USEC
A Global Energy Company

2000 ANNUAL REPORT

MEETING CHALLENGES
SEIZING OPPORTUNITIES

ABOUT USEC

USEC Inc. (NYSE: USU) is the world's leading supplier of enriched uranium fuel for commercial nuclear power plants. The Company serves as the United States' executive agent for the national security agreement with Russia to convert nuclear warheads into low-enriched fuel. With customers worldwide, USEC is headquartered in Bethesda, Maryland, and employs approximately 3,300 people (as of August 1, 2000).

FINANCIAL HIGHLIGHTS (fiscal year ended June 30)

	Fiscal 1999	Fiscal 2000
Revenue (in millions)	$1,528.6	$1,489.4
Net income excluding special items (in millions)	$ 120.6	$ 109.1
Net income (in millions)	$ 152.4	$ 8.9
Net cash provided by operating activities (in millions)	$ 230.4	$ 262.8
Total debt to capitalization	33%	37%
Earnings per share excluding special items and inventory adjustment	$ 1.21	$ 1.20
Earnings per share	$ 1.52	$ .10
Annualized dividend per share	$ 1.10	$ .55
Return on average common equity (excluding special items and inventory adjustment)	10.6%	11.5%

USEC earned $109.1 million in fiscal 2000, or $1.20 per share, before special charges and inventory adjustment. These special items are related to workforce reductions in the summer of 2000 and the cessation of enrichment at the Portsmouth plant in June 2001, as well as an inventory valuation adjustment. The special charges and inventory adjustment totaled $100.2 million (net of tax), or $1.10 per share, resulting in net income of $8.9 million or $.10 per share.

On the cover: Gene Brown stacks cylinders filled with uranium.

TO OUR SHAREHOLDERS

This has been a difficult and challenging year for us, and certainly not the kind of year we had envisioned for our Company. This report lays out the key factors affecting our business and the actions we have taken to respond to the realities of the marketplace. The challenges facing USEC since it became a publicly traded company two years ago have been and will continue to be significant, but we believe we have reached a turning point.

CHALLENGING BUSINESS ENVIRONMENT A number of factors have increasingly pressured our profit margins:

- A serious decline in the global market price for our primary product – uranium enrichment services – caused by industry overcapacity and a strengthening U.S. dollar;
- Electricity prices – our biggest production cost component – continued to climb in a deregulated electric marketplace;
- Fixed-price contract terms that require us to pay Russia more than the market price for the enriched uranium we purchase under the Megatons to Megawatts program;
- Each SWU we buy from Russia is a SWU that we no longer produce ourselves, and production has steadily declined to a fraction of our plants' capacity. This reduced production has pushed up our unit cost;
- Prices for natural uranium – another component of our business – declined by 22% during fiscal 2000.

Our immediate response to these many challenges was restricted by agreements signed upon leaving the government. These agreements prevented us from taking the decisive cost-cutting actions that most companies would take without hesitation.

FROM PROBLEMS TO SOLUTIONS These factors have had a bruising effect on our Company. Fortunately, limits on the Company when it was privatized began to be lifted near the end of the fiscal year. We now have a platform for taking action, unencumbered by those government restrictions. As the restrictions expired, we acted decisively to adjust our production capacity and manage costs appropriately through a series of initiatives to put our core business on solid footing. Here is our report on these initiatives:

First and most importantly, we are consolidating our production at a single facility. Given the global oversupply of uranium enrichment capacity, we made the difficult but absolutely necessary business decision to cease enrichment operations at the Portsmouth gaseous diffusion plant in June 2001. Consolidating production is vital to strengthening the Company and ensuring a long-term, economical source of domestic enriched uranium

services. The importance of cutting costs and improving operations cannot be overstated. After careful study, it was clear to us that the Paducah facility offers the best opportunity for the future. The decision was especially difficult because of the many years of contributions our employees made to the country's national security. Because we announced the plant closure a year in advance, our employees, the Portsmouth community and government agencies with which we have been working, have time to plan for site cleanup. This could present employment opportunities for affected employees.

Second, we implemented a workforce reduction. When a restriction on plant layoffs expired at year's end, we eliminated several hundred production positions. In the past two years, we have reduced personnel by approximately 25% without reducing productivity or jeopardizing safety.

Third, we secured an agreement to monetize excess electricity. We monetized excess power available to our Portsmouth plant during the summer of 2000. This action, subject to regulatory approval, is valued at $44 million, a nearly 40% improvement over the previous summer's monetization transaction. The conversion of this contractual asset to cash is possible because we dramatically reduce the level of operations at the plant during the summer and instead produce at higher levels in months when electricity is less expensive.

Fourth, we concluded a 10-year power supply agreement with TVA. The decision to shift all production to Paducah requires access to reliable, competitively priced electricity. This power requirement was fulfilled through an agreement with the Tennessee Valley Authority that provides our Paducah plant with electricity for the next decade. This agreement eliminates price risk during the summer months when power prices typically peak.


Jim Mellor, Chairman of the Board

"During this past year, operating constraints that came with privatization expired. As a result, we've been able to take the difficult but necessary steps to cut costs and improve efficiency. Today, we are able to seize the opportunities that will help make us a stronger company."

Fifth, we made significant progress toward market-based pricing with Russia. We began candid discussions with our government and our Russian counterparts to resolve the problems caused by a fixed-price contract in a market where prices are falling. We now have an agreement in principle to shift to market-based pricing in January 2002. Upon approval by the U.S. and Russian governments, the new contract would restore the Megatons to Megawatts program to profitable terms for the 13 years remaining in the agreement. The U.S.-Russian agreement has important national security ramifications that USEC takes very seriously, and we believe market-based pricing is critical to sustain the success of this nuclear non-proliferation program.

Sixth, we are actively pursuing new enrichment technology. We are working hard to secure an advanced enrichment technology for the near term and the long term. We continue to pursue access to both foreign and U.S. centrifuge enrichment technology. We are also funding research and development of SILEX, a laser-based technology pioneered by an Australian firm, for which USEC holds exclusive rights for uranium enrichment. We expect to make a decision in the next 12 to 18 months on which advanced technology option to pursue.


Nick Timbers, President and CEO

"We are building a platform for success whose pillars are three important business initiatives. They are dramatic cost reductions, a market-based pricing agreement with the Russian government and new enrichment technology. We've made great strides in accomplishing the first two and will pursue with vigor more efficient technology in fiscal 2001."

SEIZING OPPORTUNITIES Today, our emphasis is directed at strengthening our core business. While we may explore potential opportunities to expand our business activities, we are focused today on building a foundation upon which we will seize future opportunities.

We've adopted an effective approach for achieving results. We focus on identifying challenges, goals and the steps necessary to achieve each goal, then follow through with strong execution. We are delivering on what we set out to do. We continue to serve our customers well. We are holding true to our commitment to be a strong, reliable, long-term domestic supplier of enrichment services – all the while being sensitive to our shareholders and to our government and employee constituencies. And, looking ahead, we will seize opportunities within the nuclear and energy industries and position the Company to benefit from future industry growth.

This annual report reflects the transitional nature of this past year – we laid important groundwork in the process of turning inherited liabilities into future assets. In this report, we point out our accomplishments while we recognize how much remains to be done. Speaking for all of our talented and dedicated employees, we are both realistic and optimistic that the important progress made this year will provide the platform for ultimate success.

James R. Mellor
Chairman of the Board

William H. Timbers
President and Chief Executive Officer

September 11, 2000

In the pump house, Kevin Lindsey monitors discharge pressure on pumps that control the firewater systems in the plant.

Pat Jenny, Plant Services Manager, Paducah Plant

WORKING IN A SAFE ENVIRONMENT

"We have a great safety record at the plant, and the reason is that we are constantly reinforcing the importance of safety in the workplace. In most cases, accidents and injuries are not the result of risky behavior but of a lack of attention to the little things. Our new safety program for employees, designed to build workplace safety awareness, has employees thinking about safety whenever and wherever they're on the job."

FOCUSING ON THE CORE BUSINESS

USEC is working on several fronts to meet the challenges of a changing global market. Faced with lower prices in the market and higher per unit production costs, we are sharply focused on reshaping our core business of uranium enrichment services to a leaner, more efficient business.

Over the past 24 months, we have restructured operations and reduced manpower requirements by 25%, without sacrificing safety. Electricity represents one-half of our production costs, so finding opportunities to reduce these costs is critical to restructuring our core business. Successful negotiations with the Ohio Valley Electric Corp. (OVEC) will result in $44 million from the monetization of excess power during the summer of 2000, subject to regulatory approval – a nearly 40% improvement over the previous summer.

Jim Miller,
Executive Vice President

CHANGING OUR PRODUCTION ENVIRONMENT "Our most difficult decision was undoubtedly choosing a plant to close. It was made with great care and thorough analysis. Our next goal is to complete the upgrade at the Paducah plant that will allow us to produce higher enriched uranium there. We're on a tight schedule but confident. USEC employees are committed to make this happen."

These accomplishments lowered our current operating costs but we also addressed a more fundamental challenge – low plant production capacity levels that were economically unacceptable. Accordingly, the Board of Directors concluded that it was essential to consolidate enrichment operations at a single plant. Enrichment operations at the Portsmouth plant will cease in June 2001. This was a painful but necessary step to strengthen our core business, global competitiveness, financial performance and long-term prospects. USEC is seeking a joint effort of government, our Company, our unions and the local community to establish a meaningful worker transition program for as many affected employees as possible.

The Paducah plant is undergoing an enrichment upgrade program that will increase the level of its enriched product from the current 2.75% to 5.5%, the level necessary to meet commercial power plant specifications. U.S. Nuclear Regulatory Commission review of the upgrade has commenced, and we anticipate final regulatory approval of increased enrichment at Paducah in early 2001.

We are confident that in taking these major steps, we continue to build the foundation upon which we will seize future opportunities.

MAINTAINING OUR GLOBAL LEADERSHIP POSITION

Every market has a leader. In uranium enrichment services, the leader is USEC. Our market share is one measure: 73% of the United States and 36% of the world. And in Asia, where new reactors are under construction with more on the drawing board, USEC has a 54% market share. At USEC, leadership means much more than numbers. It means meeting the challenges of tough competition and seizing opportunities to differentiate ourselves to customers. Whether in exploring innovative ways for customers to pay for SWU by bartering electricity through a marketing relationship, or by optimizing SWU delivery to meet customers' needs, or in developing more efficient ways to enrich uranium, USEC is the leader.

Phil Sewell, Senior Vice President

SEVEN YEARS OF SUCCESS "The Megatons to Megawatts program is both a strategic partnership with Russia and a business transaction. It's a commercially funded national security program that has converted the equivalent of 3,800 warheads to date. The ultimate goal is to convert the equivalent of 20,000 nuclear warheads into fuel for nuclear power plants."

USEC is the only domestic uranium enricher, and most of the nation's nuclear power reactors use fuel enriched by USEC. Given that 20% of U.S. electricity in 1999 was generated by nuclear power, USEC's key role in the nuclear fuel cycle becomes more apparent. Looking to the future, as concerns about global warming and air pollution increase, the demand for emission-free sources of electricity will also increase. We believe nuclear power has an opportunity to play an even larger role in serving the energy needs of a growing world.

Another example of USEC's leadership is our successful implementation of the U.S. and Russian governments' "Megatons to Megawatts" national security program. USEC is now in its seventh year as executive agent for the U.S. government, working to convert Russian nuclear warheads into fuel for commercial nuclear power plants. The challenges of implementing such an unprecedented program were formidable, and USEC has met them with flexibility, cooperation and dedication to make this unique nuclear non-proliferation program work. We have reached an agreement in principle with our Russian counterparts to move to market-based pricing in January 2002. As a result, these former weapons of mass destruction will have a peaceful future – generating electricity for homes and businesses across America.

Judy Smith verifies power distribution during a switching operation while Clint Dixon monitors equipment in the central control facility.

Mike Woo, Director, Power Resources Group

EFFECTIVE POWER NEGOTIATIONS "Signing a long-term contract for electricty at the Paducah plant is a significant step in stabilizing production costs. After reviewing many proposals, we selected TVA to power the plant. In addition to eliminating electricity price spikes during the summer, we are now buying most of our electricity from one of our major customers."

Man Da Hoang, Manager,
Financial Planning and Analysis

ENHANCED BUDGET PROCESS "We consistently review and refine our budgeting and forecasting process. Daily and monthly reviews help us to quickly react to events that will affect our financial results. For example, we work closely with our Power Resource group to ensure that financial projections match the increases and decreases in production costs associated with fluctuating power prices."

John Coardes checks the motor of a cooling tower fan. These towers control the temperature of the water that cools UF6 while it flows through the enrichment process.

IMPROVING OUTLOOK FOR NUCLEAR INDUSTRY

Over the past four decades, nuclear power has faced a variety of challenges and today has emerged as a strong and competitive source of electricity. In the United States, where there are 103 commercial nuclear power plants, industry consolidation has produced stronger players. Nuclear power's reliable electrical output, zero emissions of greenhouse gases and enhanced efficiency are all part of its vibrancy.

There are many signs of a rebound in the nuclear industry. Nuclear power plants produced a record 725 billion kilowatt-hours in 1999, while maintaining the highest safety and reliability levels. Nuclear plants are running more efficiently, with records being set for streamlined refueling outages and with capacity factors that are 17% better than just two years ago. Plants are receiving license renewals far in advance of their original expiration dates. Recently, two utilities received 20-year license renewals, and other applications are before the U.S. Nuclear Regulatory Commission for similar approval. Many of the nation's plants are setting performance records – the best have run continuously between refuelings. There is also a growing recognition of nuclear power's role in improving the environment because nuclear energy does not pollute the air or contribute to global warming.

Steve Cowne, Regulatory Compliance Manager, Paducah Plant

SOLID REGULATORY RELATIONSHIPS "Both USEC and the Nuclear Regulatory Commission have a mutual interest in safety. We meet frequently to clarify issues and solve problems. We are both working toward the common goal of safe and efficient operations. Our relationship is based on mutual respect and professional courtesy."

Nuclear fuel has proven itself a vital energy source in Asia, where population continues to grow, economies to expand and demand for electricity to increase. Japan alone has plans for at least 10 new nuclear reactors to meet its electricity demands, and South Korea expects to construct nine units during the next 10 years. Worldwide, more than 35 reactors are under construction in 10 countries.

USEC provides enriched uranium to power plants throughout the world. In fact, almost half of our sales are international. As other fuels become more expensive and electric utilities strain to meet growing demand, nuclear power stands ready to seize the opportunity to supply the world's energy needs economically, cleanly and safely.

