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**S E L E C T E D F I N A N C I A L D A T A**

Selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations. Selected financial data as of and for each of the fiscal years in the five-year period ended June 30, 2002, have been derived from the Consolidated Financial Statements which have been audited by independent public accountants. Consolidated Financial Statements for fiscal 2002 were audited by PricewaterhouseCoopers LLP, and Consolidated Financial Statements for fiscal years 2001, 2000, 1999 and 1998 were audited by Arthur Andersen LLP.

<i>(millions, except per share data)</i>	Fiscal Years Ended June 30,				
	2002	2001	2000	1999	1998
					Predecessor <sup>(1)</sup>
<b>Statement of Income Data</b>					
<b>Revenue:</b>					
Separative work units	<b>\$1,309.3</b>	\$1,057.3	\$1,387.8	\$1,475.0	\$1,380.4
Uranium	<b>116.9</b>	86.6	101.6	53.6	40.8
Total revenue	<b>1,426.2</b>	1,143.9	1,489.4	1,528.6	1,421.2
Cost of sales	<b>1,321.2</b>	991.7	1,236.3	1,182.0	1,062.1
Uranium inventory valuation adjustment	-	-	19.5	-	-
Gross profit	<b>105.0</b>	152.2	233.6	346.6	359.1
<b>Special charges (credit):</b>					
Consolidating plant operations	<b>(6.7)<sup>(2)</sup></b>	-	141.5 <sup>(2)</sup>	-	-
Suspension of development of AVLIS technology	-	-	(1.2)	34.7 <sup>(3)</sup>	-
Workforce reductions	-	-	-	-	32.8
Privatization costs	-	-	-	-	13.8
Advanced technology development costs	<b>12.6</b>	11.4	11.4	106.4	136.7
Selling, general and administrative	<b>50.7</b>	48.8	48.9	40.3	34.7
Operating income	<b>48.4</b>	92.0	33.0	165.2	141.1
Interest expense	<b>36.3</b>	35.2	38.1	32.5	-
Other (income) expense, net	<b>(10.4)</b>	(8.1)	(10.5)	(16.8)	(5.2)
Income before income taxes	<b>22.5</b>	64.9	5.4	149.5	146.3
Provision (credit) for income taxes	<b>6.3</b>	(13.5) <sup>(4)</sup>	(3.5)	(2.9) <sup>(4)</sup>	-
Net income	<b>\$ 16.2</b>	\$ 78.4	\$ 8.9	\$ 152.4	\$ 146.3
Net income per share—basic and diluted	<b>\$ .20</b>	\$ .97	\$ .10	\$ 1.52	
Dividends per share	<b>\$ .55</b>	\$ .55	\$ .825	\$ .825	
Average number of shares outstanding	<b>81.1</b>	80.7	90.7	99.9	

**S E L E C T E D F I N A N C I A L D A T A** (continued)

(millions)	2002	2001	As of June 30,		1998
			2000	1999	Predecessor <sup>(1)</sup>
<b>Balance Sheet Data</b>					
Cash and cash equivalents	<b>\$ 279.2</b>	\$ 122.5	\$ 73.0	\$ 86.6	\$1,177.8 <sup>(5)</sup>
Inventories:					
Current assets:					
Separative work units	<b>708.1</b>	918.3	596.0	648.8	687.0
Uranium <sup>(6)</sup>	<b>154.0</b>	178.6	209.8	160.1	184.5
Materials and supplies	<b>21.8</b>	19.0	19.3	22.8	24.8
Long-term assets	<b>415.5</b>	420.2	436.4	574.4	561.0
Inventories, net	<b>\$1,299.4</b>	\$1,536.1	\$1,261.5	\$1,406.1	\$1,457.3
Total assets	<b>\$2,168.0</b>	\$2,207.5	\$2,084.4	\$2,360.2	\$3,471.3
Short-term debt	–	–	50.0	50.0	–
Long-term debt	<b>500.0</b>	500.0	500.0	500.0	–
Other liabilities	<b>263.2</b>	307.6	281.1	195.0	503.3 <sup>(7)</sup>
Stockholders' equity	<b>949.3</b>	972.8	947.3	1,135.4	2,420.5 <sup>(5)</sup>
Number of shares outstanding	<b>81.3</b>	80.6	82.5	99.2	

(1) Selected financial data for fiscal 1998 have been derived from the financial statements of United States Enrichment Corporation ("Predecessor"), a U.S. Government-owned corporation. In fiscal 1998, there was no short or long-term debt, interest expense, provision for income taxes, net income per share, or dividends per share for the Predecessor.

(2) The special credit of \$6.7 million (\$4.2 million or \$.05 per share after tax) in fiscal 2002 represents a change in estimate of costs for consolidating plant operations.

The plan to consolidate plant operations and cease uranium enrichment operations at the Portsmouth plant resulted in special charges of \$141.5 million (\$88.7 million or \$.97 per share after tax) in fiscal 2000, including asset impairments of \$62.8 million, severance benefits of \$45.2 million, and lease turnover and other exit costs of \$33.5 million.

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

(4) The provision for income taxes includes a special income tax credit of \$37.3 million (or \$.46 per share) in fiscal 2001 and \$54.5 million (or \$.54 per share) in fiscal 1999 for deferred income tax benefits that arose from the transition to taxable status. The special charge in fiscal 2001 represents a change in estimate resulting from a reassessment of certain deductions for which related income tax savings were not certain.

(5) An exit dividend of \$1,709.4 million was paid to the U.S. Government at the time of the initial public offering in July 1998.

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

(7) Other liabilities include accrued liabilities for the disposition of depleted uranium. Pursuant to the USEC Privatization Act, depleted uranium generated by USEC at the time of the initial public offering in July 1998 was transferred to DOE, and the accrued liability of \$373.8 million for the disposition of depleted uranium was transferred to stockholders' equity in fiscal 1999.

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

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

### OVERVIEW

USEC, a global energy company, is the world leader in the supply of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for nuclear reactors to produce electricity.

The standard measure of enrichment in the uranium enrichment industry is a separative work unit ("SWU"). A SWU represents the effort that is required to transform a given amount of natural uranium into two streams of uranium, one enriched in the U<sup>235</sup> isotope and the other depleted in the U<sup>235</sup> isotope, and is measured using a standard formula based on the physics of uranium enrichment. The amount of enrichment contained in LEU under this formula is commonly referred to as the SWU component.

### Critical Accounting Policies

The summary of significant accounting policies in note 2 of the notes to consolidated financial statements and the other notes to the consolidated financial statements provide a description of relevant information regarding USEC's significant and critical accounting policies including, but not limited to:

- ▶ revenue recognition, including deferred revenue and advances from customers,
- ▶ inventories of uranium and SWU and inventory costing methods, classifications and valuations,
- ▶ power costs and related contractual commitments,
- ▶ assets and liabilities relating to the generation and future disposition of depleted uranium,
- ▶ deferred income taxes and related valuation allowance, and
- ▶ special charges and liabilities for consolidating plant operations.

Revenue includes estimates and judgments relating to the recognition of deferred revenue and price adjustments under contracts with customers that involve pricing based on inflation rates and customers' nuclear fuel requirements. SWU and uranium inventories include estimates and

judgments for production quantities and replacement and remediation of any out-of-specification uranium by the U.S. Department of Energy ("DOE"). Production costs include estimates of future costs for the storage, transportation and disposition of depleted uranium. Income taxes include estimates and judgments for the tax bases of assets and liabilities and the future recoverability of deferred tax items. Judgments and estimates inherent in special charges for consolidating plant operations include the timing and amount of asset impairments, obligations to power suppliers for USEC's pro rata share of decommissioning, demolition and shut-down activities and postretirement health and life benefit obligations, and future costs to complete plant lease turnover and other requirements. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change.

### Revenue

Revenue is derived from sales of the SWU component of LEU, from sales of the SWU and uranium components of LEU, and from sales of uranium. Since orders for LEU to refuel customer reactors occur once every 12, 18 or 24 months and are large in amount, averaging \$12.0 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.

Agreements with electric utilities are generally long-term requirements contracts under which customers are obligated to purchase a specified percentage of their requirements for the SWU component of LEU. USEC also sells uranium under requirements contracts. Customers, however, are not obligated to make purchases or payments if they do not have any requirements. Based on customers' estimates of their requirements and certain other assumptions, including estimates of inflation rates, at June 30, 2002, USEC had long-term requirements contracts aggregating \$4.5 billion through fiscal 2011 (including \$2.7 billion through fiscal 2005), compared with \$5.4 billion at June 30, 2001.

In February 2002, the U.S. Department of Commerce ("DOC") issued an order imposing antidumping and countervailing duties on imports of LEU from France, and countervailing duties on imports of LEU from Germany, the Netherlands and the United Kingdom. The orders

require the posting of cash deposits of 32.1% on the value of LEU imports from France, and 2.23% on the value of LEU imports from Germany, the Netherlands and the United Kingdom. This order was the culmination of investigations by the DOC and the U.S. International Trade Commission (“ITC”) into allegations filed by USEC (joined by the Paper, Allied-Industrial, Chemical & Energy Workers International Union) that LEU imported from these countries was being subsidized and, in the case of LEU imports from France, sold at unfair prices, and was materially injuring or threatening to materially injure USEC.

The orders do not prevent the importation of European LEU, but help to offset the European enrichers’ subsidies and unfair pricing practices. Appeals of the DOC’s and ITC’s determinations in these investigations are now pending before the U.S. Court of International Trade, and, depending upon the impact (if any) of the Court’s decision on the scope or methodology of the investigations, may result in a future increase, decrease or elimination of the duties on some or all of these imports or the revocation of the antidumping and countervailing duty orders. Court-ordered remand proceedings before each agency, and/or subsequent appeals to the U.S. Court of Appeals for the Federal Circuit, are also possible. Additionally, the European Union may challenge some or all of the DOC and ITC determinations under the dispute resolution procedures of the World Trade Organization. While it is not possible to predict the final outcome of these appeals or procedures, it is unlikely that any will be completed prior to June 2003. The final duties to be assessed against LEU imports covered by the orders will be determined in accordance with the outcome of these appeals and procedures and the annual administrative reviews to be conducted by DOC beginning in February 2003.

Because of the European competitors’ aggressive and unfair pricing, USEC lost a substantial volume of long-term sales when bidding against Urenco and Eurodif. USEC’s backlog of contract commitments is declining and is more heavily weighted with newer contracts with shorter terms and lower prices. USEC estimates its market share of the SWU component of LEU purchased by and shipped to utilities in North America was 65% in fiscal 2002, compared with 47% in fiscal 2001 and 73% in fiscal 2000. In the world market, USEC estimates its market share was 34% in fiscal 2002, compared with 29% in fiscal 2001 and 35% in fiscal 2000. The timing and movement of customer orders also contributes to changes in market share.

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 are 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 annual or biannual refueling in the spring or fall, or for 18-month cycles alternating between both seasons. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results.

USEC’s financial performance over time can be significantly affected by changes in prices for SWU. A trend toward lower average SWU prices billed to customers will continue as older contracts with higher prices expire and the sales backlog becomes more heavily weighted with contracts negotiated in recent years with flexible quantities and lower prices. Some contracts contain flexibilities that allow customers to purchase additional quantities at lower prices. USEC expects a decline of 2% in the average price billed to customers in fiscal 2003, compared with fiscal 2002.

Published base-year prices for SWU under new long-term contracts increased 3% to \$105 per SWU at June 30, 2002, following an increase of 23% in fiscal 2001. Uranium prices increased 3% to \$32 per kilogram of uranium hexafluoride at June 30, 2002, following an increase of 11% in fiscal 2001. Since a substantial portion of USEC’s sales are under long-term contracts, the positive impact of higher market prices will be realized in future periods and will help offset lower-priced contracts signed in recent years. Developments that contributed to improvements in market prices for SWU include:

- ▶ determinations by DOC that imports by European competitors have been subsidized by their foreign governments, and, in the case of imports from France, sold at dumped prices, and by ITC that LEU imported from these countries had materially injured USEC;
- ▶ the cessation of uranium enrichment operations at the Portsmouth plant, helping to bring market supply and demand more closely in balance;
- ▶ improved performance of nuclear power plants; and
- ▶ substantial reductions in inventories being sold by secondary suppliers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Future market prices will be impacted by the long-term results of the U.S. Government's international trade actions, fundamental supply and demand shifts, the availability of secondary supplies, and actions of European competitors. Increased competition among uranium enrichment suppliers for new sales commitments could cause prices to trend lower.

In addition, revenue could be negatively impacted by actions of the Nuclear Regulatory Commission ("NRC") suspending operations at domestic reactors. Business decisions by utilities that take into account economic factors, such as the price and availability of alternate fossil fuels, consolidation within the electric power industry, the need for generating capacity and the cost of maintenance, could result in suspended operations or early shutdowns of some reactors.

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

### **Cost of Sales**

Cost of sales is based on the amount of SWU and uranium sold during the period. Cost of sales is determined by a combination of inventory levels and costs, production costs, and purchase costs under the Russian Contract. Production costs consist principally of electric power, labor and benefits, depleted uranium disposition costs, materials, depreciation and amortization, and maintenance and repairs. Under the monthly moving average inventory cost method coupled with USEC's significant inventories of SWU and uranium, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over future periods.

In recent years, cost of sales per unit has trended upward. This trend is expected to stabilize in the near term and will improve as the favorable impact of purchases from Russia under the new market-based contract amendment, workforce reductions and plant consolidation initiatives, and lower costs for depleted uranium disposition over time lower inventory costs and improve cost of sales.

