USEC Inc.

1998 ANNUAL REPORT

the world leader in uranium enrichment . . .

USEC
A Global Energy Company

CORPORATE PROFILE

USEC Inc. (NYSE: USU) is the world leader in the production and sales of uranium fuel enrichment services for nuclear power plants. USEC provides its services to electric utilities in the 14 countries represented by the flags on the cover of this report. USEC's operations involve approximately 5,000 people. Headquartered in Bethesda, Maryland, the Company manages production plants in Kentucky and Ohio and is developing an advanced laser enrichment technology in California.

THREE DECADES OF EXPERIENCE

EARLY 1960s

Emergence of the commercial nuclear power industry. All phases of the nuclear fuel cycle except uranium enrichment became privately owned.

1960s

U.S. Government conducts uranium enrichment activities.

A PERIOD OF

1992

USEC was established by the Energy Policy Act of 1992. The first step toward privatization.

JULY 1, 1993
THE TRANSITION DATE

U.S. Government uranium enrichment activities transferred from U.S. Department of Energy to USEC.

HISTORIC PRIVATIZATION

On July 28, 1998, USEC Inc. was established through the sale of 100 million shares of stock in an Initial Public Offering and placement of $550 million of debt. That $1.9 billion transaction completed one of the largest privatizations of a federal government enterprise in American history. The U.S. uranium enrichment program had been operated by the Department of Energy and, most recently, by the United States Enrichment Corporation, a government-owned corporation. The privatization of USEC had bipartisan support in Congress and several presidential administrations.

...a new beginning

TRANSITION

APRIL 1996

USEC Privatization Act signed into law.

JULY 1997

President Clinton approves initiation of privatization.

USEC adopts a series of private-sector management practices that enable it to be more responsive to its customers and market forces.

A NEW PUBLIC COMPANY

JULY 28, 1998

Privatization complete.

USEC Inc. sells stock in Initial Public Offering.

a new challenge
to create shareholder value

Dear Shareholder:

USEC Inc. is a new company with a new culture that is building on four decades of operations and accomplishments. Created in 1993 to take over the U.S. government's uranium enrichment enterprise and run it like a private business, USEC was privatized in July 1998. We begin as the global leader in our industry, with a robust business generating substantial cash flow and creating shareholder value with significant dividends. While we have achieved many of our goals, we are aggressively pursuing greater efficiencies, increasing our position in the global marketplace and seeking growth opportunities.

"There is a strong sense of excitement in the Company now that business mandates can be fully addressed. At the top of our list is creating greater value for shareholders."

There is a strong sense of excitement in the Company now that all of our business mandates can be fully addressed. At the top of our list is creating greater value for shareholders.

Solid Foundation

USEC has an enviable base to build on. Our fundamentals are solid. We have a strong balance sheet, advantageous leases for our production plants and no past environmental liabilities. We are the world market leader, with about 75 percent of the domestic and 40 percent of the global uranium enrichment market. Further, our future revenue stream is visible, with a backlog of $7 billion over the next 10 years. About 80 percent of our expected revenue over the next three years is under contract today.

USEC has expanded its role in the nuclear fuel industry by becoming a supplier of natural uranium. We are also marketing natural uranium in combination with our enrichment services. This combination allows us to increase and diversify our sources of revenue within the lines of business we know best, while leveraging existing customer relationships and distribution channels.

James R. Mellor
Chairman of the Board

William H. Timbers, Jr.
President and
Chief Executive Officer

New Initiatives

Today, throughout the Company there is a heightened sense of excitement, commitment and opportunity. We understand that our performance is judged by the marketplace on a daily basis, and we are determined to meet that challenge and responsibility. USEC's management, under the guidance of a new private-sector Board of Directors, is pursuing a range of new initiatives.

Safety continues to be paramount at USEC. We achieved certification of the uranium enrichment facilities at Paducah, Kentucky, and Portsmouth, Ohio, by the U.S. Nuclear Regulatory Commission. We believe that safety and business success are intertwined—safe workers and safe facilities are necessary to achieve efficiency and quality performance. We will continue to upgrade our facilities and invest in our safety culture.

One of our foremost goals is aggressively managing our cost structure. With this goal in mind, management has determined that direct operation of our production plants, rather than through a third-party contractor, will allow us to better align employee performance with our objectives. Shortly after privatization we launched new efficiency initiatives, such as offering a voluntary severance package to workers at our production plants, restructuring the project management group that implements multi-million dollar capital and major maintenance projects, and creating a work control process that is more efficiently planning and scheduling daily maintenance at the plants.

In order to help assure that USEC maintains and expands its position as the global leader in uranium enrichment, we are developing a new laser-based enrichment technology called AVLIS. Expected to begin operation in 2005, AVLIS will use 90 percent less electricity and 20 to 30 percent less uranium than our current gaseous diffusion technology to produce the same amount of enrichment for our customers. AVLIS' technical and enrichment feasibility has been demonstrated in pilot-plant tests. We are now conducting performance and economics tests, and we have begun the process of siting and licensing an AVLIS enrichment facility.

Another key element of our strategy for the future is diversification. We intend to increase shareholder value by pursuing growth opportunities that build on our core competencies, technologies and customer relationships. We will pursue partnerships and joint ventures as a means of further value creation.

"Today, nuclear power plays an essential role as a worldwide workhorse, with more than 400 nuclear reactors supplying about 17 percent of all the electric power generated around the world."

Paducah, Kentucky

The Company's Paducah and Portsmouth gaseous diffusion plants are among the largest industrial facilities in the United States. USEC will take direct control of these plants from a third-party contractor during 1999.

Portsmouth, Ohio

National Security

While succeeding as a competitive business, USEC also plays an important role in national security. Since 1994, we have served as Executive Agent for the United States government, implementing a nuclear non-proliferation agreement between the United States and Russia. Through this historic agreement and USEC's implementing contract, Russia is dismantling nuclear weapons and converting the highly enriched uranium warheads into fuel for commercial power plants. USEC has purchased the enrichment component of this material, equivalent to about 2,200 warheads. This fuel is being used by our customers in their nuclear power plants.

As the world leader in uranium enrichment, we believe it is in USEC's best commercial interest to purchase the Russian material to integrate it into the market in a manner that minimizes market disruption and ensures the reliability and continuity of economic supply to our customers. We are proud of our role in this historic "Megatons to Megawatts" program.

The Long Term

USEC is a unique company. Because of the nature of our business, which is based on the timing and the large size of our customer orders, our performance should be

As the first USEC shares are traded on the New York Stock Exchange, Richard A. Grasso, NYSE Chairman and Chief Executive Officer, congratulates William H. Timbers, Jr. and James R. Mellor.

judged over the longer term, rather than on a quarter-to-quarter basis. Such factors as customer refueling schedules that can vary by up to two years and the seasonal nature of electricity demand can cause sizable fluctuations in the need for additional enriched uranium. As a result, we believe that our performance should be evaluated over the course of 18 to 24 months.

Over the long term, our core business is directly linked to the future of nuclear power. USEC believes that nuclear power will continue to play a vital role in the global energy supply. Today, nuclear power plays an essential role as a worldwide workhorse, with more than 400 nuclear reactors supplying about 17 percent of all the electric power generated around the world. The global demand for electricity is steadily increasing to support the advancement of developing countries and to raise living standards worldwide.

Nuclear power, which does not emit any pollutants into the air, must continue to play a major role in meeting those needs. As the concern over global climate change and the impact of fossil fuels grows, mitigation scenarios will likely include a greater focus on nuclear power. The immediate prospects for nuclear expansion are in Asia, where pollution and the increasing need for electric power make nuclear power attractive. We believe the environmental advantages of nuclear power will not be overlooked as energy demand increases in the 21st century.

We view USEC's future as one filled with opportunities. As a global energy company, we are building on our core business of uranium enrichment by seeking out new value-added business collaborations and joint ventures, both international and domestic. We see the global energy business as evolving and redefining itself. This will provide us with opportunities to transcend the traditional role of a customer's vendor to that of partner in new business relationships.

We are eager and confident about seizing these opportunities. USEC is focused on extending our core business, increasing customers and revenues, and lowering costs. All this adds up to building shareholder value for you and the more than 40,000 other USEC Inc. shareholders. We look forward to demonstrating our successes in the coming years.

Sincerely,

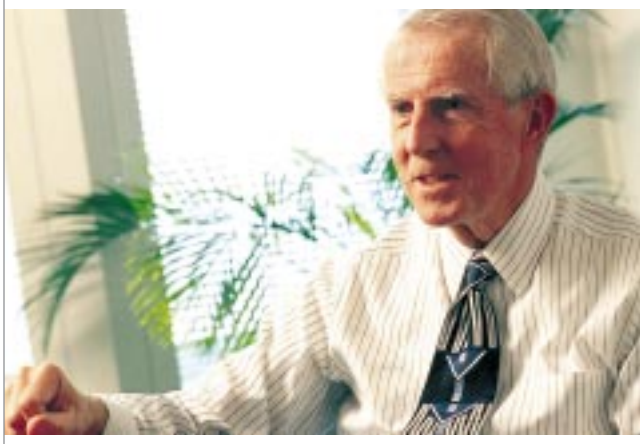
James R. Mellor
Chairman of the Board

William H. Timbers, Jr.
President and Chief
Executive Officer

November 30, 1998

providing new leadership

experienced directors join USEC board



James R. Mellor served as Chairman and Chief Executive Officer of General Dynamics Corporation from 1994 to 1997 and served as President and Chief Executive Officer from 1993 to 1994. He was previously General Dynamics' President and Chief Operating Officer. He also serves on the Board of Directors of Bergen Brunswig Corporation, Computer Sciences Corporation, General Dynamics Corporation, Pinkertons Inc. and United States Surgical Corporation.

Joyce F. Brown is the President of the Fashion Institute of Technology of the State University of New York. From 1994 to 1997, Ms. Brown was a professor of graduate studies at the City University of New York, where she previously held several Vice Chancellor positions. From 1993 to 1994, she served as the Deputy Mayor for Public and Community Affairs in the Office of the Mayor of the City of New York. Ms. Brown also serves on the Board of Directors of Transderm Laboratories Corporation and Unity Mutual Life Insurance Company.

Frank V. Cahouet has been Chairman and Chief Executive Officer of Mellon Bank Corporation since 1987 and President since 1990. Mr. Cahouet is also a director of Avery Dennison Corporation, Saint-Gobain Corporation and Allegheny Teledyne Incorporated.

John R. Hall served as Chairman of the Board of Directors of Ashland, Inc. from 1981 to 1997 and served as Chief Executive Officer from 1981 to 1996. He has been Chairman of the Board of Directors of Arch Coal, Inc. since 1997. Mr. Hall is also a director of Banc One Corporation, The Canada Life Assurance Company, CSX Corporation, Humana Inc., LaRoche Industries, Inc., Reynolds Metals Company and UCAR International Inc.

Dan T. Moore, III has been the founder, owner and President since 1969 of Dan T. Moore Company, Inc., a developer of a number of advanced materials companies and technologies. Mr. Moore has also been Chairman of the Board of Directors of the Advanced Ceramics Corporation since 1993. He also serves on the Board of Directors of the Hawk Corporation, Invacare Corporation and the Cleveland Clinic Foundation.

