—	(198)	(198)	—	37
Total	$ 5,869	$ —	$5,869	$ 20	$ 247

The following is a schedule of reconciling items to consolidated earnings (loss) before interest and income taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2018	2017	2018	2017
Items not allocated to segments:				
Gain on equity investee transactions	$18	$ —	$18	$—
Granite City Works restart costs	(36)	—	(36)	—
Granite City Works adjustment to temporary idling charges	(2)	—	8	—
Loss on shutdown of certain tubular assets [(a)]	—	—	—	(35)
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 23)	—	72	—	72
Total reconciling items	$(20)	$ 72	$(10)	$37

[(a)] Included in Restructuring and other charges in the Consolidated Statement of Operations. See Note 21 to the Consolidated Financial Statements.

5. Revenue

Revenue is generated primarily from contracts to produce, ship and deliver steel products, and to a lesser extent, to deliver raw materials such as iron ore pellets, to deliver coke by-products and for railroad services and real estate sales. Generally, U. S. Steel’s performance obligations are satisfied, control of our products is transferred, and revenue is recognized at a single point in time, when title transfers to our customer for product shipped or when services are provided. Revenues are recorded net of any sales incentives. Shipping and other transportation costs charged to customers are treated as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. Costs related to obtaining sales contracts are incidental and are expensed when incurred. Because customers are invoiced at the time title transfers and U. S. Steel’s right to consideration is unconditional at that time, U. S. Steel does not maintain contract asset balances. Additionally, U. S. Steel does not maintain contract liability balances, as performance obligations are satisfied prior to customer payment for product. U. S. Steel offers industry standard payment terms.

U. S. Steel has three reportable segments: Flat-Rolled, USSE and Tubular. Flat-Rolled primarily generates revenue from sheet and coated product sales to North American customers. Flat-Rolled also sells iron ore pellets and coke making by-products. USSE sells slabs, sheet, strip mill plate, coated products and spiral welded pipe to customers primarily in the Eastern European market. Tubular sells seamless and electric resistance welded (ERW) steel casing and tubing (commonly known as oil country tubular goods or OCTG), standard and line pipe and mechanical tubing and primarily serves customers in the oil, gas and petrochemical markets. Revenue from our railroad and real estate businesses is reported in the Other Businesses category in our segment reporting structure. The following tables disaggregate our revenue by product for each of our reportable business segments for the three and six months ended June 30, 2018 and 2017, respectively:

Net Sales by Product

(In millions) Three Months Ended June 30, 2018	Flat-Rolled	USSE	Tubular	Other Businesses	Total
Semi-finished	$ 1	$ 52	$ —	$ —	$ 53
Hot-rolled sheets	640	339	—	—	979
Cold-rolled sheets	735	104	—	—	839
Coated sheets	797	310	—	—	1,107
Tubular products	—	13	299	—	312
All Other [(a)]	262	30	10	17	319
Total	$ 2,435	$ 848	$ 309	$ 17	$ 3,609

[(a)] Consists primarily of sales of raw materials and coke making by-products.

(In millions) Three Months Ended June 30, 2017	Flat-Rolled	USSE	Tubular	Other Businesses	Total
Semi-finished	$ —	$ 77	$ —	$ —	$ 77
Hot-rolled sheets	562	280	—	—	842
Cold-rolled sheets	579	77	—	—	656
Coated sheets	756	272	—	—	1,028
Tubular products	—	10	226	—	236
All Other [(a)]	254	24	8	19	305
Total	$ 2,151	$ 740	$ 234	$ 19	$ 3,144

[(a)] Consists primarily of sales of raw materials and coke making by-products.

(In millions) Six Months Ended June 30, 2018	Flat-Rolled	USSE	Tubular	Other Businesses	Total
Semi-finished	$ 10	$89	$ —	$ —	$99
Hot-rolled sheets	1,212	692	—	—	1,904
Cold-rolled sheets	1,374	202	—	—	1,576
Coated sheets	1,503	607	—	—	2,110
Tubular products	—	25	558	—	583
All Other [(a)]	383	56	17	30	486
Total	$ 4,482	$1,671	$ 575	$ 30	$6,758

[(a)] Consists primarily of sales of raw materials and coke making by-products.

(In millions) Six Months Ended June 30, 2017	Flat-Rolled	USSE	Tubular	Other Businesses	Total
Semi-finished	$ 1	$104	$ —	$ —	$105
Hot-rolled sheets	982	589	—	—	1,571
Cold-rolled sheets	1,185	156	—	—	1,341
Coated sheets	1,504	507	—	—	2,011
Tubular products	—	19	388	—	407
All Other [(a)]	344	38	17	35	434
Total	$ 4,016	$1,413	$ 405	$ 35	$5,869

[(a)] Consists primarily of sales of raw materials and coke making by-products.

6. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within U. S. Steel's Consolidated Balance Sheets that sum to the total of the same amounts shown in the Consolidated Statement of Cash Flows:

(In millions)	June 30, 2018	June 30, 2017
Cash and cash equivalents	$1,231	$1,522
Restricted cash in other current assets	5	1
Restricted cash in other noncurrent assets	36	42
Total cash, cash equivalents and restricted cash	$1,272	$1,565

Amounts included in restricted cash represent cash balances which are legally or contractually restricted, primarily for environmental capital expenditure projects and insurance purposes.

7. Intangible Assets

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

(In millions)	Useful Lives	As of June 30, 2018 Gross Carrying Amount	Accumulated Amortization	Net Amount	As of December 31, 2017 Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	22 Years	$132	$ 67	$ 65	$132	$ 64	$ 68
Patents	10-15 Years	22	6	16	22	5	17
Other	4-20 Years	14	8	6	15	8	7
Total amortizable intangible assets		$168	$ 81	$ 87	$169	$ 77	$ 92

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

Amortization expense was $2 million in both the three months ended June 30, 2018 and 2017. Amortization expense was $4 million in both the six months ended June 30, 2018 and 2017. The estimated future amortization expense of identifiable intangible assets during the next five years is $4 million for the remaining portion of 2018, $9 million in each year from 2019 to 2021, and $8 million in 2022.

In addition, the carrying amount of acquired water rights with indefinite lives as of June 30, 2018 and December 31, 2017 totaled $75 million. The acquired water rights are tested for impairment annually in the third quarter, or whenever events or circumstances indicate the carrying value may not be recoverable. U. S. Steel performed a quantitative impairment evaluation of its acquired water rights during the third quarter of 2017. Based on the results of the evaluation, the water rights were not impaired.

8. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost for the three months ended June 30, 2018 and 2017:

	Pension Benefits		Other Benefits	
(In millions)	2018	2017	2018	2017
Service cost	$12	$12	$4	$5
Interest cost	58	59	23	24
Expected return on plan assets	(90)	(97)	(21)	(17)
Amortization of prior service cost	—	—	8	7
Amortization of actuarial net loss	38	37	1	1
Net periodic benefit cost, excluding below	18	11	15	20
Multiemployer plans	15	14	—	—
Net periodic benefit cost	$33	$25	$15	$20

The following table reflects the components of net periodic benefit cost for the six months ended June 30, 2018 and 2017:

	Pension Benefits		Other Benefits	
(In millions)	2018	2017	2018	2017
Service cost	$25	$24	$8	$9
Interest cost	116	118	46	47
Expected return on plan assets	(180)	(194)	(41)	(33)
Amortization of prior service cost	—	—	15	14
Amortization of actuarial net loss	76	74	2	2
Net periodic benefit cost, excluding below	37	22	30	39
Multiemployer plans	29	29	—	—
Settlement, termination and curtailment losses [a]	—	4	—	—
Net periodic benefit cost	$66	$55	$30	$39

[a] During the first six months of 2017, the non-qualified pension plan incurred settlement charges of approximately $4 million due to lump sum payments for certain individuals.

Employer Contributions

During the first six months of 2018, U. S. Steel made cash payments of $29 million to the Steelworkers' Pension Trust and $3 million of pension payments not funded by trusts.

During the first six months of 2018, cash payments of $26 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $11 million and $10 million for the three months ended June 30, 2018 and 2017, respectively. Company contributions to defined contribution plans totaled $22 million and $19 million for the six months ended June 30, 2018 and 2017, respectively.

9. Net Interest and Other Financial Costs

Net interest and other financial costs includes interest expense (net of capitalized interest), interest income, financing costs, net periodic benefit costs (other than service costs) related to pension and other post-employment benefits (OPEB) plans, and foreign currency derivative and remeasurement gains and losses. During the three months ended June 30, 2018 and 2017, net foreign currency gains of $12 million and losses of $11 million, respectively were recorded in other financial costs. During the six months ended June 30, 2018 and 2017, net foreign currency gains of $8 million and losses of $16 million, respectively were recorded in other

financial costs. Additionally, during the six months ended June 30, 2018, there was a loss on debt extinguishment recognized of $74 million.
See Note 14 for additional information on U. S. Steel’s use of derivatives to mitigate its foreign currency exchange rate exposure.