ENHANCING CUSTOMER RELATIONSHIPS

In a competitive market, it is essential that a company differentiate itself with unique qualities that add value to its product and for its customers. USEC is meeting that challenge through innovation and emphasis on outstanding customer service. For example, USEC has earned an excellent reputation for flexibility and dependability in meeting customer delivery schedules. By offering unique options like "Power for SWU", a Delivery Optimization Program and customized Internet sites to track orders, we continue to enhance our working relationship with customers.

Bob Van Namen, Vice President, Marketing and Sales

A CLEAR MARKETING STRATEGY "We have a large backlog of customer orders, so we won't need to chase short-term contracts that we consider uneconomical. While meeting the needs and expectations of our customers, we plan to step back, monitor prices and look for them to firm. We believe this strategy will continue to support and strengthen USEC as a long-term reliable supplier in a dynamic marketplace."

Long recognized for product quality and reliability, USEC has also gained a reputation for reacting quickly to meet unexpected customer needs. This was most evident when an accident at JCO, a Japanese conversion facility, left JCO unable to access its stored enriched uranium supply, putting deliveries to some of Japan's 53 nuclear power plants in jeopardy. Japanese utilities quickly called for assistance from uranium enrichers worldwide, but only USEC was able to meet their volume requirements and deadline. In a matter of weeks, USEC shipped more than 175 tons of enriched uranium to a country that relies on nuclear fuel for 35% of its electricity.

Emergency deliveries are unusual because we work closely with our customers to anticipate fuel needs. The Delivery Optimization Program places enriched product at fuel fabricators at the optimum time to streamline fulfillment of customers' nuclear fuel requirements. This program was commended during recent USEC customer meetings.

Our new business-to-business e-commerce site, introduced in January, offers customers a unique, real-time approach to doing business with USEC. An industry first, these individualized, secure websites enable customers to submit, track and renew orders. Power plant operators, who rely on timely delivery of our product for refueling, appreciate this innovative tool because it provides them more information throughout the enrichment process and enhances their ability to plan nuclear fuel deliveries. We will continue to pursue unique opportunities to serve our valued customers.

Jerry Neale (foreground), Curly Ware (left) and Donna Shelton prepare to weigh a cylinder of UF6 upon its arrival at the plant.

INVESTMENT IN PEOPLE "One of the initiatives we've spearheaded at USEC is organizational cross-training assignments for information technology professionals. This allows employees to move between the plants and corporate headquarters. Not only does this enable our people to grow and experience new work environments, it provides our customers with service when and where they need it most."

Arthur Allen, Director, Information Technology

Leon Owens, Cascade Operator, Paducah Plant

FLEXIBILITY IN PLANT OPERATIONS "A few years ago, we didn't have the flexibility to shut down some enrichment cells during the summer when power costs skyrocket. Today, with the right training and plantwide coordination, it's become routine. We save a lot of money by scaling back production, and we can use the down time for maintenance that keeps the plant in peak condition during the rest of the year."

Troy Karnes (top) and Freddie Thompson prepare a cylinder containing UF6, which will be heated and introduced into the gaseous diffusion process.

CREATING OPPORTUNITIES

Our actions during the past year were directed toward building a solid foundation for a thriving, independent company. Strengthening our core business - uranium enrichment - will allow us to grow and prosper. Our decisive actions this year provide us with the opportunity to explore joint ventures and market expansion, advanced technology, and new niche opportunities within the nuclear fuel cycle.

One example of an exciting opportunity that can be developed by working with other energy companies is our alliance with Enron, an energy marketer, that expands USEC's "Power for SWU" initiative. This program offers customers the option of paying for their SWU with deliveries of electricity to Enron, which in turn will pay USEC for the enrichment services and market the power, allowing both companies to benefit from its ultimate sale.

Steve Penrod, Paducah Enrichment Plant Manager

IMPORTANCE OF ENRICHMENT UPGRADE "Teamwork is the key to the enrichment process upgrade at Paducah. Each and every employee is well aware that the upgrade is vital to the plant's success. Our plant is almost 50 years old and many of us have worked here a long time, but we welcome change. We are excited about new capabilities and new challenges."

New enrichment technology is essential to preserve our global market leadership position in the future. In the long term, we need to move from operating first-generation gaseous diffusion enrichment technology, to either second-generation centrifuge or a new, third-generation laser-based enrichment technology.

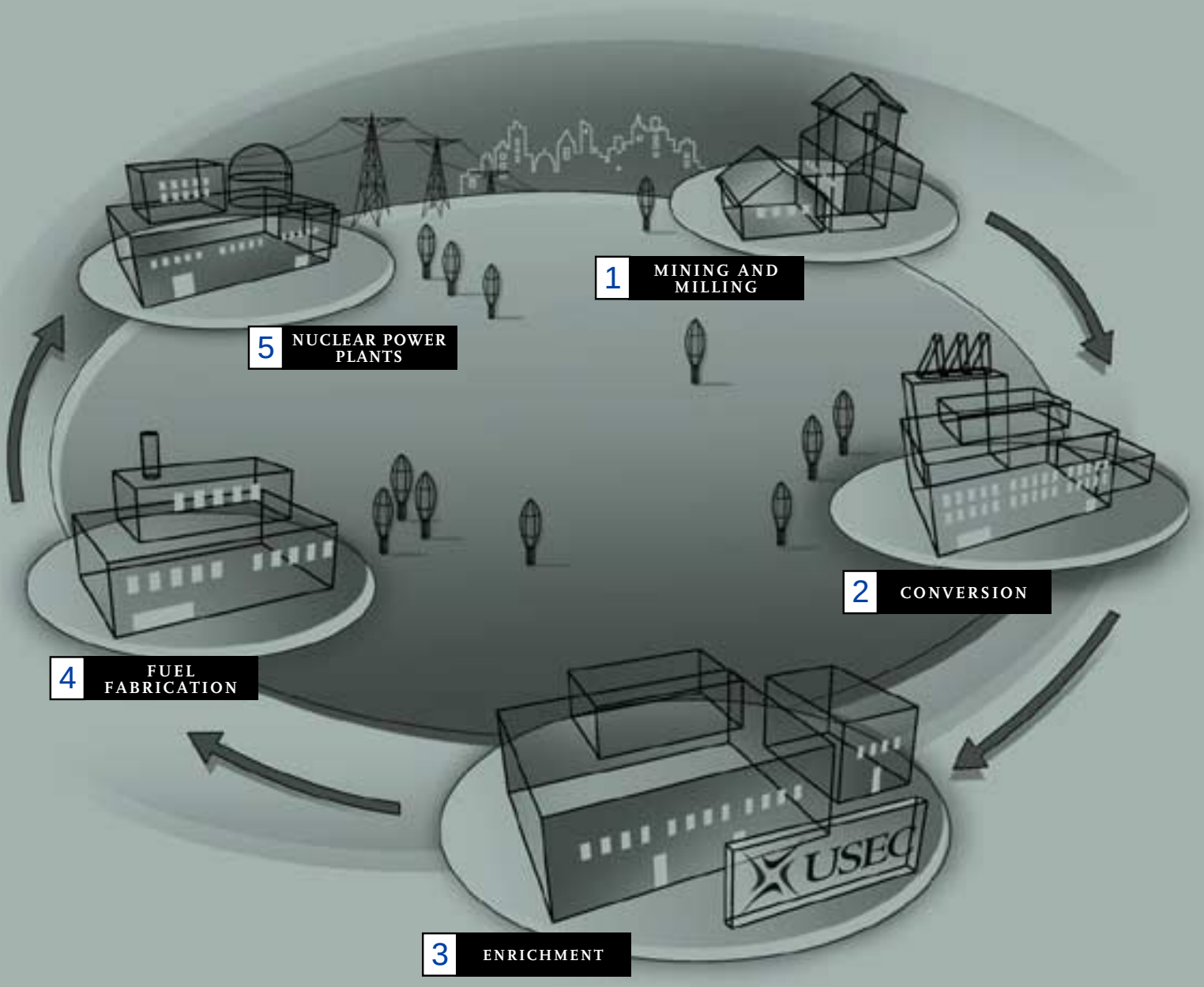
Centrifuge technology is proven and in use in several countries. USEC has been evaluating three such systems. Two are from foreign sources, and the third is U.S. centrifuge technology developed by the government but never deployed commercially.

USEC has also secured exclusive worldwide rights to a third-generation laser-based enrichment technology called SILEX, being developed in Australia. Research on SILEX is at an early stage, and the technology shows promise. Based on results to date, USEC made $5 million in milestone payments during the fiscal year to continue funding its development.

USEC places the highest priority on the pursuit of new technology and expects to reach a decision on which option to pursue during the next 18 months.

Our foundation for success will be the combination of efficient production capabilities, successful implementation of the Megatons to Megawatts program and development of an advanced enrichment technology. Building upon this foundation, USEC will vigorously meet future challenges and seize opportunities.

THE NUCLEAR FUEL CYCLE



USEC's core business is enriching uranium for global nuclear electric utility customers. Uranium enrichment is a critical step in the process of transforming natural uranium into nuclear fuel to produce electricity. Shown above is how USEC fits into the nuclear fuel cycle.

GLOSSARY OF INDUSTRY TERMINOLOGY

1 **MINING AND MILLING** The process during which uranium is removed from the earth in the form of ore and then crushed and concentrated.

2 **CONVERSION** Uranium is combined with fluorine gas to produce uranium hexafluoride (UF6), a powder at room temperature and a gas when heated. This process takes place at a conversion facility. The UF6 is then shipped to an enrichment facility.

3 **ENRICHMENT** Process that increases the concentration of U235 atoms in UF6 from its naturally occuring state of 0.7 percent to 3-5 percent, which is usable as a fuel for commercial nuclear power reactors.

4 **FUEL FABRICATION** Enriched UF6 is converted to uranium oxide powder and formed into ceramic pellets about the size of a pencil eraser. The pellets are loaded into metal tubes that are bundled to form fuel assemblies. The fuel assemblies are then shipped to a nuclear power plant where they are loaded into a reactor.

5 **NUCLEAR POWER PLANTS** Commercial facilities that use atomic energy to create steam, which turns turbines to generate electricity. A nuclear reactor may operate for up to two years before being refueled. Refueling requires fuel assemblies to be removed and replaced. Once used, this "spent" fuel is cooled and stored in either special protective containers or secure storage pools.

ASSAY The concentration of U235, expressed by percentage of weight in uranium, in a given quantity of uranium ore, uranium hexafluoride or uranium metal. An assay of 3 to 5 percent U235 is required for most nuclear power plants.

FEED Natural uranium in the form of UF6 suitable for enrichment.

GAS CENTRIFUGE A uranium enrichment process using uranium hexafluoride gas that increases the concentration of U235 relative to U238 as it passes through a series of centrifuge stages. Gas centrifuge uranium enrichment technology has been in commercial use for many years.

GASEOUS DIFFUSION A uranium enrichment process using uranium hexafluoride, which is heated to a gas and passed repeatedly through porous barriers to separate U235 and U238 isotopes. USEC uses the gaseous diffusion process.

HEU Highly enriched uranium. Uranium enriched to an assay of 20 percent or more. For military application, this enrichment level may exceed 90 percent.

ISOTOPE One or more nuclides of the same element having the same atomic number but a different mass number. Although they have the same number of protons, they have a different number of neutrons.

LEU Low-enriched uranium. Uranium enriched to an assay of less than 20 percent. LEU typically has a 3 to 5 percent assay when used for nuclear reactors.

NATURAL URANIUM Uranium, as found in nature, has a concentration level of 0.7 percent U235.

NUCLEAR FUEL CYCLE The multiple steps that convert uranium ore, as it is extracted from the earth, to nuclear fuel for power plants. Uranium enrichment is an intermediate step in the fuel cycle.

SEPARATIVE WORK UNIT (SWU) A measure of the effort expended in a uranium enrichment plant to separate uranium of a given U235 content into two components, one having a higher percentage of U235 and the other a lower concentration.

SILEX A uranium enrichment process using lasers to separate and enrich U235 in the form of uranium hexafluoride gas. This technology is in the early stages of development in Australia. USEC has exclusive rights to its potential application for uranium enrichment.

TAILS Uranium hexafluoride that contains a lower concentration of the U235 isotope as a result of the enrichment process. Also known as depleted uranium.

U235 The fissionable isotope found in natural uranium.

U238 The non-fissionable isotope that makes up most of natural uranium.

URANIUM A fairly abundant metallic element. Approximately 993 of every 1,000 uranium atoms are U238. Almost all of the remaining atoms are U235, which can be made to split, or fission, and generate heat energy.

UF6 Uranium hexafluoride. A chemical compound containing uranium and fluorine that is solid when stored, and that is gasified for use in the gaseous diffusion and centrifuge enrichment processes.

Hal Shelton, Senior Vice President and CFO

A SOLID FINANCIAL BASE "USEC has a strong balance sheet, good cash flow and a modest amount of debt. We have a $6.1 billion sales backlog for enriched and natural uranium that extends to 2011, and a significant inventory of both materials. So, while we are facing challenges, we have a solid base for growth and the continued ability to pay an attractive dividend to our shareholders."

A freezer sublimer, used to maximize power efficiency by controlling the flow of UF6 during the gaseous diffusion process, is monitored by Shane Pegram.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations. Selected financial data as of and for each of the fiscal years in the five-year period ended June 30, 2000, have been derived from the Consolidated Financial Statements which have been audited by Arthur Andersen LLP, independent public accountants.

	Fiscal Years Ended June 30,				
(millions, except per share data)	1996	1997	1998	1999	2000
Statement of Income Data					
Revenue:					
Separative work units	$ 1,396.4	$ 1,551.9	$ 1,380.4	$ 1,475.0	$ 1,387.8
Uranium	16.4	25.9	40.8	53.6	101.6
Total revenue	1,412.8	1,577.8	1,421.2	1,528.6	1,489.4
Cost of sales	973.0	1,162.3	1,062.1	1,182.0	1,236.3
Uranium inventory valuation adjustment	-	-	-	-	19.5
Gross profit	439.8	415.5	359.1	346.6	233.6
Special charges:					
Discontinue plant operations	-	-	-	-	126.5[1]
Workforce reductions	-	-	32.8	-	15.0[2]
Suspension of development of AVLIS technology	-	-	-	34.7[3]	(1.2)
Privatization costs	-	-	13.8	-	-
Advanced technology development costs	103.6	141.5	136.7	106.4	11.4
Selling, general and administrative	36.0	31.8	34.7	40.3	48.9
Operating income	300.2	242.2	141.1	165.2	33.0
Interest expense	-	-	-	32.5	38.1
Other (income) expense, net	(3.9)	(7.9)	(5.2)	(16.8)	(10.5)
Income before income taxes	304.1	250.1	146.3	149.5	5.4
Provision (benefit) for income taxes	-	-	-	(2.9)[4]	(3.5)
Net income	$ 304.1	$ 250.1	$ 146.3	$ 152.4	$ 8.9
Net income per share-basic and diluted				$ 1.52	$ .10
Dividends per share				$ .825	$ .825
Average number of shares outstanding				99.9	90.7

1 The plan announced in June 2000 to cease uranium enrichment operations at the Portsmouth plant in June 2001 resulted in special charges of $126.5 million ($79.3 million or $.87 per share after tax) in fiscal 2000. The special charges include asset impairments of $62.8 million, severance benefits of $30.2 million based on current labor contract requirements, and $33.5 million for lease turnover and other exit costs.

