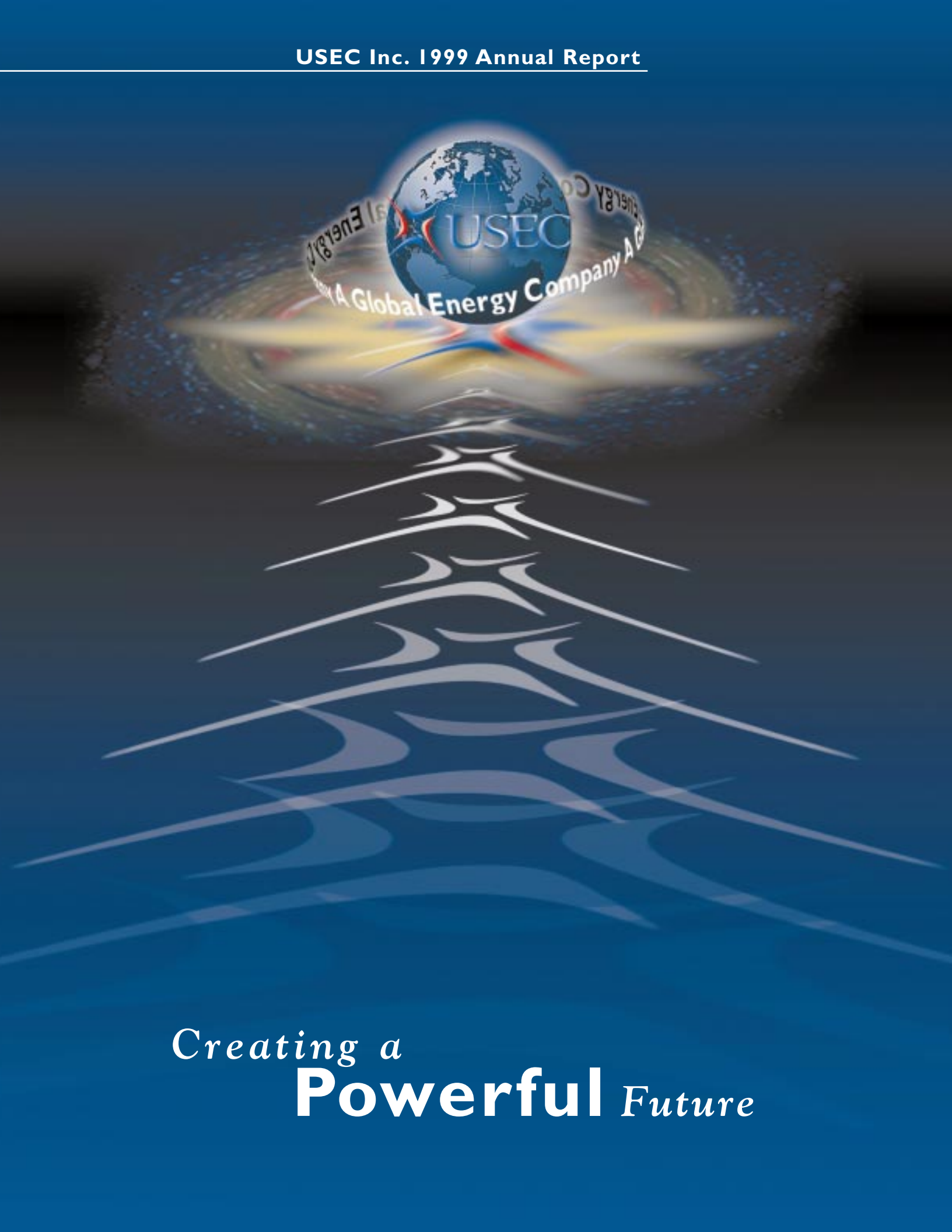


Creating a **Powerful** *Future*

USEC *a* Global

About USEC

USEC Inc. (NYSE: USU) is the world leader in uranium fuel enrichment services for commercial nuclear power plants. A global company with customers in 13 countries, USEC employs approximately 4,000 people. With headquarters in Bethesda, Maryland, USEC operates production plants in Kentucky and Ohio.

Financial Highlights

Fiscal 1999

Revenue (in millions)	$ 1,528.6
Net Income excluding special items (in millions)	$ 120.6
Net Income (in millions)	$ 152.4
Net Cash provided by operating activities (in millions)	$ 230.4
Debt to total capital ratio	33%
Earnings per share excluding special items	$ 1.21
Earnings per share	$ 1.52
Annual dividend per share	$ 1.10
Dividend yield (As of September 1, 1999)	9.9%
Return on average common equity (excluding special items)	10.6%

Energy company

Creating a Powerful Future

On July 28, 1998, USEC Inc. became an investor-owned company. In our first year since that Initial Public Offering, we have been building the solid foundation upon which the Company can prosper as a fully functioning, profitable commercial enterprise dedicated to enhancing shareholder value.

As the world leader in uranium enrichment and related services, we are taking actions to ensure that the Company maintains and extends its leadership position. Toward that end, our near-term priorities include taking an aggressive approach to product sales, realigning the Russian Megatons to Megawatts contract, optimizing the value of our electric power supply, refocusing our research and development efforts, increasing operational efficiencies and continuing our emphasis on health and safety.

With these priorities in mind, we are implementing strategic initiatives that will position the Company for continued success and growth in the 21ST century. We will continue to take the steps necessary for *creating a powerful future* for our shareholders, customers, bondholders and employees.

USEC
A Global Energy Company

The cover features the USEC logo that consists of four dynamic impellers aligned by access pathways. The mark graphically represents USEC's core principles: Value, Innovation, Service, Trust and Access.

letter to Shareholders

Dear Shareholders,

This report covers our first year as an investor-owned company. Fiscal year 1999 was a year of accomplishments, tough challenges and a changing environment. Our accomplishments illustrate our tenacity in pursuing and completing the tasks we set out to do. To meet our challenges, we are taking action to ensure that USEC's core business retains its solid foundation over the long term. We enjoyed a profitable year, paid an attractive dividend and instituted a share repurchase program. But we are not satisfied with this year's results, and we are committed to improving our financial performance and ensuring that USEC is on course toward creating a powerful future.

Our highest priorities this year included making substantial progress in transforming USEC into an investor-owned business that is commercial and profitable. We achieved the goals we set for ourselves during this initial year. During fiscal 1999, we repositioned the Company to better address business issues, achieved greater operational efficiency and dealt with the complexities of a challenging global market. We took over direct operation of our production facilities and implemented workforce efficiencies. We suspended AVLIS development and refocused our efforts on other technologies. We reorganized and improved our marketing and customer service. We undertook a company-wide cost reduction campaign. We negotiated better economic arrangements under our electric power contracts, and we are pursuing further opportunities to continue these arrangements in the future.

Maximizing Financial Returns

Revenue for fiscal 1999 was $1.529 billion, an increase of 8 percent over fiscal 1998. Net income, excluding one-time tax benefits and special items, was $120.6 million. Our financial results were negatively affected by higher electricity costs during the first quarter and by increased imports of Russian nuclear materials. We believe we will overcome these impediments to improving our financial performance. In evaluating USEC's financial performance, recall that our revenue fluctuates as a result of our customers' schedules for refueling their nuclear power plants. Therefore, our performance is best judged over the longer term, rather than on a quarter-to-quarter basis.

As we move into fiscal 2000, our sales backlog remains substantial. USEC has long-term contracts with utilities to provide uranium enrichment services aggregating $6.5 billion through fiscal 2010.

The Company's capital structure was successfully repositioned in January 1999. A $500 million senior debt offering at attractive interest rates replaced most of the interim bank debt incurred at privatization. The Company's debt-to-capital ratio remains a conservative 33 percent.

Our dividend is an annualized $1.10 per share. Based on our stock price on September 1, 1999, the dividend provided a 9.9 percent yield. One of the significant strengths of our business is, and will continue to be, strong cash flow. During fiscal 1999, we generated $230.4 million in net cash flow from operations. Additionally, in June 1999, the Board of Directors approved a program to buy back up to 10 million shares of USEC's common stock over 24 months. As evidenced by our attractive dividend and share repurchase program, we are committed to achieving a desirable return for our shareholders.

Taking Over Direct Operation of Production Plants

In May 1999, we took over direct operation of our two production plants. This transition went smoothly and will result in an annual $10 million pre-tax saving going forward. Our day-to-day direct operation of the plants translates into greater efficiency. While maintaining our high commitment to plant reliability and safety, we have also cut costs by reducing the work force, a move that will provide $25 million in annualized after-tax savings. We continue to examine our plant operations to identify opportunities for additional cost savings and increased performance, while maintaining our emphasis on safety.

William H. Timbers, Jr., President and Chief Executive Officer (left), and James R. Mellor, Chairman of the Board

Promoting Safety

In the nuclear industry, safety and business success are intertwined. Safe workers and safe facilities are necessary to achieve efficiency and quality performance. USEC maintains a comprehensive worker safety program that continually monitors key components of the workplace environment, resulting in a solid worker safety record.

In August 1999, media attention was focused on legacy health and safety issues from the period when the government managed the Paducah and Portsmouth plants in the 1950s through 1980s. While these legacy environmental and worker safety issues remain the responsibility of the U.S. government, we will continue our emphasis on health and safety in the workplace and in plant operations.

Reducing Power Costs

With electric power representing more than 50 percent of our production costs, USEC took important steps during the year to reduce electricity price exposure and monetize surplus power. The new agreements we secured will result in a $30 million after-tax benefit related to production costs, most of which will impact fiscal 1999 and 2000. The new agreement

reached with one primary electric power supplier limits our exposure to non-firm power prices during the high-cost summer/early autumn time period. We also negotiated a one-season agreement with a second power supplier that allowed the sale of excess power and facilitated the transfer of electricity from Ohio to our Kentucky plant. We are working to extend and expand these savings in future years.

Refocusing our Research and Development

In June 1999, we suspended work on the AVLIS laser enrichment project. After gaining experience during full-scale system tests, we reviewed the program's performance, prospects, risks and growing financial requirements and the economic impact of competitive marketplace dynamics. This review indicated that the returns would not be sufficient to outweigh the risks and ongoing capital expenditures necessary to develop, construct and operate a commercial-scale AVLIS plant.

We are continuing to explore alternative advanced technologies. We are simultaneously evaluating two different enrichment processes: gas centrifuge and laser. Gas centrifuge is a well-established enrichment process, and we are looking into both domestic and foreign sources of gas centrifuges. The SILEX laser enrichment process is a next-generation technology being developed in Australia. USEC has secured exclusive rights to evaluate SILEX for commercial uranium enrichment. SILEX is still in the early stage of research and development.

We are dedicated to securing the best advanced enrichment technology to ensure our long-term competitiveness.

Managing the Megatons to Megawatts Program

The Megatons to Megawatts program is an important element in national security efforts to protect against nuclear weapons proliferation. USEC serves as the executive agent for the U.S. Government's national security agreement with Russia to convert Soviet-era nuclear warheads into low-enriched fuel for commercial power plants.

During calendar year 1999, we expect to purchase from Russia 5.7 million separative work units (SWU) in the form of low-enriched uranium, derived from 31 metric tons of highly enriched uranium. This year's purchases alone will be equivalent to an estimated 1,250 nuclear weapons converted to peaceful uses.

This is an important program, and we believe that it is in USEC's best commercial interest to purchase the Russian material and integrate it into the market. However, global market prices for our products and services have declined below the price we are paying for the Russian material. We have begun negotiations to align the Russian transaction with pricing realities.

Executing Strategic Initiatives for 2000

We have developed a four-part strategic initiative to respond to changes in the global market for enrichment services. We are committed to executing this strategy, which we believe will enhance USEC's global competitive position.

