AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 6, 1999.

REGISTRATION NO. 333-67117

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

USEC INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	2819	52-2107911
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(IRS EMPLOYER IDENTIFICATION NUMBER)

HENRY Z SHELTON, JR.
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
2 DEMOCRACY CENTER
6903 ROCKLEDGE DRIVE
BETHESDA, MD 20817
(301) 564-3200
(NAME, ADDRESS, INCLUDING ZIP CODE,
AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

Copies to:

STEPHEN W. HAMILTON, ESQ.
PANKAJ K. SINHA, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005

JEFFREY SMALL, ESQ.
DAVIS POLK & WARDWELL
450 LEXINGTON AVENUE
NEW YORK, NEW YORK 10017

APPROXIMATE DATE OF COMMENCEMENT OF THE PROPOSED SALE OF THE SECURITIES TO THE PUBLIC:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective

registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED JANUARY 6, 1999

PROSPECTUS

$

USEC INC.

% SENIOR NOTES DUE

TERMS OF SENIOR NOTES

- - MATURITY.

- - REDEMPTION. We may redeem all or a portion of the senior notes at our option and at any time at a redemption price equal to:

- the principal amount of the senior notes being redeemed plus any accrued interest up to but not including the redemption date; and

- a make-whole premium, if any, consisting of (1) the aggregate present

value of principal and interest that would have been payable without redemption, as described on page 74 of this prospectus, in excess of (2) the aggregate principal amount of the senior notes being redeemed.

- - INTEREST. Fixed annual rate of % paid per annum. Paid every six months on and , beginning on , 1999.

- - SECURITY. The senior notes will be unsecured.

- - RANKING. The senior notes will rank equally with all other unsecured senior indebtedness. We will have $ million of indebtedness that ranks equally with the senior notes after we apply the proceeds of this sale as we describe under "Use of Proceeds".

- - DENOMINATIONS. $1,000 and larger denominations in $1,000 multiples.

- - ADDITIONAL INDEBTEDNESS. We or our subsidiaries may issue an unlimited amount of additional indebtedness under the indenture.

- - BOOK-ENTRY FORM. We expect that the senior notes will be ready for delivery, in book-entry form only, through The Depository Trust Company, on or about January , 1999.

CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 9 IN THIS PROSPECTUS.

	PER SENIOR NOTE	TOTAL
Public Offering Price.....	$	$
Underwriting Discount.....	$	$
Proceeds, before expenses, to USEC Inc.....	$	$

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SENIOR NOTES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We are a public company. Our common stock is traded on the New York Stock Exchange under the symbol "USU."

MERRILL LYNCH & CO. J.P. MORGAN & CO.

LEHMAN BROTHERS

NATIONSBANC MONTGOMERY SECURITIES LLC

BLAYLOCK & PARTNERS, L.P.

Prospectus dated January , 1999

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PROSPECTUS SUMMARY. Because this is a summary, it does not contain all the information that may be important to you. You should read this entire document before making a decision. All references in this prospectus to "fiscal" or "fiscal year" refer to USEC's fiscal year ended on June 30, unless the context otherwise requires. All references to "USEC" mean USEC Inc., a Delaware corporation, and its consolidated subsidiaries, unless the context otherwise requires.

OVERVIEW OF USEC

USEC is a global energy company and a world leader in the production and sale of enriched uranium for use in nuclear power plants. We supply enriched uranium to approximately 60 customers for use in about 170 nuclear reactors located in 14 countries. Our market share is approximately 75% of the North American market and approximately 40% of the world market.

We enrich uranium using a gaseous diffusion process at two plants located in Paducah, Kentucky and near Portsmouth, Ohio. These plants are among the largest industrial facilities in the world.

Until recently, the U.S. Government owned all of the stock of our predecessor company, a federally-chartered entity. On July 28, 1998 the U.S. Government privatized USEC through an initial public offering of common stock (the "Privatization"). As a result of the Privatization, the U.S. Government no longer holds any equity interest in USEC.

Our fiscal 1998 revenue was $1.4 billion and our pre-tax income, before special charges of $46.6 million, was $192.9 million. Our pro forma net income,

before special charges, for fiscal 1998 was $97.3 million. The pro forma adjustments primarily reflect a provision for federal, state and local income taxes and interest expense. At September 30, 1998, we had contracts with utilities to provide uranium enrichment services aggregating $3.6 billion through fiscal 2001 and $7.0 billion through fiscal 2009 based largely on our customers' estimates of their future requirements for enriched uranium.

URANIUM ENRICHMENT

Uranium enrichment is a critical step in transforming natural uranium into nuclear fuel to produce electricity. Uranium is a naturally occurring element containing uranium-235 and uranium-238 isotopes. The level of uranium-235 in natural uranium is only about 0.7 percent; however, nuclear reactors need uranium with a 4 to 5 percent concentration of uranium-235 to produce electricity. Uranium enrichment is the process by which USEC increases the concentration of the uranium-235 isotope.

We calculate the amount of enriched uranium that we produce by a measure that the industry calls a separative work unit. A separative work unit represents the level of effort required to increase the concentration of uranium-235 in natural uranium. Accordingly, higher concentrations of uranium-235 require more separative work units. The prices that we charge nuclear utilities for enrichment services are based on the amount of separative work units we provide.

USEC'S STRATEGY

Our goal is to continue to be the world's leading supplier of uranium fuel enrichment services and to diversify over time into related strategic businesses that will contribute to our growth and profitability. To achieve this goal, we intend to focus on the following strategies, which are discussed more fully in the "Business" section:

- We plan to aggressively pursue opportunities to increase sales to existing customers and to add new customers.

- We plan to improve operating efficiencies and productivity through a rigorous cost management program.

- We plan to commercialize the next generation of uranium enrichment technology -- Atomic Vapor Laser Isotope Separation, or "AVLIS."

COMPETITIVE FACTORS

Although we operate in a highly competitive environment, we believe that we will be able to compete effectively and continue as the world leader in the uranium enrichment market because of the following factors, which we discuss in more detail in the "Business" section:

- We enjoy a strong financial position and a significant backlog of services for which our customers have contracted.

- We benefit from favorable long-term arrangements with the U.S. Government, implemented in connection with our Privatization, for our plants, our electric power, and with respect to our environmental and other liabilities.

- We have the exclusive commercial rights to the AVLIS technology developed by the U.S. Government.

- We can supplement our uranium enrichment revenue through sales from our inventory of natural uranium.

- As the executive agent for the United States under an agreement between

the United States and the Russian Federation, we purchase the separative work unit component of low enriched uranium derived from highly enriched uranium recovered from dismantled nuclear weapons. This arrangement enables USEC to integrate this additional supply of uranium enrichment services into the market on an orderly basis.

THE URANIUM ENRICHMENT MARKET

The demand for uranium enrichment services depends on the number of nuclear reactors using enriched uranium fuel and their fuel requirements. We anticipate the world demand for enrichment services to be relatively stable or increase slightly over the next 10 to 15 years. We believe that the nuclear power market in the U.S. and Western Europe may decline slightly over the next 10 to 15 years, but the Asian market may increase during the same period. We also anticipate that increases in demand from new reactors expected to come on-line, as well as increased operations at existing reactors, will offset decreases in demand from reactors that cease operations during this period. Globally, uranium enrichment is provided by four major suppliers, including USEC.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). You may read and copy these reports at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. You can request copies of these documents, upon payment of a duplication fee, by writing to the SEC's Reference Section. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our filings with the SEC are also available to the public on the SEC's Internet site (http://www.sec.gov).

You should rely only on the information contained in this prospectus or any supplement. We have not authorized anyone else to provide you with any information that is different.

This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted. Furthermore, you should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

REPORTS TO SECURITY HOLDERS

You may request a copy of our Annual Report on Form 10-K for the fiscal year ended June 30, 1998, at no cost, by writing or telephoning us at the following address:

USEC Inc.
2 Democracy Center
6903 Rockledge Drive
Bethesda, Maryland 20817
(301) 564-3200
Attention: Corporate Communications

THE OFFERING

Securities Offered.....	$ aggregate principal amount of % senior notes due .
Maturity Date.....	, .
Interest Payment Date.....	Each and , commencing on , 1999.
Optional Redemption.....	We may redeem all or a portion of the senior notes at our option and at any time at a redemption price equal to the sum of (1) the principal amount of the senior notes being redeemed plus any accrued interest thereon up to but not including the redemption date and (2) a make-whole premium, if any, which is explained in the section "Description of the Notes" under the heading "Optional Redemption."
Ranking.....	The senior notes will be general unsecured obligations of USEC. The senior notes will rank equally with all existing and future unsecured, senior indebtedness of USEC and will rank senior to any subordinated indebtedness of USEC. In addition, the senior notes will have the effect of being subordinated to all existing and future third-party indebtedness and other liabilities of our subsidiaries (including trade payables). After USEC sells the senior notes and applies the proceeds from the sale as described in the "Use of Proceeds" section, USEC will have $ million of indebtedness ranking equally with the senior notes. We or our subsidiaries may issue an unlimited amount of additional indebtedness under the indenture.
Ratings.....	The senior notes will be rated "Baa1" by Moody's Investors Service, Inc. and "BBB+" by Standard & Poor's Ratings Services. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.
Covenants.....	We will be limited in our ability to create liens securing indebtedness, to enter into sale and leaseback transactions and to consolidate, merge or sell all or substantially all of our assets.
Use of Proceeds.....	We will use the net proceeds to repay a portion of our bank debt.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following is a summary of financial data for the fiscal years ended June 30, 1994, 1995, 1996, 1997 and 1998 and the three months ended September 30, 1997 and 1998. The pro forma statement of income for fiscal 1998 gives effect to USEC's initial public offering (the "IPO"), pro forma interest expense of $36.0 million on borrowings of $550.0 million incurred at the time of the IPO, and a pro forma provision for income taxes of $41.9 million to give effect to USEC's

transition to taxable status, as if such events had occurred at the beginning of fiscal 1998.

You should read this information in conjunction with the audited consolidated financial statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

	YEARS ENDED JUNE 30,						THREE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1998	1998	1997	1998
	(MILLIONS, EXCEPT PER SHARE DATA)					PRO FORMA	(UNAUDITED)	
STATEMENT OF INCOME DATA								
Revenue								
Domestic	$ 831.8	$1,001.9	$ 901.6	$ 950.8	$ 896.2	$ 896.2	$319.7	$176.9
Asia	489.0	485.5	441.3	487.5	442.8	442.8	83.2	79.9
Europe and other	82.5	123.3	69.9	139.5	82.2	82.2	37.5	51.1
	1,403.3	1,610.7	1,412.8	1,577.8	1,421.2	1,421.2	440.4	307.9
Cost of sales	983.3	1,088.1	973.0	1,162.3	1,062.1	1,062.1	342.1	248.6
Gross profit	420.0	522.6	439.8	415.5	359.1	359.1	98.3	59.3
Special charges for workforce reductions and Privatization costs	--	--	--	--	46.6(1)	46.6(1)	--	--
Project development costs	44.9	49.0	103.6	141.5	136.7	136.7	32.2	31.6
Selling, general and administrative	21.4	27.6	36.0	31.8	34.7	34.7	8.1	7.9
Operating income	353.7	446.0	300.2	242.2	141.1	141.1	58.0	19.8
Interest expense	--	--	--	--	--	36.0	--	6.5
Other (income) expense, net	3.3	(1.5)	(3.9)	(7.9)	(5.2)	(5.2)	(2.0)	(1.6)
Income before income taxes	350.4	447.5	304.1	250.1	146.3	110.3	60.0	14.9
Provision (benefit) for income taxes	--	--	--	--	--	41.9	--	(48.2)(2)
Net income	$ 350.4	$ 447.5	$ 304.1	$ 250.1	$ 146.3	$ 68.4	$ 60.0	$ 63.1
Net income per share -- basic and diluted						$ .68		$ .63
Average number of shares outstanding						100.0		100.0

- ---

(1) Special charges amounted to $46.6 million for fiscal 1998 for costs related to the Privatization and certain severance and transition benefits to be paid to plant workers in connection with workforce reductions over the next two years.