2 Workforce reduction plans involving 575 employees at the Portsmouth and Paducah plants were finalized in June 2000 and resulted in special charges for severance benefits of $15.0 million ($9.4 million or $.10 per share after tax) in fiscal 2000.

3 The suspension of development of the AVLIS enrichment technology resulted in special charges of $34.7 million ($22.7 million or $.23 per share after tax) in fiscal 1999.

4 The provision for income taxes in fiscal 1999 includes a special income tax benefit of $54.5 million (or $.54 per share) for deferred income tax benefits that arose from the transition to taxable status.

(millions)	As of June 30, 1996	1997	1998	1999	2000
Balance Sheet Data					
Cash and cash equivalents	$ 1,125.0	$ 1,261.0	$ 1,177.8[1]	$ 86.6	$ 73.0
Inventories:					
Current assets:					
Separative work units	$ 586.8	$ 573.8	$ 687.0	$ 648.8	$ 596.0
Uranium[2]	150.3	131.5	184.5	160.1	209.8
Materials and supplies	15.7	12.4	24.8	22.8	19.3
Long-term assets	199.7	103.6	561.0	574.4	436.4
Inventories, net	$ 952.5	$ 821.3	$ 1,457.3	$ 1,406.1	$ 1,261.5
Total assets	$ 3,356.0	$ 3,456.6	$ 3,471.3	$ 2,360.2	$ 2,084.4
Short-term debt	-	-	-	50.0	50.0
Long-term debt	-	-	-	500.0	500.0
Other liabilities	427.4	451.8	503.3[3]	195.0	281.1
Stockholders' equity	2,121.6	2,091.3	2,420.5[1]	1,135.4	947.3
Number of shares outstanding				99.2	82.5

1 An exit dividend of $1,709.4 million was paid to the U.S. Treasury at the date of the initial public offering.

2 Excludes uranium provided by and owed to customers.

3 Other liabilities include accrued liabilities for the disposition of depleted uranium. Pursuant to the Privatization Act, depleted uranium generated by USEC through the date of the initial public offering was transferred to DOE, and the accrued liability of $373.8 million at the date of the initial public offering was transferred to stockholders' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and related notes appearing elsewhere in this report.

OVERVIEW

USEC, a global energy company, is the world leader in the sale of uranium fuel enrichment services for commercial nuclear power plants, with approximately 73% of the North American market and approximately 36% of the world market. Uranium enrichment is a critical step in transforming uranium into fuel for nuclear reactors to produce electricity. Based on customers' estimates of their requirements and certain other assumptions, including estimates of inflation rates, at June 30, 2000, USEC had long-term requirements contracts with utilities to provide uranium and uranium enrichment services aggregating $6.1 billion through fiscal 2011 (including $3.3 billion through fiscal 2003), compared with $6.5 billion at June 30, 1999. The standard measure of effort or service in the uranium enrichment industry is separative work units ("SWU").

Agreements with electric utilities are generally long-term requirements contracts under which customers are obligated to purchase a specified percentage of their requirements for uranium enrichment services. Customers, however, are not obligated to make purchases or payments if they do not have any requirements. There is a trend for contracts with shorter terms that is expected to continue, with the newer contracts generally containing terms in the range of 3 to 7 years. Under power-for-SWU barter contracts, USEC exchanges its enrichment services with utilities that supply electric power to the plants.

Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer requirements are determined by refueling schedules for nuclear reactors, which generally range from 12 to 24 months. These schedules are in-turn affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results.

USEC is the Executive Agent of the U.S. Government under a government-to-government agreement ("Russian Contract") to purchase the SWU component of enriched uranium recovered from dismantled nuclear weapons from the former Soviet Union for use in commercial electricity production. Cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian Contract. Since the volume of Russian SWU purchases has increased, USEC has operated the plants at significantly lower production levels resulting in higher unit production costs. Global market prices for SWU have declined below the price being paid for SWU under the Russian Contract. An underlying principle of the program is for it to operate according to commercial practices. As a result of negotiations to align the Russian Contract with market pricing realities, USEC and its counterparts in Russia have reached an agreement in principle to adopt market-based pricing for SWU in January 2002, subject to approvals from the United States and Russian governments. The timing and conditions, if any, for U.S. government approval are uncertain.

REVENUE

Substantially all of USEC's revenue is derived from the sale of uranium enrichment services, denominated in SWU. Although customers may buy enriched uranium product without supplying uranium, most of USEC's contracts are for enriching uranium provided by customers. Because orders for uranium enrichment services to refuel customer reactors occur once in 12, 18 or 24 months and are large in amount, averaging $13.0 million per order, the percentage of revenue attributable to any customer or group of customers from a particular geographic region can vary significantly quarter-by-quarter or year-by-year. However, customer requirements and orders over the longer term are more predictable. USEC estimates that about two-thirds of the nuclear reactors under contract operate on refueling cycles of 18 months or less, and the remaining one-third operate on refueling cycles greater than 18 months.

Recent industry and global economic developments have intensified the effects of production over-capacity and continuing lower prices for SWU. These developments include:

- heightened price competition among uranium enrichment suppliers;
- the adverse impact of the strengthening U.S. dollar;
- certain European utilities liquidating strategic SWU inventories; and
- termination of the Kazakhstan suspension agreement.

In addition to excess production capacity, certain suppliers have announced technology-driven plans to expand capacities.

USEC's financial performance over time can be significantly affected by changes in the market price for SWU. As older contracts expire, USEC's backlog is becoming more heavily weighted with newer contracts with shorter terms and lower prices. In light of this, USEC expects its backlog will decline over time unless new SWU commitments are added at sufficient levels to offset the impact of shorter term contracts, expiring commitments and lower prices. USEC anticipates the trend toward lower prices and shorter contract terms will continue, due to increased competition among uranium enrichment suppliers for new SWU commitments. To address this trend, USEC is placing a high priority on numerous initiatives to further reduce costs and increase its competitiveness.

USEC's contracts are denominated in U.S. dollars, and although revenue is not directly affected by changes in the foreign exchange rate of the U.S. dollar, USEC may have a competitive price disadvantage or advantage obtaining new contracts in a competitive bidding process depending upon the strength or weakness of the U.S. dollar. Costs of the primary competitors are denominated in the major European currencies.

Revenue could be negatively impacted by actions of the Nuclear Regulatory Commission suspending operations at domestic utility customer reactors under contract with USEC. In addition, business decisions by utilities that take into account economic factors, such as the price and availability of alternate fossil fuels, consolidation within the electric power industry, the need for generating capacity and the cost of maintenance, could result in suspended operations or early shutdowns of some reactors under contract with USEC.

COST OF SALES

Cost of sales is based on the quantity of SWU sold during the period and is dependent upon production costs at the plants and purchase costs under the Russian Contract. Production costs consist principally of electric power (representing 50% of production costs in fiscal 2000), labor and benefits, depleted uranium disposition costs, materials, and maintenance and repairs. Under the monthly moving average inventory cost method, an increase or decrease in production or purchase costs will have an effect on costs of sales over future periods.

The plants require substantial amounts of electric power to enrich uranium. In fiscal 2000, USEC acquired most of its electric power from Ohio Valley Electric Corporation ("OVEC"), the main supplier to the Portsmouth plant, and from Electric Energy, Inc. ("EEI"), the main supplier to the Paducah plant, under long-term power purchase contracts between DOE and OVEC and EEI. Under an agreement between USEC and DOE ("Electricity MOA"), DOE is required to transfer the benefits of the power purchase contracts to USEC.

Electric power purchased from OVEC and EEI represented 75% of power purchased in fiscal 2000, with costs based on actual costs incurred by OVEC and EEI. The remainder of the electric power purchased by USEC in fiscal 2000 was market-based power, all of which was used at the Paducah plant. Market-based power costs vary seasonally with rates higher during the winter and summer as a function of the extremity of the weather. USEC substantially reduces production and the related power load at the Paducah plant in the summer months when the cost of market-based power is high. Almost all of the power for the Paducah plant for the summer of 2000 was purchased prior to the summer months at fixed prices based on prevailing market rates.

In July 2000, USEC entered into a 10-year power purchase agreement with Tennessee Valley Authority ("TVA") to provide a substantial portion of electric power for the Paducah plant beginning September 2000. Replacing EEI as primary supplier, TVA will supply electric power for the Paducah plant at fixed rates, thereby substantially reducing USEC's price risk for electric power in the volatile Midwest power market. The agreement provides that amounts to be paid to TVA for power scheduled to be purchased in fiscal 2001 will be reduced by a deferred payment obligation of $45.0 million. USEC will secure the obligation, as long as it is outstanding, by transferring title to uranium inventories with an equivalent value to TVA. The obligation and related interest will be satisfied by providing SWU to TVA in fiscal years 2002 to 2004 under a requirements contract, the terms of which are not yet final.

USEC accrues estimated costs for the future disposition of depleted uranium generated as a result of its operations. Costs are dependent upon the volume of depleted uranium generated and estimated transportation, conversion and disposal costs. USEC stores depleted uranium at the plants and continues to evaluate various proposals for its disposition.

USEC leases most, but not all, of the buildings and facilities at the plants at favorable terms from DOE. Upon termination of the lease, USEC is responsible for certain lease turnover activities at the plants. Lease turnover costs are accrued over the estimated term of the lease which, for the Paducah plant, is estimated to extend through calendar year 2008.

As Executive Agent under the Russian Contract, USEC ordered 5.5 million SWU in fiscal 2000. However, as a result of shipping delays in Russia, there were 4.8 million SWU delivered and purchased at a cost of $417.8 million, including related shipping charges. Subject to price adjustments for U.S. inflation, USEC has committed to purchase 4.6 million SWU at a cost of $404.7 million in the six months ending December 31, 2000, and expects to purchase 5.5 million SWU at a cost of $494.1 million in calendar year 2001.

RESULTS OF OPERATIONS

The following table sets forth certain items as a percentage of revenue:

	Fiscal Years Ended June 30,		
	1998	1999	2000
Revenue:			
Domestic	63%	62%	62%
Asia	31	30	32
Europe and other	6	8	6
Total revenue	100%	100%	100%
Cost of sales	75	77	83
Uranium inventory valuation adjustment	-	-	1
Gross profit	25	23	16
Special charges	3	2	10
Advanced technology development costs	10	7	1
Selling, general and administrative	2	3	3
Operating income	10	11	2
Interest expense	-	2	2
Other (income) expense, net	-	(1)	(1)
Income before income taxes	10	10	1
Provision for income taxes	-	-	-
Net income	10%	10%	1%

RESULTS OF OPERATIONS – FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

REVENUE

Revenue from sales of SWU amounted to $1,387.8 million in fiscal 2000, a reduction of $87.2 million (or 6%) compared with $1,475.0 million in fiscal 1999. The reduction reflects a decline of 7% in average SWU prices billed to customers.

The volume of SWU sold increased 1% in fiscal 2000 reflecting one-time sales to customers in Japan to replace their SWU stranded at the Tokaimura uranium processing facility in Japan. Operations at the Tokaimura facility were suspended in September 1999 following an incident involving highly enriched uranium for an experimental reactor. SWU sold by USEC was not involved in the incident. If SWU is retrieved from the facility and used by the Japanese customers, future sales to these customers would be reduced. The increase from one-time sales to Japanese customers was offset by lower volume from reductions in SWU commitment levels and the timing of other customer orders.

Revenue from sales of uranium, primarily uranium hexafluoride, amounted to $101.6 million in fiscal 2000, an increase of $48.0 million compared with $53.6 million in fiscal 1999. In fiscal 2001, sales of uranium are expected to be about the same level as in fiscal 2000.

Revenue from domestic customers declined $19.2 million (or 2%), revenue from customers in Asia increased $25.1 million (or 6%), and revenue from customers in Europe and other areas declined $45.1 million (or 36%), compared with fiscal 1999. The changes in the geographic mix of revenue resulted from the timing of customer orders, the decline in average SWU prices billed to customers, replacement SWU sales to Japan, and the increase in sales of uranium.

COST OF SALES

Cost of sales amounted to $1,236.3 million in fiscal 2000, an increase of $54.3 million (or 5%) compared with $1,182.0 million in fiscal 1999. Increased purchases of SWU under the Russian Contract and the resulting lower levels of production output and associated higher unit costs at the plants continue to adversely affect cost of sales. Cost of sales in fiscal 2000 reflects the benefit of reductions in power costs from the monetization of excess power at the Portsmouth plant in the summers of 1999 and 2000. As a percentage of revenue, cost of sales amounted to 83%, compared with 77% in fiscal 1999. In fiscal 2001, cost of sales is expected to be adversely affected by low production levels and the end of power monetization at the Portsmouth plant.

Electric power costs amounted to $329.8 million in fiscal 2000 (representing 50% of production costs) compared with $436.4 million (representing 57% of production costs) in fiscal 1999, a reduction of $106.6 million (or 24%). The reduction reflects lower SWU production in fiscal 2000 and an increase in the monetization of excess power at the

Portsmouth plant. In order to reduce its power costs, USEC entered into power monetization agreements with DOE and OVEC in fiscal years 1999 and 2000 under which USEC agreed to release in the summer months a substantial portion of the electric power that it has a right to purchase from OVEC for the Portsmouth plant. By substantially reducing production and the related power load at the Portsmouth plant in the summer months, USEC was able to monetize its share of the higher value that this released power has in the summer market. Under the power monetization agreement for the summer of 2000, which was entered into in May 2000 and is subject to regulatory approval, OVEC agreed to pay USEC the net amount of $44.0 million in exchange for the agreement to release power. The monetization of excess power resulted in reductions to production costs of $44.0 million in fiscal 2000 and $31.7 million in fiscal 1999.