10. 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 2005 Plan) and the 2016 Omnibus Incentive Compensation Plan (the Omnibus Plan), which are more fully described in Note 14 of the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017. On April 26, 2016, the Company's stockholders approved the Omnibus Plan and authorized the Company to issue up to 7,200,000 shares of U. S. Steel common stock under the Omnibus Plan. The Company's stockholders authorized the issuance of an additional 6,300,000 shares under the Omnibus Plan on April 25, 2017. While awards that were previously granted under the 2005 Plan remain outstanding, all future awards will be granted under the Omnibus Plan. As of June 30, 2018, there were 10,938,212 shares available for future grants under the Omnibus Plan.

Recent grants of stock-based compensation consist of stock options, restricted stock units, total shareholder return (TSR) performance awards and return on capital employed (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 were issued from treasury stock. Beginning in 2018, shares of common stock are issued from authorized, but unissued stock. The following table is a general summary of the awards made under the Omnibus Plan during the first six months of 2018 and 2017. There were no stock options granted during the first six months of 2018.

	2018		2017	
Grant Details	Shares[(a)]	Fair Value[(b)]	Shares[(a)]	Fair Value[(b)]
Stock Options	—	$ —	632,050	$ 17.43
Restricted Stock Units	728,945	$ 41.52	336,120	$ 36.59
Performance Awards [(c)]				
TSR	79,190	$ 61.57	156,770	$ 42.45
ROCE [(d)]	247,510	$ 43.50	—	$ —

[(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 period.
[(c)] The number of performance awards shown represents the target value of the award.
[(d)] The ROCE awards granted in 2017 are not shown in the table above because they were granted in cash.

U. S. Steel recognized pretax stock-based compensation expense in the amount of $10 million and $5 million in the three-month periods ended June 30, 2018 and 2017, respectively, and $17 million and $15 million in the first six months of 2018 and 2017, respectively.

As of June 30, 2018, total future compensation expense related to nonvested stock-based compensation arrangements was $38 million, and the weighted average period over which this expense is expected to be recognized is approximately 1 year.

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

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 awarded as part of annual grants generally vest ratably over three years. Their fair value is the market price of the underlying common stock on the date of grant. Restricted stock units granted in connection with new-hire or retention grants generally cliff vest three years from the date of the grant.

TSR performance awards may vest at the end of a three-year performance period if U. S. Steel's total shareholder return compared to the total shareholder return of a peer group of companies over the three-year performance period meets performance criteria established by the Committee at the beginning of the performance period. 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 established by the Committee at the beginning of the performance period. 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.

11. Income Taxes

Tax provision

For the six months ended June 30, 2018 and 2017, we recorded a tax provision of $13 million on our pretax earnings of $245 million and a tax provision of $3 million on our pretax earnings of $84 million, respectively. Included in the tax provision in the first six months of 2018 is a benefit for the release of a portion of the domestic valuation allowance due to pretax income. Included in the tax provision in the first six months of 2017 is a benefit of $13 million related to the carryback of certain losses to prior years.

The tax provision for the first six months of 2018 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 2018 pretax results for U.S. and foreign income or loss vary from estimates applied herein, the actual tax provision or benefit recognized in 2018 could be materially different from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2018.

Deferred taxes

Each quarter U. S. Steel analyzes the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not that some portion, or all, of the deferred tax asset may not be realized.

At June 30, 2018, U. S. Steel reviewed all available positive and negative evidence and determined that it is more likely than not that all of its net domestic deferred tax assets may not be realized.

U. S. Steel will continue to monitor the realizability of its deferred tax assets on a quarterly basis taking into consideration, among other items, the uncertainty regarding the Company's continued ability to generate domestic income in the near term. In the future, if we determine that realization is more likely than not for deferred tax assets with a valuation allowance, the related valuation allowance will be reduced, and we will record a non-cash benefit to earnings.

Unrecognized tax benefits

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to the guidance in ASC Topic 740 on income taxes. As of June 30, 2018, and December 31, 2017, the total amount of gross unrecognized tax benefits was $41 million and $42 million, respectively. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $7 million as of June 30, 2018 and $6 million as of December 31, 2017.

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 both June 30, 2018 and December 31, 2017, U. S. Steel had accrued liabilities of $6 million for interest and penalties related to uncertain tax positions.

12. 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, provided in each case the effect is dilutive.

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)	2018	2017	2018	2017
Earnings attributable to United States Steel Corporation stockholders	$214	$ 261	$232	$ 81
Weighted-average shares outstanding (in thousands):				
Basic	177,027	174,797	176,594	174,521
Effect of stock options, restricted stock units and performance awards	1,876			