(2) The provision for income taxes for the first quarter ended September 30, 1998, 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 was $6.3 million and net income was $8.6 million or $.09 per share.

	AS OF JUNE 30,					AS OF SEPTEMBER 30,
	1994	1995	1996	1997	1998	1998
	(MILLIONS)					(UNAUDITED)
BALANCE SHEET DATA						
Cash	$ 735.0	$1,227.0	$1,125.0	$1,261.0	$1,177.8	$ 48.4
Inventories:						
Current assets:						
Separative work units	$ 500.6	$ 517.7	$ 586.8	$ 573.8	$ 687.0	$ 699.4
Uranium(1)	158.6	165.5	150.3	131.5	184.5	199.7

Materials and supplies	17.0	19.8	15.7	12.4	24.8	22.4
Long-term assets -- uranium	103.6	115.5	199.7	103.6	561.0	562.7
Inventories, net	$ 779.8	$ 818.5	$ 952.5	$ 821.3	$1,457.3	$1,484.2
Total assets	$2,798.9	$3,216.8	$3,356.0	$3,456.6	$3,471.3	$2,311.2
Short-term debt	--	--	--	--	--	265.0
Long-term debt	--	--	--	--	--	300.0
Other liabilities	191.4	383.2	427.4	451.8	503.3	124.1
Stockholders' equity	1,545.0	1,937.5	2,121.6	2,091.3	2,420.5	1,142.7

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

RISK FACTORS. You should consider carefully the following risk factors in addition to the more detailed information contained in this prospectus.

HOLDING COMPANY STRUCTURE -- OUR OPERATING SUBSIDIARY PROVIDES MOST OF OUR CASH FLOW BUT IS NOT OBLIGATED TO PAY OR GUARANTEE THE SENIOR NOTES, WHICH EFFECTIVELY SUBORDINATES THE SENIOR NOTES TO INDEBTEDNESS OF THE SUBSIDIARY.

Because we conduct our operations primarily through our operating subsidiary, we depend on that entity for dividends and other payments to generate the funds necessary to meet our financial obligations, including the payment of principal and interest on the senior notes. In addition, there can be no assurance that the earnings from or other available assets of our operating subsidiary will be sufficient to make distributions to us to enable us to pay interest on the senior notes when due or principal of the senior notes at maturity.

Our operating subsidiary will have no direct obligation to pay amounts due on the senior notes and will not guarantee the senior notes. As a result, the senior notes will have the effect of being subordinated to all existing and future unsecured third-party indebtedness and other liabilities of the subsidiary (including trade payables). If the subsidiary liquidates or reorganizes, the subsidiary's creditors (including trade creditors) will have preferential rights to satisfy their claims from the subsidiary's remaining assets before USEC and its creditors, including the holders of the senior notes, may satisfy their claims from the subsidiary's assets. We or our subsidiaries may issue an unlimited amount of additional indebtedness under the indenture.

VARIABILITY OF REVENUE AND OPERATING RESULTS -- OUR REVENUE AND OPERATING RESULTS CAN FLUCTUATE SIGNIFICANTLY FROM QUARTER-TO-QUARTER, AND EVEN YEAR-TO-YEAR.

Under their contracts with us, our customers determine their requirements for our enrichment services based on their refueling schedules for their nuclear reactors, which generally range from 12 to 18 months (or in some cases up to 24 months). Refueling schedules 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, utilities generally schedule their reactors for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. In addition, we provide customers a window ranging from 10 to 30 days to take delivery of enriched uranium. Refueling orders typically average $14.0 million per customer order for our uranium enrichment services.

We plan our cash outlays for power and other production costs, a significant portion of which is fixed in the short-term, on the basis of meeting customer orders and achieving revenue targets for the year. As a result, a relatively small change in the timing of customer orders may cause earnings and cash flow results to be substantially above or below expectations.

We anticipate supplementing our uranium enrichment revenue through new sales of natural uranium. While we do not anticipate making significant natural uranium sales until after fiscal 2000, we may not be able to sell the natural uranium at anticipated prices and quantities.

ELECTRICITY -- INCREASES IN COSTS OF POWER NEGATIVELY IMPACT OUR PRODUCTION COSTS.

The plants require substantial amounts of electricity to enrich uranium, representing 53% of our production costs in fiscal 1998. We purchase power under three types of purchasing arrangements: firm, supplemental firm and non-firm power. While almost all of the power we purchase for the Portsmouth plant is favorably-priced firm power, a substantial

portion of the power we purchase for the Paducah plant is supplemental firm or non-firm power. This power must be purchased at market-based rates, which are generally less favorable than rates for firm power. 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.

Firm power represented 71% of our fiscal 1998 power needs and supplemental firm and non-firm power together represented the remaining 29%. Our production costs increase to the extent that the cost of all three types of power rise.

When our costs of supplemental firm and non-firm power are high, we may reduce our production of separative work units at the plants. However, operating the plants at the lower production levels results in higher unit production costs per separative work unit which may adversely affect our profitability. In addition, an unanticipated interruption to the power supply to the plants could have a material adverse effect on USEC's financial condition to the extent we have to curtail operations for any length of time.

Last summer, the Midwest experienced persistent hot weather, high electricity demand, and power generation shortages. These factors resulted in record-high power costs from early last summer into the fall. These increased costs negatively impacted the Paducah plant's production costs. For additional information on how the market prices for power in the first quarter ended September 30, 1998 are expected to negatively impact our fiscal year 1998 financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

USEC is exploring alternatives to reduce its exposure to market-priced power at the Paducah plant during next summer and future periods. These alternatives include negotiating to procure power at acceptable prices and reducing production levels at the Paducah plant during affected periods. However, USEC may not succeed at reducing its exposure.

Upon termination of the power contracts, we are responsible for our pro rata share of costs of future decommissioning, shutdown and demolition activities for three coal-fired generating plants. We accrue, but have not yet funded, estimated costs for these future activities over the contract period. The accrued liability amounted to $18.2 million at September 30, 1998. It is possible that our pro rata share of total costs for such decommissioning and shutdown activities will exceed the amounts that we have accrued.

RISKS ASSOCIATED WITH ENRICHMENT OPERATIONS

Enriching uranium requires the use of chemicals that may cause injury. USEC's operations at the plants involve processes that use many different toxic chemicals in significant quantities. We follow strict procedures and precautions in the handling, storage and transportation of the materials we use in our operations, and we have not had any significant releases into the environment. Nevertheless, if an accident were to occur, the severity of the accident could be significantly affected by factors within, as well as outside of, our control. These factors include the volume of the release, the speed of corrective action taken by plant employees, the weather and the wind conditions. The primary risk posed by such releases is to humans or animals in close proximity to the release.

We depend on sustained operation of our production facilities. USEC's operations are subject to the typical risks inherent in operating large scale production facilities. Significant or extended unscheduled downtime at either plant due to the following could adversely affect our operations and financial condition:

- equipment breakdowns;

- power interruptions;

- regulatory enforcement actions, including any by the NRC;

- labor disruptions; and

- interruptions caused by potential natural or other disasters, including earthquake activity in the vicinity of the Paducah plant.

We have committed to operate the plants until 2005, reducing our flexibility to respond to increases in supplies of enriched uranium from other sources. In an agreement with the U.S. Treasury Department (the "Treasury Agreement"), we committed to operate both of the plants until January 1, 2005, subject only to limited exceptions. These exceptions consist of:

- fires, floods and other acts of God;

- maintenance of certain financial ratios;

- a significant reduction in the worldwide demand for separative work units;

- a significant reduction in the average price for separative work units to below $80; or

- a significant decrease in operating margins to below 10% during a 12-month period.

It is possible that our commitment to continue operations at both plants may adversely affect our financial performance if the supply of separative work units from other sources increases.

NUCLEAR UTILITY INDUSTRY -- OUR PROSPECTS ARE TIED TO THE NUCLEAR UTILITY INDUSTRY.

Events that could adversely affect us by eliminating or reducing requirements for enriched uranium include:

- customers' business decisions concerning reactors or reactor operations, such as a suspension of reactor operations or cancellation of new reactor construction;

- regulatory actions or changes in regulations by nuclear regulatory bodies; and

- accidents or civic opposition to nuclear operations.

CUSTOMER CONCENTRATION -- THE LOSS OF A CUSTOMER, OR ITS DELAY IN MAKING PAYMENT, CAN SIGNIFICANTLY AFFECT US.

In fiscal 1998, our 10 largest customers represented 44% of our revenue. If any of our major customers terminates its contract or reduces its requirements, our financial performance could be adversely affected. Further, if a major customer is unable to make timely payments our financial performance could be adversely affected.

COMPETITION -- OUR COMPETITORS MAY BE LESS COST SENSITIVE OR BE FAVORED DUE TO NATIONAL LOYALTIES.

In the highly competitive global uranium enrichment industry, we compete with the following three major producers:

- AO Techsnabexport ("Tenex"), a Russian government entity;

- Eurodif/Cogema ("Eurodif"), a consortium controlled by the French government; and

- Urenco, a consortium of the British and Dutch governments and private German corporations.

Our competitors may have greater financial resources and receive other types of support from their respective governmental owners which enable them to be less cost sensitive. In addition, our competitors' decisions may be influenced by political and economic policy considerations rather than prevailing market conditions. Further, purchasers in certain areas (particularly Europe and the countries comprising the former Soviet Union) may favor their local producers, due to government influence or national loyalties.

TREND TOWARD LOWER PRICING -- THE MARKET PRICE OF SEPARATIVE WORK UNITS MAY DECLINE.

Changes in the market price of separative work units can significantly affect our profitability. Factors influencing such changes include:

- industry overcapacity;

- excess inventory at customer facilities;

- decreased global demand;

- new technologies;

- production costs of other enrichment suppliers; and

- exchange rate fluctuations relating to the U.S. dollar versus competitors' currencies.

Currently, there is an excess of production capacity and certain suppliers have announced plans to expand their capacities. In addition to this overcapacity, exports of enriched uranium from countries comprising the former Soviet Union and sales of buyer-held inventory have contributed to significant downward pressure on separative work unit prices over the last several years. Accordingly, our new contracts have significantly lower prices per separative work unit and substantially shorter terms than previous contracts. Further, we anticipate a trend toward somewhat lower prices to continue as we compete for new business. This trend may adversely affect our financial performance.

PURCHASES UNDER THE RUSSIAN CONTRACT -- WE CAN BE ADVERSELY AFFECTED BY

UNANTICIPATED DELAYS IN DELIVERY, AND THE PRICE WE PAY MAY EXCEED THE PRICE AT WHICH WE CAN RESELL.

In January 1994, USEC entered into a 20-year contract to purchase separative work units from Tenex (the "Russian Contract"). As the volume of separative work units purchased under the Russian Contract increases, we operate the plants at lower production levels resulting in higher unit production costs. Our objective is to manage our production and inventory levels (including anticipated purchases under the Russian Contract) in a manner that most efficiently meets customer demand for enrichment services. Deliveries by Tenex have been delayed from time to time and a portion of 1998 deliveries are currently delayed. To date, our ability to fill customer orders has not been disrupted due to our existing inventory. However, an unanticipated significant delay in deliveries of Russian separative work units, or deliveries of separative work units not meeting commercial specifications, could require unplanned adjustments to production levels at the plants, and could adversely impact our profitability.

The mechanism for establishing separative work unit prices under the Russian Contract for purchases through 2001 has been set, and we expect the prices to be substantially higher than our marginal cost of producing separative work units at the plants. Consequently, although we presently can resell the Russian separative work units for more than its cost to us, such sales are less profitable than sales of separative work units produced at the plants. The effect of this pricing structure will become more pronounced if the market price for separative work units declines further, and it is possible that the price we pay for the Russian separative work units may exceed the price at which we can resell the material.

Under an agreement with the U.S. Department of State and DOE, we can be terminated, or resign, as the U.S. Executive Agent, or additional executive agents may be named. In either event, any new executive agent could represent a significant new competitor that could adversely affect our market share and profitability.