Costs for labor and benefits included in production costs declined 4% compared with fiscal 1999. The average number of employees at the plants declined 7% in fiscal 2000.

Costs for the future disposition of depleted uranium amounted to $35.3 million in fiscal 2000, a decline of $5.2 million (or 13%) from $40.5 million in fiscal 1999. The reduction reflects lower SWU production.

SWU purchased from the Russian Federation represented 41% of the combined produced and purchased supply mix in fiscal 2000, compared with 31% in fiscal 1999. USEC has committed to purchase 4.6 million SWU for delivery under the Russian Contract in six months ending December 31, 2000, and expects to purchase 5.5 million SWU in calendar 2001.

URANIUM INVENTORY VALUATION ADJUSTMENT

The average market price of uranium hexafluoride declined 9% in fiscal 2000, compared with fiscal 1999. Downward pressure prevailed with market prices quoted at $23.62 per kilogram of uranium hexafluoride at June 30, 2000, a decline of 22% compared with June 30, 1999. Since uranium inventories are valued at the lower-of-cost-or-market, a non-cash valuation adjustment of $19.5 million was charged against income in fiscal 2000. If market prices continue their downward trend, it is possible that there could be additional charges against income in fiscal 2001.

GROSS PROFIT

Gross profit amounted to $233.6 million in fiscal 2000, a reduction of $113.0 million (or 33%) compared with $346.6 million in fiscal 1999. Gross margin was 16% compared with 23% in fiscal 1999. The reduction reflects the 7% decline in average SWU prices billed to customers and the uranium inventory valuation adjustment.

SPECIAL CHARGES

	Balance June 30, 1998	Special Charges	Utilized Cash	Balance June 30, 1999	Special Charges (Credit)	Utilized Cash	Utilized Non-cash	Balance June 30, 2000
Workforce reductions at the plants	$ 12.8	-	$ (5.9)	$ 6.9	$ 15.0	$ (4.7)	$ (2.2)	$ 15.0
Privatization costs	13.8	-	(13.8)	-	-	-	-	-
Suspension of development of AVLIS technology	-	$ 34.7	(.5)	34.2	(1.2)	(33.0)	-	-
Discontinue operations at Portsmouth plant:								
Workforce reductions	-	-	-	-	30.2	-	-	30.2
Lease turnover and other exit costs	-	-	-	-	33.5	-	(2.8)	30.7
Impairment of property, plant and equipment	-	-	-	-	62.8	-	(62.8)	-
Total discontinue plant operations	-	-	-	-	126.5	-	(65.6)	60.9
	$ 26.6	$ 34.7	$ (20.2)	$ 41.1	$140.3	$ (37.7)	$ (67.8)	$ 75.9

In June 2000, USEC announced that it will cease uranium enrichment operations in June 2001 at the Portsmouth plant as an important step in the ongoing efforts to align production costs with lower market prices. Production will continue at the Portsmouth plant until June 2001 when it is expected that an assay upgrade project at the Paducah plant will be completed, tested to produce enriched uranium up to 5.5% assay, and certified by the NRC. USEC plans to continue to operate the transfer and shipping activities at the Portsmouth plant after enrichment has ceased, until similar facilities are available at the Paducah plant.

The plan announced in June 2000 to cease uranium enrichment operations at the Portsmouth plant resulted in special charges of $126.5 million ($79.3 million or $.87 per share after tax) in fiscal 2000. The charges include $62.8 million in asset impairments of production equipment, leasehold improvements and other fixed assets. The charges also include severance benefits of $30.2 million for workforce reductions involving 1,200 plant employees based on current labor contract requirements, and $33.5 million for lease turnover and other exit costs.

Under the terms of the OVEC power contract, commitments to purchase electric power for the Portsmouth plant are subject to reductions resulting from the release of power. In fiscal 2001, USEC plans to provide the three-year notice to terminate the OVEC contract effective April 30, 2003, and to release power upon the termination of enrichment operations at the Portsmouth plant. Based on waivers granted by OVEC, the required three-year termination period would begin May 1, 2000, and would end April 30, 2003. USEC expects that commitments to purchase power from OVEC in fiscal years 2002 and 2003 will be offset by reductions resulting from the release of power. As a result of termination of the OVEC contract, USEC will no longer be responsible for substantial costs of environmental upgrades that OVEC will be required to make in future years at its coal-burning facilities.

Workforce reduction plans involving 575 employees at the Portsmouth and Paducah plants were finalized in June 2000 and resulted in special charges of $15.0 million ($9.4 million or $.10 per share after tax) for severance benefits in fiscal 2000.

Costs of $2.2 million were incurred and utilized for incremental pension and postretirement health and life benefits resulting from workforce reductions involving 500 employees in fiscal years 1999 and 2000.

In June 1999, development of the AVLIS enrichment technology was suspended resulting in special charges of $34.7 million ($22.7 million or $.23 per share after tax) for contract terminations, shutdown activities and employee severance and benefit arrangements, of which $33.5 million had been paid as of June 30, 2000. A cost savings of $1.2 million was restored to income in fiscal 2000.

ADVANCED TECHNOLOGY DEVELOPMENT COSTS

Advanced technology development costs amounted to $11.4 million in fiscal 2000, a reduction of $95.0 million compared with $106.4 million in fiscal 1999. Costs in fiscal 2000 relate to the evaluation of the availability and economics of centrifuge technology and a potential new advanced enrichment technology called SILEX. Costs in fiscal 1999 were primarily for AVLIS, and development of AVLIS was suspended in June 1999.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses amounted to $48.9 million in fiscal 2000, an increase of $8.6 million (or 21%) compared with $40.3 million in fiscal 1999. The increase reflects costs for executive compensation plans, including amortization of the cost of restricted stock grants beginning February 1999, and increased consulting fees.

OPERATING INCOME

Operating income amounted to $33.0 million in fiscal 2000, a reduction of $132.2 million (or 80%), compared with $165.2 million in fiscal 1999. The reduction resulted primarily from special charges relating to the Portsmouth plant and workforce reductions and lower gross profit in fiscal 2000, partly offset by the reduction in advanced technology development costs following the suspension of AVLIS development in June 1999.

INTEREST EXPENSE

Interest expense amounted to $38.1 million in fiscal 2000, an increase of $5.6 million (or 17%) from $32.5 million in fiscal 1999. Total interest costs, including capitalized interest, amounted to $41.3 million compared with $33.7 million in fiscal 1999. The increase reflects higher average debt levels and higher short-term interest rates in fiscal 2000. Prior to July 28, 1998, the date of the initial public offering, USEC had no debt. The increase in short-term interest rates reflects changes in market rates and the revisions in USEC's credit ratings in February 2000 to below investment grade.

OTHER INCOME

Other income of $16.8 million in fiscal 1999 included a nonrecurring gain of $8.2 million from a contract modification canceling accrued interest payable on an advance payment from the Arab Republic of Egypt.

PROVISION FOR INCOME TAXES

The provision for income taxes in fiscal 1999 includes a special income tax benefit of $54.5 million (or $.54 per share) for deferred income tax benefits that arose from the transition to taxable status.

NET INCOME

Net income was $8.9 million (or $.10 per share) in fiscal 2000. Excluding special charges relating to the Portsmouth plant and workforce reductions and the uranium inventory valuation adjustment, net income was $109.1 million (or $1.20 per share) in fiscal 2000. Net income was $152.4 million (or $1.52 per share) in fiscal 1999. Excluding special charges relating to the suspension of AVLIS and a special tax benefit, net income was $120.6 million (or $1.21 per share). The reduction of $11.5 million in net income before special items and the inventory adjustment in fiscal 2000 resulted from lower gross profit, partly offset by lower costs for advanced technology.

The average number shares of common stock outstanding was 90.7 million, a decline of 9.2 million shares (or 9%) from 99.9 million shares in fiscal 1999. The reduction reflects the repurchase of common stock under an expanded program to repurchase up to 30 million shares by June 2001. At June 30, 2000, there were 82.5 million shares issued and outstanding.

OUTLOOK

In fiscal 2001, USEC anticipates net income in the range of $30 to $35 million reflecting lower anticipated revenue and the end of power monetization at the Portsmouth plant. The lower revenue forecast includes fewer spot SWU sales, resulting in anticipated sales volume of about 10.5 million SWU.

RESULTS OF OPERATIONS – FISCAL YEARS ENDED JUNE 30, 1999 AND 1998

REVENUE

Revenue amounted to $1,528.6 million in fiscal 1999, an increase of $107.4 million (or 8%) from $1,421.2 million in fiscal 1998. Revenue from sales of SWU increased $94.6 million (or 7%) in fiscal 1999 reflecting the timing of customer nuclear reactor refueling orders, including sales to customer reactors returning to service following an extended outage, partly offset by lower SWU commitment levels of a domestic and a foreign customer. The average SWU price billed to customers in fiscal 1999 was about the same as in fiscal 1998.

Revenue from domestic customers increased $51.4 million (or 6%), revenue from customers in Asia increased $12.4 million (or 3%) and revenue from customers in Europe and other areas increased $43.6 million (or 53%). The increases in the geographic mix of revenue in fiscal 1999 resulted primarily from the timing of customers' orders, and the increase in domestic revenue reflects sales to customer reactors returning to service following an extended outage.

Revenue from sales of uranium was $53.6 million in fiscal 1999, an increase of $12.8 million (or 31%) from $40.8 million in fiscal 1998. Certain contracts with customers provided for the sale of uranium and SWU in the form of enriched uranium product.

COST OF SALES

Cost of sales amounted to $1,182.0 million in fiscal 1999, an increase of $119.9 million (or 11%) compared with $1,062.1 million in fiscal 1998. The increase in cost of sales reflects the 7% increase in sales of SWU, primarily from the timing of customer orders, and the effects under the monthly moving average inventory cost method of lower production levels and higher unit production costs at the plants in fiscal 1999 and 1998. In fiscal 1999, production costs were affected by high power costs in the summer and early fall of 1998. As a percentage of revenue, cost of sales amounted to 77%, compared with 75% in fiscal 1998.

Electric power costs amounted to $436.4 million in fiscal 1999 (representing 57% of production costs) compared with $413.8 million (representing 53% of production costs) in fiscal 1998. The increase was attributable to higher costs per megawatt hour ("MWh"), partly offset by $31.7 million from the monetization of excess power with respect to the summer of 1999. The average cost of electric power purchased was $21.54 per MWh, compared with $19.66 per MWh in fiscal 1998. In the summer and early fall of 1998, persistent hot weather, high electricity demand in the Midwest and power generation shortages resulted in record high power costs at the Paducah plant, and USEC curtailed production at the Paducah plant to reduce the impact of high power prices.

Costs for labor and benefits amounted to $238.9 million in fiscal 1999, about the same as in fiscal 1998. The average number of employees at the plants declined 7% in fiscal 1999.

Costs for the future disposition of depleted uranium amounted to $40.5 million in fiscal 1999, a decline of $15.2 million (or 27%) from $55.7 million in fiscal 1998. The reduction reflects a lower future disposal rate per kilogram of depleted uranium. Pursuant to the USEC Privatization Act, depleted uranium generated by USEC through the IPO Date was transferred to DOE, and the accrued liability of $373.8 million at the IPO Date was transferred to stockholders' equity.

SWU purchased from the Russian Federation represented 31% of the combined produced and purchased supply mix in fiscal 1999, compared with 38% purchased from the Russian Federation and DOE in fiscal 1998.

GROSS PROFIT

Gross profit amounted to $346.6 million in fiscal 1999, a reduction of $12.5 million (or 4%) from $359.1 million in fiscal 1998. Although revenue increased 8% compared with fiscal 1998, gross margins declined from 25% to 23% in fiscal 1999. The lower production levels and higher unit production costs at the plants in fiscal 1999 and 1998 contributed to the lower gross profit in fiscal 1999.

SPECIAL CHARGES – WORKFORCE REDUCTIONS AND PRIVATIZATION COSTS

Special charges amounted to $46.6 million in fiscal 1998 for costs related to the privatization and certain severance and transition benefits to be paid to plant workers in connection with workforce reductions, as follows (millions):

Privatization costs	$ 13.8
Worker and community transition assistance benefits	20.0
Worker pre-existing severance benefits	12.8
	$ 46.6

Privatization costs of $13.8 million were paid in fiscal 1999, worker and community transition assistance benefits of $20.0 million were paid to DOE in fiscal 1998, and worker pre-existing severance benefits of $12.8 million with respect to 500 workers had been paid or utilized as of June 30, 2000.

ADVANCED TECHNOLOGY DEVELOPMENT COSTS

Advanced technology development costs were primarily for AVLIS and amounted to $106.4 million in fiscal 1999, a decline of $30.3 million (or 22%) from $136.7 million in fiscal 1998.

OPERATING INCOME

Operating income amounted to $165.2 million in fiscal 1999, an increase of $24.1 million (or 17%), compared with $141.1 million in fiscal 1998. Operating income was reduced by a special charge of $34.7 million in fiscal 1999 for the suspension of AVLIS technology and $46.6 million in fiscal 1998 for workforce reductions and privatization costs. Advanced technology development costs were $30.3 million lower and gross profit was $12.5 million lower in fiscal 1999.

INTEREST EXPENSE

Interest expense of $32.5 million in fiscal 1999 represents interest on senior notes issued in January 1999, borrowings under the bank credit facility, and short-term borrowings under a commercial paper program established in February 1999. Prior to the initial public offering in July 1998, USEC had no debt.

OTHER INCOME

Other income of $16.8 million in fiscal 1999 includes a nonrecurring gain of $8.2 million from a contract modification canceling accrued interest payable on an advance payment from the Arab Republic of Egypt.

PROVISION FOR INCOME TAXES

USEC became subject to federal, state and local income taxes at the time of the initial public offering in July 1998. The provision for income taxes in fiscal 1999, includes a special income tax benefit of $54.5 million (or $.54 per share) for deferred income tax benefits that arose from the transition to taxable status. Deferred tax benefits represent differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities.

NET INCOME

Net income excluding special items was $120.6 million (or $1.21 per share) in fiscal 1999 and $192.9 million in fiscal 1998. The reduction reflects income taxes and interest expense incurred since the initial public offering in July 1998. Including special items, net income was $152.4 million (or $1.52 per share) in fiscal 1999 and $146.3 million in fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY AND CASH FLOW

Net cash flow from operating activities amounted to $262.8 million in fiscal 2000, compared with $230.4 million in fiscal 1999. Cash flow in fiscal 2000 benefited from an inventory reduction of $122.3 million, primarily from sales of uranium inventories transferred to USEC by DOE at no cash cost prior to the initial public offering. Sales of uranium from inventory provide a direct benefit to cash flow. Cash flow also reflects an increase of $51.1 million in deferred revenue primarily representing cash received from a European customer under a long-term contract for the sale of SWU. Cash flow was reduced by a decline of $62.9 million in accounts payable and other liabilities and cash payments of $33.0 million relating to suspension of development of the AVLIS technology.