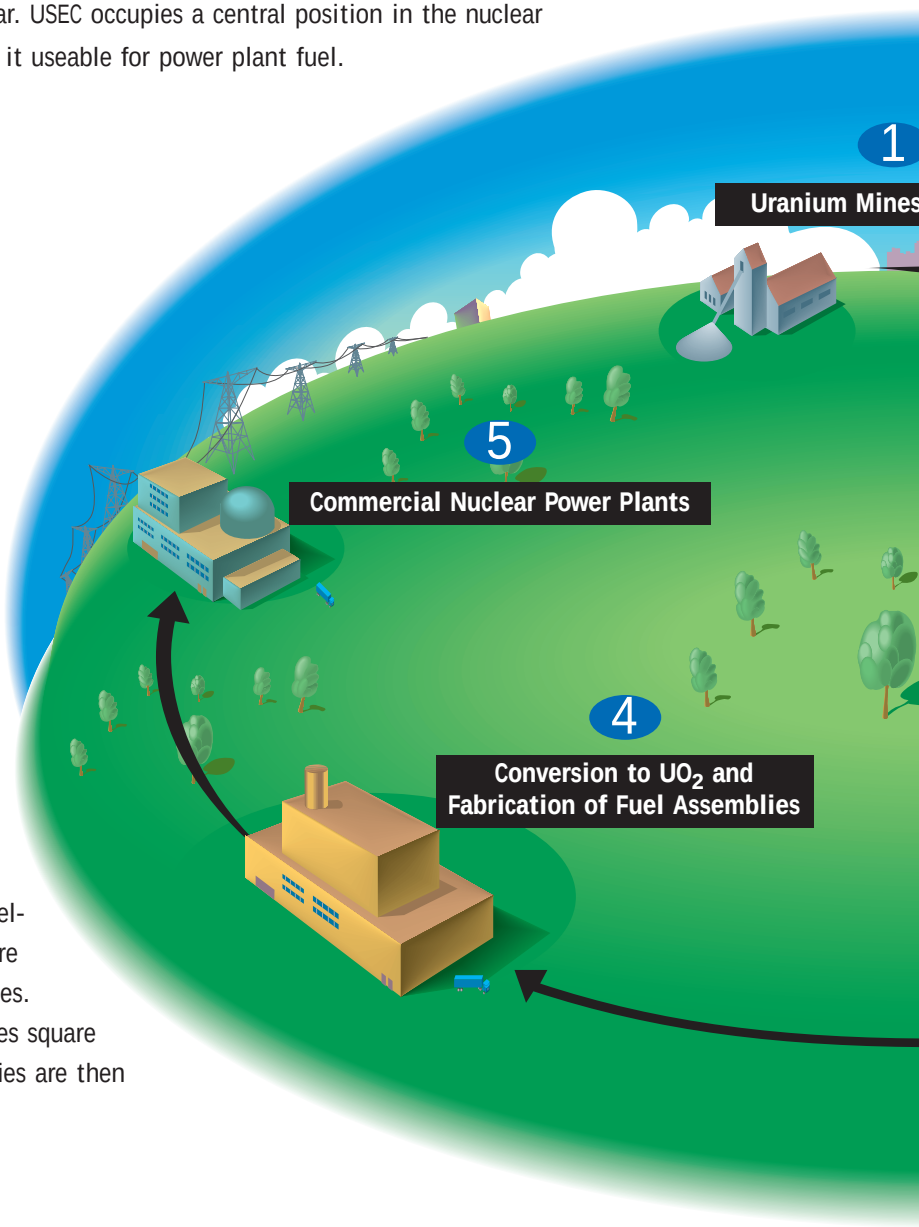
William H. Timbers, Jr. has been President and Chief Executive Officer of USEC since 1994. He was appointed USEC Transition Manager in March 1993 by President Clinton. Prior to this appointment, Mr. Timbers was President of The Timbers Corporation, an investment banking firm based in Stamford, Connecticut, from 1991 to 1993. Before that, he was a Managing Director of the investment banking firm of Smith Barney, Harris Upham & Co., Inc. in New York and San Francisco.

William H. White has been President and Chief Executive Officer of WEDGE Group Incorporated since 1997. Mr. White founded and has been the Chairman of the Board of Directors of Frontera Resources Corporation and its predecessor, a privately held international energy company, since 1995, and served as President and Chief Executive Officer from 1995 to 1996. From 1993 to 1995, he served as Deputy Secretary and Chief Operating Officer of the United States Department of Energy. Mr. White also serves on the Board of Directors of Edge Petroleum Corporation.

USEC's key role in the nuclear

our core business is selling enriched uranium

The uranium fuel that powers more than 400 nuclear power plants around the world is the end product of the nuclear fuel cycle. Uranium mined from the earth must go through several stages before it can generate electricity, much as oil is processed as it moves from the well through a refinery and to a service station before it can power a car. USEC occupies a central position in the nuclear fuel cycle—enriching uranium to make it useable for power plant fuel.



5 Nuclear Power

The nuclear fuel assemblies are loaded into reactors at commercial nuclear power stations. More than a hundred fuel assemblies are grouped to form the nuclear fuel core. A power reactor may operate for two years between refuelings.

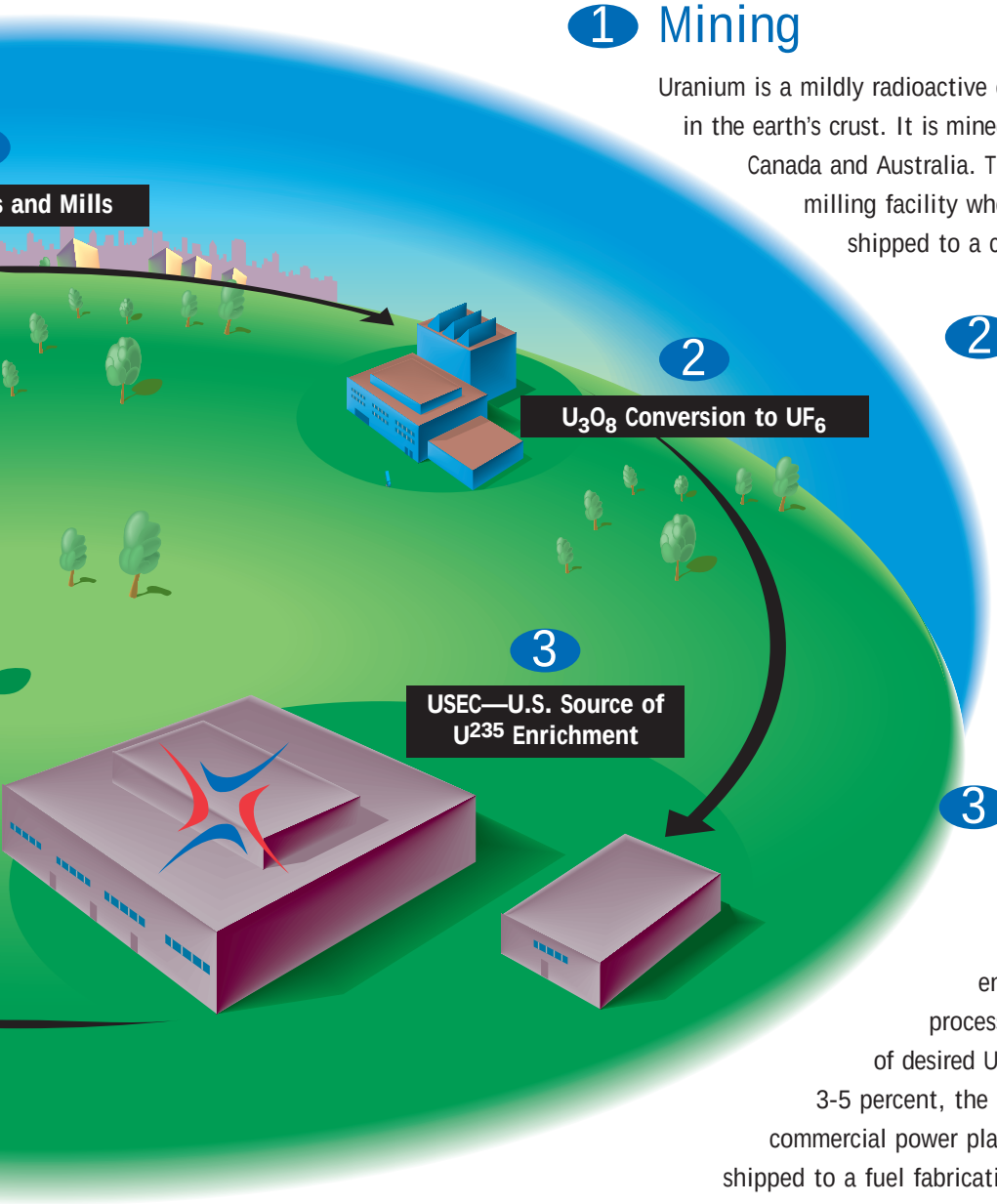
4 Fuel Fabrication

At the fuel fabrication plant, the UF_6 is converted to uranium oxide powder and formed into tough ceramic pellets about the size of a pencil eraser. The pellets are loaded into metal tubes that are bundled together to form fuel assemblies. A typical fuel assembly may be 10 inches square and over 10 feet tall. The fuel assemblies are then shipped to nuclear power plants.

fuel cycle

to global electric utility customers

The Nuclear Fuel Cycle



1 Mining

Uranium is a mildly radioactive element that is relatively abundant in the earth's crust. It is mined on five continents, principally in Canada and Australia. The mined uranium ore goes to a milling facility where it is crushed, concentrated and shipped to a conversion facility.

2 Conversion

At the conversion facility, the uranium is combined with fluorine gas to produce uranium hexaflouride (UF_6), a powder at room temperature and a gas when heated. The UF_6 is shipped in rugged 2.5 ton metal containers to USEC's enrichment facilities.

3 Enrichment

At USEC's gaseous diffusion plants, the UF_6 is heated and the gas introduced into the enrichment process stream. The process steadily enriches the amount of desired U^{235} atoms from 0.7 percent to 3-5 percent, the level required for fuel used in commercial power plants. The enriched UF_6 is then shipped to a fuel fabrication facility.

safety, efficiency and performance
key factors in plant operations

Two industrial giants

USEC's two Gaseous Diffusion Plants (GDPs) are among the largest industrial facilities in the world. The facilities are located in Paducah, Kentucky, and Portsmouth, Ohio. The process buildings at the two GDPs have a total floor area of 330 acres. The Paducah facility enriches uranium to 2.75 percent U^{235} before it is shipped to Portsmouth for further enrichment.

Paducah performance honored

The Paducah GDP's excellent performance was honored at both the national and state levels during fiscal 1998. In October 1997, *Industry Week* magazine named the Paducah facility one of the 10 best plants in America. In making the designation, the magazine cited the plant's reduction in costs accomplished over a five-year period, the use of empowered work teams and the effectiveness of the problem-reporting system. Safety, customer satisfaction, technical innovation, continuous improvement, investment in the development of personnel, supplier partnerships, positive environmental record and community relations were other criteria used by *Industry Week* to select their 10 best. Paducah also received a 1997 Commonwealth of Kentucky Quality Award, one of five presented in the state. In a letter accompanying the award, Gov. Paul Patton said, "You are a role model for Kentucky's business future and you are proving that you can improve both your competitiveness and your bottom line."

Safety first

The Portsmouth and Paducah plants achieved excellent safety records during the year. The combined work force of the two plants recorded an injury and illness rate that was 14 percent better than the national average in their category, as compiled by the U.S. Bureau of Labor Statistics. An example of the emphasis on safety is Portsmouth's significant reduction in the amount of chlorine required in its processes, thus lessening the potential for personnel exposure to a hazardous chemical.

National security

USEC is the executive agent for the U.S. government's agreement with Russia to convert Soviet-era nuclear warheads into commercial uranium fuel. By blending only slightly enriched uranium with the highly enriched warhead material, the Russian Federation produces low-enriched uranium that USEC sells to customers to fuel their nuclear power plants. Although the Russian material costs USEC more than producing it ourselves, the Company believes it can best integrate the additional supply of enriched uranium into the marketplace. Since the Megatons to Megawatts program began in 1994, the equivalent of more than 2,200 nuclear warheads have been converted to fuel for USEC customers.

A model workplace

In 1998, Paducah was one of five industrial installations from the United States and Japan selected to participate in an international study of the correlation between industrial safety and productivity. More than 1,000 companies worldwide applied. To be eligible, companies had to demonstrate an increase in productivity in concurrence with the implementation of effective workplace safety programs. Paducah earned top honors from both the National Safety Council and the Japanese Industrial Safety and Health Association for substantially reducing the rate of injuries and illness while decreasing production costs.

The GDPs are regulated by the U.S. Nuclear Regulatory Commission (NRC), which took over this function from the U.S. Department of Energy. In November 1996, the NRC certified that the plants were generally in compliance with NRC regulatory standards, and the Commission began formal regulatory oversight in March 1997. In a few areas, USEC and the NRC found that improvements were needed, and the Company and the NRC agreed on plans containing binding commitments for actions and schedules to achieve full compliance. More than 90 percent of the compliance plan actions were completed by the time of privatization in July 1998.

new opportunities worldwide

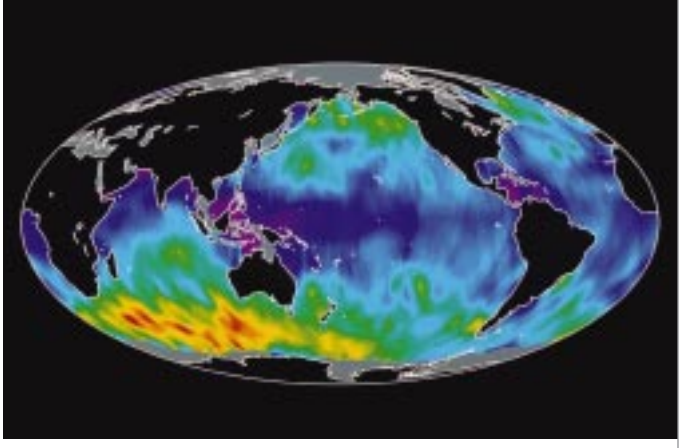
thirst for clean energy grows around the globe

Enriching modern life

Electricity powers the modern world. It sustains economic productivity, energizes technological innovation and raises the standard of living for people around the world. Many utilities have invested in nuclear power to help meet the growing demand for electricity. Nuclear power is an important, established energy source, generating more than 17 percent of the world's electricity.

USEC makes generation of much of that electricity possible. The Company provides enrichment services for approximately 60 electric utilities operating 170 nuclear reactors in 14 countries. USEC supplies approximately 75 percent of the U.S. enrichment market and 40 percent of the world market. It has a majority share of the enrichment market in Asia, where the nuclear power industry is growing faster than anywhere else in the world.