### **Purchase Costs**

USEC is the Executive Agent of the U.S. Government under a government-to-government agreement ("Russian Contract") to purchase the SWU component of LEU

recovered from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants. USEC contracts for purchases under the Russian Contract on a calendar year basis.

In June 2002, the U.S. and Russian governments approved implementation of new, market-based pricing terms for the remaining 12 years of the Russian Contract. An amendment to the Russian Contract creates a market-based mechanism to determine prices beginning in calendar year 2003 and continuing through 2013. In consideration for this stable and economic structure for the future, USEC agreed to extend the calendar year 2001 price of \$90.42 per SWU through calendar year 2002 (i.e., the last two quarters of USEC's fiscal year 2002, and the first two quarters of USEC's fiscal year 2003). Beginning in calendar year 2003, prices under the Russian Contract will be determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of this index will be used to minimize the disruptive effect of any short-term market price swings. The amendment also provides that, after the end of calendar year 2007, USEC and Tenex may agree on appropriate adjustments, if necessary, to ensure that Tenex receives at least \$7,565 million for the SWU component over the 20-year term of the Russian Contract.

Under the amended contract, USEC agreed to continue to purchase 5.5 million SWU each calendar year from Tenex from 2002 through 2012 and such amount in calendar year 2013 as may be required to ensure that over the life of the Russian Contract USEC purchases SWU contained in 500 metric tons of highly enriched uranium. USEC also agreed to purchase over two or more years after 2002 a total of 1.6 million SWU that USEC had ordered in 1999 but Tenex had not been able to deliver. Over the life of the 20-year Russian Contract, USEC expects to purchase 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. A significant delay in purchasing, shipping or receiving LEU from Russia would have an adverse effect on USEC's results of operations.

Under the terms of a 1997 memorandum of agreement between USEC and the U.S. Government, USEC can be terminated, or resign, as the U.S. Executive Agent, or one or more additional executive agents may be named. In either event, any new executive agent could represent a significant new competitor that could adversely affect USEC's profitability and sales.

### **Production Costs**

The Paducah plant requires substantial amounts of electric power to enrich uranium. USEC purchases a substantial portion of the electric power for the Paducah plant at fixed rates pursuant to a power purchase agreement with Tennessee Valley Authority (“TVA”). Prices for electric power under the TVA contract are fixed until May 2006. In addition, USEC purchases a portion of the electric power from Electric Energy, Inc. (“EEI”) under a power purchase agreement between DOE and EEI. DOE transferred the benefits of the EEI power purchase agreement to USEC. Costs for electric power purchased from EEI are based on actual costs incurred by EEI. In addition, USEC purchases electric power in the spot market.

Market prices for electric power vary seasonally with rates higher during the winter and summer as a function of the extremity of the weather. USEC substantially reduces LEU production and the related power load in the summer months when the cost of electric power is high. The electric power load at the Paducah plant is increased after the summer months as production equipment is returned to service.

USEC accrues estimated costs for the future disposition of depleted uranium generated as a result of its operations. The long-term liability for depleted uranium is dependent upon the volume of depleted uranium generated and estimated transportation, conversion and disposal costs. USEC stores depleted uranium at the plants and continues to evaluate various alternatives for its disposition. Under the DOE-USEC Agreement, DOE will take title to depleted uranium generated by USEC at the Paducah plant during fiscal years 2002 and 2003 and half of the depleted uranium generated in fiscal years 2004 and 2005, up to a maximum of 23.3 metric tons.

### **Replacing Any Out-of-Specification Natural Uranium Inventory**

USEC has previously reported that limited samples of certain natural uranium transferred to USEC from DOE prior to privatization contain elevated levels of technetium that would put the uranium out of specification for commercial use. The total amount of uranium inventory that may be impacted is approximately 9,500 metric tons with a cost of \$237.5 million at June 30, 2002.

Under the DOE-USEC Agreement, DOE has agreed to replace any natural uranium that is determined to be out-of-specification. Replacement or remediation of any out-of-specification natural uranium inventory will be accomplished as follows:

- ▶ USEC cleaning up a portion of the uranium with USEC being compensated by DOE for the clean up costs as described below,
- ▶ DOE replacing a portion of the uranium and
- ▶ DOE endeavoring to engage third parties to determine whether any remaining out-of-specification uranium can be replaced, remedied or exchanged.

USEC has agreed to operate facilities at the Portsmouth plant at its own expense (other than site infrastructure expenses which will be paid by DOE) for 15 months in order to remove contaminants from a portion of the out-of-specification uranium. USEC estimates the cost to operate these facilities will be \$21 million for the period July 2002 to September 2003. To compensate USEC for these clean-up costs, DOE will take title to all depleted uranium generated by USEC at the Paducah plant during fiscal years 2002 and 2003, and half of the depleted uranium generated in fiscal years 2004 and 2005, up to a maximum of 23.3 million kilograms of uranium contained in depleted uranium. The transfer of depleted uranium to DOE reduces USEC’s costs for the disposition of depleted uranium. USEC will release the United States from liability with respect to any out-of-specification uranium that is processed or replaced, and in any event will release the United States for liability with respect to at least 2,800 metric tons of natural uranium.

With respect to remaining out-of-specification natural uranium, the liability for which has not been released by USEC, DOE will attempt to engage third parties to determine whether the remaining uranium can be replaced, remedied or exchanged. If arrangements for replacement or clean up of this uranium are not in place by March 31, 2003, then DOE must, at its option, exchange, replace, clean up or reimburse USEC for 3,293 metric tons of uranium less the amount actually processed at the Portsmouth plant or accepted by USEC by March 31, 2003.

DOE’s obligations to replace or remediate all out-of-specification natural uranium continue until all such uranium is replaced or remediated. DOE’s obligations with respect to the out-of-specification uranium survive any termination of the DOE-USEC Agreement as long as USEC is producing LEU containing at least 1 million SWU per year at the Paducah plant or at a new enrichment facility. DOE’s obligations to replace or remediate out-of-specification natural uranium are subject to availability of appropriated funds and legislative authority, and compliance with applicable law. Although the parties

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS** *(continued)*

intend to pursue any such legislative authority, there can be no assurance that Congress will appropriate such funds and pass requisite legislation.

USEC is in the early stages of operating facilities at the Portsmouth plant to remove contaminants from a portion of the out-of-specification uranium and can provide no assurances that it will be able to remove contaminants from at least 2,800 metric tons of natural uranium by September 2003. In the event that USEC is not able to remove contaminants from at least 2,800 metric tons prior to its obligation to release the United States from liability with respect to such uranium, an impairment in the valuation of uranium inventory could result. In addition, an impairment in the valuation of uranium inventory would result if DOE fails to exchange, replace, clean up or reimburse USEC for some or all of the out-of-specification uranium for which DOE has assumed responsibility. Depending on the amount of uranium, an impairment could have an adverse effect on USEC's financial condition and results of operations.

#### Results of Operations

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

	Fiscal Years Ended June 30,		
	2002	2001	2000
Revenue:			
Domestic	67%	49%	62%
Asia	29	46	32
Europe and other	4	5	6
Total revenue	100%	100%	100%
Cost of sales	93	87	83
Uranium inventory valuation adjustment	-	-	1
Gross profit	7	13	16
Special charges (credit) for consolidating plant operations	-	-	10
Advanced technology development costs	1	1	1
Selling, general and administrative	3	4	3
Operating income	3	8	2
Interest expense	2	3	2
Other (income) expense, net	-	(1)	(1)
Income before income taxes	1	6	1
Provision (credit) for income taxes	-	(1)	-
Net income	1%	7%	1%

#### RESULTS OF OPERATIONS – FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

##### Revenue

Revenue from sales of the SWU component of LEU amounted to \$1,309.3 million in fiscal 2002, an increase of \$252.0 million (or 24%) from \$1,057.3 million in fiscal 2001. The substantial increase was due mainly to the timing and movement of customer nuclear reactor refueling orders, partly offset by a decline of 3% in average prices billed to customers. The volume of SWU sold increased 27%, and the number of customer refueling orders and the average order size were higher. USEC expects revenue from sales of SWU in fiscal 2003 to be about the same as in fiscal 2002.

Revenue from sales of uranium was \$116.9 million in fiscal 2002, an increase of \$30.3 million (or 35%) from \$86.6 million in fiscal 2001. The volume of uranium sold increased 27% in fiscal 2002, and the average price improved 7%. USEC expects revenue from sales of uranium in fiscal 2003 to be about the same as in fiscal 2002.

Revenue from domestic customers increased \$394.8 million (or 71%), revenue from customers in Asia declined \$122.1 million (or 23%), and revenue from customers in Europe and other areas increased \$9.6 million (or 17%), compared with fiscal 2001. The significant increase in the domestic market reflects the timing and the movement of customer orders, partly offset by a decline in average prices billed to customers. The reduction in the Asian market reflects the timing and movement of customer orders and, in fiscal 2001, revenue had benefited from a large initial core order for a new reactor.

##### Cost of Sales

Cost of sales amounted to \$1,321.2 million in fiscal 2002, an increase of \$329.5 million (or 33%) from \$991.7 million in fiscal 2001. As a percentage of revenue, cost of sales amounted to 93%, compared with 87% in fiscal 2001. The increase in cost of sales reflects the 27% increases in the volumes of both SWU and uranium sold, lower purchases of the SWU component of LEU under the Russian Contract, and continuing high unit production costs. Purchases under the Russian Contract were 16% lower in fiscal 2002, compared with fiscal 2001, as a result of the delay in the approval by the United States Government of the contract amendment with new market-based pricing terms beginning January 2003. Although unit production costs were high due to lower production levels, production costs stabilized as workforce reductions and plant consolidation initiatives implemented in previous periods began



to take effect. In addition, production costs benefited from lower costs for depleted uranium disposition resulting from the DOE-USEC Agreement. Cost of sales in fiscal 2001 had benefited from the monetization of excess power at the Portsmouth plant in the summer of 2000. USEC ceased uranium enrichment operations at the Portsmouth plant in May 2001.

Purchases of the SWU component of LEU from the Russian Federation represented 50% of the combined produced and purchased supply mix for USEC in fiscal 2002, compared with 52% in fiscal 2001 and 41% in fiscal 2000. USEC expects purchases under the Russian Contract will approximate 50% of the supply mix in fiscal 2003.

Electric power costs amounted to \$301.6 million (representing 58% of production costs) in fiscal 2002, a reduction of \$29.8 million (or 9%) from \$331.4 million (representing 52% of production costs) in fiscal 2001. The reduction in power costs reflects lower production following the ceasing of uranium enrichment operations at the Portsmouth plant at the end of fiscal 2001. USEC purchases a significant portion of electric power for the Paducah plant from TVA. USEC substantially reduces production and the related power load at the Paducah plant in the summer months when the cost of power is generally high. USEC secured additional megawatts of power at favorable prices for the summer of 2002 and expects to increase production to levels substantially above last summer. The additional power will help USEC levelize production and better manage inventory levels.

Costs for labor and benefits were lower as the average number of employees at the plants declined 13% in fiscal 2002, compared with fiscal 2001. Labor costs in the fiscal 2001 period include costs for a retention bonus program for employees at the Portsmouth plant.

#### **Gross Profit**

Gross profit amounted to \$105.0 million in fiscal 2002, a reduction of \$47.2 million (or 31%) from \$152.2 million in fiscal 2001. Gross margin was 7%, compared with 13% in fiscal 2001. Despite significantly higher revenue, margins continued to decline due to lower purchases under the Russian Contract, high unit production costs, and the 3% decline in average SWU prices billed to customers.

#### **Special Charges (Credit) for Consolidating Plant Operations**

In fiscal 2002, USEC recorded a special credit of \$6.7 million (\$4.2 million or \$.05 per share after tax) representing a change in estimate of costs for consolidating plant operations. The special credit includes a cost reduction of

\$19.3 million for workforce reductions, primarily reflecting recovery from DOE of DOE's pro rata share of severance benefits, and a cost reduction of \$3.8 million for other exit costs. In June 2001, DOE authorized funding to conduct cold standby services at the Portsmouth plant, and USEC is performing these services under a letter agreement until a definitive contract is concluded between the parties. As a result of DOE's program, the number of workforce reductions at the Portsmouth plant announced in June 2000 were reduced. The cost reductions were partly offset by charges of \$16.4 million for asset impairments relating to transfer and shipping facilities at the Portsmouth plant. In February 2002, USEC announced plans to consolidate the transfer and shipping operations in the summer of 2002 at the Paducah plant. This consolidation will result in workforce reductions at the Portsmouth plant, and the cost of workforce reductions has been accrued.

#### **Selling, General and Administrative**

Selling, general and administrative expenses amounted to \$50.7 million in fiscal 2002, an increase of \$1.9 million (or 4%) from \$48.8 million in fiscal 2001. Lower costs from workforce reductions at the headquarters' office were offset by higher costs for outside legal counsel and other consultants providing services for (a) the Russian Contract amendment approved in June 2002, (b) the DOE-USEC Agreement signed in June 2002, and (c) the international trade investigations concluded in USEC's favor in February 2002.

#### **Operating Income**

Operating income amounted to \$48.4 million in fiscal 2002, a reduction of \$43.6 million (or 47%) from \$92.0 million in fiscal 2001. The reduction reflects lower gross profit, partly offset by the special credit for consolidating plant operations.

#### **Interest Expense**

Interest expense amounted to \$36.3 million in fiscal 2002, compared with \$35.2 million in fiscal 2001. The increase reflects interest expense accrued on a deferred payment obligation under a power purchase agreement with TVA. There was no short-term debt outstanding in the fiscal 2002 period.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS** *(continued)*

**Other Income (Expense), Net**

Other income includes interest income and income or expense, net, from contract services for DOE. Other income amounted to \$10.4 million in fiscal 2002, compared with \$8.1 million in fiscal 2001. USEC earned the net amount of \$1.7 million in fiscal 2002 from contract services reimbursed by DOE, whereas fiscal 2001 results had included a net expense of \$2.8 million.