Net cash flow from operating activities amounted to $230.4 million in fiscal 1999 and reflects an inventory reduction of $51.2 million and an increase of $78.0 million in net payables under the Russian Contract.

Capital expenditures amounted to $75.9 million in fiscal 2000 compared with $51.1 million in fiscal 1999, including costs of $27.3 million and $21.0 million, respectively, for seismic upgrades at the Paducah plant, required by the NRC Compliance Plan, to reduce the risk of release of radioactive and hazardous material in the event of an earthquake. Capital expenditures in fiscal 2000 also include costs to upgrade the Paducah plant's capability to produce enriched uranium up to an assay of 5.5%. USEC expects capital expenditures of $40 to $45 million in fiscal 2001, including costs to upgrade the Paducah plant's capability to produce enriched uranium at the higher assay.

At June 30, 2000, a total of 17.8 million shares had been repurchased under an expanded program approved by the Board of Directors in fiscal 2000 to repurchase up to 30 million shares by June 2001. There were 17.0 million shares of common stock repurchased at a cost of $124.6 million in fiscal 2000 and 1.1 million shares (including .8 million shares under the expanded program) repurchased at a cost of $14.8 million in fiscal 1999.

Dividends paid to stockholders amounted to $75.9 million in fiscal 2000, compared with $82.5 million in fiscal 1999. In March 2000, the quarterly dividend payment was reduced by half to $.1375 per share, and there were 9% fewer average shares outstanding in fiscal 2000. There was no dividend payment in the first quarter of fiscal 1999. USEC began quarterly dividend payments in December 1999.

CAPITAL STRUCTURE AND FINANCIAL RESOURCES

In January 1999, USEC issued $350.0 million of 6.625% senior notes due January 2006 and $150.0 million of 6.750% senior notes due January 2009. The senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc.

Commitments available under bank credit facilities amounted to $300.0 million at June 30, 2000. In July 2000, available commitments were reduced to $265.0 million, as follows: $115.0 million under a revolving credit facility expiring September 2000 and $150.0 million under a revolving credit facility expiring July 2003. In view of tightening in the bank credit market and USEC's credit ratings, upon expiration of the revolving credit facility in September 2000, USEC plans to negotiate a new bank credit facility to replace both existing bank credit facilities. It is expected that the new bank credit facility will be for a reduced amount, and may include additional terms and covenants. Short-term borrowings amounted to $50.0 million at June 30, 1999 and 2000.

At June 30, 2000, USEC was in compliance with financial covenants under the bank credit facilities, including restrictions on the granting of liens or pledging of assets, a minimum net worth and a debt to total capitalization ratio, as well as other customary conditions and covenants. The bank credit facilities restrict borrowings by subsidiaries to a maximum of $100.0 million. The failure to satisfy any of the covenants would constitute an event of default. The bank credit facilities also include other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy and change of control.

The total debt-to-capitalization ratio was 37% at June 30, 2000, compared with 33% at June 30, 1999. Although total debt of $550.0 million at June 30, 2000, was the same as at June 30, 1999, stockholders' equity was lower in fiscal 2000 reflecting the repurchase of common stock, dividend payments, and special charges against income.

A summary of working capital at June 30 follows (in millions):

	1999	2000
Cash, net of short-term debt	$ 36.6	$ 23.0
Inventories, net	831.7	825.1
Other	75.0	180.3
Working capital	$ 943.3	$ 1,028.4

USEC expects that its cash, internally generated funds from operating activities, and available financing sources under the bank credit facilities will be sufficient to meet its obligations as they become due, to fund operating requirements of the plants, purchases of SWU under the Russian Contract, capital expenditures, interest expense, quarterly dividends, and repurchases of common stock.

ENVIRONMENTAL MATTERS

In addition to costs for the future disposition of depleted uranium, USEC incurs operating costs and capital expenditures for matters relating to compliance with environmental laws and regulations, including the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes generated as a result of its operations. Operating costs were $25.4 million, $24.1 million, and $18.1 million and capital expenditures were $4.4 million, $3.1 million and $2.4 million in fiscal years 1998, 1999 and 2000, respectively. In fiscal years 2001 and 2002, USEC expects its operating costs and capital expenditures for environmental matters to remain at about the same levels as in fiscal 2000.

Environmental liabilities associated with plant operations prior to July 28, 1998, are the responsibility of the U.S. Government, except for liabilities relating to certain identified wastes generated by USEC and stored at the plants. DOE remains responsible for decontamination and decommissioning of the plants.

CHANGING PRICES AND INFLATION

The plants require substantial amounts of electric power to enrich uranium. Information with respect to electric power prices and costs is included above.

A majority of USEC's long-term requirements contracts with customers generally provide for prices that are subject to adjustment for inflation.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2000, the balance sheet carrying amounts for cash and cash equivalents, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

As a result of market interest rates, the fair value of short-term debt approximates its carrying value at June 30, 2000. The fair value of long-term debt is calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities. The repayment schedule of short-term debt, the scheduled maturity dates of long-term debt, the balance sheet carrying amounts and related fair values at June 30, 2000, follow (millions):

	Maturity Dates			June 30, 2000	
	Due Within One Year	January 2006	January 2009	Balance Sheet Carrying Amount	Fair Value
Short-term debt	$ 50.0			$ 50.0	$ 50.0
Long-term debt:					
6.625% senior notes		$ 350.0		350.0	268.0
6.750% senior notes			$ 150.0	150.0	108.5
				500.0	376.5
				$ 550.0	$ 426.5

CONSOLIDATED BALANCE SHEETS

USEC Inc.

(millions, except share and per share data)	June 30, 1999	June 30, 2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 86.6	$ 73.0
Accounts receivable – trade	373.8	423.1
Inventories:		
Separative work units	648.8	596.0
Uranium	160.1	209.8
Uranium provided by customers	101.7	40.2
Materials and supplies	22.8	19.3
Total Inventories	933.4	865.3
Payments for future deliveries under Russian Contract	50.0	-
Other	29.3	23.0
Total Current Assets	1,473.1	1,384.4
Property, Plant and Equipment, net	166.6	159.3
Other Assets		
Deferred income taxes	49.5	10.7
Deferred costs for depleted uranium	43.7	35.4
Prepaid pension assets	52.9	58.2
Inventories	574.4	436.4
Total Other Assets	720.5	540.7
Total Assets	$ 2,360.2	$ 2,084.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	$ 50.0	$ 50.0
Accounts payable and accrued liabilities	270.9	164.4
Payables under Russian Contract	73.0	40.5
Discontinue plant operations	-	60.9
Suspension of development of AVLIS technology	34.2	-
Uranium owed to customers	101.7	40.2
Total Current Liabilities	529.8	356.0
Long-Term Debt	500.0	500.0
Other Liabilities		
Deferred revenue	19.2	70.3
Depleted uranium disposition	24.8	48.6
Postretirement health and life benefit obligations	93.0	106.5
Other liabilities	58.0	55.7
Total Other Liabilities	195.0	281.1
Commitments and Contingencies (Notes 4 and 9)		
Stockholders' Equity		
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized, none issued	-	-
Common stock, par value $.10 per share, 250,000,000 shares authorized, 100,318,000 shares and 100,320,000 shares issued	10.0	10.0
Excess of capital over par value	1,072.0	1,070.7
Retained earnings	71.9	4.9
Treasury stock, 1,142,000 shares and 17,842,000 shares	(14.8)	(135.8)
Deferred compensation	(3.7)	(2.5)
Total Stockholders' Equity	1,135.4	947.3
Total Liabilities and Stockholders' Equity	$ 2,360.2	$ 2,084.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

USEC Inc.

(millions, except per share data)	Fiscal Years Ended June 30, 1998	1999	2000
Revenue:			
Separative work units	$ 1,380.4	$ 1,475.0	$ 1,387.8
Uranium	40.8	53.6	101.6
Total revenue	1,421.2	1,528.6	1,489.4
Cost of sales	1,062.1	1,182.0	1,236.3
Uranium inventory valuation adjustment	-	-	19.5
Gross profit	359.1	346.6	233.6
Special charges:			
Discontinue plant operations	-	-	126.5
Workforce reductions	32.8	-	15.0
Suspension of development of AVLIS technology	-	34.7	(1.2)
Privatization costs	13.8	-	-
Advanced technology development costs	136.7	106.4	11.4
Selling, general and administrative	34.7	40.3	48.9
Operating income	141.1	165.2	33.0
Interest expense	-	32.5	38.1
Other (income) expense, net	(5.2)	(16.8)	(10.5)
Income before income taxes	146.3	149.5	5.4
Provision (benefit) for income taxes	-	(2.9)	(3.5)
Net income	$ 146.3	$ 152.4	$ 8.9
Net income per share – basic and diluted		$ 1.52	$ .10
Dividends per share		$ .825	$ .825
Average number of shares outstanding		99.9	90.7

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

USEC Inc.

(millions)	Fiscal Years Ended June 30, 1998	1999	2000
Cash Flows from Operating Activities			
Net income	$ 146.3	$ 152.4	$ 8.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16.1	16.4	20.4
Depleted uranium disposition	(10.3)	32.3	26.1
Deferred revenue	(.6)	(15.1)	51.1
Special charges:			
Discontinue plant operations	-	-	126.5
Workforce reductions	-	-	15.0
Suspension of development of AVLIS technology	-	34.2	(33.0)
Uranium inventory valuation adjustment	-	-	19.5
Changes in operating assets and liabilities:			
Accounts receivable – (increase)	(4.6)	(137.4)	(49.3)
Inventories – (increase) decrease	(142.5)	51.2	122.3
Payables under Russian Contract, net	64.4	78.0	17.5
Accounts payable and other liabilities – increase (decrease)	13.4	(1.0)	(62.9)
Other	(8.9)	19.4	.7
Net Cash Provided by Operating Activities	73.3	230.4	262.8
Cash Flows Used in Investing Activities			
Capital expenditures	(36.5)	(51.1)	(75.9)
Cash Flows from Financing Activities			
Repurchase of common stock	-	(14.8)	(124.6)
Dividends paid to stockholders	-	(82.5)	(75.9)
Dividends paid to U.S. Treasury	(120.0)	(1,709.4)	-
Proceeds from issuance of senior notes	-	495.2	-
Net proceeds from issuance of short-term debt	-	50.0	-
Debt and common stock issuance cost	-	(9.0)	-
Net Cash Provided by (Used in) Financing Activities	(120.0)	(1,270.5)	(200.5)
Net (Decrease)	(83.2)	(1,091.2)	(13.6)
Cash and Cash Equivalents at Beginning of Fiscal Year	1,261.0	1,177.8	86.6
Cash and Cash Equivalents at End of Fiscal Year	$ 1,177.8	$ 86.6	$ 73.0
Supplemental Cash Flow Information			
Interest paid		$ 16.7	$ 40.2
Income taxes paid		5.7	3.9
Supplemental Schedule of Non-Cash Financing Activities			
Transfer of responsibility for depleted uranium disposition to Department of Energy		$ 373.8	-

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

USEC Inc.

(millions, except per share data)	Common Stock, Par Value $.10 per Share	Excess of Capital over Par Value	Retained Earnings	Treasury Stock	Deferred Compensation	Total Stockholders' Equity
Balance at June 30, 1997	$ 10.0	$ 1,054.2	$ 1,027.1	-	-	$ 2,091.3
Dividend paid to U.S. Treasury	-	-	(120.0)	-	-	(120.0)
Net income	-	-	146.3	-	-	146.3
Transfers of uranium from Department of Energy	-	302.9	-	-	-	302.9
Balance at June 30, 1998	10.0	1,357.1	1,053.4	-	-	2,420.5
Exit dividend paid to U.S. Treasury	-	(658.0)	(1,051.4)	-	-	(1,709.4)
Transfer of responsibility for depleted uranium to Department of Energy	-	373.8	-	-	-	373.8
Costs related to initial public offering	-	(5.3)	-	-	-	(5.3)
Restricted stock issued, net of amortization	-	4.4	-	-	$ (3.7)	.7
Repurchase of common stock	-	-	-	$ (14.8)	-	(14.8)
Dividends paid to stockholders	-	-	(82.5)	-	-	(82.5)
Net income	-	-	152.4	-	-	152.4
Balance at June 30, 1999	10.0	1,072.0	71.9	(14.8)	(3.7)	1,135.4
Restricted and other stock issued, net of amortization	-	(1.3)	-	3.6	1.2	3.5
Repurchase of common stock	-	-	-	(124.6)	-	(124.6)
Dividends paid to stockholders	-	-	(75.9)	-	-	(75.9)
Net income	-	-	8.9	-	-	8.9
Balance at June 30, 2000	$ 10.0	$ 1,070.7	$ 4.9	$ (135.8)	$ (2.5)	$ 947.3

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

USEC Inc., a Delaware corporation ("USEC"), formerly United States Enrichment Corporation (a U.S. Government-owned corporation), is a global energy company and is the world leader in the sale of uranium enrichment services for use in nuclear power plants. USEC provides uranium enrichment services to electric utilities for use in about 170 nuclear reactors.

Customers typically deliver uranium to the enrichment facilities to be processed or enriched under enrichment contracts. Customers are billed for Separative Work Units ("SWU") used at the enrichment facilities to separate specific quantities of uranium containing .711% of U235 into two components: enriched uranium having a higher percentage of U235 and depleted uranium having a lower percentage of U235.

USEC uses the gaseous diffusion process to enrich uranium, separating and concentrating the lighter uranium isotope U235 from its slightly heavier counterpart U238. The process relies on the slight difference in mass between the isotopes for separation. At the leased gaseous diffusion plants ("plants") located near Portsmouth, Ohio, and in Paducah, Kentucky, the concentration of the isotope U235 is raised from less than 1% to up to 5%. A substantial portion of the purchased power used by the plants is supplied under power contracts between the U.S. Department of Energy ("DOE") and Ohio Valley Electric Corporation ("OVEC") and Electric Energy, Inc. ("EEI"). In July 2000, USEC entered into a 10-year power purchase agreement with Tennessee Valley Authority ("TVA") to provide a substantial portion of the electric power for the Paducah plant at fixed rates beginning September 2000.

The Nuclear Regulatory Commission ("NRC") has had regulatory authority over the operations of the plants since March 1997. The term of the NRC certification of the plants has been renewed for a five-year period ending December 2003.

