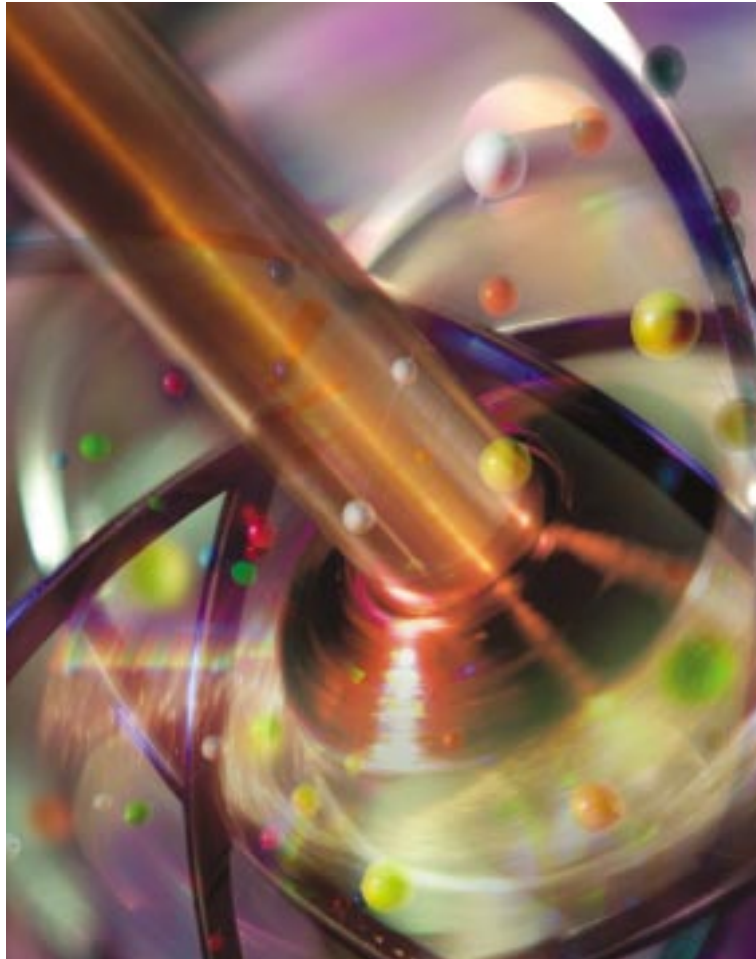




**REPORT TO SHAREHOLDERS  
FOR THE SIX MONTH PERIOD  
ENDED DECEMBER 31, 2002**



**The Company at the Core of**  
**Global Energy**

# USEC Report to Shareholders



## ABOUT USEC

**USEC Inc.** (NYSE:USU), a global energy company, 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 uranium fuel. USEC is headquartered in Bethesda, Maryland, operates a production facility in Paducah, Kentucky and employs approximately 2,800 people.

### On The Cover:

Artist's conception of USEC's advanced gas centrifuge uranium enrichment technology.

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From its plant in Paducah, Kentucky, USEC supplies enriched uranium fuel to about 160 nuclear reactors worldwide. Here, Crane Operator Tommy Campbell prepares a fuel cylinder for customer delivery.

FINANCIAL HIGHLIGHTS <i>(in millions except per share data)</i>	Years Ended December 31 (unaudited)		
	2002	2001	2000
Revenue	\$1,273.4	\$1,390.6	\$1,424.8
Cost of Sales	\$1,189.5	\$1,266.2	\$1,204.7
Net Income (Loss)	\$ (3.3)	\$ 57.7 <sup>(a)</sup>	\$ (14.3) <sup>(b)</sup>
Earnings (Loss) per share	\$ (.04)	\$ .71 <sup>(a)</sup>	\$ (.17) <sup>(b)</sup>
Dividends per share	\$ .55	\$ .55	\$ .55
Average Shares Outstanding	81.4	80.7	84.1
Net Cash Provided by Operating Activities	\$ 201.0	\$ 165.2	\$ 334.2
Debt to Total Capitalization	35%	34%	35%
<p>(a) Includes a special tax credit of \$37.3 million (or \$.46 per share) in 2001 for deferred income tax benefits that arose from the transition to taxable status.</p> <p>(b) Includes special charges of \$141.5 million (\$88.7 million or \$.97 per share after tax) in 2000 for consolidating plant operations.</p>			

# LETTER TO SHAREHOLDERS

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We are writing to you at this time because our previously announced change in fiscal year end necessitates an additional annual report for the six-month transition period ending December 31, 2002, commonly called a stub period.

We believe the fiscal year change will better align our financial reporting with our business. For example, many of our customers contract on a calendar year basis, and our contract with Russia for about half of our product supply is also based on the calendar year.