First, we have implemented aggressive marketing and product sales strategies

letter to Shareholders

that allow us to meet competition and target both attractive new market segments and emerging opportunities in existing markets. We are expanding the ways in which we help our customers face the challenges of competition and deregulation. We are also expanding our line of nuclear fuel products and services by adding natural uranium in various forms, as well as enriched uranium product.

Second, we are working to improve contract terms in the next phase of the Russian agreement. Given today's lower uranium enrichment prices, and consistent with the terms of the U.S./Russian agreement, it is important to bring this contract into line with actual market pricing and restore appropriate profitability.

Third, we must continue to optimize the value of our power supply. The unprecedented high levels of electricity prices during two consecutive record-breaking heat waves in 1998 and 1999 underscore the importance of these efforts. We are working with our power suppliers to extend the benefits of our recently completed agreements.

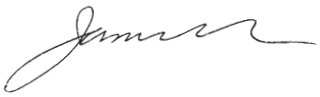
Fourth, we are pursuing the alternative enrichment technologies previously described.

Looking Forward

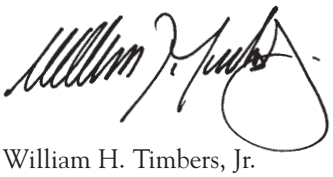
In our first year as a commercial enterprise, we streamlined and strengthened USEC operations. The global market for uranium enrichment services is highly competitive and dynamic. In order to continue to be successful, we must deliver on the initiatives we outlined above and also demonstrate management's flexibility and ingenuity to adopt creative solutions to meet new challenges. Doing so will allow us to fulfill our near-term goal of both strengthening and growing our core business. In the long term, we expect to bring added growth to the Company and enhanced value to shareholders.

We thank our shareholders, customers, bondholders and employees for their support. Together, we are *creating a powerful future*.

Sincerely,



James R. Mellor
Chairman of the Board



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

September 1, 1999

Creating a Powerful Future: through People

We Power the World

Nuclear power plants generate about 16 percent of all electricity produced worldwide, and USEC is the world leader in providing uranium enrichment to fuel commercial nuclear power plants. USEC enriches uranium fuel for use in about 170 commercial nuclear power plants in 13 countries.

USEC's two production plants are among the largest industrial facilities in the world. These plants use the gaseous diffusion enrichment process. They are located in Paducah, Kentucky, and near Portsmouth, Ohio.

Plant Profiles

The plants are among the largest employers in western Kentucky and southeastern Ohio. They employ approximately 4,000 people, who are active members of the communities around the plants.

The Paducah facility is certified to enrich uranium to 2.75 percent U235 before it is shipped to Portsmouth, where it is further enriched to meet customer needs of about 3 to 5 percent U235. Customer orders are currently filled from the Portsmouth plant. In order to improve flexibility and to serve customers better, USEC intends to submit a request for U.S. Nuclear Regulatory Commission (NRC) approval to increase Paducah's permitted level of enrichment. This will allow us to enrich to customer specifications at both plants.

Transition to an All-USEC Work Force

In 1998, the decision was made to eliminate contractor operation of the enrichment plants and for USEC to take over direct operation. This would transition the entire work force to become USEC employees. A Transition Task Force with members from headquarters, the two plants and the contractor was formed and empowered to develop and implement a smooth six-month transition. Thousands of details were involved, from transfer of employee benefits and payroll to new plant signs and integration of computer information systems. The process was complex in the myriad details involved and the interaction of so many areas of expertise. It is a tribute to all involved that at 12:01 a.m. on May 18, 1999, the work force at both production plants made a seamless transition to become USEC employees.

Creating a Consistent Alignment of Interests

As an investor-owned company, USEC has taken initiative to align the interests of management, employees and investors. In pursuit of this goal, USEC has implemented StockUp, a stock purchase program offered to all employees. The StockUp program encourages employees to become owners of the Company and provides incentives and assistance for them to do so. In addition, USEC shares are included as an option in the Company 401(k) program.

Paducah plant

Portsmouth plant

EIII, the USEC Employee Excellence and Entrepreneurship Awards, recognizes outstanding achievements by employees. The President's Award is given during the fiscal year for extraordinary performance, significant improvements, increased efficiency or exceptional judgment. The Chairman's Award is presented annually to an employee who exemplifies sustained excellence and entrepreneurship throughout the year.

Kenric England won a President's Award in 1999 for developing financial viability analysis techniques and other projects. Man Da Hoang won for valuable contributions to optimizing performance in finance and power resources.

Elise Grimes (left) and Cara Tramblay, lab technicians at the Paducah plant, analyze environmental samples. Paducah labs are part of USEC's environmental protection program.

Larry Cutlip (seated) and Bryan Miller monitor data in the control room of USEC's Portsmouth uranium enrichment plant. The control room is at the heart of all plant site operations. From here, enrichment operations are controlled and monitored 24 hours a day, 365 days a year.

USEC Chairman James Mellor (center) presented the Chairman's Award to Michael Woo and Sarah Van Lierde for their sustained contributions and performance during USEC's privatization process.

At the Network Operation Center, Information Technology employees Angelo Edge (left) and Rance Hitt review USEC's Y2K preparations. The Network Operation Center houses USEC's computer network for the Bethesda site and links to the Paducah and Portsmouth computer networks.

An Emphasis on Safety

The safety of our employees and neighbors is of paramount importance to us and underlies our philosophy that safety is good business. Our plant health and safety programs, which meet the regulatory requirements of the NRC and the U.S. Occupational Safety and Health Administration (OSHA), provide a systematic focus on safety.

The Portsmouth and Paducah plants continued their outstanding safety record during the year. The combined work force of the two plants recorded an injury and illness rate that was lower than the national average for comparable industries, as compiled by the U.S. Bureau of Labor Statistics.

This year, the Paducah plant experienced its lowest recordable incident and injury rate and its lowest lost workday case rate in seven years. In addition, both plants implemented a new safety program designed to increase worker safety performance.

The plants were regulated by the U.S. Department of Energy until March, 1997, when they came under the regulatory purview of the NRC. In 1999, the NRC determined that the plants were in general compliance with its regulatory standards and renewed the certification of the plants for five years.

Community Relations

Transition of the work force to USEC also meant taking over direct responsibility for community relations, government relations and corporate giving in the Kentucky and Ohio communities that host our facilities. As the largest employers in the area, our impact there is substantial. Building on USEC's emphasis on safety, the Company developed and launched a community safety campaign in December 1998, called "USEC Says, Play it Safe." This communications program emphasizes topical safety tips. USEC safety messages were seen in area newspapers and community literature and on promotional items.

Creating Cost Efficiencies

Cost efficiency and improved productivity are top USEC priorities. In 1999, we reduced plant costs by consolidating functions and reducing staff, and we increased large production cell availability at Portsmouth. Also during this year, we exceeded scheduled SWU production at Paducah even though we dramatically reduced power consumption during the summer and early autumn of 1998 in response to high electricity costs.

Because electric power represents more than half of the Company's production costs, we are intensely focused on power supply management. USEC purchases a significant portion of its electric power based on long-term contracts with dedicated power generating facilities. However, power costs vary seasonally, with rates being higher during winter and summer months, depending on extremes in the weather. Our challenge has been to mitigate the impact of the higher seasonal rates.

The changes USEC negotiated in fiscal 1999 to its power supply agreements with its two primary electric suppliers include provisions:

- Limiting exposure to high-cost, non-firm power prices at the Paducah plant in the summer of 1999;
- Monetizing excess power available in the summer of 1999 under the contract to the Portsmouth plant; and
- Being able to move blocks of power in the summer of 1999 from the Portsmouth plant to the Paducah plant.

USEC is working to extend and expand these provisions beyond the summer of 1999. In the non-firm power market, prices are generally trending upward. USEC intends to manage its production levels and power purchases to reduce exposure to the continuing fluctuations in non-firm power prices, although there can be no assurance that USEC will be successful in reducing such exposure.

Partnerships: Megatons to Megawatts

USEC is the U.S. Government's executive agent responsible for implementing a historic 1993 government-to-government agreement between the United States and Russia. The Megatons to Megawatts program calls for Russia to convert highly enriched uranium (HEU) from dismantled Soviet nuclear warheads into low-enriched uranium (LEU) to be used as fuel to generate electricity.

Over a 20-year period, 500 metric tons of HEU from weapons are to be diluted in Russia to about 15,000 metric tons of LEU for use as power plant fuel. Under terms of an implementing contract, USEC purchases the enrichment component (called separative work units or SWU) of the LEU for sale to its electric utility customers for use in their commercial nuclear power plants. The total value of the contract is estimated to be $8 billion. USEC and Russia have agreed to firm financial terms and quantities through 2001. We have begun negotiations to align the Russian transaction with market pricing realities.

Since the inception of this commercial arrangement, HEU equivalent to an estimated 2,500 nuclear weapons has been converted to low-enriched nuclear fuel purchased by USEC for sale to its customers.

A Powerful Technology for our Future

USEC is evaluating two alternative technologies that could increase operating efficiencies and reduce the amount of electricity needed.

Gas Centrifuge

Gas centrifuge is a well-established uranium enrichment technology already used in several countries. This technology uses the physics of centrifugal force for enrichment and has the advantage of requiring significantly less electricity than gaseous diffusion. USEC is examining both domestic and foreign sources of this technology.

SILEX

Silex is a laser enrichment technology that is in the research and development stage in Australia. USEC holds exclusive rights to the commercial utilization of this technology and is currently evaluating its feasibility as a source of uranium enrichment.

Creating a Powerful Future: through **People**

Creating a Powerful Future: through Markets

Electric utilities have traditionally purchased uranium enrichment services through long-term, requirements-based contracts. This practice is now changing. With the recent trend toward shorter contracts and more competitive pricing, USEC is adopting a new, aggressive product sales strategy and innovative marketing initiatives. We have backed these with a top-to-bottom organizational commitment to superior customer service.

We are building on our proven track record as a reliable, long-term supplier of enriched uranium by continuing to improve our customer service. USEC is actively working to shorten customer order lead times by developing new processes to integrate all aspects of taking and completing orders.

USEC is aggressively pursuing sales opportunities with both existing and new customers. As part of our effort to compete successfully for open demand, our first order of business is to be responsive to the unique needs of each individual customer. With this commercial focus, we are replacing standardized government contracts with shorter-term flexible contracts.

Sale of natural uranium from our inventory is another important component of USEC's product mix. This enables us to offer our customers additional options for meeting their nuclear fuel requirements. An enriched uranium product provides customers with material ready for fabrication, thus making fuel buying simpler. By offering customers a one-stop buying option, USEC has gained a new revenue stream.

Our Global Reach

USEC supplies about one-third of the world's demand for enriched uranium services. Nearly 40 percent of our sales are international. Each of the major areas we serve — North America, Europe and Asia — offers unique opportunities.

North America

USEC supplies approximately three-quarters of the U.S. demand for uranium enrichment. Demand in the United States is flat, and the market is highly competitive. Our goal in North America is to maintain our leadership position in the face of a rapidly

changing marketplace. As deregulation spurs new competition among our customers, U.S. utilities are increasingly cost-conscious. They are seeking shorter, more flexible contracts and greater diversity of supply. In addition, in what we see as a positive sign for the U.S. nuclear industry, leading nuclear utilities are buying nuclear plants from other utilities to consolidate their nuclear generation portfolio. Our strategy in the United States and Mexico is to increase sales, offer flexible contract terms, build alliances and provide unmatched innovation and service.

Europe

We face a number of challenges competing in Europe. Two of our competitors are located there, with another competitor in Russia. Much of the continent has been virtually closed to us due to the influence of European governments and national loyalties. However, the situation in Europe is changing. Utility deregulation in many countries is leading to an environment of increased competition. We continue to closely monitor, explore and aggressively pursue opportunities as they present themselves. Our goal is to gain a further foothold in Europe by increasing marketing activities and offering competitive pricing, flexible contract terms, diversity of supply and superior customer service.