**Provision for Income Taxes**

The provision for income taxes in fiscal 2002 reflects an effective income tax rate of 28%. The provision (credit) for income taxes in the fiscal 2001 period includes a special income tax credit of \$37.3 million (or \$.46 per share) resulting from changes in the estimated amount of deferred income tax benefits that arose from the transition to taxable status. USEC transitioned to taxable status in July 1998 at the time of the initial public offering of common stock. The change in estimate resulted from a reassessment of certain deductions for which related income tax savings were not certain. Excluding the special income tax credit, the effective income tax rate was 37% in fiscal 2001.

**Net Income**

Net income amounted to \$16.2 million (or \$.20 per share) in fiscal 2002 and \$78.4 million (or \$.97 per share) in fiscal 2001. Excluding special credits, net income was \$12.0 million (or \$.15 per share) in fiscal 2002, compared with \$41.1 million (or \$.51 per share) in fiscal 2001. The reduction primarily reflects lower gross profit. There was a special credit of \$4.2 million (or \$.05 per share) after tax in fiscal 2002 from a change in estimate of costs for consolidating plant operations and a special income tax credit of \$37.3 million (or \$.46 per share) in fiscal 2001.

**Fiscal 2003 Outlook**

Looking forward, the positive impact on earnings from the new pricing agreement with Russia will begin to be seen in the latter half of fiscal 2003 and continue through 2013. Contracts signed at today's higher market prices will gradually affect average invoiced prices two to five years from signing. The long-term nature of USEC's business and the average monthly inventory methodology creates a lag between these types of actions and the resulting financial benefits.

USEC is providing earnings guidance for fiscal 2003 in a range between \$9 and \$12 million. The forecast reflects increased spending on advanced technology and narrow

gross margins that will put pressure on earnings. USEC expects to spend \$15 to \$20 million more on advanced technology in fiscal 2003, compared with fiscal 2002, to begin to position USEC in the long term as the industry's low-cost producer. Thus, earnings (after tax) in fiscal 2003 would be \$10 to \$13 million higher without this developmental spending. Separately, as a result of the DOE-USEC Agreement, accruals for depleted uranium disposition will be lower over the next several fiscal years, resulting in a positive impact of \$13.7 million (after tax) to earnings in fiscal 2003.

USEC expects the quarterly earnings pattern in fiscal 2003 to be similar to fiscal 2002: small quarterly losses or break-even in the first three quarters and a strong fourth quarter. Earnings in fiscal 2003 will be driven by business performance and are dependent on the following key factors:

- ▶ Meeting fiscal 2003 targets for revenue; over 90 percent of projected revenue is under contract.
- ▶ Further reductions in production costs at the Paducah plant that depend on the timing and completion of cost reduction initiatives.
- ▶ Meeting targets for other income that are primarily dependent on definitization of the cold standby contract at the Portsmouth plant, including fee negotiations and legislative approval of DOE funding levels.

This earnings guidance assumes that production cost reductions, both previous and future, and a half-year benefit from purchasing Russian SWU at lower, market-based pricing under the Russian Contract will offset slightly lower SWU prices billed to customers. USEC will purchase Russian SWU under the new pricing contract for only three to four months in fiscal 2003, and therefore the full annual impact will not be seen until fiscal 2004.

Over the period of fiscal years 2002 and 2003, USEC will experience an unusually large fluctuation in cash flow from operations, due to the timing of receipts and disbursements. In fiscal 2002, cash flow was significantly higher than originally projected due to the decision to liquidate \$237.6 million in inventories and the delay in government approval of pricing terms under the Russian Contract, which had the effect of shifting Russian SWU purchases from fiscal 2002 to fiscal 2003. Consequently, fiscal 2003 cash flow will be correspondingly lower as USEC catches up on Russian SWU purchases in the July to December 2002 period. In addition, cash flow in fiscal

2003 will be impacted by customer payments for deliveries late in the fourth quarter of fiscal 2003 that will not be received until fiscal 2004, and incremental reductions in SWU inventories.

As a result, free cash flow before dividends (cash flow from operations after capital expenditures and an insurance deposit) is projected to be in a range of negative \$130 to \$150 million in fiscal 2003. During the combined period of fiscal years 2002 and 2003, free cash flow, as defined, is anticipated to be positive in a range of \$50 to \$70 million. USEC anticipates a cash balance on June 30, 2003, of \$80 to \$100 million. USEC expects to return to robust positive free cash flow, as defined, in fiscal 2004.

## RESULTS OF OPERATIONS – FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

### Revenue

Revenue from sales of the SWU component of LEU amounted to \$1,057.3 million in fiscal 2001, a reduction of \$330.5 million (or 24%) from \$1,387.8 million in fiscal 2000. The volume sold was 24% lower reflecting movement of customer orders and reductions in commitment levels following aggressive pricing by, and loss of sales to, European competitors. Revenue in fiscal 2001 benefited from a large order from a Japanese customer for initial core requirements of a new reactor, and, in fiscal 2000, revenue benefited from one-time sales to customers in Japan to replace their SWU stranded at the Tokaimura facility in Japan. The average SWU price billed to customers in fiscal 2001 was about the same as in fiscal 2000.

Revenue from sales of uranium, primarily uranium hexafluoride, was \$86.6 million in fiscal 2001, a reduction of \$15.0 million (or 15%) from \$101.6 million in fiscal 2000. The reduction results from lower average sales prices and lower volume sold.

Revenue from domestic customers declined \$371.5 million (or 40%), revenue from customers in Asia increased \$49.0 million (or 10%), and revenue from customers in Europe and other areas declined \$23.0 million (or 29%), compared with fiscal 2000. The reduction of 40% in the domestic market reflects substantially lower SWU deliveries from movement of customer orders and reductions in SWU commitment levels following aggressive pricing by European competitors. In the Asian market, revenue in fiscal 2001 benefited from an initial core order for a new reactor and, in fiscal 2000, revenue benefited from replacement SWU sales to Japan.

### Cost of Sales

Cost of sales amounted to \$991.7 million in fiscal 2001, a reduction of \$244.6 million (or 20%) from \$1,236.3 million in fiscal 2000. The reductions reflect lower sales of the SWU component of LEU, partly offset by continued higher unit production costs at the plants. Cost of sales continued to be adversely affected by lower production volumes and higher unit costs. USEC increased purchases of the SWU component of LEU imported from Russia and lost sales to aggressive and unfair pricing by foreign competitors. Cost of sales in fiscal 2001 reflects a significant portion of the benefit from the monetization of excess power at the Portsmouth plant in the summer of 2000. As a percentage of revenue, cost of sales amounted to 87%, compared with 83% in fiscal 2000.

Electric power costs amounted to \$331.4 million (representing 52% of production costs) in fiscal 2001, compared with \$329.8 million (representing 50% of production costs) in fiscal 2000. Power costs had been reduced by \$44.0 million in fiscal 2000 from the monetization of excess power at the Portsmouth plant in the summer of 2000. Excluding the monetization of power in fiscal 2000, power costs declined \$42.4 million or 11% in fiscal 2001 reflecting lower production. In September 2000, USEC began purchasing a significant portion of electric power for the Paducah plant at fixed rates from TVA under a 10-year power purchase agreement. In the summer months, USEC substantially reduced production and the related power load at the Paducah plant when the cost of market-based power was high.

Costs for labor and benefits included in production costs declined 7% and the average number of employees at the plants declined 14%, compared with fiscal 2000. Labor costs in fiscal 2001 include costs for a retention bonus program for employees at the Portsmouth plant and a performance bonus program at the plants. Benefit costs include a higher net pension credit in fiscal 2001 from higher expected returns on plan assets and the amortization of actuarial gains.

### Uranium Inventory Valuation Adjustment

Uranium inventories are valued at the lower of cost or market. In fiscal 2000, a uranium inventory valuation adjustment of \$19.5 million was charged against income to reflect spot market prices prevailing at June 30, 2000. Market prices of uranium hexafluoride improved in fiscal 2001 with market prices for uranium hexafluoride at June 30, 2001, quoted 20% higher than June 30, 2000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

### Gross Profit

Gross profit amounted to \$152.2 million in fiscal 2001, a reduction of \$81.4 million (or 35%) from \$233.6 million in fiscal 2000. Excluding the uranium inventory valuation adjustment in fiscal 2000, gross profit declined \$100.9 million (or 40%). The lower gross profit reflects the 24% reduction in volume sold and continuing high unit costs from low levels of production at the plants. Gross margin was 13% compared with 16% in fiscal 2000 reflecting higher unit production costs at the plants.

### Special Charges for Consolidating Plant Operations

In May 2001, USEC ceased uranium enrichment operations at the Portsmouth plant as an important step in the ongoing efforts to consolidate plant operations. The plans announced in June 2000 for workforce reductions and ceasing uranium enrichment operations at the Portsmouth plant resulted in special charges of \$141.5 million in fiscal 2000 (\$88.7 million or \$.97 per share after tax), including asset impairments of \$62.8 million, severance benefits of \$45.2 million for workforce reductions, and lease turnover and other exit costs of \$33.5 million.

### Selling, General and Administrative

Selling, general and administrative expenses amounted to \$48.8 million in fiscal 2001, about the same as in fiscal 2000.

### Operating Income

Operating income amounted to \$92.0 million in fiscal 2001 compared with \$33.0 million in fiscal 2000. Special charges had reduced operating income in fiscal 2000.

### Interest Expense

Interest expense amounted to \$35.2 million in fiscal 2001, compared with \$38.1 million in fiscal 2000. The reduction reflects lower average levels of short-term debt outstanding in fiscal 2001.

### Provision (Credit) for Income Taxes

The provision (credit) for income taxes in fiscal 2001 includes a special income tax credit of \$37.3 million (or \$.46 per share) resulting from changes in the estimated amount of deferred income tax benefits that arose from the transition to taxable status. USEC transitioned to taxable status in July 1998 at the time of the initial public offering of common stock. The change in estimate resulted from a reassessment of certain deductions for which related income tax savings were not certain. Excluding the special income tax credit, the effective income tax rate was 37% in fiscal 2001.

### Net Income

Net income amounted to \$78.4 million (or \$.97 per share) in fiscal 2001 and \$8.9 million (or \$.10 per share) in fiscal 2000. Excluding the special income tax credit, net income was \$41.1 million (or \$.51 per share) in fiscal 2001, a reduction of \$68.0 million (or 62%) from \$109.1 million (or \$1.20 per share), excluding special charges and the uranium inventory valuation adjustment, in fiscal 2000. The reduction reflects lower gross profit.

The average number of shares of common stock outstanding was 80.7 million in fiscal 2001, a reduction of 10.0 million shares (or 11%) from 90.7 million shares in fiscal 2000. The reduction reflects the repurchase of common stock.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Cash Flows

Cash and cash equivalents amounted to \$279.2 million at June 30, 2002, compared with \$122.5 million at June 30, 2001. The significant increase resulted from cash generated from operating activities. Lower purchases under the Russian Contract and lower production coupled with higher sales enabled USEC to make a permanent reduction in inventory levels and increase cash flow and cash balances.

Net cash flow from operating activities amounted to \$262.4 million in fiscal 2002, compared with \$207.6 million in fiscal 2001. Cash flow in fiscal 2002 reflects the substantial reduction of \$236.7 million in inventories, primarily the liquidation of SWU inventories, and an increase in trade payables under the Russian Contract, partly offset by a reduction in deferred revenue and advances from customers. Lower net income and cash payments for consolidating plant operations and income taxes reduced cash flow in fiscal 2002.

Net cash flow from operating activities amounted to \$207.6 million in fiscal 2001, compared with \$262.8 million in fiscal 2000. Cash flow in fiscal 2001 benefited from a reduction of \$247.3 million in trade receivables from the timing of customer orders and an increase of \$78.2 million in deferred revenue and advances received from customers, reduced by a substantial buildup of \$322.3 million in SWU inventories as part of the planned consolidation of uranium enrichment operations at the Paducah plant.

Capital expenditures amounted to \$42.4 million in fiscal 2002, compared with \$53.1 million in fiscal 2001. Capital expenditures in fiscal 2002 included costs to upgrade transfer and shipping facilities at the Paducah plant and, in fiscal 2001, included costs to complete the upgrade of the Paducah plant's capability to produce LEU up to an assay of 5.5%.

Capital expenditures in the range of \$25 to \$30 million are expected in fiscal 2003.

Compliance with NRC regulations requires that USEC provide financial assurances regarding the cost of the eventual disposition of depleted uranium generated during the production process. An insurance deposit of \$21.4 million was paid in fiscal 2002 in connection with the issuance of a surety bond for the eventual disposition of depleted uranium.

A total of 20.6 million shares of common stock (or 21% of the shares issued) were repurchased between June 1999 and June 2001. There were 2.8 million shares repurchased at a cost of \$13.0 million in fiscal 2001 and 17.0 million shares repurchased at a cost of \$124.6 million in fiscal 2000.

Dividends paid to stockholders amounted to \$44.6 million in fiscal 2002, about the same as in fiscal 2001.

