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UNITED STATES STEEL CORP

Form 10-K

February 29, 2016

2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2015

Commission file number 1-16811

(Exact name of registrant as specified in its charter)

Delaware

25-1897152

(State of Incorporation)

(I.R.S. Employer Identification No.)

600 Grant Street, Pittsburgh, PA 15219-2800

(Address of principal executive offices)

Tel. No. (412) 433-1121

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class

Name of Exchange on which Registered

United States Steel Corporation

New York Stock Exchange, Chicago Stock Exchange

Common Stock, par value \$1.00

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

No

Aggregate market value of Common Stock held by non-affiliates as of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter): \$3.0 billion. The amount shown is based on the closing price of the registrant's Common Stock on the New York Stock Exchange composite tape on that date. Shares of

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Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are “affiliates” within the meaning of Rule 405 under the Securities Act of 1933.

There were 146,284,894 shares of United States Steel Corporation Common Stock outstanding as of February 25, 2016.

Documents Incorporated By Reference:

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated into Part III.

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

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

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10-K SUMMARY

Our Vision is to become the Iconic Corporation, returning to our stature as a leading business in the United States. This vision is about more than U. S. Steel; it is about having a strong manufacturing presence in the United States of America.

During 2015, we continued to transform U. S. Steel through the two phases of a focused execution on our stockholder value creation strategy: (1) earn the right to grow, and (2) drive and sustain profitable growth. Our long-term success depends on our ability to execute these phases and earn an economic profit across the business cycle. Through a disciplined approach we refer to as “The Carnegie Way,” we continue working toward strengthening our balance sheet, with a strong focus on cash flow, liquidity, and financial flexibility.

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Based on the Carnegie Way philosophy, we have launched a series of initiatives that we believe will enable us to add value, re-shape the Company, and improve our performance across our core business processes, including commercial, supply chain, manufacturing, procurement, innovation, and operational and functional support. We are on a mission to become an iconic industry leader, as we create a sustainable competitive advantage with a relentless focus on economic profit, our customers, cost structure and innovation. In pursuing our financial goals, we will not sacrifice our commitment to safety and environmental stewardship. We recognize that achieving this goal requires exemplary leadership and collaboration of all employees.

In 2015 and 2014, our earnings (loss) before interest and income taxes (EBIT) was \$(1,202) million and \$413 million, respectively, compared to adjusted EBITDA in 2015 and 2014 of \$202 million and \$1,698 million, respectively.

2015 vs. 2014 Consolidated Adjusted EBITDA^(a)

(\$ in millions)

^(a) Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA). Adjusted EBITDA is a non-GAAP measure, which is used as an additional measurement to enhance the understanding of our operating performance and facilitate a comparison with that of our competitors. The adjustments to EBITDA primarily consist of losses associated with U. S. Steel Canada, Inc., restructuring and impairment charges. See reconciliation to EBIT, as reported, on page 17.

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KEY PERFORMANCE INDICATORS

This section provides an overview of select key performance indicators for U. S. Steel which management and investors use to assess the Company's financial performance. It does not contain all of the information you should consider. Fluctuations for year to year changes are explained in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, the results do not include U. S. Steel Canada Inc. (USSC) subsequent to USSC's filing for CCAA protection on September 16, 2014. Please read the entire Annual Report on Form 10-K.

The \$815 million of Carnegie Way benefits realized in 2015 show that we continue to make significant progress toward our goal of achieving economic profit across the business cycle. Our progress is real and it is substantial, but our 2015 results show that it is not yet enough to fully overcome some of the worst market and business conditions we have seen.

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Decrease in net sales in 2015 is primarily due to decreased shipment volumes and lower average realized prices as a result of challenging market conditions, including high import levels, much of which we believe are unfairly traded, which have served to reduce shipment volumes and drastically depress both spot and contract prices.

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We reported positive adjusted EBITDA in 2015 under difficult market conditions and the lowest utilization of our steelmaking production facilities since 2009.

See reconciliation to EBIT, as reported, on page 17.