USEC has been designated by the U.S. Government as the Executive Agent under a government-to-government agreement and as such entered into an agreement with the executive agent for the Russian Federation (the "Russian Contract") under which USEC purchases SWU derived from highly enriched uranium recovered from dismantled nuclear weapons of the Russian Federation for use in commercial electricity production.

The sale of USEC's common stock in connection with the initial public offering ("IPO") was completed on July 28, 1998 ("IPO Date"), resulting in net proceeds to the U.S. Government aggregating $3,092.1 million and consisting of (1) net proceeds of $1,382.7 million from the IPO and borrowings of $500.0 million paid to the U.S. Government, and (2) cash of $1,209.4 million paid to the U.S. Government as part of the exit dividend. The U.S. Government, the selling shareholder, sold its entire interest. USEC did not receive any proceeds from the IPO.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

In connection with the IPO, USEC Inc. became a holding company. The consolidated financial statements include the accounts of USEC Inc. and its subsidiaries. All material intercompany transactions have been eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include temporary cash investments with maturities of three months or less.

INVENTORIES

Inventories of SWU and uranium are valued at the lower of cost or market. Market prices are based on the terms of long-term contracts with customers, and, for uranium not under contract, market is based on prices quoted at the balance sheet date. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the plants and SWU purchase costs under the Russian Contract. Production costs at the plants include purchased electric power, labor and benefits, depleted uranium disposition costs, materials, maintenance and repairs, and other costs. Purchased SWU is recorded at acquisition cost plus related shipping costs.

PROPERTY, PLANT AND EQUIPMENT

Construction work in progress is recorded at acquisition or construction cost and includes capitalized interest of $1.2 million in fiscal 1999 and $3.2 million in fiscal 2000. Upon being placed into service, costs are transferred to leasehold improvements or machinery and equipment at which time depreciation commences. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of the useful lives which range from three to ten years or the expected plant lease period which for the Paducah plant is estimated to extend through calendar year 2008. USEC leases most, but not all, of the buildings and facilities at the plants from DOE. At the end of the lease, ownership and responsibility for decontamination and decommissioning of property, plant and equipment that USEC leaves at the plants transfer to DOE.

In June 2000, USEC announced that it will cease uranium enrichment operations in June 2001 at the Portsmouth plant. Special charges in fiscal 2000 include $62.8 million for the impairment of property, plant and equipment at the Portsmouth plant.

A summary of changes in property, plant and equipment in fiscal 2000 follows (in millions):

	June 30, 1999	Capital Expenditures (Depreciation)	Impairment at Portsmouth Plant	Transfers and Retirements	June 30, 2000
Construction work in progress	$ 39.5	$ 69.6	$ (12.1)	$ (75.6)	$ 21.4
Leasehold improvements	48.5	-	(36.7)	75.5	87.3
Machinery and equipment	157.8	6.3	(53.4)	(2.5)	108.2
	245.8	75.9	(102.2)	(2.6)	216.9
Accumulated depreciation and amortization	(79.2)	(20.4)	39.4	2.6	(57.6)
	$ 166.6	$ 55.5	$ (62.8)	$ -	$ 159.3

REVENUE

Revenue from sales of SWU, uranium and enriched uranium is recognized at the time enriched uranium is shipped under the terms of contracts with domestic and foreign electric utility customers. Under power-for-SWU barter contracts, USEC exchanges its enrichment services for electric power supplied to the plants, and revenue is recognized at the time enriched uranium is shipped with selling prices for SWU based on the fair market value of electric power received.

Under the terms of customer contracts, customers are required to make payment for SWU, uranium or enriched uranium based on their reactor requirements, whether or not they take delivery, and certain customers make advance payments and postpone delivery to a later date. Advances from customers are reported as deferred revenue, and, as customers take delivery of enriched uranium, revenue is recognized.

No customer accounted for more than 10% of revenue during the fiscal years 1998, 1999 or 2000. Revenue attributed to domestic and international customers follows:

	Fiscal Years Ended June 30,		
	1998	1999	2000
Domestic	63%	62%	62%
Asia	31	30	32
Europe and other	6	8	6
	100%	100%	100%

FINANCIAL INSTRUMENTS

The balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

CONCENTRATIONS OF CREDIT RISK

Credit risk could result from the possibility of a customer failing to perform according to the terms of a contract. Extension of credit is based on an evaluation of each customer's financial condition. USEC regularly monitors credit risk exposure and takes steps to mitigate the likelihood of such exposure resulting in a loss. Based on experience and outlook, an allowance for bad debts has not been established for customer trade receivables.

ENVIRONMENTAL COSTS

Environmental costs relating to operations are charged to production costs as incurred. Estimated future environmental costs, including depleted uranium disposition and waste disposal, resulting from operations where environmental assessments indicate that storage, treatment or disposal is probable and costs can be reasonably estimated, are accrued and charged to production costs.

ADVANCED TECHNOLOGY DEVELOPMENT COSTS

Advanced technology development costs are charged to expense as incurred. Costs in fiscal 2000 are for the evaluation of the availability and economics of centrifuge technology and a potential new advanced enrichment technology called SILEX.

Advanced technology development costs in fiscal years 1999 and 1998 were primarily for the Atomic Vapor Laser Isotope Separation project ("AVLIS") and were charged to expense as incurred. In June 1999, further development of the AVLIS technology was suspended.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and costs and expenses during the periods presented. Estimates include costs for the disposition of depleted uranium, lease turnover costs, costs relating to the plan to cease uranium enrichment operations at the Portsmouth plant, decommissioning and shutdown costs for power generating facilities, the operating lease periods of the plants, and employee benefits, among others. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements have been reclassified to conform with the current presentation.

3. INVENTORIES

Inventories and related balance sheet accounts at June 30 follow (in millions):

	1999	2000
Current assets:		
Separative work units	$ 648.8	$ 596.0
Uranium	160.1	209.8
Uranium provided by customers	101.7	40.2
Materials and supplies	22.8	19.3
	933.4	865.3
Long-term assets:		
Separative work units	116.8	120.7
Uranium	457.6	315.7
Current liabilities:		
Uranium owed to customers	(101.7)	(40.2)
Inventories, reduced by uranium owed to customers	$ 1,406.1	$1,261.5

The average market price of uranium declined 9% in fiscal 2000 compared with fiscal 1999. Downward pressure prevailed with market prices quoted at $23.62 per kilogram of uranium hexafluoride at June 30, 2000, a decline of 22% compared with June 30, 1999. Since uranium inventories are valued at the lower of cost or market, a non-cash valuation adjustment of $19.5 million was charged against income in fiscal 2000. If market prices continue their downward trend, it is possible that there could be additional charges against income in fiscal 2001.

Inventories included in current assets represent amounts required to meet working capital needs, preproduce enriched uranium product and balance the uranium and electric power requirements of the plants.

Generally, title to uranium provided by customers for enrichment purposes does not pass to USEC. Uranium provided by customers for which title does pass to USEC is recorded on the balance sheet at estimated fair values of $101.7 million at June 30, 1999 and $40.2 million at June 30, 2000, with corresponding liabilities in the same amounts representing uranium owed to customers. In addition, USEC holds uranium for enrichment and storage purposes with estimated fair values of $829.7 million at June 30, 1999 and $682.2 million at June 30, 2000, for which title is held by customers and others.

Inventories reported as long-term assets include uranium not expected to be used or sold within one year of the balance sheet date and include the SWU and uranium components of 50 metric tons of highly enriched uranium transferred to USEC from DOE in fiscal 1998 and scheduled to be blended down to low enriched uranium over the next five years.

4. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN CONTRACT

In January 1994, USEC on behalf of the U.S. Government signed the 20-year Russian Contract with AO Techsnabexport ("Tenex"), the Executive Agent for the Russian Federation, under which USEC purchases SWU derived from up to 500 metric tons of highly enriched uranium recovered from dismantled Soviet nuclear weapons. Highly enriched uranium is blended down in Russia and delivered to USEC, F.O.B. St. Petersburg, Russia, for sale and use in commercial nuclear reactors.

Purchases of SWU derived from highly enriched uranium under the Russian Contract, including related shipping charges, in fiscal 1998, 1999 and 2000 follow (in millions):

	SWU	Amount
Fiscal Years Ended June 30,		
1998	3.6	$ 315.8
1999	3.6	319.6
2000	4.8	417.8
	12.0	$ 1,053.2

Over the life of the Russian Contract, USEC expects to purchase 92 million SWU derived from 500 metric tons of highly enriched uranium, of which 15.8 million SWU had been purchased as of June 30, 2000. Subject to price adjustments for U.S. inflation, USEC has committed to purchase 4.6 million SWU at a cost of $404.7 million in the six months ending December 31, 2000, and expects to purchase 5.5 million SWU at a cost of $494.1 million in calendar year 2001.

5. INCOME TAXES

The provision (benefit) for income taxes follows (in millions):

	Fiscal Years Ended June 30, 1999	2000
Current:		
Federal	$ 5.1	$ (2.1)
State and local	.6	.8
	5.7	(1.3)
Deferred:		
Federal	40.7	(2.1)
State and local	5.2	(.1)
	45.9	(2.2)
Special deferred tax benefit from transition to taxable status:		
Federal	(49.8)	-
State and local	(4.7)	-
	(54.5)	-
	$ (2.9)	$ (3.5)

Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities result in deferred income tax benefits and liabilities. Temporary differences and tax credit carryforwards that result in deferred tax assets and liabilities at June 30 follow (in millions):

	1999	2000
Deferred tax assets:		
Inventory costs	$ 28.0	$ -
Plant lease turnover and other exit costs	17.8	30.9
Employee benefits costs	11.7	15.2
Property, plant and equipment	-	5.4
Intangibles	-	54.8
Tax credit carryforwards	-	4.2
Other	8.6	12.9
	66.1	123.4
Valuation allowance	-	(82.5)
Deferred tax assets, net of valuation allowance	66.1	40.9
Deferred tax liabilities:		
Deferred costs for depleted uranium	16.6	13.5
Inventory costs	-	16.7
Deferred tax liabilities	16.6	30.2
	$ 49.5	$ 10.7

USEC became subject to federal, state and local income taxes at the IPO Date. In fiscal 2000, USEC filed its initial federal income tax return from the period from the IPO Date to June 30, 1999. The valuation allowance of $82.5 million at June 30, 2000, relates to various deferred tax items and valuations resulting from the privatization. Deferred tax assets include tax credits of $4.2 million that may be carried forward indefinitely.

A reconciliation of income taxes calculated based on the statutory federal income rate of 35% and the provision (benefit) for income taxes reflected in the consolidated statements of income follows (in millions):

	Fiscal Years Ended June 30,	
	1999	2000
Income taxes based on statutory rate	$ 52.3	$ 1.9
State income taxes, net of federal benefit	3.4	.2
Research and experimentation tax credit	(3.4)	(1.7)
Special tax benefit from transition to taxable status	(54.5)	-
Foreign sales corporation	(.7)	(3.9)
	$ (2.9)	$ (3.5)

6. SHORT AND LONG-TERM DEBT

Short and long-term debt at June 30 follows (in millions):

	1999	2000
Short-term debt	$ 50.0	$ 50.0
Long-term debt:		
6.625% senior notes, due January 2006	350.0	350.0
6.750% senior notes, due January 2009	150.0	150.0
	500.0	500.0
	$ 550.0	$ 550.0

In January 1999, USEC issued $350.0 million of 6.625% senior notes due January 20, 2006, and $150.0 million of 6.750% senior notes due January 20, 2009. The net proceeds of $495.2 million were used to repay a portion of borrowings under a bank credit facility. The senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc. The senior notes are not subject to any sinking fund requirements. Beginning July 1999, interest is paid every six months on January 20 and July 20. The senior notes may be redeemed at any time at a redemption price equal to the principal amount plus any accrued interest up to the redemption date plus a make-whole premium, as defined.

At June 30, 2000, commitments available under bank credit facilities totaled $300.0 million. In July 2000, available commitments were reduced to $265.0 million, as follows: $115.0 million under a revolving credit facility expiring September 2000 and $150.0 million under a revolving credit facility expiring July 2003. In view of tightening in the bank credit market and USEC's credit ratings, upon expiration of the revolving credit facility in September 2000, USEC plans to negotiate a new bank credit facility to replace both existing bank credit facilities. It is expected that the new bank credit facility will be for a reduced amount, and may include additional terms and covenants. Short-term debt amounted to $50.0 million at June 30, 1999 and 2000, with weighted average interest rates of 6.2% at June 30, 1999, and 7.7% at June 30, 2000.

At June 30, 2000, USEC was in compliance with financial covenants under the bank credit facilities, including restrictions on the granting of liens or pledging of assets, a minimum net worth and a debt to total capitalization ratio, as well as other customary conditions and covenants. The bank credit facilities restrict borrowings by subsidiaries to a maximum of $100.0 million. The failure to satisfy any of the covenants would constitute an event of default. The bank credit facilities also include other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy and change of control.

At June 30, 2000, the fair value of debt calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities was $426.5 million, compared with the aggregate balance sheet carrying amount of $550.0 million.

7. SPECIAL CHARGES

A summary of special charges in fiscal 1999 and 2000 and changes in the related assets and liabilities at June 30 follow (in millions):

	Balance June 30, 1998	Special Charges	Utilized Cash	Balance June 30, 1999	Special Charges (Credit)	Utilized Cash	Utilized Non-cash	Balance June 30, 2000
Workforce reductions at the plants	$ 12.8	-	$ (5.9)	$ 6.9	$ 15.0	$ (4.7)	$ (2.2)	$ 15.0
Privatization costs	13.8	-	(13.8)	-	-	-	-	-
Suspension of development of AVLIS technology	-	$ 34.7	(.5)	34.2	(1.2)	(33.0)	-	-
Discontinue operations at Portsmouth plant:								
Workforce reductions	-	-	-	-	30.2	-	-	30.2
Lease turnover and other exit costs	-	-	-	-	33.5	-	(2.8)	30.7
Impairment of property, plant and equipment	-	-	-	-	62.8	-	(62.8)	-
Total discontinue plant operations	-	-	-	-	126.5	-	(65.6)	60.9
	$ 26.6	$ 34.7	$(20.2)	$ 41.1	$140.3	$(37.7)	$(67.8)	$ 75.9

DISCONTINUE URANIUM ENRICHMENT OPERATIONS AT PORTSMOUTH PLANT

In June 2000, USEC announced that it will cease uranium enrichment operations in June 2001 at the Portsmouth plant as an important step in the ongoing efforts to align production costs with lower market prices. Production will continue at the Portsmouth plant until June 2001 when it is expected that an assay upgrade project at the Paducah plant will be completed, tested to produce enriched uranium up to 5.5% assay, and certified by the NRC. USEC plans to continue to operate the transfer and shipping facilities at the Portsmouth plant after enrichment has ceased, until similar facilities are available at the Paducah plant.

