SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2002

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14287

USEC Inc.

(Exact name of registrant as specified in its charter)

Delaware	**52-2107911**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2 Democracy Center 6903 Rockledge Drive, Bethesda, MD *(Address of principal executive offices)*	**20817** *(Zip Code)*

Registrant's telephone number, including area code: (301) 564-3200

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $.10 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of August 31, 2002, there were 81,513,000 shares of Common Stock, par value $.10 per share, issued and outstanding. As of August 31, 2002, the market value of the Common Stock held by non-affiliates of the registrant calculated by reference to the closing price of the registrant's Common Stock as reported on the New York Stock Exchange was $615.4 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Notice of Annual Meeting of Shareholders and Proxy Statement to be filed pursuant to Regulation 14A are incorporated by reference into Part III.

TABLE OF CONTENTS

Table of Contents

USEC Inc.

Annual Report on Form 10-K

Fiscal Year Ended June 30, 2002

TABLE OF CONTENTS

This Annual Report on Form 10-K 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.

PART I

Items 1 and 2. *Business and Properties*

Overview

USEC Inc. ("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. USEC's customers are domestic and international utilities that operate nuclear power plants. USEC is the exclusive executive agent for the U.S. Government to purchase LEU derived from highly enriched uranium contained in decommissioned nuclear warheads in Russia (the "Russian Contract").

USEC, including its wholly owned subsidiaries, was organized under Delaware law in connection with the privatization of the United States Enrichment Corporation, a corporation then wholly owned by the U.S. Government. USEC completed an initial public offering of common stock on July 28, 1998, thereby transferring all of the U.S. Government's interest in the business, with the exception of certain liabilities from prior operations of the U.S. Government. References to USEC include USEC's wholly owned subsidiaries as well as the predecessor to USEC unless the context otherwise indicates.

Two years ago, USEC set out an agenda to reduce costs, stabilize revenue and establish a technology plan for the future. The following strategic initiatives pursuant to that agenda were successfully completed in fiscal 2002:

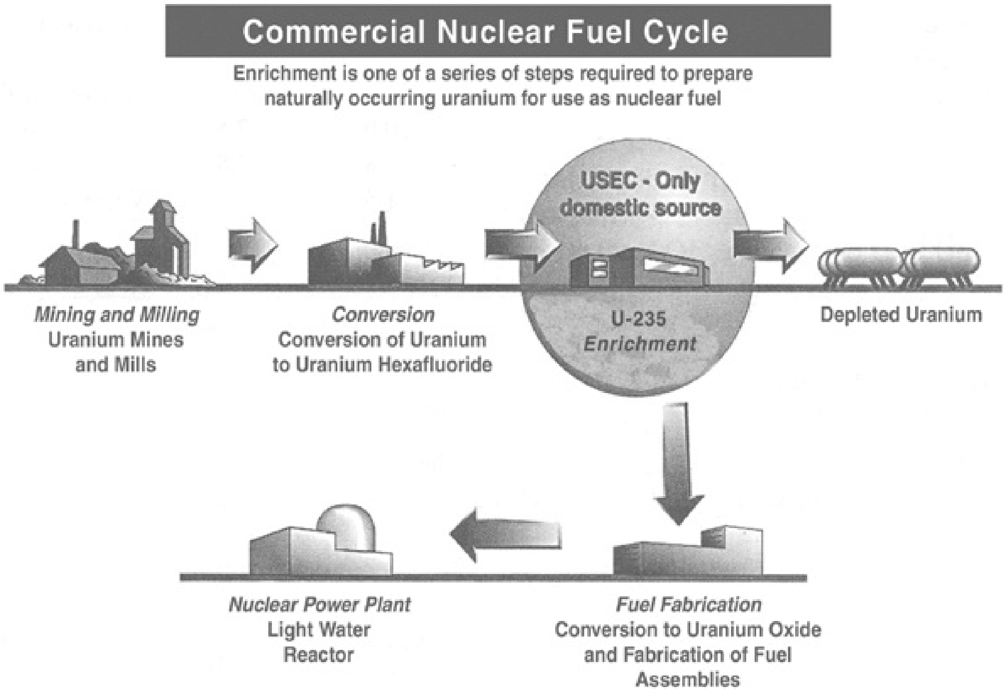
- USEC implemented a contract amendment with its Russian counterpart to establish market-based pricing for the remaining 12 years of the Russian Contract. USEC agreed to continue to purchase 5.5 million SWU from Russia each calendar year.
- USEC and DOE entered into an agreement (the "DOE-USEC Agreement") to develop and deploy highly efficient gas centrifuge technology by the end of this decade. USEC is applying state-of-the-art advances and updated manufacturing techniques to the centrifuge design originally developed by the U.S. Government.
- Under the DOE-USEC Agreement, DOE took responsibility for remediating any out-of-specification uranium transferred to USEC by DOE prior to the privatization.
- The U.S. Department of Commerce ("DOC") ruled that LEU imported from four Western European countries was being subsidized and, in the case of LEU imports from France, was sold at unfair prices, and the U.S. International Trade Commission ("ITC") ruled that these unfair imports had materially injured USEC. Consequently, DOC issued an order imposing antidumping and countervailing duties on the imports of LEU from these countries.
- Cost savings will be achieved through the acceleration of consolidation of transfer and shipping at the Paducah plant.

Uranium and Enrichment

The uranium fuel cycle consists of the following process:

- *Mining and Milling* – Uranium is removed from the earth in the form of ore and then crushed and concentrated.
- *Conversion* – Uranium is combined with fluorine gas to produce uranium hexafluoride, a powder at room temperature and a gas when heated. Uranium hexafluoride is shipped to an enrichment plant.
- *Enrichment* – Uranium hexafluoride is enriched in a process that increases the concentration of U^{235} atoms in the uranium hexafluoride from its natural state of 0.711% up to 5%, which is usable as a fuel for commercial nuclear power reactors. Depleted uranium is a by-product of the uranium enrichment process. USEC has the only enrichment operation in the United States.

- *Fuel Fabrication* – Enriched uranium is converted to uranium oxide and formed into small ceramic pellets. The pellets are loaded into metal tubes that form fuel assemblies, which are shipped to nuclear power plants.
- *Nuclear Power Plant* – The fuel assemblies are loaded into nuclear reactors to create energy from a controlled chain reaction. Nuclear power plants generate about 16% of the world's electricity.
- *Consumers* – Business and homeowners rely on the steady, base load electricity supplied by nuclear power and appreciate that there are no emissions of greenhouse gases.



As found in nature, uranium consists of three isotopes, the two principal ones being uranium-235 ("U^{235}") and uranium-238 ("U^{238}"). U^{238} is the more abundant isotope, but is not fissionable in thermal reactors. U^{235} is the fissionable isotope, but its concentration in natural uranium is only about .711% by weight. Light water nuclear reactors, which are operated by most nuclear utilities in the world today, require LEU fuel with a U^{235} concentration up to 5% by weight. Uranium enrichment is the process by which the concentration of U^{235} is increased to that level.

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^{235} isotope and the other depleted in the U^{235} 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 its SWU component.

USEC supplies LEU to electric utilities for use in about 160 nuclear reactors. 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 maintains significant inventories of SWU and uranium for use in such sales.

Generally, contracts with customers to provide LEU are long-term requirements contracts under which the customer is obligated to purchase from USEC a specified percentage of the SWU component of the LEU that the customer subsequently delivers to fabricators for conversion into nuclear fuel.

Consequently, annual sales are dependent upon customers' nuclear fuel requirements which are driven by nuclear reactor refueling and maintenance schedules and regulatory actions. Under delivery optimization and other customer oriented programs, USEC ships LEU to nuclear fuel fabricators for scheduled or anticipated orders from utility customers.

Revenue from domestic customers represented 67% and revenue from foreign customers represented 33% of total revenue in fiscal 2002. 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
	100%	**100%**	**100%**

USEC's long-term or long-lived assets include property, plant and equipment and other assets reported on the balance sheet at June 30, 2002, all of which were located in the United States.

Backlog

Under many of USEC's contracts, customers provide non-binding estimates of their requirements that help USEC plan production requirements. Backlog is the aggregate dollar amount of SWU and uranium that USEC expects to sell pursuant to long-term requirements contracts with utilities. 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 with utilities aggregating $4.5 billion through fiscal 2011 (including $2.7 billion through fiscal 2005), compared with $5.4 billion at June 30, 2001.

Variability of Revenue and Operating Results

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 lower 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. Customer orders for the SWU component of LEU are large in amount, typically averaging $12.0 million per order. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results. Customer requirements and orders are more predictable over the longer term, and USEC believes its performance is best measured on an annual business cycle.

Gaseous Diffusion Plants

Two existing commercial technologies are currently used to enrich uranium for nuclear power plants: the gaseous diffusion process and the gas centrifuge process. USEC uses the gaseous diffusion process. The gaseous diffusion process involves the passage of uranium in a gaseous form through a series of filters (or porous barriers) such that the uranium is continuously enriched in U^{235} as it moves through the process. Because U^{235} is lighter, it passes through the barrier more readily than does U^{238}, resulting in a gaseous uranium that has a higher portion of U^{235}, the fissionable isotope. The gaseous diffusion process is power intensive, requiring significant amounts of electric power to push uranium through the filters. The other enrichment process, gas centrifuge, employs rapidly spinning cylinders containing uranium to separate the fissionable U^{235} isotope from the non-fissionable U^{238} and is significantly less power intensive.

The fundamental building block of the gaseous diffusion process is known as a stage, consisting of a compressor, a converter, a control valve and associated piping. Compressors driven by large electric motors are used to circulate the process gas and maintain flow. Converters contain porous tubes known as barriers through which process gas is diffused. Stages are grouped together in series to form an operating unit called a cell. A cell is the smallest group of stages that can be removed from service for maintenance. Gaseous diffusion plants are designed so that cells can be taken off line with little or no interruption in the process. In each converter, the portion of the process gas that passes through the barrier is slightly enriched in U^{235} and is fed to the next higher stage. Process gas that has not passed through the barrier is depleted in U^{235} to the same degree and is recycled back to the next lower stage. Because the velocity difference between the two isotopes of uranium is very small, hundreds of successive stages are required for enrichment. A gaseous diffusion plant configured to produce enriched uranium with a U^{235} concentration of 4% from uranium at .711% by weight U^{235} would contain at least 1,200 stages in series.

USEC produces LEU at the Paducah gaseous diffusion plant located in Paducah, Kentucky. In May 2002, as part of the plant consolidation program, the Paducah plant began shipping LEU directly to fuel fabricators. The Paducah plant consists of four process buildings and is one of the largest industrial facilities in the world. Process buildings have a total floor area of 150 acres, and the site covers 750 acres. The Paducah plant has been certified by the Nuclear Regulatory Commission (“NRC”) to produce LEU up to an assay of 5.5% U^{235}. USEC estimates that the maximum capacity of the existing equipment is about 8 million SWU per year. However, USEC produces about 5 million SWU per year.

The Portsmouth gaseous diffusion plant is located near Portsmouth, Ohio. At the end of fiscal 2001, USEC ceased uranium enrichment operations at the Portsmouth plant, and, at the end of fiscal 2002, USEC was in the process of ceasing operation of the transfer and shipping facilities at the plant for purposes of shipping LEU to fuel fabricators. The Portsmouth plant was placed into cold standby under a contract with DOE. Cold standby is a condition under which the plant could be returned to production of 3 million SWU within 18-24 months notice if the U.S. Government determined that additional domestic enrichment capacity was necessary. A significant number of USEC employees remain at the Portsmouth plant providing cold standby contract services for DOE. In July 2002, USEC began processing out-of-specification uranium at the Portsmouth plant under the terms of the DOE-USEC Agreement.

USEC leases the Paducah and Portsmouth plants from DOE. The lease covers most, but not all, of the buildings and facilities. Except as provided in the DOE-USEC Agreement, USEC has the right to extend the lease indefinitely, with respect to either or both plants, for successive renewal periods. USEC may increase or decrease the property under the lease to meet its changing requirements. Within the contiguous tracts, certain buildings, facilities and areas related to environmental restoration and waste management have been retained by DOE and are not leased to USEC. At termination of the lease, USEC may leave the property in “as is” condition, but must remove all waste generated by USEC, which is subject to off-site disposal, and must place the plants in a safe shutdown condition. Environmental liabilities associated with plant operations prior to July 28, 1998, are the responsibility of the U.S. Government, except for liabilities relating to the disposal of certain identified wastes generated by USEC and stored at the plants. DOE is responsible for the costs of decontamination and decommissioning of the plants. If removal of any of USEC’s capital improvements increases DOE’s decontamination and decommissioning costs, USEC is required to pay the difference. Title to capital improvements not removed by USEC will automatically be transferred to DOE at the end of the lease term.

Under the lease, DOE is required to indemnify USEC for costs and expenses related to claims asserted against or incurred by USEC arising out of DOE’s operation, occupation or use of the plants. DOE activities at the plants are focused primarily on environmental restoration and waste management and management of depleted uranium. DOE is required to indemnify USEC against claims for public liability (a) arising out of or in connection with activities under the lease, including domestic transportation, and (b) arising out of, or resulting from, a nuclear incident or precautionary evacuation. DOE’s financial obligations are capped at the $9.4 billion statutory limit calculated pursuant to 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 expired in August 2002, the indemnification against public liability provided in the USEC lease remains in effect.

Electric Power and Materials

The gaseous diffusion process requires significant amounts of electric power. 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"). TVA provides electric power at fixed contract prices with capacity varying monthly from 300 to 1,780 megawatts. Prices 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. 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 purchases a portion of the electric power for the Paducah plant from Electric Energy, Inc. ("EEI") under a power purchase contract between DOE and EEI. DOE transferred the benefits of the EEI power purchase contract 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.

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.

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 the Ohio Valley Electric Corporation ("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 power purchase 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.

The Paducah plant uses Freon as the primary process coolant. The production of Freon in the United States was terminated in 1995. Leaks from pipe joints, sight glasses, valves, coolers and condensers resulted in leakage of approximately 435,000 pounds in fiscal 2002, a leak rate that is within the level allowed by the Environmental Protection Agency ("EPA"). In order to ensure that USEC continues to have enough coolant to meet its needs, USEC is actively working to reduce leakage. USEC expects that its current inventory should be adequate to continue to utilize Freon at the Paducah plant through at least fiscal 2004. In addition, USEC purchases Freon recovered from industrial sources. A program is underway to introduce an alternative coolant to be used once the inventory is depleted.

Equipment components (such as compressors, coolers, motors and valves) requiring maintenance are removed from the process and repaired or rebuilt on site. Common industrial components, such as the breakers, condensers and transformers in the electrical system, are procured as needed. Some components and systems may no longer be produced, and spare parts may not be readily available. In these situations, replacement components or systems are identified, tested, and procured from existing commercial sources, or the plants' technical and fabrication capabilities are utilized to design and build replacements.

Equipment utilization at the Paducah plant was 77% in fiscal 2002, compared with 63% in fiscal 2001. The utilization of equipment is primarily dependent on power availability and costs. USEC substantially reduced equipment utilization and the related power load in the summer months at the beginning and end of fiscal 2001 when the cost of electric power was high. USEC has secured additional megawatts of power at favorable prices for the summer of 2002 and is increasing production to levels substantially above last summer. Equipment utilization is also affected by repairs and maintenance activities.

DOE-USEC Agreement

On June 17, 2002, USEC and the DOE signed the DOE-USEC Agreement whereby both USEC and DOE made long-term commitments directed at resolving a number of outstanding issues bearing on the stability and security of the domestic uranium enrichment industry.

The following is a summary of the DOE-USEC Agreement:

Russian Contract

USEC has agreed to purchase, if made available by the Russian executive agent, 5.5 million SWU per calendar year contained in LEU derived from at least 30 metric tons per year of weapons-origin highly enriched uranium. The DOE-USEC Agreement provides that DOE will recommend against removal, in whole or in part, of USEC as the U.S. executive agent under the Russian Contract as long as USEC orders the specified amount of SWU from the Russian executive agent and complies with its obligations under the DOE-USEC Agreement and the Russian Contract. The DOE-USEC Agreement does not affect the ability of USEC to resign, or the U.S. Government to terminate USEC, as the U.S. executive agent, upon the provision of proper advance notice as provided in the April 1997 Memorandum of Agreement between USEC and the U.S. Department of State and DOE.

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.

Domestic Enrichment Facilities

USEC has agreed to operate the Paducah plant at a production rate at or above 3.5 million SWU per year, as measured by USEC’s June 30 fiscal year. Historically, USEC has operated at production rates significantly above this level, and in its current fiscal year, USEC will produce about 5 million SWU at the Paducah plant.

The 3.5 million annual production level may not be reduced until six months before USEC has completed an advanced enrichment technology facility capable of producing 3.5 million SWU per year. If the Paducah plant is operated at less than the specified 3.5 million SWU in any given fiscal year, USEC may cure such defect by increasing SWU production to the 3.5 million SWU level in the ensuing fiscal year. The right to cure may be used only once by USEC in each five or six-year lease term.

If USEC does not maintain the requisite level of operations and has not cured the deficiency, USEC is required to waive its exclusive rights to lease the Paducah and Portsmouth plants. If USEC ceases operations at the Paducah plant or loses its certification from the NRC, DOE may take such action as it deems necessary to transition operation of the plant from USEC to ensure the continuity of domestic enrichment operations and the fulfillment of supply contract. In either such event, DOE may be released from its obligations under the DOE-USEC Agreement. USEC will be deemed to have “ceased operations” at the Paducah plant if it (a) produces less than 1 million SWU or (b) fails to meet specific maintenance and operational procedures established in the DOE-USEC Agreement.

USEC has agreed to maintain leased property at the Portsmouth plant (other than any leased property subject to USEC’s cold standby contract with DOE) in a condition to permit it to be considered as a possible site for USEC’s deployment of an enrichment facility using advanced uranium enrichment technology. If USEC does not maintain the applicable Portsmouth facilities or does not operate the facilities to remove technetium for 15 months as discussed above, USEC will waive any statutory exclusive right it has to lease the Portsmouth plant and will waive certain of its rights under the lease for the Portsmouth plant. Additionally, DOE can terminate the DOE-USEC Agreement and be released from its obligations under it.

Advanced Enrichment Technology

The DOE-USEC Agreement provides that USEC will begin operations of an enrichment facility at Paducah or Portsmouth using advanced technology with annual capacity of 1 million SWU (expandable to 3.5 million SWU) in accordance with certain milestones. The milestone schedule contains dates for various steps culminating in deployment of an advanced enrichment technology facility, including testing, NRC licensing, financing and construction. The milestones require, among other things, that a centrifuge facility (a) begin commercial operations in Portsmouth by January 2009 and achieve an annual capacity of 1 million SWU by March 2010 or (b) begin commercial operations in Paducah by January 2010 and achieve an annual capacity of 1 million SWU by March 2011.

If, for reasons within USEC's control, USEC does not meet a milestone and the resulting delay will materially impact its ability to begin commercial operations on schedule, DOE may take any of the following actions:

- terminate the DOE-USEC Agreement and be relieved of its obligations thereunder,
- require USEC to reimburse DOE any costs caused by DOE expediting decontamination and decommissioning facilities to be used by USEC for advanced technology,
- require USEC to transfer to DOE royalty free exclusive rights to the centrifuge technology and data in the field of uranium enrichment,
- require USEC to return any leased facilities upon which the advanced technology project was being or was intended to be constructed, and
- except for plant facilities being operated, require USEC to waive its exclusive rights to lease the Paducah and Portsmouth plant.

After USEC has secured firm financing commitments for the construction of a 1 million SWU plant and has begun construction, DOE's remedies are limited to circumstances where USEC's gross negligence in project planning and execution is responsible for schedule delays or USEC has abandoned or constructively abandoned the project. In such cases, USEC will be entitled to a reasonable royalty for the use of any intellectual property and data transferred for non-governmental purposes.

General

USEC and DOE have agreed to form a joint working group for the purposes of implementing the advanced technology deployment specified in the DOE-USEC Agreement. USEC and DOE have also agreed to consult with each other as necessary and appropriate to carry out the objectives of the DOE-USEC Agreement, including periodic meetings between the Deputy Secretary of Energy and the President/ CEO of USEC. The DOE-USEC Agreement also contains certain force majeure provisions which excuse USEC's failure to perform under the DOE-USEC Agreement if such failure arises from causes beyond the control and without fault or negligence of USEC. Moreover, the exercise of any of the remedies set forth in the DOE-USEC Agreement is subject to notice and appeal procedures contained therein.

The foregoing summary of the DOE-USEC Agreement is qualified in its entirety by reference to the DOE-USEC Agreement, a copy of which was filed as an exhibit to a report on Form 8-K filed by USEC on June 21, 2002.

Russian Contract

USEC has been designated by the U.S. Government to act as its exclusive Executive Agent in connection with a government-to-government agreement between the United States and the Russian

Federation under which USEC purchases the SWU component of LEU derived from dismantled Soviet nuclear weapons. In January 1994, USEC, on behalf of the U.S. Government, signed an agreement ("Russian Contract") with AO Techsnabexport (now known as OAO "Techsnabexport" or "Tenex"), Executive Agent for the Ministry of Atomic Energy of the Russian Federation ("MINATOM"). MINATOM is formally the Executive Agent for the Russian Federation, but in practice, Tenex administers the Russian Contract and therefore is referred to as the "Russian Executive Agent."

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 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. 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. A significant delay in purchasing, shipping or receiving LEU from Russia would have an adverse effect on USEC's results of operations.

In April 1997, USEC entered into a memorandum of agreement ("Executive Agent MOA") with the U.S. Government whereby USEC agreed to continue to serve as the U.S. Executive Agent following the privatization. Under the terms of the government-to-government agreement and the Executive Agent MOA, USEC can be terminated or resign as U.S. Executive Agent upon the provision of 30 days' notice. The Executive Agent MOA also provides that the U.S. Government can appoint alternate or additional executive agents to carry out the government-to-government agreement. A new Executive Agent could represent a significant new competitor that could adversely affect USEC's profitability and sales.

Highly Enriched Uranium from DOE

DOE is in the process of transferring 50 metric tons of highly enriched uranium to USEC in installments over the next four years. USEC expects to recover LEU containing 3.1 million SWU and 5,400 metric tons of uranium from downblending the highly enriched uranium. At June 30, 2002, 18 metric tons of highly enriched uranium had been transferred, and 17% of the total expected LEU had been recovered. USEC expects costs to complete downblending activities will be less than the production costs that would be required to produce an equivalent amount of LEU. Factors affecting recoverability include the costs and risks of completing the transfers, processing and downblending required to convert the highly enriched uranium metal and oxide into LEU suitable for sale to utility customers.