Asia

USEC is the largest supplier of uranium enrichment in Asia, where strong electricity demand has spurred the world's most dynamic growth of nuclear power. In Japan, which generates 37 percent of its electricity with nuclear power, USEC has long-term supply agreements with all 10 nuclear electric utilities. In addition, we have a significant presence in South Korea and Taiwan. Our goal is to maintain our leadership position in these markets by building on strengths and introducing new products.

USEC will aggressively pursue sales along the Pacific Rim, including China. China expects its electricity demands to quadruple between 1995 and 2020. To help meet its growing generation needs, China is building several nuclear power plants, with more on the drawing board. USEC has initiated discussions with the Chinese government to explore our providing services there.

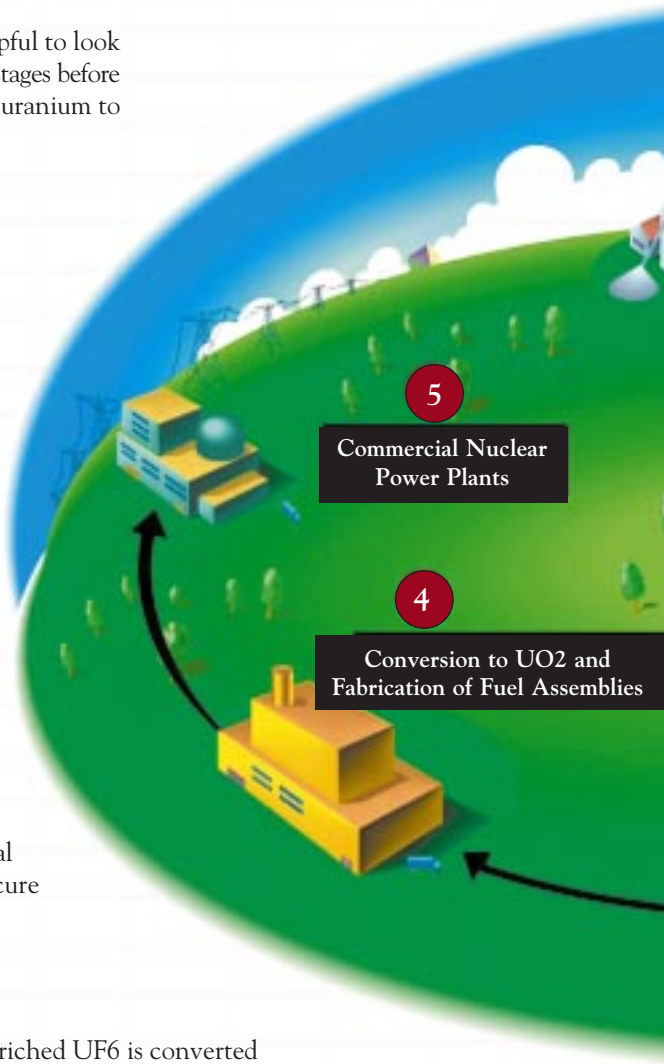
Creating a Powerful Future: through the Nuclear Fuel

USEC's core business is enriching uranium for global nuclear electric utility customers. Uranium enrichment is a critical step in the process of transforming natural uranium into nuclear fuel to produce electricity. USEC is the world leader in enrichment services, providing enriched uranium to about 60 utilities for about 170 nuclear reactors in 13 countries.

To better understand USEC's important role in the nuclear power industry, it is helpful to look at the nuclear fuel cycle. Uranium mined from the earth must go through several stages before it can generate electricity. USEC occupies a central position in this process, enriching uranium to make it usable for power plant fuel.

5. Nuclear Power Plant Operations

The nuclear fuel assemblies are loaded into reactors at commercial nuclear power plants. More than 100 fuel assemblies are grouped together to form the core in the reactor vessel. A power reactor may operate for up to two years between refuelings. During refueling, the assemblies are shifted in position in the core to maximize power production, and some are removed and replaced by new fuel. The used, or "spent," fuel is allowed to cool over time and is stored in either special protective containers or large, secure storage pools.



4. Fuel Fabrication

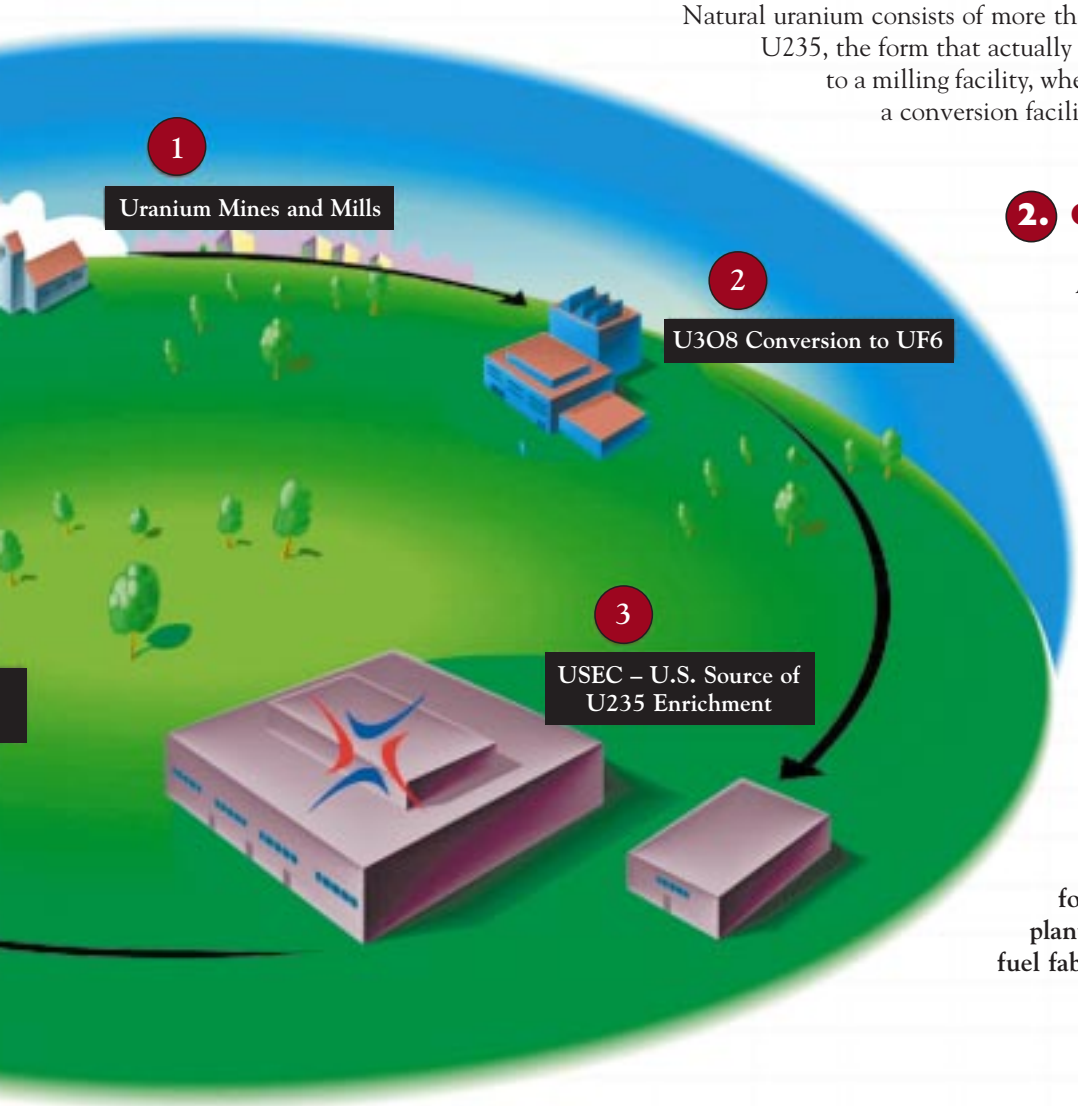
At the fuel fabrication plant, the enriched UF6 is converted to uranium oxide powder and formed into ceramic pellets about the size of a pencil eraser. The pellets are loaded into metal tubes that are bundled together to form fuel assemblies. A typical metal fuel assembly may be 10 to 17 inches square and from 12 to 17 feet tall. The fuel assemblies are then shipped to nuclear power plants.

Cycle

The Nuclear Fuel Cycle

1. Mining and Milling

Uranium is relatively abundant in the earth's crust and is mined on five continents. Natural uranium consists of more than 99 percent U238 and less than 1 percent U235, the form that actually produces energy. After mining, the ore goes to a milling facility, where it is crushed, concentrated and shipped to a conversion facility.



2. Conversion

At the conversion facility, the uranium is combined with fluorine gas to produce uranium hexafluoride (UF6), a powder at room temperature and a gas when heated. The UF6 is then shipped in rugged 2.5-ton metal containers to USEC's enrichment facilities at Paducah and Portsmouth.

3. Enrichment

At USEC's gaseous diffusion enrichment plants, the UF6 is heated, and the gas is introduced into the enrichment process stream. The process steadily increases the amount of desired U235 atoms from 0.7 percent to 3-5 percent, the level required for fuel used in most commercial power plants. The enriched UF6 is then shipped to a fuel fabrication facility.

Creating a Powerful Future: through Nuclear

Our core business, enrichment of uranium for nuclear fuel, is a fundamental component of commercial nuclear power operations world wide. Today, nuclear power supplies about 16 percent of the world's electricity. Over 400 nuclear power plants are now operating, with 18 countries relying on nuclear power for 25 percent or more of their electricity needs.

Worldwide demand for electricity is growing, especially in developing nations. At the same time, concern about natural resources, air pollution and global warming issues is increasing. Nuclear power offers a unique combination of environmental, natural resource, economic and reliability advantages compared with other options for generating electric power.

Nuclear Power Saves Vital Natural Resources

In nations with few natural energy resources, nuclear is especially attractive, offering environmental, economic and interruption-free fuel supply benefits compared with massive imports of fossil fuels. Also, no matter how abundant the world supply of fossil fuels may appear today, it is ultimately finite. Global demand consumes, burns and depletes coal, oil and natural gas resources at a staggering rate.

Power

Generation of electricity using nuclear fuel frees vast supplies of coal, oil and natural gas. These fossil fuels are also the petrochemical building blocks for everything from medicine to plastics.

Thus far, nuclear power is the only proven large-scale energy source that can provide efficient, reliable and relatively clean electric power. Coupled with the potential of other non-fossil fuel energy sources such as solar and wind, plus advances in conservation and energy efficiency, nuclear is ready to play a major global role in meeting the emerging energy needs of the 21ST century.

Nuclear Power Has Environmental Advantages

Nuclear power does not use combustion as the basis of generating energy. That means it does not generate carbon dioxide or a host of other pollution gases. Many scientists link the burning of fossil fuels with the possibility of global warming. Of particular concern are carbon dioxide and nitrogen oxide produced by burning coal, oil and natural gas to produce electricity. International attention is focused on reduction of these "greenhouse gases" even as world electricity demand grows. Increased use of nuclear power can make both objectives – cleaner air and more electricity – a reality.

The Future of Nuclear Power

Nuclear power generates about 16 percent of the world's electricity and nearly 20 percent of America's electric power. It does so with a high degree of reliability and increasing cost efficiency. According to the Nuclear Energy Institute, U.S. nuclear power plants increased their operating efficiency by 11 percent between 1990 and 1998. As a result, these plants are now running at an average of 87 percent efficiency – an all-time high.

Nuclear power is ready to play an increased energy role in the future. Today, over 30 nuclear plants are under construction in Asia and Europe. The NRC has approved three new advanced nuclear power plant designs that are available for the next generation of nuclear facilities. One nuclear power plant based upon such a design is already in operation in Japan, and another is under construction.

The advantages of nuclear power make it attractive: no greenhouse gas emissions, an impressive record of reliability, a good safety record and good economics. Wastes from nuclear power operations are being safely managed until a permanent disposal program proves acceptable. With three decades of positive contributions and with growing demands for electricity, nuclear power is playing a vital role in *creating a powerful future*.

