

**Group Welfare Benefit Plan  
for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at  
Oak Ridge, Tennessee**

**Independent Auditors' Report  
and Financial Statements**

**December 31, 2009 and 2008**

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Table of Contents**

**December 31, 2009 and 2008**

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Benefit Obligations and Net Assets Available for Benefits	2
Statements of Changes in Benefit Obligations and Net Assets Available for Benefits	3
Notes to Financial Statements	4



## Independent Auditors' Report

To the Participants and Administrator of the  
Group Welfare Benefit Plan for Employees of Certain Employers  
at the U.S. Department of Energy Facilities at Oak Ridge, Tennessee

We have audited the accompanying Statements of Benefit Obligations and Net Assets Available for Benefits of the Group Welfare Benefit Plan for Employees of Certain Employers at the U.S. Department of Energy Facilities at Oak Ridge, Tennessee (the "Plan") as of December 31, 2009 and 2008, and the related Statements of Changes in Benefit Obligations and Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform these audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2009 and 2008, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McConnell & Jones LLP*  
Houston, Texas  
September 29, 2010

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**  
**Statements of Benefit Obligations and Net Assets Available for Benefits**  
**December 31, 2009 and 2008**

---

	<u>2009</u>	<u>2008</u>
<b>Benefit obligations</b>		
Postretirement benefit obligations	\$ 1,521,809,692	\$ 897,260,192
Claims incurred but not reported	<u>39,479,955</u>	<u>43,227,865</u>
<b>Excess of benefit obligations over net assets available for benefits</b>	<u>\$ 1,561,289,647</u>	<u>\$ 940,488,057</u>

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Statements of Changes in Benefit Obligations and  
Net Assets Available for Benefits**

**Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Net change in benefit obligations</b>		
Increase (Decrease) during the year attributable to:		
Postretirement benefit obligation	\$ 624,549,500	\$ (57,433,491)
Claims incurred but not reported	<u>(3,747,910)</u>	<u>3,936,463</u>
Net increase (decrease) in benefit obligations	<u>620,801,590</u>	<u>(53,497,028)</u>
<b>Net change in net assets available for benefits</b>		
<b>Additions</b>		
Contributions		
Employer	167,421,851	140,759,065
Participants	<u>70,410,770</u>	<u>73,346,164</u>
Total additions	<u>237,832,621</u>	<u>214,105,229</u>
<b>Deductions</b>		
Claim payments	214,055,455	191,858,063
Premium payments	12,732,406	11,970,688
Administrative expenses	<u>11,044,760</u>	<u>10,276,478</u>
Total deductions	<u>237,832,621</u>	<u>214,105,229</u>
<b>Net increase (decrease) in excess of benefit obligations over net assets available for benefits</b>	620,801,590	(53,497,028)
<b>Excess of benefit obligations over net assets available for benefits at beginning of year</b>	<u>940,488,057</u>	<u>993,985,085</u>
<b>Excess of benefit obligations over net assets available for benefits at end of year</b>	<u>\$ 1,561,289,647</u>	<u>\$ 940,488,057</u>

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

---

**Note 1: Description of the Plan**

The following description of the Group Welfare Benefit Plan for Employees of Certain Employers at the U.S. Department of Energy Facilities at Oak Ridge, Tennessee (the "Plan") provides only general information. Participants should refer to the Summary Plan Description and the insurance policy for a complete description of the Plan's provisions.

***General***

The Plan became a multiple employer welfare arrangement benefit plan ("MEWA") on April 1, 2000, with Lockheed Martin Energy Systems, Inc. ("LMES") and UT-Battelle LLC ("UTB") as the adopting employers. In connection with the MEWA, LMES and UTB established the Oak Ridge Benefits Insurance Trust (the "ORBIT") effective as of April 1, 2000, to hold the insurance policies issued to insure the benefits provided under Group Health, Group Life, Group Dental, Special Accident, and Travel Accident (the "Arrangement"). Insurance policy premiums are collected by the ORBIT and are submitted to the insurance providers. The ORBIT was established by a trust agreement entered into among UTB, LMES, and the individuals serving as trustees. Effective as of November 1, 2000, the facility management contract between the Department of Energy ("DOE") and LMES terminated and most of the LMES employees transferred to BWXT Y-12, L.L.C. ("BWXT"). LMES withdrew from the Arrangement, and BWXT adopted the Arrangement, all effective as of November 1, 2000. The Plan was amended to name the new participating employers, UTB and BWXT ("the Companies"), at that time. By state of Delaware Certificate of Amendment, BWXT changed and replaced its name to Babcock & Wilcox Technical Services Y-12, L.L.C. ("B&W Y-12") effective November 20, 2007.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Effective as of January 1, 2001, the Group Life, Group Dental, Special Accident and Travel Accident plans which were maintained under the Arrangement and for which the insurance policies were held in ORBIT were merged into the Group Health Benefit Plan for Employees of Certain Employers at the U.S. Department of Energy Facilities at Oak Ridge, Tennessee, and were renamed the Group Welfare Benefit Plan for Employees of Certain Employers at the U.S. Department of Energy Facilities at Oak Ridge, Tennessee.

***Benefits***

The Plan provides health and postretirement health benefits (medical, hospital, surgical, and major medical), death and postretirement death benefits, dental, special accident, and travel accident benefits to employees and retirees of the Companies and their dependents and to certain legacy retirees under the previous DOE management contract and their beneficiaries. Current claims of active and retired participants and their dependents are provided for under group contracts to include CIGNA, United Healthcare, Aetna Life Coverage, Delta Dental and Metropolitan Life Insurance Company (the "Insurance Companies"). Single employer arrangements outside the ORBIT include the self-funded prescription benefits which is bundled with medical and vision and the Aetna plan.