Alternative Uranium Enrichment Technologies

USEC is evaluating alternative uranium enrichment technologies with the goal of developing and deploying a new enrichment facility and process to replace its gaseous diffusion operations. USEC has selected U.S. centrifuge technology and has begun working on the demonstration and deployment of a new enrichment facility based on this technology. Advanced technology development costs amounted to $12.6 million in fiscal 2002 and were charged to expense as incurred. USEC expects to spend approximately $150 million over the next five years in preparation for construction of a 1 million SWU centrifuge plant under milestones set out in the DOE-USEC Agreement. A significant amount of these development costs are expected to be expensed until 2006 when commercial plant costs would begin to be capitalized. In fiscal 2003, USEC expects to more than double spending on advanced technology, which includes a significant increase in project staffing. A commercial centrifuge plant is expected to cost approximately $1 to $1.5 billion.

U.S. centrifuge technology, which was developed from 1960 through the mid-1980s by DOE, is a proven, workable technology. Work on this technology was terminated by DOE because of falling demand and budgetary constraints. During this period DOE spent more than $3 billion on research and development and construction of centrifuge facilities and operated full-scale centrifuge machines that achieved performance level superior to today's best operational centrifuges. USEC is now embarking on a program to showcase state-of-the-art updates to this proven technology. Construction of a lead cascade containing up to 240 improved full-scale centrifuge machines will begin in 2004. As the first operating module of a new generation of centrifuge technology designed for a commercial size plant in the United States, the facility will be used during its operations starting in the latter part of 2005 and through 2006 to gather data to reduce cost, schedule and technology performance uncertainties prior to initiating construction of a commercial plant in 2007. Centrifuge machines enrich uranium by spinning uranium hexafluoride at very high speeds, separating the lighter U^{235} from the heavier U^{238}. The amount of separation performed by a centrifuge is dependent on the height or length and spinning speed of the centrifuge rotors.

On September 19, 2002, USEC announced that it had finalized a $121 million Cooperative Research and Development Agreement ("CRADA") with UT-Battelle LLC, the management and operating contractor for DOE's Oak Ridge National Laboratory ("ORNL"). The CRADA, approved by DOE, extends through June 2007 and will be funded entirely by USEC. The CRADA enables expanded cooperation with DOE to support the deployment of what USEC expects to be the most efficient uranium enrichment technology in the world. In 2005, USEC will be operating a commercial-sized module of up to 240 next generation U.S. centrifuge uranium enrichment machines that will lead to the start of commercial plant operations in this decade. USEC employees and technical personnel from ORNL will work to deploy USEC's "lead cascade" test facility which will showcase improvements to DOE's proven centrifuge technology. Upon successful operation of the test facility, USEC will be in a position to initiate deployment of a commercial plant.

USEC has secured exclusive worldwide rights to the commercial use of the SILEX laser-based technology for enriching uranium hexafluoride, which USEC is developing in partnership with Silex Systems Limited in Australia. SILEX or Separation of Isotopes by Laser Excitation uses lasers that are tuned to excite only the U^{235} isotopes and not the U^{238} isotopes, enabling separation through a gas dynamic effect. If successfully deployed, SILEX would reduce the cost of enriching uranium primarily because it would use less electric power compared with gaseous diffusion and would have lower capital costs compared with gas centrifuge. USEC continues to develop SILEX at a pace consistent with its stage of development.

Nuclear Regulatory Commission – Regulation

The gaseous diffusion plants are certified and regulated by the NRC. The NRC issued Certificates of Compliance to USEC for the operation of the plants in November 1996 and began regulatory oversight in March 1997. The term of the NRC certification of the plants has been renewed for a five-year period ending December 2003.

As part of the certification process, the NRC found the plants to be generally in compliance with its regulations. However, exceptions were noted in certain compliance plans which set forth binding commitments for actions and schedules to achieve full compliance (the "Compliance Plan"). At June 30, 2002, Compliance Plan actions for the Paducah plant had been completed and actions for the Portsmouth plant were substantially completed. The Paducah plant is located near the New Madrid fault line. The Compliance Plan required seismic upgrading of two main process buildings at the Paducah plant to reduce the risk of release of radioactive and hazardous material in the event of an earthquake. USEC completed the seismic modifications in July 2000.

In March 2001, following completion of the assay upgrade project, the Paducah plant was certified by the NRC to produce enriched uranium up to an assay of 5.5% U^{235}. In April 2001, the Paducah plant produced enriched uranium at nearly 5% assay, the highest level needed to meet customer requirements.

In response to the heightened security concerns following the events of September 11, NRC issued orders to USEC in June 2002 requiring additional security measures at the plants. USEC expects to incur costs of $12.7 million, including $6.5 million in capital costs, in fiscal 2003 for the additional security measures.

The NRC has the authority to issue notices of violation for violations of the Atomic Energy Act of 1954, NRC regulations, and conditions of a Certificate of Compliance, Compliance Plan, or Order. The NRC has the authority to impose civil penalties for certain violations of its regulations. USEC has received notices of violation for certain violations of these regulations and Certificate conditions, none of which has exceeded $88,000. In each case, USEC took corrective action to bring the facilities into compliance with NRC regulations. USEC does not expect that any proposed notices of violation it has received will have a material adverse effect on its financial position or results of operations.

USEC utilizes the collective expertise and broad radiological safety, regulatory, and nuclear operations experience of the members of its Plant Performance Review Committee to assess plant safety and operational performance against industry best practices. Committee membership includes senior plant management and independent industry consultants. The committee is chaired by one of its independent members.

Environmental Matters

USEC’s operations are subject to various federal, state and local requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. USEC’s operations generate low-level radioactive waste that is stored on-site or is shipped off-site for disposal at commercial facilities. In addition, USEC’s operations generate hazardous waste and mixed waste (i.e., waste having both a radioactive and hazardous component), most of which is shipped off-site for treatment and disposal. Because of limited treatment and disposal capacity, some mixed waste is being temporarily stored at DOE’s permitted storage facilities at the plants. USEC has entered into consent decrees with the States of Kentucky and Ohio that permit the continued storage of mixed waste at DOE’s permitted storage facilities at the plants and provide for a schedule for sending the waste to off-site treatment and disposal facilities.

USEC’s operations generate depleted uranium that is currently being stored at the plants. Depleted uranium is a by-product of the uranium enrichment process where the concentration of the U^{235} isotope is less than the concentration of .711% found in natural uranium. All liabilities arising out of the disposal of depleted uranium generated before July 28, 1998, are direct liabilities of DOE. The USEC Privatization Act requires DOE, upon USEC’s request, to accept for disposal the depleted uranium generated after the July 28, 1998 privatization date, in the event that depleted uranium is determined to be a low-level radioactive waste, provided USEC reimburses DOE for its costs.

The gaseous diffusion plants were operated by agencies of the U.S. Government for approximately 40 years prior to July 28, 1998. As a result of such operation, there is contamination and other potential environmental liabilities associated with the plants. The Paducah plant has been designated as a Superfund site, and both plants are undergoing investigations under the Resource Conservation and Recovery 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 the disposal of certain identified wastes generated by USEC and stored at the plants. The USEC Privatization Act and the lease for the plants provide that DOE remains responsible for decontamination and decommissioning of the plants.

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements for information on operating costs and capital expenditures relating to environmental matters.

Occupational Safety and Health

USEC's operations are subject to regulations of the Occupational Safety and Health Administration governing worker health and safety. USEC maintains a comprehensive worker safety program that establishes high standards for worker safety and monitors key performance indicators in the workplace environment. At the time the plants were leased from DOE, a number of non-compliances were identified. USEC has either corrected or taken compensatory actions with respect to the identified non-compliances.

Certain Arrangements Involving the U.S. Government

USEC is a party to a significant number of agreements, arrangements and other activities with the U.S. Government that are important to USEC's business, including:

- the lease for the gaseous diffusion plants;
- the Executive Agent agreement under which USEC purchases the SWU component of LEU under the Russian Contract;
- the DOE-USEC Agreement that addresses issues relating to domestic uranium enrichment industry and advanced technology;
- agreements under which DOE takes certain quantities of depleted uranium generated by USEC;
- cold standby, uranium deposit removal and other contract services provided for DOE;
- an agreement with DOE for the transfer and the downblending of highly enriched uranium; and
- electric power purchase agreements with TVA and DOE.

Competition and Foreign Trade

The highly competitive global uranium enrichment industry has four major producers of LEU:

- USEC;
- Urenco, a consortium of companies owned or controlled by the British and Dutch governments and by private German utilities;
- Eurodif, a multinational consortium controlled by Cogema S.A., a company principally owned by the French government; and
- Tenex, a Russian entity that markets nuclear fuel for Russia's government-owned enrichment facilities.

There are also smaller suppliers in China and Japan that primarily serve only a portion of their respective domestic markets.

Global LEU suppliers compete primarily in terms of price, and secondarily on reliability of supply and customer service. USEC is committed to being competitive on price and delivering superior customer service. USEC believes that customers are attracted to its reputation as a reliable long-term supplier of enriched uranium and intends to continue strengthening this reputation.

While there are only a few primary suppliers, USEC estimates that operating capacity of the suppliers is close to world demand, however, there is an additional supply of LEU available for commercial use from the dismantlement of nuclear weapons in the former Soviet Union and the United States. Imports of Russian LEU and other uranium products are subject to certain trade restrictions in the United States and other markets.

Urenco, Tenex, and producers in Japan and China use centrifuge technology to produce LEU, a more advanced technology than the gaseous diffusion process used by USEC. Urenco has an ongoing expansion program under which it has been increasing its capacity. Urenco has reported that it increased the capacity of its facilities to 5.3 million SWU at the end of calendar 2001, an increase of 10% over calendar year 2000. Eurodif uses the gaseous diffusion process. Eurodif and Japan Nuclear Fuels Limited have announced that they are exploring new enrichment technologies.

Louisiana Energy Services, a consortium of Urenco, three large U.S. nuclear utilities and other nuclear fuel companies, has announced plans to construct an enrichment plant in the United States based on Urenco's centrifuge technology. The consortium is in the preliminary stages of obtaining an NRC license and selecting a site with a target production of 3 million SWU beginning in the second half of the decade.

All of USEC's current competitors are owned or controlled, in whole or in part, by foreign governments and may make business decisions influenced by political and economic policy considerations rather than exclusively commercial profit-maximizing considerations. USEC believes that a significant portion of the East and West European markets may be closed to USEC because purchasers in certain areas may favor their local producers, due to government influence or other political considerations.

LEU supplied by USEC to foreign customers is exported from the United States under the terms of international agreements governing nuclear cooperation between the United States and the country of destination. For example, exports to countries comprising the European Union take place within the framework of an agreement for cooperation (the "EURATOM Agreement") between the United States and the European Atomic Energy Community, which, among other things, permits LEU to be exported from the United States to the European Union for as long as the EURATOM Agreement is in effect. USEC-supplied LEU is exported to utilities in other countries under similar agreements for cooperation. If any such agreement should lapse, terminate or be amended such that USEC could not make sales or deliver LEU for export to jurisdictions subject to such agreement, it could have a material adverse effect on USEC's financial position and results of operations.

Russian Suspension Agreement

Imports of LEU produced in the Russian Federation are subject to restrictions imposed under a 1992 agreement suspending an antidumping investigation of imports of all forms of Russian uranium (the "Russian SA") that was initiated by DOC at the request of the U.S. producers of natural uranium and uranium workers. With limited exceptions, the Russian SA prohibits nearly all imports of LEU from Russia other than LEU derived from highly enriched uranium imported under the Russian Contract.

By its terms, the Russian SA can be terminated by either the Russian or U.S. governments upon 90 days advance notice. In such a case, however, the 1992 antidumping investigation suspended by the Russian SA, including the high preliminary duties calculated at that time on imports of Russian uranium products, would be renewed. Alternatively, the Russian Federation could invoke procedures under the Russian SA, which provide for termination of both the suspended antidumping investigation and the Russian SA if the DOC makes certain specified determinations under a formal process specified in DOC regulations. In that process, the views of interested domestic parties, including USEC, would have to be considered by the DOC prior to making such determinations. Even if the DOC, upon request by the Russian Federation, makes such determinations, the terms of the Russian SA indicate that the earliest that the Russian SA and the underlying investigation could be terminated under these procedures is March 31, 2004.

In the course of a review conducted in calendar year 2000, the DOC and the ITC determined that if the Russian SA were terminated, dumping of Russian uranium products, including LEU, likely would resume, and likely would result in material injury to the U.S. industry, including USEC. Thus, absent the restrictions imposed by the Russian SA or duties imposed under an antidumping order against imports of uranium products from the Russian Federation, USEC would face substantially increased competition and market prices for SWU and LEU could be depressed, adversely impacting USEC's profitability and sales.

In June 2002, DOC determined that the Russian Federation had evolved from non-market economy status to a “market economy.” As a consequence, future antidumping proceedings involving imports from the Russian Federation will be based on costs and prices in the Russian Federation, rather than costs and prices as determined in a market economy country of similar economic development. USEC does not believe that this “market economy” decision will have any immediate impact on the Russian SA. How these changes would apply to any resumed antidumping investigation, or future antidumping or countervailing duty investigations, of LEU from the Russian Federation is uncertain.

Investigation of Imports from France, Germany, the Netherlands and the United Kingdom

In February 2002, 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 DOC and 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 or ITC determinations under 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.

Stockpile of LEU Located in Kazakhstan

In August 1999, USEC asked DOC to clarify that a stockpile of LEU containing approximately 3 million SWU, which was produced in Russia but located in Kazakhstan at the time of the break-up of the Soviet Union, falls within the scope of the Russian SA (the “Origin Determination”). DOC has not yet ruled on the Origin Determination. If it rules that the stockpile is subject to the Russian SA, then imports of the stockpile material will be subject to the import limits under the Russian SA. If DOC rules that the stockpile is not subject to the Russian SA, then the material could be imported into the United States for sale to U.S. utilities free of any antidumping restrictions. USEC’s appeal of the ITC’s negative injury determination in a 1999 antidumping investigation of imports of uranium from Kazakhstan was rejected by the U.S. Court of International Trade in February 2001 and by the U.S. Court of Appeals for the Federal Circuit in April 2002. Unless USEC were to win the Origin Determination, the stockpile could be sold in the United States free of any antidumping restrictions. Depending on the quantity imported, such sales could depress market prices and adversely affect USEC’s profitability and sales.

Employees

USEC had 2,913 employees at June 30, 2002, a net reduction of 187 (or 6%) from 3,100 at June 30, 2001. There were 2,759 employees at the plants (1,471 at the Paducah plant and 1,288 at the Portsmouth plant), 117 at headquarters in Bethesda, Maryland, and 37 at other locations. Approximately 65% of the employees at the plants were engaged in uranium enrichment and transfer and shipping operations, and the remaining 35% were involved in DOE-funded activities.

The Paper, Allied-Industrial, Chemical and Energy Workers International Union ("PACE") and the International Union, Security, Police, Fire Professionals of America ("SPFPA") represent 50% of the employees at the plants.

- The contract with PACE Local 5-550 covers 674 employees at the Paducah plant. In November 2001, a new contract with a term until January 31, 2003, was signed.
- The contract with SPFPA Local 111 covers 42 employees at the Paducah plant. In August 2002, terms of a new contract with a term until March 2, 2007 were ratified by SPFPA.
- The contract with PACE Local 5-689 covers 601 employees at the Portsmouth plant. In December 1999, the contract was extended to May 2, 2004.
- The contract with SPFPA Local 66 covers 69 employees at the Portsmouth plant. In September 2002, terms of a new contract with a term until August 4, 2007 were ratified by SPFPA.

Item 3. *Legal Proceedings*

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 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 through 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 results of operations or financial position.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Executive Officers

Executive officers at June 30, 2002, follow:

Name	Age at June 30, 2002	Position
William H. Timbers	52	President and Chief Executive Officer
Dennis R. Spurgeon	58	Executive Vice President and Chief Operating Officer
Sydney M. Ferguson	45	Senior Vice President
Robert J. Moore	45	Senior Vice President and General Counsel
Philip G. Sewell	56	Senior Vice President
Henry Z Shelton, Jr.	58	Senior Vice President and Chief Financial Officer
Dennis J. Blair	45	Vice President, Human Resources and Administration
J. Morris Brown	62	Vice President, Operations
Gary G. Ellsworth	54	Vice President, Government Relations
Timothy B. Hansen	38	Vice President, Deputy General Counsel and Secretary
Robert Van Namen	41	Vice President, Marketing and Sales
Michael T. Woo	49	Vice President, Strategic Development
Charles B. Yulish	65	Vice President, Corporate Communications

Officers serve at the pleasure of the Board of Directors.

William H. Timbers has been President and Chief Executive Officer since 1994.

Dennis R. Spurgeon has been Executive Vice President and Chief Operating Officer since June 2001. Prior to joining USEC, Mr. Spurgeon was a principal owner and chief executive officer of Swift Group LLC, an international leader in shipbuilding for commercial and military markets.

Sydney M. Ferguson has been Senior Vice President since April 2002. Prior to joining USEC, Ms. Ferguson was Managing Director of Qorvis Communications Inc., an international public affairs and communications firm.

Robert J. Moore has been Senior Vice President and General Counsel since January 1999 and was Vice President and General Counsel since 1994. Mr. Moore resigned from his position at USEC in August 2002.

Philip G. Sewell has been Senior Vice President since August 2000, was Vice President, Corporate Development and International Trade since April 1998, and was Vice President, Corporate Development since 1993.

Henry Z Shelton, Jr. has been Senior Vice President and Chief Financial Officer since January 1999 and was Vice President, Finance and Chief Financial Officer since 1993.

Dennis J. Blair has been Vice President, Human Resources and Administration since January 2000. Prior to joining USEC, Mr. Blair was Vice President, Human Resources for GTE Technology and Systems.

J. Morris Brown has been Vice President, Operations since November 2000, was General Manager at the Portsmouth plant since March 1998, and prior thereto was Engineering Manager at the Paducah plant.

Gary G. Ellsworth has been Vice President, Government Relations since January 1999. Prior to joining USEC, Mr. Ellsworth was Chief Counsel, U.S. Senate Committee on Energy and Natural Resources.

Timothy B. Hansen has been Vice President, Deputy General Counsel and Secretary since August 2000, was Assistant General Counsel and Secretary since April 1999, and was Assistant General Counsel since May 1994. In August 2002, Mr. Hansen was named Senior Vice President, General Counsel and Secretary.

Robert Van Namen has been Vice President, Marketing and Sales since January 1999. Prior to joining USEC, Mr. Van Namen was Manager of Nuclear Fuel for Duke Power Company.

Michael T. Woo has been Vice President, Strategic Development since April 2001, was Director, Power Resources since October 1998, and was Manager, Strategic Financial Programs since December 1994.

Charles B. Yulish has been Vice President, Corporate Communications since 1995.

Table of Contents

PART II

Item 5. *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
Fiscal Year Ended June 30, 2002			
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
Fiscal Year Ended June 30, 2001			
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	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(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	–	–	–
Total	**2,846**		**6,457**

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.

Table of Contents

Item 6. *Selected Financial Data*

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.

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

Table of Contents

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

Item 7. *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 U235 isotope and the other depleted in the U235 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 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.

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.

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 that 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 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 the 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.

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 breakeven 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.

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 Ba1 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				
	Within One Year	Two to Three Years	Four to Five Years	After Five Years	Total
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**

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.

Item 7A. ***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
Long-term debt:				
6.625% senior notes	$350.0		$ 350.0	$314.5
6.750% senior notes		$150.0	150.0	125.5
			$ 500.0	**$440.0**

Item 8. ***Consolidated Financial Statements and Supplementary Data***

The Consolidated Financial Statements begin at page 45.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

On April 23, 2002, USEC terminated Arthur Andersen LLP (“Andersen”) as USEC’s independent accountants. This decision was made by the Board of Directors based upon a recommendation of its Audit, Finance and Corporate Responsibility Committee.

Andersen’s reports on USEC’s consolidated financial statements for fiscal years 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During USEC’s two most recent fiscal years and through April 23, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Andersen’s satisfaction, would have caused them to make reference thereto in their report on USEC’s consolidated financial statements for such years; and there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

USEC provided Andersen with a copy of the foregoing statements and requested that Andersen provide a letter addressed to the SEC stating whether it agreed with the statements. A copy of Andersen’s letter, dated April 23, 2002, stating its agreement with such statements, was filed as an exhibit to a current report on Form 8-K filed by USEC on April 24, 2002.

USEC engaged PricewaterhouseCoopers LLP as its new independent accountants as of April 23, 2002. During USEC’s two most recent fiscal years and through April 23, 2002, USEC did not consult PricewaterhouseCoopers with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on USEC’s consolidated financial statements, or any other matters or reportable events described in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

Certain information regarding executive officers is included in Part I of this report. Additional information concerning directors and executive officers is incorporated by reference to the Proxy Statement for the Annual Meeting of Shareholders scheduled to be held November 6, 2002.

Item 11. *Executive Compensation*

Information concerning management compensation is incorporated herein by reference to the Proxy Statement for the Annual Meeting of Shareholders scheduled to be held November 6, 2002.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference to the Proxy Statement for the Annual Meeting of Shareholders scheduled to be held November 6, 2002.

Item 13. *Certain Relationships and Related Transactions*

Information concerning certain relationships and related transactions is incorporated herein by reference to the Proxy Statement for the Annual Meeting of Shareholders scheduled to be held November 6, 2002.

Item 14. *Controls and Procedures*

During fiscal 2002, there were no significant changes in USEC’s internal controls or in other factors that could significantly affect those controls.

PART IV

Item 15. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) (1) *Consolidated Financial Statements*

Consolidated Financial Statements are set forth under Item 8 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedules*

No financial statement schedules are required to be filed.

(3) *Exhibits*

The following exhibits are filed as part of this Annual Report on Form 10-K:

Exhibit No.	Description
3.1	Certificate of Incorporation of USEC Inc. (1)
3.3	Amended and Restated Bylaws of USEC Inc., dated September 13, 2000, incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
4.2	Indenture, dated January 15, 1999, between USEC Inc. and First Union National Bank, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1999.