#### Capital Structure and Financial Resources

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

In May 2002, Standard & Poor's lowered its ratings of the senior notes and USEC's corporate credit from BB+ to BB with negative outlook. Standard & Poor's cited protracted delays obtaining modifications under the Russian Contract and the unresolved technetium issue with DOE regarding a substantial portion of USEC's uranium inventory, both of which were resolved in June 2002. In June 2002, Standard & Poor's changed the outlook from negative to stable, and, on September 3, 2002, Standard & Poor's changed the outlook from stable back to negative. The latest rating from Moodys is Bal with negative outlook from an update in May 2002.

At June 30, 2002, USEC had revolving credit commitments of \$150.0 million under a bank credit facility scheduled to expire in July 2003, of which \$138.3 million was available after reductions for outstanding letters of credit. There were no short-term borrowings at June 30, 2002 or 2001. The decline in retained earnings in fiscal 2002 has had an adverse effect on the minimum stockholders' equity covenant under the bank credit facility. In view of the current forecast of net income and dividend payments in the three months ending September 30, 2002, and the related adverse effect on the minimum stockholder's equity covenant, USEC expects that the existing bank credit facility will not be available after September 30, 2002. USEC has sufficient cash (\$279.2 million at June 30, 2002) to meet its obligations and is in the process of replacing the facility. It is expected that a new credit facility will include additional terms and covenants and be secured with certain assets.

At June 30, 2002, USEC was in compliance with financial covenants under the bank credit facility, including restrictions on the granting of liens or pledging of assets, maintenance of a minimum stockholders' equity and maintenance of a maximum debt to total capitalization ratio, as well as other customary conditions and covenants. The failure to satisfy any of the covenants would constitute an event of default. The bank credit facility 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 total debt-to-capitalization ratio was 34% at June 30, 2002, the same as at June 30, 2001.

At June 30, 2002, USEC had contractual commitments to repay long-term debt and to make payments under power purchase commitments for the Paducah plant and purchase commitments for the SWU component of LEU ordered under the Russian Contract, as follows (in millions):

	Payments Due				Total
	Within One Year	Two to Three Years	Four to Five Years	After Five Years	
Long-term debt	\$ —	\$ —	\$350.0	\$150.0	\$ 500.0
Power purchase commitments	318.3	554.5	235.5	—	1,108.3
Commitments to purchase					
SWU component of LEU ordered under Russian Contract	320.8	—	—	—	320.8
	\$639.1	\$554.5	\$585.5	\$150.0	\$1,929.1

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS** *(continued)*

USEC expects that its cash and internally generated funds from operations will be sufficient to meet its obligations as they become due and to fund operating requirements of the plants, including purchases of the SWU component of LEU under the Russian Contract, capital expenditures, demonstration and deployment of centrifuge technology, interest expense, costs to consolidate operations, and quarterly dividends.

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

	2002	2001
Cash and cash equivalents	\$279.2	\$ 122.5
Accounts receivable	185.1	175.8
Inventories, net	883.9	1,115.9
Accounts payable and other	(423.0)	(389.9)
Working capital	\$925.2	\$1,024.3

#### ENVIRONMENTAL MATTERS

In addition to costs for the future disposition of depleted uranium, USEC incurs operating costs and capital expenditures for matters relating to compliance with environmental laws and regulations, including the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes generated as a result of its operations. Operating costs were \$16.0 million, \$16.5 million, and \$18.1 million, and capital expenditures were \$.3 million, \$.6 million and \$2.4 million in fiscal years 2002, 2001 and 2000, respectively. In fiscal years 2003 and 2004, USEC expects operating costs and capital expenditures for environmental matters to remain at about the same levels as in fiscal 2002.

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

#### CHANGING PRICES AND INFLATION

The Paducah plant requires substantial amounts of electric power to enrich uranium. Information with respect to electric power prices and costs is included above.

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

This discussion contains forward-looking information (within the meaning of the Private Securities Litigation

Reform Act of 1995) that involves risks and uncertainty, including certain assumptions regarding the future performance of USEC. Actual results and trends may differ materially depending upon a variety of factors, including, without limitation, market demand for USEC's products, pricing trends in the uranium and enrichment markets, deliveries under the Russian Contract, the availability and cost of electric power, implementing agreements with the Department of Energy ("DOE") regarding uranium inventory remediation and the use of advanced technology and facilities, satisfactory performance of the technology at various stages of demonstration, USEC's ability to successfully execute its internal performance plans and maintain access to short-term funding, the refueling cycles of USEC's customers, the outcome of litigation, and the impact of any government regulation. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2002, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

USEC does not enter into financial instruments for trading purposes. The fair value of long-term debt is calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities. The scheduled maturity dates of long-term debt, the balance sheet carrying amounts and related fair values at June 30, 2002, follow (in millions):

	Maturity Dates		June 30, 2002	
	January 2006	January 2009	Balance Sheet Carrying Amount	Fair Value
	<b>Long-term debt:</b>			
6.625% senior notes	\$350.0		\$350.0	\$314.5
6.750% senior notes		\$150.0	150.0	125.5
			\$500.0	\$440.0

**C O N S O L I D A T E D   B A L A N C E   S H E E T S**

(millions, except share and per share data)

June 30, 2002

June 30, 2001

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 279.2	\$ 122.5
Accounts receivable – trade	185.1	175.8
Inventories:		
Separative work units	708.1	918.3
Uranium	154.0	178.6
Uranium provided by customers	5.8	21.6
Materials and supplies	21.8	19.0
Total Inventories	889.7	1,137.5
Other	26.7	15.6

Total Current Assets	1,380.7	1,451.4
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Property, Plant and Equipment, net

191.5                      189.8

Other Assets

Deferred income taxes	51.5	42.1
Prepayment and deposit for depleted uranium	46.0	27.1
Prepaid pension benefit costs	82.8	76.9
Inventories	415.5	420.2

Total Other Assets	595.8	566.3
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<b>Total Assets</b>	<b>\$ 2,168.0</b>	<b>\$2,207.5</b>
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**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities

Accounts payable and accrued liabilities	\$ 192.8	\$ 160.9
Payables under Russian Contract	156.4	100.3
Deferred revenue and advances from customers	74.9	91.0
Liabilities accrued for consolidating plant operations	25.6	53.3
Uranium owed to customers	5.8	21.6

Total Current Liabilities	455.5	427.1
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Long-Term Debt

500.0                      500.0

Other Liabilities

Deferred revenue and advances from customers	23.4	57.5
Depleted uranium disposition	58.0	66.2
Postretirement health and life benefit obligations	135.1	124.7
Other liabilities	46.7	59.2

Total Other Liabilities	263.2	307.6
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Commitments and Contingencies (Notes 4, 8 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, 100,320,000 shares issued	10.0	10.0
Excess of capital over par value	1,066.1	1,066.9
Retained earnings	10.6	39.0
Treasury stock, 19,010,000 shares and 19,754,000 shares	(136.8)	(142.2)
Deferred compensation	(.6)	(.9)

Total Stockholders' Equity	949.3	972.8
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<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,168.0</b>	<b>\$2,207.5</b>
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See notes to consolidated financial statements.

**C O N S O L I D A T E D   S T A T E M E N T S   O F   I N C O M E**

<i>(millions, except per share data)</i>	Fiscal Years Ended June 30,		
	2002	2001	2000
Revenue:			
Separative work units	<b>\$1,309.3</b>	\$1,057.3	\$1,387.8
Uranium	<b>116.9</b>	86.6	101.6
Total revenue	<b>1,426.2</b>	1,143.9	1,489.4
Cost of sales	<b>1,321.2</b>	991.7	1,236.3
Uranium inventory valuation adjustment	–	–	19.5
Gross profit	<b>105.0</b>	152.2	233.6
Special charges (credit):			
Consolidating plant operations	<b>(6.7)</b>	–	141.5
Other	–	–	(1.2)
Advanced technology development costs	<b>12.6</b>	11.4	11.4
Selling, general and administrative	<b>50.7</b>	48.8	48.9
Operating income	<b>48.4</b>	92.0	33.0
Interest expense	<b>36.3</b>	35.2	38.1
Other (income) expense, net	<b>(10.4)</b>	(8.1)	(10.5)
Income before income taxes	<b>22.5</b>	64.9	5.4
Provision (credit) for income taxes	<b>6.3</b>	(13.5)	(3.5)
Net income	<b>\$ 16.2</b>	\$ 78.4	\$ 8.9
Net income per share – basic and diluted	<b>\$ .20</b>	\$ .97	\$ .10
Dividends per share	<b>\$ .55</b>	\$ .55	\$ .825
Average number of shares outstanding	<b>81.1</b>	80.7	90.7

*See notes to consolidated financial statements.*



**C O N S O L I D A T E D   S T A T E M E N T S   O F   C A S H   F L O W S**

<i>(millions)</i>	Fiscal Years Ended June 30,		
	2002	2001	2000
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 16.2	\$ 78.4	\$ 8.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23.9	22.6	20.4
Depleted uranium disposition	(5.7)	25.9	26.1
Deferred revenue and advances from customers	(50.2)	78.2	51.1
Deferred income taxes	(9.4)	(31.4)	–
Special charges for consolidating plant operations	(11.3)	(22.6)	141.5
Suspension of development of AVLIS technology	–	–	(33.0)
Uranium inventory valuation adjustment	–	–	19.5
Changes in operating assets and liabilities:			
Accounts receivable – (increase) decrease	(9.3)	247.3	(49.3)
Inventories – (increase) decrease	236.7	(274.0)	122.3
Payables under Russian Contract – increase	56.1	59.8	17.5
Accounts payable and other – net increase (decrease)	15.4	23.4	(62.2)
<b>Net Cash Provided by Operating Activities</b>	<b>262.4</b>	207.6	262.8
<b>Cash Flows Used in Investing Activities</b>			
Capital expenditures	(42.4)	(53.1)	(75.9)
Insurance deposit	(21.4)	–	–
<b>Net Cash (Used in) Investing Activities</b>	<b>(63.8)</b>	(53.1)	(75.9)
<b>Cash Flows Used in Financing Activities</b>			
Dividends paid to stockholders	(44.6)	(44.3)	(75.9)
Repurchase of common stock	–	(13.0)	(124.6)
Repayment of short-term debt	–	(50.0)	–
Common stock issued	2.7	2.3	–
<b>Net Cash (Used in) Financing Activities</b>	<b>(41.9)</b>	(105.0)	(200.5)
<b>Net Increase (Decrease)</b>	<b>156.7</b>	49.5	(13.6)
<b>Cash and Cash Equivalents at Beginning of Fiscal Year</b>	<b>122.5</b>	73.0	86.6
<b>Cash and Cash Equivalents at End of Fiscal Year</b>	<b>\$279.2</b>	\$ 122.5	\$ 73.0
<b>Supplemental Cash Flow Information</b>			
Interest paid	\$ 33.0	\$ 34.4	\$ 40.2
Income taxes paid	18.3	12.7	3.9

*See notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

<i>(millions, except per share data)</i>	Common Stock, Par Value \$.10 per Share	Excess of Capital over Par Value	Retained Earnings	Treasury Stock	Deferred Compensation	Total Stockholders' Equity
Balance at June 30, 1999	\$10.0	\$1,072.0	\$71.9	\$ (14.8)	\$(3.7)	\$1,135.4
Restricted and other stock issued, net of amortization	—	(1.3)	—	3.6	1.2	3.5
Repurchase of common stock	—	—	—	(124.6)	—	(124.6)
Dividends paid to stockholders	—	—	(75.9)	—	—	(75.9)
Net income	—	—	8.9	—	—	8.9
Balance at June 30, 2000	10.0	1,070.7	4.9	(135.8)	(2.5)	947.3
Restricted and other stock issued, net of amortization	—	(3.8)	—	6.6	1.6	4.4
Repurchase of common stock	—	—	—	(13.0)	—	(13.0)
Dividends paid to stockholders	—	—	(44.3)	—	—	(44.3)
Net income	—	—	78.4	—	—	78.4
Balance at June 30, 2001	10.0	1,066.9	39.0	(142.2)	(.9)	972.8
Restricted and other stock issued, net of amortization	—	(.8)	—	5.4	.3	4.9
Dividends paid to stockholders	—	—	(44.6)	—	—	(44.6)
Net income	—	—	16.2	—	—	16.2
<b>Balance at June 30, 2002</b>	<b>\$10.0</b>	<b>\$1,066.1</b>	<b>\$10.6</b>	<b>\$(136.8)</b>	<b>\$ (.6)</b>	<b>\$ 949.3</b>

*See notes to consolidated financial statements.*

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**1. NATURE OF OPERATIONS**

USEC Inc., a Delaware corporation (“USEC”), is a global energy company and is the world leader in the supply of low enriched uranium (“LEU”) for use in nuclear power plants. USEC supplies LEU to electric utilities for use in about 160 nuclear reactors.

Customers typically provide uranium to USEC as part of their enrichment contracts. Customers are billed for the separative work units (“SWU”) deemed to be contained in the LEU delivered to them. SWU is a standard unit of measurement which represents the effort required 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 uranium having a lower percentage of  $U^{235}$ . The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment. Revenue is derived from sales of the SWU component of LEU, from sales of the SWU and uranium components of LEU, and from sales of uranium.

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

USEC 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. The concentration of the isotope  $U^{235}$  is increased from less than 1% to up to 5%.

USEC leases the Paducah gaseous diffusion plant located in Paducah, Kentucky, and the Portsmouth gaseous diffusion plant located near Portsmouth, Ohio, from the Department of Energy (“DOE”). USEC purchases a substantial portion of the electric power for the Paducah plant at fixed rates pursuant to a power purchase agreement with Tennessee Valley Authority (“TVA”). Power is also purchased by USEC for the Paducah plant under a power purchase agreement between the DOE and Electric Energy, Inc. (“EEI”). In addition, USEC purchases electric power in the spot market.