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

---

***Contributions***

The Companies' policy is to make necessary contributions toward current premium and claim costs as allowed by the Internal Revenue Code. Employees and retirees contribute to the Plan in accordance with schedules determined periodically by the insurance companies, underwriting, and the Companies.

***Plan Termination***

Although it has not expressed any intent to do so, the Companies have the right to modify the benefits provided, to discontinue their contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

**Note 2: Summary of Significant Accounting Policies**

***Basis of Accounting***

The Plan's financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, benefit obligations and changes therein, claims incurred but not reported ("IBNR"), eligibility credits, claims payable, liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Plan Benefits***

The postretirement benefit obligation (Note 3) represents the actuarially determined present value of those estimated future benefits that are attributable to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid to (i) currently retired employees and their beneficiaries and dependents (ii) active employees and their beneficiaries and dependents after retirement. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary, and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment, and to reflect the portion of those costs expected to be borne by Medicare, the retired participants, and other providers.

For measurement purposes, the trend rate for health care inflation by 2022 is 10.00 percent, trending down to 5.00 percent for Pre-65 Medical Claims and 11.00 percent, trending down to 5.00 percent for Post-64 Medical Claims and Medicare. These assumptions are consistent with those used to measure

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

the benefit obligation at December 31, 2008. Other significant assumptions as of December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Weighted-average discounts	5.50 percent	7.50 percent
Average retirement age	60	60
Mortality	IRS RP-2000 Mortality Table	IRS RP-2000 Mortality Table

The DOE actuary provides the actuarial assumptions to the plan actuary for the Financial Accounting Standards Board ("FASB") valuation. Changes to the discount rate and trend assumptions had a significant increase on the liabilities.

The changes to the current year actuarial assumptions were: (1) the settlement interest discount rate was 7.50% at December 31, 2008, then subsequently lowered to 5.50% at December 31, 2009; (2) The trend rates were changed from 9% to 11% for the plan year; (3) The allowance for administrative expenses was changed for the Medical plan and the pre-65 allowance was changed from 5.9% to 4.9% and the post-65 allowance changed from 5.1% to 5.0%; (4) Effective February 2009, Medicare Part D subsidy became a 50%/50% share between the Company and the retiree, which also increased the liability.

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

***Recent Accounting Pronouncements***

In May 2009, an accounting standard was issued by the FASB, establishing the accounting of and disclosure standards for events that occur after the balance sheet date but before financial statements are issued or available to be used. An amendment was issued in February 2010 which clarified which entities are required to evaluate subsequent events and the scope of the disclosure requirements related to subsequent events.

***Plan Management's Review of Subsequent Events***

In preparing the accompanying financial statements, Plan management has reviewed all known events that have occurred after December 31, 2009, and through September 29, 2010, the date the financial statements were available to be issued, for inclusion in the financial statements and footnotes.

**Note 3: Benefit Obligations**

Health costs incurred by participants and their beneficiaries and dependents are covered by insurance contracts maintained by the Plan. It is the present intention of the Companies and the Plan to continue obtaining insurance coverage for benefits.

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

The Companies are not permitted under present tax law to deduct amounts for future benefits (beyond one year). Insurance premiums and costs for future years in respect of the Plan's postretirement benefit obligation will be funded by contributions from the Companies and participants to the Plan in those later years. The insurance policies are held in the ORBIT.

The Medicare Prescription Drug Act (the "Act") was signed into law in December 2003. The Act allows companies that provide certain prescription drug benefits for retirees to receive a federal subsidy beginning in 2006. In accordance with the final FASB guidance, the Plan accounted for the government subsidy as a reduction in the Company's post-retirement benefit obligation rather than the Plan's liability.

The postretirement benefit obligation at December 31, 2009 and 2008 principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	<u>2009</u>	<u>2008</u>
Current retirees	\$ 752,909,105	\$ 460,116,789
Active employees, fully eligible	425,095,566	255,660,567
Other active participants	<u>343,805,021</u>	<u>181,482,836</u>
Postretirement benefit obligation	\$ <u>1,521,809,692</u>	\$ <u>897,260,192</u>

The health care cost-trend rate assumption has a significant effect on the amounts reported. If the assumed rates increased by one percentage point in each year, that would increase the obligation as of December 31, 2009 and 2008, by approximately 13.87 percent and 10.52 percent, respectively.

The postretirement benefit obligation increased from \$897,260,192 in 2008 to \$1,521,809,692 in 2009 due to the significant change in actuarial assumptions mentioned in Note 2.

**Note 4: Tax Status**

An IRS determination letter has not been applied for to date. Currently, the Plan Administrator believes the Plan is designed and is being operated in compliance with the applicable requirements of the Internal Revenue Code.

**Note 5: Risks and Uncertainties**

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**Group Welfare Benefit Plan for Employees of Certain Employers at the  
U.S. Department of Energy Facilities at Oak Ridge, Tennessee**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

---

**Note 6: Subsequent Events**

***UTB Spin-off***

Effective September 1, 2010, B&W Y-12 and UTB will become sponsors and administrators of their own separate plans. UTB will no longer be a participating employer of the Plan as of September 1, 2010.

***The Healthcare Act***

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law, which was subsequently amended on March 30, 2010 by the Healthcare and Education Reconciliation Act of 2010 (collectively the "Act"). The Act includes a large number of health-related provisions to take effect over the next four years. The provisions of the Act are likely to have a significant impact on the Plan's administration of benefits for its current and future participants, however, Plan management is unable to quantify the exact effect until further guidance on certain provisions of the Act are available.