USEC's new beginning as a private-sector company is well timed. Our market strength gives the Company an excellent starting position, and recent trends point to a growing need for nuclear power and new growth opportunities for companies serving that industry. USEC's privatization gives the Company the flexibility it will need to seize the opportunities created by concern about global warming and by booming electricity demand in Asia and the developing world.



Meeting the need for clean energy around the globe

Scientists believe that global warming is a significant concern. Electric utility generating stations that burn coal, oil or gas produce carbon dioxide and nitrogen oxide—two gases identified as contributors to global warming. The United States and many other countries have agreed to strict limits on emissions of these gases.

How can we balance the competing needs of the global economy and the environment? One answer is nuclear power. Nuclear energy generates electricity without releasing global warming gases into the atmosphere.

In fact, the operation of more than 400 nuclear plants worldwide avoids the emission of up to 2.3 billion tons of carbon dioxide into the atmosphere every year.

As the international leader in the production and sale of uranium enrichment services, USEC helps make it possible for nuclear power to meet the electricity needs of people around the world without adding to global warming.

OUR GOAL IS TO CONTINUE TO BE THE WORLD'S LEADING SUPPLIER OF URANIUM FUEL ENRICHMENT SERVICES AND TO DIVERSIFY OVER TIME INTO RELATED STRATEGIC BUSINESSES WITH A FOCUS ON GROWTH.

Looking to the future in Asia

USEC has the largest share of the uranium enrichment market in Asia, where strong electricity demand has spurred the world's most dynamic growth for nuclear power. Japan and South Korea already generate 35 percent of their electricity with nuclear power, and both are building more reactors. Now that the U.S. government has opened the Chinese nuclear energy market to American companies, USEC will aggressively pursue sales in China in addition to other countries along the Pacific Rim.

China's electric power consumption is growing at a rapid rate. With electricity demand expected to quadruple between 1995 and 2020, generation will have to rise by almost 3 trillion kilowatt hours. To help meet growing generation needs, China is already building several nuclear power plants, and several more are on the drawing board.

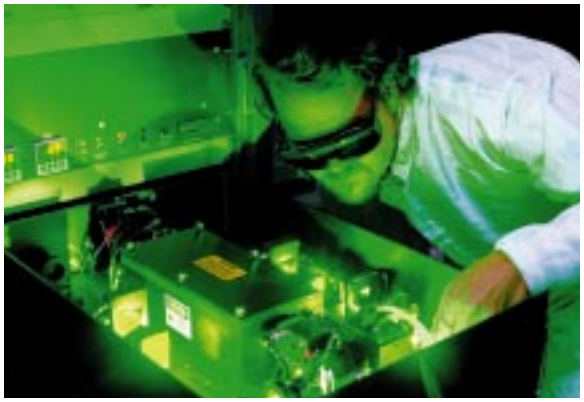
new enrichment technology

USEC leads in innovative laser enrichment

Lowering enrichment costs

AVLIS, the next generation of uranium enrichment technology, is being developed and tested by USEC. The Company expects that a state-of-the-art AVLIS production facility would use only 5 to 10 percent of the electricity currently used by the GDPs to produce each Separative Work Unit (SWU) and 20 to 30 percent less natural uranium. This technology will help USEC remain a low-cost supplier of uranium enrichment services and enhance its competitive position.

The AVLIS intellectual property, developed by the U.S. government over 20 years, was transferred to USEC as part of privatization. A USEC-managed team of leading industrial companies has shifted the focus from research and development to commercial deployment. USEC recently began the process of selecting the AVLIS site and is working toward submitting an application for a construction and operating license to the NRC.



Strong systems performance

A full-scale prototype demonstration facility simulating a one-line enrichment plant was activated by USEC at the Lawrence Livermore National Laboratory in California to conduct a plant-like demonstration of the technology. The laser and separator systems individually achieved steadily improving performance levels and demonstrations of plant-like enrichment capability are scheduled for 1999.

The next steps

During the current phase, USEC plans to demonstrate the production performance of the integrated processes. Final design and a detailed cost estimate for the facility are expected to be completed in 2002. Nuclear Regulatory Commission licensing and other regulatory approvals will also be obtained during this phase. The next phase will include equipment procurement, construction of the AVLIS facility, startup, testing and staff training. Operation is expected to begin in 2005.

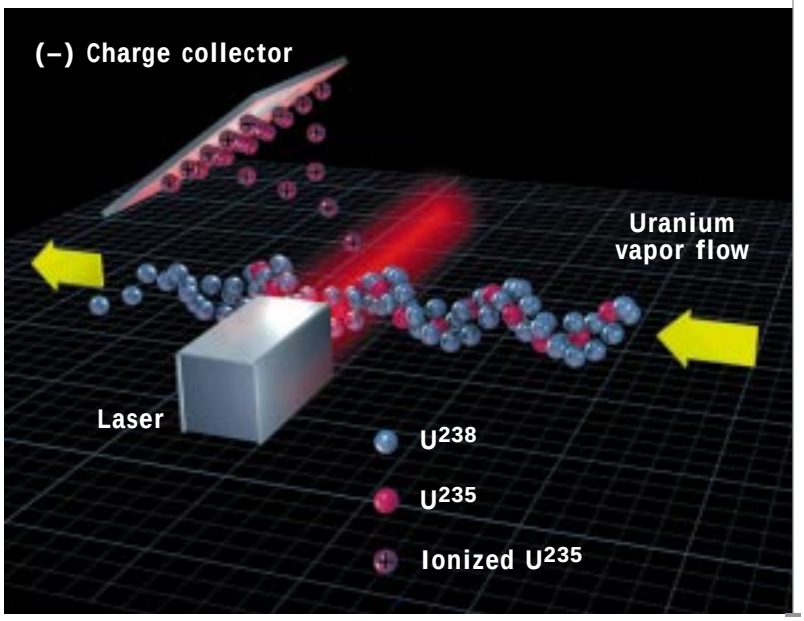
Team AVLIS

The entire AVLIS project is managed by USEC and includes a work force of about 600 people. Contractors involved with Team AVLIS include: University of California, which operates Lawrence Livermore National Laboratory, Cameco Corp., General Electric, Bechtel, Duke Engineering, BWX Technologies and Allied Signal.

technology

How it works

AVLIS uses sophisticated lasers and extractors to enrich vaporized uranium. An electron beam vaporizes a uranium metal alloy by heating it to more than 5,000 degrees Farenheit. The process lasers emit precise frequencies of light that differentiate between the U^{238} and U^{235} isotopes, to selectively ionize the U^{235} atoms in the vapor, which are withdrawn from the vapor by a charged extractor plate, solidified and collected. The enriched uranium will then be processed and fabricated into fuel for commercial nuclear power plants.



glossary

industry terminology

Assay
The concentration of U^{235}, 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 U^{235} is required for most commercial nuclear power plants.

AVLIS
An advanced technology, the Atomic Vapor Laser Isotope Separation process, which uses lasers to separate U^{235} from U^{238}.

Enrichment
The step in the nuclear fuel cycle that increases the concentration of U^{235} relative to U^{238} in order to make uranium usable as a fuel for nuclear power reactors.

Gaseous Diffusion
A uranium enrichment process using uranium hexafluoride, which is heated to a gas and passed repeatedly through porous barriers to separate U^{235} and U^{238} isotopes. USEC Inc. uses the gaseous diffusion process.

HEU
Highly enriched uranium. Uranium enriched to an assay of 20 percent or more. For military applications, 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 as fuel for nuclear reactors.

Natural Uranium
Uranium, as found in nature, has a concentration level of 0.7 percent U^{235}.

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 U^{235} content into two components, one having a higher percentage of U^{235} and the other a lower concentration.

Tails
Uranium hexafluoride that contains a lower concentration of the U^{235} isotope as a result of the enrichment process. Also known as depleted uranium.

U^{235}
The fissionable isotope found in natural uranium.

U^{238}
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 U^{238}. Almost all of the remaining seven atoms are U^{235}, which can be made to split, or fission, and generate heat energy.

UF_6
Uranium hexafluoride. A chemical compound containing uranium and fluorine that is solid when stored, and that is gasified for use in the gaseous diffusion enrichment process.

Selected Financial Data

The following selected financial data for the Company should be read in conjunction with the 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, 1998, have been derived from the Financial Statements of the Company which have been audited by Arthur Andersen LLP, independent public accountants.

	Years Ended June 30,					
	1994	1995	1996	1997	1998	1998
(millions, except per share data)						*Pro Forma*[1]
Statement of Income Data						
Revenue:						
Domestic	$ 831.8	$1,001.9	$ 901.6	$ 950.8	$ 896.2	$ 896.2
Asia	489.0	485.5	441.3	487.5	442.8	442.8
Europe and other	82.5	123.3	69.9	139.5	82.2	82.2
	1,403.3	1,610.7	1,412.8	1,577.8	1,421.2	1,421.2
Cost of sales	983.3	1,088.1	973.0	1,162.3	1,062.1	1,062.1
Gross profit	420.0	522.6	439.8	415.5	359.1	359.1
Special charges for workforce reductions and privatization costs	—	—	—	—	46.6[2]	46.6[2]
Project development costs	44.9	49.0	103.6	141.5	136.7	136.7
Selling, general and administrative	21.4	27.6	36.0	31.8	34.7	34.7
Operating income	353.7	446.0	300.2	242.2	141.1	141.1
Interest expense	—	—	—	—	—	36.0[3]
Other (income) expense, net	3.3	(1.5)	(3.9)	(7.9)	(5.2)	(5.2)
Income before income taxes	350.4	447.5	304.1	250.1	146.3	110.3
Provision for income taxes	—	—	—	—	—	41.9[4]
Net income	$ 350.4	$ 447.5	$ 304.1	$ 250.1	$ 146.3	$ 68.4
Net income per share — basic and diluted						$ .68
Average number of shares outstanding						100.0

(1) Gives effect to the Offering, interest expense on borrowings of $550.0 million incurred at the time of the Offering, and the Company's transition to taxable status, as if the Offering transactions had occurred at the beginning of fiscal 1998. See Note 4 of the Notes to Financial Statements for additional information regarding the pro forma financial information.

(2) Special charges amounted to $46.6 million ($28.9 million net of income taxes on a pro forma basis) for fiscal 1998 for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

(3) Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.55% on $550.0 million of borrowings incurred at the time of the Offering, as if such borrowings had occurred at the beginning of fiscal 1998.

(4) The Company was exempt from federal, state and local income taxes until the Offering. The pro forma provision for income taxes of $41.9 million is based on an effective income tax rate of 38% and assumes the Offering had occurred at the beginning of fiscal 1998.

	As of June 30,					
	1994	1995	1996	1997	1998	1998
(millions)						*Pro Forma*
Balance Sheet Data						
Cash	$ 735.0	$1,227.0	$1,125.0	$1,261.0	$1,177.8	$ 50.0[1]
Inventories:						
Current assets:						
SWU	$ 500.6	$ 517.7	$ 586.8	$ 573.8	$ 687.0	$ 687.0
Uranium[2]	158.6	165.5	150.3	131.5	184.5	184.5
Materials and supplies	17.0	19.8	15.7	12.4	24.8	24.8
Long-term assets — uranium	103.6	115.5	199.7	103.6	561.0	561.0
Inventories, net	$ 779.8	$ 818.5	$ 952.5	$ 821.3	$1,457.3	$1,457.3
Total assets	$2,798.9	$3,216.8	$3,356.0	$3,456.6	$3,471.3	$2,392.9
Long-term obligations[3]	191.4	383.2	427.4	451.8	503.3	430.7
Stockholders' equity	1,545.0	1,937.5	2,121.6	2,091.3	2,420.5	1,164.7[4]

(1) Gives effect to $550.0 million in borrowings at the time of the Offering, a pro forma exit dividend, and the Company's retention of $50.0 million in cash, as if such transactions had occurred at June 30, 1998. See Note 4 of the Notes to Financial Statements for additional information regarding the pro forma financial information.

(2) Excludes uranium provided by and owed to customers.

(3) Long-term obligations include accrued liabilities for depleted UF_6 disposition costs in the amounts of $93.0 million, $212.4 million, $303.0 million, $336.4 million and $372.6 million at June 30, 1994, 1995, 1996, 1997 and 1998, respectively.

Pro forma long-term obligations of $430.7 million at June 30, 1998, give effect to $300.0 million representing the long-term portion of borrowings of $550.0 million at the time of the Offering and a reduction of $372.6 million for the transfer to DOE of depleted UF_6 generated by the Company.

(4) Pro forma stockholders' equity of $1,164.7 million reflects a pro forma exit dividend of $1,677.8 million, a charge of $5.3 million for expenses of the Offering, and increases to stockholders' equity for the transfer of the liability of $372.6 million for depleted UF_6 disposition costs and deferred income tax benefits of $54.7 million resulting from the Company's transition to taxable status, as if such transactions had occurred June 30, 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and related notes thereto.

USEC, a global energy company, is the world leader in the production and sale of uranium fuel enrichment services for commercial nuclear power plants, with approximately 75% of the North America market and 40% of the world market. Uranium enrichment is a critical step in transforming natural uranium into fuel for nuclear reactors to produce electricity. Based on customers' estimates of their requirements, at July 31, 1998, the Company had long-term requirements contracts with utilities to provide uranium enrichment services aggregating $7.2 billion through fiscal 2009.