AVLIS -- THERE ARE A NUMBER OF RISKS ASSOCIATED WITH THE DEVELOPMENT AND COMMERCIALIZATION OF AVLIS, ANY OF WHICH COULD ADVERSELY AFFECT OUR FINANCIAL OR COMPETITIVE POSITION.

AVLIS is a new laser-based technology and is still undergoing testing. Before we

will be in a position to finalize our decision to construct a full-scale commercial facility, we need to conduct additional equipment demonstration and testing activities. We could encounter unanticipated delays or expenditures at this stage. If we determine not to proceed with AVLIS deployment, we would pursue other options for enrichment services such as plant upgrades or exploring other new technologies, which could adversely affect our financial or competitive position. In addition, we could incur certain additional costs in connection with terminating the AVLIS project. If we determine to deploy AVLIS, we cannot provide assurance that we could complete an AVLIS plant as scheduled or that a full-scale facility will operate at its design capacity of 9.0 million separative work units or at its target operating cost.

AVLIS will be costly and will require significant financing. Based on preliminary design drawings and assumptions regarding the suitability of available sites, we estimate AVLIS development and deployment to cost $2.5 billion until commercial deployment, which is expected to begin in fiscal 2006. If we determine to deploy AVLIS, it is possible that development costs or construction costs associated with AVLIS could be higher than anticipated. We will require significant financing to commercially deploy AVLIS. We cannot be certain that financing will be available when required, and we cannot predict the cost or terms of such financing.

REGULATORY AND ENVIRONMENTAL RISKS -- OUR FINANCIAL CONDITION CAN BE AFFECTED BY

REGULATORY DEVELOPMENTS.

We are subject to certain government regulation. See "Business -- Regulatory Oversight." In particular, the NRC regulates the plants under the Atomic Energy Act. If the NRC were to find that we had not complied with its requirements, it could take actions or impose conditions which could adversely affect our financial condition. See "Business -- Regulatory Oversight -- NRC." Our operations are also subject to numerous federal, state and local laws and regulations relating to the protection of health, safety and the environment, including those regulating the emission and discharge into the environment of materials (including radioactive materials). See "Business -- Environmental Matters." Unanticipated events or regulatory developments related to environmental matters could have a material adverse effect on our financial condition.

POSSIBLE ILLIQUIDITY OF THE SECONDARY MARKET

It is not possible to predict how the senior notes will trade in the secondary market or whether such market will be liquid or illiquid. There is currently no secondary market for the senior notes. The Underwriters have advised us that they intend, but are not obligated, to make a market in the senior notes. We cannot assure that a secondary market will develop, or, if a secondary market does develop, that it will provide the holders of senior notes with liquidity or that it will continue for the life of the senior notes.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. You will find discussions containing forward-looking statements in this "Risk Factors" section and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections, as well as within this prospectus generally. In addition, our use of the words "believes," "intends," "anticipates," "expects" and words of similar import may constitute "forward-looking statements." Because such statements involve risks and uncertainties, our actual results may differ materially from those we express or imply by such forward-looking statements.

RATIO OF EARNINGS TO FIXED CHARGES

Prior to the IPO, USEC had no debt. Giving effect to bank debt incurred in connection with the IPO, the pro forma ratio of earnings to fixed charges for fiscal 1998 was 3.9x. The ratio of earnings to fixed charges for the three months ended September 30, 1998, was 3.1x.

For purposes of calculating the ratio of earnings to fixed charges, earnings represent income before income taxes plus fixed charges. Fixed charges represent interest expense, amortization of fees, capitalized interest and the interest component of leases.

USE OF PROCEEDS

In connection with the Privatization, USEC entered into a credit facility aggregating $700.0 million. USEC will use the net proceeds from the sale of the senior notes offered by this prospectus to repay a portion of borrowings under the credit facility, which totaled $565.0 million at September 30, 1998, and to reduce lenders' commitments under the credit facility by up to $400.0 million. The weighted average interest rate for borrowings under the credit facility, including the amortization of fees, amounted to 6.8% for the period ended September 30, 1998.

A portion of the indebtedness to be repaid under the credit facility is owed to Morgan Guaranty Trust Company of New York ("Morgan Guaranty"), a lender under the credit facility. Morgan Guaranty, a wholly owned subsidiary of J.P. Morgan & Co. Incorporated, is an affiliate of J.P. Morgan Securities Inc., an underwriter of this offering.

A portion of the indebtedness to be repaid under the credit facility is owed to Bank of America National Trust and Savings Association ("Bank of America"), a lender under the credit facility. Bank of America, a wholly owned subsidiary of BankAmerica Corporation, is an affiliate of NationsBanc Montgomery Securities LLC, an underwriter of this offering.

CAPITALIZATION

The following table sets forth the capitalization of USEC as of September 30, 1998. This table should be read in conjunction with USEC's consolidated financial statements and related notes included in this prospectus.

	AS OF SEPTEMBER 30, 1998	
	ACTUAL	AS ADJUSTED(1)
	(MILLIONS, EXCEPT PER SHARE DATA)	
Short-term debt	$ 265.0	$
Long-term debt:		
Senior notes offered by this prospectus	--	
Long-term debt	300.0	--
Stockholders' equity:		
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized; no shares issued	--	--
Common stock, par value $.10 per share, 250,000,000 shares authorized; 100,000,000 shares issued and outstanding	10.0	10.0
Excess of capital over par value	1,067.6	1,067.6
Retained earnings	65.1	65.1
Total stockholders' equity	1,142.7	1,142.7
Total capitalization	$1,707.7	$

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(1) Gives effect to the issuance of the senior notes and the use of the proceeds.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations"

included elsewhere in this prospectus. Selected financial data as of and for each of the fiscal years in the five-year period ended June 30, 1998 have been derived from the Consolidated Financial Statements included elsewhere in this prospectus. USEC's Consolidated Financial Statements have been audited by Arthur Andersen LLP, independent public accountants, whose report is also included elsewhere in this prospectus.

	YEARS ENDED JUNE 30,						THREE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1998	1998	1997	1998
	(MILLIONS, EXCEPT PER SHARE DATA)					PRO FORMA(1)	(UNAUDITED)	
STATEMENT OF INCOME DATA								
Revenue								
Domestic	$ 831.8	$1,001.9	$ 901.6	$ 950.8	$ 896.2	$ 896.2	$319.7	$176.9
Asia	489.0	485.5	441.3	487.5	442.8	442.8	83.2	79.9
Europe and other	82.5	123.3	69.9	139.5	82.2	82.2	37.5	51.1
	1,403.3	1,610.7	1,412.8	1,577.8	1,421.2	1,421.2	440.4	307.9
Cost of sales	983.3	1,088.1	973.0	1,162.3	1,062.1	1,062.1	342.1	248.6
Gross profit	420.0	522.6	439.8	415.5	359.1	359.1	98.3	59.3
Special charges for workforce reductions and Privatization costs	--	--	--	--	46.6(2)	46.6(2)	--	--
Project development costs	44.9	49.0	103.6	141.5	136.7	136.7	32.2	31.6
Selling, general and administrative	21.4	27.6	36.0	31.8	34.7	34.7	8.1	7.9
Operating income	353.7	446.0	300.2	242.2	141.1	141.1	58.0	19.8
Interest expense	--	--	--	--	--	36.0(3)	--	6.5
Other (income) expense, net	3.3	(1.5)	(3.9)	(7.9)	(5.2)	(5.2)	(2.0)	(1.6)
Income before income taxes	350.4	447.5	304.1	250.1	146.3	110.3	60.0	14.9
Provision (benefit) for income taxes	--	--	--	--	--	41.9(4)	--	(48.2)(5)
Net income	$ 350.4	$ 447.5	$ 304.1	$ 250.1	$ 146.3	$ 68.4	$ 60.0	$ 63.1(6)
Net income per share -- basic and diluted						$ .68		$ .63(6)
Average number of shares outstanding						100.0		100.0

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(1) Gives effect to the IPO, interest expense on borrowings of $550.0 million incurred at the time of the IPO, and USEC's transition to taxable status, as if such events had occurred at the beginning of fiscal 1998.

(2) Special charges amounted to $46.6 million for fiscal 1998 for costs related to the Privatization and certain severance and transition benefits to be paid to plant workers in connection with workforce reductions over the next two years.

(3) Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.6%, including the amortization of fees, on $550.0 million of borrowings incurred at the time of the IPO, as if such borrowings had occurred at the beginning of fiscal 1998.

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

(5) At the time of the IPO, USEC became subject to federal, state and local income taxes. The provision for income taxes includes a special income tax benefit of $54.5 million for deferred income tax benefits that arise from USEC's 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 for the first fiscal quarter ended September 30, 1998, amounted to $6.3 million.

(6) Excluding the special tax benefit, net income was $8.6 million or $.09 per share.

	AS OF JUNE 30,					AS OF SEPTEMBER 30,
	1994	1995	1996	1997	1998	1998
	(MILLIONS)					(UNAUDITED)
BALANCE SHEET DATA						
Cash	$ 735.0	$1,227.0	$1,125.0	$1,261.0	$1,177.8	$ 48.4
Inventories:						
Current assets:						
Separative Work Units	$ 500.6	$ 517.7	$ 586.8	$ 573.8	$ 687.0	$ 699.4
Uranium(1)	158.6	165.5	150.3	131.5	184.5	199.7
Materials and supplies	17.0	19.8	15.7	12.4	24.8	22.4
Long-term assets -- uranium	103.6	115.5	199.7	103.6	561.0	562.7
Inventories, net	$ 779.8	$ 818.5	$ 952.5	$ 821.3	$1,457.3	$1,484.2
Total assets	$2,798.9	$3,216.8	$3,356.0	$3,456.6	$3,471.3	$2,311.2
Short-term debt	--	--	--	--	--	265.0
Long-term debt	--	--	--	--	--	300.0
Other liabilities(2)	191.4	383.2	427.4	451.8	503.3	124.1
Stockholders' equity	1,545.0	1,937.5	2,121.6	2,091.3	2,420.5	1,142.7

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

(2) Other liabilities include accrued liabilities for depleted UF(6) disposition costs in the amounts of $93.0 million at June 30, 1994, $212.4 million at June 30, 1995, $303.0 million at June 30, 1996, $336.4 million at June 30, 1997, $372.6 million at June 30, 1998 and $4.3 million at September 30, 1998.

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 prospectus.

OVERVIEW

USEC, a global energy company, is the world leader in the production and sale of uranium fuel enrichment services for commercial nuclear power plants, with approximately 75% of the North American market and approximately 40% of the world market. Uranium enrichment is a critical step in transforming natural uranium into fuel for nuclear reactors to produce electricity. Based on customers' long-term estimates of their requirements and certain other assumptions, including estimates of inflation rates, at September 30, 1998 USEC had long-term requirements contracts with utilities to provide uranium enrichment services aggregating $3.6 billion through fiscal 2001 and $7.0 billion through fiscal 2009, compared with $7.8 billion at September 30, 1997.

USEC is the Executive Agent of the U.S. Government under a government-to-government agreement to purchase separative work units ("SWU") recovered from

dismantled nuclear weapons from the former Soviet Union for use in commercial electricity production. Cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian Contract at prices that are substantially higher than its marginal production cost at the plants. As the volume of Russian SWU purchases has increased, USEC has operated the plants at lower production levels resulting in higher unit production costs. Pursuant to the Russian Contract, Russian SWU purchases will peak in calendar year 1998 at 5.5 million SWU per year and are expected to remain at that level thereafter.

Agreements with electric utilities are generally long-term requirements contracts under which customers are obligated to purchase a specified percentage of their requirements for uranium enrichment services. Customers, however, are not obligated to make purchases or payments if they do not have any requirements. The stated term of contracts transferred by DOE to USEC on July 1, 1993 (the "Transition Date") is 30 years, although future purchase obligations thereunder may be terminated by, among other things, giving 10 years' notice, although USEC has allowed shorter notice periods. The terms of newer contracts entered into since the Transition Date range from 3 to 11 years and do not typically provide for advance termination rights. Revenue from sales of SWU under new contracts represented 68% of total revenue in fiscal 1998. USEC believes that the trend for contracts with shorter terms will continue, with the newer contracts generally containing terms in the range of 3 to 7 years.

