UNITED STATES STEEL CORP
Form 10-Q
November 01, 2017

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 September 30, 2017
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 P 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 [P] 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 P	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 P
Common stock outstanding at October 26, 2017 – 174,994,464 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 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 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, 2016, 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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net sales:				
Net sales	$2,976	$2,370	$8,176	$6,716
Net sales to related parties (Note 18)	272	316	941	895
Total	3,248	2,686	9,117	7,611
Operating expenses (income):				
Cost of sales (excludes items shown below)	2,829	2,360	8,115	7,193
Selling, general and administrative expenses	89	73	265	206
Depreciation, depletion and amortization	118	126	376	384
Earnings from investees	(9)	(18)	(29)	(91)
Gain on equity investee transactions (Note 4)	(21)	—	(21)	—
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 21)	—	—	(72)	—
Impairment of intangible assets	—	14	—	14
Restructuring and other charges (Note 19)	(2)	(3)	30	1
Net (gain) loss on disposal of assets	(1)	3	(2)	6
Other income, net	—	(1)	(5)	(1)
Total	3,003	2,554	8,657	7,712
Earnings (loss) before interest and income taxes	245	132	460	(101)
Interest expense	60	58	173	173
Interest income	(5)	(2)	(13)	(5)
Loss on debt extinguishment	31	—	32	22
Other financial costs	12	6	37	18
Net interest and other financial costs (Note 7)	98	62	229	208
Earnings (loss) before income taxes	147	70	231	(309)
Income tax provision (Note 9)	—	19	3	26
Net earnings (loss)	147	51	228	(335)
Less: Net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings (loss) attributable to United States Steel Corporation	$147	$51	$228	$(335)
Earnings (loss) per common share (Note 10):				
Earnings (loss) per share attributable to United States Steel Corporation stockholders:				
-Basic	$0.84	$0.32	$1.30	$(2.22)
-Diluted	$0.83	$0.32	$1.29	$(2.22)

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 September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Net earnings (loss)	$147	$51	$228	$(335)
Other comprehensive income (loss), net of tax:				
Changes in foreign currency translation adjustments	44	10	149	41
Changes in pension and other employee benefit accounts	55	48	146	(134)
Other	8	(4)	6	17
Total other comprehensive income (loss), net of tax	107	54	301	(76)
Comprehensive income (loss) including noncontrolling interest	254	105	529	(411)
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive income (loss) attributable to United States Steel Corporation	$254	$105	$529	$(411)

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

UNITED STATES STEEL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 1,694	$ 1,515
Receivables, less allowance of $29 and $25	1,317	976
Receivables from related parties, less allowance of $0 and $265 (Notes 18 and 21)	210	272
Inventories (Note 11)	1,737	1,573
Other current assets	43	20
Total current assets	5,001	4,356
Property, plant and equipment	14,781	14,196
Less accumulated depreciation and depletion	10,670	10,217
Total property, plant and equipment, net	4,111	3,979
Investments and long-term receivables, less allowance of $11 and $10	470	528
Long-term receivables from related parties, less allowance of $0 and $1,627 (Notes 18 and 21)	—	—
Intangibles, net (Note 5)	169	175
Deferred income tax benefits (Note 9)	—	6
Other noncurrent assets	127	116
Total assets	$ 9,878	$ 9,160
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 2,018	$ 1,602
Accounts payable to related parties (Notes 18 and 21)	79	66
Payroll and benefits payable	333	400
Accrued taxes	157	128
Accrued interest	62	85
Short-term debt and current maturities of long-term debt (Note 13)	3	50
Total current liabilities	2,652	2,331
Long-term debt, less unamortized discount and debt issuance costs (Note 13)	2,896	2,981
Employee benefits	1,119	1,216
Deferred income tax liabilities (Note 9)	29	28
Deferred credits and other noncurrent liabilities	374	329
Total liabilities	7,070	6,885
Contingencies and commitments (Note 20)		
Stockholders' Equity (Note 16):		
Common stock (176,424,554 shares issued) (Note 10)	176	176
Treasury stock, at cost (1,466,183 and 2,614,378 shares)	(92)	(182)
Additional paid-in capital	3,937	4,027
Accumulated deficit	(18)	(250)
Accumulated other comprehensive loss (Note 17)	(1,196)	(1,497)
Total United States Steel Corporation stockholders' equity	2,807	2,274
Noncontrolling interests	1	1
Total liabilities and stockholders' equity	$ 9,878	$ 9,160

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)	Nine Months Ended September 30, 2017	2016
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net earnings (loss)	$228	$(335)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	376	384
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 21)	(72)	—
Gain on equity investee transactions (Note 4)	(21)	—
Impairment of intangible assets	—	14
Restructuring and other charges (Note 19)	30	1
Provision for doubtful accounts	1	—
Pensions and other postretirement benefits	42	(38)
Deferred income taxes	7	9
Net (gain) loss on disposal of assets	(2)	6
Distributions received, net of equity investees earnings	(18)	(86)
Changes in:		
Current receivables	(214)	(127)
Inventories	(123)	339
Current accounts payable and accrued expenses	121	279
Income taxes receivable/payable	15	14
Bank checks outstanding	12	15
All other, net	159	105
Net cash provided by operating activities	541	580
Investing activities:		
Capital expenditures	(291)	(268)
Disposal of assets	—	6
Change in restricted cash, net	(1)	(3)
Proceeds from sale of ownership interest in equity investee (Note 22)	105	—
Investments, net	(3)	(17)
Net cash used in investing activities	(190)	(282)
Financing activities:		
Issuance of long-term debt, net of financing costs	737	958
Repayment of long-term debt	(902)	(1,019)
Settlement of contingent consideration	—	(15)
Net proceeds from public offering of common stock	—	482
Dividends paid	(26)	(22)
Taxes paid for equity compensation plans (Note 3)	(10)	(3)
Receipts from exercise of stock options	14	4
Net cash (used in) provided by financing activities	(187)	385
Effect of exchange rate changes on cash	15	7
Net increase in cash and cash equivalents	179	690
Cash and cash equivalents at beginning of year	1,515	755

Cash and cash equivalents at end of period	$1,694	$1,445

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 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, 2016, which should be read in conjunction with these financial statements.

Change in Accounting Estimate - Capitalization and Depreciation Method

During 2017, U. S. Steel completed a review of its accounting policy for property, plant and equipment depreciated on a group basis. As a result of this review, U. S. Steel changed its accounting method for property, plant and equipment from the group method of depreciation to the unitary method of depreciation, effective as of January 1, 2017. The Company believes the change from the group method to the unitary method of depreciation is preferable under U.S. GAAP as it will result in a more precise estimate of depreciation expense. Additionally, the change to the unitary method of depreciation is consistent with the depreciation method applied by our competitors, and improves the comparability of our results to the results of our competitors. Our change in the method of depreciation is considered a change in accounting estimate effected by a change in accounting principle and has been applied prospectively. Due to the application of the unitary method of depreciation and resultant change in our capitalization policy, maintenance and outage spending that had previously been expensed as well as capital investments associated with our asset revitalization program will now be capitalized if it extends the useful life of the related asset.