The Company is the Executive Agent of the U.S. Government under a government-to-government agreement with the Russian Federation to purchase SWU recovered from dismantled nuclear weapons from the former Soviet Union for use in commercial electricity production. In 1994, the Company entered into a 20 year agreement (the "Russian HEU Contract") with the Russian Executive Agent to implement the government-to-government agreement. The Company's cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian HEU Contract at prices that are substantially higher than its marginal production cost at the GDPs. As the volume of Russian SWU purchases has increased, the Company has operated the GDPs at lower production levels resulting in higher unit production costs. Pursuant to the Russian HEU Contract, Russian SWU purchases will peak in calendar year 1999 at 5.5 million SWU per year and are expected to remain at that level thereafter.

The Company's 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. The stated term of contracts transferred by DOE to the Company on July 1, 1993 (the "Transition Date") is 30 years, although future purchase obligations thereunder may be terminated by, among other things, giving 10 years' notice, although the Company has allowed shorter notice periods. The terms of new contracts entered into by the Company range from 3 to 11 years and do not typically provide for advance termination rights. Revenue from sales of SWU under new contracts represented 68% of total revenue in fiscal 1998. The Company believes that the trend for contracts with shorter terms will continue, with the newer contracts generally containing terms in the range of 3 to 7 years.

The Company's 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 18 months (or in some cases up to 24 months), and 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. In addition, USEC provides customers a window ranging from 10 to 30 days to take delivery of ordered product. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results. Refueling orders typically average $14.0 million per customer order for the Company's uranium enrichment services. The Company plans its cash outlays for power and other production costs, a significant portion of which is fixed in the short term, on the basis of meeting customer orders and achieving revenue targets for the year. As a result, a relatively small change in the timing of customer orders may cause earnings and cash flow results to be substantially above or below expectations. Notwithstanding this variability, the Company has significant backlog based on customers' estimates of their requirements for uranium enrichment services.

The financial statements, discussed below, are not necessarily indicative of the results of operations and financial position in the future or what the results of operations and financial position would have been had the Company been a private sector stand-alone entity during the periods presented.

Revenue. Substantially all of the Company's revenue is derived from the sale of uranium enrichment services, denominated in SWU. Although customers may buy enriched uranium product without having to supply uranium, virtually all of the Company's contracts are for enriching uranium provided by customers. Because orders for enrichment to refuel customer reactors (i) occur once in 12, 18 or 24 months, and (ii) are large in amount averaging $14.0 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. The Company 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.

Revenue could be negatively impacted by NRC actions suspending operations at domestic reactors under contract with the Company. In addition, business decisions by utilities that take into account economic factors, such as the price and availability of alternate fossil fuels, the need for generating capacity and the cost of maintenance could result in suspended operations or early shutdowns of some reactors under contract with the Company.

The Company's enrichment contracts are denominated in U.S. dollars, and while the Company's revenue is not directly affected by changes in the foreign exchange rate of the U.S. dollar, the Company may have a competitive price disadvantage or advantage depending upon the strength or weakness of the U.S. dollar. This is because the Company's primary competitors' costs are in the major European currencies.

The Company's financial performance over time can also be significantly affected by changes in the market price for SWU. SWU prices have been declining reflecting the trend toward lower prices and shorter contracts in the highly competitive uranium enrichment market and the impact of changes in foreign currency exchange rates. The Company believes that its willingness to provide flexible contract terms has been instrumental in its ability to successfully compete for and capture open demand. The Company also believes that the advent of shorter contract terms is an industry-wide phenomenon; utilities have been experiencing rapid changes in their industry and have been less willing to enter into extended obligations. This trend toward shorter contract terms requires that the Company, as well as its competitors, pursue new sales with greater frequency. The general effect of this is to increase the level of competition among uranium enrichment suppliers for new SWU commitments.

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 GDPs and SWU purchase costs (the latter mainly under the Russian HEU Contract). Production costs at the GDPs for fiscal 1998 include purchased electric power (53% of production costs, of which 29% represents non-firm power and 71% represents firm power), labor and benefits (30% of production costs), depleted UF_6 disposition costs (7% of production costs), materials, maintenance and repairs, and other costs (10% of production costs). Since the Company uses the monthly moving average inventory cost method, an increase or decrease in production or purchase costs would have an effect on cost of sales over several periods. The Company's purchases of SWU under the Russian HEU Contract are recorded at acquisition cost plus related shipping costs.

Under its electric power supply arrangements, the Company purchases a significant portion of its electric power at or below market rates based on long-term contracts with dedicated power generating facilities. In fiscal 1998, the Company's average price of electricity was $19.66 per MWh. Power costs vary seasonally with rates being higher during winter and summer and as a function of the extremity of the weather and as a function of demand during peak and off-peak times.

Under the LMUS contract, LMUS provides labor, services, and materials and supplies to operate and maintain the GDPs, for which the Company pays LMUS for its actual costs and contract fees. The LMUS contract expires on October 1, 2000, and may be terminated by the Company without penalty upon six months' notice.

The Company accrues estimated costs for the future disposition of depleted UF_6 generated as a result of its operations. Costs are dependent upon the volume of depleted UF_6 generated and estimated conversion and disposal costs. The Company stores depleted UF_6 at the GDPs and continues to evaluate various proposals for its disposition. Pursuant to the Privatization Act and an agreement with DOE dated May 18, 1998, depleted UF_6 generated by the Company through July 28, 1998, the date the Company's initial public offering was consummated (the "Offering") was transferred to DOE. In June 1998, the Company paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of

depleted UF_6 generated by the Company from its operations at the GDPs from October 1998 to 2005.

The Company leases the GDPs and process-related machinery and equipment at attractive, below-market terms from DOE. Upon termination of the Lease Agreement, USEC is responsible for certain lease turnover activities at the GDPs. Lease turnover costs are accrued over the estimated term of the Lease Agreement which is estimated to extend until 2005. Pursuant to the Energy Policy Act and the USEC Privatization Act, with certain exceptions, the U.S. Government is responsible for all environmental liabilities associated with the operation of the GDPs prior to the time of the Offering and decontamination and decommissioning of the GDPs at the end of their operating lives.

The Company expects to incur additional production costs of $14.8 million per year subsequent to the Offering for taxes other than income taxes and commercial property insurance premiums.

As Executive Agent under the Russian HEU Contract, the Company has committed to purchase 4.4 million SWU in calendar 1998, of which 3.6 million SWU in the amount of $308.8 million is scheduled to be purchased in the six months ended December 31, 1998. In each of calendar years 1999 to 2001, the Company has committed to purchase 5.5 million SWU at the annual amount of $475.8 million, subject to certain purchase price adjustments for U.S. inflation. The Russian HEU Contract has a 20-year term; the Company expects its purchases after 2001 to remain at the 5.5 million SWU per year level.

Project Development Costs. The Company is managing the development and engineering necessary to commercialize AVLIS, including activities relating to: (i) NRC licensing, (ii) uranium feed and product technology, (iii) AVLIS demonstration facilities, and (iv) development and design of plant production facilities. AVLIS project development costs are charged against income as incurred. The Company intends to capitalize AVLIS development costs associated with facilities and equipment designed for commercial production activities.

In addition, the Company has been evaluating a potential new advanced enrichment technology called "SILEX" and plans to continue evaluating the SILEX technology during fiscal 1999.

Selling, General and Administrative. Selling, general and administrative expenses include salaries and related overhead for corporate personnel, legal and consulting fees and other administrative costs.

Income Taxes. Prior to the Offering, the Company was exempt from federal, state and local income taxes. With the completion of the Offering, the Company became subject to federal and state income taxes at a combined effective tax rate of 38%.

Results of Operations

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

	Fiscal Years Ended June 30,			
	1996	1997	1998	1998
				Pro Forma
Revenue				
Domestic	64%	60%	63%	63%
Asia	31	31	31	31
Europe and other	5	9	6	6
Total Revenue	100%	100%	100%	100%
Cost of sales	69	74	75	75
Gross profit	31	26	25	25
Special charges for workforce reductions and privatization costs	—	—	3	3
Project development costs	7	9	10	10
Selling, general and administrative	2	2	2	2
Operating income	22	15	10	10
Interest expense	—	—	—	2
Other (income) expense, net	—	(1)	—	—
Income before income taxes	22	16	10	8
Provision for income taxes	—	—	—	3
Net income	22%	16%	10%	5%

Results of Operations — Fiscal Years Ended June 30, 1997 and 1998

Revenue. Revenue amounted to $1,421.2 million in fiscal 1998, a decline of $156.6 million (or 10%) from $1,577.8 million in fiscal 1997. The decline in revenue was attributable primarily to changes in the timing of customer nuclear reactor refueling resulting in a 12% decline in sales of SWU in fiscal 1998, following a 14% increase in fiscal 1997. During fiscal 1998, the Company provided enrichment services for 100 reactors as compared with 110 in fiscal 1997. The average SWU price billed to customers was $116, an increase of approximately 1% compared with fiscal 1997, notwithstanding the overall trend toward lower prices for contracts negotiated since July 1993 in the highly competitive uranium enrichment market. Sales of uranium to electric utility customers increased to $40.8 million, compared with $25.9 million in fiscal 1997.

Revenue from domestic customers declined $54.6 million (or 6%), revenue from customers in Asia declined $44.7 million (or 9%) and revenue from customers in Europe and other areas declined $57.3 million (or 41%). Changes in geographic mix of revenue in fiscal 1998 resulted primarily from changes in the timing of customers' orders. The decline in domestic revenue also reflects lower commitment levels from two customers, partly offset by higher sales of uranium and a first time sale of SWU for one reactor under a new contract signed by the Company.

Cost of Sales. Cost of sales amounted to $1,062.1 million in fiscal 1998, a decline of $100.2 million (or 9%) from $1,162.3 million in fiscal 1997. The decline in cost of sales was attributable to the 12% decline in sales in SWU from changes in the timing of customers' orders, partially offset by the effects of lower production volume and higher unit costs at the GDPs and an increase in purchased SWU under the Russian HEU Contract. As a percentage of revenue, cost of sales amounted to 75% in fiscal 1998, compared with 74% in fiscal 1997.

SWU unit production costs in fiscal years 1998 and 1997 were adversely affected by lower production facility capability, and the Company incurred additional costs because uneconomic overfeeding of uranium was necessary at the Portsmouth GDP to compensate for the production lost due to the unavailability of cells in order to ensure that customer requirements would be met.

Electric power costs amounted to $413.8 million (representing 53% of production costs) in fiscal 1998, compared with $530.4 million (representing 59% of production costs) in fiscal 1997, a decline of $116.6 million (or 22%). The decline reflected lower power consumption resulting from lower SWU production and improved power utilization efficiency or SWU production compared with the amount of electric power consumed.

Costs for labor and benefits amounted to $237.7 million in fiscal 1998, an increase of $7.6 million (or 3%) from $230.1 million in fiscal 1997. The increase reflected general inflation.

Costs for the future disposition of depleted UF_6 amounted to $55.7 million in fiscal 1998, a decline of $16.3 million (or 23%) from $72.0 million in fiscal 1997. The decline resulted from lower SWU production overall and, at the Paducah GDP, more efficient operations and economic underfeeding of uranium which in turn resulted in a significant reduction in the generation of depleted UF_6. At June 30, 1998, the Company had accrued a total liability of $372.6 million for the future disposal of depleted UF_6.

SWU purchased under the Russian HEU Contract and other purchase contracts represented 38% of the combined produced and purchased supply mix, compared with 23% for fiscal 1997. Unit costs of SWU purchased under the Russian HEU Contract are substantially higher than the Company's marginal cost of production. The Company purchased SWU derived from HEU, as follows: 3.6 million SWU at a cost of $315.8 million and 1.8 million SWU at a cost of $157.3 million for the fiscal years 1998 and 1997, respectively.

Gross Profit. Gross profit amounted to $359.1 million in fiscal 1998, a decline of $56.4 million (or 14%) from $415.5 million in fiscal 1997. The decline resulted from lower sales of SWU from changes in the timing of customers' orders, lower production volume and higher unit costs at the GDPs, and an increase in purchased SWU under the Russian HEU Contract.

Special Charges. Special charges amounted to $46.6 million for fiscal 1998 for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

Project Development Costs. Project development costs, primarily for the AVLIS project, amounted to $136.7 million for fiscal 1998, a decline of $4.8 million (or 3%) from $141.5 million in fiscal 1997. Engineering and development costs for the future commercialization of the AVLIS uranium enrichment process in fiscal 1998 primarily reflected continuing demonstration of plant-scale components with emphasis shifting toward integrated operation of the laser and separator systems to verify enrichment production economics. Project development costs include costs of $2.0 million in fiscal 1998 and $7.8 million in fiscal 1997 incurred in the evaluation of the SILEX advanced enrichment technology.