At the end of fiscal 2001, USEC ceased uranium enrichment operations at the Portsmouth plant and began providing cold standby and uranium deposit removal

contract services for DOE. In fiscal 2001 and prior years, electric power for the Portsmouth plant was purchased by USEC under a power contract between DOE and Ohio Valley Electric Corporation (“OVEC”).

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
**Consolidation**

USEC Inc. is a holding company. The consolidated financial statements include the accounts of USEC Inc., its principal subsidiary, United States Enrichment Corporation, and its other subsidiaries. All material intercompany transactions are eliminated.

**Cash and Cash Equivalents**

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

**Inventories**

Inventories of SWU and uranium are valued at the lower of cost or market. Market is based on the terms of long-term contracts with customers, and, for uranium not under contract, market is based primarily on long-term market prices quoted at the balance sheet date. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the plants, purchase costs of the SWU component of LEU under the Russian Contract, and costs of the SWU component of LEU recovered from downblending highly enriched uranium in the process of being transferred from the U.S. Government. Production costs consist principally of electric power, labor and benefits, depleted uranium disposition costs, materials, depreciation and amortization and maintenance and repairs. The cost of the SWU component of LEU purchased under the Russian Contract is recorded at acquisition cost plus related shipping costs.

Costs for the SWU and uranium components of LEU recovered from downblending highly enriched uranium from the U.S. Government are based on costs transferred to USEC by DOE in fiscal 1998 plus costs incurred by USEC for downblending, transportation, safeguards and security.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**Property, Plant and Equipment**

Construction work in progress is recorded at acquisition or construction cost and includes capitalized interest of \$.7 million in fiscal 2002 and \$1.3 million in fiscal 2001. Upon being placed into service, costs are transferred to leasehold improvements or machinery and equipment at which time depreciation and amortization commences. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of the useful lives which range from three to ten years or the expected plant lease period which for the Paducah plant is estimated to extend to 2010. USEC leases most, but not all, of the buildings and facilities at the Paducah and Portsmouth plants from DOE. At the end of the lease, ownership and responsibility for decontamination and decommissioning of property, plant and equipment that USEC leaves at the plants transfer to DOE. Maintenance and repair costs are charged to production costs as incurred.

In February 2002, USEC announced plans to consolidate the transfer and shipping operations in the summer of 2002 at the Paducah plant, and a charge of \$16.4 million for the impairment of transfer and shipping facilities at the Portsmouth plant was recorded as a reduction to the special credit included in income in fiscal 2002.

A summary of changes in property, plant and equipment in fiscal years 2002 and 2001 follows (in millions):

	June 30, 2000	Capital Expenditures (Depreciation)	Transfers and Retirements	June 30, 2001	Capital Expenditures (Depreciation)	Impairment at Portsmouth Plant	Transfers and Retirements	June 30, 2002
Construction work in progress	\$ 21.4	\$47.3	\$(44.5)	\$ 24.2	\$41.5	\$ (.4)	\$(42.2)	<b>\$ 23.1</b>
Leasehold improvements	87.3	4.4	27.1	118.8	—	(11.3)	27.4	<b>134.9</b>
Machinery and equipment	108.2	1.4	14.8	124.4	.9	(9.0)	10.6	<b>126.9</b>
	216.9	53.1	(2.6)	267.4	42.4	(20.7)	(4.2)	<b>284.9</b>
Accumulated depreciation and amortization	(57.6)	(22.6)	2.6	(77.6)	(23.9)	4.3	3.8	<b>(93.4)</b>
	\$159.3	\$30.5	\$ —	\$189.8	\$18.5	\$(16.4)	\$ (.4)	<b>\$191.5</b>

**Revenue**

Revenue from sales of the SWU and the uranium components of LEU is recognized at the time LEU is shipped under the terms of contracts with domestic and foreign electric utility customers. Contracts with customers are primarily requirements contracts, under which customers are required to order LEU based on their annual reactor requirements. Depending on nuclear reactor refueling requirements, certain customers make advance payments to be applied against future orders. Advances from customers are reported as deferred revenue, and, as LEU is shipped, revenue is recognized. Deferred revenue and advances from customers included a deferred payment obligation of \$27.8 million at June 30, 2002, and \$40.8 million at June 30, 2001, resulting from the purchase of electric power from TVA. The obligation and related interest is being repaid in connection with the sale of SWU under a requirements contract with TVA.

Under power-for-SWU barter contracts, USEC exchanges the SWU component of LEU for electric power. Revenue amounting to \$21.7 million, \$19.3 million and \$20.4 million in fiscal years 2002, 2001 and 2000,

respectively, was recognized at the time LEU was shipped with selling prices for the SWU component based on the fair market value of electric power received.

Revenue from one domestic customer, Exelon Corporation, represented more than 10%, but less than 15%, of revenue in fiscal 2002; no customer exceeded 10% in fiscal years 2001 or 2000. Revenue attributed to domestic and international customers follows:

	Fiscal Years Ended June 30,		
	2002	2001	2000
Domestic	67%	49%	62%
Asia	29	46	32
Europe and other	4	5	6
	<b>100%</b>	100%	100%

**Financial Instruments**

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

### Concentrations of Credit Risk

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

### Environmental Costs

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

### Advanced Technology Development Costs

Advanced technology development costs for the demonstration of centrifuge technology and the evaluation of a potential new advanced enrichment technology called SILEX are charged to expense as incurred.

### Deferred Income Taxes

USEC follows the asset and liability approach to account for deferred income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences of temporary differences between the balance sheet carrying amounts of assets and liabilities and their respective tax bases. Deferred income taxes are based on income tax rates in effect for the years in which temporary differences are expected to reverse. The effect on deferred income taxes of a change in income tax rates is recognized in income when the change in rates is enacted in the law.

### New Accounting Standards

Under Statement of Financial Accounting Standards No. 143 ("FAS 143"), "Accounting for Asset Retirement Obligations," obligations relating to the retirement of tangible long-lived assets and the associated asset retirement costs would be recorded on the balance sheet and measured at fair value using an expected present-value technique and a credit-adjusted risk-free interest rate. FAS 143 becomes effective and is required to be adopted by USEC at the beginning of fiscal 2003. USEC has not completed its assessment or evaluation of FAS 143 and has not yet determined whether or to what extent the new accounting standards will affect the consolidated financial statements.

Under Statement of Financial Accounting Standards No. 144 ("FAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," there are new accounting standards for long-lived assets to be held and used, to be disposed of by sale, or to be disposed of by other than sale. FAS 144 becomes effective and is required to be adopted by USEC at the beginning of fiscal 2003. USEC expects that adoption of the new accounting standards will not have a material effect on its financial position or results of operations.

Under Statement of Financial Accounting Standards No. 146 ("FAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities," new accounting standards are adopted for the recognition, measurement and reporting of costs associated with exit and disposal activities, including restructuring activities. FAS 146 would become effective for exit or disposal activities initiated after December 31, 2002. USEC has not completed its assessment or evaluation of FAS 146 and has not yet determined whether or to what extent the new accounting standards will affect the consolidated financial statements.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and costs and expenses during the periods presented. Revenue includes estimates and judgments relating to the recognition of deferred revenue and price adjustments under contracts with customers that involve pricing based on inflation rates and customers' nuclear fuel requirements. SWU and uranium inventories include estimates and judgments for production quantities and replacement and remediation by DOE of out-of-specification uranium. Production costs include estimates of future costs for the storage, transportation and disposition of depleted uranium. Income taxes include estimates and judgments for the tax bases of assets and liabilities at privatization and the future recoverability of deferred tax items. Judgments and estimates inherent in special charges for consolidating plant operations include the timing and amount of asset impairments, obligations to power suppliers for USEC's pro rata share of decommissioning, demolition and shutdown activities and postretirement health and life benefit obligations, and future costs to complete plant lease turnover and other requirements. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

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**Reclassifications**

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

**3. INVENTORIES**

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

	2002	2001
<b>Current assets:</b>		
Separative work units	<b>\$ 708.1</b>	\$918.3
Uranium	<b>154.0</b>	178.6
Uranium provided by customers	<b>5.8</b>	21.6
Materials and supplies	<b>21.8</b>	19.0
	<b>889.7</b>	1,137.5
<b>Long-term assets:</b>		
Uranium	<b>237.5</b>	230.6
Highly enriched uranium transferred from Department of Energy	<b>178.0</b>	189.6
	<b>415.5</b>	420.2
<b>Current liabilities:</b>		
Uranium owed to customers	<b>(5.8)</b>	(21.6)
Inventories, excluding uranium provided by and owed to customers	<b>\$1,299.4</b>	\$1,536.1

Generally, title to uranium provided by customers remains with the customer until delivery of LEU. USEC holds uranium with estimated fair values of \$801.5 million at June 30, 2002, and \$817.7 million at June 30, 2001, for which title is held by customers and others and for which no assets or liabilities are recorded on the balance sheet. However, uranium provided by customers for which title does pass to USEC prior to delivery of LEU is recorded on the balance sheet at estimated fair values of \$5.8 million at June 30, 2002, and \$21.6 million at June 30, 2001, with corresponding liabilities in the same amounts representing uranium owed to customers.

Inventories included in current assets represent amounts required to meet working capital needs, reproduce LEU and balance uranium and electric power requirements. Inventories reported as long-term assets include uranium not expected to be used or sold within one year of the balance sheet date and costs for highly enriched uranium from the U.S. Government, which is in the process of being blended down to LEU. USEC incurs costs for downblending the highly enriched uranium to LEU, as well as transportation, safeguards and security costs.

Since uranium inventories are valued at the lower of cost or market, a non-cash uranium inventory valuation adjustment of \$19.5 million was charged against income in fiscal 2000. Spot market prices of uranium were quoted at \$23.62 per kilogram of uranium hexafluoride at June 30, 2000, a decline of 22% compared with June 30, 1999.

**Replacing Any Out-of-Specification****Natural Uranium Inventory**

USEC has previously reported that limited samples of certain natural uranium transferred to USEC from DOE prior to privatization contain elevated levels of technetium that would put the uranium out of specification for commercial use. The total amount of uranium inventory that may be impacted is approximately 9,500 metric tons with a cost of \$237.5 million at June 30, 2002.

Under the DOE-USEC Agreement, DOE has agreed to replace any natural uranium that is determined to be out-of-specification. Replacement or remediation of any out-of-specification natural uranium inventory will be accomplished as follows:

- ▶ USEC cleaning up a portion of the uranium with USEC being compensated by DOE for the clean up costs as described below,
- ▶ DOE replacing a portion of the uranium and
- ▶ DOE endeavoring to engage third parties to determine whether any remaining out-of-specification uranium can be replaced, remedied or exchanged.

USEC has agreed to operate facilities at the Portsmouth plant at its own expense (other than site infrastructure expenses which will be paid by DOE) for 15 months in order to remove contaminants from a portion of the out-of-specification uranium. USEC estimates the cost to operate these facilities will be \$21 million for the period July 2002 to September 2003. To compensate USEC for these clean-up costs, DOE will take title to all depleted uranium generated by USEC at the Paducah plant during fiscal years 2002 and 2003, and half of the depleted uranium generated in fiscal years 2004 and 2005, up to a maximum of 23.3 million kilograms of uranium contained in depleted uranium. The transfer of depleted uranium to DOE reduces USEC's costs for the disposition of depleted uranium. USEC will release the United States from liability with respect to any out-of-specification uranium that is processed or replaced, and in any event will release the United States for liability with respect to at least 2,800 metric tons of natural uranium.

With respect to remaining out-of-specification natural uranium, the liability for which has not been released by USEC, DOE will attempt to engage third parties to determine whether the remaining uranium can be replaced, remedied or exchanged. If arrangements for replacement or clean up of this uranium are not in place by March 31, 2003, then DOE must, at its option, exchange, replace, clean up or reimburse USEC for 3,293 metric tons of uranium less the amount actually processed at the Portsmouth plant or accepted by USEC by March 31, 2003.

DOE's obligations to replace or remediate all out-of-specification natural uranium continue until all such uranium is replaced or remediated. DOE's obligations with respect to the out-of-specification uranium survive any termination of the DOE-USEC Agreement as long as USEC is producing LEU containing at least 1 million SWU per year at the Paducah plant or at a new enrichment facility. DOE's obligations to replace or remediate out-of-specification natural uranium are subject to availability of appropriated funds and legislative authority, and compliance with applicable law. Although the parties intend to pursue any such legislative authority, there can be no assurance that Congress will appropriate such funds and pass requisite legislation.

USEC is in the early stages of operating facilities at the Portsmouth plant to remove contaminants from a portion of the out-of-specification uranium and can provide no assurances that it will be able to remove contaminants from at least 2,800 metric tons of natural uranium by September 2003. In the event that USEC is not able to remove contaminants from at least 2,800 metric tons prior to its obligation to release the United States from liability with respect to such uranium, an impairment in the valuation of uranium inventory could result. In addition, an impairment in the valuation of uranium inventory would result if DOE fails to exchange, replace, clean up or reimburse USEC for some or all of the out-of-specification uranium for which DOE has assumed responsibility. Depending on the amount of uranium, an impairment could have an adverse effect on USEC's financial condition and results of operations.

#### 4. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN CONTRACT

In January 1994, USEC on behalf of the U.S. Government signed the 20-year Russian Contract with OAO Techsnabexport ("Tenex", or "the Russian Executive Agent"), the Executive Agent for the Ministry of Atomic Energy of the Russian Federation, which is the Executive Agent for the Russian Federation, under which USEC purchases the SWU component of LEU derived from up to 500 metric tons of highly enriched uranium recovered

from dismantled nuclear weapons from the former Soviet Union. Highly enriched uranium is blended down in Russia and delivered to USEC, F.O.B. St. Petersburg, Russia, for sale and use in commercial nuclear reactors.