Glossary of Industry Terminology

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

Enrichment
The step in the nuclear fuel cycle that increases the concentration of U235 relative to U238 in order to make uranium usable as a fuel for nuclear power reactors.

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

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

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

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

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

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

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

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

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

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

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

U235
The fissionable isotope found in natural uranium.

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

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

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

Selected Financial data

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

	Years Ended June 30,				
	1995	1996	1997	1998	1999
	(millions, except per share data)				
Statement of Income Data					
Revenue					
Domestic	$1,001.9	$ 901.6	$ 950.8	$ 896.2	$ 947.6
Asia	485.5	441.3	487.5	442.8	455.2
Europe and other	123.3	69.9	139.5	82.2	125.8
	1,610.7	1,412.8	1,577.8	1,421.2	1,528.6
Cost of sales	1,088.1	973.0	1,162.3	1,062.1	1,182.0
Gross profit	522.6	439.8	415.5	359.1	346.6
Special charges:					
Suspension of development of AVLIS technology	-	-	-	-	34.7 (1)
Workforce reductions and privatization costs	-	-	-	46.6 (2)	-
Project development costs	49.0	103.6	141.5	136.7	106.4
Selling, general and administrative	27.6	36.0	31.8	34.7	40.3
Operating income	446.0	300.2	242.2	141.1	165.2
Interest expense	-	-	-	-	32.5 (3)
Other (income) expense, net	(1.5)	(3.9)	(7.9)	(5.2)	(16.8)
Income before income taxes	447.5	304.1	250.1	146.3	149.5
Provision (benefit) for income taxes	-	-	-	-	(2.9)(4)
Net income	$ 447.5	$ 304.1	$ 250.1	$ 146.3	$ 152.4
Net income per share-basic and diluted					$ 1.52
Dividends per share					$ .825
Average number of shares outstanding					99.9

(1) Special charges of $34.7 million ($22.7 million or $.23 per share after tax) in fiscal 1999 are for contract terminations, shutdown activities costs and employee severance and benefit arrangements related to the suspension of development of the AVLIS enrichment technology. Since all project development costs were charged to expense, there was no asset write-off.

(2) Special charges of $46.6 million in fiscal 1998 are for costs related to the privatization and certain severance and transition benefits in connection with workforce reductions at the production plants.

(3) Prior to the IPO Date, USEC had no debt.

(4) USEC became subject to federal, state and local income taxes at the IPO Date. The provision for income taxes in fiscal 1999 includes a special income tax benefit of $54.5 million ($.54 per share) for deferred income tax benefits that arise from the transition to taxable status. Excluding the special tax benefit, the provision for income taxes was $51.6 million in fiscal 1999 and reflects an effective tax rate of 34.5%.

	As of June 30,				
	1995	1996	1997	1998	1999
			(millions)		
Balance Sheet Data					
Cash and cash equivalents	$1,227.0	$1,125.0	$1,261.0	$1,177.8 (1)	$ 86.6
Inventories:					
Current assets:					
Separative work units	$ 517.7	$ 586.8	$ 573.8	$ 687.0	$ 648.8
Uranium (2)	165.5	150.3	131.5	184.5	160.1
Materials and supplies	19.8	15.7	12.4	24.8	22.8
Long-term assets	115.5	199.7	103.6	561.0	574.4
Inventories, net	$ 818.5	$ 952.5	$ 821.3	$1,457.3	$1,406.1
Total assets	$3,216.8	$3,356.0	$3,456.6	$3,471.3	$2,360.2
Short-term debt	-	-	-	-	50.0
Long-term debt	-	-	-	-	500.0
Other liabilities	383.2	427.4	451.8	503.3 (3)	195.0
Stockholders' equity	1,937.5	2,121.6	2,091.3	2,420.5 (1)	1,135.4

(1) An exit dividend of $1,709.4 million was paid to the U.S. Treasury at the IPO Date.

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

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

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

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

OVERVIEW

USEC, a global energy company, is the world leader in the sale of uranium fuel enrichment services for commercial nuclear power plants, with approximately 73% of the North American market and approximately 35% of the world market. Uranium enrichment is a critical step in transforming uranium into fuel for nuclear reactors to produce electricity. Based on customers' estimates of their requirements and certain other assumptions, including estimates of inflation rates, at June 30, 1999, USEC had long-term requirements contracts with utilities to provide uranium enrichment services aggregating $6.5 billion through fiscal 2010 (including $3.3 billion through fiscal 2002) compared with $6.9 billion at June 30, 1998.

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

Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer requirements are determined by refueling schedules for nuclear reactors, which generally range from 12 to 18 months (or in some cases up to 24 months), and are in turn affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. In addition, USEC provides customers from 10 to 30 days to take delivery of ordered product. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results.

USEC is the Executive Agent of the U.S. Government under a government-to-government agreement to purchase the SWU component of enriched uranium recovered from dismantled nuclear weapons from the former Soviet Union for use in commercial electricity production. Global market prices for SWU have declined below the price being paid for SWU under the Russian Contract. USEC has begun negotiations to align the Russian Contract with market pricing realities. Cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian Contract; since the volume of Russian SWU purchases has increased, USEC has operated the plants at lower production levels resulting in higher unit production costs.

Revenue

Substantially all of USEC's revenue is derived from the sale of uranium enrichment services, denominated in SWU. Although customers may buy enriched uranium product without having to supply uranium, a significant portion of USEC's contracts are for enriching uranium provided by customers. Because orders for enrichment to refuel customer reactors (1) occur once in 12, 18 or 24 months and (2) are large in amount averaging $14.0 million per order, the percentage of revenue attributable to any customer or group of customers from a particular geographic region can vary significantly quarter-by-quarter or year-by-year. However, customer requirements and orders over the longer term are more predictable. USEC estimates that about two-thirds of the nuclear reactors under contract operate on refueling cycles of 18 months or less, and the remaining one-third operate on refueling cycles greater than 18 months.

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

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

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

USEC's financial performance over time can be significantly affected by changes in the market price for SWU. As older customer contracts expire, USEC's backlog becomes more heavily weighted with newer contracts having lower prices. As a result, average SWU prices have been declining.

USEC anticipates the trend toward lower prices and shorter contract terms will continue, due to increased competition among uranium enrichment suppliers for new SWU commitments. As a result of these market dynamics and USEC's current cost structure, including increased purchases under the Russian Contract, USEC did not obtain its traditional share of new SWU commitments resulting in some decrease in its worldwide market share. To address this trend, USEC is placing a high priority on numerous initiatives to further reduce costs and increase USEC's competitiveness.

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

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

Cost of Sales

Cost of sales is based on the quantity of SWU sold during the period and is dependent upon production costs at the plants and purchase costs under the Russian Contract. Production costs consist principally of electric power (representing 57% of production costs in fiscal 1999), labor and benefits, depleted uranium disposition costs, materials, and maintenance and repairs. Under the monthly moving average inventory cost method, an increase or decrease in production or purchase costs will have an effect on costs of sales over future periods.

USEC purchases a significant portion of its electric power based on long-term contracts with dedicated power generating facilities. The cost of firm power, which represented 70% of power purchased in fiscal 1999, is based on actual costs incurred by Ohio Valley Electric Corporation (OVEC), the main supplier to the Portsmouth, Ohio plant, and Electric Energy, Inc. (EEI), the main supplier to the Paducah, Kentucky plant. During certain periods, including the summer months when power costs are typically higher, almost all of the power supplied to the Paducah plant must be purchased at market-based rates because it is non-firm power. Depending on inventory levels and planned shipments, USEC reduces production at the Paducah plant when the cost of non-firm power is high. Non-firm power costs vary seasonally with rates being higher during winter and summer as a function of the extremity of the weather and as a function of demand during peak and off-peak times. In the non-firm power market, prices are generally trending upward with higher levels of volatility. Firm power costs vary depending on operating and capital costs incurred by OVEC and EEI. Capital costs at the power generating facilities may increase resulting in higher costs for firm power.

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

USEC leases most, but not all, of the buildings and facilities at the plants at favorable terms from DOE pursuant to a lease agreement (the "Lease Agreement"). Upon termination of the Lease Agreement, USEC is responsible for certain lease turnover activities at the plants. Lease turnover costs are accrued over the estimated term of the Lease Agreement which is estimated to extend through calendar year 2006.

As Executive Agent under the Russian Contract, USEC purchased 3.6 million SWU at a cost of $319.6 million, including related shipping charges, in fiscal 1999 and, subject to price adjustments for U.S. inflation, has committed to purchase 3.9 million SWU at a cost of $333.1 million in the six months ending December 31, 1999, and 5.5 million SWU at a cost of $469.8 million in each of calendar years 2000 and 2001. The Russian Contract has a 20-year term.

Project Development Costs

In June 1999, further development of the AVLIS enrichment technology was suspended. During fiscal 2000, USEC plans to evaluate the availability and economics of centrifuge technology. USEC is also evaluating a potential new advanced enrichment technology called "SILEX."

Selling, General and Administrative

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

Income Taxes

USEC became subject to federal and state income taxes at the IPO Date with an effective income tax rate of 34.5% in fiscal 1999.

RESULTS OF OPERATIONS

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

	Fiscal Years Ended June 30,		
	1997	1998	1999
Revenue			
Domestic	60%	63%	62%
Asia	31	31	30
Europe and other	9	6	8
Total revenue	100 %	100 %	100%
Cost of sales	74	75	77
Gross profit	26	25	23
Special charges	-	3	2
Project development costs	9	10	7
Selling, general and administrative	2	2	3
Operating income	15	10	11
Interest expense	-	-	2
Other (income) expense, net	(1)	-	(1)
Income before income taxes	16	10	10
Provision for income taxes	-	-	- (1)
Net income	16%	10%	10%

(1) The provision for income taxes for fiscal 1999 has been reduced by a special tax benefit for deferred income taxes that arise from the transition to taxable status.

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

Revenue

Revenue amounted to $1,528.6 million in fiscal 1999, an increase of $107.4 million (or 8%) from $1,421.2 million in fiscal 1998. Revenue from sales of SWU increased $94.6 million (7%) in fiscal 1999 reflecting the timing of customer nuclear reactor refueling orders, including sales to customer reactors returning to service following an extended outage, partly offset by lower SWU commitment levels of a domestic and a foreign customer. USEC provided enrichment services for 108 reactors in fiscal 1999, compared with 100 reactors in fiscal 1998. The average SWU price billed to customers in fiscal 1999 was about the same as in fiscal 1998.

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

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

During fiscal 1999, USEC signed contracts for $1.3 billion in new business for delivery over the next 10 years. As a result of lower prices, shorter contract terms, and the variability of customer orders, management expects fiscal year 2000 revenue to be about $1.4 billion, compared with $1.5 billion in fiscal 1999.

Cost of Sales

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

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

An agreement increasing flexibility under the contract with EEI and a six-month financial and supply agreement with OVEC were approved by regulatory authorities. The changes USEC negotiated in fiscal 1999 to its power supply agreements with its two primary and other electric power suppliers include provisions:

- limiting exposure to high-cost, non-firm power prices at the Paducah plant in the summer of 1999;
- monetizing excess power available in the summer of 1999 under the contract to the Portsmouth plant; and
- being able to move blocks of power in the summer of 1999 from the Portsmouth plant to the Paducah plant.

USEC intends to negotiate with OVEC to extend and expand these provisions beyond the summer of 1999. In the non-firm power market, prices are generally trending upward. USEC intends to manage its production levels and power purchases to reduce exposure to the continuing fluctuations in non-firm power prices, although there can be no assurance that USEC will be successful in reducing such exposure.

Costs for labor and benefits amounted to $238.9 million in fiscal 1999, about the same as in fiscal 1998. Consistent with the agreement with the U.S. Treasury, the average number of employees at the plants declined 7% in fiscal 1999, and is expected to decline 8% in fiscal 2000.