When property, plant, and equipment are disposed of by sale, retirement, or abandonment, the gross value of the property, plant and equipment and corresponding accumulated depreciation are removed from the Company’s financial accounting records. Due to the application of the unitary method of depreciation, any gain or loss resulting from an asset disposal by sale will now be immediately recognized as a gain or loss on the disposal of assets line in our consolidated statement of operations. Assets that are retired or abandoned will be reflected as an immediate charge to depreciation expense for any remaining book value in our consolidated statement of operations. Gains (losses) on disposals of assets for the three and nine months ended September 30, 2017 were immaterial.

For the three months ended September 30, 2017, the effect of the change was an increase in both income from continuing operations and net earnings of $95 million (which consists of a $97 million decrease in cost of sales due to the capitalization of maintenance and outage spending that would have been previously expensed, partially offset by increased depreciation expense of $2 million, as a result of the impact of unitary depreciation on the existing net book value of fixed assets, as noted below, and the capitalization of maintenance and outage spending) and an increase in diluted earnings per share of $0.54. For the nine months ended September 30, 2017, the effect of the change was an increase in both income from continuing operations and net earnings of $205 million (which consists of a $233 million decrease in cost of sales due to the capitalization of maintenance and outage spending that would have been previously expensed, partially offset by increased depreciation expense of $28 million, as a result of the impact of unitary depreciation on the existing net book value of fixed assets, as noted below, and the capitalization of maintenance and outage spending) and an increase in diluted earnings per share of $1.16. The tax effect of this change was immaterial to the consolidated financial statements.

U. S. Steel's property, plant and equipment totaled $3,979 million at December 31, 2016. U. S. Steel allocated the existing net book value of group assets at the transition date to approximate a unitary depreciation methodology, and the fixed assets are being depreciated over their estimated remaining useful lives as follows:

Remaining Useful Life of Assets	(In millions) Net Book Value at December 31, 2016
Under 5 years	$ 597
6-10 years	629
11-15 years	765
16-20 years	654
21-25 years	363
Over 25 years	479
Assets not subject to depreciation	492
Total	$ 3,979

2. New Accounting Standards

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends and simplifies existing guidance in order to allow companies to 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 is currently evaluating the impact the adoption of ASU 2017-12 will have on its Consolidated Financial Statements, but does not expect there to be a material impact.

On May 10, 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. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption permitted. U. S. Steel is currently evaluating the impact the adoption of ASU 2017-09 will have on its Consolidated Financial Statements, but does not expect there to be a material impact.

On March 10, 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (ASU 2017-07). ASU 2017-07 requires an employer who offers defined benefit and post retirement 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. If a separate line item or items are used to present the other components of net periodic benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net periodic benefit cost must be disclosed. 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 is effective for periods beginning after December 15, 2017, including interim periods within those annual periods; early adoption is permitted. The adoption of this ASU will not have an impact on U. S. Steel's net earnings (loss) but will be a reclassification from a line on the income statement within earnings (loss) before interest and income taxes to a line on the income statement below earnings (loss) before interest and income taxes.

On August 26, 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 reduces 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. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. U. S. Steel is evaluating the financial statement implications of adopting ASU 2016-15, but anticipates it will not have an overall impact to the Company's consolidated statement of cash flows, but may result in a reclassification between cash flow line items.

On February 25, 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 the 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 the 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 currently evaluating the financial statement implications of adopting ASU 2016-02, and has begun an inventory of its global leasing arrangements. U. S. Steel has also begun to review its information technology systems, internal controls, and accounting policies in relation to the ASU’s accounting and reporting requirements to recognize the respective right-of-use assets and the related lease liabilities.

On May 28, 2014, the FASB and the International Accounting Standards Board issued ASU 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. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date (ASU 2015-14). ASU 2015-14 defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and only permits entities to adopt the standard one year earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. U. S. Steel has completed a review of its significant customer contracts and is finalizing its evaluation of those contracts in relation to the recognition of revenue under the new standard. U. S. Steel is currently developing disclosures, finalizing its review of information technology systems, and key internal controls related to our ability to process, record and account for revenue under the new standard. U. S. Steel does not expect a material financial statement impact related to the full retrospective adoption of this ASU on January 1, 2018.

3. Recently Adopted Accounting Standards

On March 30, 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (ASU 2016-09). ASU 2016-09 simplifies the accounting and reporting of certain aspects of share-based payment transactions, including income tax treatment of excess tax benefits, forfeitures, classification of share-based awards as either equity or liabilities, and classification in the statement of cash flows for certain share-based transactions related to tax benefits and tax payments. ASU 2016-09 was effective for public business entities for annual periods beginning after December 15, 2016.

On January 1, 2017, the Company adopted the provisions of ASU 2016-09. The adoption of ASU 2016-09 did not have a significant impact on the Company’s Consolidated Financial Statements and included the following items: (1) adoption on a prospective basis of the recognition of excess tax benefits and tax deficiencies in the Company’s income tax expense line in the Consolidated Statement of Operations for vested and exercised equity awards as discrete items in the period in which they occur; (2) adoption on a prospective basis of the classification of excess tax benefits in cash flows from operations in the Company’s Consolidated Statement of Cash Flows; (3) adoption on a retrospective basis of the classification of cash paid by the Company for directly withholding shares for tax withholding purposes in cash flows from financing activities, and (4) adoption on a prospective basis for the exclusion of the amount of excess tax benefits when applying the treasury stock method for the Company’s diluted earnings per share calculation. Additionally, the Company continues to withhold the statutory minimum taxes for participants in the Company’s stock-based compensation plans and estimates forfeiture rates at the grant date and the expected term of its equity awards based on historical results.

On July 22, 2015, the FASB issued ASU 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 does not apply to inventories that are measured using either the last-in, first-out (LIFO) method or the retail inventory method. ASU 2015-11 was effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016. U. S. Steel adopted ASU 2015-11 on January 1, 2017. The adoption did not have a significant financial statement impact to U. S. Steel.

4. Segment Information

U. S. Steel has three reportable segments: Flat-Rolled Products (Flat-Rolled), which consists of the following three commercial entities that directly interact with our customers and service their needs: (1) automotive solutions, (2) consumer solutions, and (3) industrial, service center and mining solutions; 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 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, 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 chief operating decision maker assesses the Company's assets on an enterprise wide level, based upon the projects that yield the greatest return to the Company as a whole, and not on an individual segment level.