Exhibit No.	Description
4.3	Rights Agreement, dated April 24, 2001, between USEC Inc. and Fleet National Bank, as Rights Agent, including the form of Certificate of Designation, Preferences and Rights as Exhibit A, the form of Rights Certificates as Exhibit B and the Summary of Rights as Exhibit C, incorporated by reference to Registration Statement on Form 8-A filed April 24, 2001.
10.1	Lease Agreement between the United States Department of Energy and the United States Enrichment Corporation, dated as of July 1, 1993, including notice of exercise of option to renew. (1)
10.4	Memorandum of Agreement, dated December 15, 1994, between the United States Department of Energy and United States Enrichment Corporation regarding the transfer of functions and activities, as amended. (1)
10.8	Modification No. 12, dated September 2, 1987 by and between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy amending and restating the power agreement dated May 4, 1951, together with all previous modifications. (1)
10.9	Modification Nos. 13, 14 and 15 to power agreement between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy, dated January 18, 1989, March 6, 1991 and October 1, 1992, respectively. (1)
10.11	Memorandum of Agreement between the United States Department of Energy and the United States Enrichment Corporation for electric power, entered into as of July 1, 1993. (1)
10.13	Contract between United States Enrichment Corporation, Portsmouth gaseous diffusion plant, and Paper Allied-Industrial Chemical and Energy Workers International Union, AFL-CIO and its local no. 3-689, April 1, 1996 – May 2, 2000, as amended (1).
10.14	Contract between Lockheed Martin Utility Services, Inc., Paducah gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated plant guards local no. 111, January 31, 1997 – March 1, 2002. (1)
10.15	Contract between Lockheed Martin Utility Services, Inc., Portsmouth gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated local no. 66, August 3, 1997 – August 4, 2002. (1)
10.17	Contract between United States Enrichment Corporation, Executive Agent of the United States of America, and AO Techsnabexport, Executive Agent of the Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994, as amended. (1)
10.18	Memorandum of Agreement, dated April 6, 1998, between the Office of Management and Budget and United States Enrichment Corporation relating to post-privatization liabilities. (1)
10.20	Memorandum of Agreement, dated April 20, 1998, between the United States Department of Energy and United States Enrichment Corporation for transfer of natural uranium and highly enriched uranium and for blending down of highly enriched uranium (1).
10.23	Revolving Loan Agreement, dated July 28, 1998, among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank, N.A., BancAmerica Robertson Stephens, and USEC Inc., incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
10.24	Amendment No. 1 to Revolving Loan Agreement among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank N.A., BancAmerica Robertson Stephens, and USEC Inc., dated October 8, 1998, incorporated by reference to Registration Statement on Form S-1, No. 333-67117, filed November 12, 1998, as amended December 18, 1998, and January 6, 1999.
10.25	Form of Director and Officer Indemnification Agreement. (1)

Exhibit No.	Description
10.26	Memorandum of Agreement entered into as of April 18, 1997, between the United States, acting by and through the United States Department of State and the United States Department of Energy, and United States Enrichment Corporation for United States Enrichment Corporation to serve as the United States Government's Executive Agent under the Agreement between the United States and the Russian Federation concerning the disposal of highly enriched uranium extracted from nuclear weapons. (1)
10.27	Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and United States Enrichment Corporation regarding disposal of depleted uranium. (1)
10.28	Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and United States Enrichment Corporation regarding certain worker benefits. (1)
10.30	Employment agreement, dated April 28, 1999, between USEC Inc. and William H. Timbers, President and Chief Executive Officer, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1999.
10.31	Letter Supplement to power agreement between Electric Energy, Inc. and the United States of America acting by and through the Secretary of the Department of Energy, dated December 22, 1998, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1999.
10.33	Amendment No. 2 to Revolving Loan Agreement among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank N.A., BancAmerica Robertson Stephens, and USEC Inc., dated July 27, 1999, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1999.
10.35	USEC Inc. 1999 Equity Incentive Plan, incorporated by reference to the Registration Statement on Form S-8, No. 333-71635, filed February 2, 1999.
10.36	Amendment No. 12, dated March 4, 1999, to Contract between USEC Inc., Executive Agent of the United States of America, and AO Techsnabexport, Executive Agent of the Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 1999.
10.38	USEC Inc. Pension Restoration Plan, dated September 1, 1999, incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
10.39	Form of Change in Control Agreement with executive officers, incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
10.40	USEC Inc. 401(k) Restoration Plan, incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended December 31, 1999.
10.45	Power Contract between Tennessee Valley Authority and United States Enrichment Corporation, dated July 11, 2000, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2000. (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2).
10.51	USEC Inc. Supplemental Executive Retirement Plan, dated April 7, 1999 and amended April 25, 2001, incorporated by reference to Annual Report on Form 10-K for the fiscal year ended June 30, 2001.
10.53	Employment agreement between USEC Inc. and Dennis R. Spurgeon, Executive Vice President and Chief Operating Officer, dated June 4, 2001, as amended January 22, 2002, incorporated by reference to Quarterly Report on Form 10-Q for quarter ended March 31, 2002.
10.54	Agreement, dated June 17, 2002, between U.S. Department of Energy and USEC Inc., incorporated by reference to Report on Form 8-K filed June 21, 2002.

Exhibit No.	Description
10.55	Promissory Note, dated February 1, 2002, between William H. Timbers, Jr. and USEC Inc.
10.56	Agreement between USEC Inc. and James R. Mellor, dated July 18, 2002.
10.57	Collective bargaining agreement between United States Enrichment Corporation, Paducah Plant, and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO (PACE) and its local 5-550, July 31, 2001 – January 31, 2003.
21.1	Subsidiaries of the Registrant, incorporated by reference to Registration Statement on Form S-1, No. 333-67117, filed November 12, 1998, as amended December 18, 1998, and January 6, 1999.
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants.
23.2	Consent of Arthur Andersen LLP, independent public accountants.
99.4	Letter from U.S. Department of State, dated August 23, 2002, in compliance with Rule 0-6 of the Securities Exchange Act of 1934.
99.5	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to Registration Statement on Form S-1, No. 333-57955, filed June 29, 1998, or Amendment No. 1 to Registration Statement on Form S-1, filed July 20, 1998.

(b) *Reports on Form 8-K*

A current report on Form 8-K was filed by USEC on April 24, 2002, relating to termination of Arthur Andersen LLP as USEC's independent accountants. Arthur Andersen's reports on USEC's consolidated financial statements for fiscal years 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. USEC engaged PricewaterhouseCoopers LLP as its new independent accountants as of April 23, 2002.

A current report on Form 8-K was filed by USEC on June 21, 2002, reporting that the U.S. and Russian governments had approved implementation of new market-based pricing for the remaining 12 years of the Russian Contract and reporting the DOE-USEC Agreement under which DOE and USEC made long-term commitments directed at resolving a number of outstanding issues bearing on the stability and security of the domestic uranium enrichment industry.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

September 20, 2002

USEC Inc.
/s/ William H. Timbers

William H. Timbers
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ William H. Timbers **William H. Timbers**	President and Chief Executive Officer (Principal Executive Officer) and Director	September 20, 2002
/s/ Henry Z Shelton, Jr. **Henry Z Shelton, Jr.**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 20, 2002
/s/ James R. Mellor **James R. Mellor**	Chairman of the Board	September 20, 2002
/s/ Michael H. Armacost **Michael H. Armacost**	Director	September 20, 2002
/s/ Joyce F. Brown **Joyce F. Brown**	Director	September 20, 2002
/s/ John R. Hall **John R. Hall**	Director	September 20, 2002
/s/ Dan T. Moore, III **Dan T. Moore, III**	Director	September 20, 2002
/s/ W. Henson Moore **W. Henson Moore**	Director	September 20, 2002
/s/ Joseph F. Paquette, Jr. **Joseph F. Paquette, Jr.**	Director	September 20, 2002
/s/ James D. Woods **James D. Woods**	Director	September 20, 2002

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William H. Timbers, certify that:

1. I have reviewed this annual report on Form 10-K of USEC Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

September 20, 2002

/s/ William H. Timbers

William H. Timbers
President and Chief Executive Officer

Table of Contents

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Henry Z Shelton, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of USEC Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

September 20, 2002

/s/ Henry Z Shelton, Jr.

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

USEC Inc.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the accompanying index 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.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

July 26, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To USEC Inc.:

We have audited the accompanying consolidated balance sheets of USEC Inc. (a Delaware Corporation) as of June 30, 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.

/s/ 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.

USEC Inc.

CONSOLIDATED BALANCE SHEETS
(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
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
Total Assets	**$2,168.0**	**$2,207.5**
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
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
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
Total Liabilities and Stockholders' Equity	**$2,168.0**	**$2,207.5**

See notes to consolidated financial statements.

USEC Inc.

CONSOLIDATED STATEMENTS OF INCOME
(millions, except per share data)

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

See notes to consolidated financial statements.

USEC Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Fiscal Years Ended June 30,		
	2002	**2001**	**2000**
Cash Flows From Operating Activities			
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) (decrease)	15.4	23.4	(62.2)
Net Cash Provided by Operating Activities	262.4	207.6	262.8
Cash Flows Used in Investing Activities			
Capital expenditures	(42.4)	(53.1)	(75.9)
Insurance deposit	(21.4)	–	–
Net Cash (Used in) Investing Activities	(63.8)	(53.1)	(75.9)
Cash Flows Used in Financing Activities			
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	–
Net Cash (Used in) Financing Activities	(41.9)	(105.0)	(200.5)
Net Increase (Decrease)	156.7	49.5	(13.6)
Cash and Cash Equivalents at Beginning of Fiscal Year	122.5	73.0	86.6
Cash and Cash Equivalents at End of Fiscal Year	**$279.2**	**$ 122.5**	**$ 73.0**
Supplemental Cash Flow Information			
Interest paid	$ 33.0	$ 34.4	$ 40.2
Income taxes paid	18.3	12.7	3.9

See notes to consolidated financial statements.

USEC Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(millions, except per share data)

	Common Stock, Par Value $.10 per Share	Excess of Capital over Par Value	Retained Earnings	Treasury Stock	Deferred Compensation	Total Stockholders' Equity
Balance at June 30, 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
Balance at June 30, 2002	**$ 10.0**	**$ 1,066.1**	**$ 10.6**	**$(136.8)**	**$ (.6)**	**$ 949.3**

See notes to consolidated financial statements.

USEC Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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)	$ 23.1
Leasehold improvements	87.3	4.4	27.1	118.8	–	(11.3)	27.4	134.9
Machinery and equipment	108.2	1.4	14.8	124.4	.9	(9.0)	10.6	126.9
	216.9	53.1	(2.6)	267.4	42.4	(20.7)	(4.2)	284.9
Accumulated depreciation and amortization	(57.6)	(22.6)	2.6	(77.6)	(23.9)	4.3	3.8	(93.4)
	$ 159.3	**$ 30.5**	**$ –**	**$ 189.8**	**$ 18.5**	**$ (16.4)**	**$ (.4)**	**$ 191.5**

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
	100%	**100%**	**100%**

Financial Instruments

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

Concentrations of Credit Risk

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

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
Current assets:		
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
	889.7	1,137.5
Long-term assets:		
Uranium	237.5	230.6
Highly enriched uranium transferred from Department of Energy	178.0	189.6
	415.5	420.2
Current liabilities:		
Uranium owed to customers	(5.8)	(21.6)
Inventories, excluding uranium provided by and owed to customers	**$1,299.4**	**$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, preproduce 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
	$1,519.8

5. INCOME TAXES

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

	Fiscal Years Ended June 30,		
	2002	**2001**	**2000**
Current:			
Federal	$ 14.1	$ 16.4	$ (2.1)
State and local	1.6	1.5	.8
	15.7	17.9	(1.3)
Deferred:			
Federal	(8.5)	5.4	(2.1)
State and local	(.9)	.5	(.1)
	(9.4)	5.9	(2.2)
Special deferred tax credit from transition to taxable status:			
Federal	–	(34.3)	–
State and local	–	(3.0)	–
	–	(37.3)	–
	$ 6.3	**$ (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
Deferred tax assets:		
Plant lease turnover and other exit costs	$ 44.7	$ 34.2
Employee benefits costs	18.7	16.3
Tax intangibles	12.0	13.1
Deferred costs for depleted uranium	27.0	26.7
Other	3.6	5.8
	106.0	96.1
Valuation allowance	(45.2)	(45.2)
Deferred tax assets, net of valuation allowance	60.8	50.9
Deferred tax liabilities:		
Property, plant and equipment	5.6	–
Inventory costs	3.7	8.8
Deferred tax liabilities	9.3	8.8
	$ 51.5	**$ 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
Federal income taxes based on statutory rate	$ 7.9	$ 22.7	$ 1.9
State income taxes, net of federal benefit	.6	3.4	.2
Export tax incentives	(2.0)	(3.6)	(3.9)
Research and experimentation tax credit	–	–	(1.7)
Other	(.2)	1.3	–
	6.3	23.8	(3.5)
Special deferred tax credit from transition to taxable status	–	(37.3)	–
	$ 6.3	**$ (13.5)**	**$ (3.5)**

6. DEBT

Debt at June 30, follows (in millions):

	2002	2001
Long-term debt:		
6.625% senior notes, due January 20, 2006	$350.0	$350.0
6.750% senior notes, due January 20, 2009	150.0	150.0
	$500.0	**$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)
	$ (10.4)	**$ (8.1)**	**$ (10.5)**

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
	$1,108.3

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
Changes in Benefit Obligations				
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
Changes in Plan Assets				
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

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
Balance at June 30, 2002	**100,320**	**(19,010)**	**81,310**

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
Balance June 30, 2002	**3,675**	**2,846**	**$ 6.40**

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
	2,846	8.4	**1,164**

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	$ 16.2	$ 78.4	$ 8.9
Per share	$ .20	$ .97	$ .10
Pro forma net income	$ 15.1	$ 77.0	$ 8.0
Per share	$ .19	$ .95	$ .09
Weighted average fair value per share of stock options granted	$ 2.05	$ .96	$ 1.68
Assumptions:			
Risk-free interest rate	4.4%	5.5%	6.5%
Expected dividend yield	8%	7-10%	9- 12%
Expected volatility	50%	50- 60%	37- 59%
Expected option life	6 years	6 years	6 years

Table of Contents

13. QUARTERLY FINANCIAL DATA (Unaudited)

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

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
10.55	Promissory Note, dated February 1, 2002, between William H. Timbers, Jr. and USEC Inc.
10.56	Agreement between USEC Inc. and James R. Mellor, dated July 18, 2002.
10.57	Collective bargaining agreement between United States Enrichment Corporation, Paducah Plant, and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO (PACE) and its local 5-550, July 31, 2001 — January 31, 2003.
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants.
23.2	Consent of Arthur Andersen LLP, independent public accountants.
99.4	Letter from U.S. Department of State, dated August 23, 2002, in compliance with Rule 0-6 of the Securities Exchange Act of 1934.
99.5	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.55

USEC INC.

PROMISSORY NOTE

$229,652.00 February 6, 2002

FOR VALUE RECEIVED, the undersigned, William H. Timbers, Jr. (the "Borrower"), hereby promises to pay to USEC Inc., a Delaware corporation (the "Company"), or to the legal holder of this Promissory Note at the time of payment, the principal sum (the "Principal Sum") of two hundred twenty nine thousand, six hundred fifty two dollars ($229,652.00) in lawful money of the United States of America. The Borrower also agrees to pay interest (computed on the basis of a 365 or 366 day year, as the case may be) on any portion of the Principal Sum that remains outstanding, from and after the effective date of this Promissory Note until the entire Principal Sum has been paid in full, at an annual rate equal to the greater of (i) the Prime Rate as published in the *Wall Street Journal* plus 100 basis points (such rate to be adjusted on a quarterly basis), compounded annually and (ii) the interest rate necessary to avoid imputed income to the Borrower under federal tax laws; provided, however, that in no event shall such interest be charged to the extent it would violate any applicable usury law. Borrower shall be personally liable for the Principal Sum and the accrued interest thereon, calculated in accordance with this Promissory Note.

This Promissory Note is subject to the following further terms and conditions:

1. Payment Upon Maturity. Subject to paragraphs 2 and 3 hereof, the outstanding Principal Sum and all interest that accrues thereon shall become due and payable on the tenth anniversary of the date of this Promissory Note (the "Maturity Date"). If the Maturity Date is a Saturday, Sunday or legal holiday, then such payment shall be made on the next succeeding business day.

2. Payment and Prepayment. All payments and prepayments of the Principal Sum of and the accrued interest on this Promissory Note shall be made to the Company or its order, or to the legal holder of this Promissory Note or such holder's order, in lawful money of the United States of America at the principal offices of the Company (or at such other place as the holder hereof shall notify the Borrower in writing). The Borrower may, at his option, prepay this Promissory Note in whole or in part at any time or from time to time without penalty or premium. Any prepayments of any portion of the Principal Sum of this Promissory Note shall be accompanied by payment of all interest accrued but unpaid on the portion of Principal Sum so repaid. Upon full and final payment of the Principal Sum of and interest accrued on this Promissory Note, it shall be surrendered to the Borrower and canceled by the Company.

3. Acceleration of Repayment. Upon the Borrower's termination of employment with the Company and its affiliates for any reason whatsoever, the entire outstanding Principal Sum, and any accrued and unpaid interest thereon, shall become due and payable without presentment, demand, protest, notice of dishonor and all other demands and notices of any kind, all of which are hereby expressly waived.

4. Notice. For the purposes of this Promissory Note, notices, demands and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when delivered or (unless otherwise specified) mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Borrower:

William H. Timbers, Jr.
USEC Inc.
6903 Rockledge Drive
Bethesda, MD 20817

If to the Company:

USEC Inc.
6903 Rockledge Drive
Bethesda, Maryland 20817

Attn: Treasurer

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

5. Miscellaneous.

(a) No delay or failure by the Company or the holder of this Promissory Note in the exercise of any right or remedy shall constitute a waiver thereof, and no single or partial exercise by the holder hereof of any right or remedy shall preclude other or future exercise thereof or the exercise of any other right or remedy.

(b) The headings contained in this Promissory Note are for reference purposes only and shall not affect in any way the meaning or interpretation of the provisions hereof.

(c) Nothing in this Promissory Note shall confer upon the Borrower the right to continue in the employment of the Company or any of its affiliates or affect any rights which the Company may have to terminate the employment of the Borrower.

(d) This Promissory Note may not be assigned or transferred by Borrower but may be assigned or transferred by the Company.

(e) The provisions of this Promissory Note shall be governed by and construed in accordance with laws of the State of New York, without giving effect to the choice of law principles thereof.

IN WITNESS WHEREOF, this Promissory Note has been duly executed and delivered to the Company by the Borrower on the date first above written.

/s/ William H. Timbers, Jr.

William H. Timbers, Jr.

Witness:

/s/ Henry Z Shelton, Jr.

Henry Z Shelton, Jr.

EXHIBIT 10.56

THIS AGREEMENT is made as of June 18, 2002, by and between USEC Inc., a corporation organized and existing under the laws of the state of Delaware (hereinafter called “USEC”), and James R. Mellor, an individual (hereinafter called the “Consultant”).

IN CONSIDERATION of the mutual promises set forth herein, the parties hereby agree as follows:

1. The term of this Agreement shall be from July 28, 2002 through July 27, 2003, unless sooner terminated pursuant to the terms hereof.

2. While this Agreement is in effect, the Consultant shall perform certain work and services relating to USEC’s policies, procedures, commercial practices, external affairs, strategic planning under the terms and conditions hereinafter set forth.

3. While this Agreement is in effect, USEC shall compensate the Consultant at a fixed price of Three Hundred Thousand Dollars ($300,000), payable in 12 equal monthly installments to be paid thirty (30) days after the last of each month falling, in whole or in part, during the term of this Agreement, excluding July 2002. USEC shall reimburse the Consultant for reasonable and necessary travel and living expenses incurred by the Consultant in the performance of the services described herein. Compensation for expenses shall be made once monthly upon the Consultant’s furnishing to USEC a written statement specifying such expenses. Payment terms shall be net 30 days.

4. In the performance of the work and services hereunder, the Consultant shall act solely as an independent contractor and not as an employee of USEC. All taxes applicable to any amounts paid by USEC to the Consultant under this Agreement shall be the Consultant’s liability and USEC shall not withhold nor pay any amounts for federal, state or municipal income tax, special security, unemployment or worker’s compensation. In accordance with current law, USEC shall annually file with the Internal Revenue Service a Form 1099-MISC, U.S. Information Return for Recipients of Miscellaneous Income, reflecting the gross annual payments by USEC to the Consultant pursuant to this Agreement, net of any reimbursed expenses incurred by the Consultant on behalf of USEC. The Consultant hereby acknowledges personal income tax liability for the self-employment tax imposed by Section 1401 of the Internal Revenue Code, and the payment, when applicable, of estimated quarterly taxes on Internal Revenue Service Form 1040-ES, declaration of estimated tax by individuals.

5. All reports, findings, recommendations, data, memoranda or documents, arising of out and relating to the services performed under this Agreement are (and shall continue to be after the expiration of this Agreement) the property of USEC or its assigns, and USEC shall have the exclusive rights to such materials. The use of these materials in any manner by USEC or its assigns shall not result in any additional claim for compensation by the Consultant. The

Consultant shall hold confidential all information developed by or communicated to the Consultant in the performance of the services, whether described in this Agreement, in any scheduled executed pursuant hereto or otherwise, other than information that is already in the public domain or that becomes publicly available other than through an unauthorized disclosure by the Consultant. Nothing herein shall preclude disclosure of confidential information to officers, employees or directors of USEC and its subsidiaries and affiliates, or to attorneys, advisers and consultants of USEC who are under an obligation to USEC to keep such information confidential.

6. By entering into this Agreement with USEC, the Consultant represents that he presently has no conflicting interests, agreements or obligations with any other party. The Consultant shall promptly notify USEC in writing if a change in circumstances creates, or appears likely to create, a conflict with the Consultant's obligations hereunder or an appearance that such a conflict exists.

7. The Consultant hereby releases USEC from any and all liability for damage to property or loss thereof, personal injury or death during the term of this Agreement (and any extensions thereof) or thereafter, sustained by the Consultant as a result of performing the services under this Agreement or arising out of the performance of such services; provided, however, that the foregoing release shall not apply to the extent such damage, loss, injury or death is caused by or results from the negligence of USEC, its agents or employees. Nothing herein shall deemed to limit the obligation of USEC, or any USEC subsidiary or affiliate, to indemnify the Consultant under USEC's articles of incorporation or by-laws or under any indemnification agreement entered into with the Consultant concerning the Consultant's services as a director of USEC or any USEC subsidiary or affiliate.

8. If the services to be performed by the Consultant include access to classified material or areas, the Consultant shall comply with all applicable security laws, regulations, orders and requirements. The Consultant shall submit a confidential report to USEC immediately whenever for any cause he has reason to believe that there is either (a) an active danger of espionage or sabotage affecting any work under such government contracts, or (b) a violation or threatened violation of any applicable security law, regulation, order or requirement concerning the classified material or areas.