The plan announced in June 2000 to cease uranium enrichment operations at the Portsmouth plant resulted in special charges of $126.5 million in fiscal 2000. The charges include $62.8 million in asset impairments of production equipment, leasehold improvements and other fixed assets. The charges also include severance benefits of $30.2 million for workforce reductions involving 1,200 plant employees based on current labor contract requirements, and $33.5 million for lease turnover and other exit costs.

Under the terms of the OVEC power contract, commitments to purchase electric power for the Portsmouth plant are subject to reductions resulting from the release of power. In fiscal 2001, USEC plans to provide the required three-year notice to terminate the OVEC contract effective April 30, 2003, and to release power upon the termination of enrichment operations at the Portsmouth plant. Based on waivers granted by OVEC, the three-year termination period would begin May 1, 2000, and would end April 30, 2003. USEC expects that commitments to purchase power from OVEC in fiscal years 2002 and 2003 will be offset by reductions resulting from the release of power. As a result of termination of the OVEC contract, USEC will no longer be responsible for substantial costs of environmental upgrades that OVEC will be required to make in future years at its coal-burning facilities.

WORKFORCE REDUCTIONS

Workforce reduction plans involving 575 employees at the Portsmouth and Paducah plants were finalized in June 2000 and resulted in special charges for severance benefits of $15.0 million in fiscal 2000.

Costs of $2.2 million were incurred and utilized for incremental pension and postretirement health and life benefits resulting from workforce reductions involving 500 employees in fiscal years 1999 and 2000.

SUSPENSION OF DEVELOPMENT OF AVLIS TECHNOLOGY

AVLIS is a uranium enrichment process which uses lasers to separate uranium isotopes. The AVLIS process was developed under a contract with DOE by the Lawrence Livermore National Laboratory ("LLNL") located in Livermore, California.

In June 1999, further development of the AVLIS enrichment technology was suspended. In connection with a comprehensive review of operating and economic factors, USEC reexamined the AVLIS technology, performance, prospects, risks and growing financial requirements as well as the economic impact of competitive marketplace dynamics and concluded that the returns were not sufficient to outweigh the risks and ongoing capital expenditures necessary to develop and construct an AVLIS plant.

USEC terminated AVLIS efforts with its contractors, implemented workforce reductions and conducted an orderly ramp-down of AVLIS activities at LLNL in California. The suspension of AVLIS resulted in a special charge of $34.7 million in fiscal 1999 for contract terminations, shutdown activities and employee severance and benefit arrangements, of which $33.5 million had been paid as of June 30, 2000. A cost savings of $1.2 million was restored to income in fiscal 2000.

8. ENVIRONMENTAL MATTERS

Environmental compliance costs include the handling, treatment and disposal of hazardous substances and wastes. Pursuant to the USEC Privatization Act ("Privatization Act"), environmental liabilities associated with plant operations prior to July 28, 1998, are the responsibility of the U.S. Government, except for liabilities relating to certain identified wastes generated by USEC and stored at the plants. DOE remains responsible for decontamination and decommissioning of the plants.

DEPLETED URANIUM

USEC accrues estimated costs for the future disposition of depleted uranium, based on estimates of transportation, conversion and disposal costs. Pursuant to the Privatization Act, depleted uranium generated by USEC through the IPO

Date was transferred to DOE. In June 1998, USEC paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted uranium generated by USEC from October 1998 to September 2005. Deferred costs of $43.7 million at June 30, 1999, and $35.4 million at June 30, 2000, resulting from the payment are being amortized as a charge against production costs using a straight line method over the life of the agreement. USEC stores depleted uranium at the plants and continues to evaluate various proposals for its disposition. The accrued liability included in other long-term liabilities amounted to $24.8 million at June 30, 1999, and $48.6 million at June 30, 2000.

OTHER ENVIRONMENTAL MATTERS

USEC's operations generate hazardous, low-level radioactive and mixed wastes. The storage, treatment, and disposal of wastes are regulated by federal and state laws. USEC utilizes offsite treatment and disposal facilities and stores wastes at the plants pursuant to permits, orders and agreements with DOE and various state agencies. The accrued liability for the treatment and disposal of stored wastes generated by USEC's operations included in other liabilities amounted to $7.1 million at June 30, 1999, and $4.7 million at June 30, 2000.

NUCLEAR INDEMNIFICATION

USEC is indemnified by DOE under the Price-Anderson Act for third-party liability claims arising from nuclear incidents with respect to activities at the plants, including domestic transportation of uranium to and from the plants.

DOE SERVICES

Services are provided to DOE by USEC for environmental restoration, waste management and other activities based on actual costs incurred at the plants. Reimbursements by DOE to USEC for services provided amounted to $51.6 million, $38.3 million, and $34.2 million in fiscal years 1998, 1999, and 2000, respectively.

9. COMMITMENTS AND CONTINGENCIES

POWER COMMITMENTS

In July 2000, USEC entered into a 10-year power purchase agreement with TVA to provide a substantial portion of the electric power for the Paducah plant beginning September 2000. Replacing EEI as the primary supplier, TVA will supply electric power to the Paducah plant at fixed rates, thereby, substantially reducing USEC's price risk for electric power in the volatile Midwest power market. The agreement provides that amounts to be paid to TVA for power scheduled to be purchased in fiscal 2001 will be reduced by a deferred payment obligation of $45.0 million. USEC will secure the obligation, as long as it is outstanding, by transferring title to uranium inventories with an equivalent value to TVA. The obligation and related interest will be satisfied by providing SWU to TVA in fiscal years 2002 to 2004 under a requirements contract, the terms of which are not yet final.

In fiscal years 1998, 1999 and 2000, USEC purchased a significant portion of its electric power based on actual costs incurred under DOE's power contracts with OVEC and EEI. Under the power contracts, USEC assumed responsibility for DOE's guarantee of OVEC's senior secured notes with a remaining balance of $48.3 million and OVEC's short-term borrowings of $25.5 million at June 30, 2000. The EEI contract extends through December 2005. In fiscal 2001, USEC plans to provide the required three-year notice to terminate the OVEC contract effective April 30, 2003, and to release power upon the termination of enrichment operations at the Portsmouth plant.

Subject to reductions resulting from the release of power, USEC is obligated, whether or not it takes delivery of power, to make minimum annual payments for the purchase of power estimated as follows (in millions):

Fiscal Years Ending June 30,	
2001	$ 211.7
2002	303.2
2003	376.8
2004	251.1
2005	259.2
2006	234.9
	$ 1,636.9

Upon termination of the OVEC and EEI power contracts, USEC is responsible for and accrues for its pro rata share of costs of future decommissioning and shutdown activities at the dedicated coal-fired power generating facilities owned and operated by OVEC and EEI. The accrued cost included in other liabilities amounted to $18.1 million at June 30, 1999 and 2000.

LEASE COMMITMENTS

Total costs incurred under the lease with DOE for the plants and leases for office space and equipment aggregated $11.5 million, $8.1 million and $7.1 million in fiscal years 1998, 1999 and 2000, respectively. Minimum lease payments are estimated at $5 million for each of the next five fiscal years.

USEC has the right to extend the lease for the plants indefinitely at its sole option and may terminate the lease in its entirety or with respect to one of the plants at any time upon two years' notice. Upon termination of the lease, USEC is responsible for certain lease turnover activities, including documentation of the condition of the plants and termination of facility operations. Lease turnover costs are accrued and charged to production costs over the expected lease period which for the Paducah plant is estimated to extend through calendar year 2008. Lease turnover costs for the Portsmouth plant were accrued over the productive life of the plant and as part of a special charge in fiscal 2000. Accrued costs included in other liabilities amounted to $28.7 million at June 30, 1999 and $32.5 million at June 30, 2000.

OTHER MATTERS

USEC is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on USEC's results of operations or financial position.

10. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS

In May 1999, the operations and maintenance contract with Lockheed Martin Utility System ("LMUS"), a subsidiary of Lockheed Martin Corporation, was terminated by USEC. Most employees of LMUS became employees of USEC. Under the contract, LMUS provided labor, services, and materials and supplies to operate and maintain the plants, and USEC funded LMUS for actual costs incurred and contract fees. USEC has indemnified LMUS for certain liabilities associated with performance of the operations and maintenance contract for the term of the contract. In this regard, the Privatization Act generally provides that liabilities attributable to plant operations prior to July 28, 1998, remain liabilities of the U.S. Government.

Pursuant to the Privatization Act and in connection with the termination of the LMUS contract and the transfer of LMUS employees to USEC effective May 18, 1999, pension and postretirement health and life benefit obligations and related plan assets were transferred from plans sponsored by Lockheed Martin Corporation to plans sponsored by USEC. The aggregate of the fair values of plan assets transferred in fiscal years 1999 and 2000 is equivalent to the combined pension and postretirement health and life benefit obligations transferred to USEC based on discount rates established by the Pension Benefit Guaranty Corporation and other actuarial assumptions. Plan assets for pension and postretirement health and life benefit plans are maintained in trusts and consist mainly of common stock and fixed-income investments.

There are 7,800 employees and retirees covered by defined benefit pension plans providing retirement benefits based on compensation and years of service, and 3,500 employees, retirees and dependents covered by postretirement health and life benefit plans. DOE retained the obligation for postretirement health and life benefits for workers who retired prior to the IPO Date.

Changes in benefit obligations and plan assets in fiscal years 1999 and 2000 and the funded status of the plans at June 30 follow (in millions):

	Fiscal Years Ended June 30,			
	Defined Benefit Pension Plans		Postretirement Health and Life Benefit Plans	
	1999	2000	1999	2000
Changes in Benefit Obligations				
Obligations at beginning of fiscal year	-	$ 430.0	-	$ 130.0
Actuarial (gain) loss	-	(33.4)	-	6.6
Change in attribution period	-	-	-	(22.6)
Service cost	-	11.5	-	6.9
Interest cost	-	32.3	-	10.2
Benefits paid	-	(26.2)	-	(2.2)
Benefits obligation transferred	$ 430.0	-	$ 130.0	-
Obligations at end of fiscal year	430.0	414.2	130.0	128.9
Changes in Plan Assets				
Fair value of plan assets at beginning of fiscal year	-	511.0	-	37.0
Actual return on plan assets	-	101.3	-	1.0
USEC contributions	-	.4	-	2.2
Benefits paid	-	(26.2)	-	(2.2)
Fair value of plan assets transferred	511.0	37.5	37.0	-
Fair value of plan assets at end of year	511.0	624.0	37.0	38.0
Funded (unfunded) status	81.0	209.8	(93.0)	(90.9)
Unrecognized prior service cost (benefit)	-	-	-	(20.5)
Unrecognized net actuarial (gains) losses	(28.1)	(151.6)	-	4.9
Prepaid (accrued) benefit costs at June 30	$ 52.9	$ 58.2	$ (93.0)	$ (106.5)

The expected cost of providing pension benefits is accrued over the years employees render service, and actuarial gains and losses are amortized over the employees' average future service life.

In fiscal 2000, the attribution period for postretirement health and life benefit obligations was changed from 10 years of service to 10 years of service commencing at age 40 or from date of hire if after age 40. The change in the attribution period reduced the benefit obligation by $22.6 million and reduced plan costs by $2.1 million in fiscal 2000. Actuarial gains and losses and prior service costs or benefits are amortized over the average remaining years of service until the date of full benefit eligibility.

The components of net benefit costs (income) in fiscal 2000 and assumptions used in the calculations of benefit obligations at June 30, 2000, follow (in millions):

	Defined Benefit Pension Plans	Postretirement Health and Life Benefit Plans
Service cost	$ 11.5	$ 6.9
Interest cost	32.3	10.2
Expected return on plan assets	(48.6)	(3.2)
Amortization of prior service cost (benefit)	-	(2.1)
	$ (4.8)	$ 11.8
Discount rate	8.0%	8.0%
Expected return on plan assets	9.0%	9.0%
Compensation increases	4.5%	4.5%

The healthcare cost trend rate used to measure the postretirement health benefit obligation is 8% in fiscal 2001 and is assumed to decline gradually to 5% by fiscal 2004 and then remain level. A one-percentage-point change in the assumed healthcare cost trend would change annual costs by $2.9 million and change the benefit obligation by $18.5 million.

USEC sponsors 401(k) and other defined contribution plans for employees. Employee contributions are matched at established rates. Amounts contributed are invested in securities and administered by independent trustees. USEC's matching contributions amounted to $5.1 million, $5.6 million, and $5.9 million in fiscal years 1998, 1999 and 2000, respectively.

USEC provides executive officers, through nonqualified plans, additional pension benefits in excess of qualified plan limits imposed by Federal tax law. The excess pension benefits are unfunded. The actuarial present value of projected benefit obligations for excess pension benefits amounted to $2.4 million at June 30, 1999, and $2.6 million at June 30, 2000. Under a 401(k) restoration plan, executive officers contribute and USEC matches contributions in excess of amounts eligible under the 401(k) plan. Costs for plans providing excess pension benefits, 401(k) restoration and other supplemental benefits for executive officers amounted to $.1 million in fiscal 1999 and $1.1 million in fiscal 2000.

11. STOCKHOLDERS' EQUITY

Pursuant to the Privatization Act, certain limitations were established on the ability of a person to acquire more than 10% of USEC's voting securities for a three-year period after the IPO Date and certain foreign ownership limitations were established.

Changes in the number of shares of common stock outstanding in fiscal 2000 follow (shares in thousands):

	Shares Issued	Treasury Stock	Shares Outstanding
Balance at June 30, 1999	100,318	(1,142)	99,176
Repurchase of common stock	-	(16,972)	(16,972)
Common stock issued	2	272	274
Balance at June 30, 2000	100,320	(17,842)	82,478

COMPENSATION PLANS

In February 1999, stockholders approved the USEC Inc. 1999 Equity Incentive Plan, under which 9 million shares of common stock are reserved for issuance over 10 years, including incentive stock options, nonqualified stock options, restricted stock or stock units, performance awards and other stock-based awards. There were 318,000 shares of restricted stock granted in fiscal 1999 and 110,000 shares, net of forfeitures, granted in fiscal 2000. Sale of these shares is restricted prior to the date of vesting. Based on the fair market value of common stock at the date of grant, deferred compensation resulting from grants of restricted stock amounted to $4.4 million in fiscal 1999 and $1.7 million in fiscal 2000. Deferred compensation is amortized to expense on a straight-line basis over the vesting period.