Revenue and operating results can fluctuate significantly from quarter-to-quarter, and in some cases, year-to-year. Customer requirements are determined by refueling schedules for nuclear reactors, which generally range from 12 to 18 months (or in some cases up to 24 months), and are in turn affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. In addition, USEC provides customers a window ranging from 10 to 30 days to take delivery of ordered product. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results. Refueling orders typically average $14.0 million

per customer order for uranium enrichment services. USEC plans its cash outlays for power and other production costs, a significant portion of which is fixed in the short term, on the basis of meeting customer orders and achieving revenue targets for the year. As a result, a relatively small change in the timing of customer orders may cause earnings and cash flow results to be substantially above or below expectations. Notwithstanding this variability, USEC has significant backlog based on customers' estimates of their requirements for uranium enrichment services.

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

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, virtually all 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.

Revenue could be negatively impacted by NRC actions suspending operations at domestic 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.

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 in the major European currencies.

USEC's financial performance over time can also be significantly affected by changes in the market price for SWU. SWU prices have been declining, reflecting the trend toward lower prices and shorter contracts in the highly competitive uranium enrichment market and the impact of changes in foreign currency exchange rates. Currently, there is an excess of production capacity and certain suppliers have announced plans to expand capacities. In addition to this overcapacity, exports of enriched uranium from countries comprising the former Soviet Union and sales of buyer-held inventory have contributed to significant downward pressure on SWU prices over the last several years. Accordingly, the new contracts have significantly lower prices per SWU and substantially shorter terms than previous contracts. USEC anticipates a trend toward somewhat lower prices to continue as it competes for new business.

USEC believes that its willingness to provide flexible contract terms has been instrumental in its ability to successfully compete for and capture open demand. USEC also believes that the advent of shorter contract terms is an industry wide phenomenon; utilities have been experiencing rapid changes in their industry and have been less willing to enter

into extended obligations. This trend toward shorter contract terms requires that USEC, as well as its competitors, pursue new sales with greater frequency. The general effect of this is to increase the level of competition among uranium enrichment suppliers for new SWU commitments.

Cost of Sales

Cost of sales is based on the quantity of SWU sold during the period and is dependent upon production costs at the plants and SWU purchase costs (the latter mainly under the Russian Contract). Production costs at the plants for fiscal 1998 included purchased electric power (53% of production costs, of which 29% represents non-firm power and 71% represents firm power), labor and benefits (30% of production costs), depleted UF(6) disposition costs (7% of production costs), materials, maintenance and repairs, and other costs (10% of production costs). Since USEC uses the monthly moving average inventory cost method, an increase or decrease in production or purchase costs would have an effect on cost of sales over future fiscal periods. Purchases of SWU under the Russian Contract are recorded at acquisition cost plus related shipping costs.

Under electric power supply arrangements, USEC purchases a significant portion of its electric power at or below market rates based on long-term contracts with dedicated power generating facilities. In fiscal 1998, the average price of electricity was $19.66 per megawatt hour ("MWh"). 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.

USEC has an operations and maintenance contract with Lockheed Martin Utility Services, Inc. ("LMUS"), a subsidiary of Lockheed Martin Corporation (the "LMUS

Contract"), under which LMUS provides labor, services, and materials and supplies to operate and maintain the plants, and for which USEC pays LMUS for its actual costs and contract fees. The LMUS Contract expires on October 1, 2000, and may be terminated by USEC without penalty upon six months' notice. On November 18, 1998, USEC gave notice to terminate the LMUS Contract. Consequently, USEC expects to assume direct management and operation of the plants six months from the date of notice. USEC expects an orderly transition of compensation and benefits to allow the plant workers to become employees of USEC or its subsidiaries.

USEC accrues estimated costs for the future disposition of depleted UF(6) generated as a result of its operations. Costs are dependent upon the volume of depleted UF(6) generated and estimated conversion and disposal costs. USEC stores depleted UF(6) at the plants and continues to evaluate various proposals for its disposition. Pursuant to the USEC Privatization Act (the "Privatization Act") and an agreement with DOE dated May 18, 1998, depleted UF(6) generated by USEC through the date of the IPO was transferred to DOE. In June 1998, USEC paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted UF(6) generated from operations at the plants from October 1998 to 2005.

USEC leases the plants and process-related machinery and equipment at attractive, below-market 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 until 2005. Pursuant to the Energy Policy Act and the Privatization Act, with certain exceptions, the U.S. Government is responsible for all environmental liabilities associated with the operation of the plants prior to the time

of the IPO and decontamination and decommissioning of the plants at the end of their operating lives.

USEC expects to incur additional production costs of $14.8 million in fiscal 1998 for taxes other than income taxes and property insurance premiums.

As Executive Agent under the Russian Contract, USEC has committed to purchase 4.4 million SWU in calendar 1998, of which 1.9 million SWU in the amount of $164.8 million was purchased as of September 30, 1998. In each of calendar years 1998 to 2001, USEC has committed to purchase 5.5 million SWU at the annual amount of $469.8 million, subject to certain purchase price adjustments for U.S. inflation. The Russian Contract has a 20-year term; USEC expects its purchases after 2001 to remain at the 5.5 million SWU per year level.

Project Development Costs

USEC is managing the development and engineering necessary to commercialize AVLIS, including activities relating to:

- site selection;

- NRC licensing;

- uranium feed and product technology;

- AVLIS demonstration facilities; and

- development and design of plant production facilities.

AVLIS project development costs are charged against income as incurred. USEC intends to capitalize AVLIS development costs associated with facilities and equipment designed for commercial production activities.

In addition, USEC has been evaluating a potential new advanced enrichment technology called "SILEX" and plans to continue evaluating the SILEX technology during fiscal 1998.

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

With the completion of the IPO, USEC has become subject to federal and state income taxes at a combined effective income tax rate of 38%.

RESULTS OF OPERATIONS

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

	FISCAL YEARS ENDED JUNE 30,				(UNAUDITED) THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1998	1998 PRO FORMA	1997	1998
Revenue						
Domestic	64%	60%	63%	63%	73%	57%
Asia	31	31	31	31	19	26
Europe and other	5	9	6	6	8	17
	100%	100%	100%	100%	100%	100%
Cost of sales	69	74	75	75	78	81
Gross profit	31	26	25	25	22	19
Special charges for workforce reductions and Privatization costs	--	--	3	3	--	--
Project development costs	7	9	10	10	7	10
Selling, general and administrative	2	2	2	2	2	3
Operating income	22	15	10	10	13	6
Interest expense	--	--	--	2	--	2
Other (income) expense, net	--	(1)	--	--	(1)	(1)
Income before income taxes	22	16	10	8	14	5
Provision (benefit) for income taxes	--	--	--	3	--	(16)
Net income	22%	16%	10%	5%	14%	21%

QUARTERLY FINANCIAL INFORMATION

The following table sets forth unaudited quarterly financial data for each of the nine quarterly periods ending September 30, 1998. Operating results for any quarter are not necessarily indicative of results for any future period:

	(UNAUDITED) THREE MONTHS ENDED						
	SEPTEMBER 30, 1996	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997	SEPTEMBER 30, 1997	DECEMBER 31, 1997	MARCH 31, 1998
	(MILLIONS)						
Revenue	$422.9	$485.1	$216.4	$453.4	$440.4	$322.3	$294.0
Cost of sales	307.9	364.2	161.3	328.9	342.1	235.7	214.4
Gross profit	115.0	120.9	55.1	124.5	98.3	86.6	79.6
Special charges for workforce reductions and Privatization costs	--	--	--	--	--	--	--
Project development costs	35.7	39.2	32.6	34.0	32.2	35.4	35.4

Selling, general and administrative.....	8.6	8.6	8.5	6.1	8.1	8.9	7.8
Operating income.....	70.7	73.1	14.0	84.4	58.0	42.3	36.4
Interest expense.....	--	--	--	--	--	--	--
Other (income) expense, net.....	(2.3)	(.9)	(1.1)	(3.6)	(2.0)	.6	(3.9)
Income before taxes.....	73.0	74.0	15.1	88.0	60.0	41.7	40.3
Provision (benefit) for income taxes...	--	--	--	--	--	--	--
Net income.....	$ 73.0	$ 74.0	$ 15.1	$ 88.0	$ 60.0	$ 41.7	$ 40.3

	(UNAUDITED) THREE MONTHS ENDED	
	JUNE 30, 1998	SEPTEMBER 30, 1998
	(MILLIONS)	
Revenue.....	$364.5	$307.9
Cost of sales.....	269.9	248.6
Gross profit.....	94.6	59.3
Special charges for workforce reductions and Privatization costs.....	46.6	--
Project development costs.....	33.7	31.6
Selling, general and administrative.....	9.9	7.9
Operating income.....	4.4	19.8
Interest expense.....	--	6.5
Other (income) expense, net.....	0.1	(1.6)
Income before taxes.....	4.3	14.9
Provision (benefit) for income taxes...	--	(48.2)
Net income.....	$ 4.3	$ 63.1

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1997 AND 1998

Revenue

Revenue amounted to $307.9 million in the first fiscal quarter ended September 30, 1998, a reduction of $132.5 million (or 30%) from $440.4 million in the first quarter of fiscal 1998. The lower revenue was attributable primarily to 28% lower sales of SWU resulting mainly from changes in the timing of customer nuclear reactor refueling orders. Revenue was also affected by lower sales of natural uranium and a lower commitment level of a domestic customer. USEC provided enrichment services for 24 reactors as compared with 32 reactors in the first quarter of fiscal 1998. The average SWU price billed to customers during the first quarter of fiscal 1998 was about the same as in the first quarter of fiscal 1998, notwithstanding the trend toward lower prices for new contracts in the highly competitive uranium enrichment market.

Revenue from sales of SWU in the first quarter of fiscal 1998 was reduced by price adjustments following a downward revision by the U.S. Department of Commerce in its inflation index. Prices under a majority of contracts with customers include an inflation adjustment factor. In September 1998, the Department of Commerce revised the inflation index downward retroactive to 1995. The revised lower inflation rates are expected to reduce revenue over the remainder of fiscal 1998 as well as future fiscal years.

The percentage of revenue attributed to domestic and international customers follows:

	THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1998
Domestic	73%	57%
Asia	19	26
Europe and other	8	17
	100%	100%

Revenue from domestic customers declined $142.8 million (or 45%), revenue from customers in Asia declined $3.3 million (or 4%), and revenue from customers in Europe and other areas increased $13.6 million (or 36%). Changes in the geographic mix of revenue resulted primarily from changes in the timing of customers' orders, lower sales of natural uranium to domestic customers, and a lower commitment level of a domestic customer.

Cost of Sales

Cost of sales amounted to $248.6 million in the first quarter of fiscal 1998, a decline of $93.5 million (or 27%) from $342.1 million in the first quarter of fiscal 1998. As a percentage of revenue, cost of sales amounted to 81%, compared with 78% in the first quarter of fiscal 1998. Although cost of sales in dollar terms declined as a result of the 28% reduction in sales of SWU, the decline was partially offset by the effects of higher unit production costs resulting from a significant reduction in production volume, primarily at the Paducah plant. The low production at the Paducah plant in the first quarter of fiscal 1998 was due to USEC's response to the high cost of power, as discussed below. Continued sub-optimal gaseous diffusion cell availability contributed to higher unit production costs at the Portsmouth plant.

Persistent hot weather, high electricity demand in the Midwest and power generation shortages resulted in record-high power costs from the early summer into the fall with a resulting negative impact on the Paducah plant's production costs in the first quarter of fiscal 1998. USEC initially responded to these events by curtailing production at the Paducah plant to reduce the impact of these higher power prices on production costs.

Because the power costs continued to remain unusually high in August, September and into October, USEC extended its response by restoring production at the Paducah plant over a longer period than contemplated earlier in the summer, and will be increasing total production over the remainder of the fiscal year to help meet production and cost targets.