9. Either party may terminate this Agreement, for any reason or no reason, at any time by a written notice to the other party. Such termination shall take effect immediately upon receipt of a termination notice by the other party, unless a different termination date is stated in the notice. Upon termination of the Agreement, all work and services being performed under this Agreement shall cease. USEC shall have no liability or obligation for any performance by the Consultant after a termination takes effect.

10. The Consultant may not assign this Agreement, nor may the Consultant delegate or subcontract the performance or obligations imposed hereunder without the consent of USEC.

11. The Consultant has no authority whatever, express or implied, by virtue of this Agreement to commit USEC in any way to perform in any manner or to pay money for services or material.

12. This Agreement is to be governed by the laws of the State of Delaware.

13. The whole and entire agreement of the parties is set forth in this Agreement and the parties are not bound by any agreements, understandings or conditions otherwise than as expressly set forth herein.

14. This Agreement may not be changed or modified in any manner except by a writing mutually signed by the parties or their respective successors and permitted assigns.

15. Any notice, request, demand, claim or other communication related to this Agreement shall be in writing and delivered by hand or transmitted by telecopier, registered mail (postage prepaid), or overnight courier to the other party at the following number and addresses:

If to USEC:	President and Chief Executive Officer USEC Inc. 6903 Rockledge Drive Bethesda, MD 20817-1818
If to Consultant:	James R. Mellor At his current address in USEC's records

16. Nothing herein shall be deemed to limit or modify any duty or obligation that the Consultant may have as a director of USEC or any of its affiliates or subsidiaries.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

USEC Inc.

By: /s/ William H. Timbers

William H. Timbers
President and Chief Executive Officer

CONSULTANT

/s/ James R. Mellor

James R. Mellor

EXHIBIT 10.57

CONTRACT BETWEEN

UNITED STATES ENRICHMENT CORPORATION
PADUCAH GASEOUS DIFFUSION PLANT

Hereinafter referred to as the “Company”

and

PAPER, ALLIED-INDUSTRIAL, CHEMICAL
AND ENERGY WORKERS
INTERNATIONAL UNION, AFL-CIO
AND/OR ITS LOCAL 5-550

Hereinafter referred to as the “Union”

July 31, 2001 – January 31, 2003

TABLE OF CONTENTS

INDEX BY SUBJECT MATTER

NOTES

NOTES

ARTICLE I
PURPOSE

It is the intent of the parties that this contract will constitute the complete agreement between the parties hereto, and that no additions, waivers, deletions, changes or amendments shall be made during the term of this contract except by written agreement of the parties.

ARTICLE II
RECOGNITION

Section 1. In conformity with the Labor-Management Relations Act, the Company recognizes the Union as the sole and exclusive bargaining agent for all hourly rated employees, excluding Guards and salaried employees (semi-monthly or weekly), with respect to rates of pay, wages, hours of employment, and other conditions of employment.

Section 2. The term “employee” as used herein will mean any person represented by the Union as described in Section 1 above. For the purpose of this Agreement the use of the masculine pronoun or derivative thereof shall be applied as to include both male and female.

Section 3. It is understood that no incident, which occurred prior to the effective date of this contract shall be the subject of complaint under any of the procedures provided in this contract. Grievances arising under the terms of the previous contract shall be processed in accordance with such terms.

Section 4. The Company agrees not to interfere with the right of employees to join or belong to the Union and the Union agrees not to intimidate or coerce employees to join the Union. The Company further agrees not to discriminate against any employee on account of Union membership or Union activity, and the Union agrees neither to solicit for membership, collect Union funds, nor to engage in other Union activity on Company time unless specifically provided for in this contract.

ARTICLE III
UNION-COMPANY RELATIONSHIP

Section 1. All employees within the Bargaining Unit who are members of the Union upon the execution of this Contract shall, as a condition of employment, maintain their membership to the extent of tendering the periodic dues uniformly required as a condition of retaining membership. All employees in the Bargaining Unit who are not members of the Union upon the execution of this Contract, will within thirty (30) days join the Union, and shall at all times thereafter maintain their membership in the Union as a condition of employment, as set forth above.

Section 2. Upon receipt of proper written authorization from an employee, the Company agrees to deduct from the wages of said employee dues uniformly applicable to all members as certified to the Company by the Union. Payroll deductions of appropriate incremental amounts will be made on a weekly basis until the regular monthly dues amount has been collected unless the employee’s paychecks during the month are insufficient to cover the monthly dues amount. Dues deducted and collected for the month will be forwarded to the Financial Secretary of the Union.

Section 3. The authorization shall be in the following form submitted by the Union:

I hereby assign to my Local Union affiliated with the PACE International Union from any wages earned or to be earned by me, the amount of my monthly dues and initiation fee in said Union.

I authorize and direct any employer to deduct such amounts from my pay each month and to remit the same to the order of the financial secretary of my Local Union in accordance with the terms of this Agreement.

This assignment, authorization and direction shall be irrevocable for the period of one (1) year from the date appearing below or until the termination date of the current collective bargaining agreement between the Company and the Union, whichever occurs sooner, and I further agree and direct that, regardless of my membership status in the Union, this assignment, authorization and direction shall be automatically renewed and shall be irrevocable for successive periods of one (1) year each or for the period of each succeeding applicable collective bargaining agreement with the Union, whichever shall be shorter, unless written notice is given by me to the Company and the Union not more than thirty (30) days or less than ten (10) days prior to the expiration of each period of one (1) year or of each collective bargaining agreement, whichever occurs sooner.

Date ________________________________

Name (print) _________________________

Address _____________________________

Social Security No. __________________

Employed by ________________________

Signature of Employee ___________________________

PACE Local No. _________________________________

City and State ___________________________________

Clock No. _______________________________________

Dept. ____

ARTICLE IV
CONTINUITY OF OPERATION

Section 1. There will be no strikes, lockouts, work stoppages, picket lines, slowdowns, secondary boycotts, or disturbances, even of a momentary nature. The Union agrees to support the Company fully in maintaining operations in every way. Participation by any employee, or employees, in an act violating this provision in any way will be complete and immediate cause for discharge by the Company.

Section 2. It is recognized that all members of the Union and the Company are required to comply with all protective security measures now in effect. If it is found that this contract or any part of this contract in any way violates security measures which are now in effect, or which may be put into effect later, and the Company and the Union are notified by the proper authority as to the section or sections of the contract in question, negotiations will begin immediately for the purpose of making required changes.

Section 3. Restricted Access Security Clearance. If the Department of Energy places an employee's security clearance on restricted access, the Company shall place the employee in a work area where she/he can work temporarily with a restricted access security clearance while the Department of Energy and the employee resolve the security clearance matter. The Company will continue the employee's employment in such temporary work area until the Department of Energy removes the restricted access from the security clearance, or the security clearance is revoked. While the employee is in this temporary work area he/she will be required to perform productive work in some capacity, which the employee can safely perform.

ARTICLE V
RESPONSIBILITIES

Subject to the Union rights as set forth in this contract the company shall continue to exercise its exclusive responsibility, such as the selection and direction of the working forces, and the rights to promote, demote, transfer, hire, retire, discipline, discharge, and to determine the qualifications of an employee are vested with the Company. Claims of discriminatory or arbitrary promotion, demotion, discipline, or discharge shall be subject to and decided through the Grievance Procedure and Arbitration in this contract.

ARTICLE VI
HOURS OF WORK

Section 1. Definitions:

(a) The payroll week consists of seven (7) days extending from midnight Sunday to midnight Sunday the following week.

(b) The normal workweek consists of forty (40) hours within a payroll week.

(c) The normal workday consists of eight (8) hours of work.

(d) The normal hours for rotating shift workers are 7:00 a.m. to 7:00 p.m. and 7:00 p.m. to 7:00 a.m.

(e) The normal hours for straight day workers are from 7:00 a.m. to 3:30 p.m., Monday through Friday with a thirty (30) minute non-paid lunch period. No time will be deducted for lunch periods when an employee's scheduled non-paid lunch period is delayed under the following circumstances:

(1) The delay is ordered by the employee's first-line manager.

(2) The delay causes the employee's lunch period to start five (5) hours or more after his starting time.

(3) The minimum amount of time necessary will be taken to eat lunch and in no case to exceed thirty (30) minutes.

(4) Shift workers will be permitted to have a lunch period beginning no later than five (5) hours after the beginning of a shift.

(f) The term working schedule means the arrangement of shift hours to be worked and regular shift changes for employees working on shifts and the regular scheduled arrangement of hours to be worked by straight day workers.

(g) All bargaining unit payroll checks shall be distributed to the employees on Friday. The payroll checks shall be hand delivered to employees at plant site, mailed, or direct deposited into a designated account.

Section 2.

(a) The provisions of this contract shall not be considered as a guarantee by the Company of a minimum number of hours per day or per week, or pay in lieu thereof, nor a limitation on the maximum hours per day or per week, which may be required to meet operating conditions.

(b) The Company may adjust the working schedule of employees in any group to meet operating requirements and employees may be assigned regularly or temporarily to a schedule other than the normal hours. Plant seniority shift preference within a group will be granted annually to employees upon request. Such annual request must be made no later than January 1, with any change resulting therefrom to be made not later than the week beginning after March 1.

Such preference may be exercised between seven (7) day rotating shifts and five (5) day rotating shifts and other specific shifts except that such preference cannot be exercised between individual letter shifts within a given rotating shift.

Seniority shift preference within a shift preference group will be granted in filling vacancies lasting more than five (5) working days. Seniority shift preference will not apply to vacation relief or to vacancies caused by exercise of seniority shift preference. An employee must be qualified to perform the work involved when a vacancy occurs other than the annual exercise of seniority shift preference.

(c) Employees who work overtime shall not be required to take time off to offset the overtime work.

(d) If a change is made in an employee's work schedule from one established shift to another established shift for the payroll week in which he is notified or less than twenty-four (24) hours prior to the beginning of the payroll week, such employee will be paid for the first eight (8) hours worked on the new schedule at one and one-half (1-1/2) times the employee's straight-time hourly rate, except when such change is made at the request of or for the convenience of the employee. A change in scheduled days off will be considered a shift change.

Section 3. One and one-half (1-1/2) times the straight-time hourly rate shall be paid for all hours worked in excess of eight (8) in any twenty-four (24) hour period or for all hours worked in excess of forty (40) within the applicable payroll week as defined in Section 1 of this Article, whichever of these alternatives provides at the end of the payroll week the greater total pay. An employee who is required to work in excess of sixteen (16) continuous hours, excluding the non-paid lunch hour of a day worker, shall be paid two (2) times the straight-time hourly rate for all such continuous hours worked in excess of sixteen (16).

Section 4. An employee who has left the plant and is called in by the Company to perform work outside of his regular scheduled shift will receive not less than four (4) hours pay at straight-time, or pay at one and one-half (1-1/2) times his regular rate as overtime pay for such work performed, whichever is greater.

Section 5.

(a) An employee who reports for work on his regular shift without previously having been notified not to report, will be given at least four (4) hours work, or if no work is available, four (4) hours pay, except that if work is unavailable as the result of causes beyond the control of the Company, it shall not be so obligated.

(b) Failure on the part of an employee to keep the Company informed of his current address will relieve the Company of its responsibility under this section of the contract.

Section 6.

(a) Overtime will be distributed in such a manner that each employee within an overtime group will receive his fair share. An overtime spread of sixteen (16) hours between the low employee in the overtime group and the high employee will be considered a reasonable and fair distribution of overtime among employees in the group. Overtime work offered and refused will be counted as overtime worked. A record of overtime will be kept up to date and posted in an accessible location to enable employees to review. The overtime rules shall continue to be used as a means to implement the fair distribution of overtime within an overtime group. An employee can be on only one overtime list at a time.

In scheduled overtime situations where an employee is improperly bypassed for overtime in violation of the Contract, the bypassed employee will be compensated by awarding him the next overtime assignment for which qualified.

Alternate lists will be provided and time permitting, will be polled prior to a compulsory assignment. The Company agrees to meet with the Union to discuss and seek resolution of difficulties, which may exist in the administration of overtime distribution. These meetings between Company management and the appropriate Union officials will be held on a semiannual basis.

If a troubleshooting or emergency repair task cannot be completed during a scheduled shift, scheduled overtime, or emergency call-in, the Company reserves the right to request an individual having specific job knowledge, based on having worked on the task immediately prior to the need to continue the work task, to continue working.

NOTE: The overtime rules referenced in Article VI, Section 6(a) shall be revised to state that, “All overtime opportunities shall be offered in four- (4), six- (6), eight- (8), ten- (10) or twelve- (12) hour increments of overtime, other than call-in overtime.”

(b) Sleeping accommodations will be provided for these employees held over on compulsory overtime assignments and who are without transportation.

(c) Employees held over past their scheduled quitting time will be provided with a minimum of four (4) hours of work except in those instances where tardy relief is the cause of the holdover. When necessary, an employee on tardy relief will be furnished transportation home within a reasonable time.

Section 7.

(a) An employee who is required to work overtime and who works ten (10) or more continuous and successive hours (excluding the noon lunch period of a day worker) will be paid a meal allowance of four dollars and seventy-five cents ($4.75) which will be included in his regular pay check. An additional meal allowance will be allowed for each four (4) hours of consecutive work performed thereafter. If an employee is paid a meal allowance and arrangements are not made for him to have time to eat within the hour thereafter, he will be credited with thirty (30) minutes additional work time.

(b) No time will be deducted for lunch periods during such overtime work, it being understood that they will be made as short as possible and in no case exceed thirty (30) minutes.

Section 8.

(a) The following are recognized holidays: New Year's Day, Martin Luther King, Jr.'s Birthday, Good Friday, the last Monday in May, Independence Day, Labor Day, Thanksgiving Day, the day following Thanksgiving Day, Christmas Eve, and Christmas. Martin Luther King, Jr.'s Birthday is observed on the third Monday in January; Companion to Independence Day is observed Friday, July 5, 2002. The July 4th and Companion Day holiday will be taken back-to-back by rotating shift workers electing the Companion Day holiday. If any of the above holidays fall on Sunday, Monday shall be recognized as the holiday. If any of the above holidays fall on Saturday, the preceding Friday shall be recognized as the holiday except that any employee normally scheduled to work on one of the above recognized calendar holidays that fall on Saturday or Sunday, such recognized calendar holiday will be his recognized holiday. If any of the above holidays fall on an employee's scheduled off day, his first succeeding scheduled work day shall be recognized as the holiday except that where Thanksgiving Day or Christmas Eve falls on an employee's scheduled off day, it will be recognized on the first preceding scheduled work day.

(b) A rate of two and one-half (2-1/2) times the straight-time hourly rate shall be paid for all hours worked on the eleven (11) recognized holidays.

(c) Employees will be paid for recognized holidays not worked an amount equivalent to eight (8) times the employees' straight-time hourly rate, subject to the following conditions:

   (1) Such pay shall be made to the employee only if the recognized holiday would normally have been worked by the employee if it had not been a holiday.

   (2) An employee who is instructed to work on a holiday but who fails to report and does not have an acceptable excuse, will receive no pay for the holiday.

   (3) To be eligible for holiday pay an employee must report for work on his last regularly scheduled working day immediately preceding the holiday and the first regularly scheduled workday immediately following his holiday, unless excused by the Company.

(d) If a designated holiday occurs during an employee's vacation and that employee would otherwise have been scheduled to work on that day had it not been a holiday, such employee shall receive eight (8) hours pay at his straight-time hourly rate in addition to his vacation pay. At the request of the employee, the first-line manager may, at his discretion, grant the employee an extra day off without pay immediately preceding or following his vacation. Such days of absence will not be used for corrective absentee control measures.

Section 9. Double time will be paid for all hours worked on the seventh (7th) consecutive day worked in any payroll week.

Section 10. Overtime premium shall not be duplicated for the same hours under any of the terms of this contract, and to the extent that hours are compensated for at overtime premium rate under one provision they shall not be counted as hours worked in determining overtime compensation under the same or any other provision.

Section 11. Employees may not trade shifts or days off except with the prior approval of their respective first-line manager and further provided that no overtime premium is involved.

Section 12. An employee who is called for jury duty may be excused from work upon presentation of court notice to his immediate first-line manager. The employee who has been so excused will be paid his normal straight-time earnings and the fees received from the court, provided he submits evidence of the amount received from the court. Only the number of his scheduled work days actually spent in court are counted in calculating payment. Employees who would be working the hours between 7:00 a.m. and 3:30 p.m. were they not on jury duty who are not called at the opening of court for actual jury duty and who are excused for the remainder of the day shall report to work within a reasonable time after being excused. An employee will not be required to change shifts because of jury duty.

Section 13. Employees who are unable to vote because of a conflict between voting hours and scheduled working hours in a national, state, county, or municipal election will be allowed sufficient time off to vote provided that they are eligible to vote. Such eligible voting employees will be paid for such absence for a period not to exceed two (2) hours.

Section 14. In determining if an employee is to be paid in accordance with Section 3 and Section 9 of this Article VI, each of the holidays in Section 8, which would ordinarily have been worked, and hours compensated for at time and one-half (1-1/2) under Article VI, Section 2 (d), and those days for which an employee is paid by the Company for jury duty in accordance with Section 12 will count as a day worked. Also, fragmented vacation, funeral leave, and holiday option days taken by an employee will count as a day worked in determining if an employee is to be compensated at time and one-half for all hours worked in excess of forty (40) hours within the applicable payroll week.

Section 15.

(a) An employee excused for such time as may reasonably be needed for the purpose of attending the funeral of a member of his immediate family will be paid his basic straight-time hourly rate for any or all of three (3) regularly scheduled workdays during the period beginning with the day of death and ending with the day after such funeral. Under the conditions established by the Contract, up to four (4) days will be granted to attend a funeral more than five hundred (500) miles from Paducah, Kentucky. As a special provision, in the event of the death of an employee's spouse or child, the employee will be paid his/her basic straight-time hourly rate for any or all of five (5) regularly scheduled work days during the period beginning with the day of death and ending with the second day after such funeral.

For the purpose of this section, the term "a member of his immediate family" shall be defined as, and limited to, the following: spouse, children, parents, grandparents, grandchildren, brother, sister, parents-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, step-parents, step-children, step-grandparents, step-brother, step-sister, step-grandparents of the spouse of the employee, and step-parents-in-law.

(b) If a death occurs in an employee's immediate family while he is on vacation, he should promptly notify his manager. The employee will be permitted to cancel only those whole days of vacation remaining after notification to his manager, providing he qualifies for funeral pay for those days under this section.

ARTICLE VII
WAGES

Section 1

(a) Effective 7:00 a.m. July 31, 2001, all rates in all rate groups will be increased four (4) percent. (Appendix A, Table 1A)

(b) Effective 7:00 a.m. July 31, 2002, all rates in all rate groups will be increased three and four-tenths (3.4) percent. (Appendix A, Table 1B)

(c) Any premium pay referred to in this contract is to be excluded from the calculations of pay unless specifically included.

Section 2 An employee shall receive a shift premium of forty (40) cents per hour for work performed on the evening shift (3:30 p.m. to 11:30 p.m.), and a shift premium of seventy (70) cents per hour for work performed on the midnight shift (11:30 p.m. to 7:30 a.m.) except that no shift premium shall be paid to day shift employees for work performed between 7:00 a.m. and 3:30 p.m.

Section 3 There will be no discrimination because of sex in the application of wage schedule.

Section 4 When an employee is transferred permanently to a job paying a higher rate, he shall immediately receive the higher rate in accordance with Paragraph (d), General Provisions, Appendix A.

Section 5

(a) An employee who at the request of the Company is temporarily required to do the work in a classification other than his own shall suffer no reduction in his rate of pay.

(b) When an employee is assigned temporarily to a job in a higher classification, the temporary reclassification and rate will be made effective for all hours worked on the first day that an employee performs work in the higher classification for two (2) or more hours. When assigned to the new classification, the employee will be paid the top rate of the new classification.

Section 6. An employee who works Saturday and/or Sunday as part of his normal workweek, will receive an additional forty (40) cents per hour for such hours worked on Saturday and an additional sixty (60) cents per hour for such hours worked on Sunday. In no case shall such payment be applied to hours paid for at overtime, holiday or premium rates.

Section 7 - Cost of Living Allowance (COLA)

All employees within the bargaining unit as defined in Article II of this Agreement shall be covered by a Cost of Living Allowance as defined and set forth in this Section.

(a) The amount of the Cost of Living Allowance shall be determined and re-determined as provided below in accordance with changes in the Revised Consumer Price Index for Urban Wage Earners and Clerical Workers (1982-84 CPI-W = 100) published by the Bureau of Labor Statistics of the United States Department of Labor, and referred to herein as "Index." The Cost of Living Allowance shall be based on a one (1) cent per hour adjustment for each full 0.1 point change in the Index as provided herein.

(b) (1) After July 31, 2001, Cost of Living adjustments shall be made and shall be payable quarterly when/and if the Index increases in excess of four (4) percent of the base index described below. The base to calculate the initial adjustment, which may be due under this Section, shall be the Index for June of 2001 (published in July of 2001). Adjustments shall be August 6, 2001; November 5, 2001; February 4, 2002; and May 6, 2002.

(2) After July 31, 2002, Cost of Living adjustments shall be made and shall be payable quarterly when/and if the Index increases in excess of four (4) percent of the base index described below. The base to calculate the initial adjustment, which may be due under this Section, shall be the Index for June of 2002 (published in July of 2002). Adjustments shall be August 5, 2002; and November 4, 2002.

(c) In computing overtime pay, vacation pay, holiday pay, call-in pay, disability pay, jury duty pay, funeral leave pay, and military makeup pay as provided in this Agreement, the amount of any Cost of Living Allowance then in effect shall be included.

(d) In the event that the Bureau of Labor Statistics does not issue the Index on or before the beginning of the pay period referred to in Paragraph (b) above, any adjustment required will be made at the beginning of the first pay period after receipt of the Index.

(e) No adjustment, retroactive or otherwise, shall be made in the amount of the Cost of Living Allowance due to any revision which may later be made in the published figures for the Index for any month on the basis of which the Cost of Living has been determined.

(f) The continuance of the Cost of Living Allowance as herein provided is dependent upon the continued availability of the official monthly Index in its present form and calculated on the same basis as the currently published Revised Consumer Price Index for Urban Wage Earners and Clerical Workers (1982-84 CPI-W = 100) unless otherwise agreed upon by the Company and the Union.

(g) COLA being paid shall be considered as wages for the purpose of pension, group insurance and savings plan.

Section 8.