In June 2002, the U.S. and Russian governments approved implementation of new, market-based pricing terms for the remaining 12 years of the Russian Contract. An amendment to the Russian Contract creates a market-based mechanism to determine prices beginning in calendar year 2003 and continuing through 2013. In consideration for this stable and economic structure for the future, USEC agreed to extend the calendar year 2001 price of \$90.42 per SWU through calendar year 2002 (i.e., the last two quarters of USEC's fiscal year 2002, and the first two quarters of USEC's fiscal year 2003). Beginning in calendar year 2003, prices will be determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of this index will be used to minimize the disruptive effect of any short-term market price swings. The amendment also provides that after the end of calendar year 2007 USEC and Tenex will agree on appropriate adjustments, if necessary, to ensure that Tenex receives at least \$7,565 million for the SWU component over the 20-year term of the Russian Contract.

Under the amended contract, USEC agreed to continue to purchase 5.5 million SWU each calendar year from Tenex from 2002 through 2012 and such amount in calendar year 2013 as may be required to ensure that over the life of the Russian Contract USEC purchases SWU contained in 500 metric tons of highly enriched uranium. USEC also agreed to purchase over two or more years after 2002 a total of 1.6 million SWU that USEC had ordered in 1999 but Tenex had not been able to deliver. Over the life of the 20-year Russian Contract, USEC expects to purchase 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. USEC has committed to purchase the SWU component of LEU ordered under the Russian Contract at a cost of \$320.8 million in the six months ending December 31, 2002. The cost of the SWU component of LEU purchased under the Russian Contract, including related shipping charges, in fiscal years 2002, 2001 and 2000 follow (in millions):

	Amount
Fiscal Years Ended June 30,	
2002	\$ 510.5
2001	591.5
2000	417.8
	<u>\$1,519.8</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**5. INCOME TAXES**

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

	Fiscal Years Ended June 30,		
	2002	2001	2000
<b>Current:</b>			
Federal	<b>\$14.1</b>	\$ 16.4	\$(2.1)
State and local	<b>1.6</b>	1.5	.8
	<b>15.7</b>	17.9	(1.3)
<b>Deferred:</b>			
Federal	<b>(8.5)</b>	5.4	(2.1)
State and local	<b>(.9)</b>	.5	(.1)
	<b>(9.4)</b>	5.9	(2.2)
<b>Special deferred tax credit from transition to taxable status:</b>			
Federal	-	(34.3)	-
State and local	-	(3.0)	-
	-	(37.3)	-
	<b>\$ 6.3</b>	\$(13.5)	\$(3.5)

The provision (credit) for income taxes in fiscal 2001 includes a special income tax credit of \$37.3 million resulting from changes in the estimated amount of deferred income tax benefits that arose from the transition to taxable status. USEC transitioned to taxable status in July 1998 at the time of the initial public offering. The change in estimate in fiscal 2001 resulted from a reassessment of certain deductions for which related income tax savings were not certain.

Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities resulted in deferred tax assets and liabilities at June 30, as follows (in millions):

	2002	2001
<b>Deferred tax assets:</b>		
Plant lease turnover and other exit costs	<b>\$ 44.7</b>	\$ 34.2
Employee benefits costs	<b>18.7</b>	16.3
Tax intangibles	<b>12.0</b>	13.1
Deferred costs for depleted uranium	<b>27.0</b>	26.7
Other	<b>3.6</b>	5.8
	<b>106.0</b>	96.1
Valuation allowance	<b>(45.2)</b>	(45.2)
Deferred tax assets, net of valuation allowance	<b>60.8</b>	50.9
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	<b>5.6</b>	-
Inventory costs	<b>3.7</b>	8.8
Deferred tax liabilities	<b>9.3</b>	8.8
	<b>\$ 51.5</b>	\$ 42.1

USEC became subject to federal, state and local income taxes at the time of the initial public offering in July 1998. The valuation allowance of \$45.2 million at June 30, 2002 and 2001, relates to the future recoverability of various deferred tax items and valuations resulting from the privatization.

The provision for income taxes in fiscal 2002 reflects an effective income tax rate of 28%. Excluding the special tax credit of \$37.3 million in fiscal 2001, the provision for income taxes amounted to \$23.8 million and reflects an effective tax rate of 37%. A reconciliation of income taxes calculated based on the statutory federal income tax rate of 35% and the provision (credit) for income taxes reflected in the consolidated statements of income follows (in millions):

	Fiscal Years Ended June 30,		
	2002	2001	2000
<b>Federal income taxes based</b>			
on statutory rate	<b>\$ 7.9</b>	\$ 22.7	\$ 1.9
<b>State income taxes, net of</b>			
federal benefit	<b>.6</b>	3.4	.2
Export tax incentives	<b>(2.0)</b>	(3.6)	(3.9)
Research and experimentation tax credit	<b>-</b>	-	(1.7)
Other	<b>(.2)</b>	1.3	-
	<b>6.3</b>	23.8	(3.5)
<b>Special deferred tax credit from transition to taxable status</b>			
	<b>-</b>	(37.3)	-
	<b>\$ 6.3</b>	\$(13.5)	\$(3.5)

**6. DEBT**

Debt at June 30, follows (in millions):

	2002	2001
<b>Long-term debt:</b>		
6.625% senior notes, due January 20, 2006	<b>\$350.0</b>	\$350.0
6.750% senior notes, due January 20, 2009	<b>150.0</b>	150.0
	<b>\$500.0</b>	\$500.0

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



At June 30, 2002, USEC had revolving credit commitments of \$150.0 million under a bank credit facility scheduled to expire in July 2003, of which \$138.3 million was available after reductions for outstanding letters of credit. There were no short-term borrowings at June 30, 2002 or 2001. At June 30, 2002, USEC was in compliance with financial covenants under the bank credit facility, including restrictions on the granting of liens or pledging of assets, maintenance of a minimum stockholders' equity and maintenance of a maximum debt to total capitalization ratio, as well as other customary conditions and covenants. The failure to satisfy any of the covenants would constitute an event of default. The bank credit facility 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.

At June 30, 2002, the fair value of debt calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities was \$440.0 million, compared with the balance sheet carrying amount of \$500.0 million.

### 7. SPECIAL CHARGES FOR CONSOLIDATING PLANT OPERATIONS

A summary of special charges (credit) in fiscal years 2002, 2001 and 2000 and changes in the related balance sheet accounts at June 30, follow (in millions):

	Balance June 30, 1999	Special Charge (Credit)	Paid and Utilized	Balance June 30, 2000	Paid and Utilized	Balance June 30, 2001	Special Charge (Credit)	Paid and Utilized	Balance June 30, 2002
Workforce reductions	\$ 6.9	-	\$ (6.9)	-	-	-	-	-	-
Suspension of development of AVLIS technology	34.2	\$ (1.2)	(33.0)	-	-	-	-	-	-
Consolidate plant operations:									
Workforce reductions	-	45.2	-	\$45.2	\$(15.2)	\$30.0	\$(19.3)	\$(1.5)	\$ 9.2
Lease turnover and other exit costs	-	33.5	(2.8)	30.7	(7.4)	23.3	(3.8)	(3.1)	16.4
Impairment of property, plant and equipment	-	62.8	(62.8)	-	-	-	16.4	(16.4)	-
	-	141.5	(65.6)	75.9	(22.6)	53.3	(6.7)	(21.0)	25.6
	\$41.1	\$140.3	\$(105.5)	\$75.9	\$(22.6)	\$53.3	\$ (6.7)	\$(21.0)	\$25.6

In May 2001, USEC ceased uranium enrichment operations at the Portsmouth plant as an important step in the ongoing efforts to consolidate plant operations. The plans announced in June 2000 for workforce reductions and ceasing uranium enrichment operations at the Portsmouth plant resulted in special charges of \$141.5 million in fiscal 2000 (\$88.7 million or \$.97 per share after tax), including asset impairments of \$62.8 million, severance benefits of \$45.2 million for workforce reductions, and lease turnover and other exit costs of \$33.5 million.

In fiscal 2002, USEC recorded a special credit of \$6.7 million (\$4.2 million or \$.05 per share after tax) representing a change in estimate of costs for consolidating plant operations. The special credit includes a cost reduction of \$19.3 million for workforce reductions, primarily reflecting recovery from DOE of DOE's pro rata share of severance benefits, and a cost reduction of \$3.8 million for other exit costs. In June 2001, DOE authorized funding to conduct

cold standby services at the Portsmouth plant, and USEC is performing these services under a letter agreement until a definitive contract is concluded between the parties. As a result of DOE's program, the number of workforce reductions at the Portsmouth plant announced in June 2000 were reduced. The cost reductions were partly offset by charges of \$16.4 million for asset impairments relating to transfer and shipping facilities at the Portsmouth plant. In February 2002, USEC announced plans to consolidate the transfer and shipping operations in the summer of 2002 at the Paducah plant. This consolidation will result in workforce reductions at the Portsmouth plant, the cost of which has been accrued.

Amounts paid and utilized include cash payments, non-cash charges for asset impairments, and liabilities incurred for incremental pension and postretirement health benefits. Amounts paid and utilized aggregated \$109.2 million in fiscal years 2002, 2001 and 2000, consisting of

severance benefits of \$16.7 million for workforce reductions involving 921 employees (net of \$13.6 million recovered from DOE), \$13.3 million for lease turnover and other exit costs, and \$79.2 million for asset impairments applied against property, plant and equipment at the Portsmouth plant.

The remaining liability accrued for consolidating plant operations amounts to \$25.6 million at June 30, 2002, including \$9.2 million for severance benefits relating to workforce reductions involving 539 employees and \$16.4 million for lease turnover and other exit costs at the Portsmouth plant.

In fiscal 2001 and prior years, USEC purchased electric power for the Portsmouth plant from DOE under a contract that USEC concluded with DOE in July 1993. DOE acquired the power that it sold to USEC from OVEC under a power purchase agreement that DOE concluded with OVEC in 1952. On September 29, 2000, at USEC's request, DOE notified OVEC that it would terminate the power purchase agreement effective April 30, 2003, and that it would cease taking power after August 31, 2001. Upon termination of the agreement, DOE will be responsible for a portion of the costs incurred by OVEC for postretirement health and life insurance benefits and for the eventual decommissioning, demolition and shut-down of the coal-burning power generating facilities owned and operated by OVEC. Under its July 1993 contract with DOE, USEC will, in turn, be responsible for a portion of DOE's costs. USEC has accrued its estimate of its share of DOE's costs. Final determinations of USEC's costs will depend on (a) the total cost to DOE of the termination obligations as determined by independent actuaries and engineering consultants, and (b) resolution of differences between DOE and USEC over the portion of DOE's costs that must be reimbursed by USEC. Accordingly, the amount ultimately due from USEC may differ from the amount it has accrued. Any determination of such costs at levels above the estimated amounts accrued by USEC would have an adverse effect on USEC's results of operations.

## 8. ENVIRONMENTAL MATTERS

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

## Depleted Uranium

USEC accrues estimated costs for the future disposition of depleted uranium based on estimates for transportation, conversion and disposal. Pursuant to the USEC Privatization Act, depleted uranium generated by USEC through July 28, 1998, was transferred to DOE. USEC stores depleted uranium generated since July 28, 1998, at the plants and continues to evaluate various alternatives for its disposition. The accrued liability included in long-term liabilities amounted to \$58.0 million at June 30, 2002, and \$66.2 million at June 30, 2001.

Under the DOE-USEC Agreement, DOE will take title to depleted uranium generated by USEC at the Paducah plant during fiscal years 2002 and 2003 and half of the depleted uranium generated in fiscal years 2004 and 2005, up to a maximum of 23.3 metric tons.

In June 1998, USEC paid \$50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted uranium to be generated by USEC. The prepayment for depleted uranium is reduced as depleted uranium is transferred to DOE over the term of the agreement. The unamortized balance included in prepayment and deposit for depleted uranium in long-term assets amounted to \$24.6 million at June 30, 2002, and \$27.1 million at June 30, 2001.

Compliance with NRC regulations requires that USEC provide financial assurance regarding the cost of the eventual disposition of depleted uranium for which USEC retains disposal responsibility. USEC provides a surety bond issued by an insurance company to satisfy the NRC financial assurance requirements. An insurance deposit of \$21.4 million was paid in fiscal 2002 in connection with the issuance of a surety bond for the eventual disposition of depleted uranium. The insurance deposit is included in prepayment and deposit for depleted uranium in long-term assets at June 30, 2002, and earns interest at a rate approximating the five-year U.S. Treasury rate.

## Other Environmental Matters

USEC's operations generate hazardous, low-level radioactive and mixed wastes. The storage, treatment, and disposal of wastes are regulated by federal and state laws. USEC utilizes offsite treatment and disposal facilities and stores wastes at the plants pursuant to permits, orders and agreements with DOE and various state agencies. Liabilities accrued for the treatment and disposal of stored wastes generated by USEC's operations amounted to \$4.8 million at June 30, 2002, and \$4.7 million at June 30, 2001.

### Nuclear Indemnification

DOE is required to indemnify USEC against claims for public liability arising out of or in connection with activities under the lease, including domestic transportation, resulting from a nuclear incident or precautionary evacuation. DOE's obligations are capped at the \$9.4 billion statutory limit set forth in the Price-Anderson Act for each nuclear incident or precautionary evacuation occurring inside the United States, as these terms are defined in the U.S. Atomic Energy Act of 1954, as amended. Although DOE's authority to initiate new coverage under the Price-Anderson Act has expired, the indemnification against public liability provided in the USEC lease remains in effect.