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 three months ended September 30, 2017 and 2016 are:

(In millions) Three Months Ended September 30, 2017	Customer Sales	Intersegment Sales	Net Sales	Earnings (Loss) from Investees	Earnings (Loss) Before Interest and Income Taxes
Flat-Rolled	$ 2,249	$ 42	$ 2,291	$ 7	$ 160
USSE	710	1	711	—	73
Tubular	276	—	276	2	(7)
Total reportable segments	3,235	43	3,278	9	226
Other Businesses	13	29	42	—	12
Reconciling Items and Eliminations	—	(72)	(72)	—	7
Total	$ 3,248	$ —	$ 3,248	$ 9	$ 245
Three Months Ended September 30, 2016					
Flat-Rolled	$ 1,986	$ —	$ 1,986	$ 18	$ 114
USSE	575	1	576	—	81
Tubular	114	—	114	1	(75)
Total reportable segments	2,675	1	2,676	19	120
Other Businesses	11	27	38	(1)	18
Reconciling Items and Eliminations	—	(28)	(28)	—	(6)
Total	$ 2,686	$ —	$ 2,686	$ 18	$ 132

The results of segment operations for the nine months ended September 30, 2017 and 2016 are:

(In millions) Nine Months Ended September 30, 2017	Customer Sales	Intersegment Sales	Net Sales	Earnings (Loss) from Investees	Earnings (Loss) Before Interest and Income Taxes
Flat-Rolled	$ 6,265	$ 154	$ 6,419	$ 24	$ 288
USSE	2,123	25	2,148	—	215
Tubular	682	—	682	6	(93)
Total reportable segments	9,070	179	9,249	30	410
Other Businesses	47	89	136	(1)	34
Reconciling Items and Eliminations	—	(268)	(268)	—	16
Total	$ 9,117	$ —	$ 9,117	$ 29	$ 460
Nine Months Ended September 30, 2016					
Flat-Rolled	$ 5,643	$ 16	$ 5,659	$ 88	$ (68)
USSE	1,616	2	1,618	—	122
Tubular	303	2	305	5	(217)
Total reportable segments	7,562	20	7,582	93	(163)
Other Businesses	49	80	129	(2)	42
Reconciling Items and Eliminations	—	(100)	(100)	—	20
Total	$ 7,611	$ —	$ 7,611	$ 91	$ (101)

The following is a schedule of reconciling items to Earnings (Loss) Before Interest and Income Taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2017	2016	2017	2016
Items not allocated to segments:				
Postretirement benefit (expense) income[(a)]	$ (14)	$ 8	$ (42)	$ 36
Other items not allocated to segments:				
Loss on shutdown of certain tubular assets[(b)]	—	—	(35)	—
Gain on equity investee transactions[(c)]	21	—	21	—
Gain associated with retained interest in U. S. Steel Canada Inc. (Note 21)	—	—	72	—
Impairment of intangible assets (Note 5)	—	(14)	—	(14)
Restructuring and other charges and adjustments[(d)]	—	—	—	(2)
Total other items not allocated to segments	21	(14)	58	(16)
Total reconciling items	$ 7	$ (6)	$ 16	$ 20

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

(b) Included in Restructuring and other charges on the Consolidated Statement of Operations. See Note 19 to the Consolidated Financial Statements.

(c) The gain in the three and nine month periods ended September 30, 2017 primarily relates to the sale of the Company's ownership interest in Tilden Mining Company L.C. See Note 22 to the Consolidated Financial Statements.

(d) For the nine months ended September 30, 2016, approximately $(2) million is included in Cost of sales and approximately $4 million is included in the Restructuring and other charges in the Consolidated Statement of

Operations. See Note 19 to the Consolidated Financial Statements.

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 September 30, 2017 Gross Carrying Amount	Accumulated Amortization	Net Amount	As of December 31, 2016 Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	12 Years	$132	$ 63	$ 69	$132	$ 59	$ 73
Patents	5-12 Years	22	4	18	22	2	20
Other	4-10 Years	14	7	7	14	7	7
Total amortizable intangible assets		$168	$ 74	$ 94	$168	$ 68	$ 100

The carrying amount of acquired water rights with indefinite lives as of September 30, 2017 and December 31, 2016 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.

The research and development activities of the Company's acquired indefinite lived in-process research and development patents was completed during the fourth quarter of 2016 and the carrying amount of the patents is being amortized over the useful lives of the patents (approximately 10 years). As a result of the quantitative impairment evaluation of its in-process research and development patents during the third quarter of 2016, an impairment charge of approximately $14 million was recorded during three months ended September 30, 2016.

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

Amortization expense was $2 million for both of the three month periods ended September 30, 2017 and 2016, respectively, and $6 million for both of the nine month periods ended September 30, 2017 and 2016, respectively. The estimated future amortization expense of identifiable intangible assets during the next five years is $2 million for the remaining portion of 2017 and $9 million each year from 2018 to 2021.

6. Pensions and Other Benefits

The following table reflects the components of net periodic benefit cost (income) for the three months ended September 30, 2017 and 2016:

(In millions)	Pension Benefits 2017	Pension Benefits 2016	Other Benefits 2017	Other Benefits 2016
Service cost	$13	$14	$4	$5
Interest cost	59	64	23	25
Expected return on plan assets	(98)	(106)	(16)	(38)
Amortization of prior service cost	—	2	8	6
Amortization of actuarial net loss	37	33	1	1
Net periodic benefit cost (income), excluding below	11	7	20	(1)
Multiemployer plans	15	16	—	—
Settlement, termination and curtailment losses	1	10	—	—
Net periodic benefit cost (income)	$27	$33	$20	$(1)

The following table reflects the components of net periodic benefit cost (income) for the nine months ended September 30, 2017 and 2016:

	Pension Benefits		Other Benefits	
(In millions)	2017	2016	2017	2016
Service cost	$37	$40	$13	$15
Interest cost	177	194	70	74
Expected return on plan assets	(292)	(316)	(49)	(113)
Amortization of prior service cost	—	8	22	19
Amortization of actuarial net loss	111	97	3	2
Net periodic benefit cost (income), excluding below	33	23	59	(3)
Multiemployer plans	44	48	—	—
Settlement, termination and curtailment losses	5	13	—	—
Net periodic benefit cost (income)	$82	$84	$59	$(3)

Settlements

During the first nine months of 2017 and 2016, the non-qualified pension plan incurred settlement charges of approximately $5 million and $13 million, respectively, due to lump sum payments for certain individuals.

Employer Contributions

During the first nine months of 2017, U. S. Steel made cash payments of $44 million to the Steelworkers' Pension Trust and $11 million of pension payments not funded by trusts.

During the first nine months of 2017, cash payments of $44 million were made for other postretirement benefit payments not funded by trusts.

Company contributions to defined contribution plans totaled $11 million and $10 million in the three months ended September 30, 2017 and 2016, respectively. Company contributions to defined contribution plans totaled $30 million and $32 million for the nine months ended September 30, 2017 and 2016, respectively.

Pension Funding

In October 2017, U. S. Steel's Board of Directors authorized voluntary contributions to U. S. Steel's trust for its defined benefit pension of up to $200 million through the end of 2018.

Non-retirement postemployment benefits

U. S. Steel recorded a favorable adjustment associated with a change in estimate that resulted in a benefit of approximately $2 million and $3 million for the three and nine months ended September 30, 2017, respectively, compared to costs of $9 million and $7 million for the three and nine months ended September 30, 2016, respectively, related to 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 nine months ended September 30, 2017 were $3 million and $16 million, respectively. Payments for these benefits during the three and nine months ended September 30, 2016 were $19 million and $58 million, respectively.

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. During the three months ended September 30, 2017 and 2016, net foreign currency losses of $6 million and $1 million respectively, were recorded in other financial costs. During the nine months ended September 30, 2017 and 2016, net foreign currency losses of $21 million and $2 million respectively, were recorded in other financial costs. Additionally, during the nine months ended September 30, 2017 and 2016, there were losses on debt extinguishments recognized of $32 million and $22 million, respectively.