Under the monthly moving average inventory cost method, most of the impact of the higher power costs and lower production volumes on unit production costs is expected to affect cost of sales over the remainder of the fiscal year.

Electric power costs amounted to $90.9 million (representing 54% of production costs) compared with $113.0 million (representing 55% of production costs) in the first quarter of fiscal 1998, a decline of $22.1 million (or 20%). The decline in power costs was attributable to lower production volumes at the plants, principally at the Paducah plant. Although electric power costs were lower, costs per megawatt hour increased 30% over the first quarter of 1998.

Costs for the future disposition of depleted uranium amounted to $5.2 million, a decline of $9.3 million (or 64%) from $14.5 million in the first quarter of fiscal 1998. Lower costs in the first quarter of fiscal 1998 reflect

a lower future disposal rate per kilogram of depleted uranium based on fixed-cost disposal contracts for a certain quantity of depleted uranium and the lower production levels at the plants. At September 30, 1998, the accrued liability for the future disposal of depleted uranium amounted to $4.3 million. In July 1998, pursuant to the USEC Privatization Act, depleted uranium generated by USEC from July 1993 to July 1998 was transferred to DOE, and the accrued liability of $373.8 million at the time of the IPO, on July 28, 1998, was transferred to stockholders' equity.

Subsequent to the IPO, production costs in the first quarter of fiscal 1998 include charges for taxes other than income taxes and property insurance premiums.

SWU purchased under the Russian Contract represented 46% of the combined produced and purchased supply mix, compared with 40% purchased from the Russian Federation and DOE in the first quarter of fiscal 1998. Cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian Contract at prices that are substantially higher than its marginal production cost at the plants. As the volume of Russian SWU purchases has increased, USEC has operated the plants at lower production levels resulting in higher unit production costs. Pursuant to the Russian Contract, Russian highly enriched uranium purchases will peak in calendar year 1998 at 5.5 million SWU per year and are expected to remain at that level thereafter.

Gross Profit

Gross profit amounted to $59.3 million, a reduction of $39.0 million (or 40%) from $98.3 million in the first quarter of fiscal 1998. As a percentage of revenue, gross profit amounted to 19%, compared with 22% in the first quarter of fiscal 1998. The lower gross profit reflects lower sales of SWU primarily from changes in the timing of customers' orders and the effects on cost of sales of lower production volume and higher unit costs at the plants.

Project Development Costs

Project development costs, primarily for the AVLIS project, amounted to $31.6 million, a decline of $.6 million (or 2%) from $32.2 million in the first quarter of fiscal 1998. Development costs for the future commercialization of the AVLIS uranium enrichment process primarily reflect integrated operation of the laser and separator systems to verify enrichment production economics.

Selling, General and Administrative

Selling, general and administrative expenses amounted to $7.9 million, a decline of $.2 million (or 3%) from $8.1 million in the first quarter of fiscal 1998. As a percentage of revenue, selling, general and administrative expenses amounted to 2.6%, compared with 1.8% in the first quarter of fiscal 1998.

Operating Income

Operating income amounted to $19.8 million in the first quarter of fiscal 1999 compared with $58.0 million in the first quarter of fiscal 1998. The decline reflects lower gross profit.

Interest Expense

Interest expense of $6.5 million in the first quarter of fiscal 1999 represents interest on borrowings of $550.0 million incurred at the time of the IPO. Prior to the IPO, USEC had no short or long-term debt. Outstanding borrowings under a credit agreement averaged $557.6 million during the period from July 28 to September 30, 1998, at a weighted average interest rate of 6.8%, including the amortization of fees.

Provision for Income Taxes

The provision for income taxes includes a special income tax benefit of $54.5 million 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 on its assets and liabilities.

Excluding the special tax benefit, the provision for income taxes was $6.3 million in the first quarter of fiscal 1999, of which $3.0 million was incurred in July 1998, subsequent to the IPO.

Net Income

Including the special tax benefit, net income was $63.1 million compared with $60.0 million in the first quarter of fiscal 1998. Excluding the special tax benefit, net income in the first quarter of fiscal 1999 was $8.6 million. Net income in the first quarter of fiscal 1999 was affected by lower gross profit primarily from the timing of customer orders, lower gross profit margins, interest expense on borrowings incurred at the time of the IPO, and the provision for income taxes following the transition to taxable status.

Fiscal 1999 Outlook

First quarter results are on target, and revenue for fiscal 1999 is anticipated to be in line with analysts' expectations. However, fiscal 1999 costs will be greater than previously estimated because the effects of record-high electric power costs continued from early summer into the fall, an unanticipated downward revision in the inflation index by the Department of Commerce is expected to affect revenue, and increased interest and income tax expenses are anticipated. In October 1998, USEC announced that it believed its fiscal 1999 earnings could be about 25 percent below the then current analysts' consensus estimate which was $1.60 per share.

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

Revenue

Revenue amounted to $1,421.2 million in fiscal 1998, a decline of $156.6 million (or 10%) from $1,577.8 million in fiscal 1997. The decline in revenue was attributable primarily to changes in the timing of customer nuclear reactor 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 was $116, an increase of approximately 1% compared with fiscal 1997, notwithstanding the overall trend toward lower prices for contracts negotiated since July 1993 in the highly competitive uranium enrichment market. Sales of uranium to electric utility customers increased to $40.8 million, compared with $25.9 million in fiscal 1997.

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

Cost of Sales

Cost of sales amounted to $1,062.1 million in fiscal 1998, a decline of $100.2 million (or 9%) from $1,162.3 million in fiscal 1997. The decline in cost of sales was attributable to the 12% decline in sales in SWU from changes in the timing of customers' orders, partially offset by the effects of lower production volume and higher unit costs at the 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 cells in order to ensure that customer requirements would be met.

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

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

Costs for the future disposition of depleted UF(6) amounted to $55.7 million in fiscal 1998, a decline of $16.3 million (or 23%) from $72.0 million in fiscal 1997. The decline resulted from lower SWU production overall and, at the Paducah plant, more efficient operations and economic underfeeding of uranium which in turn resulted in a significant reduction in the generation of depleted UF(6). At June 30, 1998, USEC had accrued a total liability of $372.6 million for the future disposal of depleted UF(6).

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 for the fiscal years 1998 and 1997 respectively.

Gross Profit

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

Special Charges

Special charges amounted to $46.6 million ($28.9 million net of income taxes on a pro forma basis) for fiscal 1998 for costs related to the Privatization and certain severance and transition benefits to be paid with respect to 500 plant workers in connection with workforce reductions over the next two fiscal years as follows:

	FISCAL YEAR ENDED JUNE 30, 1998

	(MILLIONS)
Privatization costs.....	$13.8
Worker and community transition assistance benefits.....	20.0
Worker's 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 workers' pre-existing severance benefits of $12.8 million are expected to be paid by July 1999.

Project Development Costs

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

Selling, General and Administrative Expenses

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

Net Income

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

On a pro forma basis, as if the IPO had occurred at the beginning of fiscal 1998, net income before special charges for fiscal 1998, adjusted to reflect interest expense on borrowings of $550.0 million at the time of the IPO and a provision for income taxes, was

$97.3 million or $.97 per share. Including special charges, net income on a pro forma basis was $68.4 million or $.68 per share.

RESULTS OF OPERATIONS -- FISCAL YEARS ENDED JUNE 30, 1996 AND 1997

Revenue

Revenue amounted to $1,577.8 million in fiscal 1997, an increase of $165.0 million (or 12%) from revenue of $1,412.8 million in fiscal 1996. The increase in revenue for fiscal 1997 resulted principally from: (i) the timing of customer nuclear reactor refuelings; (ii) sales to new customers; and (iii) increased

sales to existing customers. Sales of SWU increased 14% in fiscal 1997 following a decline of 14% in fiscal 1996. During fiscal 1997, USEC provided enrichment services for 110 reactors as compared with 101 in fiscal 1996. Revenue for fiscal 1997 included first time sales of SWU for five reactors under Utility Services contracts entered into in earlier years and first time sales for four reactors under new contracts. The average SWU price billed to customers in fiscal 1997 was $115, a decline of approximately 1% compared to fiscal 1996, reflecting the trend toward lower prices for new contracts in the highly competitive uranium enrichment market.

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

Cost of Sales

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

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

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

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

Costs for the future disposition of depleted UF(6) amounted to $72.0 million in fiscal 1997, a decline of $18.6 million (or 21%) from $90.6 million in fiscal 1996. Costs were lower in fiscal 1997 as the estimated future disposal rate per kilogram of depleted UF(6) was reduced as a result of revised estimates based on new proposals from potential disposal companies.

Increased SWU purchases under the Russian Contract and other purchase contracts also contributed to the higher costs of sales in fiscal 1997. Purchased SWU represented 23% of the combined produced and purchased supply mix in fiscal 1997, compared with 16% in fiscal 1996. Unit costs of SWU purchased

under the Russian Contract are substantially higher than USEC's marginal cost of production. USEC purchased SWU derived from highly enriched uranium, as follows: 1.8 million SWU at a cost of $157.3 million and 1.7 million SWU at a cost of $144.1 million for the fiscal years 1997 and 1996, respectively. In September 1996, in accordance with the Privatization Act, USEC and Tenex amended the Russian Contract to eliminate the USEC's obligation to purchase the natural uranium component after calendar year 1996.

Gross Profit

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

Project Development Costs

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

Selling, General and Administrative Expenses

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

Other Income

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

Net Income

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flow

Net cash flows provided by operating activities amounted to $28.6 million in the first quarter of fiscal 1999, compared with $83.1 million in the first quarter of fiscal 1998. Excluding the special deferred income tax benefit, cash flow in the first quarter of fiscal 1999 reflects lower net income as well as an increase of $26.9 million in inventories and cash payments of $8.9 million for costs and expenses relating to the Privatization incurred prior to the IPO. Net cash flows provided by operating activities in the first quarter of fiscal 1998

had been reduced by an advance payment of $60.0 million to DOE for electric power and had been increased by a reduction of $27.9 million in inventories and advances of $14.1 million from customers.

Net cash flows provided by operating activities amounted to $73.3 million in fiscal 1998, compared with $356.1 million in fiscal 1997. Cash flow in fiscal 1998 was reduced by an increase of $142.5 million in inventories, the decline of $103.8 million in net income compared with fiscal 1997, and payments of $66.0 million in fiscal 1998 to DOE relating to the disposition of depleted UF(6), partly offset by an increase of $64.4 million in payables to the Russian Federation for purchases of SWU. In fiscal 1997, the net increase of $50.1 million in payments under the Russian Contract reflected a payment of $100.0 million in December 1996 under the Russian Contract for future deliveries of SWU in calendar years 1998 and 1999.

Net cash flows provided by operating activities amounted to $356.1 million in fiscal 1997, a significant increase over $119.7 million in fiscal 1996. The increase resulted primarily due to a reduction of $97.6 million in customer trade receivables in fiscal 1997 from changes in the timing of customer collections and the collection of $29.4 million from DOE for reimbursable regulatory compliance activities, partially offset by the decline of $54.0 million in net income compared with fiscal 1996. As a supplementary activity in support of the Russian Contract, USEC paid $100.0 million in each of fiscal years 1997 and 1996 as credits for future deliveries of SWU under the Russian Contract.

Capital expenditures relating primarily to plant improvements amounted to $5.7 million in the first quarter of fiscal 1999, compared with $5.9 million in the first quarter of fiscal 1998.

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

The Exit Dividend paid to the U.S. Treasury in July 1998 amounted to $1,709.4 million.

Dividends paid to the U.S. Treasury amounted to $120.0 million in each of the fiscal years 1998, 1997 and 1996. Pursuant to the 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 at a cost of $86.1 million in fiscal 1996 and $74.3 million in fiscal 1997. As a result of the transfer, the total purchase cost of $160.4 million, including related shipping charges, was recorded as a return of capital.