Prior to May 18, 1999, Lockheed Martin Utility Services ("LMUS"), a subsidiary of Lockheed Martin Corporation, provided labor, services, and materials and supplies to operate and maintain the plants under an operations and maintenance contract. USEC funded LMUS for actual costs incurred and contract fees. USEC has indemnified LMUS for certain liabilities associated with performance of the operations and maintenance contract for the term of the contract. In this regard, the Privatization Act generally provides that liabilities attributable to plant operations prior to July 28, 1998, remain liabilities of the U.S. Government. Effective May 18, 1999, USEC terminated the contract and assumed direct management and operation of the plants. Plant workers became employees of USEC.

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

At the Portsmouth plant, SWU unit production costs were adversely affected in fiscal 1999 and 1998 by low production facility capability due to continued sub-optimal gaseous diffusion production equipment availability.

SWU purchased from the Russian Federation represented 31% of the combined produced and purchased supply mix in fiscal 1999 compared with 38% purchased from the Russian Federation and DOE in fiscal 1998. In March 1999, the Russian Federation resumed deliveries after several months of suspended deliveries. The suspended schedule of 1998 calendar year deliveries to USEC was completed in June 1999, and USEC has agreed to a schedule of deliveries for the remainder of calendar year 1999. Purchases from the Russian Federation are expected to aggregate 5.7 million SWU in calendar 1999, of which 1.8 million SWU had been purchased as of June 30, 1999. Cost of sales has been, and will continue to be, affected by amounts paid to purchase SWU under the Russian Contract; since the volume of SWU purchases has increased, USEC has operated the plants at significantly lower production levels resulting in higher unit production costs.

Gross Profit

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

Special Charges – Suspension of Development of AVLIS Technology

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

Special charges amounted to $34.7 million ($22.7 million or $.23 per share after tax) in fiscal 1999 for contract terminations, shutdown activities and employee severance and benefit arrangements related to the suspension in June 1999 of development of the AVLIS enrichment technology. It is expected that substantially all of the shutdown activities will be completed within one year. Since all project development costs were charged to expense, there was no asset write-off.

Special Charges – Workforce Reductions and Privatization Costs

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

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

Privatization costs of $13.8 million were paid in July 1998, worker and community transition assistance benefits of $20.0 million were paid to DOE in June 1998, and payments of $5.9 million for workers' pre-existing severance benefits with respect to 312 workers had been made as of June 30, 1999.

Project Development Costs

Project development costs, primarily for the AVLIS project, amounted to $106.4 million in fiscal 1999, a decline of $30.3 million (or 22%) from $136.7 million in fiscal 1998. In June 1999, further development of the AVLIS enrichment technology was suspended.

Operating Income

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

Interest Expense

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

Other Income

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

Provision for Income Taxes

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

Excluding the special tax benefit, the provision for income taxes in fiscal 1999 amounted to $51.6 million and reflects an effective income tax rate of 34.5%.

Net Income

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

Fiscal 2000 Outlook

In light of recent industry and global economic developments that have intensified the effects of production over-capacity and continuing low prices for enrichment services, management is actively reviewing USEC's cost structure and strategic alternatives to bolster USEC's competitive position over the longer term. Management believes that this process will result in initiatives directed at better rationalizing worldwide excess production capacity and aligning the Russian Contract with market pricing realities. Innovative marketing initiatives are underway to achieve additional sales.

Through aggressive cost cutting actions, management expects fiscal 2000 earnings to be similar to the fiscal 1999 level, excluding special items, with continued strong cash flow.

RESULTS OF OPERATIONS – FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

Revenue

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

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

Cost of Sales

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

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

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

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

Costs for the future disposition of depleted uranium amounted to $55.7 million in fiscal 1998, a decline of $16.3 million (or 23%) from $72.0 million in fiscal 1997. The decline resulted from lower SWU production overall and, at the Paducah plant, more efficient operations and economic underfeeding of uranium which in turn resulted in a significant reduction in the generation of depleted uranium.

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

Gross Profit

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

Special Charges – Workforce Reductions and Privatization Costs

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

Project Development Costs

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

Selling, General and Administrative Expenses

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

Net Income

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flow

Net cash flows provided by operating activities amounted to $230.4 million in fiscal 1999, compared with $73.3 million in fiscal 1998. Cash flow in fiscal 1999 includes the collection of an overdue receivable of $36.0 million from a Korean customer, an increase of $24.1 million in operating income, an increase of $38.4 million in current liabilities for income taxes and $34.2 million for the suspension of development of the AVLIS technology, and an increase in long-term liabilities of $24.8 million for depleted uranium disposition, partly offset by interest expense of $32.5 million on borrowings in fiscal 1999. In fiscal 1999, receivables increased $137.4 million, inventories increased $51.2 million, and net payables under the Russian Contract increased $78.0 million.

Net cash flows provided by operating activities amounted to $73.3 million in fiscal 1998, compared with $356.1 million in fiscal 1997. Cash flow in fiscal 1998 was reduced by an increase of $142.5 million in inventories, the decline of $103.8 million in net income compared with fiscal 1997, and payments of $66.0 million in fiscal 1998 to DOE relating to the disposition of depleted uranium, partly offset by an increase of $64.4 million in payables to the Russian Federation for purchases of SWU.

Capital expenditures amounted to $25.8 million, $36.5 million and $51.1 million in fiscal years 1997, 1998 and 1999, respectively. Capital expenditures in fiscal 1999 include costs of $21.0 million for seismic upgrades at the Paducah plant, required by the NRC Compliance Plan, to reduce the risk of release of radioactive and hazardous material in the event of an earthquake. In fiscal 2000, USEC expects its capital expenditures will approximate $61.0 million, including costs to complete the seismic upgrades and to upgrade the Paducah plant's capability to produce enriched uranium up to 5% U235.

In June 1999, the Board of Directors approved a share repurchase program of up to 10.0 million shares of common stock over 24 months. The repurchase is being funded through internal cash flow, augmented by short-term borrowings as needed. The Board action authorizes the purchase of shares from time to time on the open market or through privately negotiated transactions. In fiscal 1999, repurchases of common stock amounted to $14.8 million.

In December 1998, March 1999 and June 1999, quarterly cash dividends of $.275 per share were paid to shareholders and aggregated $82.5 million. On July 28, 1999, a cash dividend of $.275 was declared, payable September 15, 1999, to shareholders of record August 27, 1999.

The sale of USEC's common stock in connection with the IPO resulted in net proceeds to the U.S. Government aggregating $3,092.1 million and consisting of (1) net proceeds of $1,882.7 million from the initial public offering of $1,382.7 million and borrowings of $500.0 million paid to the U.S. Government, and (2) cash of $1,209.4 million paid to the U.S. Government as part of the exit dividend. The U.S. Government, the selling shareholder, sold its entire interest. USEC did not receive any proceeds from the IPO.

Cash dividends paid to the U.S. Treasury amounted to $120.0 million in each of the fiscal years 1997 and 1998.

Capital Structure and Financial Resources

On January 20, 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 net proceeds of $495.2 were used to repay a portion of the borrowings under a bank credit facility. The senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc.

Commitments available under bank credit facilities total $300.0 million as follows: $150.0 million under a revolving credit facility convertible in July 2000 into a one-year term loan and $150.0 million under a revolving credit facility expiring July 2003. Commercial paper borrowings of $50.0 million included in short-term debt at June 30, 1999, are supported by available commitments under the bank credit facilities.

At June 30, 1999, net working capital amounted to $943.3 million, including net inventories of $831.7 million, and the total debt-to-capitalization ratio was 33%.

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

ENVIRONMENTAL MATTERS

In addition to costs for the future disposition of depleted uranium, USEC incurs operating costs and capital expenditures for matters relating to compliance with environmental laws and regulations, including the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes generated as a result of its operations. Operating costs were $24.9 million, $25.4 million and $24.1 million and capital expenditures were $1.8 million, $4.4 million and $3.1 million in fiscal years 1997, 1998 and 1999, respectively. In fiscal years 2000 and 2001, USEC expects its operating costs and capital expenditures for environmental matters to remain at about the same levels as in fiscal 1999.

Costs for the future treatment and disposal of depleted uranium produced from operations were $40.5 million in fiscal 1999. USEC paid $50.0 million to DOE in fiscal 1998 in consideration for DOE assuming responsibility for a certain amount of depleted uranium generated by USEC from October 1998 to September 2005.

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

CHANGING PRICES AND INFLATION

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

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

IMPACT OF YEAR 2000 ISSUE

The Year 2000 issue exists because many software and embedded systems (defined below), which use only two digits to identify a year in a date field, were developed without considering the impact of the upcoming change in the century. Some of these systems are critical to USEC's operations and business processes and could fail or function inaccurately if not repaired or replaced with Year 2000 ready products.

USEC's software and embedded systems will be Year 2000 ready when such systems are replaced or remediated to perform essential functions accurately and without failure. Software is computer programming that has been developed by USEC for its own use (in-house software) and purchased from vendors (vendor software). Embedded systems refer to both computing hardware and other electronic monitoring, communications, and control systems that have microprocessors.

The Year 2000 project focuses on systems that are critical. The failure of critical systems would directly and adversely affect the ability to generate or deliver products and services or otherwise affect revenue, safety, or reliability for a period of time as to lead to unrecoverable consequences. USEC adopted a phased approach for critical systems:

- a company-wide inventory, in which critical systems were identified;
- assessment, in which critical systems were evaluated as to their readiness to operate in the Year 2000;
- remediation, in which critical systems that were not Year 2000 ready were upgraded by modification or replacement;
- testing, in which remediation was validated by checking the ability of critical systems to operate within the Year 2000 time frame; and
- certification, in which systems were formally acknowledged to be Year 2000 ready and acceptable for operation.

In July 1999, remediation, testing and certification of the identified, critical, in-house and vendor software and hardware was complete.

Remediated software and embedded systems were tested both for ability to handle Year 2000 dates, including leap year, and to assure that repair had not affected functionality. Software and embedded systems were tested individually and where necessary in an integrated manner with other systems, with dates advanced to simulate the Year 2000. Testing reduces risk, but cannot comprehensively address all future combinations of dates and events.

As required by the NRC, USEC has completed its program to assure that systems required for safe and compliant operations of the plants are Year 2000 ready.

USEC depends on external parties, including electric power utilities, customers, suppliers, government agencies, and financial institutions, to reliably deliver products and services. To the extent that external parties experience Year 2000 problems, the demand for and the reliability of USEC's services may be adversely affected. USEC has adopted a phased approach to address external parties and the Year 2000 issue:

- inventory, in which critical business relationships were identified;
- action planning, in which a series of actions and a time frame for monitoring expected compliance status were developed;
- assessment, in which the likelihood of external party Year 2000 readiness is being evaluated; and
- contingency planning, in which plans are being made to deal with the potential failure of an external party to be Year 2000 ready.

Assessment of Year 2000 readiness of external parties and contingency planning will continue through calendar year 1999.

USEC recognizes that, given the complex interaction of computing and communication systems, it is not possible to be certain that all efforts to have all critical systems Year 2000 ready will be successful. There can be no assurance that such programs will identify and cure all software problems, or that entities on whom USEC relies for certain services integral to its business, such as the electric power suppliers, will successfully address all of their software and systems problems in order to operate without disruption in 2000. Contingency plans are being developed and will be continually evaluated and revised through the remainder of calendar year 1999. Contingency planning includes, but is not limited to, the development of plans in the event that electric power is interrupted or reduced for an extended period of time, the continued communication with critical suppliers to ensure their Year 2000 readiness, and the identification of alternative suppliers, vendors and service providers.