See Note 12 for additional information on U. S. Steel's use of derivatives to mitigate its foreign currency exchange rate exposure. See Note 13 for further details on U. S. Steel's redemption of its senior debt.

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) 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, 2016 and the 2017 Proxy Statement. 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 the awards that were previously granted under the 2005 Plan remain outstanding, all future awards will be granted under the Omnibus Plan. As of September 30, 2017, there were 12,350,805 shares available for future grants under the Omnibus Plan.

Recent grants of stock-based compensation consist of stock options, restricted stock units, and total shareholder return (TSR) 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 2005 Plan and the Omnibus Plan during the first nine months of 2017 and 2016.

	2017		2016	
Grant Details	Shares[a]	Fair Value[b]	Shares[a]	Fair Value[b]
Stock Options	647,780	$ 17.28	1,333,210	$ 6.24
Restricted Stock Units	344,500	$ 36.27	1,117,495	$ 14.27
TSR Performance Awards [c]	169,850	$ 40.72	308,130	$ 10.02

[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.

U. S. Steel recognized pretax stock-based compensation expense in the amount of $6 million and $5 million in the three month periods ended September 30, 2017 and 2016, respectively, and $21 million and $16 million in the first nine months of 2017 and 2016, respectively.

As of September 30, 2017, total future compensation expense related to nonvested stock-based compensation arrangements was $24 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 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[a]	2017 Grants	2016 Grants
Grant date price per share of option award	$36.94	$14.78
Exercise price per share of option award	$36.94	$14.78
Expected annual dividends per share, at grant date	$0.20	$0.20
Expected life in years	5.0	5.0
Expected volatility	57 %	53 %
Risk-free interest rate	1.97 %	1.46 %
Grant date fair value per share of unvested option awards as calculated from above	$17.28	$6.24

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

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

9. Income Taxes

Tax provision

For the nine months ended September 30, 2017 and 2016, we recorded a tax provision of $3 million on our pretax earnings of $231 million and a tax provision of $26 million on our pretax loss of $309 million, respectively. Included in the tax provision in the first nine months of 2017 is a benefit of $13 million related to the carryback of specified liability losses to prior years, as well as a benefit of $25 million related to the Company’s intent to claim a refund of Alternative Minimum Tax credits pursuant to a provision in the Protecting Americans from Tax Hikes Act. As a result, the provision recorded in the third quarter of 2017 was immaterial. Due to the full valuation allowance on our domestic deferred tax assets in 2016 and 2017, the tax provision does not reflect any benefit for domestic pretax losses.

The tax provision for the first nine months of 2017 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 2017 pretax results for U.S. and foreign income or loss vary from estimates applied herein, the actual tax provision or benefit recognized in 2017 could be materially different from the forecasted amount used to estimate the tax provision for the nine months ended September 30, 2017.

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 a deferred tax asset may not be realized.

At September 30, 2017, 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. 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 September 30, 2017 and December 31, 2016, the total amount of gross unrecognized tax benefits was $71 million and $72 million, respectively. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $10 million as of September 30, 2017 and $9 million as of December 31, 2016.

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 September 30, 2017 and December 31, 2016, U. S. Steel had accrued liabilities of $6 million and $4 million, respectively, for interest and penalties related to uncertain tax positions.

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10. Earnings and Dividends Per Common Share

Earnings (Loss) Per Share Attributable to United States Steel Corporation Stockholders

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

Diluted earnings (loss) 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 (loss) per common share from continuing operations are as follows:

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Earnings (loss) attributable to United States Steel Corporation stockholders	$147	$ 51	$228	$(335)
Weighted-average shares outstanding (in thousands):				
Basic	175,003	160,513	174,684	151,199
Effect of stock options, restricted stock units and performance awards	1,481	1,187	1,652	—
Adjusted weighted-average shares outstanding, diluted	176,484	161,700	176,336	151,199
Basic earnings (loss) per common share	$0.84	$ 0.32	$1.30	$(2.22)
Diluted earnings (loss) per common share	$0.83	$ 0.32	$1.29	$(2.22)

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

(In thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Securities granted under the 2005 Stock Incentive Plan, as amended and the 2016 Omnibus Incentive Compensation Plan, as amended	2,679	4,613	1,677	9,568

Dividends Paid Per Share

The dividend for each of the first three quarters of 2017 and 2016 was five cents per common share.

11. Inventories

Inventories are carried at the lower of cost or market for last-in, first-out (LIFO) inventories and lower of cost and net realizable value for first-in, first-out (FIFO) method inventories. The LIFO method is the predominant method of inventory costing in the United States. The FIFO method is the predominant method of inventory costing in Europe. At September 30, 2017 and December 31, 2016, the LIFO method accounted for 74 percent and 75 percent of total inventory values, respectively.

(In millions)	September 30, 2017	December 31, 2016
Raw materials	$ 442	$ 449
Semi-finished products	837	686
Finished products	405	375
Supplies and sundry items	53	63
Total	$ 1,737	$ 1,573

Current acquisition costs were estimated to exceed the above inventory values by $757 million and $489 million at September 30, 2017 and December 31, 2016, respectively. The impact from the liquidation of LIFO inventories was immaterial in the three and nine months ended September 30, 2017. Cost of sales decreased and earnings (loss) before interest and income taxes increased by $21 million for the three months ended September 30, 2016 as a result of the liquidation of LIFO inventories. For the nine months ended September 30, 2016, cost of sales increased and earnings (loss) before interest and income taxes decreased by $54 million as a result of the liquidation of LIFO inventories.

Inventory includes $46 million and $54 million of property held for residential or commercial development as of September 30, 2017 and December 31, 2016, respectively.

12. 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, cash requirements may be funded by intercompany loans, creating intercompany monetary assets and liabilities in currencies other than the functional currency of the entities involved and 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 Statements of Operations.

As of September 30, 2017, U. S. Steel held euro forward sales contracts with a total notional value of approximately $253 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 2017 and 2016, 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 September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016:

(In millions)	Balance Sheet Location	Fair Value September 30, 2017	Fair Value December 31, 2016
Foreign exchange forward contracts	Accounts receivable	$ —	$ 9
Foreign exchange forward contracts	Accounts payable	$ 12	$ —

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended September 30, 2017	Amount of Gain (Loss) Nine Months Ended September 30, 2017
Foreign exchange forward contracts	Other financial income/ costs	$ (7)	$ (20)

(In millions)	Statement of Operations Location	Amount of Gain (Loss) Three Months Ended September 30, 2016	Amount of Gain (Loss) Nine Months Ended September 30, 2016
Foreign exchange forward contracts		$ —	$ (4)

Other financial income/
costs

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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.