### 9. OTHER INCOME

The components of other (income) expense, net, follow (in millions):

	Fiscal Years Ended June 30,		
	2002	2001	2000
Interest (income) expense	\$ (8.7)	\$(10.9)	\$ (8.0)
Contract services for DOE			
(income) expense, net	(1.7)	2.8	.5
Sale of assets (gain) loss	-	-	(2.2)
Other	-	-	(.8)
	<b>\$(10.4)</b>	<b>\$ (8.1)</b>	<b>\$(10.5)</b>

USEC provides contract services for DOE at the plants as a contractor and as a subcontractor. Contract services include environmental restoration, waste management, and, at the Portsmouth plant, cold standby and uranium deposit removal. DOE and DOE contractors reimburse USEC for contract services based on actual costs incurred. Reimbursements amounted to \$102.6 million, \$35.3 million, and \$34.2 million in fiscal years 2002, 2001, and 2000, respectively. Accounts receivable at June 30, 2002, includes accrued receivables of \$7.2 million for actual costs incurred by USEC not yet billed. USEC expects to bill DOE in fiscal 2003 as soon as revised provisional overhead billing rates are approved by DOE.

### 10. COMMITMENTS AND CONTINGENCIES

#### Power Contracts and Commitments

USEC purchases a substantial portion of the electric power for the Paducah plant at fixed rates pursuant to a power purchase agreement with TVA. USEC purchases a portion of the electric power for the Paducah plant pursuant to a power purchase agreement between DOE and EEI. TVA provides electric power at fixed contract prices with capacity varying monthly from 300 to 1,780 megawatts. Prices for electric power are fixed until May 2006. Subject to prior notice, TVA may interrupt power to the Paducah plant, except a minimum load of 300 megawatts can only be interrupted under limited circumstances. Under the agreement, amounts paid to TVA for power purchased in fiscal 2001 were reduced by a deferred payment obligation. At June 30, 2002, the deferred payment obligation amounted to \$27.8 million, which was included in deferred revenue and advances from customers. USEC has secured the obligation, as long as it is outstanding, by transferring title to uranium inventories with an equivalent value to TVA. The obligation and related interest is scheduled to be satisfied in connection with the sale of the SWU component of LEU under a requirements contract with TVA in fiscal years 2003 and 2004.

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

Fiscal Years Ending June 30,	
2003	\$ 318.3
2004	276.2
2005	278.3
2006	235.5
	<b>\$1,108.3</b>

#### Legal Matters

##### *Environmental Matter*

Beginning in 1998, USEC contracted with Starmet CMI ("Starmet") to convert a portion of USEC's depleted uranium into a form that could be used in certain beneficial applications or disposed of at existing commercial disposal facilities. In March 2002, Starmet filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The South Carolina Department of Health and Environmental Control ("SCDHEC") denied Starmet's application to renew its license and issued an order shutting down Starmet's facility in Barnwell, South Carolina. Starmet has stated that it intends to appeal the order. The

U.S. Environmental Protection Agency (“EPA”) has informed USEC that it has initiated cleanup activities at the Barnwell site. EPA has contacted USEC to obtain information and has indicated that, in the event Starmet does not initiate adequate clean up activities, it will name USEC in letters designed to identify potentially responsible parties to pay for and/or undertake cleanup actions at the site under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), as amended. Each potentially responsible party may face assertions of joint and several liability under CERCLA. USEC believes that it has defenses against any potential action seeking to require it to contribute to the cost of clean up at the site or to be involved in the clean up of the site, but whether any such claims will be asserted and the outcome of any such defenses cannot be predicted at this point in time.

EPA has informed USEC that, on a very preliminary basis, it estimates that the total cost to clean up the Starmet site is approximately \$17 million. Since this is a very preliminary estimate, it could change substantially. USEC believes that other parties, including agencies of the U.S. Government and major corporations, will be responsible for contributing to clean up costs or be required to take part in the clean up, but it is unclear how many other parties will be responsible and what share, if any, of the clean up costs would be allocated to USEC if it is held to be responsible. An allocation of costs to USEC in excess of amounts accrued under the contract with Starmet could have an adverse effect on USEC’s results of operations.

#### **Federal Securities Lawsuit**

On October 27, 2000, a federal securities lawsuit was filed against USEC. Additional lawsuits of a similar nature were filed and were consolidated. The complaint named as defendants USEC, two of USEC’s officers, and the seven underwriters involved in the initial public offering of common stock. The complaint generally alleged that certain statements in the registration statement and prospectus for the July 28, 1998 initial public offering were materially false and misleading because they misrepresented and failed to disclose certain adverse material facts, risks and uncertainties.

In March 2002, the U.S. District Court for the District of Maryland dismissed the lawsuit. In April 2002, the plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Fourth Circuit. The appeal is now in the briefing phase. USEC continues to believe that the ultimate outcome of these proceedings will not have a material adverse effect on its financial position or results of operations.

#### **Property Taxes**

In June 2001, USEC received notices from the Ohio State Department of Taxation asserting deficiencies in personal property tax payments for the two calendar years 1999 and 2000. The total additional property taxes asserted amounted to \$13.3 million plus interest and related principally to certain inventories USEC believes are exempt from personal property taxes in Ohio. In June 2002, USEC and the Ohio State Department of Taxation entered into a settlement agreement resolving issues relating to personal property taxes for the four calendar years 1999 through 2002.

#### **Other**

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

#### **Lease Commitments**

Total costs incurred under the lease with DOE for the plants and leases for office space and equipment aggregated \$6.5 million, \$7.2 million and \$7.1 million in fiscal years 2002, 2001 and 2000, respectively. Minimum lease payments are estimated at \$5.6 million for each of the next five fiscal years.

Except as provided in the DOE-USEC Agreement, USEC has the right to extend the lease for the plants indefinitely and may terminate the lease in its entirety or with respect to one of the plants at any time upon two years’ notice. Upon termination of the lease, USEC is responsible for certain lease turnover activities, including documentation of the condition of the plants and termination of facility operations. Lease turnover costs are accrued and charged to production costs over the expected lease period which for the Paducah plant is estimated to extend to 2010. Lease turnover costs for the Portsmouth plant were accrued over the productive life of the plant and as part of a special charge in fiscal 2000. Accrued costs included in other liabilities amounted to \$38.5 million at June 30, 2002 and \$35.7 million at June 30, 2001.

## 11. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS

There are 7,200 employees and retirees covered by defined benefit pension plans providing retirement benefits based on compensation and years of service, and 3,500 employees, retirees and dependents covered by postretirement health and life benefit plans. DOE retained the obligation for postretirement health and life benefits for workers who retired prior to July 28, 1998.

Changes in benefit obligations and plan assets in fiscal years 2002 and 2001 and the funded status of the plans at June 30 follow (in millions):

	Fiscal Years Ended June 30,			
	Defined Benefit Pension Plans		Postretirement Health and Life Benefit Plans	
	2002	2001	2002	2001
<b>Changes in Benefit Obligations</b>				
Obligations at beginning of fiscal year	\$452.5	\$414.2	\$ 153.6	\$ 128.9
Actuarial loss	17.4	22.6	3.5	7.2
Service cost	10.3	9.4	7.2	7.1
Interest cost	34.6	33.7	11.9	12.4
Benefits paid	(28.6)	(27.4)	(3.0)	(2.0)
Obligations at end of fiscal year	486.2	452.5	173.2	153.6
<b>Changes in Plan Assets</b>				
Fair value of plan assets at beginning of fiscal year	574.4	624.0	42.0	38.0
Actual return on plan assets	(4.3)	(22.3)	(1.5)	4.5
USEC contributions	1.0	.1	6.2	1.5
Benefits paid	(28.6)	(27.4)	(3.0)	(2.0)
Fair value of plan assets at end of fiscal year	542.5	574.4	43.7	42.0
Funded (unfunded) status	56.3	121.9	(129.5)	(111.6)
Unrecognized prior service costs (benefit)	1.5	.8	(7.0)	(9.4)
Unrecognized net actuarial (gains) losses	25.0	(45.8)	1.4	(3.7)
Prepaid (accrued) benefit costs at June 30	\$ 82.8	\$ 76.9	\$(135.1)	\$(124.7)

The expected cost of providing pension benefits is accrued over the years employees render service, and actuarial gains and losses are amortized over the employees' average future service life. For postretirement health and life benefits, actuarial gains and losses and prior service costs or benefits are amortized over the employees' average remaining years of service until the date of full benefit eligibility.

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

	Fiscal Years Ended June 30,					
	Defined Benefit Pension Plans			Postretirement Health and Life Benefits Plans		
	2002	2001	2000	2002	2001	2000
Service cost	\$10.3	\$ 9.4	\$11.5	\$ 7.2	\$ 7.1	\$ 6.9
Interest cost	34.6	33.7	32.3	11.9	12.4	10.2
Expected return on plan assets	(50.5)	(55.0)	(48.6)	(3.6)	(3.4)	(3.2)
Amortization of prior service costs (credit)	.1	—	—	(2.4)	(2.4)	(2.1)
Amortization of actuarial (gains) losses	—	(7.3)	—	—	—	—
Net benefit costs (income)	\$ (5.5)	\$(19.2)	\$(4.8)	\$13.1	\$13.7	\$11.8
Discount rate	7.25%	7.5%	8.0%	7.25%	7.5%	8.0%
Expected return on plan assets	9.0	9.0	9.0	9.0	9.0	9.0
Compensation increases	4.5	4.5	4.5	4.5	4.5	4.5

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*


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There was an actuarial gain, or reduction in the postretirement health benefit obligation, of \$17.4 million in fiscal 2002 resulting from a reduction in the estimated number of employees expected to retire and utilize postretirement health benefits. The healthcare cost trend rate used to measure the benefit plan obligation at June 30, 2002, is 12% and is assumed to decline gradually to 5% over the next five years and then remain at that level, compared with rates of 7% and 5%, respectively, at June 30, 2001. The increases in the trend rates over the next four years resulted in an actuarial loss, or an increase in the benefit obligation, of \$18.8 million in fiscal 2002. A one-percentage-point change in the assumed healthcare cost trend rate would change annual costs by \$4.1 million and change the benefit obligation by \$23.7 million.

#### Other Plans and Benefits

USEC sponsors 401(k) and other defined contribution plans for employees. Employee contributions are matched at established rates. Amounts contributed are invested in securities and administered by independent trustees. USEC's matching cash contributions amounted to \$5.3 million, \$5.6 million, and \$5.9 million in fiscal years 2002, 2001, and 2000, respectively.

USEC provides executive officers, through nonqualified plans, additional pension benefits in excess of qualified plan limits imposed by tax law. The excess pension benefits are unfunded. The actuarial present value of projected benefit obligations for excess pension benefits amounted to \$12.4 million at June 30, 2002, and \$6.7 million at June 30, 2001. Under a 401(k) restoration plan, executive officers contribute and USEC matches contributions in excess of amounts eligible under the 401(k) plan. Costs for plans providing excess pension benefits, 401(k) restoration and other supplemental benefits for executive officers amounted to \$2.3 million, \$1.3 million, and \$1.1 million in fiscal years 2002, 2001 and 2000, respectively.

## 12. STOCKHOLDERS' EQUITY

### Common Stock

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

	Shares Issued	Treasury Stock	Shares Outstanding
Balance at June 30, 1999	100,318	(1,142)	99,176
Repurchase of common stock	–	(16,972)	(16,972)
Common stock issued	2	272	274
Balance at June 30, 2000	100,320	(17,842)	82,478
Repurchase of common stock	–	(2,819)	(2,819)
Common stock issued	–	907	907
Balance at June 30, 2001	100,320	(19,754)	80,566
Common stock issued	–	744	744
<b>Balance at June 30, 2002</b>	<b>100,320</b>	<b>(19,010)</b>	<b>81,310</b>

### Preferred Stock Purchase Rights

In April 2001, the Board of Directors approved a shareholder rights plan, under which shareholders of record May 9, 2001, received rights that initially trade together with USEC common stock and are not exercisable. In the absence of further action by the Board, the rights generally would become exercisable and allow the holder to acquire USEC common stock at a discounted price if a person or group acquires 15% or more of the outstanding shares of USEC common stock or commences a tender or exchange offer to acquire 15% or more of the common stock of USEC. However, any rights held by the acquirer would not be exercisable. The Board of Directors may direct USEC to redeem the rights at \$.01 per right at any time before the tenth day following the acquisition of 15% or more of USEC common stock.

### Compensation Plans

In February 1999, stockholders approved the USEC Inc. 1999 Equity Incentive Plan, under which 9.0 million shares of common stock were reserved for issuance over a 10-year period: 6,750,000 shares for nonqualified and incentive stock options and 2,250,000 shares for restricted stock or stock units, performance awards and other stock-based awards. There were 4,931,000 shares available for future awards under the Plan at June 30, 2002: 3,675,000 shares available for grants of stock options and 1,256,000 shares for other awards. A total of 4,980,000 shares were available at June 30, 2001.

Grants of restricted stock, net of forfeitures, amounted to 289,000 shares, 273,000 shares and 110,000 shares and resulted in deferred compensation, based on the fair market value of common stock at the date of grant, of

\$2.3 million, \$.3 million and \$1.7 million in fiscal years 2002, 2001, and 2000, respectively. Sale of such shares is restricted prior to the date of vesting. Deferred compensation is amortized to expense on a straight-line basis over the vesting period.

Restricted stock units were awarded in fiscal 2002; none were awarded in fiscal years 2001 or 2000. Compensation expense for restricted stock units is accrued over a three-year performance period.