Selling, General and Administrative Expenses. Selling, general and administrative expenses amounted to $34.7 million in fiscal 1998, an increase of $2.9 million (or 9%) from $31.8 million in fiscal 1997. As a percentage of revenue, selling, general and administrative expenses amounted to 2.4% in fiscal 1998, compared with 2.0% in fiscal 1997. The increase resulted from higher expenses associated with privatization activities.

Net Income. Net income before special charges amounted to $192.9 million in fiscal 1998, a decline of $57.2 million (or 23%) from $250.1 million in fiscal 1997. As a percentage of revenue, net income before special charges amounted to 13% in fiscal 1998, compared with 16% in fiscal 1997. The decline resulted primarily from lower sales of SWU from changes in the timing of customers' orders and lower gross profit margins. Including special charges, net income in fiscal 1998 amounted to $146.3 million.

On a pro forma basis, as if the Offering had occurred at the beginning of fiscal 1998, net income before special charges for fiscal 1998, adjusted to reflect interest expense on borrowings of $550.0 million at the time of the Offering and a provision for income taxes, was $97.3 million or $.97 per share. Including special charges, net income on a pro forma basis was $68.4 million or $.68 per share.

Results of Operations — Fiscal Years Ended June 30, 1996 and 1997

Revenue. Revenue amounted to $1,577.8 million in fiscal 1997, an increase of $165.0 million (or 12%) from revenue of $1,412.8 million in fiscal 1996. The increase in revenue for fiscal 1997 resulted principally from: (i) the timing of customer nuclear reactor refuelings; (ii) sales to new customers; and (iii) increased sales to existing customers. Sales of SWU increased 14% in fiscal 1997 following a decline of 14% in fiscal 1996. During fiscal 1997, the Company provided enrichment services for 110 reactors as compared with 101 in fiscal 1996. Revenue for fiscal 1997 included first time sales of SWU for five reactors under Utility Services contracts entered into in earlier years and first time sales for four reactors under new contracts. The average SWU price billed to customers in fiscal 1997 was $115, a decline of approximately 1% compared to fiscal 1996, reflecting the trend toward lower prices for new contracts in the highly competitive uranium enrichment market.

Revenue in fiscal 1997 increased from fiscal 1996 in all geographic areas in which the Company markets enrichment services. Domestic revenue increased $49.2 million or 5%, Asian revenue increased $46.2 million or 10%, and European and other revenue increased $69.6 million, almost double the fiscal 1996 level. In addition to changes in the timing of customer orders, revenue benefited from initial sales by the Company for six reactors in the United States, one in Asia, and two in Europe. Revenue in fiscal 1997 was somewhat affected by the slowdown of refueling orders for certain reactors in the United States that, for a substantial portion of the fiscal year, had suspended operations pursuant to NRC safety directives or extended outages.

Cost of Sales. Cost of sales amounted to $1,162.3 million in fiscal 1997, an increase of $189.3 million (or 19%) from $973.0 million in fiscal 1996. As a percentage of revenue, cost of sales amounted to 74% and 69% for fiscal years 1997 and 1996, respectively. The increase in cost of sales in fiscal 1997 was attributable mainly to the 14% increase in sales of SWU, higher unit production costs at the GDPs and increased purchases under the Russian HEU Contract. SWU production costs were higher due to unplanned equipment downtime and increased preventive maintenance activities.

SWU production and related unit production costs in fiscal 1996 were adversely affected by lower gaseous diffusion production capability and increased maintenance activities reflecting efforts to restore GDP production to desired levels. Additional costs were incurred in fiscal 1997 from overfeeding of uranium in the enrichment process at the Portsmouth GDP to partially mitigate lower production capability. In fiscal 1996, production capability at the Paducah GDP was adversely affected by a reduction in electric power from the power supplier in response to an extended period of extremely hot weather.

Electric power costs amounted to $530.4 million (representing 59% of production costs) in fiscal 1997, compared with $486.9 million (representing 55% of production costs) in fiscal 1996, an increase of $43.5 million (or 9%). The increase reflects increased power consumption and, at the Portsmouth GDP, a significant decline in power utilization efficiency along with higher demand charges for firm power. Power utilization efficiency was adversely affected by production equipment difficulties.

Costs for labor and benefits amounted to $230.1 million in fiscal 1997, an increase of $20.3 million (or 10%) from $209.8 million in fiscal 1996. The increase reflects general inflation and higher employment levels.

Costs for the future disposition of depleted UF_6 amounted to $72.0 million in fiscal 1997, a decline of $18.6 million (or 21%) from $90.6 million in fiscal 1996. Costs were lower in fiscal 1997 as the estimated future

disposal rate per kilogram of depleted UF_6 was reduced as a result of revised estimates based on new proposals from potential disposal companies.

Increased SWU purchases under the Russian HEU Contract and other purchase contracts also contributed to the higher costs of sales in fiscal 1997. Purchased SWU represented 23% of the combined produced and purchased supply mix in fiscal 1997, compared with 16% in fiscal 1996. Unit costs of SWU purchased under the Russian HEU Contract are substantially higher than the Company's marginal cost of production. The Company purchased SWU derived from HEU, as follows: 1.8 million SWU at a cost of $157.3 million and 1.7 million SWU at a cost of $144.1 million for the fiscal years 1997 and 1996, respectively. In September 1996, in accordance with the Privatization Act, the Company and Tenex amended the Russian HEU Contract to eliminate the Company's obligation to purchase the natural uranium component after calendar year 1996.

Gross Profit. Gross profit amounted to $415.5 million in fiscal 1997, a decline of $24.3 million (or 6%) from $439.8 million in fiscal 1996. Although revenue increased in fiscal 1997, gross profit was adversely affected by higher unit production costs at the GDPs caused mainly by unplanned equipment downtime and increased preventive maintenance activities and increased purchases of SWU under the Russian HEU Contract. Gross profit in fiscal years 1997 and 1996 was also adversely affected by declines in average prices billed to customers.

Project Development Costs. Project development costs, primarily for the AVLIS project, amounted to $141.5 million in fiscal 1997, an increase of $37.9 million (or 37%) from $103.6 million in fiscal 1996. The increase reflects planned engineering and development spending for the future commercialization of the AVLIS uranium enrichment process and, in fiscal 1997, initial costs incurred in the evaluation of SILEX. Increased AVLIS spending was attributable to the demonstration of laser and separator systems and preliminary plant design.

Selling, General and Administrative Expenses. Selling, general and administrative expenses amounted to $31.8 million in fiscal 1997, a decline of $4.2 million (or 12%) from $36.0 million in fiscal 1996. As a percentage of revenue, selling, general and administrative expenses amounted to 2.0% and 2.5% in fiscal years 1997 and 1996, respectively. The decline in fiscal 1997 resulted from a reduction in expenses associated with privatization activities and lower consulting and other fees.

Other Income. Other income, net of expenses, amounted to $7.9 million in fiscal 1997, an increase of $4.0 million (or 103%) from $3.9 million in fiscal 1996. The increase in fiscal 1997 was attributable to interest earned on payments under the Russian HEU Contract to be applied against future SWU deliveries and fees earned on delivery optimization and other customer-oriented distribution programs.

Net Income. Net income amounted to $250.1 million in fiscal 1997, a decline of $54.0 million (or 18%) from $304.1 million in fiscal 1996. As a percentage of revenue, net income amounted to 16% and 22% for fiscal years 1997 and 1996, respectively. The decline in fiscal 1997 resulted primarily from an increase of $37.9 million in AVLIS development spending and a lower gross profit margin on sales of SWU.

Liquidity and Capital Resources

Liquidity and Cash Flow. The Company's principal source of liquidity has been cash flow provided by operating activities. Net cash flows provided by operating activities amounted to $73.3 million in fiscal 1998, compared with $356.1 million in fiscal 1997. Cash flow in fiscal 1998 was reduced by an increase of $142.5 million in inventories, the decline of $103.8 million in net income compared with fiscal 1997, and payments of $66.0 million in fiscal 1998 to DOE relating to the disposition of depleted UF_6, partly offset by an increase of $64.4 million in payables to the Russian Federation for purchases of SWU. In fiscal 1997, the net increase of $50.1 million in payments under the Russian HEU Contract reflects a payment of $100.0 million in December 1996 under the Russian HEU Contract for future deliveries of SWU in calendar years 1998 and 1999.

Net cash flows provided by operating activities amounted to $356.1 million in fiscal 1997, a significant increase over $119.7 million in fiscal 1996. The increase resulted primarily from a reduction of $97.6 million in customer trade receivables in fiscal 1997 from changes in the timing of customer collections and the collection of $29.4 million from DOE for reimbursable regulatory compliance activities, partially offset by the decline of $54.0 million in net income compared with fiscal 1996. As a supplementary activity in support of the Russian

HEU Contract, the Company paid $100.0 million in each of fiscal years 1997 and 1996 as credits for future deliveries of SWU under the Russian HEU Contract.

Capital expenditures relating primarily to GDP improvements amounted to $36.5 million, $25.8 million and $15.6 million in fiscal years 1998, 1997 and 1996, respectively. Capital expenditures in fiscal 1998 consist principally of replacement equipment and upgrades to the steam plant and cooling towers. Capital expenditures in fiscal years 1997 and 1996 consisted principally of upgrades to the steam plant and cooling towers, improvements to the enriched product withdrawal facilities, process inventory control systems, cylinder storage facilities and purchases of capital equipment.

Dividends paid to the U.S. Treasury amounted to $120.0 million in each of the fiscal years 1998, 1997 and 1996. Pursuant to the USEC Privatization Act, in December 1996, the Company transferred to DOE the natural uranium component of LEU from HEU purchased under the Russian HEU Contract at a cost of $86.1 million in fiscal 1996 and $74.3 million in fiscal 1997. As a result of the transfer, the total purchase cost of $160.4 million, including related shipping charges, was recorded as a return of capital.

Net working capital amounted to $2,180.9 million and $2,278.0 million at June 30, 1998 and 1997, respectively, and, on a pro forma basis, adjusted to reflect short-term borrowings and the pro forma exit dividend at the time of the Offering, amounted to $797.8 million at June 30, 1998. The Company has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.0 million at June 30, 1998.

AVLIS Project Expenditures. AVLIS deployment is estimated to cost approximately $2.2 billion from fiscal 1998 through fiscal 2005, of which $550.0 million is expected to be spent during the performance demonstration, design and licensing phase and $1.7 billion during the procurement, construction and startup phase. The Company periodically re-evaluates its AVLIS estimated costs and currently believes this estimate could vary by up to 20%.

Actual AVLIS expenditures may vary from this estimate based on the results of development and demonstration activities or on account of changes in business conditions, regulatory requirements and the timing of NRC licensing, costs of construction labor and materials, the market for uranium enrichment services, and the Company's cost of capital.

Capital Structure and Financial Resources. The Company expects that its cash, internally generated funds from operating activities, and available financing sources including borrowings under the Credit Facility (described below), will be sufficient to meet its obligations as they become due and to fund operating requirements of the GDPs, purchases of SWU under the Russian HEU Contract, capital expenditures and discretionary investments, and AVLIS expenditures in the near term.

The Company borrowed $550.0 million at the time of the Offering, pursuant to a credit facility comprised of three tranches (the "Credit Facility"). Tranche A is a 364-day revolving credit facility for $400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at the Company's option, into a one-year term loan. The Company borrowed $550.0 million under Tranche A and Tranche B, transferred $500.0 million of such proceeds to the U.S. Treasury as part of the Exit Dividend of $1,709.4 million and retained $50.0 million in cash. The third tranche, Tranche C, is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Borrowings under the Credit Facility bear interest at a rate equal to, at the Company's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin," or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on the Company's credit rating.

The Credit Facility requires the Company to comply with certain financial covenants, including a minimum net worth and a debt-to-total capitalization ratio, as well as other customary conditions and covenants, including restrictions on borrowings by subsidiaries. The failure to satisfy any of the covenants would constitute an event of default. The Credit Facility also includes other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy, and change of control.

On a pro forma basis, as adjusted for the $550.0 million of borrowings under the Credit Facility, the Company's debt-to-capitalization ratio was 32%, as adjusted to include short-term debt, at June 30, 1998. In fiscal 1999, the Company may refinance all or a portion of the borrowings under the Credit Facility with funds raised in the public or private securities markets.

Environmental Matters

In addition to costs for the future disposition of depleted UF_6, the Company 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 relating to such environmental compliance were $25.4 million, $24.9 million, and $30.4 million, and capital expenditures were $4.4 million, $1.8 million and $3.5 million for fiscal years 1998, 1997 and 1996, respectively. In fiscal years 1999 and 2000, the Company expects its operating costs and capital expenditures for such compliance to remain at about the same levels as in fiscal 1998. The Company expects that costs relating to the future disposal of depleted UF_6 produced from its operations will be lower in fiscal 1999.

The Company paid $50.0 million to DOE in June 1998 in consideration for DOE assuming responsibility for a certain amount of depleted UF_6 generated by the Company from October 1998 to 2005.

Environmental liabilities associated with the GDP operations prior to the date of the Offering were the responsibility of DOE or the U.S. Government, except for liabilities relating to certain identified wastes stored at the GDPs. Environmental liabilities associated with the decontamination and decommissioning of the GDPs are generally the responsibility of DOE, except for additional costs, if any, as a result of the Company's operations.