Costs for software modifications and systems upgrades to resolve Year 2000 issues aggregated $11.9 million at June 30, 1999, and additional costs of $.5 million are expected in fiscal 2000. Pursuant to USEC's financial accounting and reporting policies, purchased hardware and software costs are capitalized, and implementation costs, including consultants' fees, are charged against income as incurred.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Debt

On January 20, 1999, USEC refinanced $500.0 million of borrowings under the bank credit facility with $350.0 million of 6.625% senior notes due January 2006 and $150.0 million of 6.750% senior notes due January 2009. The repayment schedule of debt, the balance sheet carrying amounts, and related fair values calculated based on a spread over U.S. Treasury securities with similar maturities, follow (millions):

	Maturity Dates				
	June 2000	January 2006	January 2009	Balance Sheet Carrying Amount	Fair Value
Short-term debt	$ 50.0			$ 50.0	$ 50.0
Long-term debt:					
6.625% senior notes		$ 350.0		350.0	332.6
6.750% senior notes			$150.0	150.0	139.0
				$ 550.0	$ 521.6

This Annual Report includes certain 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 services, pricing trends in the uranium and enrichment markets, deliveries and costs under the Russian Contract, the availability and cost of electric power, USEC's ability to successfully execute its internal performance plans, the refueling cycles of USEC's customers, and the impact of any government regulation. Further, customer commitments under their contracts are based on customers' estimates of their future requirements.

USEC Inc.

Consolidated Balance Sheets

(millions, except share and per share data)	June 30, 1998	June 30, 1999
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,177.8	$ 86.6
Accounts receivable – trade	236.4	373.8
Inventories:		
Separative Work Units	687.0	648.8
Uranium	184.5	160.1
Uranium provided by customers	315.0	101.7
Materials and supplies	24.8	22.8
Total Inventories	1,211.3	933.4
Payments for future deliveries under Russian Contract	63.4	50.0
Other	39.5	29.3
Total Current Assets	2,728.4	1,473.1
Property, Plant and Equipment, net	131.9	166.6
Other Assets		
Deferred income taxes	-	49.5
Deferred costs for depleted uranium	50.0	43.7
Prepaid pension assets	-	52.9
Inventories	561.0	574.4
Total Other Assets	611.0	720.5
Total Assets	$ 3,471.3	$ 2,360.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	$ -	$ 50.0
Accounts payable and accrued liabilities	182.9	214.1
Income taxes	-	38.4
Payables under Russian Contract	8.4	73.0
Suspension of development of AVLIS technology	-	34.2
Nuclear safety upgrade costs	41.2	18.4
Uranium owed to customers	315.0	101.7
Total Current Liabilities	547.5	529.8
Long-Term Debt	-	500.0
Other Liabilities		
Advances from customers	34.3	19.2
Depleted uranium disposition	372.6	24.8
Postretirement health and life benefit obligations	-	93.0
Other liabilities	96.4	58.0
Total Other Liabilities	503.3	195.0
Commitments and Contingencies (Notes 4 and 9)		
Stockholders' Equity		
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized, none issued	-	-
Common stock, par value $.10 per share, 250,000,000 shares authorized, 100,000,000 shares and 100,318,307 shares issued	10.0	10.0
Excess of capital over par value	1,357.1	1,072.0
Retained earnings	1,053.4	71.9
Treasury stock, 1,142,000 shares	-	(14.8)
Deferred compensation	-	(3.7)
Total Stockholders' Equity	2,420.5	1,135.4
Total Liabilities and Stockholders' Equity	$ 3,471.3	$ 2,360.2

See notes to consolidated financial statements.

USEC Inc.

Consolidated Statements of Income

(millions, except per share data)	Years Ended June 30, 1997	1998	1999
Revenue			
Domestic	$ 950.8	$ 896.2	$ 947.6
Asia	487.5	442.8	455.2
Europe and other	139.5	82.2	125.8
	1,577.8	1,421.2	1,528.6
Cost of sales	1,162.3	1,062.1	1,182.0
Gross profit	415.5	359.1	346.6
Special charges:			
Suspension of development of AVLIS technology	-	-	34.7
Workforce reductions and privatization costs	-	46.6	-
Project development costs	141.5	136.7	106.4
Selling, general and administrative	31.8	34.7	40.3
Operating income	242.2	141.1	165.2
Interest expense	-	-	32.5
Other (income) expense, net	(7.9)	(5.2)	(16.8)
Income before income taxes	250.1	146.3	149.5
Provision (benefit) for income taxes	-	-	(2.9)
Net income	$ 250.1	$ 146.3	$ 152.4
Net income per share – basic and diluted			$ 1.52
Dividends per share			$ .825
Average number of shares outstanding			99.9

See notes to consolidated financial statements.

USEC Inc.

Consolidated Statements of Cash Flows

(millions)	Years Ended June 30, 1997	1998	1999
Cash Flows from Operating Activities			
Net income	$ 250.1	$ 146.3	$ 152.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	-	-	(49.5)
Depreciation and amortization	14.6	16.1	16.4
Depleted uranium disposition	72.0	(10.3)	32.3
Advances from customers	(20.1)	(.6)	(15.1)
Suspension of development of AVLIS technology	-	-	34.2
Changes in operating assets and liabilities:			
Accounts receivable – (increase) decrease	103.1	(4.6)	(137.4)
Inventories – (increase) decrease	(3.5)	(142.5)	51.2
Payables under Russian Contract, net	(50.1)	64.4	78.0
Income taxes – increase	-	-	38.4
Accounts payable and other liabilities – increase (decrease)	(17.3)	13.4	10.1
Other	7.3	(8.9)	19.4
Net Cash Provided by Operating Activities	356.1	73.3	230.4
Cash Flows Used in Investing Activities			
Capital expenditures	(25.8)	(36.5)	(51.1)
Cash Flows from Financing Activities			
Dividends paid to stockholders	-	-	(82.5)
Dividends paid to U.S. Treasury	(120.0)	(120.0)	(1,709.4)
Proceeds from issuance of senior notes	-	-	495.2
Net proceeds from issuance of short-term debt	-	-	50.0
Debt issuance cost	-	-	(3.7)
Repurchase of common stock	-	-	(14.8)
Costs relating to initial public offering	-	-	(5.3)
Payments under Russian Contract for purchase of natural uranium transferred to Department of Energy	(74.3)	-	-
Net Cash Provided by (Used in) Financing Activities	(194.3)	(120.0)	(1,270.5)
Net Increase (Decrease)	136.0	(83.2)	(1,091.2)
Cash and Cash Equivalents at Beginning of Year	1,125.0	1,261.0	1,177.8
Cash and Cash Equivalents at End of Year	$ 1,261.0	$ 1,177.8	$ 86.6
Supplemental Cash Flow Information			
Interest paid	-	-	$ 16.7
Income taxes paid	-	-	5.7
Supplemental Schedule of Non-Cash Financing Activities			
Transfer of responsibility for depleted uranium disposition to Department of Energy	-	-	$ 373.8

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

USEC Inc., a Delaware corporation ("USEC"), formerly United States Enrichment Corporation (a U.S. Government-owned corporation), is a global energy company and is the world leader in the sale of uranium enrichment services for use in nuclear power plants. USEC provides uranium enrichment services to approximately 60 electric utilities for use in about 170 nuclear reactors.

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

USEC uses the gaseous diffusion process to enrich uranium, separating and concentrating the lighter uranium isotope U235 from its slightly heavier counterpart U238. The process relies on the slight difference in mass between the isotopes for separation. At the leased gaseous diffusion plants ("plants") located near Portsmouth, Ohio, and in Paducah, Kentucky, the concentration of the isotope U235 is raised from less than 1% to up to 5%. A substantial portion of the purchased power used by the plants is supplied under power contracts between the U.S. Department of Energy ("DOE") and Ohio Valley Electric Corporation ("OVEC") and Electric Energy, Inc. ("EEI").

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

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

The sale of USEC's common stock in connection with the initial public offering ("IPO") was completed on July 28, 1998 (the "IPO Date"), resulting in net proceeds to the U.S. Government aggregating $3,092.1 million and consisting of (1) net proceeds of $1,882.7 million from the initial public offering of $1,382.7 million and borrowings of $500.0 million paid to the U.S. Government, and (2) cash of $1,209.4 million paid to the U.S. Government as part of the exit dividend. The U.S. Government, the selling shareholder, sold its entire interest. USEC did not receive any proceeds from the IPO.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 1999, include temporary cash investments with maturities of three months or less. At June 30, 1998, cash consisted of non-interest bearing funds on deposit with the U.S. Treasury.

Inventories

Inventories of SWU and uranium are valued at the lower of cost or market with market for SWU based on the terms of long-term contracts with customers. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the plants and SWU purchase costs, mainly under the Russian Contract. Production costs at the plants include purchased electric power, labor and benefits, depleted uranium disposition costs, materials, maintenance and repairs, and other costs. Purchased SWU is recorded at acquisition cost plus related shipping costs.

Property, Plant and Equipment
Construction work in progress is recorded at acquisition or construction cost. Upon being placed into service, costs are transferred to leasehold improvements or machinery and equipment at which time depreciation commences. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of their useful lives which range from three to ten years or the expected plant lease period which is estimated to extend through calendar year 2006. USEC leases the plants and process-related machinery and equipment from DOE. At the end of the lease term, ownership and responsibility for decontamination and decommissioning of property, plant and equipment that USEC leaves at the plants transfer to DOE.

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

	1998	1999
Construction work in progress	$ 27.1	$ 39.5
Leasehold improvements	21.7	48.5
Machinery and equipment	145.9	157.8
	194.7	245.8
Accumulated depreciation and amortization	(62.8)	(79.2)
	$ 131.9	$ 166.6

Revenue
Revenue is recognized at the time SWU or uranium is shipped under the terms of contracts with domestic and foreign electric utility customers. Under delivery optimization and other customer oriented programs, USEC advance ships enriched uranium to nuclear fuel fabricators for scheduled or anticipated orders from utility customers. Revenue from sales of SWU under such programs is recognized as title to enriched uranium is transferred to customers. Under certain power-for-SWU barter contracts, USEC exchanges its enrichment services for electric power supplied to the plants. Revenue is recognized at the time enriched uranium is shipped with selling prices for SWU based on the fair market value of electric power received. No customer accounted for more than 10% of revenue during the years ended June 30, 1997, 1998 or 1999. Revenue attributed to domestic and international customers follows:

	Years Ended June 30,		
	1997	1998	1999
Domestic	60%	63%	62%
Asia	31	31	30
Europe and other	9	6	8
	100%	100%	100%

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

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 (see Note 6).

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

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

Project Development Costs
Project development costs relate principally to the Atomic Vapor Laser Isotope Separation project ("AVLIS"). AVLIS development costs are charged to expense as incurred and include activities relating to the design and testing of process equipment and the design and preparation of the AVLIS demonstration facility. In June 1999, further development of the AVLIS technology was suspended (see Note 7).

Project development costs relating to a potential new advanced enrichment technology called SILEX are charged to expense as incurred.

Income Taxes
USEC became subject to federal, state and local income taxes at the IPO Date. Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities result in deferred income tax benefits primarily due to the accrual of certain costs included in other liabilities.

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

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

3. INVENTORIES

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

	1998	1999
Current assets:		
Separative Work Units	$ 687.0	$ 648.8
Uranium	184.5	160.1
Uranium provided by customers	315.0	101.7
Materials and supplies	24.8	22.8
	1,211.3	933.4
Long-term assets:		
Separative Work Units	108.6	116.8
Uranium	452.4	457.6
Current liabilities		
Uranium owed to customers	(315.0)	(101.7)
Inventories, reduced by uranium owed to customers	$1,457.3	$1,406.1

Inventories included in current assets represent amounts required to meet working capital needs, preproduce enriched uranium and balance the uranium and electric power requirements of the plants, and include $187.6 million and $56.4 million at June 30, 1998 and 1999, respectively, for enriched uranium held at nuclear fuel fabricators and other locations and scheduled to be used to fill customer orders.