13. Debt

(In millions)	Interest Rates %	Maturity	September 30, 2017	December 31, 2016
2037 Senior Notes	6.65	2037	$ 350	$ 350
2025 Senior Notes	6.875	2025	750	—
2022 Senior Notes	7.50	2022	—	400
2021 Senior Secured Notes	8.375	2021	980	980
2021 Senior Notes	6.875	2021	—	200
2020 Senior Notes	7.375	2020	432	432
2018 Senior Notes	7.00	2018	—	161
Environmental Revenue Bonds	5.50 - 6.88	2017 - 2042	400	447
Recovery Zone Facility Bonds	6.75	2040	—	70
Fairfield Caster Lease		2022	26	28
Other capital leases and all other obligations		2019	1	1
Third Amended and Restated Credit Agreement	Variable	2020	—	—
USSK Revolver	Variable	2020	—	—
USSK credit facilities	Variable	2017 - 2018	—	—
Total Debt			2,939	3,069
Less unamortized discount and debt issuance costs			40	38
Less short-term debt and long-term debt due within one year			3	50
Long-term debt			$ 2,896	$ 2,981

To the extent not otherwise discussed below, information concerning the senior notes and other listed obligations can be found in Note 16 of the audited financial statements in the United States Steel Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Issuance of Senior Notes due 2025

In August 2017, U. S. Steel issued $750 million of 6.875% Senior Notes due August 15, 2025 (2025 Senior Notes). U. S. Steel received net proceeds from the offering of approximately $737 million after fees of approximately $13 million related to the underwriting and third party expenses. The net proceeds from the issuance of the 2025 Senior Notes, together with cash on hand, were used to redeem portions of our outstanding senior notes as discussed below.

The 2025 Senior Notes are senior and unsecured obligations that rank equally in right of payment with all of our other existing and future senior indebtedness. U. S. Steel will pay interest on the notes semi-annually in arrears on February 15^{th} and August 15^{th} of each year, commencing on February 15, 2018.

Similar to our other senior notes, the indenture governing the 2025 Senior Notes restricts our ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all of our assets. It also contains provisions requiring the purchase of the 2025 Senior Notes upon a change of control under certain specified circumstances, as well as other customary provisions.

U. S. Steel may redeem the 2025 Senior Notes, in whole or in part, at our option at any time, or from time to time, on or after August 15, 2020 at the redemption price for such notes set forth below as a percentage of the principal amount, plus accrued and unpaid interest, if any, to, but excluding the redemption date, if redeemed during the twelve-month period beginning August 15 of the years indicated below:

Year	Redemption Price	
2020	103.438	%
2021	101.719	%
2022 and thereafter	100.000	%

At any time prior to August 15, 2020, U. S. Steel may also redeem the 2025 Senior Notes, at our option, in whole, or from time to time, at a price equal to the greater of 100 percent of the principal amount of the 2025 Senior Notes to be redeemed, or the sum of the present value of the redemption price of the 2025 Senior Notes if they were redeemed on August 15, 2020 plus interest payments due through August 15, 2020 discounted to the date of redemption, plus 50 basis points.

Under certain specified circumstances we may also purchase up to 35% of the original aggregate principal amount of the 2025 Senior Notes at 106.875%, plus accrued and unpaid interest, if any, to, but excluding the applicable date of redemption, prior to August 15, 2020 with proceeds from equity offerings.

Senior Note Redemption

In September 2017, U. S. Steel redeemed all of its $161 million 7.00% Senior Notes due 2018, $200 million 6.875% Senior Notes due 2021, and $400 million 7.50% Senior Notes due 2022 in accordance with the redemption provisions under the indentures governing these notes. The aggregate redemption cost of approximately $808 million included $761 million for the present value of the remaining principal balances, $21 million in accrued and unpaid interest and $26 million in redemption premiums, of which approximately $4 million was a make-whole premium.

Redemption of Recovery Zone Facility Bonds

On March 10, 2017, U. S. Steel announced the permanent shutdown of the No. 6 Quench & Temper Mill at Lorain Tubular Operations in Lorain, Ohio. Under the terms of the Trust Indenture dated as of December 1, 2010, between the Lorain County Port Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the Indenture), this action and our decision to relocate the Lorain No. 6 Quench & Temper equipment to one of several other sites under consideration to optimize our operations, triggered an Extraordinary Mandatory Redemption of the Lorain County Port Authority Recovery Zone Facility Revenue Bonds (the Recovery Zone Bonds) and accordingly required U. S. Steel to redeem the Recovery Zone Bonds and repay in full the principal amount plus accrued interest. In accordance with the terms of the Indenture, U. S. Steel paid in full all amounts due under the Indenture, comprised of $70 million principal and accrued interest of approximately $2 million, on April 27, 2017.

Third Amended and Restated Credit Agreement

As of September 30, 2017, there were no amounts drawn on the $1.5 billion credit facility agreement (Third Amended and Restated Credit Agreement). U. S. Steel must maintain a fixed charge coverage ratio of at least 1.00 to 1.00 for the most recent four consecutive quarters when availability under the Third Amended and Restated Credit Agreement is less than the greater of 10 percent of the total aggregate commitments and $150 million. Based on the most recent four quarters as of September 30, 2017, we would have met this covenant. If we are unable to meet this covenant in future periods, the amount available to the Company under this facility would be reduced by $150 million.

The Third Amended and Restated Credit Agreement provides for borrowings at interest rates based on defined, short-term market rates plus a spread based on availability and includes other customary terms and conditions including restrictions on our ability to create certain liens and to consolidate, merge or transfer all, or substantially all, of our assets. The Third Amended and Restated Credit Agreement expires in July 2020. Maturity may be accelerated 91 days prior to the stated maturity of any outstanding senior debt if excess cash and credit facility availability do not meet the liquidity conditions set forth in the Third Amended and Restated Credit Agreement. Borrowings are secured by liens on certain domestic inventory and trade accounts receivable.

The Third Amended and Restated Credit Agreement permits incurrence of additional secured debt up to 15% of Consolidated Net Tangible Assets.

U. S. Steel Košice (USSK) revolver and credit facilities

At September 30, 2017, USSK had no borrowings under its €200 million (approximately $236 million) unsecured revolving credit facility (the USSK Credit Agreement). The USSK Credit Agreement contains certain USSK financial covenants, including maximum Leverage, maximum Net Debt to Tangible Net Worth, and minimum Interest Coverage ratios as defined in the USSK Credit Agreement. The covenants are measured semi-annually for the period covering the last twelve calendar months. USSK may not draw on the USSK Credit Agreement if it does not comply with any of the financial covenants until the next measurement date. At September 30, 2017, USSK had full availability under the USSK Credit Agreement. Currently, the USSK Credit Agreement expires in July 2020. The USSK Credit Agreement permits one additional one-year extension to the final maturity date at the mutual consent of USSK and its lenders.

At September 30, 2017, USSK had no borrowings under its €40 million and €10 million unsecured credit facilities (collectively approximately $59 million) and the availability was approximately $58 million due to approximately $1 million of customs and other guarantees outstanding. On October 27, 2017, USSK entered into an amendment to its €10 million unsecured credit agreement to extend the agreement's final maturity date from December 2017 to December 2018. The amendment also permits one additional one-year extension to the final maturity date at the mutual consent of USSK and its lender.

Each of these facilities bear interest at the applicable inter-bank offer rate plus a margin and contain customary terms and conditions.

Change in control event under various financing agreements

If there is a change in control of U. S. Steel, the following may occur: (a) debt obligations totaling $2,512 million as of September 30, 2017 (including the senior notes and the senior secured notes) may be declared due and payable; (b) the Third Amended and Restated Credit Agreement and USSK's €200 million Revolving Credit Agreement may be terminated and any amounts outstanding declared due and payable; and (c) U. S. Steel may be required to either repurchase the leased Fairfield Works slab caster for $27 million or provide a letter of credit to secure the remaining obligation.