Impact of Year 2000 Issue

As a result of certain computer programs and systems using two rather than four digits to define the applicable year, certain of the Company's activities with date-sensitive software and systems may not recognize the year 2000. This could potentially result in system failures or miscalculations causing disruptions of operations or an inability to process transactions.

The Company has been upgrading software programs and systems affected by the year 2000 issues and believes that with modifications to existing software and systems and migration to new software and systems, the year 2000 issues can be substantially mitigated. The Company is in the process of implementing the necessary modifications that are expected to be completed by April 1999. There can be no assurance that such programs will identify and cure all software problems, or that entities on whom the Company relies for certain services integral to its business, such as the electric power suppliers, will successfully address all of their software and systems problems in order to operate without disruption in 2000.

The Company expects its incremental costs for software modifications and systems upgrades to resolve the year 2000 issues will range from $10.0 million to $13.0 million. Pursuant to the Company's financial accounting and reporting policies, purchased hardware and software costs are capitalized, and implementation costs, including consultants' fees, are charged against income as incurred.

Changing Prices and Inflation

The GDPs require substantial amounts of electricity to enrich uranium. The Company purchases firm and non-firm power to meet its production needs. Production costs would increase to the extent that the market prices of non-firm power, which represented 29% of the fiscal 1998 power needs, were to rise. In addition, the prices that the Company pays for firm power could increase if there were additional regulatory costs or unanticipated equipment failures at the power plants supplying the firm power to the GDPs.

A majority of the Company's contracts with customers generally provide for prices that are subject to adjustment for inflation. In recent years, inflation has not had a significant impact on the Company's operations, and unless inflation increases substantially, it is not expected to have a material effect.

Quantitative and Qualitative Disclosures about Market Risk

Financial instruments are reported on the balance sheet as of June 30, 1998, and include cash, accounts receivable and payable, certain accrued liabilities, and payables under the Russian HEU Contract, the carrying amounts for which approximate fair value. In July 1998, the Company's financial instruments include debt of $550.0 million borrowed at the time of the Offering.

Information relating to the Company's sensitivity to market prices for SWU, prices of non-firm power, foreign currency exchange rates, and variable rate debt borrowed at the time of the Offering is included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Balance Sheets

(millions, except share and per share data)	June 30, 1997	June 30, 1998	June 30, 1998 Pro Forma
ASSETS			
Current Assets			
Cash	$1,261.0	$1,177.8	$ 50.0
Accounts receivable — customers	249.3	218.5	218.5
Receivables from Department of Energy	134.4	17.9	17.9
Inventories:			
Separative Work Units	573.8	687.0	687.0
Uranium	131.5	184.5	184.5
Uranium provided by customers	726.2	315.0	315.0
Materials and supplies	12.4	24.8	24.8
Total Inventories	1,443.9	1,211.3	1,211.3
Payments for future deliveries under Russian HEU Contract	79.6	63.4	63.4
Other	23.3	39.5	34.2
Total Current Assets	3,191.5	2,728.4	1,595.3
Property, Plant and Equipment, net	111.5	131.9	131.9
Other Assets			
Deferred income taxes	—	—	54.7
Deferred costs for depleted UF_6	—	50.0	50.0
Uranium inventories	103.6	561.0	561.0
Payment for future deliveries under Russian HEU Contract	50.0	—	—
Total Other Assets	153.6	611.0	665.7
Total Assets	$3,456.6	$3,471.3	$2,392.9
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term debt	$ —	$ —	$ 250.0
Accounts payable and accrued liabilities	159.7	168.0	168.0
Payables to Department of Energy	17.4	14.9	14.9
Uranium owed to customers	726.2	315.0	315.0
Payables under Russian HEU Contract	10.2	8.4	8.4
Nuclear safety upgrade costs	—	41.2	41.2
Total Current Liabilities	913.5	547.5	797.5
Long-term debt	—	—	300.0
Other Liabilities			
Advances from customers	34.9	34.3	34.3
Depleted UF_6 disposition	336.4	372.6	—
Other liabilities	80.5	96.4	96.4
Total Other Liabilities	451.8	503.3	130.7
Commitments and Contingencies (Notes 6, 9 and 10)			
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, 100,000,000 shares issued and outstanding	10.0	10.0	10.0
Excess of capital over par value	1,054.2	1,357.1	1,154.7
Retained earnings	1,027.1	1,053.4	—
Total Stockholders' Equity	2,091.3	2,420.5	1,164.7
Total Liabilities and Stockholders' Equity	$3,456.6	$3,471.3	$2,392.9

See notes to financial statements.

Statements of Income

	Years Ended June 30,			
	1996	1997	1998	1998
(millions, except per share data)				*Pro Forma*
Revenue				
Domestic	$ 901.6	$ 950.8	$ 896.2	$ 896.2
Asia	441.3	487.5	442.8	442.8
Europe and other	69.9	139.5	82.2	82.2
	1,412.8	1,577.8	1,421.2	1,421.2
Cost of sales	973.0	1,162.3	1,062.1	1,062.1
Gross profit	439.8	415.5	359.1	359.1
Special charges for workforce reductions and privatization costs	—	—	46.6	46.6
Project development costs	103.6	141.5	136.7	136.7
Selling, general and administrative	36.0	31.8	34.7	34.7
Operating income	300.2	242.2	141.1	141.1
Interest expense	—	—	—	36.0
Other (income) expense, net	(3.9)	(7.9)	(5.2)	(5.2)
Income before income taxes	304.1	250.1	146.3	110.3
Provision for income taxes	—	—	—	41.9
Net income	$ 304.1	$ 250.1	$ 146.3	$ 68.4
Net income per share — basic and diluted				$ .68
Average number of shares outstanding				100.0

See notes to financial statements.

Statements of Cash Flows

	Years Ended June 30,		
	1996	1997	1998
(millions)			
Cash Flows from Operating Activities			
Net income	$ 304.1	$ 250.1	$ 146.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13.7	14.6	16.1
Depleted UF_6 disposition costs	90.6	72.0	55.7
Payments to DOE for disposition of depleted UF_6	—	—	(66.0)
Advances from customers — (decrease)	(4.4)	(20.1)	(.6)
Changes in operating assets and liabilities:			
Accounts receivable — (increase) decrease	(84.3)	97.6	30.8
Net receivables from Department of Energy — (increase) decrease	(68.9)	5.5	(35.4)
Inventories — (increase)	(49.8)	(3.5)	(142.5)
Payments under Russian HEU Contract, net	(66.0)	(50.1)	64.4
Accounts payable and accrued liabilities — increase (decrease)	(7.2)	(17.3)	13.4
Other	(8.1)	7.3	(8.9)
Net Cash Provided by Operating Activities	119.7	356.1	73.3
Cash Flows Used in Investing Activities			
Capital expenditures	(15.6)	(25.8)	(36.5)
Cash Flows from Financing Activities			
Dividends paid	(120.0)	(120.0)	(120.0)
Payments under Russian HEU Contract for purchase of natural uranium transferred to Department of Energy	(86.1)	(74.3)	—
Net Cash Used in Financing Activities	(206.1)	(194.3)	(120.0)
Net Increase (Decrease)	(102.0)	136.0	(83.2)
Cash at Beginning of Year	1,227.0	1,125.0	1,261.0
Cash at End of Year	$1,125.0	$1,261.0	$1,177.8

See notes to financial statements.

Notes to Financial Statements

1. Nature of Operations

USEC Inc., a Delaware-chartered corporation (the "Company" or "USEC"), formerly United States Enrichment Corporation (a federally chartered U.S. Government-owned corporation), is a global energy company and the world's leading producer and marketer of uranium enrichment services. The Company provides uranium enrichment services to electric utilities operating nuclear reactors in 14 countries, including the United States. The Company 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 HEU Contract") under which the Company purchases Separative Work Units ("SWU") derived from highly enriched uranium ("HEU") recovered from dismantled nuclear weapons of the Russian Federation for use in commercial electricity production.

The Company uses the gaseous diffusion process to enrich uranium, separating and concentrating the lighter uranium isotope U^{235} from its slightly heavier counterpart U^{238}. The process relies on the slight difference in mass between the isotopes for separation. At the leased gaseous diffusion plants ("GDPs") located near Portsmouth, Ohio, and in Paducah, Kentucky, the concentration of the isotope U^{235} is raised from less than 1% to up to 5%. A substantial portion of the purchased power used by the GDPs is supplied under power contracts between the U.S. Department of Energy ("DOE") and Ohio Valley Electric Corporation ("OVEC") and Electric Energy, Inc. ("EEI"). Lockheed Martin Utility Services, Inc. ("LMUS"), a subsidiary of Lockheed Martin Corporation, operates the GDPs under the Company's direct supervision and management.

In November 1996, the Nuclear Regulatory Commission ("NRC") granted initial certificates of compliance to the Company for operation of the GDPs. Regulatory authority over the operations of the GDPs was transferred from DOE to NRC in March 1997. The initial NRC certification expires December 31, 1998, and subsequent certification will be for periods of up to five years.

Customers typically deliver uranium to the enrichment facilities to be processed or enriched under enrichment contracts. Customers are billed for SWU used at the enrichment facilities to separate specific quantities of uranium containing .711% of U^{235} into two components: enriched uranium having a higher percentage of U^{235} and depleted UF_6 having a lower percentage of U^{235}.

The Company has exclusive commercial rights to deploy the Atomic Vapor Laser Isotope Separation ("AVLIS") technology, an advanced laser based enrichment process that is expected to significantly reduce production costs. USEC anticipates deploying an AVLIS plant by 2005.

2. Initial Public Offering

On July 28, 1998, the sale of the Company's common stock in connection with an initial public offering (the "Offering") was completed, resulting in net proceeds to the U.S. Government aggregating $3,092.1 million, including $1,382.7 million from the Offering and $1,709.4 million from the exit dividend paid to the U.S. Treasury (the "Exit Dividend"). The U.S. Government, the selling shareholder, sold its entire interest. The Company did not receive any proceeds from the Offering.

The Exit Dividend of $1,709.4 million paid to the U.S. Treasury represented the remaining balance of cash held in the Company's account at the U.S. Treasury and $500.0 million of $550.0 million in borrowings at the time of the Offering. The Company retained $50.0 million in cash from the $550.0 million in borrowings. The amount of the Exit Dividend in excess of the Company's retained earnings was recorded in July 1998 as a reduction of excess of capital over par value.

Pursuant to the USEC Privatization Act, depleted uranium hexafluoride ("UF_6") generated by the Company through the date of the Offering was transferred to DOE in July 1998; liabilities and contingencies incurred through the date of the Offering were allocated between the Company and the U.S. Government; 50 metric tons of HEU and 7,000 metric tons of natural uranium from DOE's excess inventories were transferred to the Company in May 1998; certain employee benefit protections were established for workers at the GDPs; certain limitations were established on the ability of a person to acquire more than 10% of the Company's voting securities for a three-year period after the Offering; and certain foreign ownership limitations were established.

The U.S. Government will continue to exercise oversight of the Company's activities affecting matters of national security and other interests of the U.S. Government, including its role as Executive Agent in connection with the Russian HEU Contract.

3. Summary of Significant Accounting Policies

Cash

Cash at June 30, 1997 and 1998 consists of non-interest bearing funds on deposit with the U.S. Treasury.

Inventories

Inventories of uranium and SWU are valued at the lower of cost or market. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the GDPs and SWU purchase costs, mainly under the Russian HEU Contract. Production costs at the GDPs include purchased electric power, labor and benefits, depleted UF_6 disposition costs, materials, major overhauls, 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. 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 their useful lives which range from three to ten years or the GDP lease period which is estimated to extend through 2005. The Company leases the GDPs and process-related machinery and equipment from DOE. At the end of the lease term, ownership and responsibility for decontamination and decommissioning of the Company's property, plant and equipment that the Company leaves at the GDPs transfer to DOE.

Property, plant and equipment at June 30 consists of the following (in millions):

	1997	1998
Construction work in progress	$ 15.6	$ 27.1
Leasehold improvements	17.2	21.7
Machinery and equipment	125.4	145.9
	158.2	194.7
Accumulated depreciation and amortization	(46.7)	(62.8)
	$111.5	$131.9

Revenue

Revenue is recognized at the time enriched uranium is shipped under the terms of long-term requirements contracts with domestic and foreign electric utility customers. Under the Company's delivery optimization and other customer oriented programs, the Company advance ships enriched uranium to nuclear fuel fabricators for scheduled or anticipated orders from utility customers. Revenue from sales of SWU under such programs is recognized as title to enriched uranium is transferred to customers. Under certain power-for-SWU barter contracts, the Company exchanges its enrichment services for electric power supplied to the GDPs. Revenue is recognized by the Company at the time enriched uranium is shipped with selling prices for SWU based on the fair market value of electric power received.

