

ratio calculated in accordance with the Retirement Protection Act of 106%.

The Applicant further represents that preliminary funding valuations indicate that the newly-merged Plan will not require contributions for the 2003 or 2004 Plan years. U.S. Steel currently anticipates annual funding requirements, broadly estimated, to be approximately \$90 million beginning in 2005. The actual amount will depend upon various factors such as future asset performance, the level of interest rates used to measure ERISA minimum funding levels, the impacts of business acquisitions or sales, union-negotiated changes and future government regulation. For example, the Applicant states that the obligation could be much larger if the securities markets continue to show negative returns and the interest rates required to be used for funding calculations continue to decrease.

UCF is the Named Fiduciary and Plan Administrator of the Plan. It also will serve as trustee of the Plan (the Trustee), with responsibility for managing its assets. The assets of the Plan are diversified across several asset classes. As of December 31, 2002, the overall allocation of the \$7.2 billion in assets of the two plans was as follows:

Equities .....	63%
Fixed Income .....	31%
Real Estate .....	62%
Cash .....	4%

<sup>6</sup>This percentage does not include the Plan's investment in publicly-traded real estate investment trusts (REITs), which the Plan classifies as equity or fixed income depending on the nature of the interest held. Equity interests in the REITs constitute 2.4% of the Plan's assets, and fixed income interests in REITs constitute 2.7%.

4. In 1907, U.S. Steel's predecessor acquired approximately a quarter million acres of timberland when it bought Tennessee Coal and Iron. This land is generally situated around Birmingham, Alabama. Nearly 100,000 acres were harvested in the late 1980's and early 1990's, of which approximately 30% were clearcut harvested and replanted with pine. These areas will be available for harvest again approximately 25–30 years after planting, with harvesting to begin within the next ten years. Plantation thinning has begun on the older pine plantations, a process in which deformed and smaller trees are harvested, leaving the more valuable final crop trees to grow. More limited harvesting has occurred over the last five to seven years, with those areas also being planted with pine.

U.S. Steel currently is engaged in an effort to divest itself of its "non-strategic" assets, *i.e.*, those not related to its core steel business. One of the assets it is expected to divest is the timberland. However, because the timber is still in the early stages of growth, the market price U.S. Steel would obtain in a sale to a third party would be relatively low, as timber assets are assigned low values in early growth years and only appreciate significantly as the timber matures and can be harvested.

To retain, at least indirectly, the benefit of the future appreciation of these assets, U.S. Steel would like to contribute certain rights in the Property toward the funding of its employee benefit plans. U.S. Steel announced this possibility in its earnings release of January 28, 2003, in describing a series of business and asset dispositions it has under consideration, and in its Form 10-K annual report for the 2002 fiscal year that was filed with the Securities and Exchange Commission in March 2003. After considering the needs and current investments of its different plans, U.S. Steel decided that because of the minimum funding requirements for defined benefit plans, the recent increases in funding liabilities due to falling interest rates, the recent declines in asset levels due to negative stock market performance, and the need for asset diversification, the Plan is in the best position to benefit from receiving growing, cutting and harvesting rights in the timber assets.

5. Accordingly, UCF requests an administrative exemption from the Department to receive the contribution of Timber Rights on behalf of the Plan from U.S. Steel and to engage, on behalf of the Plan, in subsequent transactions between the Plan and U.S. Steel (*e.g.*, compensating the Plan for the timber value on the Property in the event that a parcel is sold for development) that may arise from the retention and exercise of the Timber Rights. Such transactions will be approved and monitored by The Campbell Group (TCG), the Independent Fiduciary for the Plan with respect to the proposed transactions. However, U.S. Steel will remain in control of the underlying Property from which the Timber Rights are derived and will make decisions affecting such Property.

The Plan will pay no fees or commissions in connection with the Timber Rights contribution. Absent administrative exemptive relief from the Department or a statutory exemption, such in kind contribution of the Timber Rights in lieu of cash in satisfaction of U.S. Steel's obligation to contribute to

the Plan would constitute a prohibited transaction in violation of the Act.

6. The Property on which the Timber Rights are based involves approximately 170,000 acres of land situated within a 35 mile radius south and west of Birmingham, Alabama. Environmental reports of the Property have revealed that certain areas within the Property are identified as being likely locations where hazardous substances have been released. To have the Plan avoid potential legal liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), TCG and UCF have requested (and U.S. Steel agreed) to "carve out" or otherwise exclude from the Timber Rights conveyance those areas which would present a higher risk or have actual evidence of hazardous substances. Nevertheless, because large portions of the subject Property present historical environmental concerns, UCF and the Independent Fiduciary have determined that it would not be prudent for the Plan to become an owner of the underlying land under CERCLA. Therefore, to minimize the Plan's legal risk, the proposed transactions have been specifically structured to convey limited timber and access rights only, as opposed to a perpetual fee simple interest in the underlying Property as initially contemplated. As a further measure to protect the Plan from CERCLA liability, U.S. Steel proposes to indemnify the Plan with respect to all liability for hazardous substances released on the Property prior to the execution and closing of the contemplated transactions. However, U.S. Steel will not be required to indemnify the Plan for the release of hazardous substances due to the Plan's gross negligence or willful misconduct in its timber harvesting activities. Under the Timber Rights Agreements, the Plan also retains the right to sell or assign, in whole or in part, its interests in the Timber Rights to a bona fide third party purchaser. The Plan will remain liable and responsible for the sale or assignment to U.S. Steel, unless such sale or assignment is approved by U.S. Steel. U.S. Steel will not unreasonably withhold its approval, but will condition it on consideration of the technical and financial capability and integrity of the proposed successor or assignee.

7. Of the 170,000 acres of the Property from which the Timber Rights are derived, 135,000 of those acres will be covered under a long-term timber purchase and cutting agreement (the Timber Agreement) and the remaining 35,000 acres will be covered under the U.S. Steel Agreement (USS Agreement).