14. Asset Retirement Obligations

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

(In millions)	September 30, 2017	December 31, 2016
Balance at beginning of year	$ 79	$ 89
Additional obligations incurred	—	2
Obligations settled	(4)	(15)
Change in estimate of obligations	(6)	—
Foreign currency translation effects	1	—
Accretion expense	2	3
Balance at end of period	$ 72	$ 79

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

15. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, current accounts and notes receivable, accounts payable, bank checks outstanding, and accrued interest included in the Consolidated Balance Sheet approximate fair value. See Note 12 for disclosure of U. S. Steel’s derivative instruments, which are accounted for at fair value on a recurring basis.

The following table summarizes U. S. Steel's financial assets and liabilities that were not carried at fair value at September 30, 2017 and December 31, 2016.

(In millions)	September 30, 2017		December 31, 2016	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial liabilities:				
Long-term debt [(a)]	$3,059	$ 2,872	$3,139	$ 3,002

(a)Excludes capital lease obligations.

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

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

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

Financial guarantees are U. S. Steel's only unrecognized financial instrument. For details relating to financial guarantees see Note 20.

16. Statement of Changes in Stockholders' Equity

The following table reflects the first nine months of 2017 and 2016 reconciliations of the carrying amounts of total equity, equity attributable to U. S. Steel and equity attributable to noncontrolling interests:

Nine Months Ended September 30, 2017 (In millions)	Total	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	$2,275	$ (250)	$ (1,497)	$ 176	$ (182)	$4,027	$ 1
Comprehensive income (loss):							
Net earnings	228	228					
Other comprehensive income, net of tax: [a]							
Pension and other benefit adjustments	146		146				
Currency translation adjustment	149		149				
Employee stock plans	26				90	(64)	
Dividends paid on common stock	(26)					(26)	
Other	10	4	6				
Balance at September 30, 2017	$2,808	$ (18)	$ (1,196)	$ 176	$ (92)	$3,937	$ 1

[a] Amounts for 2017 do not reflect a tax benefit as a result of a full valuation allowance on our domestic deferred tax assets.

Nine Months Ended September 30, 2016 (In millions)	Total	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Common Stock	Treasury Stock	Paid-in Capital	Non-Controlling Interest
Balance at beginning of year	$2,437	$ 190	$ (1,169)	$ 151	$ (339)	$3,603	$ 1
Comprehensive income (loss):							
Net loss	(335)	(335)					
Other comprehensive income (loss), net of tax: [b]							
Pension and other benefit adjustments	(134)		(134)				
Currency translation adjustment	41		41				
Employee stock plans	16				62	(46)	
Common stock issued	582			25		557	
Dividends paid on common stock	(22)					(22)	
Other	17		17				
Balance at September 30, 2016	$2,602	$ (145)	$ (1,245)	$ 176	$ (277)	$4,092	$ 1

[b] Amounts for 2016 do not reflect a tax benefit as a result of a full valuation allowance on our domestic deferred tax assets.

17. Reclassifications from Accumulated Other Comprehensive Income (AOCI)

(In millions) [(a)]	Pension and Other Benefit Items	Foreign Currency Items	Other	Total
Balance at December 31, 2016	$ (1,771)	$ 274	$ —	$(1,497)
Other comprehensive income before reclassifications	296	149	6	451
Amounts reclassified from AOCI	(141) [(b)]	—	—	(141)
Sale of ownership interest in Tilden Mining Company L.C.	(9)	—	—	(9)
Net current-period other comprehensive income	146	149	6	301
Balance at September 30, 2017	$ (1,625)	$ 423	$ 6	$(1,196)

(a)Amounts do not reflect a tax benefit as a result of a full valuation allowance on our domestic deferred tax assets.
(b)See table below for further details.

(In millions) [(a)]		Amount reclassified from AOCI			
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Details about AOCI components	2017	2016	2017	2016
	Amortization of pension and other benefit items				
	Prior service costs [(b)]	$8	$(8)	$22	$(27)
	Actuarial losses [(b)]	38	(34)	114	(99)
	Settlement, termination and curtailment (losses)[(b)]	1	(10)	5	(13)
	Total before tax	47	(52)	141	(139)
	Tax benefit	—	—	—	—
	Net of tax [(c)]	$47	$(52)	$141	$(139)

(a)Amounts in parentheses indicate decreases in AOCI.
(b)These AOCI components are included in the computation of net periodic benefit cost (see Note 6 for additional details).
(c)Amounts do not reflect a tax benefit as a result of a full valuation allowance on our domestic deferred tax assets.

18. Transactions with Related Parties

Net sales to related parties and receivables from related parties primarily reflect sales of raw materials and steel products to equity investees and U. S. Steel Canada Inc. (USSC) after the Canada Companies' Creditor Arrangement Act (CCAA) filing on September 16, 2014, but before the sale to an affiliate of Bedrock Industries Group LLC (Bedrock). Generally, transactions are conducted under long-term market-based contractual arrangements. Related party sales and service transactions were $272 million and $316 million for the three months ended September 30, 2017 and 2016, respectively, and $941 million and $895 million for the nine months ended September 30, 2017 and 2016, respectively.

Purchases from related parties for outside processing services provided by equity investees and USSC after the CCAA filing on September 16, 2014, but before the sale to Bedrock amounted to $7 million and $25 million for the three months ended September 30, 2017 and 2016, respectively, and $62 million and $68 million for the nine months ended September 30, 2017 and 2016, respectively. Purchases of iron ore pellets from related parties amounted to $40 million and $43 million for the three months ended September 30, 2017 and 2016, respectively, and $120 million and $131 million for the nine months ended September 30, 2017 and 2016, respectively.

Accounts payable to related parties include balances due to PRO-TEC Coating Company (PRO-TEC) of $77 million and $63 million at September 30, 2017 and December 31, 2016, respectively, for invoicing and receivables collection services provided by U. S. Steel. U. S. Steel, as PRO-TEC's exclusive sales agent, is responsible for credit risk related to those receivables. U. S. Steel also provides PRO-TEC marketing, selling and customer service functions. Payables to other related parties, including USSC after the CCAA filing on

September 16, 2014, but before the sale Bedrock totaled $2 million and $3 million at September 30, 2017 and December 31, 2016, respectively.
As a result of the completion of the restructuring and disposition of U. S. Steel Canada Inc. on June 30, 2017, subsequent transactions between the Company and U. S. Steel Canada Inc. are no longer considered related party transactions and are accounted for and recognized as third-party transactions. See Note 21 for further details.