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Our efforts towards achieving economic profit across the business cycle, guided by the Carnegie Way, continue, but in 2015, they were not enough to overcome some of the worst market and business conditions we have seen.

See reconciliation to net (loss) earnings attributable to United States Steel Corporation on page 15.

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See reconciliation to diluted net loss per share on page 16.

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Positive cash from operations due to efficient working capital management in 2015.

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♣ Maintaining strong cash and liquidity is a strategic priority.

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Decrease in expense is primarily due to the natural maturation of the plans, partially offset by a lower discount rate and a lower expected return on asset assumption.

2016 Pension and OPEB expense is expected to be approximately \$93 million.

For further details, see Note 17 to the Consolidated Financial Statements.

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An increase in the discount rate lowered pension and OPEB obligations and was partially offset by a decrease in the fair value of plan assets.

As we maintain focus on strengthening the balance sheet, the unfunded status of our benefit plans is improving. This is partially attributable to the decision to freeze benefit accruals in the defined benefit pension plan and changes made to the OPEB plans.

For further details, see Note 17 to the Consolidated Financial Statements.

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NON-GAAP FINANCIAL MEASURES

We present EBITDA, adjusted EBITDA, adjusted net earnings (loss) and adjusted net earnings (loss) per diluted share, which are non-GAAP measures, as an additional measurement to enhance the understanding of our operating performance and facilitate a comparison with that of our competitors. EBITDA is defined as earnings (loss) before interest, income taxes, depreciation and amortization. Adjusted EBITDA and adjusted net earnings (loss) are not, however, intended as alternative measures of operating results or cash flow from operations as determined in accordance with GAAP and are not necessarily comparable to similarly titled measures used by other companies.

RECONCILIATION OF ADJUSTED NET (LOSS) EARNINGS ^(a)

(Dollars in millions)	Year Ended December 31,		
	2015	2014	2013
Reconciliation to net (loss) earnings attributable to United States Steel Corporation			
Adjusted net (loss) earnings attributable to United States Steel Corporation	\$(262	)	\$676
Losses associated with U. S. Steel Canada Inc.	(266	)	(385
Loss on shutdown of Fairfield Flat-Rolled operations ^{(b) (c)}	(53)	—
Loss on shutdown of coke production facilities ^(c)	(65)	—
Restructuring and other charges ^{(c) (d)}	(64	)	(258
Granite City Works temporary idling charges	(99)	—
Postemployment benefit actuarial adjustment	(26)	—
Impairment of equity investment	(18)	—
Loss on retirement of senior convertible notes	(36)	—
Deferred tax asset valuation allowance	(753)	—
Impairment of carbon alloy facilities ^(c)	—	(161)
Litigation reserves	—	(46)
Write-off of pre-engineering costs at Keetac ^(c)	—	(30)
Loss on assets held for sale	—	(9)
Gain on sale of real estate assets ^(e)	—	45	—
Curtailed gain	—	12	—
Impairment of goodwill	—	—	(1,795
Repurchase premium charge ^(f)	—	—	(22
Environmental remediation charge	—	—	(21
Write-off of equity investment	—	—	(15
Tax benefits ^(g)	—	—	561
Supplier contract dispute settlement	—	—	15
Total Adjustments	(1,380	)	(574
Net (loss) earnings attributable to United States Steel Corporation, as reported	\$(1,642	)	\$102
			\$(1,645

^(a) The adjustments included in this table have been tax affected at the quarterly effective tax rate with the exception of the fourth quarter of 2015 items which have been tax affected at a 0% tax rate due to the recognition of a full valuation allowance in the fourth quarter of 2015.

^(b) Fairfield Flat-Rolled Operations includes the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works. The slab and rounds casters remain operational and the #5 coating line continues to operate.

^(c) Included in restructuring and other charges on the Consolidated Statement of Operations.

^(d) The 2015 amount consists primarily of employee related costs, including costs for severance, supplemental unemployment benefits and continuation of health care benefits. The 2013 amount is related primarily to the shut down of the iron and steelmaking facilities at Hamilton Works.