A summary of stock options outstanding in fiscal 2000 follows (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price
Balance at June 30, 1999	1	$13.74
Options granted	4,555	8.47
Options expired	(377)	10.81
Balance June 30, 2000	4,179	8.27

Options outstanding and options exercisable at June 30, 2000, follow (shares in thousands):

Exercise Price	Options Outstanding	Remaining Life in Years	Options Exercisable
$ 4.69	2,087	9.8	-
$ 11.88	2,077	9.0	-
$ 4 - 14	15	9.3	1
	4,179	9.4	1

In February 1999, stockholders approved the USEC Inc. 1999 Employee Stock Purchase Plan under which 2.5 million shares of common stock can be purchased over 10 years by eligible employees at 85% of the lower of the market price at the beginning or the end of each six-month offer period. Employees can elect to designate up to 10% of their compensation to purchase common stock under the plan. Shares purchased are allocated to participants' accounts and, upon request, shares are distributed.

Compensation expense for employee stock compensation plans is measured using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued for Employees." Under the disclosure provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), pro forma net income assuming compensation expense was recognized under FAS 123 would have been $4.3 million (or $.05 per share) lower than reported in fiscal 2000. Under FAS 123, compensation expense is based on the fair value of stock options at the date of grant using the Black-Scholes option pricing model. Assumptions used for options granted in fiscal 2000 follows:

Risk free interest rate	6.5%
Dividend yield	9-12%
Expected volatility	37-59%

PRIVATIZATION

Under the Privatization Act, DOE transferred to USEC 50 metric tons of highly enriched uranium and 7,000 metric tons of natural uranium in fiscal 1998. USEC is responsible for costs related to the blending of the highly enriched uranium into low-enriched uranium, as well as certain transportation, safeguards and security costs. As a result of the transfers, long-term uranium inventories and stockholders' equity were increased by $302.9 million in fiscal 1998 based on DOE's historical costs for the uranium.

An exit dividend of $1,709.4 million was paid to the U.S. Government at the date of the initial public offering in fiscal 1999. The amount of the exit dividend in excess of retained earnings was recorded as a reduction of excess of capital over par value.

Pursuant to the Privatization Act, depleted uranium generated by USEC through the date of the initial public offering was transferred to DOE, and the accrued liability of $373.8 million for depleted uranium disposition was transferred to stockholders' equity in fiscal 1999.

12. QUARTERLY FINANCIAL DATA (Unaudited)

The following table summarizes quarterly and annual results of operations (in millions, except per share data):

	Sept. 30	Dec. 31	March 31	June 30	Fiscal Year
Fiscal Year Ended June 30, 2000					
Revenue	$ 230.9	$ 447.6	$ 281.8	$ 529.1	$ 1,489.4
Cost of sales	186.4	377.4	226.0	446.5	1,236.3
Uranium inventory valuation adjustment	-	-	-	19.5	19.5
Gross profit	44.5	70.2	55.8	63.1	233.6
Special charges:					
Discontinue plant operations	-	-	-	126.5[1]	126.5[1]
Workforce reductions	-	-	-	15.0[2]	15.0[2]
Other	-	-	-	(1.2)	(1.2)
Advanced technology development costs	1.4	2.6	2.7	4.7	11.4
Selling, general and administrative	12.2	11.2	11.7	13.8	48.9
Operating income (loss)	30.9	56.4	41.4	(95.7)	33.0
Interest expense	8.5	9.8	10.9	8.9	38.1
Other (income) expense, net	(2.8)	(2.9)	(2.6)	(2.2)	(10.5)
Provision (benefit) for income taxes	9.1	16.9	10.5	(40.0)	(3.5)
Net income (loss)	$ 16.1	$ 32.6	$ 22.6	$ (62.4)	$ 8.9
Net income (loss) per share – basic and diluted	$ .16	$ .36	$ .25	$ (.74)	$ .10[3]
Average number of shares outstanding	97.7	90.6	89.6	84.7	90.7
Fiscal Year Ended June 30, 1999					
Revenue	$ 307.9	$ 422.4	$ 260.4	$ 537.9	$ 1,528.6
Cost of sales	248.6	330.7	207.1	395.6	1,182.0
Gross profit	59.3	91.7	53.3	142.3	346.6
Special charges for suspension of development of AVLIS technology	-	-	-	34.7[4]	34.7[4]
Advanced technology development costs	31.6	27.2	19.9	27.7	106.4
Selling, general and administrative	7.9	9.3	10.2	12.9	40.3
Operating income	19.8	55.2	23.2	67.0	165.2
Interest expense	6.5	8.8	8.6	8.6	32.5
Other (income) expense, net	(1.6)	(2.0)	(10.0)	(3.2)	(16.8)
Provision (benefit) for income taxes	(48.2)[5]	16.3	8.4	20.6	(2.9)[5]
Net income	$ 63.1	$ 32.1	$ 16.2	$ 41.0	$ 152.4
Net income per share – basic and diluted	$ .63	$ .32	$ .16	$ .41	$ 1.52
Average number of shares outstanding	100.0	100.0	100.0	99.8	99.9

1 The plan announced in June 2000 to cease uranium enrichment operations at the Portsmouth plant in June 2001 resulted in special charges of $126.5 million ($79.3 million or $.87 per share after tax) in fiscal 2000. The special charges include asset impairments of $62.8 million, severance benefits of $30.2 million based on current labor contract requirements, and $33.5 million for lease turnover and other exit costs.

2 Workforce reduction plans involving 575 employees at the Portsmouth and Paducah plants were finalized in June 2000 and resulted in special charges for severance benefits of $15.0 million ($9.4 million or $.10 per share after tax) in fiscal 2000.

3 Net income per share in fiscal 2000 does not equal the sum of the quarters because of changes in the number of shares outstanding from the repurchase of common stock.

4 The suspension of development of the AVLIS enrichment technology resulted in special charges of $34.7 million ($22.7 million or $.23 per share after tax) in fiscal 1999.

5 The provision for income taxes in fiscal 1999 includes a special income tax benefit of $54.5 million (or $.54 per share) for deferred income tax benefits that arose from the transition to taxable status.

MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

USEC's common stock has been publicly traded on the New York Stock Exchange under the symbol "USU" since July 23, 1998. The high and low sales prices and cash dividends paid per share follow:

	High	Low	Cash Dividends Paid
Fiscal Year Ended June 30, 1999			
July to September 1998	$ 16.31	$ 13.00	$ -
October to December 1998	15.75	13.19	.275
January to March 1999	15.19	13.00	.275
April to June 1999	14.88	9.88	.275
Fiscal Year Ended June 30, 2000			
July to September 1999	13.00	9.50	.275
October to December 1999	10.25	6.63	.275
January to March 2000	7.19	3.44	.1375
April to June 2000	5.00	3.88	.1375

There are 250 million shares of common stock and 25 million shares of preferred stock authorized. At June 30, 2000, there were 82,478,000 shares of common stock issued and outstanding and 31,000 beneficial holders of common stock. No preferred shares have been issued.

The declaration of dividends is subject to the discretion of the Board of Directors and depends, among other things, on the results of operations, financial condition, cash requirements, any restrictions imposed by financing arrangements and any other factors deemed relevant by the Board of Directors at that time.

At June 30, 2000, a total of 17.8 million shares of common stock had been repurchased under an expanded program approved by the Board of Directors in fiscal 2000 to repurchase up to 30 million shares by June 2001.

USEC's Certificate of Incorporation (the "Charter") sets forth certain restrictions on foreign ownership of securities, including a provision prohibiting foreign persons (as defined in the Charter) from collectively having beneficial ownership of more than 10% of the voting securities. The Charter also contains certain enforcement mechanisms with respect to the foreign ownership restrictions, including suspension of voting rights, redemption of such shares and/or the refusal to recognize the transfer of shares on the record books of USEC.

USEC entered into an agreement with the U.S. Treasury Department, pursuant to which USEC made the following commitments, among others:

- to abide by the Privatization Act provisions, including the provision which prohibits any person from acquiring more than 10% of the outstanding voting stock for a three-year period after the IPO Date; and
- not to sell or transfer all or substantially all of the uranium enrichment assets or operations of USEC during the three-year period after the IPO Date.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To USEC Inc.:

We have audited the accompanying consolidated balance sheets of USEC Inc. (a Delaware Corporation) as of June 30, 1999 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal years in the period ended June 30, 2000. These financial statements are the responsibility of the Company'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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of USEC Inc. as of June 30, 1999 and 2000, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States.

Vienna, Virginia
July 26, 2000

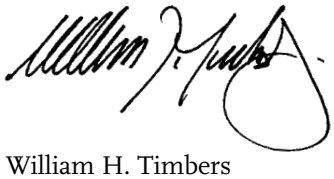
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of USEC Inc. were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and necessarily include some amounts that are based on the best estimates and judgments of management.

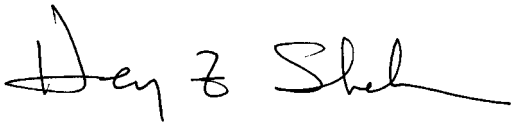
The system of internal controls is designed to provide reasonable assurance as to the reliability of financial records and the protection of assets. This system is augmented by written policies and guidelines, an internal audit program and the careful selection and training of qualified personnel. It should be recognized, however, that there are inherent limitations in the effectiveness of any internal control system. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the preparation of reliable financial statements.

Arthur Andersen LLP was engaged to audit the financial statements. Their audits included developing an overall understanding of the accounting systems, procedures and internal controls and conducting tests and other auditing procedures sufficient to support their report on the financial statements.

The adequacy of financial controls and the accounting principles employed in financial reporting are under the general oversight of the Audit, Finance and Corporate Responsibility Committee of the Board of Directors. No member of the committee is an officer or employee of the Company. The independent public accountants and the internal auditors have direct access to the Audit, Finance and Corporate Responsibility Committee, and they meet with the committee from time to time, with and without management present, to discuss accounting, auditing and financial reporting matters.



William H. Timbers
President and Chief Executive Officer



Henry Z Shelton, Jr.
Senior Vice President and Chief Financial Officer

July 26, 2000

SHAREHOLDER INFORMATION

STOCK EXCHANGE LISTING

USEC Inc. common stock is listed and traded on the New York Stock Exchange under the ticker symbol USU. Options are listed and traded on the Chicago Board of Exchange and the American Stock Exchange. As of August 31, 2000, the Company had approximately 31,000 beneficial holders of its common stock.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. November 8, 2000, at the Bethesda Marriott Hotel, 5151 Pooks Hill Road, Bethesda, Maryland.

FORM 10-K ANNUAL REPORT

Upon written request, USEC Inc. will provide without charge a copy of its Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Requests should be addressed to Corporate Communications at USEC Inc. at the address listed below.

CORPORATE HEADQUARTERS AND MAILING ADDRESS

USEC Inc.
Two Democracy Center
6903 Rockledge Drive
Bethesda, MD 20817-1818
Phone: (301) 564-3200
Fax: (301) 564-3211

INTERNET HOME PAGE

The Company maintains an Internet site at http://www.usec.com that contains a substantial amount of information about USEC and its activities, news releases, and financial information. There are also links to our filings with the Securities and Exchange Commission. E-mail inquiries to USEC Inc. may be addressed to: corpcomm@usec.com.

INVESTOR RELATIONS

Information requests from security analysts and other members of the professional financial community can be directed to: Investor Relations (301) 564-3238. E-mail inquiries should be addressed to: financial@usec.com.

STOCK HELD IN BROKERAGE ACCOUNT OR "STREET NAME"

When you purchase stock and it is held for you by your broker, it is listed with the Company in the broker's name, or "street name." Most USEC Inc. common shares are held in street name accounts. USEC does not know the identity of individual shareholders who hold their shares in this manner; we simply know that a broker holds a certain number of shares that may be for any number of individuals. If you hold your stock in street name, you receive all dividend payments, annual reports and proxy materials through your broker. Therefore, if your shares are held in this manner, any questions you may have about your shares should be directed to your broker.

TRANSFER AGENT & REGISTRAR

USEC Inc. shareholder records are maintained by our transfer agent, EquiServe L.P. Shareholders of record with inquiries relating to stock records, stock transfer, changes of ownership, changes of address, dividend payments and consolidation of accounts should contact:

EquiServe L.P.
Investor Relations Department
Mail Stop: 45-02-64
P.O. Box 8040
Boston, MA 02266-8040
Phone: (781) 575-3120
(888) 485-2938
http://www.equiserve.com

DIVIDEND INFORMATION

Dividends on USEC Inc. common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 15th of the month in December, March, June and September. The Company offers a dividend reinvestment and direct stock purchase plan. For more information and a prospectus, call (888) 485-2938 or go on-line to http://www.usec.com.

INDEPENDENT AUDITORS

Arthur Andersen LLP
Vienna, VA

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

James R. Mellor
Chairman of the Board, USEC Inc.
Retired Chairman and Chief Executive Officer, General Dynamics Corporation

Joyce F. Brown
President, Fashion Institute of Technology of the State University of New York

John R. Hall
Retired Chairman and Chief Executive Officer, Ashland, Inc.

Dan T. Moore, III
President, Dan T. Moore Company, Inc.

William H. Timbers
President and Chief Executive Officer, USEC Inc.

William H. White
President and Chief Executive Officer, WEDGE Group Inc.

BOARD COMMITTEES

*(*indicates the chair of committee)*

Audit, Finance and Corporate Responsibility
John R. Hall*
Joyce F. Brown
William H. White

Compensation
Joyce F. Brown*
John R. Hall
James R. Mellor
Dan T. Moore, III

Regulatory Affairs
William H. White*
John R. Hall
James R. Mellor
William H. Timbers

Technology
Dan T. Moore, III*
James R. Mellor
William H. White

EXECUTIVE OFFICERS

William H. Timbers
President and Chief Executive Officer

James H. Miller
Executive Vice President

Robert J. Moore
Senior Vice President and General Counsel

Philip G. Sewell
Senior Vice President

Henry Z Shelton, Jr.
Senior Vice President and Chief Financial Officer

James N. Adkins, Jr.
Vice President, Production

J. William Bennett
Vice President, Advanced Technology

Dennis J. Blair
Vice President, Human Resources and Administration

Gary G. Ellsworth
Vice President, Government Relations

Timothy B. Hansen
Vice President, Deputy General Counsel and Secretary

Richard O. Kingdon
Vice President, Strategic Analysis

Robert Van Namen
Vice President, Marketing and Sales

Charles B. Yulish
Vice President, Corporate Communications

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