

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

Financial Statements

December 31, 2007 and 2006

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

December 31, 2007 and 2006

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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2007 and 2006, 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 the audit 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, 2007 and 2006, 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.

A handwritten signature in black ink that reads 'McConnell & Jones LLP'.

Houston, Texas
October 9, 2008

**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, 2007 and 2006

	2007	2006
Benefit obligations		
Postretirement benefit obligations	\$ 954,693,683	\$ 966,342,028
Claims incurred but not reported	<u>39,291,402</u>	<u>37,504,152</u>
Excess of benefit obligations over net assets available for benefits	<u>\$ 993,985,085</u>	<u>\$ 1,003,846,180</u>

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

**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, 2007 and 2006

	2007	2006
Net change in benefit obligations		
(Decrease) Increase during the year attributable to:		
Postretirement benefit obligation	\$ (11,648,345)	\$ (79,015,672)
Claims incurred but not reported	<u>1,787,250</u>	<u>2,847,802</u>
Net decrease in benefit obligations	<u>(9,861,095)</u>	<u>(76,167,870)</u>
 Net change in net assets available for benefits		
Additions		
Contributions		
Employer	138,265,877	133,439,661
Participants	<u>64,690,576</u>	<u>56,655,020</u>
Total additions	<u>202,956,453</u>	<u>190,094,681</u>
 Deductions		
Claim payments	181,270,182	170,374,656
Premium payments	11,613,114	9,481,762
Administrative expenses	<u>10,073,156</u>	<u>10,238,263</u>
Total deductions	<u>202,956,453</u>	<u>190,094,681</u>
 Net change in net assets available for benefits	<u>-</u>	<u>-</u>
 Decrease in excess of benefit obligations over net assets available for benefits	 (9,861,095)	 (76,167,870)
 Excess of benefit obligations over net assets available for benefits at beginning of year	 <u>1,003,846,180</u>	 <u>1,080,014,050</u>
 Excess of benefit obligations over net assets available for benefits at end of year	 <u>\$ 993,985,085</u>	 <u>\$1,003,846,180</u>

The accompanying notes are an integral part of these 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, 2007 and 2006

1. Description of the Plan

General

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 contract for a complete description of the Plan's provisions.

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 DOE and LMES terminated and most of the LMES employees transferred to BWXT Y-12, L.L.C. ("BWXT"). 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. LMES withdrew from the Arrangement, and B&W Y-12 adopted the Arrangement, all effective as of November 1, 2000. The Plan was amended to name the new participating employers, UTB and B&W Y-12 ("the Companies"), at that time.

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

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.

Notes to Financial Statements
December 31, 2007 and 2006

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 and the Aetna plan.

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.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, benefit obligations and changes therein, IBNR, eligibility credits, claims payable, liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Notes to Financial Statements
December 31, 2007 and 2006**

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 is 9.5%, trending down to 5.000 percent by 2016. These assumptions are consistent with those used to measure the benefit obligation at December 31, 2005. Other significant assumptions are as follows:

	2007	2006
Weighted-average discounts	6.25%	5.25%
Average retirement age	61	61
Mortality	IRS RP-2000 Mortality Table	1994 GAM Mortality Table

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.

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.

Notes to Financial Statements
December 31, 2007 and 2006

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 Financial Accounting Standards Board ("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, 2007 and 2006 principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	2007	2006
Current retirees	\$ 474,101,104	\$ 522,744,315
Active employees, fully eligible	267,546,777	257,441,894
Other active participants	213,045,802	186,155,819
Postretirement benefit obligation	<u>\$ 954,693,683</u>	<u>\$ 966,342,028</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, 2007 and 2006, by approximately 11 percent and 13 percent, respectively.

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.

Notes to Financial Statements
December 31, 2007 and 2006

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.