Employees required to perform a shift turnover will be paid two times the straight time hourly rate for each twenty-four (24) minute shift turnover completed.

ARTICLE VIII

LAYOFF ALLOWANCE

Section 1. Layoff allowance for an employee terminated from the payroll on account of reduction in force or because of occupational or non-occupational disability shall be in accordance with the following schedule:

Service Credit	Allowance
Under 12 weeks	No allowance
12 weeks — 1 year	Same proportion of 1 week's pay as completed months of service are of 12 months
1 year — 3 years	1 week (or 40 hours)
3 years — 5 years	2 weeks (or 80 hours)
5 years — 7 years	3 weeks (or 120 hours)
7 years — 10 years	4 weeks (or 160 hours)
10 years	6 weeks (or 240 hours)
11 years or more	Same as for 10 years plus 1 week (or 40 hours) for each added year of service

Section 2. An employee who is rehired and subsequently laid off from the payroll will receive layoff allowance based on his most recent rehire date.

Section 3. A layoff allowance applicable to retirement terminations will be paid in accordance with the Table in Section 1 of this Article for Company Service Credit as of January 1, 1967. Retirement layoff allowance will not be applicable to any new employee nor for Company Service Credit of present employees accrued after January 1, 1967.

Section 4. If the Company sells, leases, transfer or assigns the operations covered by this Agreement and the purchaser, lessee, transferee, or assignee (the "Successor Company") assumes the obligations of the Agreement as provided in Section 1, Article XVII of this Agreement, and an employee becomes the employee of the Successor Company within ten (10) days of the date the sale, lease, transfer or assignment is completed, then the layoff allowance will not be payable to such employee by the Company. It is understood that any employee who may be so transferred and laid off by the Successor Company shall suffer no loss of benefits accrued under this Article. If an employee is not transferred to the Successor Company within the above-mentioned ten (10) days and is laid off, he will receive benefits from the Company as set forth in this Article.

ARTICLE IX
DISABILITY PAY

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
"Major Features Comparison of Current and Proposed Benefits Plans", pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

Section 1. Short Term Disability Plan

Effective September 1, 1990, an employee disabled and unable to work due to illness, pregnancy, or occupational or non-occupational injury, will be paid 100% of his basic straight-time hourly rate in accordance with the terms and conditions of the Short Term Disability Plan set forth in the "Disability Benefits" section of the "Martin Marietta Energy Systems, Inc. Benefits Handbook", dated April 1, 1990 (pages 39 through 45, inclusive, of such booklet to be considered a part hereof) which provides for payment in accordance with the following schedule:

Company Service Credit	Maximum Number of Months of Payment Per Absence
at least 1 month but less than 2 months	1
at least 2 months but less than 3 months	2
at least 3 months but less than 4 months	3
at least 4 months but less than 5 months	4
at least 5 months but less than 6 months	5
at least 6 or more months	6

Section 2. Long Term Disability Plan

Effective September 1, 1990, an employee totally disabled for six months will become eligible to receive sixty percent (60%) of his monthly basic straight time rate up to a specified maximum monthly benefit paid in accordance with the terms and conditions of the Long Term Disability Plan set forth in the "Disability Benefits" section of the "Martin Marietta Energy Systems, Inc. Benefits Handbook" referred to in Section 1 above and will be paid, if he is totally and permanently disabled as defined in the above-referenced handbook, until he reaches age 65. Under specified circumstances, such benefits will continue beyond age 65. Such benefits will be reduced by any income benefits the employee is eligible to receive from other sources such as Social Security, Worker's Compensation, other statutory benefits, and other Company benefit plans.

If a dispute arises as a result of an employee's claim that he or she is totally and permanently disabled as defined in the above-referenced handbook or that such employee continues to be totally and permanently disabled the dispute shall be resolved in the following manner upon the filing with the Company of a written request for review by such employee not more than 60 days after receipt of denial:

The employee shall be examined by a physician appointed for the purpose by the Company and by a physician appointed for the purpose by the Union. If they disagree concerning whether the employee is totally and permanently disabled, the question shall be submitted to a third physician selected by such two physicians. The medical opinion of the third physician, after examination by him or her of the employee and consultation with the other two physicians, shall be final and binding on the Company, the Union, and the employee. The fees and expenses of the third physician shall be shared equally by the Company and the Union.

Section 3. Conditions of Payment

(a) Payments under the Short Term and Long Term Disability Plans referred to in Sections 1 and 2 of this Article will not be made for:

- (1) Any disability occurring during the first 12 months that the employee's plan coverage is in effect if caused by any condition for which he received treatment during the three month period before his coverage became effective, or
- (2) Any period of incapacity beyond the third consecutive calendar day during which the employee is not under treatment by a licensed practicing physician, or
- (3) Any disability caused directly or indirectly by war declared or undeclared, or
- (4) Any intentionally self-inflicted injury, or
- (5) Any disability resulting from commission of a felony, or
- (6) Any disability due to willful misconduct, violation of plant rules, or refusal to use safety appliances.

(b) Payments under these plans will be made only to employees whose absence is due to non-occupational or occupational disability and will not be paid to employees who are absent for other reasons.

(c) Payments will only be made when the Company is provided, if it so requests, with a doctor's certificate, subject to confirmation by a doctor selected by the Company, as proof that the employee's absence was due to legitimate non-occupational or occupational illness or injury. Under normal circumstances, a doctor's certification will not be requested by the Company during the first three consecutive calendar days of the absence. However, certification may be requested by the Company for any or all of the first three days if the Company has reason to question the absence.

(d) Payments will only be made when employees properly report their absence and the cause of their absence to the proper Company representative in a prompt manner.

(e) Payments are applicable only for the normal workweek and normal workday. In case working hours of the plant are changed, it is understood that payment under the above schedule will be changed in direct proportion to the change in working hours.

(f) It is recognized by the Union that the Company has a continuing interest in reducing absenteeism, no matter what the cause.

Section 4. Administration of Plans

(a) Short Term Disability Plan

The administration of the Short Term Disability Plan and the payment of benefits under this plan shall be handled by the Company.

(b) Long Term Disability Plan

The administration of the Long Term Disability Plan and the payment of benefits under this Plan shall be handled directly by the Insurance Company, it being understood that a claimant whose benefits claim is denied may contest such denial with the Insurance Company but that he or she shall have no redress whatsoever against the Company. It is agreed, however, that in any case in which an employee claiming benefits under this Plan and desiring to file such claim with the Insurance Company becomes engaged in a non-medical factual dispute with the Company in connection with such claim (such as a disagreement over his or her earnings group, eligibility, employment status, amount of Company Service Credit or other non-medical factual question) such employee and the Union may process a grievance in accordance with the terms of this Contract. It is agreed, however, that any and all medical questions in dispute shall be determined solely by the Insurance Company, except as provided under the second paragraph of Section 2 of this Article. It is understood that the Company shall retain the right to select and arrange with an Insurance Company to provide certain benefits available under these Plans; and to replace the Insurance Company from time to time as it may deem appropriate.

Section 5. Company Service Credit During Approved Non-occupational or Occupational Absences

An employee who is disabled and unable to work will receive Company Service Credit for the period of his Short Term Disability approved by the Company and/or the period of his Long Term Disability approved by the Insurance Company.

ARTICLE X
LEAVE OF ABSENCE

Section 1. Leave of absence, without pay, up to fifteen (15) consecutive calendar days shall be granted upon presentation by an employee of evidence acceptable to the Company that such leave of absence is for a reasonable purpose, and provided further that such leave will not interfere with operations.

Section 2.

(a) Upon written request to the Company made by the Union a reasonable period in advance, an employee certified by the Union to be a full-time Union official may be granted a leave of absence without pay to engage in work pertaining to the business of the Union. The number of employee's granted such leaves of absence may not exceed six (6) per thousand (1000) employees at any time.

(b) An employee certified by the Union to be a full-time Union official shall be granted not more than one (1) thirty (30) day leave of absence in any calendar year renewable only in increments of two (2) years if an official elects to accept a full-time assignment with the Union. Such leaves shall be granted only at such times as will not interfere with operations. The Company will give advance notice of the expiration of the long-term [two (2) years] leave.

(c) An employee granted such leave of absence must return all security identification issued to him.

Section 3.

(a) An employee who returns to work after a leave of absence as described in Sections 1 and 2 of this Article will be reinstated in the job classification group which he left and for which he is physically qualified provided he has more seniority than the least senior employee in said job classification.

(b) Unless excused, an employee who does not return to work within five (5) days following the expiration of his leave of absence will be considered as having resigned voluntarily and will forfeit all of his seniority rights.

Section 4. The Group Insurance of an employee will be continued in force during such authorized leave of absence in case and in such manner as the provisions of the Company Group Insurance contract permit, provided that he pays his share of the Group Insurance premium at least monthly in advance.

Section 5. The Hospitalization and Surgical Plan Insurance of an employee will be continued in force during such authorized leave of absence in case and in such manner as the provisions of the Company Insurance Contract permit provided that he pays the full premium at least monthly in advance.

Section 6. The Company will comply with the Family and Medical Leave Act of 1993.

ARTICLE XI
VACATIONS

Vacation eligibility is as follows:

(a) An employee must complete one (1) year of Company Service Credit to obtain initial eligibility for two (2) weeks vacation. However, one (1) week of this initial vacation eligibility maybe taken after completing six (6) months of Company Service Credit.

(b) During calendar years in which an employee completes from two (2) through four (4) years of Company Service Credit, he shall receive two (2) weeks of vacation.

(c) During calendar years in which an employee completes from five (5) through nine (9) years of Company Service Credit, he shall receive three (3) weeks of vacation.

(d) During calendar years in which an employee completes from ten (10) through nineteen (19) years of Company Service Credit, he shall receive four (4) weeks of vacation.

(e) During calendar years in which an employee completes from twenty (20) through twenty-nine (29) years of Company Service Credit, he shall receive five (5) weeks of vacation.

(f) During calendar years in which an employee completes thirty (30) or more years of Company Service Credit, he shall receive six (6) weeks of vacation.

(g) The Vacation Plan shall be administered in accordance with the vacation regulations contained in Appendix D, attached hereto and made a part hereof.

ARTICLE XII
SENIORITY

Section 1. Definitions:

(a) A vacancy is said to exist in a job classification when there is a need for a permanent replacement or addition.

(b) An employee is said to be laid off when he leaves a job classification because of a reduction in force.

(c) The recall listing is defined as that list on which an employee will be placed at the time he is laid off from a job classification.

(d) For recall purposes, an employee will be placed on the recall list of the job classification from which he was laid off, or if he so elects in writing to the Company his base job classification, or any other job classification from which he has been laid off in which he has been for at least four (4) years.

(e) An employee's base job classification group is that group into which he is hired.

Section 2

(a) Plant seniority is based on the total length of service of an employee. The seniority of each employee is his relative position with respect to other employees.

(b) Group seniority is administered within the job classification groups outlined in Appendix C.

(c) A new employee shall be considered a probationary employee for the first sixty (60) days worked and at the end of that period, if he is retained, his name will be placed on the Seniority List and his seniority shall date from the date of hire. A probationary employee shall be subject to layoff, discipline, or discharge at the sole discretion of the Company.

(d) An employee will lose his seniority when he is discharged, when he resigns, or when he is on the recall listing and declines or fails to report within five (5) days or makes satisfactory arrangements when offered employment in job classification from which he was laid off except that an employee who is on the payroll in another job in the bargaining unit when recalled, will lose only his recall rights to the job to which he is recalled when he does not respond to the recall.

(e) An employee or a former employee who is on the recall listing shall continue to accumulate seniority while off the payroll only up until four (4) years from his layoff date. If a former employee is not recalled within four (4) years from the date of layoff he will cease to have seniority. An employee who is not recalled within four (4) years from the date of layoff will lose only his recall rights.

(f) Employees will retain and accumulate seniority during periods of excused absence or leave of absence.

(g) (1) When an employee enters a job classification group by transfer from another group, he will acquire group seniority in the group which he has entered only after he has been in such group one (1) year. Such group seniority shall then date back to his date of entry into the group. The seniority which he has accumulated in his base job classification group shall remain in that group as group seniority. Should such employee become subject to layoff in the new group he may elect to return to his base job classification group with all the seniority he retains in his base job classification group plus seniority, which he has accumulated in any other groups. As between employees in a job classification who have not yet acquired group seniority, total plant seniority will prevail in a case of a layoff.

(2) If an employee is laid off from one job classification and accepts a transfer to another classification, his standing in the new job classification will not be affected by later layoffs in his previous job classification. Any job that an employee takes when there is a layoff in his job classification, in which he is involved to avoid termination, will not be considered a voluntary transfer.

(3) If more than one (1) employee is transferred into a new job classification on the same day they will be placed on the seniority list in the new job classification according to their bargaining unit seniority.

(4) Employees, other than those referred to in Section 4 (d) below and Trainees, who voluntarily transfer into a job classification, and, if before they have obtained seniority right in said job classification a layoff occurs in his previous job classification, he shall be subject to layoff as though he were still in his previous job classification.

Section 3

(a) When a reduction in force is to be made in any job classification within a job classification group, the employee having the least amount of group seniority in the job classification shall be the first to be laid off. Any employee thus scheduled to be laid off may displace, if he so desires:

The least senior (group) employee in an equal or lower-rated job classification in the same job classification group whose work he has the skill and qualifications to perform.

(b) When a reduction in force is to be made in any job classification, the following employee in that job classification group may be retained irrespective of seniority.

A physically handicapped employee who by reason of occupational injury while employed by the Company merits special consideration.

(c) In the event of a layoff the Union will be notified prior to the layoff and will be given a list of names of employees who are to be laid off as far in advance as possible. Also, at the time the list is being typed, the Union President will be notified.

Section 4.

(a) When a vacancy exists the job will be offered to employees laid off from the job classification in the following order:

(1) To qualified employees who are still in the job classification group.

(2) To qualified employees with seniority in the job classification group, who are on the recall listing in the order of their seniority.

(b) If the vacancy has not been filled by the procedure outlined above or by promotion from within the job classification group, consideration will be given to senior qualified employees in lower rated job classifications who make application for such vacancies within ten (10) calendar days following posting of such vacancies.

(c) A list of vacancies will be posted on the bulletin boards specifying job titles, general qualifications, rates of pay, and hours of work. Qualified employees in lower rated jobs within the plant may make application for such vacancies within ten (10) calendar days following such posting. An employee interested in bidding may request an appropriate job bid form from his manager who will assist him in submitting his bid to the Employment Office for evaluation. The Union will receive a list of all job bids, which are accepted or rejected. When an employee is selected and accepts a job bid and the employee is not released within thirty (30) calendar days from the date of his acceptance, the bidder will then be reclassified, paid the new rate, and given a new seniority date. However, in no case shall a new hire be placed on the seniority list ahead of a successful bidder or a non-union employee who has expressed interest in that particular job bid and has been selected for the job.

(d) An employee selected to fill a new job or vacancy will be given reasonable time, not more than twelve (12) weeks, with proper instructions, to learn the job before final decision is made of his ability to handle the job.

(e) If it develops before the end of the twelve (12) week period that he is not capable of handling the new job, he shall be entitled to return to his former job with his former status.

(f) If none of the above employees are qualified or available, the Company may fill the job as it sees fit.

Section 5.

(a) Employees who transfer out of the bargaining unit after the effective date of this contract cease to have any bargaining unit seniority thirty (30) calendar days after such transfer. If such employee so wishes, he may return to the bargaining unit within this thirty (30) day period without loss of seniority.

(b) Individuals who, as of July 31, 1979, had past accumulated seniority rights under Article XII, Section 5 of the collective bargaining agreement in effect on that date will be permitted to indicate in writing a desire to retain those rights for a nine (9) month period beginning August 24, 1979. Individuals who do not signify such a desire in writing will cease to have any seniority as of September 24, 1979. Those employees who do retain rights for the nine (9) month period mentioned above, will cease to have such rights as of May 24, 1980. A list of individuals retaining such seniority after September 24 will be provided the Union.

Section 6.

(a) The Company and Union will establish a recall listing of laid off employees.

(b) The Company and Union will establish seniority listings (Group and Bargaining Unit) showing the name of all employees in the order of their seniority ranking in the various classifications in the job classification groups in which the employee holds seniority.

(c) The Company will maintain the two (2) listings and give the Union forty-five (45) copies of each listing for their sole and exclusive use within forty-five (45) days after the effective date of this contract, and a list of revisions each three (3) months thereafter. No changes in these two (2) listings may be made except by mutual agreement between the Company and the Union.

Section 7.

(a) Transfers will not be made for the specific purpose of discriminating against an employee.

(b) Work normally associated with one classification in this Plant will not be transferred permanently to another classification in this Plant. When he requests, a Union representative will be informed as to whether transfer of work is temporary or permanent. In no case will the transfer of work deny the use of the recall list for a period longer than thirty (30) calendar days. All work normally associated with a classification will be returned to the rightful classification before layoff occurs in that classification. The time a job has been performed on an out-of-classification basis will not be used exclusively in making a determination into which classification the work belongs in case of a layoff.

ARTICLE XIII
GRIEVANCE PROCEDURE

Section 1.

(a) The Company will recognize the following number of properly certified Union representatives in the Plant for the purpose of representing employees in the manner as specified in this Grievance Procedure:

Three (3) Committee persons, one (1) from each of the three (3) recognized Divisions of the Plant as shown in Appendix B who, with the local President as Chairperson, shall constitute the Grievance Committee.

Twenty-four (24) Stewards, from the twenty-four (24) recognized Districts are shown in Appendix B.

(b) Employees thus duly certified and recognized as Union representatives shall report to and obtain permission from their first-line manager whenever it becomes necessary to leave their work for the line manager of their intended destination and itinerary and shall report back to their first-line manager at the time they return to work. Upon request, certified Union representatives may be granted use of the telephone at reasonable times to handle grievances within their respective Districts or Divisions. Certified Union representatives may be excused for reasonable periods from their work without loss of pay when handling grievances or disputes in the appropriate steps of this Grievance Procedure. The Local Union President, or his designated representative, may be excused for reasonable periods from work without loss of pay when handling grievances in the Third Step of this Grievance Procedure. Permission to leave work as referred to above will be granted provided such absences do not conflict with the efficient operation of the plant.

Section 2.

First Step: An employee may allege a grievance under the terms of this contract and present such grievance to his first-line manager with or without his Union Steward. In such case every effort will be made to provide a Steward as soon as reasonably possible unless near the end of the shift time will not permit. Unless settlement is reached within four (4) days (the Steward will receive the answer), such grievance may be presented by the Stewards in writing to the first-line manager on an appropriate form within the next seven (7) days. The first-line manager shall give his decision in writing to the Steward within two (2) days of presentation.

Second Step: A grievance not settled satisfactorily in the First Step may be appealed by the Division Committee person with a copy of the written grievance and a written statement of the reasons for the appeal to the Human Resources Department.

On Wednesday at 2:00 p.m. the Human Resources Generalist or his designated representative will hear any accumulated grievances appealed in writing to this Step at least twenty-four (24) hours prior to the meeting. The Human Resources Generalist will consider such grievances and give written answer within four (4) days. This meeting may be attended by other Company representatives, including the immediate first-line manager of the employee, the Steward, and the Committeeperson from the respective District and Division wherein the grievance originated.

Grievances arising out of discharge or disciplinary suspension may be initiated at this Second Step and heard at any reasonable time after an employee has protested the action to his immediate first-line manager and has failed to secure a satisfactory settlement. When an employee is called into a discussion which may result in disciplinary documentation including reprimand, suspension or being sent home, he will be provided Union representation if he so requests. A copy of the First-line Manager’s Report prepared will be furnished to the Union.

Third Step: Grievances not settled satisfactorily in the Second Step may be appealed by the Chairperson of the Grievance Committee or his designated employee representative to the General Manager or his designated representative through the Human Resources Department with a brief written statement of the reasons for the appeal.

On Monday at 2:00 p.m., the General Manager, or his designated representative, will meet with the Grievance Committee if there are any accumulated grievances appealed in writing to this Step at least twenty-four (24) hours prior to the meeting. Grievances will be answered in writing within ten (10) days.

In addition to the aggrieved employee, and the Steward from the District, who may be present if he chooses, other Company representatives, International Representatives of the Union, and the Local Union President, or his designated representative may also attend the meeting, provided they have security clearance from the Governmental Agency having jurisdiction if that Agency feels that such clearance is necessary.

Section 3. The answer of the Company in the Third Step shall be final and binding on the last day it is due unless the grievance is withdrawn prior to that date or is appealed to arbitration.

Section 4. Any grievances not taken up with the employee's immediate first-line manager within fifteen (15) days, exclusive of days of excused absence, after knowledge of the occurrence from which the grievance arose cannot thereafter be processed through the Grievance Procedure. A grievance will be considered withdrawn if the decision of the Company is not appealed to the next higher step in the above procedure within five (5) days after a decision has been rendered by the Company except that appeal to the Third Step may be made within ten (10) days. If the Company fails to answer a grievance within the specified time limits of this procedure, the Union's appeal will automatically progress to the next step of the Grievance Procedure.

Section 5. Every reasonable effort shall be made to settle grievances promptly. In the calculation of time limits under the Grievance and Arbitration Procedure, Saturdays, Sundays, and Holidays are excluded.

Section 6. The Union shall notify the Company in writing promptly of the appointment or election of all Stewards, Committeepersons and officers. Whenever a regular certified Union representative is absent from his job for any length of time, the Union may, if it feels it is necessary, appoint an assistant Steward or Committeeperson in place of the regular Steward or Committeeperson and shall notify the Company in writing in advance.

This appointee shall act in this capacity when the regular Steward or Committeeperson is not working and until the Company is notified by the Union that the appointment is canceled.

Section 7. All settlements of disputes or grievances will not vary the terms of the Contract.

Any oral settlements will be non-precedent setting.

ARTICLE XIV
ARBITRATION

Section 1. If a grievance is not satisfactorily settled by the procedure outlined in Article XIII, the grievance may be submitted to arbitration if it involves the interpretation or application of the contract.

Section 2.

(a) Within fifteen (15) days or on the day after the next monthly Union meeting whichever is later, after the decision rendered by the Company in the Third Step of the Grievance Procedure either party desiring to arbitrate a matter may request the Director of the Federal Mediation and Conciliation Service to submit the names of seven (7) arbitrators. Upon refusal of either party to join in such a request the other party may make the request. The Union and the Company shall alternately strike a name from the list (the first to strike shall be determined by lot) until the name of one individual remains. The decision of the arbitrator shall be rendered on the interpretation and application of the contract solely as it applies to the matter before him and shall not add to, disregard or modify any of the provisions of this contract. Such decision shall be final and binding on both parties.