19. Restructuring and Other Charges

During the nine months ended September 30, 2017, the Company recorded a net restructuring charge of $30 million, which consists of charges of $35 million related to the permanent shutdown of the No. 6 Quench & Temper Mill at Lorain Tubular Operations and a favorable adjustment of $5 million primarily associated with a change in estimate for previously recorded costs for environmental obligations and Company-wide headcount reductions. Cash payments were made related to severance and exit costs of $24 million.
Restructuring charges recorded during the three and nine months ended September 30, 2016 were immaterial.
Charges for restructuring and ongoing cost reduction initiatives are recorded in the period the Company commits to a restructuring or cost reduction plan, or executes specific actions contemplated by the plan and all criteria for liability recognition have been met. Charges related to the restructuring and cost reductions are reported in restructuring and other charges in the Consolidated Statements of Operations.
The activity in the accrued balances incurred in relation to restructuring and other cost reduction programs during the nine months ended September 30, 2017 were as follows:

(in millions)	Employee Related Costs	Exit Costs	Non-cash Charges	Total
Balance at December 31, 2016	$ 14	$ 60	$ —	$ 74
Additional charges	1	—	35	36
Cash payments/utilization	(7)	(17)	(35)	(59)
Other adjustments and reclassifications	(4)	(2)	—	(6)
Balance at September 30, 2017	$ 4	$ 41	$ —	$ 45

Accrued liabilities for restructuring and other cost reduction programs are included in the following balance sheet lines:

(in millions)	September 30, 2017	December 31, 2016
Accounts payable	$ 30	$ 50
Payroll and benefits payable	3	11
Employee benefits	1	1
Deferred credits and other noncurrent liabilities	11	12
Total	$ 45	$ 74

20. Contingencies and Commitments
U. S. Steel is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Certain of these matters are discussed below. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the Consolidated Financial Statements. However, management believes that U. S. Steel will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.
U. S. Steel accrues for estimated costs related to existing lawsuits, claims and proceedings when it is probable that it will incur these costs in the future, and the costs are reasonably estimable.

Asbestos matters – As of September 30, 2017, U. S. Steel was a defendant in approximately 830 active cases involving approximately 3,325 plaintiffs. The vast majority of these cases involve multiple defendants. At December 31, 2016, U. S. Steel was a defendant in approximately 845 active cases involving approximately 3,340 plaintiffs. As of September 30, 2017, about 2,500, or approximately 75 percent, of these plaintiff claims are currently pending in jurisdictions which permit filings with massive numbers of plaintiffs. Based upon U. S. Steel's experience in such cases, we believe that the actual number of plaintiffs who ultimately assert claims against U. S. Steel will likely be a small fraction of the total number of plaintiffs.

The following table shows the number of asbestos claims in the current period and the prior three years:

Period ended	Opening Number of Claims	Claims Dismissed, Settled and Resolved	New Claims	Closing Number of Claims
December 31, 2014	3,320	190	325	3,455
December 31, 2015	3,455	415	275	3,315
December 31, 2016	3,315	225	250	3,340
September 30, 2017	3,340	200	185	3,325

Historically, asbestos-related claims against U. S. Steel fall into three groups: (1) claims made by persons who allegedly were exposed to asbestos on the premises of U. S. Steel facilities; (2) claims made by persons allegedly exposed to products manufactured by U. S. Steel; and (3) claims made under certain federal and maritime laws by employees of former operations of U. S. Steel.

The amount U. S. Steel accrues for pending asbestos claims is not material to U. S. Steel's financial condition. However, U. S. Steel is unable to estimate the ultimate outcome of asbestos-related claims due to a number of uncertainties, including: (1) the rates at which new claims are filed, (2) the number of and effect of bankruptcies of other companies traditionally defending asbestos claims, (3) uncertainties associated with the variations in the litigation process from jurisdiction to jurisdiction, (4) uncertainties regarding the facts, circumstances and disease process with each claim, and (5) any new legislation enacted to address asbestos-related claims. Despite these uncertainties, management believes that the ultimate resolution of these matters will not have a material adverse effect on U. S. Steel's financial condition, although the resolution of such matters could significantly impact results of operations for a particular quarter.

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

(In millions)	Nine Months Ended September 30, 2017
Beginning of period	$ 179
Accruals for environmental remediation deemed probable and reasonably estimable	6
Obligations settled	(5)
End of period	$ 180

Accrued liabilities for remediation activities are included in the following Consolidated Balance Sheet lines:

(In millions)	September 30, 2017	December 31, 2016
Accounts payable	$ 20	$ 19
Deferred credits and other noncurrent liabilities	160	160
Total	$ 180	$ 179

Expenses related to remediation are recorded in cost of sales and were immaterial for both the three and nine month periods ended September 30, 2017 and 2016. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties that may be imposed. Due to uncertainties inherent in remediation projects and the associated liabilities, it is reasonably possible that total remediation costs for active matters may exceed the accrued liabilities by as much as 15 to 30 percent.

Remediation Projects

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

(1) Projects with Ongoing Study and Scope Development - Projects which are still in the development phase. For these projects, the extent of remediation that may be required is not yet known, the remediation methods and plans are not yet developed, and/or cost estimates cannot be determined. Therefore, significant costs, in addition to the accrued liabilities for these projects, are reasonably possible. There are six environmental remediation projects where additional costs for completion are not currently estimable, but could be material. These projects are at Fairfield Works, Lorain Tubular, USS-POSCO Industries (UPI), the Fairless Plant, Cherryvale Zinc, and the former steelmaking plant at Joliet, Illinois. As of September 30, 2017, accrued liabilities for these projects totaled $1 million for the costs of studies, investigations, interim measures, design and/or remediation. It is reasonably possible that additional liabilities associated with future requirements regarding studies, investigations, design and remediation for these projects could be as much as $30 million to $50 million.

(2) Significant Projects with Defined Scope - Projects with significant accrued liabilities with a defined scope. As of September 30, 2017, there are three significant projects with defined scope greater than or equal to $5 million each, with a total accrued liability of $136 million. These projects are Gary RCRA (accrued liability of $26 million), the former Geneva facility (accrued liability of $63 million), and the former Duluth facility St. Louis River Estuary (accrued liability of $47 million).

(3) Other Projects with a Defined Scope - Projects with relatively small accrued liabilities for which we believe that, while additional costs are possible, they are not likely to be significant, and also include those projects for which we do not yet possess sufficient information to estimate potential costs to U. S. Steel. There are two other environmental remediation projects which each had an accrued liability of between $1 million and $5 million. The total accrued liability for these projects at September 30, 2017 was $4 million. These projects have progressed through a significant portion of the design phase and material additional costs are not expected.

The remaining environmental remediation projects have an accrued liability of less than $1 million each. The total accrued liability for these projects at September 30, 2017 was $7 million. We do not foresee material additional liabilities for any of these sites.

Post-Closure Costs – Accrued liabilities for post-closure site monitoring and other costs at various closed landfills totaled $23 million at September 30, 2017 and were based on known scopes of work.

Administrative and Legal Costs – As of September 30, 2017, U. S. Steel had an accrued liability of $6 million for administrative and legal costs related to environmental remediation projects. These accrued liabilities were based on projected administrative and legal costs for the next three years and do not change significantly from year to year.

Capital Expenditures – For a number of years, U. S. Steel has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In the first nine months of 2017 and 2016, such capital expenditures totaled $39 million and $24 million, respectively. U. S. Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

Under the Emission Trading Scheme (ETS), USSK's final allocation of free allowances for the Phase III period, which covers the years 2013 through 2020 is 48 million allowances. Based on projected future production levels, we started to purchase allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of September 30, 2017, we have purchased 1 million European Union Allowances (EUA) totaling €7 million (approximately $8 million). We estimate a shortfall of approximately 16 million allowances for the

Phase III period. However, due to a number of variables such as the future market value of allowances, future production levels and future emission intensity levels, we cannot reliably estimate the full cost of complying with the ETS regulations at this time.