On November 10, 1998 the Board of Directors of USEC Inc. declared the first regular quarterly dividend payment of $.275 per share, payable December 15, 1998 to shareholders of record as of November 25, 1998. An annualized dividend of $1.10 per common share was indicated in the IPO Prospectus dated July 22, 1998. During 1999, USEC anticipates dividend payment dates of March 15, June 15, September 15 and December 15.

Net working capital amounted to $766.6 million at September 30, 1998. USEC has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.5 million at September 30, 1998. Interest is earned on the unpaid balance, and the trade receivable has been secured by an irrevocable letter of credit with payment scheduled for February 27, 1999.

AVLIS Project Expenditures

AVLIS deployment is estimated to cost $2.5 billion from fiscal 1999 through fiscal 2007, of which $700.0 million is expected to be spent during the performance demonstration, design and licensing phase and $1.8 billion during the procurement, construction and startup phase.

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

Capital Structure and Financial Resources

USEC expects that its cash, internally generated funds from operating activities, and available financing sources including borrowings under the credit facility (described below), will be sufficient to meet its obligations as they become due and to fund operating requirements of the plants, purchases of SWU under the Russian Contract, capital expenditures and discretionary investments, AVLIS expenditures in the near term and the quarterly dividend.

USEC borrowed $550.0 million at the time of the IPO, pursuant to a credit facility comprised of three tranches. Tranche A is a 364-day revolving credit facility for $400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at USEC's option, into a one-year term loan. USEC borrowed $550.0 million under Tranche A and Tranche B, transferred $500.0 million of such proceeds to the U.S. Treasury as part of the Exit Dividend of $1,709.4 million and retained $50.0 million in cash. The third tranche, Tranche C, is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Borrowings, net of repayments, amounted to $565.0 million from July 28 to September 30, 1998. Borrowings under the credit facility bear interest at a rate equal to, at USEC's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin," or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on USEC's credit rating.

The credit facility requires 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 credit facility restricts borrowings by USEC subsidiaries to a

maximum of $100.0 million. The failure to satisfy any of the covenants would constitute an event of default. The credit facility also includes other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy and change of control.

The total debt-to-capitalization ratio as adjusted to include short-term debt was 33% at September 30, 1998.

ENVIRONMENTAL MATTERS

In addition to costs for the future disposition of depleted UF(6), 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 relating to such environmental compliance were $25.4 million, $24.9 million and $30.4 million and capital expenditures relating to environmental matters were $4.4 million, $1.8 million and $3.5 million for fiscal years 1998, 1997 and 1996, respectively. In fiscal years 1999 and 2000, USEC expects its operating costs and capital expenditures for such compliance to remain at about the same levels as in fiscal 1998. Costs accrued for the future treatment and disposal of depleted UF(6) produced from its operations were $55.7 million in fiscal 1998. USEC expects that costs relating to the future treatment and disposal of depleted UF(6) will be lower in fiscal 1999.

USEC paid $50.0 million to DOE in June 1998 in consideration for DOE assuming responsibility for a certain amount of depleted UF(6) generated by USEC from the privatization date to 2005.

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

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. 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.

USEC has designed and begun implementation of a Year 2000 project which focuses on systems that are critical to its business. The failure of such critical systems would directly and adversely affect USEC's 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 has adopted a phased approach for critical systems to address the Year 2000 issue. The phases include:

- 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 are not Year 2000 ready are upgraded by modification or replacement;

- testing, in which remediation is validated by checking the ability of critical systems to operate within the Year 2000 time frame; and

- certification, in which systems are formally acknowledged to be Year 2000 ready and acceptable for operation.

The Year 2000 project is proceeding on schedule. The inventory and assessment phases have been completed, and critical systems have been identified. Other software that requires Year 2000 remediation may be included during the assessment, remediation, and testing phases. The identified,

critical, in-house and vendor software is in the process of being remediated, with completion expected by April 1999. USEC expects to complete the testing and certification phases by April 1999.

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

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. The phases include:

- inventory, in which critical business relationships are identified;

- action planning, in which a series of actions and a time frame for monitoring expected compliance status is developed;

- assessment, in which the likelihood of external party Year 2000 readiness is evaluated; and

- contingency planning, in which plans are made to deal with the potential failure of an external party to be Year 2000 ready.

Additional critical relationships may be entered into or included. Assessment of Year 2000 readiness of external parties will continue through calendar year 1999.

In January 1999, USEC plans to assess the progress of Year 2000 remediation efforts internally and externally to determine the scope of contingency planning necessary to reduce the risk. If the remediation schedule lags and cannot meet certain milestones, a contingency planning process would begin, and contingency plans would be implemented if a remediated system does not become available by the date it is needed. USEC also plans to develop contingency plans for the potential failure of critical external parties to address their Year 2000 issues.

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. Irrespective of the progress of the Year 2000 project, USEC is preparing contingency plans, which will take into account the possibility of multiple system failures, both internal and external, due to Year 2000 effects.

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.

USEC expects its costs for software modifications and systems upgrades to resolve Year 2000 issues will amount to $14.0 million, of which $5.8 million had been incurred at September 30, 1998. 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.

POWER PURCHASES, CHANGING PRICES AND INFLATION

The plants require substantial amounts of electricity to enrich uranium. USEC purchases firm and non-firm power to meet its production needs. Production costs would increase to the extent that the market prices of non-firm power, which represented 29% of the fiscal 1998 power needs, and firm power, which represented 71% of the fiscal 1998 power needs, were to rise. In addition, the prices that USEC pays for firm power could increase if there were additional regulatory costs or unanticipated equipment failures at the power plants supplying the firm power to the plants. USEC is exploring a number of alternatives to reduce its exposure to market-priced power at the Paducah plant during next summer and future periods, including negotiations to procure power at acceptable prices and reducing production levels at the Paducah plant during affected periods. There can be no assurance that USEC will be successful in reducing such exposure, including through the procurement of power at acceptable prices to economically operate the Paducah plant during the affected periods.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued and USEC adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." Adoption of the standards did not have a material effect on the financial statements for fiscal 1998.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments are reported on the balance sheet at September 30, 1998, and include cash, cash equivalents, accounts receivable and payable, certain accrued liabilities, payables under the Russian Contract, and variable-rate debt, the carrying amounts for which approximate fair value at September 30, 1998.

The balance sheet carrying amounts and related fair values at September 30, 1998, of USEC's debt obligations that are sensitive to changes in interest rates follow:

	SEPTEMBER 30, 1998	
	BALANCE SHEET CARRYING AMOUNT	FAIR VALUE
	(MILLIONS)	
Variable Rate Debt:		
Short-term debt	$265.0	$265.0
Long-term debt	300.0	300.0
	$565.0	$565.0

The repayment schedule of debt obligations, based on the ultimate maturity dates available under the credit facility, and the related variable interest rates based on implied forward rates in the yield curve as of September 30, 1998, follow:

	MATURITY DATE		
	JULY 1999	JULY 2000	JULY 2003
Variable Rate Debt:			
Short-term debt	$265.0	$ --	$ --
Long-term debt	--	150.0	150.0
	$265.0	$150.0	$150.0
Variable Interest Rate	5.6%	5.8%	6.6%

USEC plans to refinance all or a portion of the borrowings under the credit facility with funds raised in the public or private security markets, including proceeds from this offering.

INDUSTRY OVERVIEW

THE ENRICHMENT PROCESS

Overview

As found in nature, uranium consists of three isotopes, the two principal ones being uranium-235 ("U(235)") and uranium-238 ("U(238)"). U(238) is the more abundant but is not fissionable. U(235) is the fissionable isotope, but its concentration in natural uranium is only about .711% by weight. Light water nuclear reactors, which are operated by most nuclear utilities in the world today, require low enriched uranium fuel with a U(235) concentration in the range of 3% to 5% by weight. Uranium enrichment is the process by which the concentration of U(235) is increased to that level.

Two existing commercial technologies are currently used to enrich uranium for nuclear power plants -- the gaseous diffusion process and the gas centrifuge process. The gaseous diffusion process involves the passage of uranium hexafluoride ("UF(6)") in a gaseous form through a series of filters (or porous barrier). UF(6) is continuously enriched in U(235) as it moves through the process. Because U(235) is lighter, it passes through the barrier more readily than does U(238), resulting in a gaseous uranium that is enriched in U(235), the fissionable isotope. The gaseous diffusion process is power-intensive, requiring significant amounts of electricity to push the UF(6) through the filters. The other enrichment process, gas centrifuge, is significantly less power intensive than the gaseous diffusion process. It employs rapidly spinning cylinders containing UF(6) to separate the fissionable U(235) isotope from the non-fissionable U(238).

SWU

The standard of measure of effort or service in the uranium enrichment industry is separative work units or SWU. A SWU is the amount of work or effort that is required to transform a given amount of natural uranium feed stock (UF(6)) into two streams of uranium, one enriched in the U(235) isotope and the other depleted of the U(235) isotope. Prices for enrichment services are based upon SWU, and the enrichment capacity of suppliers and the enrichment requirements of nuclear utilities are also denominated in SWU.

Overfeeding/Underfeeding

SWU (and the related electricity required for enrichment) and natural uranium are, to a certain extent, interchangeable in the process to create enriched uranium. USEC can either feed more natural uranium into the enrichment process, a mode of operation called "overfeeding," or feed less uranium into the

enrichment process, a mode of operation called "underfeeding." Overfeeding is economical if the costs associated with using and disposal of additional natural uranium are lower than the cost of the electricity used to produce the additional enriched uranium. Underfeeding is economical if the cost of the additional electricity required is lower than the savings from the use of less natural uranium and its related disposal costs. Underfeeding serves to stockpile the inventory of natural uranium which, if not needed for production, can be sold.

THE NUCLEAR FUEL CYCLE

Electric utilities with light water nuclear reactors require fissionable uranium. It is the act of fission which releases the necessary heat required to produce steam for the turbines which generate electricity. The provision of uranium enrichment services, the process by which the concentration of the fissionable isotope U(235) in natural uranium is increased to levels suitable for commercial use, is one vital step in the nuclear fuel cycle as depicted in the diagram below. Utilities typically obtain natural uranium as uranium ore concentrate

from a mining and milling company or other natural uranium supplier. Utilities arrange to have the uranium ore concentrate converted to UF(6) at one of several converters located around the world. The UF(6) is delivered to an enrichment services provider, such as USEC, for enrichment in U(235). The enriched uranium then is transported to a nuclear fuel fabricator to have the enriched UF(6) converted into uranium dioxide pellets for fabrication into fuel elements suitable for use in nuclear reactors.

Graphic entitled "Commercial Nuclear Fuel Cycle"
TEXT: Enrichment is one of a series of steps required to prepare naturally occurring uranium for use as nuclear fuel

GRAPHIC: picture of a mine/mill with text "Uranium Mines & Mills," arrow pointing to picture of buildings with text "U(3)O(8) Conversion to UF6," arrow pointing to circle with text in top half of circle "USEC - Only domestic source" with arrow pointing to picture of storage tanks with text "Depleted Uranium Stockpile (Tails)" and text in bottom half of circle "U-235 Enrichment" with arrow pointing to a building with text "Conversion to UO(2) & Fabrication of Fuel Assemblies," arrow pointing to reactor with text "Light Water Reactor," and arrow pointing to facility with text "Waste Storage/Disposal Facility."

PROVIDERS OF ENRICHMENT SERVICES

There are currently four major uranium enrichment suppliers worldwide: USEC, Tenex, Eurodif and Urenco.

- Tenex is an entity of the Russian government.

- Eurodif is a multinational consortium controlled by the French government. Other participants in the consortium include the Spanish, Belgian, Italian and Iranian governments.

- Urenco is a consortium owned one-third by the British government, one-third by the Dutch government and one-third by two German utilities.

- Japan Nuclear Fuels Limited ("JNFL") and a Chinese state-owned enrichment supplier are smaller providers that primarily serve their respective domestic markets.

A relatively small spot market exists for uranium enrichment services. The spot market developed in the mid-1980s both as a result of utilities reselling SWU that they were contractually required to purchase for reactors that were

canceled or delayed and SWU sales from the former Soviet Union. By the early 1990s, however, the spot market had declined in importance. The elimination of utilities' excess inventories and the impact of trade restrictions and market practices in certain countries have restricted sales from states of the former Soviet Union into these markets. In 1997, the spot market supplied less than 2% of the total world market for enrichment services.