Generally, title to uranium provided by customers for enrichment purposes does not pass to USEC. Uranium provided by customers for which title does pass to USEC is recorded on the balance sheet at estimated fair values of $315.0 million and $101.7 million at June 30, 1998 and 1999, respectively, with a corresponding liability in the same amount representing uranium owed to customers.

Inventories reported as long-term assets represent quantities not expected to be used or sold within one year of the balance sheet date. USEC anticipates selling uranium gradually as natural uranium or together with SWU in the

form of enriched uranium product over the next several years. USEC intends to manage sales of natural uranium so as to not significantly affect the U.S. market.

4. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN CONTRACT

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

From inception of the Russian Contract to June 30, 1999, USEC purchased 11.0 million SWU derived from 60 metric tons of highly enriched uranium at an aggregate cost of $959.5 million, including related shipping charges, as follows (in millions):

Years Ended June 30,	SWU	Amount
1995	.3	$ 22.7
1996	1.7	144.1
1997	1.8	157.3
1998	3.6	315.8
1999	3.6	319.6
	11.0	$ 959.5

Subject to price adjustments for U.S. inflation, as of June 30, 1999, USEC has committed to purchase SWU derived from highly enriched uranium under the Russian Contract through calendar year 2001 as follows (in millions):

Calendar Year	SWU	Amount
Six Months Ending December 31, 1999	3.9	$ 333.1
2000	5.5	469.8
2001	5.5	469.8
		$1,272.7

Over the life of the Russian Contract, USEC expects to purchase 92 million SWU derived from 500 metric tons of highly enriched uranium. Assuming actual prices in effect at June 30, 1999, were to prevail over the remaining life of the contract, the cost of SWU purchased and expected to be purchased would amount to approximately $8 billion.

As of June 30, 1999, the remaining balance of $50.0 million paid to Tenex as credits for future SWU deliveries is scheduled to be applied during the six months ending December 31, 1999.

5. INCOME TAXES

The provision (benefit) for income taxes consists of the following (in millions):

	Year Ended June 30, 1999		
	Current	Deferred	Total
Federal	$ 41.9	$ 4.5	$ 46.4
State and local	4.7	.5	5.2
	46.6	5.0	51.6
Special tax benefit from transition to taxable status:			
Federal	-	(49.8)	(49.8)
State and local	-	(4.7)	(4.7)
	-	(54.5)	(54.5)
	$ 46.6	$ (49.5)	$ (2.9)

Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities result in a net deferred tax asset of $49.5 million at June 30, 1999, as follows (in millions):

	June 30, 1999
Deferred tax assets:	
Inventory costs	$ 28.0
Plant lease turnover costs	10.9
Employee benefits	11.7
Decommissioning and shutdown costs at power generation facilities	6.9
Other	8.6
Deferred tax assets	66.1
Deferred tax liability:	
Deferred costs for depleted uranium	(16.6)
Net deferred tax asset	$ 49.5

The provision for income taxes in the year ended June 30, 1999, includes a special income tax benefit of $54.5 million for deferred income tax benefits that arise from the transition to taxable status. Excluding the special tax benefit, the provision for income taxes for the year ended June 30, 1999, amounted to $51.6 million and reflects an effective income tax rate of 34.5%, as follows:

	Year Ended June 30, 1999
Statutory federal income tax rate	35.0%
State income taxes, net of federal benefit	2.3
Research and experimentation tax credit	(2.3)
Other	(.5)
	34.5%

6. DEBT

Long-term debt at June 30, 1999, follows (in millions):

	June 30, 1999
Long-term debt:	
6.625% senior notes, due January 2006	$ 350.0
6.750% senior notes, due January 2009	150.0
	$ 500.0

On January 20, 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 net proceeds of $495.2 million were used to repay a portion of the borrowings under a bank credit facility. The senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc. The senior notes are not subject to any sinking fund requirements. Interest is paid every six months on January 20 and July 20 beginning in July 1999. 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.

Commitments available under bank credit facilities total $300.0 million as follows: $150.0 million under a revolving credit facility convertible in July 2000 into a one-year term loan and $150.0 million under a revolving credit facility expiring July 2003. A commercial paper program was established in February 1999. Commercial paper borrowings of $50.0 million included in short-term debt at June 30, 1999, are supported by available commitments under the bank credit facilities.

The bank credit facilities require USEC to comply with certain financial covenants, including a minimum net worth and a debt to total capitalization ratio, as well as other customary conditions and covenants. The bank credit facility restricts borrowings by subsidiaries to a maximum of $100.0 million. The failure to satisfy any of the covenants would constitute an event of default. The bank credit facilities also include other customary events of

default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy and change of control.

At June 30, 1999, the fair value of debt calculated based on a spread over U.S. Treasury securities with similar maturities was $521.6 million, compared with the balance sheet carrying amount of $550.0 million.

7. SPECIAL CHARGES

Suspension of Development of AVLIS Technology

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

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

USEC terminated AVLIS efforts with its contractors, implemented workforce reductions and is conducting an orderly ramp-down of AVLIS activities at LLNL in California. The suspension of AVLIS resulted in a special charge of $34.7 million in the year ended June 30, 1999, for contract terminations, shutdown activities and employee severance and benefit arrangements. As all project development costs have been expensed, there was no asset write-off. It is expected that substantially all of the shutdown activities will be completed within one year.

Project development costs relating to AVLIS activities amounted to $133.7 million, $134.7 million, and $103.9 million for the years ended June 30, 1997, 1998 and 1999, respectively, and were charged to expense as incurred.

Workforce Reductions and Privatization Costs

Special charges amounted to $46.6 million for the year ended June 30, 1998, for costs related to the privatization and certain severance and transition benefits to be paid to plant workers in connection with workforce reductions, as follows (in millions):

	Year Ended June 30, 1998
Privatization costs	$ 13.8
Worker and community transition assistance benefits	20.0
Workers' pre-existing severance benefits	12.8
	$ 46.6

Privatization costs of $13.8 million were paid in July 1998, worker and community transition assistance benefits of $20.0 million were paid to DOE in June 1998, and payments of $5.9 million for workers' pre-existing severance benefits with respect to 312 workers had been made as of June 30, 1999.

8. ENVIRONMENTAL MATTERS

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

Depleted Uranium

USEC accrues estimated costs for the future disposition of depleted uranium, based on estimates of transportation, conversion and disposal costs. Pursuant to the Privatization Act, depleted uranium generated by USEC through the IPO Date was transferred to DOE. Depleted uranium generated after the IPO Date is the responsibility of USEC, except in June 1998, USEC paid $50.0 million to DOE and DOE assumed responsibility for disposal of a certain

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

Other Environmental Matters
USEC's operations generate hazardous, low-level radioactive and mixed wastes. The storage, treatment, and disposal of wastes are regulated by federal and state laws. USEC utilizes offsite treatment and disposal facilities and stores wastes at the plants pursuant to permits, orders and agreements with DOE and various state agencies.

The accrued liability for the treatment and disposal of stored wastes generated by USEC's operations included in other liabilities amounted to $8.3 million at June 30, 1998 and $7.1 million at June 30, 1999.

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

DOE Services
Services are provided to DOE by USEC for environmental restoration, waste management and other activities based on actual costs incurred at the plants. Reimbursements by DOE to USEC for actual costs incurred amounted to $53.4 million, $51.6 million and $38.3 million for the years ended June 30, 1997, 1998 and 1999, respectively.

9. COMMITMENTS AND CONTINGENCIES

Power Commitments
Under the terms of the plant lease, USEC purchases electric power at amounts based on actual costs incurred under DOE's power contracts with OVEC and EEI that extend through December 2005. USEC has the right to have DOE terminate the power contracts with notice ranging from three to five years.

Under the power contracts with DOE, USEC assumed responsibility for DOE's guarantee of OVEC's senior secured notes with a remaining balance of $54.8 million at June 30, 1999, for expenditures related to compliance with the Clean Air Act Amendments of 1990, including facilities for fuel switching and the installation of continuous emission monitors.

Subject to reductions resulting from the sale of power not taken, USEC is obligated, whether or not it takes delivery of power, to make minimum annual payments for demand charges, which reflect capital and operating costs, debt service, taxes and a return on capital, estimated as follows (in millions):

Years Ending June 30,	
2000	$ 124.3
2001	84.0
2002	66.8
2003	47.2
2004	5.9
	$ 328.2

Upon termination of the power contracts, USEC is responsible for and accrues for its pro rata share of costs of future decommissioning and shutdown activities at dedicated coal-fired power generating facilities owned and operated by OVEC and EEI. The accrued cost included in other liabilities amounted to $18.1 million at June 30, 1998 and 1999.

Lease Commitments
Total costs incurred under the plant lease with DOE and leases for office space and equipment aggregated $23.2 million, $11.5 million, and $8.1 million for the years ended June 30, 1997, 1998 and 1999, respectively. Minimum lease payments are estimated at $5.0 million for each of the years ending June 30, 2000 to 2004.

USEC has the right to extend the plant lease indefinitely at its sole option and may terminate the lease in its entirety or with respect to one of the plants at any time upon two years' notice. Upon termination of the lease, USEC is responsible for certain lease turnover activities at the plants, 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 is estimated to extend through calendar year 2006, and the accrued cost included in other liabilities amounted to $23.2 million at June 30, 1998 and $28.7 million at June 30, 1999.

10. OPERATIONS AND MAINTENANCE CONTRACT

Effective May 18, 1999, the operations and maintenance contract with Lockheed Martin Utility Systems ("LMUS"), a subsidiary of Lockheed Martin Corporation, was terminated by USEC. Most employees of LMUS became employees of USEC. Under the contract, LMUS provided labor, services, and materials and supplies to operate and maintain the plants. USEC funded LMUS for actual costs incurred and contract fees. USEC has indemnified LMUS for certain liabilities associated with performance of the operations and maintenance contract for the term of the contract. In this regard, the Privatization Act generally provides that liabilities attributable to plant operations prior to July 28, 1998, remain liabilities of the U.S. Government. Under the contract, USEC was responsible for and accrued for its pro rata share of pension and postretirement health and life insurance costs relating to LMUS employee benefit plans. Costs for such benefits based on actuarial estimates and matching contributions to a 401(k) defined contribution plan amounted to $20.8 million, $22.4 million, and $21.5 million for the years ended June 30, 1997, 1998 and 1999, respectively.

11. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS

Pursuant to the Privatization Act and in connection with the termination of the LMUS contract and the transfer of LMUS employees to USEC effective May 18, 1999, pension and postretirement health and life benefit obligations and related plan assets were transferred from plans sponsored by Lockheed Martin Corporation to plans sponsored by USEC.

There are 7,500 employees and retirees covered by defined benefit pension plans providing retirement benefits based on compensation and years of service, and 4,200 employees and their dependents covered by postretirement health and life benefit plans. DOE retained the obligation for postretirement health and life benefits for 2,400 workers who retired prior to the IPO Date.

The following summarizes the transfers of benefit obligations and plan assets, the funded (unfunded) status of the plans, and the plan assets and benefit obligations as reflected on the balance sheet at June 30, 1999 (millions):

	Defined Benefit Pension Plans	Postretirement Health and Life Benefit Plans
Benefit obligations transferred	$ 430.0	$ 130.0
Fair value of plan assets transferred	511.0	37.0
Funded (unfunded) status	$ 81.0	$ (93.0)
Prepaid (accrued) benefit costs before transfers from LMUS plans	$ (28.1)	$ (12.0)
Transfers of net assets (obligations) from LMUS plans	81.0	(81.0)
Prepaid (accrued) benefit costs	$ 52.9	$ (93.0)

Plan assets are maintained in trusts and consist mainly of common stock and fixed-income investments. The transfer of plan assets and benefit obligations is subject to adjustment to reflect final actuarial valuations. The expected cost of providing pension and postretirement health and life benefits, including the amortization of actuarial gains and losses, is accrued over the years that employees render services. Assumptions used in the calculation of the benefit obligations follow:

	Defined Benefit Pension Plans	Postretirement Health and Life Benefit Plans
Discount rate	7.5%	7.5%
Compensation increases	4.5%	4.5%

The health care cost trend rate used to measure the postretirement health benefit obligation is 8% in fiscal 2000, and is assumed to decrease gradually to 5% by fiscal 2002 and remain at that level thereafter. An increase or decrease of one percentage point in the assumed health care cost trend rate would result in a change in the benefit obligation of 19% or $25.0 million.