(b) Any grievance which has not been assigned to and accepted by an arbitrator within two (2) years after the date of appeal to arbitration will be considered withdrawn by mutual consent on a no precedent basis.

(c) The current backlog of grievances will be worked independently of new grievances. Any grievances not resolved and not scheduled for arbitration within two (2) years following the effective date of this Contract will result in the grievances being withdrawn by mutual consent without precedent. This provision will remain in effect for two years following the effective date of this contract; thereafter, it will be deleted and shall not be a part of this collective bargaining agreement.

Section 3. The expense and compensation of the arbitrator shall be borne by and divided equally between the Union and the Company. Where the arbitration proceedings involve discussion of classified information, the arbitrator shall be cleared by the Government Agency having jurisdiction if the Agency feels that such clearance is required. Up to two (2) arbitration cases may be arbitrated at one time using the same Arbitrator.

Section 4. In any proceedings under this Article the Company will make every reasonable effort to release from work employees needed as witnesses.

Section 5. Arbitration cases will be requested to be heard within ninety (90) days after an arbitrator has been selected. It is agreed that the parties will jointly request the rendering of a decision within thirty (30) days after briefs have been file.

ARTICLE XV
MISCELLANEOUS

Section 1.

(a) Non-bargaining unit personnel shall not do bargaining unit work normally performed exclusively by the bargaining unit. This does not prevent such Non-bargaining unit personnel from performing necessary functions such as instruction or assistance to employees, provided the assistance rendered does not displace the person doing the work or from operating equipment or processes in emergencies or for experimental purposes.

(b) Scientific research personnel may perform manual work to further their research provided that such work does not deprive an employee of his job.

Section 2. A joint Labor-Management Safety Advisory Committee consisting of six (6) members, three (3) to be selected by the Company and three (3) selected by the Union, will be established to make recommendations for improvements in the safety and accident prevention program.

The Company will see that the Committee is provided adequate information concerning accident investigation reports and recommendations for accident prevention actions, to enable the members to make knowledgeable recommendations for the disposition of proposed safety actions.

The Company will also, on request, make arrangements for the Committee to visit the scene of any disabling or other serious accident so that they may have a better understanding of its cause. In the same manner, the Company will arrange for a designated member of the Committee to see firsthand, conditions in the Plant, which are alleged by an employee to be unsafe and/or detrimental to health. If an accident investigation committee is formed to investigate an accident involving a Bargaining Unit employee, the Union will designate as the Union's representative a Bargaining Unit employee who normally works in the area in which the accident occurred.

Company will discuss the results of the accident investigation of any disabling or other serious accident with the Committee within three (3) days of completion of the investigation. Accidents of less severity will be discussed at the next joint advisory committee meeting.

The Company will pay three (3) delegates selected by the Union to attend the Governor's Health and Safety Conference. A maximum of eight (8) hours straight-time pay will be allowed for each of the three (3) days.

Meetings will be held as determined by the Committee, at least monthly, and matters considered by the Committee will be recorded by minutes of the meetings.

Section 3.

(a) The Company will continue to make provisions for the safety and health of employees while at work.

(b) On an annual basis starting January 1, 1997, the Company will pay employees a $200.00 safety related equipment (safety shoes) allowance less any required taxes. Employees will be paid the allowance in January of each year. Employees who are required to wear safety shoes are required to maintain a serviceable pair of safety shoes to wear on plant site.

If an employee's safety shoes become unserviceable, as determined by the company, due to contamination or damage due to a job-related incident, the company will purchase replacement safety shoes if the employee provides a receipt showing that safety shoes were purchased that year. If the employee chooses to purchase the replacement safety shoes themselves, they must meet the above requirement and provide a receipt for the replacement shoes before being reimbursed.

Section 4. Company Service Credit will be determined in accordance with Company Service Credit Rules as set forth in Appendix E.

Section 5. The Union shall be permitted to use a sufficient number of designated Company bulletin boards for posting notices and announcements of official business. All such notices and announcements shall be submitted to the Company for approval and posting.

Section 6. Personal absences without pay will be administered in accordance with the provisions set out in Appendix F.

Section 7. There shall be no discrimination because of race, color, creed, national origin or sex. Nor will there be discrimination against any employee because he is handicapped, a disabled veteran or a veteran of the Vietnam era as these terms are used in applicable federal statutes, including the Americans with Disabilities Act.

Section 8. The Company agrees to make coveralls available to all members of the bargaining unit who wish to wear them while at work. Thermal underwear will be made available to all members of the Bargaining Unit who may be required to do extensive outside work [two (2) hours or more per day] during the winter months. Insulated coveralls and gloves will be issued upon approval of appropriate first-line manager.

Section 9. Reprimands antedating a period of twelve (12) months on the active payroll, during which time no reprimand has been received, will be removed from the employee's record. Suspensions antedating a period of twenty-four (24) months on the active payroll, during which time no reprimand has been received, will be removed from the employee's record.

Section 10. Employees who are telephoned while at home and requested to provide information about plant operations will be paid an inconvenience allowance equal to the employee's straight time hourly rate for the duration of the telephone call, but in no event less than one tenth of one hour. This payment shall not be counted as hours of work in the computation of overtime or premium pay.

Section 11. During January of each calendar year, starting 2002, the company will pay $900 to each qualified E-Squad member who had attended both the mandatory training sessions in the prior calendar year.

Section 12. A twenty-five (25) cent per hour premium will be paid for all Truck Drivers who have a CDL.

Section 13.

(a) An employee will be released from work and paid straight time wages for the hours 7:00 a.m. to 11:00 a.m. each Monday through Friday while performing the duties of Benefit Representative.

(b) An employee, other than the Benefit Representative, will be released from work and paid straight time wages for the hours 11:30 a.m. to 3:30 p.m. each Monday through Friday while performing the duties of ES&H Representative.

ARTICLE XVI
EDUCATIONAL ASSISTANCE PROGRAM

Company will provide financial assistance up to one hundred (100) percent of the cost of tuition, laboratory fees, and required text books to employees who while still actively employed and outside their regular working hours satisfactorily complete qualified courses of study related to bargaining unit work in recognized schools or colleges. Applications must be filed and approved prior to starting of course. An employee who is receiving Government financial assistance for education is not eligible for a refund under this program.

ARTICLE XVII
TERM OF CONTRACT

Section 1. The Company agrees that if during the life of this Agreement it discontinues operations, sells, leases, transfers or assigns the operations covered by this Agreement, it shall inform the purchaser, lessee, transferee or assignees of the exact terms of this Agreement and shall make the sale, lease, transfer, or assignment conditional upon the purchaser, lessee, transferee, or assignee, assuming all the obligations of the Agreement until its expiration date and treating the affected employees of the Bargaining Unit in accordance with the terms of this Agreement.

Section 2. This contract shall become effective as of 7:00 a.m. July 31, 2001 and shall continue in effect until 7:00 a.m., January 31, 2003, and shall automatically be renewed thereafter from year to year unless either party notifies the other in writing sixty (60) days prior to the expiration date that it desires to terminate or modify the provisions of this contract.

IN WITNESS WHEREOF, each of the parties has caused this Contract to be executed by its duly authorized representatives on this the 26th day of November, 2001.

PAPER, ALLIED-INDUSTRIAL, CHEMICAL
AND ENERGY WORKERS
INTERNATIONAL UNION, AFL-CIO

BY: /s/ J. D. Wilson

PAPER, ALLIED-INDUSTRIAL, CHEMICAL
AND ENERGY WORKERS
LOCAL 5-550

BY: /s/ D. J. Steele
/s/ M. L. Pullen
/s/ W. R. Cossler
/s/ J. T. Cooper
/s/ W. J. Moore
/s/ T. A. Walker
/s/ C. L. Owens

UNITED STATES ENRICHMENT CORPORATION
PADUCAH GASEOUS DIFFUSION PLANT

BY: /s/ W. E. Thompson
/s/ W. K. Harrison
/s/ S. P. Jones
/s/ C. D. Harrall
/s/ D. E. Page

APPENDIX A
TABLE 1A, WAGE SCHEDULE
EFFECTIVE JULY 31, 2001

Group	Start	3 Mos.	6 Mos.	9 Mos.	12 Mos.	15 Mos.	18 Mos.
01	13.27	13.98	14.66	15.33	16.00		
02	13.55	14.23	14.91	15.61	16.31		
03	13.79	14.53	15.24	15.96	16.68		
04	14.01	14.77	15.51	16.26	17.00		
05	14.91	15.68	16.41	17.16	17.90		
06	14.53	15.33	16.07	16.83	17.58		
07	17.12	18.00	18.73	19.71	20.55		
08	15.13	15.91	16.67	17.42	18.16		
09	15.45	16.22	16.99	17.73	18.48		
10	14.89	15.65	16.42	17.19	17.96		
11	16.75	17.53	18.30	19.06	19.81		
13	18.31	19.00	19.71	20.48	21.27		
14	14.24	15.04	15.78	16.52	17.24		
23	17.49	17.49	18.67				
24	17.80	17.80	19.01				
26	20.00	21.32	22.76				
28	20.00	21.32	22.76				
30	18.68	19.36	20.07	20.84	21.65	22.17	22.76

APPENDIX A
TABLE 1B, WAGE SCHEDULE
EFFECTIVE JULY 31, 2002

Group	Start	3 Mos.	6 Mos.	9 Mos.	12 Mos.	15 Mos.	18 Mos.
01	13.72	14.45	15.16	15.85	16.54		
02	14.01	14.71	15.42	16.14	16.86		
03	14.26	15.02	15.75	16.51	17.25		
04	14.49	15.27	16.03	16.81	17.58		
05	15.42	16.22	16.97	17.74	18.51		
06	15.02	15.85	16.61	17.40	18.17		
07	17.70	18.61	19.37	20.38	21.25		
08	15.65	16.45	17.24	18.01	18.78		
09	15.98	16.78	17.57	18.33	19.11		
10	15.40	16.18	16.98	17.78	18.57		
11	17.32	18.13	18.93	19.71	20.49		
13	18.94	19.65	20.38	21.17	21.99		
14	14.72	15.55	16.31	17.08	17.83		
23	18.09	18.09	19.30				
24	18.41	18.41	19.66				
26	20.68	22.04	23.53				
28	20.68	22.04	23.53				
30	19.31	20.02	20.75	21.55	22.39	22.93	23.53

GENERAL PROVISIONS

(a) Employees are given consideration for scheduled rate increases to their respective job rates upon completion of each of the periods of continuous service outlined in the Wage Schedule set forth in the above Appendix A.

(b) Such rate increases are granted on a periodic merit progression basis in accordance with Appendix A, counting from the date of placement in the classification, and are granted only if the workmanship and ability of the employee have been satisfactory.

(c) If a scheduled merit progression increase is not granted, the immediate first-line manager of the employee thus affected will notify the employee in writing of the reason for such rejection and if the employee feels such action is unjust he may file a grievance. The first-line manager may originate such increase at any time thereafter when the workmanship and ability of the employee warrant. Future consideration for advancement within the merit progression scale will be given at each period as per Appendix A thereafter until he reaches the job rate.

(d) An employee who is promoted will receive the starting rate for the new job but in no case less than a ten (10) cent increase provided such increase is not in excess of the job rate. If the starting rate for the new job amounts to less than a ten (10) cent increase, the employee will receive the next higher rate in the progression schedule for the new job and his rate will be considered at each period as per Appendix A beginning on the effective date of promotion until he reaches the job rate.

(e) An employee who is reduced from one job classification to another will assume the rate in the lower rate progression schedule to which his total length of such related work experience entitles him.

(f) Approved rate changes will become effective on the eligibility date.

(g) An employee who is displaced from a job classification and is thereafter restored with seniority to that classification will assume a position in the progression schedule corresponding to his position at the time he was displaced.

(h) An employee with at least twelve (12) months of Company Service Credit who has topped out in his present job and who bids successfully into the 14 Trainee job will be placed at the six (6) month progression step of the 14 rate group.

(i) The probationary period referred to in Article XII, Section 2(c) will be changed to one hundred twenty (120) days worked for new employees entering the trainee classifications for operator, instrument mechanic, maintenance mechanic, and electrical mechanic.

TABLE II
JOB CLASSIFICATION LISTING

Job Classification	Rate Group
Carpenter 1st Class	26
Carpenter 2nd Class	23
Chauffeur	03
Converter Assembler	09
Electrical Mechanic 1st Class	28
Electrical Mechanic 2nd Class	24
Fire Fighter-EMT	07

Garage Mechanic 1st Class	26
Heavy Equipment Mechanic 1st Class	26
Heavy Equipment Operator	26
Instrument Mechanic 1st Class	28
Instrument Mechanic 2nd Class	24
Janitor	01
Laborer	01
Line Worker	28
Locksmith	26
Lubricator	06
Machinist 1st Class	28
Machinist 2nd Class	24
Maintenance Mechanic 1st Class	26
Maintenance Mechanic 2nd Class	24
Material Handler	11
Operator	30
Operator B	13
Painter 1st Class	26
Painter 2nd Class	23
Protective Clothing and Equipment Processor	05
Refrigeration Mechanic	26
Sheet Metal Worker 1st Class	26
Trainee	14
Truck Driver	10
Window Washer	02

APPENDIX B

The following Plant Committee Divisions and Steward Districts are recognized for the purpose of Union Representation in the plant in accordance with Article XIII.

Steward District	Operations	
1	Cascade Operations	A Shift
2	Cascade Operations	B Shift
3	Cascade Operations	C Shift
4	Cascade Operations	D Shift
5	Cascade, Power, Utilities	Days
6	Chemical Operations	Days
7	Chemical Operations	A Shift
8	Chemical Operations	B Shift
9	Chemical Operations	C Shift
10	Chemical Operations	D Shift
26	Waste Management	
27	Fire Fighter-EMT	
	General Maintenance	
12	Maintenance	A Shift
13	Maintenance	B Shift
14	Maintenance	C Shift
15	Maintenance	D Shift
16	Instrument Maintenance	
17	Electrical Maintenance	
18	Maintenance Shop	Days
19	Maintenance — Plant Services	
22	Process Maintenance	Days
23	C-400, C-411	
24	Machine Shop	
	Materials, Industrial Relations, Roads and Grounds and Others	
	Material Handler	
11	Janitor and Laborer	
20	Roads and Grounds	
21	Protective Clothing and	
25	Equipment Processor	

APPENDIX C

The Seniority Provisions of this contract as set forth in Article XII shall be administered by the following job classification groups.

Group	Job Classification	Rate Group
1	Maintenance Mechanic 1/C	26 24
	Maintenance Mechanic 2/C	14
	Trainee	
2	Refrigeration Mechanic	26
3	Machinist I/C	28 24
	Machinist 2/C	14
	Trainee	
4	Sheet Metal Worker I/C	26
5	Carpenter I/C	26 23
	Carpenter 2/C	14 26
	Trainee	
	Locksmith	
6	Painter I/C	26 23
	Painter 2/C	14
	Trainee	
7	Heavy Equipment Mechanic I/C	26 26
	Garage Mechanic I/C	
8	Heavy Equipment Operator	26
9	Converter Assembler	09
10	Truck Driver	10
11	Instrument Mechanic I/C	28 24
	Instrument Mechanic 2/C	14
	Trainee	
12	Electrical Mechanic I/C	28 28
	Line Worker	24 14
	Electrical Mechanic 2/C	
	Trainee	
13	Operator	30 13
	Operator B	14
	Trainee	
14	Fire Fighter-EMT	07
15	Material Handler	11

16	Chauffeur	03
17	Lubricator	06
18	Laborer	01
	Janitor	01
19	Protective Clothing and Equipment Processor	05
20	Window Washer	02

APPENDIX D
VACATION REGULATIONS

The following regulations govern the application of the vacation provisions as set forth in Article XI of the Contract:

(a) The vacation provisions are not applicable to part-time, intermittent, or temporary employees.

(b) The vacation season will be for the full calendar year. The number of employees who are on either whole weeks or fragmented vacation days at the same time may be limited to no less than fifteen (15) percent of the employees on the vacation lists. KEA, Thanksgiving, and Christmas weeks will be considered special weeks during which up to twenty (20) percent of the employees on the vacation lists may schedule vacation.

(c) Vacations are scheduled by supervision during the established vacation season. Vacation preference will be exercised during the vacation season within a vacation group within a job classification group. Preference as to dates is based upon seniority. Such preference can be exercised only once in a calendar year. Preference for a split vacation may only be exercised for one part at a time with preference for the remaining parts being exercised in the same seniority order. The employee shall make an election during the time he exercises his vacation preference as to any carry-forward or any pay-in-lieu of vacation option for which he is eligible. Such elected option will be irrevocable for the calendar year for which it is made unless the Company and the employee otherwise mutually agree.

(d) An employee must complete the full minimum Company Service Credit noted in Article XI before he is eligible for a vacation or vacation pay.

(e) Vacation payments will be calculated on the basis of an employee's straight-time hourly rate, plus any applicable shift differential, in effect at the time he goes on vacation, multiplied by the number of hours in his normal workweek. However, the amount paid to an employee in lieu of vacation or vacation carried forward shall be his straight-time hourly rate in effect at the time he receives such pay, multiplied by the number of hours in his normal workweek.

(f) If an employee who has completed the minimum eligibility requirements for a vacation retires, resigns, is laid off, is discharged, or dies, he, or his survivors, will be paid for any vacation in the current year which has not been taken.

(g) Only one (1) vacation will be allowed an employee in any one (1) calendar year.

(h) The minimum portion of a vacation that may be taken at any one time is one (1) week except for specifically fragmented vacations as hereinafter provided:

(1) Vacations will be scheduled in accordance with the normal procedure. Employees may take vacation in portions of one (1) or more whole days in accordance with their current year's vacation eligibility as follows: Employees may take up to one (1) week of this vacation in portions of one (1) or more whole days. Employees eligible for three (3) weeks of vacation may fragment two (2) weeks. Employees eligible for four (4) weeks of vacation may fragment three (3) weeks. Effective January 1, 1991, an employee eligible for five (5) or six (6) weeks of vacation may fragment four (4) weeks. When first making such request, the employee must designate which pre-scheduled week or weeks are to be fragmented; and these may not subsequently be changed — that is, any remaining vacation days must be executed during the pre-scheduled week except for whole days which may be carried forward under Paragraph (s) of this Article. The employee's request for one or more days of vacation must be made with reasonable advance notice.

(2) The first-line manager will have absolute discretion to approve or disapprove such requests, and his decisions will not be subject to challenge in the Grievance Procedure or Arbitration. Such requests will not be granted if in the opinion of the Company it will be necessary to provide relief at premium or overtime rates beyond the limitations provided for in Paragraph (b) above.

(3) Up to five (5) days of an employee's vacation entitlement may be taken in one-half (1/2) day increments subject to all provisions of Appendix D, Section (h)

(i) An employee who has completed the minimum eligibility requirements and is recalled following a layoff for reduction in force will be required to work for six (6) months following his reemployment before he is again eligible for a vacation. Such vacation cannot be taken until the following year if it would otherwise result in a duplication of the current year's vacation.

(j) Absence of an employee immediately preceding or following his vacation may not be excused for any reason except unavoidable circumstances.

(k) Vacations for which an employee is eligible will not be affected by a disability absence except that if an employee is absent for an entire calendar year no vacation will be granted in such year.

(l) An employee who takes a leave of absence will be treated for vacation purposes in the same manner as if he were terminated as of his last day worked. If the leave does not extend into another calendar year, however, the employee may be permitted to postpone any current year vacation due until after his return to work.

(m) Except as provided for under the carry-forward option in Paragraph (s), an employee may not postpone his vacation to the following year.

(n) Except as provided for under Pay-in-Lieu of Vacation Option in Paragraph (r), it is the intention to arrange vacation time off whenever possible rather than to grant pay-in-lieu of such time off.

(o) If the designated holiday occurs during an employee's vacation and that employee would otherwise have been scheduled to work on that day had it not been a holiday, such employee shall receive eight (8) hours of pay at straight time in addition to his vacation.

(p) An employee who completes his first year of Company Service Credit for a vacation with pay as set forth in the Vacation Plan shall have a vested right to that vacation on the day he completes one year of Company Service Credit.

(q) An employee's election of either Option (r) or (s) below does not disqualify him from electing the other Option applicable to the remaining weeks of Current Year Vacation to which he is entitled. He cannot, of course, duplicate or pyramid benefits by electing both options for the same week(s).

(r) Pay-in-Lieu of Vacation (PLV) Option

(1) During calendar years in which an employee completes ten (10) through twenty-nine (29) years of Company Service Credit, the employee has the option of electing one (1) full week of pay-in-lieu of vacation.

(2) During calendar years in which an employee completes thirty (30) or more years of Company Service Credit, the employee has the option of electing one (1) or two (2) full weeks of pay-in-lieu of vacation.

(3) Pay-in-lieu of vacation will be paid concurrently with any full week(s) of Current Year Vacation the employee chooses but shall not be divided into units of less than one (1) week.

(4) Pay-in-lieu of vacation shall not be used in the calculation of compensation for other benefit plan purposes or any overtime or other premium payments.

(s) Carry-Forward Option

(1) An employee with ten (10) or more years of Company Service Credit may carry forward to a succeeding year up to two (2) weeks of his Current Year Vacation. It is understood that any carry-forward vacation must be taken in full week increments.

(2) The maximum amount of carried-forward vacation which an employee may have to his credit at any time shall be six (6) weeks. Also, the maximum vacation taken in any calendar year shall be twelve (12) weeks.

(3) Vacation time carried forward is not subject to payment in lieu of vacation except upon the employee’s termination.

(t) Starting with calendar year 1997, the Company shall designate two days each calendar year on which mandatory E-Squad training will be conducted. The Company will notify E-Squad members of these dates in January of each calendar year. E-Squad members shall not take whole day or partial day vacation on either of the two days designated for E-Squad training.

An employee with one (1) or more years of Company Service Credit who is on the payroll of the Company on December 31 of the year prior to the calendar year in which he is entitled to a vacation with pay as set forth in the Vacation Plan shall have a vested right on that day to such vacation for the following year. An employee is considered to be on the payroll of the Company unless he has previously been terminated or has otherwise ceased active work and is not expected to return to work because of disability or some other reason.

APPENDIX E
COMPANY SERVICE CREDIT RULES

Company Service Credit is based upon employment by United States Enrichment Corporation and by any Subsidiary Company of the Corporation. Company Service Credit will be determined under the following rules:

(a) In case an employee receives wages from some Subsidiary of United States Enrichment Corporation without interruption, his Company Service Credit begins as of the date such wages become effective.