The EU’s Industry Emission Directive requires implementation of EU determined best available techniques (BAT) for Iron and Steel production to reduce environmental impacts as well as compliance with BAT associated emission levels. Our most recent broad estimate of future capital expenditures for projects to comply with or go beyond BAT requirements is €138 million (approximately $163 million) over the 2017 to 2020 period. There are ongoing efforts to seek EU grants to fund a portion of these capital expenditures. The actual amount spent will depend largely upon the amount of EU incentive grants received. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental Matters, Litigation and Contingencies, Slovak Operations.

Due to other EU legislation requirements - BAT for Large Combustion Plants (LCP), we are required to make changes to the boilers at our steam and power generation plant in order to comply with stricter air emission limits for large combustion plants. The new requirements for LCP resulted in the construction of a new boiler and certain upgrades to our existing boilers. In January 2014, the operation of USSK's boilers was approved by the European Commission (EC) as part of Slovakia's Transitional National Plan (TNP) for bringing all boilers in Slovakia into compliance by no later than 2020. The TNP establishes emission ceilings for each category of emissions (total suspended particulate, sulfur dioxide (SO_2) and nitrogen oxide (NOx)) for both stacks within the power plant. The allowable amount of discharged emissions will decrease each year until mid 2020. An emission ceiling will be a limiting factor for future operation of the boilers. The boiler projects have been approved by our Board of Directors and we are now in the execution phase. These projects will result in a reduction in electricity, carbon dioxide (CO_2) emissions and operating, maintenance and waste disposal costs once completed. The construction of the new boiler is complete with a total final installed cost of €76 million (approximately $90 million). Reconstruction of the existing boiler, with a projected cost of €52 million (approximately $61 million), is in progress. The total remaining to be spent on the existing boiler project is projected to be €10 million (approximately $12 million). Broad legislative changes were enacted by the Slovak Republic to extend the scope of support for renewable sources of energy, that are intended to allow USSK to participate in Slovakia's renewable energy incentive program once the boiler projects are completed.

Guarantees – The maximum guarantees of the indebtedness and other obligations of unconsolidated entities of U. S. Steel totaled $4 million at September 30, 2017.

EPA Region V Federal Lawsuit – This is a Clean Air Act (CAA) enforcement action brought in Federal Court in the Northern District of Indiana in 2012. The U.S. Government, joined by the States of Illinois, Indiana, and Michigan initiated the action alleging the Company violated the CAA and failed to have in place appropriate pollution control equipment at Gary Works, Granite City Works, and Great Lakes Works. A Consent Decree with a proposed settlement agreement was filed with the Court on November 22, 2016. As part of the settlement agreement, U. S. Steel agreed to perform seven supplemental environmental projects totaling approximately $3 million and to pay a civil penalty of approximately $2 million. The enforcement action concluded on March 30, 2017 when the Court signed and entered the Consent Decree. In April 2017, U. S. Steel satisfied payment of the approximately $2 million civil penalty and is currently in various phases of implementing the supplemental environmental projects.

CCAA - On September 16, 2014, U. S. Steel Canada Inc. (USSC) commenced court-supervised restructuring proceedings under Canada's Companies' Creditors Arrangement Act (CCAA) before the Ontario Superior Court of Justice (the Court). As part of the CCAA proceedings, U. S. Steel submitted both secured and unsecured claims of approximately C$2.2 billion which were verified by the court-appointed Monitor. U. S. Steel's claims were challenged by a number of interested parties, and on February 29, 2016, the Court denied those challenges and verified U. S. Steel's secured claims in the amount of approximately $119 million and unsecured claims of approximately C$1.8 billion and $120 million. The interested parties had appealed the determinations of the Court, but the appeals have been discontinued as a result of the sale of USSC to Bedrock on June 30, 2017 for approximately $127 million.

Other contingencies – Under certain operating lease agreements covering various equipment, U. S. Steel has the option to renew the lease or to purchase the equipment at the end of the lease term. If U. S. Steel does not exercise the purchase option by the end of the lease term, U. S. Steel guarantees a residual value of the equipment as determined at the lease inception date (totaling approximately $10 million at September 30, 2017). No liability has been recorded for these guarantees as the potential loss is not probable.

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

U. S. Steel uses surety bonds, trusts and letters of credit to provide whole or partial financial assurance for certain obligations such as workers' compensation. The total amount of active surety bonds, trusts and letters of credit being used for financial assurance purposes was approximately $157 million as of September 30, 2017, which reflects U. S. Steel's maximum exposure under these financial guarantees, but not its total exposure for the underlying obligations. A significant portion of our trust arrangements and letters of credit are collateralized by our Third Amended and Restated Credit Agreement. The remaining trust arrangements and letters of credit are collateralized by restricted cash. Restricted cash, which is recorded in other current and noncurrent assets, totaled $42 million and $40 million at September 30, 2017 and December 31, 2016, respectively.

Capital Commitments – At September 30, 2017, U. S. Steel's contractual commitments to acquire property, plant and equipment totaled $143 million.

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

Remainder of 2017	2018	2019	2020	2021	Later Years	Total
$147	$734	$402	$316	$309	$1,067	$2,975

The majority of U. S. Steel's unconditional purchase obligations relates to the supply of industrial gases, and certain energy and utility services with terms ranging from two to 15 years. Unconditional purchase obligations also include coke and steam purchase commitments related to a coke supply agreement with Gateway Energy & Coke Company LLC (Gateway) under which Gateway is obligated to supply a minimum volume of the expected targeted annual production of the heat recovery coke plant, and U. S. Steel is obligated to purchase the coke from Gateway at the contract price. As of September 30, 2017, if U. S Steel were to terminate the agreement, it may be obligated to pay in excess of $193 million.

Total payments relating to unconditional purchase obligations were $132 million and $117 million for the three months ended September 30, 2017 and 2016, respectively and $425 million and $372 million for the nine months ended September 30, 2017 and 2016, respectively.

21. U. S. Steel Canada Inc. Retained Interest

On June 30, 2017, U. S. Steel completed the restructuring and disposition of USSC through a sale and transfer of all of the issued and outstanding shares in USSC to an affiliate of Bedrock. In accordance with the Second Amended and Restated Plan of Compromise, Arrangement and Reorganization, approved by the Ontario Superior Court of Justice on June 9, 2017, U. S. Steel received approximately $127 million in satisfaction of its secured claims, including interest, which resulted in a gain of $72 million on the Company's retained interest in USSC. U. S. Steel also agreed to the discharge and cancellation of its unsecured claims for nominal consideration. The terms of the settlement also included mutual releases among key stakeholders, including a release of all claims against the Company regarding environmental, pension and other liabilities.

22. Sale of Ownership Interest in Equity Investee

On September 29, 2017, a subsidiary of U. S. Steel completed the sale of its 15% ownership interest in Tilden Mining Company L.C. for $105 million. As a result of the transaction, U. S. Steel recognized a gain of approximately $26 million.

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

RESULTS OF OPERATIONS

Net sales by segment for the three and nine months ended September 30, 2017 and 2016 are set forth in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,
(Dollars in millions, excluding intersegment sales)	2017	2016	% Change	2017