No customer accounted for more than 10% of revenue during the years ended June 30, 1996, 1997 or 1998. Revenue attributed to domestic and international customers follows:

	Years Ended June 30,		
	1996	1997	1998
Domestic	64%	60%	63%
Asia	31	31	31
Europe and other	5	9	6
	100%	100%	100%

Under the terms of certain enrichment contracts, customers make partial or full payment in advance of delivery. Advances from customers are reported as liabilities, and, as customers take delivery, advances are recorded as revenue.

Environmental Costs

Environmental costs relating to operations are charged to production costs as incurred. Estimated future environmental costs, including depleted UF_6 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.

Project Development Costs

Project development costs relate principally to the AVLIS project. AVLIS development costs are charged to expense as incurred and include activities relating to the design and testing of process equipment and the design and preparation of the AVLIS demonstration facility. The Company intends to capitalize AVLIS development costs associated with facilities and equipment designed for commercial production activities.

Income Taxes

The Company was exempt from federal, state and local income taxes until the Offering.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and costs and expenses during the periods presented such as, but not limited to, accrued costs for the disposition of depleted UF_6 and the operating lease period of the GDPs. Actual results could differ from those estimates.

Reclassifications

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

4. Pro Forma Financial Information

Pro forma financial information consists of the pro forma balance sheet as of June 30, 1998, and the pro forma statement of income for the year ended June 30, 1998, reflecting the sale of 100 million shares of Common Stock in connection with the Company's initial public offering on July 28, 1998, borrowings from banks, pro forma exit dividend, transfer of depleted UF_6 to DOE, and the Company's transition to taxable status at the time of the Offering (the "Offering Transactions"). The objective of the pro forma financial information is to show the significant effects of the Offering Transactions on the balance sheet as if the Offering had occurred June 30, 1998, and the statement of income as if the Offering had occurred at the beginning of the year ended June 30, 1998.

Pro Forma Balance Sheet

The pro forma cash balance of $50.0 million, short-term debt of $250.0 million, and long-term debt of $300.0 million at June 30, 1998, give effect to borrowings at the time of the Offering under a credit facility comprised of three tranches (the "Credit Facility"). Tranche A is a 364-day revolving credit facility for $400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at the Company's option, into a one-year term loan. At the time of the Offering, the Company borrowed $550.0 million under Tranche A and Tranche B, transferred $500.0 million of such proceeds to the U.S. Treasury, and retained $50.0 million in cash. The third tranche, Tranche C, is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Borrowings under the Credit Facility bear interest at a rate equal to, at the Company's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin" or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on the Company's credit rating.

The Credit Facility requires the Company to comply with certain financial covenants, including a minimum net worth and a debt-to-total capitalization ratio, as well as other customary conditions and covenants, including restrictions on borrowings by subsidiaries. The failure to satisfy any of the covenants would constitute an event of default. The Credit Facility also includes 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 Company transitioned to taxable status at the time of the Offering. Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and the Company's estimate of the tax bases of its assets and liabilities result in pro forma deferred income tax benefits of $54.7 million at June 30, 1998, primarily due to the accrual of certain costs included in other liabilities.

Under the Privatization Act and the Depleted UF_6 Memorandum of Agreement, depleted UF_6 generated by the Company from July 1, 1993, up to the Offering, was transferred to DOE. Giving effect to the transfer on a pro forma basis, there is no accrued liability for depleted UF_6 disposition costs as of June 30, 1998.

Pro forma stockholders' equity of $1,164.7 million at June 30, 1998, reflects a pro forma exit dividend of $1,677.8 million, a charge of $5.3 million for expenses of the Offering, and increases to stockholders' equity for the transfer of the liability of $372.6 million for depleted UF_6 disposition costs and deferred income tax benefits of $54.7 million resulting from the Company's transition to taxable status.

Pro Forma Statement of Income

Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.55% on $550.0 million of borrowings incurred at the time of the Offering, as if

such borrowings had occurred at the beginning of the fiscal year ended June 30, 1998.

The Company was exempt from federal, state and local income taxes until the time of the Offering. The pro forma provision for income taxes of $41.9 million is based on an effective income tax rate of 38% and assumes the Offering had occurred at the beginning of the fiscal year ended June 30, 1998.

The Company expects that a deferred income tax benefit will be recorded in connection with its transition to taxable status as a nonrecurring reduction to the provision for income taxes at the time of the Offering. The deferred tax benefit arising from the Company's transition to taxable status is not reflected in pro forma net income for the year ended June 30, 1998.

Pro forma basic net income per share is based on 100 million shares of common stock sold in the Offering. The U.S. Government sold its entire interest in the Company. At the time of the Offering, there were no stock options, warrants or convertible securities, and, accordingly, pro forma basic and diluted net income per share are the same.

5. Inventories

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

	June 30,	
	1997	1998
Current assets		
Separative Work Units	$ 573.8	$ 687.0
Uranium	131.5	184.5
Uranium provided by customers	726.2	315.0
Materials and supplies	12.4	24.8
	1,443.9	1,211.3
Long-term assets		
Uranium	103.6	561.0
Current liabilities		
Uranium owed to customers	(726.2)	(315.0)
Inventories, reduced by uranium owed to customers	$ 821.3	$1,457.3

Inventories included in current assets represent amounts required to meet working capital needs, preproduce enriched uranium and balance the natural uranium and electric power requirements of the GDPs, and include $157.9 million and $187.6 million at June 30, 1997 and 1998, respectively, for enriched uranium held at fabricators and other locations and scheduled to be used to fill customer orders.

Uranium inventories reported as long-term assets represent quantities not expected to be used or consumed within one year of the balance sheet date.

Uranium provided by customers for enrichment purposes, for which title passes to the Company, is recorded at estimated fair values of $726.2 million and $315.0 million at June 30, 1997 and 1998, with a corresponding liability in the same amount representing uranium owed to customers. In addition, the Company holds uranium provided by customers for enrichment purposes for which title does not pass to the Company (title remains with customers) in the amounts of $110.5 million and $761.9 million based on estimated fair values at June 30, 1997 and 1998, respectively.

6. Purchase of Separative Work Units Under Russian HEU Contract

In January 1994, the Company signed the 20-year Russian HEU Contract with Techsnabexport Co., Ltd. (TENEX), the Executive Agent for the Russian Federation, under which the Company purchases SWU derived from up to 500 metric tons of HEU recovered from dismantled Soviet nuclear weapons. HEU is blended down in Russia and delivered to the Company, F.O.B. St. Petersburg, Russia, for sale and use in commercial nuclear reactors.

From inception of the Russian HEU Contract to June 30, 1998, the Company purchased 7.4 million SWU derived from 40 metric tons of HEU at an aggregate cost of $639.9 million, including related shipping charges, as follows:

Years Ended June 30,	SWU	Cost
	(millions)	
1995	.3	$ 22.7
1996	1.7	144.1
1997	1.8	157.3
1998	3.6	315.8
	7.4	$639.9

Subject to certain purchase price adjustments for U.S. inflation, as of June 30, 1998, the Company has committed to purchase SWU derived from HEU through 2001 as follows:

Calendar Year	SWU	Derived from Metric Tons of HEU	Amount
	(millions)		*(millions)*
Six Months Ended December 31, 1998	3.6	20	$ 308.8
1999	5.5	30	475.8
2000	5.5	30	475.8
2001	5.5	30	475.8
			$1,736.2

Over the life of the Russian HEU Contract, the Company expects to purchase 92 million SWU derived from 500 metric

tons of HEU. Assuming actual prices in effect at June 30, 1998, were to prevail over the remaining life of the contract, the cost of SWU purchased and expected to be purchased from TENEX would amount to approximately $8 billion.

As of June 30, 1998, the Company had made payments aggregating $260.0 million to TENEX as credits for future SWU deliveries. As of June 30, 1998, $196.6 million had been applied against purchases of SWU, and the remaining balance of $63.4 million is scheduled to be applied as follows: $13.4 million by December 31, 1998, and $50.0 million in calendar year 1999.

7. Project Development Costs

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 April 1995, the Company entered into an agreement with DOE (the "AVLIS Transfer Agreement") providing for, among other things, the transfer to the Company by DOE of its intellectual and physical property pertaining to the AVLIS technology. Also under the AVLIS Transfer Agreement, DOE conducts AVLIS research, development and demonstration at LLNL as requested by the Company. The Company reimburses DOE for its costs in conducting AVLIS work, and the Company is liable for any incremental increase in DOE's costs of decontamination and decommissioning the AVLIS facilities at LLNL as a result of the work performed for the Company. The AVLIS research and development work is performed primarily by the University of California under DOE's management and operations contract for LLNL. Patents, technology, and other intellectual property that result from this research and development effort will be owned by the Company.

The Company has entered into joint development agreements with Cameco Corporation ("Cameco") for AVLIS feed conversion services and General Electric Company ("GE") for AVLIS product conversion services, both of which are necessary because AVLIS requires a metallic form of uranium for processing rather than UF_6. Both joint development agreements obligate USEC to reimburse costs and expenses incurred by its partners if USEC elects not to proceed to the deployment phase under certain circumstances. The Company's maximum liability under both agreements is $9.0 million, subject to certain provisions for cost overruns. The contracts also provide that if USEC proceeds with AVLIS deployment but elects to do so without entering into agreements with Cameco and GE, USEC must pay certain royalty payments. In such event, in the case of Cameco, these payments would not exceed $50.0 million in the aggregate. In the case of GE, the payment would include a fixed payment of $5.0 million plus an annual royalty of $1.0 million until certain GE patents related to the product conversion expire.

Project development costs relating to AVLIS activities amounted to $102.0 million, $133.7 million, and $134.7 million for the years ended June 30, 1996, 1997 and 1998, respectively, and were charged to expense as incurred.

During the year ended June 30, 1997, the Company began to evaluate SILEX, a potential new advanced enrichment technology to separate U^{235} from U^{238}. The Company plans to continue evaluating SILEX technology during fiscal 1999.

8. Environmental Matters

Environmental compliance costs include the handling, treatment and disposal of hazardous substances and wastes. Pursuant to the Privatization Act, all environmental liabilities associated with the operation of the GDPs prior to July 1, 1993, are the responsibility of DOE, and with certain limited exceptions DOE is responsible for decontamination and decommissioning of the GDPs at the end of their operating lives. Except for certain liabilities relating to disposal of certain wastes generated after July 1, 1993, all environmental liabilities of the Company through the date of the Offering remain obligations of the U.S. Government.

Depleted UF_6

Depleted UF_6 is stored in cylinders at the GDPs as a solid. The Company accrues estimated costs for the future disposition of depleted UF_6, based upon estimates for transportation, conversion and disposition. The accrued liability amounted to $372.6 million at June 30, 1998. Pursuant to the USEC Privatization Act, in July 1998, depleted UF_6 generated by the Company through the time of the Offering was transferred to DOE. Depleted UF_6 generated after the Offering is the responsibility of the Company.

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. The Company utilizes offsite treatment and disposal facilities and stores

wastes at the GDPs 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 $8.3 million at June 30, 1998. All liabilities related to the disposal of stored wastes generated prior to July 1, 1993, are the responsibility of DOE.

Nuclear Indemnification

Pursuant to the Energy Policy Act and under the terms of the lease agreement with DOE, the Company is indemnified by DOE under the Price-Anderson Act for third-party liability claims arising from nuclear incidents with respect to activities at the GDPs, including transportation of uranium to and from the GDPs.

9. Legal Proceedings

In 1995, 15 of the Company's customers filed four substantially similar lawsuits in the U.S. Court of Federal Claims challenging the Company's prices under their Utility Services Contracts. Five of the 15 customers thereafter negotiated new contracts with the Company and withdrew from the litigation. In August 1996, the trial court granted the United States' motion for summary judgment dismissing one of the suits; in July 1997, the Court of Appeals for the Federal Circuit affirmed that decision. In December 1997, the trial court granted the United States' motions to dismiss the remaining suits; the plaintiffs did not seek to appeal those decisions.

10. Commitments and Contingencies

Power Commitments

Under the terms of the GDP lease, the Company purchases electric power at amounts equivalent to actual cost incurred under DOE's power contracts with OVEC and EEI that extend through December 2005. The Company has the right to have DOE terminate the power contracts with notice ranging from three to five years and is obligated to make minimum annual payments for demand charges, whether or not it takes delivery of power, estimated as follows (in millions):

Years Ended June 30,	
1999	$122.7
2000	119.8
2001	121.3
2002	99.5
2003	42.2
	$505.5

Under the power contracts with DOE, in July 1993 the Company assumed responsibility for DOE's guarantee of OVEC's senior secured notes with a remaining balance of $62.0 million at June 30, 1998, for expenditures related to compliance with the Clean Air Act Amendments of 1990, including facilities for fuel switching and the installation of continuous emission monitors. The minimum demand charges under the OVEC contract include annual debt service of $10.5 million to fully amortize the notes by the scheduled maturity in December 2005.

Upon termination of the power contracts, the Company is responsible for its pro rata share of costs of future decommissioning and shutdown activities at dedicated coal-fired power generating facilities owned and operated by OVEC and EEI. Estimated costs are accrued and charged to production costs over the contract period, and the accrued cost included in other liabilities amounted to $18.1 million at June 30, 1998.