(b) In case an employee is laid off by the Company on account of reduction in force and through no fault of his own.

(1) If such layoff continues not more than four (4) consecutive years, Company Service Credit will be given for service prior to such layoff.

(2) If such layoff continues more than four (4) years, no Company Service Credit will be given for service prior to such layoff.

(c) In case of absence or absence with leave for a reason other than disability, which is authorized by the local management, employment will be considered as continuous without any deduction if it does not exceed three (3) months. However, in case such absence does exceed three (3) months, the period of absence in excess of three (3) months will not be considered as Company Service unless otherwise authorized by the local management. If an employee who is thus absent fails to return to work when able to do so and at the time designated by the Company, he will be considered as voluntarily terminating his employment and his Company Service Credit shall end as of the date on which such absence commenced.

(d) In case of rehire subsequent to voluntary termination of employment, credit will be given for service only since last date of rehire by the Company unless such employee was rehired within three (3) months after his voluntary termination, and the local management deems it to be in the interest of the Company to authorize credit for service prior to such voluntary termination.

(e) In case of rehire or reinstatement subsequent to discharge for cause or resignation at the Company’s request, credit will be given for service only since last date of rehire or reinstatement by the Company, unless otherwise authorized by the local management.

(f) An employee on the active payroll January 1, 1973, or rehired thereafter, who had been credited with Continuous Service Credit for one or more periods of prior employment but who had lost such credit because of (a) a layoff lasting for more than four (4) years, or (b) termination for any other cause, will have such prior Continuous Service Credit restored upon completing a total of two (2) years of currently accredited Continuous Service Credit following reemployment.

APPENDIX F
PERSONAL ABSENCE WITHOUT PAY

Employees will be granted time off without pay when the workload permits, as follows:

(a) Sickness in the immediate family (time necessary to arrange for the care of the patient only and not to include nursing or attending to the needs of the patient as such by the employee).

(b) Minimum time necessary to attend a marriage in the immediate family not to exceed three (3) days.

(c) Minimum time to attend the marriage of a close friend or relative when employee is participating in ceremony such as best man or usher not to exceed three (3) days.

(d) Minimum time necessary to attend the funeral of a close friend or relative not to exceed three (3) days.

(e) Minimum time necessary for settlement of estates, to serve as witness when subpoenaed in court, dental work, legal closing of purchase or sale of the employee's personal residence, financial or legal transactions with Government officials on personal, not business matters, where personal attendance is required with the understanding that the specific time off is beyond the control of the employee.

(f) Minimum time necessary to attend graduation of a son or daughter from school at the junior high school level or beyond.

(g) Minimum time necessary to attend to duties in key meetings as a voting delegate to the Credit Union, as a member of a local governmental body or as a Community Chest Director.

(h) Problems of a personal nature that are considered to be too sensitive to discuss with first-line manager may be referred to the Medical Director for a decision.

On items of equal importance necessary time off will be granted without pay by informing his first-line manager and giving the nature of the item, the time, the place and the approximate time necessary.

No time will be granted to conduct another business or occupation or avocation or to attend conventions or meetings or to attend to matters that can be handled reasonably outside working hours.

The Company agrees to meet with the Union Committee when either party feels that there is a need to discuss the personal absence policy.

PENSION, GROUP INSURANCE AND DENTAL AGREEMENT

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
"Major Features Comparison of Current and Proposed Benefits Plans", pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

This Agreement, relating to a pension plan, an insurance plan and a dental insurance plan, entered into on September 1, 1987, by and between Martin Marietta Energy Systems, Inc., Paducah Plant, Paducah, Kentucky, hereinafter referred to as the "Company", and Oil, Chemical & Atomic Workers International Union, AFL-CIO, and/or its Local 5-550, hereinafter referred to as the "Union."

WITNESSETH:

The Company and the Union hereby agree upon the maintenance of the Pension Plan as amended, the Group Insurance Plan as amended and the Dental Insurance Plan as amended for the Bargaining Unit employees represented by the Union at the Company's Paducah Plant, subject to the following terms and conditions:

PART A — PENSION PLAN

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
"Major Features Comparison of Current and Proposed Benefits Plans", pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

(a) Benefits available under the amended Pension Plan to eligible employees who retire on or after September 1, 1990, are set forth in the booklet entitled "A Description of the Non-Contributory Pension Plan..." for employees of Martin Marietta Energy Systems, Inc., as amended April 1, 1990, which is attached hereto and made a part hereof. This booklet hereinafter is referred to as the "Pension Booklet."

(b) It is understood that if any dispute arises from the denial of a Bargaining Unit employee's claim for benefits under the Pension Plan, then such dispute may be taken up through the Grievance and Arbitration Procedure of the principal Collective Bargaining Contract then in effect between the parties.

(c) It is understood that an employee who retires and commences to receive a Pension Benefit will have no rights to resume active employment with the Company.

(d) The obligation of the Company to maintain the Pension Plan, as herein provided, is subject to the requirement that approval by the Internal Revenue Service for the amended Plan is received and maintained continuously as:

(1) Qualifying under Section 401 of the Internal Revenue Code or any other applicable section of the Federal tax laws (as such Sections are now in effect or are hereafter amended or enacted); and

(2) Entitling the Company to deduction for payments under the Plan pursuant to Section 404 of the Internal Revenue Code or any other applicable section of the Federal tax laws (as such Sections are now in effect or are hereafter amended or enacted)

In the event that any revision in the Pension Plan is necessary to receive and maintain such approval or to meet the requirements of any other applicable Federal law, the Company and the Union shall resume negotiations for the purpose of reaching agreement on such revision, it being understood that such revision shall be held to a minimum, adhering as closely as possible to the intent expressed in the Pension Plan and in this Agreement.

(e) The Pension Plan referred to in this Agreement shall be noncontributory. It is understood, however, that an eligible Bargaining Unit employee who is a participant at the close of business on the day preceding the effective date of this Agreement in the contributory Retirement Plan for Employees in the United States of Martin Marietta Energy Systems, Inc., may continue to participate in this Plan, but such participation will in no manner render him ineligible for the non-contributory pension benefits as provided in the Pension Plan described and set forth in the Pension Booklet.

PART B — GROUP INSURANCE PLAN

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
"Major Features Comparison of Current and Proposed Benefits Plans", pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

(a) Benefits under the Group Insurance Plan as amended September 1, 1990, for eligible employees who participate in the Plan are set forth in the booklet entitled "Martin Marietta Energy Systems, Inc. Benefits Handbook" on pages 47 through 53, inclusive, attached hereto and made a part thereof. This attachment is hereinafter referred to as the "Insurance Booklet."

(b) Participation in the Group Insurance Plan shall be on a voluntary basis.

(c) The costs to employees for Basic Life Insurance and Supplemental Life Insurance are set forth in the Insurance Booklet, and these costs will not be increased during the term of the Agreement. Each participating active employee shall pay his cost of the Group Insurance Plan by payroll deduction pursuant to his written authorization therefore on a form supplied by the Company. An early retiree who qualified for and elects the option to continue the full amount of (a) his Basic Life Insurance or (b) his Basic and Supplemental Life Insurance up to age 65, as set forth in the Insurance Booklet, shall make his payments in advance monthly (or quarterly if he desires) to the office or postal address designated by the Company.

PART C — DENTAL INSURANCE PLAN

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
"Major Features Comparison of Current and Proposed Benefits Plans", pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

(a) Benefits under the Dental Insurance Plan as for eligible employees and dependents who participate in the Plan are set forth in the booklet entitled “Martin Marietta Energy Systems, Inc. Benefits Handbook dated April 1, 1990, “Dental Expense Assistance Plan Section” on pages 29 through 38, inclusive, attached hereto and made a part hereof. The attachment is hereinafter referred to as the “Dental Booklet.”

(b) Dental Insurance Plan coverage will be paid for entirely by the Company.

PART D — GENERAL PROVISIONS

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
“Major Features Comparison of Current and Proposed Benefits Plans”, pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

(a) During the term of this Agreement, the Company Service Credit of an employee for the purpose of determining eligibility for benefits under the Pension, Dental Insurance and Group Insurance Plans, and of computing the amounts of such benefits, shall be determined in accordance with the Company Service Credit Rules set forth in the principal Collective Bargaining Contract then in effect between the parties. However, it is understood that with respect to the Pension Plan, “credited service” as defined in that Plan shall govern.

(b) In the event of the enactment or amendment of any Federal or State law providing for benefits similar, in whole or in part, to those covered by Parts B or C of this Agreement, and requiring either (a) compulsory participation by any employee or the Company; or (b) compulsory payment of taxes or contribution by any employee or by the Company; or (c) benefit costs either to any employee or the Company different from those provided for under Part B or C of this Agreement, then the parties hereto agree that they will amend this Agreement so as to provide that the total cost to the Company for insurance benefits of whatsoever nature for its employees will not be greater in amount than such costs as provided by law or by Part B or C of the Agreement, whichever costs are greater.

(c) The Company shall retain the right to arrange through an insurance company(s) or other carrier(s) for coverage providing the benefits under the Group Insurance and Dental Insurance Plans, current coverage having been arranged with the Metropolitan Life Insurance Company (herein called the “Insurance Company”).

(d) The administration of the Group Insurance and Dental Insurance Plans hereunder and the payment of benefits under the Plans shall be handled directly by the Insurance Company, it being understood that a claimant whose benefits claim is denied may contest such denial with the Insurance Company, but that he shall have no redress whatsoever against the Company. It is agreed, however, that in any case in which an employee claiming benefits under the Group Insurance or Dental Insurance Plans and desiring to file such claim with the Insurance Company, becomes engaged in a non-medical factual dispute with the Company in connection with such claim (such as, for example, but not limited to, disagreement over his earnings group, eligibility, employment status, amount of Company Service Credit, or other non-medical factual question), such employee and the Union may process such dispute through the Grievance Procedure set forth in the principal Collective Bargaining Contract then in effect between the parties. It is agreed that any arbitration award as to such factual dispute shall be final and binding upon the parties hereto and the employee thereafter may present his claim to the Insurance Company on the basis of the facts as determined by said award.

It is agreed, however, that any and all medical questions in dispute shall be determined solely by the Insurance Company. To request review of any such dispute, the Bargaining Unit employee shall make written application therefore to the Insurance Company not more than sixty (60) days after his receipt of the Insurance Company’s position giving rise to the dispute. Within sixty (60) days after the Insurance Company’s receipt of the application for review, it shall inform the employee in writing of its decision in final disposition of the dispute. Under special circumstances, the Insurance Company may extend the time for processing the review, but its decision in final disposition of the dispute shall be rendered not later than one hundred twenty (120) days after its receipt of the application for review.

(e) Regardless of the time limit, if any, prescribed in the applicable principal Contract for the filing of a grievance concerning the alleged violation of such Contract, a claimant’s appeal under Part A — Section 2 or Part D — Section 5 (first paragraph) will be processed in accordance with the Grievance and Arbitration procedure, provided that such grievance is filed not more than sixty (60) days after the claimant’s receipt of the Company’s position giving rise to the non-medical factual dispute.

(f) This Pension, Group Insurance and Dental Insurance Agreement shall replace all prior agreements pertaining to the Pension, Group Insurance and Dental Insurance Plans, including any amendments to them.

MEMORANDUM OF AGREEMENT,
HEALTH CARE PLAN

(Effective as listed below through September 30, 1996;
thereafter, refer to the Administrative Letter on page 94 and
“Major Features Comparison of Current and Proposed Benefits Plans”, pages 48-67,
for any modifications to this section.)
(Effective July 31, 2001, refer to Administrative Letter page 96.)

It is agreed by the parties that effective September 1, 1990, the present comprehensive Health Care Plan as set forth in the “Health Benefits Program for Hourly Employees” booklet dated September 1, 1987, and made a part of the Contract between the parties dated July 31, 1987, is hereby replaced by a new comprehensive Health Benefits Program as set forth in the “Martin Marietta Energy Systems, Inc. Benefits Handbook” dated April 1, 1990, (Pages 5 through 26., inclusive, of such booklet to be considered a part hereof) which includes:

A Comprehensive Medical Plan designed to pay the major share of covered hospital, surgical and medical expenses, while attempting to control health care costs by encouraging the use of cost-effective services.

A Vision Care Plan with no deductible, which includes an eye examination once every twelve months, one pair of lenses once every twelve months, and one pair of frames once every twenty-four months.

(1) The Company will arrange with an insurance company to make available to participating employees in the bargaining unit certain benefits set forth in the booklet entitled "Martin Marietta Energy Systems, Inc. Benefits Handbook" on pages 5 through 26, inclusive.

(2) It is agreed that the gross cost of the said health benefits program shall be shared by the Company and participating employees. Each employee who enrolls in the plan shall pay the applicable rate, such rate representing six (6) percent of the total gross cost. The Company shall pay the remaining ninety-four (94) percent of the cost. (As per the Administrative Letter on page 82, effective October 1, 1996, each employee who enrolls in the new medical plan will pay nine (9) percent of the total gross cost.)

(3) Employee participation in the program shall be on a voluntary basis. Employees who enroll in the program shall authorize the Company in writing to deduct from their pay the applicable rate.

MAJOR FEATURES

COMPARISON

OF

PREVIOUS AND NEW

BENEFIT PLANS

Paducah PACE Members

Effective January 1, 2002

PADUCAH PACE MEMBERS

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Dental	
Premiums: Employee pays 12% (coverage optional)	**Premiums:** No Change
Maximum Coverage: Annual $1500 Lifetime Orthodontic $1500 Annual Deductible $50 No Family Deductible	**Maximum Coverage:** No Change
Covered Care: Preventive & Diagnostic 100% Oral Surgery & Restorative 80% Prosthodontic 50% Lifetime Orthodontic $1500	**Covered Care:** No Change No Change No Change No Change
Selection of Dentist: Dentist of your choice	**Selection of Dentist:** No Change
Life Insurance	
Coverage: Basic — Twice Annual Wages Supplemental — Annual Wages	**Coverage:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Living Benefit: On a one-time basis, employee with terminal illness may receive up to 50% of Basic and Supplemental Life • Taxable • Insurance Reduced	No Change

Flexible Spending Accounts

FSAs: Pre-tax contributes up to $5,000 annually in either or both accounts **Dependent Care Spending Account** • Child under age 13 • Disabled dependents including spouse **Health Care Spending Account** • Medical, Dental, Vision, Prescription Drug Deductibles & Co-payments • Orthodontic Expenses not covered by Dental Plan • Fees Beyond Reasonable & Customary, • NOT CoveredXCosmetic Surgery & Health Care Premiums	No Change

Savings Plan

Employee Basic Contributions: 2.5% to 6% of Pay (1/2% increments)	**Employee Contributions:** No Change
Employee Supplemental Contributions: Effective 1/01/98, 1/2% to 9% (1/2% increments) (IRS Regulation)	**Employee Supplemental Contributions:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Company Matching Contributions: Effective 1/01/98, 100% of 2% / 50% of 4% of Employee's Pay	**Company Matching Contributions:** No Change
Savings Plan Options: 401K — Before and After Tax Deductions	**Savings Plan Options:** No Change
401K Loan Provision: Residential and general loans up to 50% of vested account balance or $50,000 whichever is less. Repayment at prime interest rate plus 1%. $50 application fee per loan	**401K Loan Provision:** No Change
Investment Fund Options: Stable Value Fund Vanguard Windsor Fund Lockheed Martin Corporation Stock Fund (Frozen Fund until May 18, 2002, then eliminated as a fund.) Intermediate-Term Investment Grade Bond Fund Long-Term Investment Grade Bond Fund American Balanced Fund Indexed Equity Fund The Investment Company of America The Growth Fund of America New Perspective Fund	**Investment Fund Options:** No Change
Fund Selection: 9 Investment fundsXmultiples of 5%	**Fund Selection:** No Change
Rollovers: Available under certain conditions	**Rollovers:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Savings Program Information: Automated Access through Savings Program Information Line • Toll-free number - 24-hours a day - 7 days a week • Customer service representatives - Monday through Friday - 9 a.m. to 5 p.m. Eastern time • All types of transactions including: - enroll in program - check your account balance/value - make/change investment elections - transfer between investment options - change contribution percentages - request a loan or withdrawal - request financial information/investment performance as it becomes available • Written confirmation within two business days of most transactions	**Savings Program Information:** No Change
Withdrawals: Approximately 7 days	**Withdrawals:** No Change
Fund Valuations: Daily	**Fund Valuations:** No Change
Changing Contribution Percentage: Daily	**Changing Contribution Percentage:** No Change
Transferring Funds: 12 times per year At least once per quarter	**Transferring Funds:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Administrative and Investment Management Fees: Deducted from fund earnings	**Administrative and Investment Management Fees:** No Change
Program Payout Options: **Retirement/Disability** • Lump sum payment • Monthly installment payments over 10, 15 or 20 years • Installment payments based on single life expectancy or joint life expectancy of you and your spouse **Termination** (reasons other than retirement/disability) • Lump sum payment • Rollover to another qualified plan **Death of Employee** • Spouse may elect - lump sum payment - monthly installments over 5-year period	**Program Payout Options:** **Retirement/Disability** No Change

Special Accident Insurance

CURRENT (08/01/01)	NEW (01/01/02)
Coverage and Benefit Amounts: • Accidental death, dismemberment or disability • Single or Family • $20,000 to $500,000 for employee, not to exceed 10 times annual salary • Percentage of employee benefit amount for family members	**Coverage and Benefit Amounts:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Coverage During Personal or Medical Leave of Absence: Up to 12 months (provided premiums are paid)	**Coverage During Personal or Medical Leave of Absence:** No Change
Coverage for Your Dependent Children: To age 28 while attending school including vocational and trade schools (no additional cost)	**Coverage for Your Dependent Children:** No Change
Additional Surviving Spouse Benefit: 1/2% of the Special Accident Insurance amount will be payable each month for 12 months with family coverage	**Additional Surviving Spouse Benefit:** No Change
Rehabilitation Benefit: Additional benefit of up to $50,000 payable for approved rehab for employee or covered family member for expenses incurred within two years of accident	**Rehabilitation Benefit:** No Change
Child Care Center Benefit: • Up to 3% of the Special Accident Insurance benefit (maximum of $5,000 per year, per child) payable to licensed child care center - must have been enrolled prior to employee's death or within 365 days thereafter - paid once a year up to four years or until child reaches age 13, whichever comes first • One time $1,500 payment made to beneficiary if no eligible children	**Child Care Center Benefit:** No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)
Disability Benefit: Payable if total and permanent disability occurs within 365 days of accident	**Disability Benefit:** No Change

BENEFIT PLANS - MEDICAL

CURRENT - POINT-OF-SERVICE (10/01/98) Columbia Health Care Systems			NEW - PREFERRED PROVIDER ORGANIZATION (01/01/02)
IN-NETWORK	**OUT-OF-NETWORK**	**INDEMNITY** Only if No Access to Network	
Premium			
	Employee pays 9%		Employee pays 10%
Deductible			
N/A	0.75% of pay/individual (minimum $200) 2.25% of pay/family (minimum $400)	0.5% of pay/individual (minimum $200) 1.5% of pay/family (minimum $400)	No Change
Out-of-Pocket Maximum			
N/A	6% of pay/individual (minimum $2,000) 9% of pay/family (minimum $4,000)	5% of pay/individual (minimum $2,000) 8% of pay/family (minimum $4,000)	No Change
Lifetime Maximum			
$1,000,000	$1,000,000	$1,000,000	No Change

BENEFIT PLANS - MEDICAL			
CURRENT - POINT-OF-SERVICE (10/01/98) Columbia Health Care Systems			NEW - PREFERRED PROVIDER ORGANIZATION (01/01/02)
IN-NETWORK	OUT-OF-NETWORK	INDEMNITY Only if No Access to Network	
Office Visits			
(1) Physician or Specialist			
$10 co-payment	20% after	10% after	No Change
	deductible	deductible	
(2) Allergy Testing			
$10 initial office visit co-payment No charge for shots	20% after deductible	10% after deductible	No Change
Preventive Care			
(1) Well-Child Care (including immunizations)			
$10 co-payment	Not covered	Not covered	No Change
(2) Well-Woman Care (including Pap Test)			
$10 co-payment (once per year)	Not covered	Not covered	No Change
(3) Routine Mammogram			

BENEFIT PLANS - MEDICAL			
CURRENT - POINT-OF-SERVICE (10/01/98) Columbia Health Care Systems			NEW - PREFERRED PROVIDER ORGANIZATION (01/01/02)
IN-NETWORK	OUT-OF-NETWORK	INDEMNITY Only if No Access to Network	
No charge with referral	20% after deductible	10% after deductible	No Change
Inpatient Hospital/Surgery			
$100 co-payment per day (2 days maximum)	20% after deductible	10% after deductible	No Change
Outpatient Surgery			
$50 co-payment	20% after deductible	10% after deductible	No Change
Emergency Care (1) Doctor's Office			
$10 co-payment	$10 co-payment If not true emergency, 20% after deductible	10% after deductible	No Change
(2) Emergency Room			

BENEFIT PLANS - MEDICAL			
CURRENT - POINT-OF-SERVICE (10/01/98) Columbia Health Care Systems			NEW - PREFERRED PROVIDER ORGANIZATION (01/01/02)
IN-NETWORK	OUT-OF-NETWORK	INDEMNITY Only if No Access to Network	
$75 co-payment (waived if admitted) If not true emergency, out-of-network benefits apply	$75 co-payment (waived if admitted) If not true emergency, 20% after deductible	10% after deductible	No Change
Hearing Aids			
No charge up to $750 every 36 months	Not covered	Not covered	No Change
Inpatient Mental Health/Alcohol and Drug Abuse			
$100 co-payment (2 days maximum) (lifetime maximum $50,000) Limited to 2 alcohol and/or drug abuse admissions per lifetime and 100 days combined. Limited to 100 days per lifetime combined for mental	20% after deductible (lifetime maximum $50,000) Limited to 2 alcohol and/or drug abuse admissions per lifetime and 100 days combined. Limited to 100 days per lifetime combined for mental	10% after deductible (lifetime maximum $50,000) Limited to 60 days per lifetime for mental & 60 days per lifetime for substance abuse	No Change

BENEFIT PLANS - MEDICAL			
CURRENT - POINT-OF-SERVICE (10/01/98) Columbia Health Care Systems			NEW - PREFERRED PROVIDER ORGANIZATION (01/01/02)
IN-NETWORK	OUT-OF-NETWORK	INDEMNITY Only if No Access to Network	
Outpatient Mental Health/Alcohol and Drug Abuse			
$15 co-payment per visit for individual therapy; $10 co-payment per visit for group therapy, unlimited with authorization	20% after deductible (annual maximum $3,000) (authorization required for more than 8 visits)	10% after deductible; 30 visits per calendar year	No Change

BENEFIT PLANS - MEDICAL

CURRENT (08/01/01)	NEW (01/01/02)

Prescription Drug Plan

CURRENT (08/01/01)	NEW (01/01/02)
Coverage: **In-Network** ($50 annual deductible) • 10% of cost, after annual deductible, for 30-day generic drug supply • 20% of cost, after annual deductible, for 30-day brand-name drug supply **Out-of-Network** ($50 annual deductible) • 50% co-pay for 30-day supply of generic or brand-name drug supply • 50% co-pay of brand-name drug plus the difference between brand-name and generic drug if physician authorized generic **Mail Order Drugs** (No deductible) • $5 for up to a 90-day generic drug supply • $15 for up to a 90-day brand-name drug supply	**Coverage:** No Change

Vision Care

CURRENT (08/01/01)	NEW (01/01/02)
Scheduling Appointments: • Directly contact Panel Doctor **Basic Coverage Using Panel Doctor:** • One eye exam every 12 months • One pair of frames every 24 months, up to $40 • One pair of lens every 12 months • Second pair of glasses (frames and lenses) at 20% discount	**Scheduling Appointments:** No Change **Basic Coverage Using Panel Doctor:** No Change

MEMORANDUM OF UNDERSTANDING

WORKFORCE FLEXIBILITY

DATED: JULY 31, 1996

The tasks listed on the following table of tasks will be shared and may be performed by any of the classifications indicated, it being be understood that:

1. the Company will make required revisions of procedures and

2. the Company will provide training appropriate to the task.