Amortization of restricted stock and costs accrued for restricted stock units resulted in compensation expense of \$4.2 million, \$2.1 million, and \$2.9 million charged against income in fiscal years 2002, 2001, and 2000, respectively.

Stock options are granted at an exercise price equal to the fair market value of USEC's common stock at the date of grant. Options vest or become exercisable in equal annual installments over a three to five year period and expire 10 years from the date of grant. In fiscal 2002, certain officers and employees surrendered their rights to 1.2 million stock options that had been granted to them in fiscal 2000 at an exercise price of \$11.88 per share. A summary of shares available for grants of stock options and stock options outstanding follows (shares in thousands):

	Shares Available for Grant of Stock Options	Outstanding Stock Options	
		Shares	Weighted-Average Exercise Price
Balance at June 30, 1999	6,749	1	\$13.74
Granted	(4,555)	4,555	8.47
Forfeited	377	(377)	10.81
Balance June 30, 2000	2,571	4,179	8.27
Granted	(108)	108	4.33
Exercised	—	(67)	4.69
Forfeited	972	(972)	9.69
Balance June 30, 2001	3,435	3,248	7.78
Granted	(1,138)	1,138	8.18
Exercised	—	(162)	5.06
Forfeited	1,378	(1,378)	11.36
<b>Balance June 30, 2002</b>	<b>3,675</b>	<b>2,846</b>	<b>\$ 6.40</b>

Options outstanding and options exercisable at June 30, 2002, follow (shares in thousands):

Exercise Price	Options Outstanding	Remaining Life in Years	Options Exercisable
\$4.69	1,482	7.8	948
\$7.90	300	9.1	—
\$8.50	815	9.1	10
\$4 to 14	249	7.6	206
	<b>2,846</b>	<b>8.4</b>	<b>1,164</b>

In February 1999, stockholders approved the USEC Inc. 1999 Employee Stock Purchase Plan under which 2.5 million shares of common stock can be purchased over a 10-year period by participating employees at 85% of the lower of the market price at the beginning or the end of each six-month offer period. Employees can elect to designate up to 10% of their compensation to purchase common stock under the plan. There were 320,000 shares, 514,000 shares, and 140,000 shares purchased by participating employees in fiscal years 2002, 2001 and 2000, respectively.

Compensation expense for employee stock compensation plans is measured using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued for Employees." Under the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), pro forma net income assumes compensation expense was recognized based on the fair value of stock options at the date of grant using the Black-Scholes option pricing model and amortized to expense over the vesting period. Pro forma net income would have been \$.01 per share, \$.02 per share and \$.01 per share lower than net income per share as reported in fiscal years 2002, 2001 and 2000, respectively. Pro forma net income, the weighted average fair value per share of stock options granted, and assumptions used for stock options outstanding follow (in millions, except per share):

	Fiscal Years Ended June 30,		
	2002	2001	2000
Net income, as reported	<b>\$16.2</b>	\$78.4	\$ 8.9
Per share	<b>\$ .20</b>	\$ .97	\$ .10
Pro forma net income	<b>\$15.1</b>	\$77.0	\$ 8.0
Per share	<b>\$ .19</b>	\$ .95	\$ .09
Weighted average fair value per share of stock options granted	<b>\$2.05</b>	\$ .96	\$1.68
Assumptions:			
Risk-free interest rate	<b>4.4%</b>	5.5%	6.5%
Expected dividend yield	<b>8%</b>	7-10%	9-12%
Expected volatility	<b>50%</b>	50-60%	37-59%
Expected option life	<b>6 years</b>	6 years	6 years

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**13. QUARTERLY FINANCIAL DATA (UNAUDITED)**

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

<b>Fiscal Year Ended June 30, 2002</b>	Sept. 30	Dec. 31	March 31	June 30	Fiscal Year
Revenue	\$300.5	\$560.1	\$249.4	\$316.2	<b>\$1,426.2</b>
Cost of sales	287.3	519.4	229.0	285.5	<b>1,321.2</b>
Gross profit	13.2	40.7	20.4	30.7	<b>105.0</b>
Special charge (credit) for consolidating plant operations	–	–	(6.7) <sup>(1)</sup>	–	<b>(6.7)<sup>(1)</sup></b>
Advanced technology development costs	2.5	3.2	2.4	4.5	<b>12.6</b>
Selling, general and administrative	11.2	13.0	11.7	14.8	<b>50.7</b>
Operating income (loss)	(.5)	24.5	13.0	11.4	<b>48.4</b>
Interest expense	9.3	9.1	8.9	9.0	<b>36.3</b>
Other (income) expense, net	(2.4)	.4	(1.3)	(7.1) <sup>(2)</sup>	<b>(10.4)</b>
Provision (credit) for income taxes	(2.7)	5.5	1.1	2.4	<b>6.3</b>
Net income (loss)	\$ (4.7)	\$ 9.5	\$ 4.3	\$ 7.1	<b>\$ 16.2</b>
Net income (loss) per share – basic and diluted	\$ (.06)	\$ .12	\$ .05	\$ .09	<b>\$ .20</b>
Average number of shares outstanding	80.8	81.0	80.9	81.3	<b>81.1</b>
<b>Fiscal Year Ended June 30, 2001</b>					
Revenue	\$226.8	\$387.1	\$243.1	\$286.9	\$ 1,143.9
Cost of sales	197.0	335.2	211.5	248.0	991.7
Gross profit	29.8	51.9	31.6	38.9	152.2
Advanced technology development costs	3.1	2.0	2.9	3.4	11.4
Selling, general and administrative	13.0	11.1	11.2	13.5	48.8
Operating income	13.7	38.8	17.5	22.0	92.0
Interest expense	8.6	8.8	8.6	9.2	35.2
Other (income) expense, net	(2.1)	(2.6)	(2.2)	(1.2)	(8.1)
Provision (credit) for income taxes	2.6	11.7	(34.3) <sup>(3)</sup>	6.5	(13.5) <sup>(3)</sup>
Net income	\$ 4.6	\$ 20.9	\$ 45.4	\$ 7.5	\$ 78.4
Net income per share – basic and diluted	\$ .06	\$ .26	\$ .56	\$ .09	\$ .97
Average number of shares outstanding	81.3	80.6	80.4	80.5	80.7

(1) The special credit of \$6.7 million (\$4.2 million or \$.05 per share after tax) in fiscal 2002 represents a change in estimate of costs for consolidating plant operations.

(2) Other income in the fourth quarter of fiscal 2002 includes accrued income resulting from a change in provisional billing rates for cold standby and other contract services provided to DOE at the Portsmouth, Ohio plant since July 2001.

(3) The provision for income taxes in fiscal 2001 includes a special income tax credit of \$37.3 million (or \$.46 per share) resulting from changes in the estimated amount of deferred income tax benefits that arose from the transition to taxable status.



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**R E P O R T O F I N D E P E N D E N T A C C O U N T A N T S**

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To the Board of Directors and Stockholders of USEC Inc.:

In our opinion, the consolidated financial statements appearing on pages 35 through 51 present fairly, in all material respects, the financial position of USEC Inc. and its subsidiaries at June 30, 2002, and the results of their operations and cash flows for the fiscal year ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
McLean, Virginia

July 26, 2002

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**R E P O R T O F I N D E P E N D E N T P U B L I C A C C O U N T A N T S**

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To USEC Inc.:

We have audited the accompanying consolidated balance sheets of USEC Inc. (a Delaware Corporation) as of June 30, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USEC Inc. as of June 30, 2001 and 2000, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.



Arthur Andersen LLP

Vienna, Virginia  
July 26, 2001

This report of independent public accountants was issued by Arthur Andersen LLP on July 26, 2001, and has not been reissued.


## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 United States and necessarily include some amounts that are based on the best estimates and judgments of management.

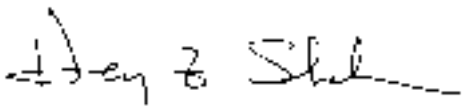
The system of internal controls is designed to provide reasonable assurance as to the reliability of financial records and the protection of assets. The system is augmented by written policies and guidelines, an internal audit program and the careful selection and training of qualified personnel. It 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 and safeguarding of assets. Further, because of changing conditions, internal control system effectiveness may vary over time.

In fiscal 2002, PricewaterhouseCoopers LLP was engaged to audit the consolidated financial statements. In fiscal 2001 and prior years, Arthur Andersen LLP audited the consolidated 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 reports on the consolidated 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 USEC Inc. The independent public accountants and the internal auditors have direct access to the committee, and they meet regularly with the committee with and without management present, to discuss and review accounting, auditing and financial reporting matters.



William H. Timbers  
*President and Chief Executive Officer*



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

September 20, 2002

## MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

USEC's common stock trades on the New York Stock Exchange under the symbol "USU." High and low sales prices and cash dividends paid per share follow:

	High	Low	Cash Dividends Paid
<b>Fiscal Year Ended June 30, 2002</b>			
April to June 2002	\$10.20	\$6.35	\$.1375
January to March 2002	7.60	5.35	.1375
October to December 2001	8.18	6.07	.1375
July to September 2001	8.65	6.20	.1375
<b>Fiscal Year Ended June 30, 2001</b>			
April to June 2001	10.95	6.90	.1375
January to March 2001	8.75	4.25	.1375
October to December 2000	5.38	3.88	.1375
July to September 2000	4.69	4.00	.1375

There are 250 million shares of common stock and 25 million shares of preferred stock authorized. At June 30, 2002, there were 81,310,000 shares of common stock issued and outstanding and 29,000 beneficial holders of common stock. No preferred shares have been issued.

USEC's equity compensation plans are approved by security holders. Equity compensation information at June 30, 2002, follows (shares in thousands):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights  (a)	Weighted-average exercise price of outstanding options, warrants and rights  (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))  (c)
Equity compensation plans approved by security holders:			
Equity Incentive Plan:			
Stock options	2,846	\$6.40	3,675
Restricted stock or stock units, performance awards and other stock-based awards	—		1,256
	2,846		4,931
Employee Stock Purchase Plan	—		1,526
	2,846		6,457
Equity compensation plans not approved by security holders			
	—	—	—
<b>Total</b>	<b>2,846</b>		<b>6,457</b>

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A total of 20.6 million shares of common stock (or 21% of the shares issued) were repurchased by USEC between June 1999 and June 2001.

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

In April 2001, the Board of Directors approved a shareholder rights plan. Each shareholder of record on May 9, 2001, received preferred stock purchase rights that trade together with USEC common stock and are not exercisable. In the absence of further action by the Board, the rights generally would become exercisable and allow the holder to acquire USEC common stock at a discounted price if a person or group acquires 15% or more of the outstanding shares of USEC common stock or commences a tender or exchange offer to acquire 15% or more of the

common stock of USEC. However, any rights held by the acquirer would not be exercisable. The Board of Directors may direct USEC to redeem the rights at \$.01 per right at any time before the tenth day following the acquisition of 15% or more of USEC common stock.

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

# SHAREHOLDER INFORMATION

## STOCK EXCHANGE LISTING

USEC Inc. common stock is listed and traded on the New York Stock Exchange under the ticker symbol USU. Options are listed and traded on the Chicago Board of Exchange, the American Stock Exchange and the Pacific Stock Exchange. As of August 31, 2002, the Company had approximately 29,000 beneficial holders of its common stock.

## ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. November 6, 2002 at the Naval Heritage Center in Washington, D.C. The Center is located on the first floor of 701 Pennsylvania Avenue, N.W., and is convenient to the Archives/Navy Memorial Metro stop.

## ANNUAL REPORT ON FORM 10-K

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

## CORPORATE HEADQUARTERS AND MAILING ADDRESS

### USEC Inc.

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

## INTERNET HOME PAGE

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

## INVESTOR RELATIONS

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

## STOCK HELD IN BROKERAGE ACCOUNT OR "STREET NAME"

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

## TRANSFER AGENT & REGISTRAR

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

### EquiServe

#### Shareholder Services

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

## DIVIDENDS

Dividends on USEC Inc. common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 15th of the month in March, June, September and December.

## DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

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

## INDEPENDENT ACCOUNTANTS

### PricewaterhouseCoopers LLP

McLean, VA

# BOARD OF DIRECTORS

**James R. Mellor**



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

**William H. Timbers**



*President and Chief  
Executive Officer, USEC Inc.*

**Michael H. Armacost**



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

**Joyce F. Brown**



*President, Fashion Institute of  
Technology of the State University  
of New York*

**John R. Hall**



*Retired Chairman and Chief  
Executive Officer, Ashland, Inc.*

**Dan T. Moore, III**



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

**W. Henson Moore**



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

**Joseph F. Paquette, Jr.**



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

**James D. Woods**



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

*Dan T. Moore, III has decided not to stand for re-election to the Board of Directors at the Annual Meeting of Shareholders, and will leave the Board at that time. The Board would like to express its sincere appreciation for Dan's service and valued counsel during his four-year tenure.*

## EXECUTIVE OFFICERS

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

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

**Sydney M. Ferguson**  
Senior Vice President

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

**Philip G. Sewell**  
Senior Vice President

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

**Dennis J. Blair**  
Vice President,  
Human Resources  
and Administration

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

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

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

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

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

## STRATEGIC ADVISORY COUNCIL

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

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

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

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

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

**Admiral William Owens (Ret.)**  
CEO, Teledesic; former Vice  
Chairman, Joint Chiefs of Staff

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

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

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





**USEC Inc.**

Two Democracy Center  
6903 Rockledge Drive  
Bethesda, Maryland  
20817-1818

**[www.usec.com](http://www.usec.com)**