## STUB PERIOD FINANCIAL RESULTS

We reported a \$14.7 million loss for the six-month stub period; a loss for the period had been forecast well in advance. Ours is a business that needs to be evaluated on an annual cycle or longer as customer commitments and the timing and movement of orders have a large impact on our financial results. In this context, we had anticipated that the majority of our earnings for the old fiscal year 2003 would be in the quarter ending June 30, 2003. Going forward, we have taken significant steps to reduce our cost structure, and the impact of those efforts will be reflected in 2003 and beyond. It is also important to remember that we are making a significant investment in the demonstration and deployment of the American Centrifuge – an advanced enrichment technology that we expect will lower our future production costs. Our spending on the American Centrifuge technology during the stub period was equivalent to \$10 million in earnings.

## OUR STRATEGIC FOCUS

In June 2002, USEC and the U.S. Department of Energy (DOE) signed an important agreement that establishes a framework for stability in the uranium enrichment industry. The DOE-USEC Agreement provides a balance of interests in the key areas of domestic production, deployment of advanced technology by the end of this decade and DOE support for USEC as executive agent under the Russian HEU agreement. This agreement strengthens the foundation we are building on during this decade, and this is our first report in this new era.

USEC continues to achieve significant milestones under the Megatons to Megawatts program as 6,900 Russian nuclear

warheads have been converted from highly enriched uranium into fuel for our customers' nuclear power plants. This innovative program provides about half of USEC's supply of low enriched uranium, and the new market-based pricing amendment that went into effect in January 2003 lowers our purchase costs. We work closely with the U.S. government's national security team to implement the Megatons to Megawatts program. Recent international events continue to demonstrate the absolute necessity for this critical non-proliferation program that will permanently eliminate 20,000 Russian warheads through 2013. The money we pay Russia helps that nation safeguard its decommissioned warheads, keeping them out of the hands of terrorists. As the U.S. executive agent, we are proud to play a key role with our Russian partner in converting this nuclear warhead material into electricity.

As we move forward, we see the success of our enterprise supported by three strategic pillars:

- Successful deployment of the American Centrifuge later this decade
- Cost control in all areas of the Company
- Exploring opportunities for profitable expansion and diversification

USEC's advanced technology program accelerated during the second half of 2002, and we are on schedule. Most recently, we filed an application with the U.S. Nuclear Regulatory Commission (NRC) for construction and operation of the American Centrifuge Demonstration Facility at our Portsmouth, Ohio plant. We are testing key components of the centrifuge machine and we will manufacture the first rotor tube later this year. We are excited about our investment in the world's most efficient uranium enrichment technology that will help USEC maintain its leadership position in the nuclear fuel industry. Please see page 4 of this report for more information about our advanced uranium enrichment technology.

For the past five years we have been sharply focused on implementing cost reductions throughout the organization while increasing efficiency and productivity. Having reduced our employee/contractor workforce from over 5,000 in 1998 to about 2,800 today while maintaining strict safety procedures, we clearly have been vigilant in this responsibility. We will continue to seek ways to become even more lean and efficient because we must remain competitive.

The final element of our strategy is to grow and diversify our business. USEC is unique as the only domestic producer of enriched uranium. We also have unique expertise within the broader energy industry and the government services field. There are a variety of ways that we can leverage this expertise, and we are evaluating opportunities carefully to see if they fit with our other strategic interests. As we have stated before, our goal is to increase revenue, grow net income and improve returns on equity over the next five years through this diversification strategy.

**WE REMAIN ENTHUSIASTIC ABOUT NUCLEAR POWER'S FUTURE**

The much-heralded nuclear renaissance is for real. We're enthusiastic about our industry, and for the developments that signal future vitality:

- Nuclear generated electricity has set new records every year since 1998, and preliminary data indicates yet another record in 2002. U.S. nuclear plants are operating at a significantly higher capacity factor over the past decade. That improvement means nuclear utilities are buying more enriched uranium.
- The improving economics of nuclear power have prompted utilities to seek 20-year license extensions for nuclear power units. The NRC has approved 10 license extensions and is currently reviewing applications for 20 other reactors. These plants will require many more refuelings and USEC will be their supplier well into the 2030's.
- More than 30 new reactors worldwide are at various stages of construction and more are on the drawing board. Many of these are located in Asia, where USEC has a strong presence. Three nuclear operators in the United States have taken preliminary steps to identify where they would



**James R. Mellor**  
*Chairman of the Board*



**William H. Timbers**  
*President and Chief Executive Officer*

build new nuclear units. The economics for building additional nuclear power plants are improving as the disparity in fuel costs grows. Compared with other fuel sources, production cost for nuclear power in the United States in 2001 was the lowest at 1.68 cents per kilowatt-hour while the cost of natural gas-fired generation was over 6 cents.