- (e) Gain on sale of surface rights and mineral royalty revenue streams in the state of Alabama.
- (f) Related to the repurchases of \$542 million principal amount of our 2014 Senior Convertible Notes.
- (g) Related to a tax restructuring and other items.

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RECONCILIATION OF ADJUSTED NET (LOSS) EARNINGS PER SHARE

	Year Ended December 31,		
	2015	2014	2013
Reconciliation to diluted net (loss) earnings per share			
Adjusted diluted net (loss) earnings per share	\$(1.79	) \$4.47	\$(0.76)
Losses associated with U. S. Steel Canada Inc.	(1.82	) (2.52) —
Loss on shutdown of Fairfield Flat-Rolled operations ^(a) ^(b)	(0.37) —	—
Loss on shutdown of coke production facilities ^(b)	(0.44) —	—
Restructuring and other charges ^(b) ^(c)	(0.44	) —	(1.79)
Granite City Works temporary idling charges	(0.68) —	—
Postemployment benefit actuarial adjustment	(0.18)	
Impairment of equity investment	(0.12) —	—
Loss on retirement of senior convertible notes	(0.25) —	—
Deferred tax asset valuation allowance	(5.15) —	—
Impairment of carbon alloy facilities ^(b)	—	(1.06) —
Litigation reserves	—	(0.31) —
Write-off of pre-engineering costs at Keetac ^(b)	—	(0.21) —
Loss on assets held for sale	—	(0.06) —
Gain on sale of real estate assets ^(d)	—	0.30	—
Curtailment gain	—	0.08	—
Impairment of goodwill	—	—	(12.41)
Repurchase premium charge ^(e)	—	—	(0.15)
Environmental remediation charge	—	—	(0.14)
Write-off of equity investment	—	—	(0.10)
Tax benefits ^(f)	—	—	3.88
Supplier contract dispute settlement	—	—	0.10
Total adjustments	(9.45	) (3.78	) (10.61)
Diluted net loss per share, as reported	\$(11.24	) \$0.69	\$(11.37)

^(a) Fairfield Flat-Rolled Operations includes the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works. The slab and rounds casters remain operational and the #5 coating line continues to operate.

^(b) Included in restructuring and other charges on the Consolidated Statement of Operations.

^(c) The 2015 amount consists primarily of employee related costs, including costs for severance, supplemental unemployment benefits and continuation of health care benefits. The 2013 amount is related primarily to the shut down of the iron and steelmaking facilities at Hamilton Works.

^(d) Gain on sale of surface rights and mineral royalty revenue streams in the state of Alabama.

^(e) Related to the repurchases of \$542 million principal amount of our 2014 Senior Convertible Notes.

^(f) Related to a tax restructuring and other items.

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RECONCILIATION OF EBITDA AND ADJUSTED EBITDA

(Dollars in millions)	Year Ended December 31,		2013
	2015	2014	
Reconciliation to (loss) earnings before interest and income taxes (EBIT)			
Adjusted EBITDA	\$202	\$1,698	\$863
Losses associated with U. S. Steel Canada Inc.	(392	) (416) —
Loss on shutdown of Fairfield Flat-Rolled operations ^(a) ^(b)	(91) —	—
Loss on shutdown of coke production facilities ^(b)	(153) —	—
Restructuring and other charges ^{(b)(c)}	(78	) —	(248
Granite City Works temporary idling charges	(99) —	—
Postemployment benefit actuarial adjustment	(26) —	—
Impairment of equity investment	(18) —	—
Impairment of carbon alloy facilities ^(b)	—	(195) —
Litigation reserves	—	(70) —
Write-off of pre-engineering costs at Keetac ^(b)	—	(37) —
Loss on assets held for sale	—	(14) —
Gain on sale of real estate assets ^(d)	—	55	—
Curtailment gain	—	19	—
Impairment of goodwill	—	—	(1,806
Environmental remediation charge	—	—	(32
Write-off of equity investment	—	—	(16