Lease Commitments

Total costs incurred under the GDP lease with DOE and leases for office space and equipment aggregated $18.7 million, $23.2 million, and $11.5 million for the years ended June 30, 1996, 1997 and 1998, respectively, and include costs relating to DOE's regulatory oversight of the GDPs. In March 1997, the NRC assumed regulatory oversight. Minimum lease payments for the GDP lease and leases for office space and equipment is estimated at $5.0 million for each of the years ending June 30, 1999 to 2003.

The Company has the right to extend the GDP lease indefinitely at its sole option, and the Company may terminate the lease in its entirety or with respect to one of the GDPs at any time upon two years' notice. Upon termination of the lease, the Company is responsible for certain lease turnover activities at the GDPs, including documentation of the condition of the GDPs and termination of facility operations. Lease turnover costs are accrued and charged to production costs over the lease period, which is estimated to extend through 2005, and the accrued cost included in other liabilities amounted to $23.2 million at June 30, 1998.

11. Stockholders' Equity

Changes in stockholders' equity follow (in millions):

	Common Stock, Par Value $.10 per share	Excess of Capital over Par Value	Retained Earnings	Total Stockholders' Equity
Balance at June 30, 1995	$10.0	$1,214.6	$ 712.9	$ 1,937.5
Dividend paid to U.S. Treasury	—	—	(120.0)	(120.0)
Net income	—	—	304.1	304.1
Balance at June 30, 1996	10.0	1,214.6	897.0	2,121.6
Dividend paid to U.S. Treasury	—	—	(120.0)	(120.0)
Transfer to DOE of uranium purchased under the Russian HEU Contract	—	(160.4)	—	(160.4)
Net income	—	—	250.1	250.1
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 DOE	—	302.9	—	302.9
Balance at June 30, 1998	10.0	1,357.1	1,053.4	2,420.5
Pro forma adjustments:				
Deferred income tax benefit	—	—	54.7	54.7
Pro forma exit dividend	—	(569.7)	(1,108.1)	(1,677.8)
Transfer of depleted UF_6 to DOE	—	372.6	—	372.6
Costs related to the Offering	—	(5.3)	—	(5.3)
Pro forma balance at June 30, 1998	$10.0	$1,154.7	$ —	$ 1,164.7

The Energy Policy Act required that the Company issue capital stock to the U.S. Government, held on its behalf by the Secretary of the U.S. Treasury. Since assets and liabilities were transferred between agencies of the U.S. Government (DOE and USEC) pursuant to a Determination Order, they were recorded at DOE's historical cost.

In connection with the Offering, the par value of the common stock was changed to $.10 per share, and 100 million shares are issued and outstanding.

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

Pursuant to the USEC Privatization Act, in December 1996, the Company transferred to DOE the natural uranium component of low enriched uranium ("LEU") from HEU purchased under the Russian HEU Contract in calendar years 1995 and 1996. As a result of the transfer, the purchase cost of $160.4 million, including related shipping charges, was recorded as a return of capital.

12. Fair Value of Financial Instruments and Concentrations of Credit Risk

Financial instruments are reported on the balance sheets and include cash, accounts receivable and payable, certain accrued liabilities, and payables under the Russian HEU Contract, the carrying amounts for which approximate fair value. In July 1998, the Company's financial instruments include debt of $550.0 million borrowed at the time of the Offering.

At June 30, 1998, trade receivables from sales of SWU to electric utility customers located in the United States, Asia and Europe amounted to $149.9 million, $62.7 million, and $5.9 million, respectively. The Company has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.0 million at June 30, 1998. Interest accrues on the unpaid balance.

Credit risk could result from the possibility of a utility customer failing to perform according to the terms of a long-term requirements contract. Extension of credit is based on an evaluation of each customer's financial condition. The Company 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.

13. Employee Benefit Plans

Effective January 1994, a non-contributory defined benefit pension plan was established by the Company to provide retirement benefits to its employees based on salary and years of service. Certain employees who transferred from other government agencies elected to continue participation in the federal retirement programs. Pension costs, including costs for the Company's 401(k) plan, amounted to $1.0 million for each of the years ended June 30, 1996, 1997 and 1998. At June 30, 1998, based on an assumed discount rate of 7.5%, an assumed compensation rate of 5% and an assumed rate of return on plan assets of 8%, the actuarial value of projected benefit obligations was $1.0 million, none of which was vested, the fair value of plan assets was $1.1 million, and the amount of unfunded accrued pension costs included in current liabilities was $.1 million.

14. Operations and Maintenance Contract

Under an operations and maintenance contract with the Company (the "LMUS Contract"), LMUS provides labor, services, and materials and supplies to operate and maintain the GDPs, for which the Company funds LMUS for its actual costs and pays contracted fees. The LMUS Contract expires October 2000 and may be terminated by the Company without penalty at any time upon six-months' notice. If LMUS meets certain specified operating and safety criteria and demonstrates cost savings that exceed certain targets, LMUS can earn an annual incentive fee.

Under the operations and maintenance contract, USEC is responsible for and accrues for its pro rata share of pension and other post-retirement health and life insurance costs relating to LMUS employee benefit plans. All costs related to years of service prior to July 1, 1993, are the responsibility of DOE. The Company's responsibility for funding its pro rata share of LMUS pension and other post-retirement benefit costs is determined based on actuarial estimates and amounted to $21.8 million, $20.8 million, and $22.4 million for the years ended June 30, 1996, 1997 and 1998, respectively.

Special charges amounted to $46.6 million for the year ended June 30, 1998, for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

15. Transactions with the Department of Energy

In June 1998, the Company paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted UF_6 generated by the Company from its operations at the GDPs from October 1998 to 2005. The prepaid asset will be amortized as a charge against production costs over the life of the agreement.

Services are provided to DOE by the Company for environmental restoration, waste management and other activities based on actual costs incurred at the GDPs. Reimbursements by DOE to the Company for actual costs incurred amounted to $68.5 million, $53.4 million, and $51.6 million for the years ended June 30, 1996, 1997 and 1998, respectively. Amounts receivable from DOE for actual costs incurred for services amounted to $10.0 million and $17.9 million at June 30, 1997 and 1998, respectively.

Receivables from DOE of $104.8 million at June 30, 1997, relate to costs associated with modifications to bring the GDPs into compliance with NRC certification standards and nuclear safeguard requirements incurred by the Company and reimbursable by DOE. The reimbursement was satisfied in May 1998 by the transfer from DOE of 13 metric tons of HEU blended into the GDP production stream, and transfers of natural uranium and LEU that were recorded in May 1998 at DOE's historical cost. The Company estimates its remaining cash outlays for completion of such upgrades, included in current liabilities at June 30, 1998, amount to $41.2 million, the reimbursement for which was completed by the transfers of uranium and LEU in May 1998.

Receivables from DOE at June 30, 1997, include the balance of $19.6 million representing amounts receivable from DOE relating to the Determination Order, dated July 1, 1993, payment of which was satisfied by the transfers of uranium and LEU in May 1998.

16. Quarterly Financial Data (Unaudited)

The following table summarizes the Company's quarterly results of operations (in millions):

	Year Ended June 30, 1998				
	Sept. 30	Dec. 31	March 31	June 30	Total
Revenue[1]	$440.4	$322.3	$294.0	$364.5	$1,421.2
Cost of sales	342.1	235.7	214.4	269.9	1,062.1
Gross profit	98.3	86.6	79.6	94.6	359.1
Special charges for workforce reductions and privatization costs[2]	—	—	—	46.6	46.6
Project development costs[3]	32.2	35.4	35.4	33.7	136.7
Selling, general and administrative	8.1	8.9	7.8	9.9	34.7
Other (income) expense, net	(2.0)	0.6	(3.9)	0.1	(5.2)
Net income[4]	$ 60.0	$ 41.7	$ 40.3	$ 4.3	$ 146.3

	Year Ended June 30, 1997				
Revenue[1]	$422.9	$485.1	$216.4	$453.4	$1,577.8
Cost of sales	307.9	364.2	161.3	328.9	1,162.3
Gross profit	115.0	120.9	55.1	124.5	415.5
Project development costs[3]	35.7	39.2	32.6	34.0	141.5
Selling, general and administrative	8.6	8.6	8.5	6.1	31.8
Other (income) expense, net	(2.3)	(.9)	(1.1)	(3.6)	(7.9)
Net income[4]	$ 73.0	$ 74.0	$ 15.1	$ 88.0	$ 250.1

(1) The Company's revenue and financial performance are substantially influenced by the timing of customer nuclear reactor refuelings that are affected by, among other things, the seasonal nature of electricity demand and production. The timing of customer reactor fuel reloads, which generally occur every 12 to 24 months, tends to be fairly predictable over the long run, but may vary quarter-to-quarter and can affect financial comparisons. Utilities typically schedule the shutdown of their reactors for refueling during low demand periods of spring and fall to reduce costs associated with reactor downtime. The Company 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.

(2) Special charges amounted to $46.6 million for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

(3) Project development costs primarily represent planned development and engineering spending for the future commercialization of the AVLIS uranium enrichment process.

(4) The Company was exempt from federal, state and local income taxes until the time of the Offering.

Reports of Independent Public Accountants

To the Board of Directors of USEC Inc.:

We have audited the accompanying balance sheets of USEC Inc., a Delaware corporation, (formerly United States Enrichment Corporation) as of June 30, 1997 and 1998, and the related statements of income and cash flows for each of the three years in the period ended June 30, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USEC Inc. as of June 30, 1997 and 1998, and the results of its operations and its cash flows for each of the years in the three year period ended June 30, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

To the Board of Directors of USEC Inc.:

We have examined the pro forma adjustments (not separately presented) reflecting the Offering Transactions as described in Note 4 and the application of those adjustments to the historical amounts in the assembly of the accompanying pro forma balance sheet of USEC Inc. (the "Company") as of June 30, 1998, and the pro forma statement of income for the year then ended. The pro forma financial information presented are derived from the audited historical financial statements of USEC Inc. appearing herein. Such pro forma adjustments are based upon management's assumptions described in Note 4. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the Offering Transactions occurred at an earlier date. However, the pro forma financial information is not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the Offering Transactions actually occurred earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the Offering Transactions, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma financial information reflects the proper application of those adjustments to the historical financial statement amounts in the pro forma balance sheet as of June 30, 1998, and the pro forma statement of income for the year then ended.

Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

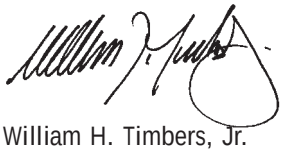
Management's Responsibility for Financial Reporting

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.

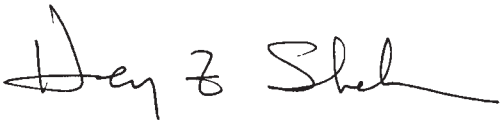
The system of internal controls is designed to provide reasonable assurance as to the reliability of financial records and the protection of assets. This system is augmented by written policies and guidelines, an internal audit program and the careful selection and training of qualified personnel. It 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, Jr.
President and Chief Executive Officer



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

September 28, 1998

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

Dr. Joyce F. Brown
President, Fashion Institute of Technology

Frank V. Cahouet
President, Chairman and Chief Executive Officer,
Mellon Bank

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

Dan T. Moore, III
President and Chief Executive Officer, Dan T. Moore, Co.

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

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

Standing Committees

*(*indicates the chair of each committee)*

Audit, Finance and Corporate Responsibility

Frank V. Cahouet*
Joyce F. Brown
William H. White

Compensation

John R. Hall*
Frank V. Cahouet
James R. Mellor
Dan T. Moore, III

Regulatory Affairs

William H. White*
John R. Hall
William H. Timbers, Jr.

Officers

William H. Timbers, Jr.
President and Chief Executive Officer

George P. Rifakes
Executive Vice President, Operations

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

Robert J. Moore
Vice President, General Counsel and Secretary

J. William Bennett
Vice President, Advanced Technology

William J. Bruttaniti
Vice President and Chief Information Officer

Richard O. Kingdon
Vice President, Marketing and Sales

James H. Miller
Vice President, Production

Philip G. Sewell
Vice President, Corporate Development and International Trade

Darryl A. Simon
Vice President, Human Resources and Administration

Charles B. Yulish
Vice President, Corporate Communications

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 November 17, 1998, the Company had approximately 42,000 beneficial holders of its common stock.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10 a.m. February 2, 1999, 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, Maryland 20817-1818
Phone: (301) 564-3200
Fax: (301) 564-3211

Internet Home Page

The Company maintains an Internet site at 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) 564-3200

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, Boston 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:

BankBoston, N.A.
c/o Boston EquiServe L.P.
Investor Relations Department
Mail Stop:. 45-02-64
P.O. Box 8040
Boston, MA 02266-8040
Phone: (781) 575-3120
www.equiserve.com

Dividend Information

Dividends on USEC Inc. common stock will be paid as declared by the Board of Directors. It is anticipated that dividends will typically be paid on the 15th of the month in December, March, June and September.

Independent Auditors

Arthur Andersen LLP
1666 K Street, NW
Washington, DC 20006