In addition to the primary uranium enrichment suppliers, other sources of enriched uranium exist. The principal source is low enriched uranium derived from highly enriched uranium obtained from dismantled United States and Russian nuclear weapons and military stockpiles. As the Executive Agent to the U.S. Government under the Russian Contract, USEC purchases the uranium enrichment component of highly enriched uranium recovered from dismantled Russian nuclear weapons. USEC has also received transfers of highly enriched uranium from the U.S. Government. Russia has significant supplies of highly enriched uranium from dismantled weapons and military stockpiles; however, future disposition plans for this highly enriched uranium are unknown.

BUSINESS

OVERVIEW

USEC, a global energy company, is the world leader in the production and sale of uranium fuel enrichment services for commercial nuclear power plants. USEC currently has approximately a 75% share of the North American uranium enrichment market and approximately a 40% share of the world market. Uranium enrichment is a critical step in transforming natural uranium into fuel for nuclear reactors to produce electricity. USEC enriches uranium utilizing the gaseous diffusion process at two plants located in Paducah, Kentucky and near Portsmouth, Ohio. USEC's fiscal 1998 revenue was $1.4 billion and its pre-tax income, before special charges, was $192.9 million. USEC's pro forma net income, before special charges, for fiscal 1998 was $97.3 million. The pro forma adjustments primarily reflect a provision for federal, state and local income taxes and interest expense.

Generally, USEC's contracts with its customers are "requirements" contracts whereby the customer is obligated to purchase a specified percentage of its enriched uranium requirements from USEC. Consequently, USEC's annual sales are dependent upon the customers' requirements for USEC's services, which are driven by nuclear reactor refueling schedules, reactor maintenance schedules, customers' considerations of costs, and regulatory actions. Based on customers' estimates of their requirements, at September 30, 1998, USEC had long-term requirements contracts with utilities to provide uranium enrichment services aggregating approximately $3.6 billion through fiscal 2001 and $7.0 billion through fiscal 2009, compared with $7.8 billion at September 30, 1997.

STRATEGY

USEC's goal is to continue to be the world's leading supplier of uranium fuel enrichment services and to diversify over time into related strategic businesses that will contribute to USEC's growth and profitability. To achieve its goal, USEC intends to focus on the following:

Aggressively Pursue Sales Opportunities

USEC has implemented a strategy designed to both increase sales to existing customers, many of whom currently buy less than 100% of their requirements from USEC (typically 70%), and to add new customers. Flexible contract terms have replaced standardized DOE contracts. Moreover, USEC has increased its attention to customer service, product quality and reliability. Management has implemented

a variety of private-sector marketing principles which emphasize responsiveness to the needs of individual customers. In addition, USEC is committed to capitalizing on its reputation as a reliable and timely supplier and to delivering superior customer service. USEC has actively worked to reduce delivery times and has implemented an electronic order service system to facilitate management of customer orders and tracking of inventory.

Improve Operating Efficiencies

USEC plans to continue to improve operating efficiencies by implementing a rigorous cost management program. A cornerstone of this program is USEC's commitment to continually investigate opportunities to purchase low-cost power and to seek the most efficient use of power to minimize the cost of power per SWU produced. USEC has also adopted cost containment goals intended to be achieved through improved power utilization, increased SWU production per labor hour, and other material and service cost reductions. USEC is committed to containing operating costs while ensuring continued compliance with health, safety and environmental standards.

Commercialize AVLIS Technology

USEC plans to complete the development and commence commercialization of the next generation of uranium enrichment technology, AVLIS, which uses lasers to enrich uranium. AVLIS should permit USEC to remain one of the lowest cost suppliers of uranium enrichment services and enhance its competitive position. USEC believes that it will be able to deploy a full-scale AVLIS facility in the fiscal 2006-2007 time frame. In addition, it is possible that the AVLIS technology may have applications in the medical, precision tool and semiconductor industries which USEC may elect to explore either on its own or through licensing arrangements. As AVLIS is being brought on line for production, the plant facilities and AVLIS are expected to operate simultaneously. USEC expects AVLIS to be able to displace some or all of the production of the plants; however, USEC will evaluate issues such as market demand and other supply sources prior to making any decisions with respect to the plants.

Diversify Over the Longer Term

USEC intends to diversify its business over time into related strategic businesses that will contribute to USEC's growth and profitability. This strategy could result in USEC becoming involved in other phases of the nuclear fuel cycle that draw on its knowledge of the nuclear industry. Although USEC has not identified any acquisitions or strategic alliances, it intends to pursue appropriate opportunities which, among other criteria, are expected to:

- offer a favorable balance with respect to market potential and manageable market entry risk;

- broaden USEC's operating base beyond its core business in ways that allow for the leveraging of its core competencies;

- diversify risk by being counter-cyclical to existing business;

- earn returns in excess of certain financial benchmarks including USEC's cost of capital; and

- add to earnings within a reasonable period of time.

SALES AND MARKETING

One of USEC's top priorities has been to obtain additional commitments from existing customers and to add new customers. In pursuing this priority, USEC has initiated a flexible approach to both pricing and service, including shortening customer order lead times and introducing systems to manage natural uranium

provided by customers. USEC has also begun implementing a variety of initiatives designed to improve customer service.

USEC has contracts with approximately 60 nuclear utility customers operating about 270 nuclear reactors located in 14 countries. USEC provides enrichment services to about 170 of these reactors. Domestic customer purchases accounted for 63% of USEC's fiscal 1998 revenue and purchases from foreign customers represented 37%. The proportion of annual revenue generated from domestic and foreign customers is expected to remain relatively constant through the end of the decade.

As a part of its marketing strategy, USEC endeavors to differentiate its services from those of its competitors. In this regard, USEC believes that in making their purchasing decisions, utilities consider the price of enrichment services to be the most significant factor. Issues of reliability, product quality and customer service are also important. USEC believes that it offers competitive prices and that it delivers superior customer service. In addition,

USEC has a strong reputation as a reliable long-term supplier of enrichment services. Consequently, USEC's marketing strategy includes efforts to educate utilities to associate the combination of these positive features -- competitive pricing, customer service, reliability -- with the "USEC" name. USEC believes that this name "branding" strategy will help differentiate its services from those of its competitors and enhance its position as the industry leader.

No one customer accounted for more than 10% of USEC's fiscal 1998 revenue. USEC's 10 largest customers, which collectively represented 48% of its fiscal 1998 revenue, included:

- Arizona Public Service Company;
- Carolina Power and Light Company;
- Commonwealth Edison Company;
- Duke Power Company;
- The Kansai Electric Power Company, Incorporated (Japan);
- PECO Energy Company;
- Southern Nuclear Operating Co.;
- Taiwan Power Company;
- Tennessee Valley Authority; and
- Tokyo Electric Power Company, Inc.

USEC has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.5 million at September 30, 1998. Interest is earned on the unpaid balance, and the trade receivable has been secured by an irrevocable letter of credit with payment scheduled for February 27, 1999.

CUSTOMER CONTRACTS AND PRICING

Overview

In excess of 95% of enrichment services are provided by primary suppliers selling directly to utilities under multi-year contracts. While some of these contracts are for fixed quantities, the vast majority are "requirements" contracts. Under a requirements contract, enrichment services are provided as

and when needed. The amount of enrichment services actually purchased, therefore, depends on a number of factors including the capacity and performance of the reactor. Under this type of contract, the supplier receives the benefit of increases and assumes the risk of reductions in demand. Transactions are few in number but large in size, with a typical contract exceeding $50 million in value. Purchasing strategies tend to differ by utility size, region of the world and the relative value placed upon reliability, price and flexibility. There is an emerging trend among utilities to divide their purchases among several shorter-term contracts and stagger their renegotiations, thereby giving themselves maximum flexibility to respond to the market.

USEC currently provides enrichment services to customers under two types of requirements contracts.

- "Utility Services Contracts" are the uniform contracts that were transferred to USEC by DOE on July 1, 1993 (the "Transition Date").

- "New Contracts" are (1) contracts negotiated or renegotiated by USEC with existing and new customers since the Transition Date that have been tailored to meet the

particular needs of individual customers and (2) certain Utility Services Contracts that have been substantially amended since the Transition Date.

A majority of USEC's customers has transitioned from older Utility Services Contracts or equivalent contracts to New Contracts.

Utility Services Contracts

As originally executed by DOE and certain customers in 1984, the Utility Services Contracts have a term of 30 years. There were 24 Utility Services Contracts at September 30, 1998; however, pursuant to options granted by DOE in the Utility Services Contracts or otherwise, many of these customers have terminated their purchase obligations for fiscal 1999 and beyond. USEC believes that a majority of the customers that terminate their purchase obligations under Utility Services Contracts will enter into New Contracts with USEC.

New Contracts

USEC's New Contracts are also primarily requirements contracts. The New Contracts have been individually negotiated with each utility. This has allowed USEC to tailor the economic, legal and operational terms in response to specific customer needs. The terms of the New Contracts have been in the range of 3 to 11 years and such contracts typically do not contain advance termination provisions. Terms contained in the New Contracts include:

- establishment of accounts for customer-owned natural and enriched uranium;

- allocation of financial responsibility for taxes and future regulatory charges;

- limitation of liability for damages; and

- protection against liability to third parties arising from nuclear incidents.

Additionally, consistent with USEC's goal of providing maximum flexibility to customers, many New Contracts contain options, tailored to each customer's particular needs, that permit customers to increase and decrease the percentage of requirements purchased from USEC in specific years.

USEC believes that its willingness to provide flexible contract terms has been instrumental in its ability to successfully compete for and capture open demand. USEC also believes that the advent of shorter contract terms is an

industry-wide phenomenon. Utilities have been experiencing rapid changes in their industry and have been less willing to enter into extended obligations. This trend toward shorter contract terms requires that USEC, as well as its competitors, pursue new sales with greater frequency. The general effect of this is to increase the level of competition among uranium enrichment suppliers for new SWU commitments.

Calculation of Backlog

Under both types of contracts, customers are required to provide non-binding estimates of their SWU requirements to facilitate USEC's ability to forecast production requirements and revenue. Backlog is the aggregate dollar amount of enrichment services that USEC expects to sell pursuant to its multi-year requirements contracts with utilities. USEC expects most customers with Utility Services Contracts to exercise their right to terminate commitments in years 2003 through 2008.

Pricing

Uranium enrichment services are priced based upon SWU. Historically, the U.S. Government established a uniform price under long-term SWU contracts. This price was

required by law to be based upon a recovery of the U.S. Government's costs in producing SWU and was subject to annual adjustment.

The base price of the Utility Services Contracts transferred to USEC on the Transition Date was $125 per SWU. USEC has not increased the price under contracts transferred from DOE, and as of September 30, 1998 the price remained $125 per SWU. USEC's base price is generally applicable to 70% of requirements purchased by customers under Utility Services Contracts. This base price may be adjusted upward or downward by USEC with 180 days' notice so long as it does not exceed a ceiling charge established under a formula in the Utilities Services Contracts. In each of fiscal years 1997 and 1998, the average price billed to USEC's customers under the Utility Services Contracts and New Contracts was approximately $115 per SWU.

Currently, although SWU is essentially a commodity product, there are no standard indices in the long-term SWU market and contracts are entered into on a confidential basis. New SWU prices under long-term contracts are influenced by supply and demand dynamics in the market. Prices for uranium enrichment services under the New Contracts are negotiated. They are influenced by the volume and timing of the customer's open SWU commitments, perceptions of future market prices and the variety of options and operational flexibility required. New Contracts provide for prices that are significantly lower than the current base price under the Utility Services Contracts, reflecting current market conditions. New Contracts generally provide that prices are subject to adjustment upward or downward for inflation based on the U.S. Department of Commerce inflation index and, subject to certain limitations, for cost increases incurred by USEC resulting from changes in regulatory requirements.