See attached Table of Tasks.

TASK	CLASSIFICATIONS
MONITORING	
Perform radiological surveys (including documentation) for contamination on designated items, e.g., tools, hand-carried equipment, and hand-carried containers to allow movement within the plant. (The scope may increase to larger items of equipment and vehicles as procedures are developed and training is implemented.) Monitoring for off-site release shall remain the exclusive work of non-bargaining unit employees	Health Physics and/or all bargaining unit classifications
SPRINKLER SYSTEMS	
Replace clapper gaskets for sprinkler systems	Maintenance and/or Fire Fighter-EMT
Reset clapper valves for dry-pipe and deluge sprinkler systems	Maintenance and/or Fire Fighter-EMT
Replace pressure gauges on sprinkler headers	Maintenance and/or Fire Fighter-EMT

MEMORANDUM OF UNDERSTANDING

ELIMINATION OF SCALE MECHANIC CLASSIFICATION

DATED: JULY 31, 1996

The Scale Mechanic classification will be eliminated. The current incumbent shall be reclassified as Instrument Mechanic with Instrument Mechanic seniority as though he had never left that classification. He will be assigned to the instrument shop work group.

MEMORANDUM OF UNDERSTANDING

HOURS OF WORK LIMITATIONS

DATED: JULY 31, 1996

Except in an emergency or as provided below, employees should not be allowed to work more than:

1. 16 consecutive hours.
2. 16 hours in any 24-hour period.
3. 24 hours in any 48-hour period.
4. 72 hours in any 7-day period.

In counting consecutive hours of work, the unpaid lunch and/or shift overlap period where applicable shall be excluded.

An employee who has worked 16 consecutive hours will not be permitted to return to work until eight (8) hours have elapsed immediately following the 16 consecutive hour work period. Such employee will be paid his/her basic straight-time rate for any portion of his/her regularly scheduled shift, which he/she was not permitted to work.

If, in the event of a scheduling error, an employee works overtime that disqualifies the employee from working on a scheduled day of work, or an employee reports for an overtime opportunity that is not allowed by the above limitations, the employee shall have the option to work the scheduled day, or the overtime opportunity, but shall be given assignments not directly related to plant operational activities such as required training, reading, procedure review, and material/equipment inventory. The employee may, however, decline to work the scheduled day or the overtime opportunity. In such event, the employee shall neither be paid for the declined work nor charged with either an absence or for declining an overtime opportunity.

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

The Medical Department will continue to investigate all avenues of medical information available to them within the province of medical ethics, in all cases of permanent restrictions and will furnish such information to any licensed practicing physician (M.D.) at the request of any employee having such restrictions.

In cases involving permanent restrictions, the employee will be placed on a temporary restriction for a reasonable length of time to allow him opportunity to seek outside medical diagnosis, which can be presented to the Company Medical Department.

All employees will be advised in writing of the medical restriction and its cause if requested by the employee.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

The following is an administrative agreement dealing with vacation and holiday pay for employees who are temporarily reclassified:

If an employee is temporarily reclassified to a higher classification for one full week prior to taking one or more full weeks of vacation, and for one full week after said vacation, the vacation pay will then be at the higher rate.

If an employee is temporarily reclassified to a higher classification for a full week containing a holiday, he will be paid the holiday pay at the higher rate.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

A general wage increase will be applied, when effective, to employees on short-term disability as defined in Article IX, Section 1. A general wage increase will not apply to employees on long-term disability as defined in Article IX, Section 2. However, if an employee returns to work from long-term disability absence, he will receive the appropriate rate then in effect under the wage schedule of Appendix A.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

USEC
A Global Energy Company

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

The parties agree that in order to clarify the vested rights for the subsequent year's vacation for employees, with one or more years of service, who are absent because of disability as of December 31, the following guidelines will apply:

1. If such an employee is receiving, on December 31, either Non-occupational Disability or Occupational Disability payment as outlined in Article IX, Section 1 of the Company-Union Contract, he shall be regarded as "being on the payroll" as of December 31 and will be vested for the subsequent year's vacation.

2. In any event, if such an employee files a claim for Long Term Disability before, on, or after December 31, and such disability payment becomes effective prior to December 31 of the previous year, such an employee will not have vested rights to the subsequent year's vacation.

3. If such an employee is not receiving benefits under Article IX, Section 1 on December 31, he will not be vested for the subsequent year's vacation unless he returns to work in that subsequent year.

4. It is understood that the above clarification relates solely to vacation vesting and does not affect any other determination of whether an employee is deemed to be on the payroll.

5. Under no circumstances will an employee be eligible for vesting vacation for more than one year on the basis outlined above.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

Our normal practice will be to suspend an employee at least two working days prior to discharge for cause. Employee Relations shall notify the Union President at the time of such a suspension of any Bargaining Unit employee. At the request of the Union, the Company will meet with the Union President and the Committeeperson involved for discussions prior to discharge of an employee for cause. The Company will not discipline (discharge, suspend, or issue written reprimand) any employee without just cause.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

USEC
A Global Energy Company

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

This confirms our discussions with you concerning the question of management doing bargaining unit work.

The Company's intent is that non-bargaining personnel will not do bargaining unit work and they will be so instructed at the time the new contract is explained. Management will give special attention to those individuals unwilling to comply with the stated intent.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

USEC
A Global Energy Company

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

The following is an amended letter to replace the letter of administrative understanding dated July 31, 1996, which was the Company/Union agreement on administration of transfer from one work group to another, work assignments out of classification, and the arrangement of work groups.

Transfers from one work group to another work group over thirty (30) days will be made by seniority (Group Seniority) preference, except that in the Maintenance Mechanic Classification the Company may assign employees across work groups for the required time to perform specific jobs such as cell changes, valve changes, large piping jobs, and the shutdown or startup of a facility.

Work groups are defined as job classifications except as follows:

Maintenance Mechanics:	Group	1 — Shop
		2 — Field
Instrument Mechanics:	Group	1 — Shop
		2 — Field
		3 — Instrument Mechanics “C”
Electrical Maintenance:	Group	1 — Shop
		2 — Field
Operators:	Group	1 — Chemical, Days
		2 — Chemical, “A”
		3 — Chemical, “B”
		4 — Chemical, “C”
		5 — Chemical, “D”
		6 — Cascade, Days & “R”
		7 — Cascade, “A”
		8 — Cascade, “B”
		9 — Cascade, “C”

10 — Cascade, “D”
11 — Power, Days & “R”
12 — Power, “A”
13 — Power, “B”
14 — Power, “C”
15 — Power, “D”
16 — Utilities, Days & “R”
17 — Utilities, “A”
18 — Utilities, “B”
19 — Utilities, “C”
20 — Utilities, “D”

Not considered as a transfer are assignments for cross-training of employees within a job classification in Operations for a period not to exceed three (3) months. In the event of a shutdown or cutback and subsequent reactivation of a building, the employees moved out of said building may be returned on a seniority basis. Shift preference within a shift preference group will supersede work group transfers.

Work assignments out of classification shall be made by seniority preference within the work group to the interested qualified employee except assignments for less than six (6) working days.

VACATION LISTING

CLASSIFICATION*		NEW LISTING
Maintenance:		
Maintenance Mechanics	a	Utilities and C-400 and Feed Plant and C-340 and HEPA General Maintenance
	b	Cascade Areas 1, 2, 3, 4
	c	Process Maintenance, Shifts
Compressor Shop	a	Compressor Shop – Days
	b	Compressor Shop – Shift
	c	Seal Shop
Pump Shop	a	Pump Shop, and Valve Program
	b	Crane and Elevator Maintenance and Refrigeration Maintenance
Fabrication Shop	a	Fabrication Shop – Days and Cell Set Up and Changeout
	b	Fabrication Shop, Shifts
Converter Assembler	a	Converter Assemblers – Days
	b	Converter Assemblers – Shift

VACATION LISTING

CLASSIFICATION*		NEW LISTING
Instrument Mechanics	a	Instrument Shop and A, B, C, D Rotating Shifts
	b	Instrument Field
Electrical Mechanics	a	Electrical Shop and A, B, C, D Rotating Shifts
	b	Electrical Field
Machinists		
Sheet Metal Workers		
Carpenters		
Locksmith		
Painters		
Heavy Equip. Mechs. & Garage Mechs		
Heavy Equipment Operators		
Truck Drivers		
Operators:		Chemical, Days
		Chemical, “A”
		Chemical, “B”
		Chemical, “C”
		Chemical, “D”
		Feed Plant
		Cascade, Days & “R”
		Cascade “A”
		Cascade “B”
		Cascade “C”
		Cascade “D”
		Power, Days & “R”
		Power “A”
		Power “B”
		Power “C”
		Power “D”
		Utilities, Days & “R”
		Utilities “A”
		Utilities “B”
		Utilities “C”
		Utilities “D”
Operator B		
Fire Fighters-EMT		

VACATION LISTING

CLASSIFICATION*	NEW LISTING
Material Handlers	
Chauffeurs	
Lubricators	
Protection Clothing & Equipment Processors	
Janitors & Window Washers	
Laborers	

*Up to twenty (20) percent of employees on vacation lists may schedule KEA, Thanksgiving, and Christmas weeks beginning in calendar year 1990.

OVERTIME LISTING

Maintenance Mechanics:	C-600
	C-411
	C-340
	C-333, C-337 and Shift
	Special Assignment
	Cell Change
	Fabrication Shop
	Compressor Shop
	Seal Shop
	Refrigeration Shop
	Pump Shop
	Erection & Materials Handling
	HEPA General Maintenance
Machinists	
Sheet Metal Workers	
Carpenters	
Locksmith	
Painters	
Heavy Equip. Mechs. & Garage Mechs	
Heavy Equipment Operators	
Converter Assemblers	
Truck Drivers	
Instrument Maintenance:	Shop
	Field
	Instrument Mechanic “C”

OVERTIME LISTING

Electrical Maintenance:	Power Cascade Auxiliary Relay & Communications Shop Motor Shop Rotating Shifts
Operators:**	Chemical, Days Chemical, “A” Chemical, “B” Chemical, “C” Chemical, “D” Feed Plant Cascade, Days & “R” Cascade “A” Cascade “B” Cascade “C” Cascade “D” Power, Days & “R” Power “A” Power “B” Power “C” Power “D” Utilities, Days & “R” Utilities “A” Utilities “B” Utilities “C” Utilities “D”

Operator B
Fire Fighters-EMT
Material Handlers
Chauffeurs
Lubricator
Protective Clothing &
Equipment Processors
Laborers
Janitors & Window Washers

**Days and “R” are intermingled with whatever shift is on days.

Employees who work in the Field Services Organization will be placed on a separate overtime list per job classification. Such as, all Janitors working in the Field Services Organization will be placed on a separate overtime list from the rest of the Janitors.

SHIFT PREFERENCE LIST

Shift preference groups are defined as job classification except as follows:

Maintenance Mechanics:	One Group***		
Instrument Mechanics:	Group 1	–	All Other Instrument
	Group 2	–	Instrument Mechanic "C"
Electrical Maintenance:	Group 1	–	Lineman
	Group 2	–	All Other Elect. Maint.
Operators:	Group 1	–	Cascade
	Group 2	–	Chemical
	Group 3	–	Power
	Group 4	–	Utilities

***A maximum of fifty (50) percent of a shift's bumping rights may be delayed for up to thirty (30) days after the exercise of shift preference.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

USEC
A Global Energy Company

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

The following is the administrative agreement dealing with the 12-hour shift:

1. All rotating shift workers (PACE) at the Paducah Plant.

2. Consists of two 40-hour, one 44-hour, and one 36-hour work weeks.

3. Hours: 7:00 a.m. to 7:00 p.m. and 7:00 p.m. to 7:00 a.m.

4. In no case will employees working the newly established 12-hour shift schedules receive standard overtime for hours worked in excess of eight in a 24-hour period. Employees will receive pay at one and one-half (1-1/2 x STHR) or two (2 x STHR) for holdover, call-in, and work in excess of 40 hours in a payroll week. And employees will receive pay at one and one-half (1-1/2 x STHR) or two (2 x STHR) for holdover, call-in, and work in excess of 36 hours (if applicable) in a payroll week in accordance with the terms of the Contract.

5. Employees receive four hours at the overtime rate once every three weeks when they work the scheduled 44-hour work week.

6. Double time pay for all hours worked on the seventh consecutive day worked in any payroll week or in the alternative, provided all scheduled work days in a payroll week are worked or paid for per Article VI, Section 14, an employee scheduled on a 12-hour shift who works a second day in addition to their normal schedule within the payroll week will be paid the seventh consecutive day (2 X STHR) premium rate. However, the seventh day provision will only apply to one day within the payroll week as follows:

    a) In the event more than one day could be considered the seventh consecutive day, the day with the greatest number of hours worked (twelve hours or more) will be the qualifying seventh day and all hours worked will be paid at two times STHR. If the qualifying seventh day is less than a 12-hour work day provision (b) applies.

    b) On the occasion when two days could have qualified as the seventh consecutive day and neither of those days were twelve hours or more, hours worked on both days up to a total of twelve hours will be paid at two times STHR. Any additional overtime hours will be paid at 1-1/2 times STHR.

7. For working 12 hours on holiday, employee receives double time and a half for eight of the hours and straight time for four of the hours.

8. When two worked holidays fall back to back and an employee begins work at 7:00 p.m. on the first holiday, he will receive 16 hours pay at double time and a half.

9. Weekend premium will be paid for all hours worked on Saturday and Sunday.

10. Shift premium will be paid at sixty (60) cents per hour for hours worked between 7:00 p.m. and 7:00 a.m. No shift premium will be paid for hours worked between 7:00 a.m. and 7:00 p.m.

11. When holdover is necessary, the employee may be held over to work four hours and an employee from the overtime list on off shift will be called in to work.

12. Meal allowance will be paid after 14 hours of continuous and successive hours.

13. Funeral leave allowance will be counted as three 12-hour days. As a special provision, in the event of the death of an employee's spouse or child, funeral leave allowance will be counted as five 12-hour days.

14. Vacation, sick, and personal time are accounted for in increments of four and eight hours. Four hours will be one-half day for record purposes and 12 hours will be recorded as one and one-half days of vacation.

15. These conditions are not all inclusive and unanticipated situations may arise. The company and union will address such occurrences being guided by the intent of this agreement that no employee will receive a windfall under the contract by virtue of working a 12-hour rather than an eight-hour shift.

16. "R" shift employees will work from 7:00 a.m. to 3:00 p.m. Monday through Friday.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

Lockheed Martin Utility Services, Inc.
P.O. Box 1410
Paducah, Kentucky 42002-1410

LOCKHEED MARTIN

July 31, 1996

Mr. D. R. Fuller, President
Oil, Chemical & Atomic Workers
International Union, AFL-CIO
P. O. Box 494
Paducah, Kentucky 42001

Dear Mr. Fuller:

During negotiations, the Company and Union agreed to restructure the current operator classification into two new classifications. The new Operator classification will be rate group 30 and Operator B will be rate group 13. The following describes the restructuring.

1. Operator Classification — Rate Group 30

   a New Hires/Bidders

   After contract ratification, all operator trainees who enter rate group 14 for progression through rate group 30 will be required to reach the top of rate group 30.

   b Incumbent Operators and Trainees (Rate Groups 13 and 14). Progression to the twenty-seven (27) month level will remain unchanged. Following successful progression to the twenty-seven (27) month level of new rate group 30, an operator may progress to the thirty (30) and thirty-three (33) month levels (topped out) by successfully passing evaluations. Operators who do not pass the evaluation will remain at the highest level achieved. The evaluations will be based on those used in the fifteen (15) month training program.

2. Establish New Operator B Classification — Rate Group 13

   The work of the Operator B classification will be the decontamination type work now performed by Chemical Operators. Such work will not include the operation of the spray booth, degreasers, uranium recovery equipment, and fluorine production equipment. It is understood that the establishment of the Operator B classification will not effect work normally performed by any other classification.

Sincerely,

L. K. Pahl, Manager
Employee Relations

LKP:jkw

Lockheed Martin Utility Services, Inc.
P.O. Box 1410
Paducah, Kentucky 42002-1410

LOCKHEED MARTIN

July 17, 1996

Art Maxwell
OCAW International Representative

OCAW, Local 3-550 Negotiating Committee

Dear Art and Committee:

This is to confirm our understanding regarding the Benefit Plan revisions. Contract provisions regarding page 23-29 (Disability Pay) and pages 75-84 (Pension, Group Insurance and Dental Agreement; Part A - Pension Plan; Part B - Group Insurance; Part C - Dental Insurance Plan; Part D - General Provisions; and Memorandum of Agreement, Health Care Plan) shall apply through September 30, 1996. On and after October 1, 1996, Benefit Plans will be modified as stated in the "Major Features Comparison of Current and Proposed Benefit Plans" document provided to the Union on July 17, 1996, but otherwise the benefit plans shall remain unchanged. It is understood, however, that:

[ ] Effective October 1, 1996, each employee who enrolls in the new medical plan will pay 9% of the total gross cost.

[ ] The company will prepare a new benefit handbook addressing all benefit plan changes. When this handbook is reviewed and approved by the union, it will be incorporated into the contract and issued to bargaining unit members.

Please confirm by signing below and returning a signed copy to me.

W. E. (Bill) Thompson
LMUS Human Resources Director

WET:jkw

APPROVED:

____
Art Maxwell
OCAW International Representative

USEC
A Global Energy Company

July 31, 2001

Mrs. Donna Steele, President
Paper, Allied-Industrial, Chemical and Energy
Workers International Union, AFL-CIO
Post Office Box 494
2525 Old Cairo Road
Paducah, Kentucky 42001

Dear Mrs. Steele:

This is to confirm our agreement that employees working the shift that is impacted by the conversion to Daylight Savings Time, in which the worker is required to work a shift that is one hour less than their normal scheduled day, will be allowed to continue working for that additional hour at the applicable rate of pay.

Sincerely,

Bill Harrison
Human Resources Generalist

WKH:jkw

November 26, 2002

PACE International AFL-CIO
PACE, Local 5-550

This is to confirm our agreement regarding modifications to the previous Benefit Plans. Benefit Plans Pension, Medical, Group Insurance, Dental, Prescription, and Vision Care will remain unchanged except:

- Effective January 1, 2002, each employee who is enrolled in the medical plan will contribute 10% of the total medical premium.
- Effective January 1, 2002, all bargaining unit employees will transition to a Preferred Provider Organization (PPO) medical plan. (Described in the Major Features Comparison of Previous and Current Benefit Plans contained in this contract.)
- Effective July 31, 2001, the Pension “add on” will increase from $18 to $50.

Bill Harrison
Human Resources Generalist

WKH:jkw

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of USEC Inc. (File Number 333-71635 and 333-85641) of our report dated July 26, 2002 relating to the financial statements which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
McLean, VA

September 20, 2002

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, included in this Form 10-K, into the Company's previously filed Registration Statements, File Nos. 333-71635 and 333-85641.

/s/ Arthur Andersen LLP
Vienna, Virginia

September 5, 2001

This consent of independent public accountants was issued by Arthur Andersen LLP on September 5, 2001, and has not been reissued.

EXHIBIT 99.4

United States Department of State

Washington, D.C. 20520

August 23, 2002

Office of the Secretary
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Attn: Jonathan G. Katz, Secretary

Re: Disclosures by USEC Inc. of Amendment No. 16 to the HEU Implementing Contract

Dear Sir,

USEC has requested that the State Department provide this letter to notify you that Amendment No. 16 ("Amendment No. 16") to the Contract between United States Enrichment Corporation, Executive Agent of the United States of America, and OAO Techsnabexport, Executive Agent of the Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994 (the "Russian Contract") is currently classified as Confidential by the U.S. Department of State under Executive Order 12958 for protection in the interest of U.S. foreign policy. Amendment No. 16 was signed in February 2002 by United States Enrichment Corporation, and became effective on June 19, 2002 following approval by the governments of the United States and the Russian Federation.

United States Enrichment Corporation is wholly owned by USEC Inc. ("USEC"), which files periodic reports under the Exchange Act. While disclosure of certain information relating to Amendment No. 16 (such as the summary information provided in the Current Report on Form 8-K, filed by USEC on June 21, 2002) would not be contrary to the interests of U.S. foreign policy, Amendment No. 16 is classified and therefore must be handled in conformance with Executive Order 12958. It can be provided to government officials with appropriate security clearances, but cannot be disseminated to the general public.

I hope this letter is helpful. Please contact me if there are questions about this issue.

Sincerely,

James P. Timbie

Senior Advisor to the Under
Secretary for Arms Control
and International Security

EXHIBIT 99.5

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of USEC Inc. for the fiscal year ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, William H. Timbers, President and Chief Executive Officer, and Henry Z Shelton, Jr., Senior Vice President and Chief Financial Officer, each hereby certifies, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USEC Inc.

September 20, 2002

/s/ William H. Timbers
William H. Timbers
President and Chief Executive Officer

September 20, 2002

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

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed for purposes of §18 of the Securities Exchange Act of 1934, as amended.