- The Congress and President Bush have approved the selection of Yucca Mountain in Nevada as the site for the long-term disposal of spent fuel.

Each of these factors is important by itself; taken together they signal strength in nuclear power's fundamentals. America's energy security demands a diverse mix of energy sources and nuclear energy provides the reliable, low-cost electricity that America needs for the growth of its digital economy. We believe that nuclear power is a member of the clean team of sustainable energy resources that will power our future.

**BUILDING VALUE FOR SHAREHOLDERS**

We believe there is a powerful economic argument for the value of nuclear power, which is why we are investing in the future of USEC through a carefully considered investment in the American Centrifuge. As you can see from our actions, the hardworking and dedicated employees of USEC remain sharply focused on delivering shareholder value. On behalf of those 2,800 employees, we thank you for your confidence and trust.

Sincerely,

James R. Mellor

William H. Timbers

March 4, 2003

# AMERICAN CENTRIFUGE STARTS STRONG

USEC made significant progress in the initial phase of its plans to deploy the American Centrifuge uranium enrichment technology by the end of the decade. Leveraging more than 20 years of research and \$3 billion in spending by the U.S. Department of Energy, USEC's advanced technology team has completed its first three project milestones ahead of schedule.

Centrifuge machines enrich by spinning gaseous uranium at very high speeds, separating the uranium isotopes. Thousands of these machines were built by DOE and operated for millions of machine-hours. In June 2002, the DOE-USEC Agreement provided the Company access to research that culminated in 1985 when DOE centrifuge machines demonstrated a production rate for enriching uranium several times that of any commercial centrifuge operating today.

The American Centrifuge employs this same proven technology, while improving efficiency and reducing costs through the use of state-of-the-art materials, control systems and manufacturing processes. For example, carbon fiber material used to fabricate the centrifuge rotor was quite exotic and expensive in the 1980s; today carbon fiber is used to make tennis rackets and golf clubs and material costs for the rotor have declined dramatically.

USEC expects to spend approximately \$150 million over a five-year period to demonstrate the effectiveness and superior performance of the American Centrifuge technology. We are confident that this demonstration will attract investors and partners for construction of a commercial uranium enrichment production plant later in the decade. USEC is using a portion of its profits to fund the American Centrifuge demonstration program, with the expectation that commercial deployment of USEC's American Centrifuge will ensure our continuing position as the world's leading supplier of low enriched uranium.

## MILESTONES SET, MILESTONES MET

During the fall of 2002, USEC signed a Cooperative Research and Development Agreement (CRADA) that expands cooperation with DOE and its national laboratory at Oak Ridge, Tennessee. USEC also signed a lease with DOE for use of the



K-1600 building at Oak Ridge, a facility with valuable centrifuge-related equipment and infrastructure. USEC is refurbishing the facility, including rebuilding support systems for the centrifuge machine test stands, installing component test systems and improving safety and security systems. The Company has begun testing a key component of the centrifuge machine, completing another of its milestones.

Following receipt of competitive bids from the states of Kentucky and Ohio, USEC announced in December 2002 that it would site the American Centrifuge Demonstration Facility at its Portsmouth, Ohio plant. Existing centrifuge facilities there previously housed centrifuge machines, providing USEC with a strong infrastructure already in place.

In February, two months ahead of schedule, USEC filed an application with the U.S. Nuclear Regulatory Commission (NRC) to license the American Centrifuge Demonstration Facility. The NRC will now perform an extensive safety and environmental review of the project. We expect to have the application docketed by the NRC by June 2003.

## OUR NEXT STEPS

During 2003, USEC will continue to test centrifuge components and work to complete its next milestone ahead of schedule, the manufacture of a centrifuge rotor tube before the end of November. Initial design work for a commercial plant will also begin this year.

The American Centrifuge Demonstration Facility is scheduled to begin operation in 2005. The facility will contain a lead cascade of up to 240 centrifuge machines. A lead cascade is the basic building block of a commercial enrichment plant. The Company expects the demonstration results will give investors confidence in the efficiency of the machines and USEC's ability to deliver the project on time and on budget. This cascade will provide cost, schedule and performance data before USEC begins construction of a \$1 billion to \$1.5 billion commercial production plant later in the decade. The Company intends to select the location of the commercial plant in 2004 – either in Portsmouth or at its production plant site in Paducah, Kentucky.

# 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, the American Stock Exchange and the Pacific Stock Exchange. As of December 31, 2002 the Company had approximately 26,000 beneficial holders of its common stock.

## ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. April 28, 2003 at USEC corporate headquarters, Two Democracy Center, 6903 Rockledge Drive, Bethesda, Maryland. The meeting will be held on the third floor and parking is available at the rear of the building.

## ANNUAL REPORT ON FORM 10-K

Upon written request, USEC will provide without charge a copy of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as filed with or furnished to the Securities and Exchange Commission. Requests should be sent to the attention of Investor Relations at the address listed below. Links to these filings are also available on the Company's Internet site at [www.usec.com](http://www.usec.com)

## 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 [www.usec.com](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](mailto:corpcomm@usec.com)

## INVESTOR RELATIONS

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

#### Shareholder Services

P.O. Box 43010  
Providence, RI 02940-3010  
Phone: (888) 485-2938  
Internet: [www.equiserve.com](http://www.equiserve.com)

## DIVIDENDS

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 March, June, September and December.

## DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

USEC is pleased to offer the USEC-Invest Plan that enables new and existing shareholders to build ownership in the Company over time. This direct stock purchase and dividend reinvestment plan is designed for individual investors who wish to minimize their transaction costs when buying USEC stock. If you do not currently own registered shares in USEC, you may use USEC-Invest to buy your first shares directly from the Company. The minimum initial investment is \$250. For more information and a prospectus, call (888) 485-2938 or go on-line to [www.usec.com](http://www.usec.com) and click on the Investor Relations section.

## INDEPENDENT ACCOUNTANTS

**PricewaterhouseCoopers LLP**  
McLean, VA

# Board of Directors

**James R. Mellor**



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

**William H. Timbers**



*President and Chief  
Executive Officer, USEC Inc.*

**Michael H. Armacost**



*Walter H. Shorenstein Distinguished  
Fellow and Visiting Professor,  
Stanford University*

**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.*

**W. Henson Moore**



*President and Chief Executive Officer,  
American Forest and Paper Association*

**Joseph F. Paquette, Jr.**



*Retired Chairman and Chief Executive  
Officer, PECO Energy Company*

**James D. Woods**



*Retired Chairman and Chief Executive  
Officer, Baker Hughes, Inc.*

**Dennis J. Blair**  
1957-2002

*The USEC family was saddened to lose a  
compassionate and dedicated officer in  
December 2002 with the death of Dennis  
J. Blair. Dennis continued to work for the  
Company throughout his extended battle  
with cancer and his courage was a source  
of inspiration for all. We will remember  
not only his professional contribution to  
USEC but also his warmth and charm,  
and his dedication to his family.*

## Executive Officers

**William H. Timbers**  
President and  
Chief Executive Officer

**Dennis R. Spurgeon**  
Executive Vice  
President and Chief  
Operating Officer

**Sydney M. Ferguson**  
Senior Vice President

**Timothy B. Hansen**  
Senior Vice President,  
General Counsel  
and Secretary

**Philip G. Sewell**  
Senior Vice President

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

**J. Morris Brown**  
Vice President,  
Operations

**Gary G. Ellsworth**  
Vice President,  
Government Relations

**Robert Van Naman**  
Vice President,  
Marketing and Sales

**Michael T. Woo**  
Vice President,  
Strategic Development

**Charles B. Yulish**  
Vice President,  
Corporate  
Communications

## STRATEGIC ADVISORY COUNCIL

**Dr. John Deutch, Chairman**  
Massachusetts Institute of  
Technology; former Director, U.S.  
Central Intelligence Agency; former  
Deputy Secretary, U.S. Department  
of Defense

**Dr. Graham Allison**  
JFK School of Government, Harvard  
University; former Assistant Secretary  
for Policy Planning, U.S. Department  
of Defense

**Dr. William Happer**  
Princeton University; former Director,  
Energy Research, U.S. Department  
of Energy

**Dr. Richard Lester**  
Director, Industrial Performance  
Center, Massachusetts Institute  
of Technology

**Dr. Ernest Moniz**  
Massachusetts Institute of  
Technology; former Under Secretary,  
U.S. Department of Energy

**Richard Perle**  
Resident Fellow, American Enterprise  
Institute; Chairman, Defense Policy  
Board, U.S. Department of Defense;  
former Assistant Secretary, U.S.  
Department of Defense

**Dr. James Schlesinger**  
Senior Advisor, Lehman Brothers;  
former Secretary, U.S. Department  
of Defense and U.S. Department of  
Energy; former Director, U.S. Central  
Intelligence Agency; former Chairman,  
U.S. Atomic Energy Commission

**Linda Stuntz**  
Principal, Stuntz, Davis & Staffier,  
P.C.; former Deputy Secretary,  
U.S. Department of Energy

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