12. STOCKHOLDERS' EQUITY

Changes in stockholders' equity follow (in millions):

	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, 1996	$ 10.0	$1,214.6	$ 897.0	-	-	$2,121.6
Dividend paid to U.S. Treasury	-	-	(120.0)	-	-	(120.0)
Transfer to DOE of uranium purchased under the Russian Contract (1)	-	(160.4)	-	-	-	(160.4)
Net income	-	-	250.1	-	-	250.1
Balance at June 30, 1997	10.0	1,054.2	1,027.1	-	-	2,091.3
Dividend paid to U.S. Treasury	-	-	(120.0)	-	-	(120.0)
Net income	-	-	146.3	-	-	146.3
Transfers of uranium from DOE (2)	-	302.9	-	-	-	302.9
Balance at June 30, 1998	10.0	1,357.1	1,053.4	-	-	2,420.5
Exit dividend paid to U.S. Treasury (3)	-	(658.0)	(1,051.4)	-	-	(1,709.4)
Transfer of responsibility for depleted uranium to DOE (4)	-	373.8	-	-	-	373.8
Costs related to initial public offering	-	(5.3)	-	-	-	(5.3)
Repurchase of common stock	-	-	-	$ (14.8)	-	(14.8)
Restricted stock issued, net of amortization	-	4.4	-	-	$ (3.7)	.7
Dividends paid to shareholders	-	-	(82.5)	-	-	(82.5)
Net income	-	-	152.4	-	-	152.4
Balance at June 30, 1999	$ 10.0	$1,072.0	$ 71.9	$ (14.8)	$ (3.7)	$1,135.4

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

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

(3) An exit dividend of $1,709.4 million was paid to the U.S. Government at the IPO Date. The amount of the exit dividend in excess of retained earnings was recorded as a reduction of excess of capital over par value.

(4) Pursuant to the Privatization Act, depleted uranium generated by USEC through the IPO Date was transferred to DOE, and the accrued liability of $373.8 million for depleted uranium disposition was transferred to stockholders' equity.

In February 1999, stockholders approved the USEC Inc. 1999 Equity Incentive Plan, under which 9.0 million shares of common stock are reserved for issuance over ten years, including incentive stock options, nonqualified stock options, restricted stock or stock units, performance awards and other stock-based awards. There were 318,000 shares of restricted stock granted during the year ended June 30, 1999. Sale of these shares is restricted prior to the date of vesting. Deferred compensation from restricted stock awards, based on the fair market value at the date of grant, amounted to $4.4 million for the year ended June 30, 1999. Deferred compensation is amortized to expense on a straight-line basis over the vesting period.

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 ten years by eligible employees at 85% of the lower of the market price at the beginning or the end of each six-month offer period. Employees can elect to designate up to 10% of their compensation to purchase common stock under the plan. Shares purchased are allocated to participants' accounts and, upon request, shares are distributed. The initial six-month offer period began in March 1999.

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

13. QUARTERLY FINANCIAL DATA (Unaudited)

The following table summarizes quarterly results of operations (in millions):

	Sept. 30	Dec. 31	March 31	June 30	Total
Year Ended June 30, 1999					
Revenue	$ 307.9	$ 422.4	$ 260.4	$ 537.9	$ 1,528.6
Cost of sales	248.6	330.7	207.1	395.6	1,182.0
Gross profit	59.3	91.7	53.3	142.3	346.6
Special charges for suspension of development of AVLIS technology	-	-	-	34.7 (1)	34.7 (1)
Project development costs	31.6	27.2	19.9	27.7	106.4
Selling, general and administrative	7.9	9.3	10.2	12.9	40.3
Interest expense (2)	6.5	8.8	8.6	8.6	32.5
Other (income) expense, net	(1.6)	(2.0)	(10.0)	(3.2)	(16.8)
Provision (benefit) for income taxes	(48.2) (3)	16.3	8.4	20.6	(2.9) (3)
Net income	$ 63.1	$ 32.1	$ 16.2	$ 41.0	$ 152.4
Net income per share – basic and diluted	$ .63	$ .32	$ .16	$ .41	$ 1.52
Year Ended June 30, 1998					
Revenue	$ 440.4	$ 322.3	$ 294.0	$ 364.5	$ 1,421.2
Cost of sales	342.1	235.7	214.4	269.9	1,062.1
Gross profit	98.3	86.6	79.6	94.6	359.1
Special charges for workforce reductions and privatization costs	-	-	-	46.6 (4)	46.6 (4)
Project development costs	32.2	35.4	35.4	33.7	136.7
Selling, general and administrative	8.1	8.9	7.8	9.9	34.7
Other (income) expense, net	(2.0)	0.6	(3.9)	0.1	(5.2)
Net income	$ 60.0	$ 41.7	$ 40.3	$ 4.3	$ 146.3

(1) Special charges of $34.7 million ($22.7 million or $.23 per share after tax) are for contract terminations, shutdown activities, and employee severance and benefit arrangements related to the suspension of development of the AVLIS technology. Since all project development costs were charged to expense, there was no asset write-off.

(2) Prior to the IPO Date, USEC had no debt.

(3) USEC became subject to federal, state and local income taxes at the IPO date. The provision for income taxes includes a special income tax benefit of $54.5 million ($.54 per share) for deferred income tax benefits that arise from the transition to taxable status. Excluding the special tax benefit, the provision for income taxes was $51.6 million.

(4) Special charges of $46.6 million are for costs related to the privatization and certain severance and transition benefits in connection with workforce reductions at the production plants.

MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

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

	High	Low	Cash Dividends Paid
July 23 to September 30, 1998	$ 16.31	$ 13.00	$ -
October 1 to December 31, 1998	15.75	13.19	.275
January 1 to March 31, 1999	15.19	13.00	.275
April 1 to June 30, 1999	14.88	9.88	.275

There are 250 million shares of common stock and 25 million shares of preferred stock authorized. At June 30, 1999, there were 99,176,000 shares of common stock issued and outstanding. No preferred shares have been issued. There were approximately 39,000 beneficial holders of common stock as of June 30, 1999.

USEC pays quarterly cash dividends on outstanding shares of common stock at an annual rate of $1.10 per share. The quarterly dividend of $.275 per share was paid in December 1998, March 1999 and June 1999. The declaration of dividends is subject to the discretion of the Board of Directors and depends, among other things, on the results of operations, financial condition, cash requirements, any restrictions imposed by financing arrangements and any other factors deemed relevant by the Board of Directors at that time.

In June 1999, the Board of Directors approved a share repurchase program of up to 10.0 million shares of common stock over 24 months. The repurchase is being funded through internal cash flow, augmented by short-term borrowings as needed. The Board action authorizes the purchase of shares from time to time on the open market or through privately negotiated transactions. In fiscal 1999, repurchases of common stock amounted to $14.8 million.

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

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

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

Report of Independent *public accountants*

To USEC Inc.:

We have audited the accompanying consolidated balance sheets of USEC Inc. (a Delaware Corporation) as of June 30, 1998 and 1999, and the related consolidated statements of income and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USEC Inc. as of June 30, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Washington, D.C.
July 28, 1999

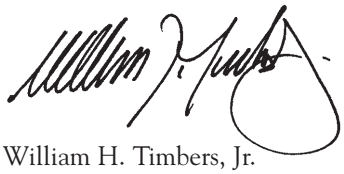
Management's Responsibility for *financial reporting*

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

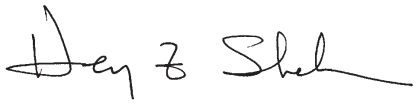
The system of internal controls is designed to provide reasonable assurance as to the reliability of financial records and the protection of assets. This system is augmented by written policies and guidelines, an internal audit program and the careful selection and training of qualified personnel. It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

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

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



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



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

July 28, 1999

Shareholder Information

Stock Exchange Listing
USEC Inc. common stock is listed and traded on the New York Stock Exchange under the ticker symbol USU. Options are listed and traded on the Chicago Board of Exchange and the American Stock Exchange. As of August 31, 1999, the Company had approximately 39,000 beneficial holders of its common stock.

Annual Meeting
The Annual Meeting of Shareholders will be held at 10 a.m. November 3, 1999, at the Bethesda Marriott Hotel, 5151 Pooks Hill Road, Bethesda, Maryland.

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

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

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

Investor Relations
Information requests from security analysts and other members of the professional financial community can be directed to: Investor Relations (301) 564-3200.

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

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

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

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

Independent Auditors
Arthur Andersen LLP
Washington, DC

Board of Directors and Executive officers

USEC Inc. Board of Directors
Pictured from left: James R. Mellor; William H. Timbers, Jr.; Frank V. Cahouet; Dan T. Moore, III; Joyce F. Brown; William H. White and John R. Hall

Executive Officers

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

George P. Rifakes
Senior Executive Vice President

James H. Miller
Executive Vice President

Jeffry E. Sterba
Executive Vice President

Robert J. Moore
Senior Vice President and General Counsel

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

James N. Adkins, Jr.
Vice President, Production

J. William Bennett
Vice President, Advanced Technology

William J. Bruttaniti
Vice President, Chief Information Officer

Gary G. Ellsworth
Vice President, Government Relations

Richard O. Kingdon
Vice President, Strategic Analysis

Phillip G. Sewell
Vice President, Corporate Development

Darryl A. Simon
Vice President, Human Resources & Administration

Robert Van Namen
Vice President, Marketing and Sales

Charles B. Yulish
Vice President, Corporate Communications

Directors

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

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

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

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

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

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

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

Board Standing Committees

(*indicates the chair of each committee)

Audit, Finance and Corporate Responsibility
Frank V. Cahouet*
Joyce F. Brown
William H. White

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

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

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

USEC-Invest: The Smart Way to Grow Your Investment

Your investment in USEC Inc. can grow faster with the *USEC-Invest* plan. *USEC-Invest* enables you to reinvest your dividends and make additional investments in USEC stock to build your ownership in the Company over time. It's designed for individual investors who wish to minimize their transaction costs when buying USEC stock.

You always have control of your shares. You may sell or withdraw your USEC shares at any time through the plan administrator.

Purchasing stock To make a continuing investment through *USEC-Invest*, you may buy stock by having a minimum of $50 automatically deducted from your checking or savings account each month, or you may pay by check as often as once a week.

If you do not already own USEC stock, you may use *USEC-Invest* to buy your first shares directly from the Company. The minimum initial investment is $250. If your stock is registered in street name, you must have at least one share registered in your name to enroll in the plan. It's easy to get started.

Just call (888) 485-2938 or sign up on line at www.usec.com

Transaction Fees For each transaction, a small service charge is deducted from your investment, plus the pro rata amount of brokerage commissions (generally 5 cents per share for purchases and 12 cents per share for sales).

No-cost features Through *USEC-Invest*, you receive a stock safekeeping service and the ability to make transfers or gifts of USEC stock – all at no charge. The recipient of the transfer or gift will have an account opened in their name and enjoy all the benefits of the *USEC-Invest* plan.

Enrollment Participation in the plan is offered only by means of the prospectus. New investors may obtain the materials by calling (888) 485-2938 or on-line at www.usec.com.

Service Fees:

Enrollment
$10 / $5 on-line

Dividend Reinvestment
5% up to a maximum of $3

Sales
$15/$10 on-line

Additional purchases
$5 for each check or money order

$2 for each automatic debit

www.usec.com

USEC Inc. • Two Democracy Center • 6903 Rockledge Drive • Bethesda, Maryland • 20817-1818