RUSSIAN CONTRACT

Overview

USEC has been designated by the U.S. Government to act as its Executive Agent in connection with a government-to-government agreement between the United States and the Russian Federation relating to the acquisition of low enriched uranium derived from highly enriched uranium recovered from dismantled nuclear weapons from the former Soviet Union. In January 1994, USEC signed a commercial

agreement (the "Russian Contract") with Tenex, Executive Agent for Minatom, which, in turn, is the Executive Agent for the Russian Federation. Under the contract, USEC expects to purchase up to approximately 92 million SWU contained in low enriched uranium over a 20-year period according to a specified schedule. The low enriched uranium will be derived from up to 500 metric tons of highly enriched uranium being blended down in Russia to a level suitable for commercial power reactor fuel.

In April 1997, USEC entered into a memorandum of agreement (the "Executive Agent MOA") with the United States Department of State and DOE whereby USEC agreed to continue to serve as the U.S. Executive Agent following the Privatization. Under the terms of the government-to-government agreement and the Executive Agent MOA, USEC can be terminated, or resign, as U.S. Executive Agent upon the provision of 30 days' notice. In the event of termination or resignation, USEC would have the right and the obligation to purchase SWU that is to be delivered during the calendar year of the date of termination and the following calendar year. The Executive Agent MOA also provides that the U.S. Government can appoint alternate or additional executive agents to carry out the government-to-government agreement.

SWU Component of Russian Low Enriched Uranium from Highly Enriched Uranium

USEC ordered 4.4 million SWU in calendar 1998, of which 2.7 million SWU had been delivered as of December 31, 1998. Delivery of the remaining SWU ordered for delivery in calendar 1998 has been delayed. In addition, USEC has ordered 5.5 million SWU for delivery in calendar 1999. USEC has committed to order up to 5.5 million SWU in each of the calendar years 2000 and 2001. The quantities and prices for SWU purchases under the Russian Contract through 2001 have been set. Prices for SWU delivered in 1999, 2000 and 2001 are subject to adjustment based on U.S. inflation. The contract provides that the parties will meet in 2000 and may at that time agree on quantities and prices for the five years beginning in 2002. USEC expects to purchase 5.5 million SWU in each of the years following 2001 during the remaining term of the Russian Contract.

The cost of Russian SWU is substantially higher than USEC's marginal cost of producing SWU at the plants. Although USEC presently can resell the Russian SWU for more than USEC is paying, such sales are less profitable than sales of SWU produced at the plants. Nevertheless, as the only U.S. provider of enrichment services today and as a result of its strong technical capability, backlog and financial position, USEC believes that it is uniquely positioned to act as U.S. Executive Agent under the Russian Contract. USEC believes it can best integrate this additional supply of enrichment services into the market in a manner that minimizes market disruption and ensures the reliability and continuity of economic supply to electric utilities.

USEC pays for the SWU delivered under the Russian Contract within 60 days after delivery. To facilitate and support the Russian Federation's implementation of the contract, however, USEC made advance payments to Tenex of $60 million in calendar year 1994 and $100 million in each of calendar years 1995 and 1996. USEC credits advance payments, up to $50 million per year, against half of the SWU value in each delivery received and makes cash payments for the remaining portion. As of September 30, 1998, $210.0 million of the $260.0 million in advance payments had been credited against SWU purchased. From inception of the Russian Contract to September 30, 1998, USEC purchased 8.5 million SWU derived from 46.4 metric tons of highly enriched uranium at an aggregate cost of $715.6 million, including related shipping charges.

Natural Uranium Component of Russian Highly Enriched Uranium

The Russian Contract as originally executed in 1994 obligated USEC to purchase the natural uranium component of low enriched uranium deliveries. However, USEC and Tenex amended the contract in 1996 in accordance with the

Privatization Act to provide that, with respect to all low enriched uranium deliveries under the contract after January 1, 1997, USEC would transfer the natural uranium component of such deliveries to Tenex. Consequently, since January 1997, USEC has purchased, and has committed to purchase in the future, only the SWU component of low enriched uranium delivered by Tenex under the contract. With respect to deliveries in calendar years 1995 and 1996, as directed by the Privatization Act, USEC purchased both the SWU and natural uranium components and transferred the natural uranium component to DOE in December 1996.

NATURAL URANIUM AND HIGHLY ENRICHED URANIUM FROM DOE

Under the Privatization Act, DOE transferred to USEC title to 50 metric tons of highly enriched uranium. The 50 metric tons of highly enriched uranium represents 3.4 million SWU and 5,000 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. USEC received the 7,000 metric tons of natural uranium in April 1998 and anticipates receiving the 50 metric tons of highly enriched uranium over the period September 1998 to September 2003. The Privatization Act places certain limits on the ability of USEC to deliver this material for commercial use in the United States. In particular, USEC may not deliver for use in the United States (1) more than 10% of the uranium in any calendar year, or (2) more than 800,000 SWU contained in low enriched uranium in any calendar year.

In May 1998, USEC also received an additional 3,800 metric tons of natural uranium and 45 metric tons of low enriched uranium to settle DOE's liabilities for nuclear safety upgrade costs and to satisfy certain other remaining obligations of DOE to USEC. The 45 metric tons of low enriched uranium represent 280,000 SWU and 453 metric tons of natural uranium. USEC may not deliver such uranium for commercial use in the United States over less than a four-year period.

At September 30, 1998, USEC had inventories of 11.1 million SWU and 29,000 metric tons of natural uranium. These inventories include 3.4 million SWU and 5,000 metric tons of natural uranium contained in 50 metric tons of highly enriched uranium scheduled to be delivered to USEC by DOE over the period September 1998 to September 2003.

The average annual price in the spot market for a kilogram of uranium as UF(6), based on month-end data, was:

- $32.38 for the period January to September 1998;
- $37.10 in 1997;
- $46.71 in 1996;
- $35.59 in 1995;
- $29.66 in 1994; and
- $30.59 in 1993.

Depending on customer requirements and other factors, USEC expects to retain the equivalent of approximately 5,000 metric tons of natural uranium to meet ongoing operational requirements. USEC anticipates selling the remaining inventory of natural uranium gradually, as uranium or together with SWU in the form of enriched uranium product, through 2005. USEC intends to manage its sales of natural uranium so as to not significantly affect the U.S. natural uranium market.

PLANTS/OPERATIONS

USEC's plants at Paducah and Portsmouth are among the largest industrial facilities in the world. The process buildings at the two plants have a total floor area of approximately 330 acres and a ground coverage of about 167 acres. The plants are designed so that groups of equipment can be taken off line with little or no interruption in the process.

Paducah

The Paducah plant is located in McCracken County in western Kentucky. The total site covers 750 acres and consists of four process buildings. The plant has been in continuous operation since September 1952. Between 1971 and 1982, the plant underwent extensive improvements.

The Paducah plant has been certified by the NRC to produce low enriched uranium up to 2.75% U(235) and has a design capacity of 11.3 million SWU per year. Uranium enriched at the Paducah plant is shipped to the Portsmouth plant for further enrichment. USEC may

seek approval to operate the Paducah plant to produce enriched uranium up to 5% U(235), which would provide USEC with additional operating flexibility to meet customer requirements. In order to ship enriched uranium to fuel fabricators from this facility, certain modifications to the shipping and handling facilities at the Paducah plant would be required.

Portsmouth

The Portsmouth plant is located in Pike County in south central Ohio. The plant site covers 640 acres and consists of three process buildings. It was completed in 1956 and has been in continuous operation since that time. The Portsmouth plant was substantially renovated between 1971 and 1983.

The Portsmouth plant was originally designed and constructed to produce highly enriched uranium for the United States Nuclear Weapons and Naval Reactors program. Because of a change in military requirements, the highly enriched uranium production equipment was taken out of service. The plant has been certified by the NRC to produce enriched uranium to a maximum of 10% U(235). The design capacity of the production equipment is 7.4 million SWU per year.

Equipment and Parts

The process equipment at the plants has historically had low failure rates. Failed components (such as compressors, coolers, motors and valves) are removed from the process and repaired or rebuilt on site at each of the plants. Common industrial components, such as the breakers, condensers and transformers in the electrical system, are procured as needed. Since the plants were initially constructed in the 1950s, some components and systems may no longer be produced, and spares for such parts may not be readily available. In these situations, replacement components or systems are identified, tested, and procured from existing commercial sources, or the plants' technical and fabrication capabilities are used to design and build replacements. Another source of replacement equipment has been DOE's Oak Ridge, Tennessee enrichment facility which has been shut down. Large quantities of components have been relocated from Oak Ridge to the plants.

The plants currently use freon as the primary process coolant. The production of freon in the United States was terminated December 31, 1995. In order to ensure that USEC continues to have enough freon to meet its needs, USEC is actively working to reduce leakage of freon at the plants. Freon leaks from pipe joints, sight glasses, valves, coolers and condensers. Leakage from the plants is at about a 6% rate, resulting in leakage of approximately 750,000 pounds of freon per year. USEC has a strategic reserve of 2.7 million pounds of freon. USEC believes that its efforts to reduce freon losses and its strategic

inventory of freon should be adequate to allow the plants to continue to use freon through at least the year 2001. A program is underway to validate an alternative coolant to be used once the freon inventory is depleted.

Cell Availability

In order to utilize power most efficiently, USEC seeks to maintain 90% or more of its large production cells on-line. From the Transition Date through June 30, 1998, the Paducah plant has generally operated with 85% to 97% of the large production cells in operation. Reductions in cell availability are typically short-term and result from equipment failures and planned maintenance. In addition, USEC may elect to reduce cell availability if electricity becomes in short supply and prohibitively expensive. For the year ended June 30, 1998, performance was 92% of planned capacity.

From the Transition Date through June 30, 1998, the Portsmouth plant has generally operated in the range of 65% to 92% of the large production cells in operation. For the year ended June 30, 1998, the plant performance was at 72% of planned capacity due to equipment failures and increased maintenance requirements. The ability to return cells to service quickly at the Portsmouth plant has been less successful than at the Paducah plant, due to the greater availability of larger cells at the Paducah plant. Because both plants produce approximately the same amount of enriched uranium, the Portsmouth plant, with fewer large cells, is required to operate more efficiently with fewer cells off-line to produce equivalent amounts of SWU. This mode of operation necessarily results in more maintenance requirements for the cells at the Portsmouth plant. Management has initiated a program designed to improve both the availability and reliability of the cells at the Portsmouth plant.

LMUS Contract

Under an operations and maintenance contract with Lockheed Martin Utility Services, Inc. ("LMUS"), a subsidiary of Lockheed Martin Corporation, USEC manages the plants and LMUS operates and maintains the plants (the "LMUS Contract"). LMUS provides the labor, services, materials and supplies required to operate and maintain the plants, other than the required natural uranium and power. USEC pays LMUS for its costs, subject to strict budget controls and various caps on liability. LMUS is paid a base fee and has the ability to earn incentive fees by demonstrated improvements in production capability, regulatory performance, cost reduction, safety and customer responsiveness. There is also a provision for an independent additional one-time bonus at the end of the initial three-year contract. The LMUS Contract expires on October 1, 2000, and may be terminated by USEC without penalty upon six months' notice. On November 18, 1998, USEC gave notice to terminate the LMUS Contract. Consequently, USEC expects to assume direct management and operation of the plants six months from the date of notice. USEC expects an orderly transition of compensation and benefits to allow the plant workers to become employees of USEC or its subsidiaries.

Under the LMUS Contract, USEC is responsible for and accrues for its pro rata share of pension and other post-retirement health and life insurance costs relating to LMUS employee benefit plans. Post-retirement benefits are provided to LMUS employees under Lockheed Martin Corporation employee benefit plans with LMUS participating as an affiliated employer.

Lease Agreement

USEC leases the plants from DOE pursuant to a lease agreement dated as of July 1, 1993 (the "Lease Agreement"). The Lease Agreement had an initial term of 6 years; however, USEC has the right to extend it indefinitely, with respect to either or both plants, for successive renewal periods. In June 1997, USEC renewed the Lease Agreement for both plants for an additional five-year term expiring on June 30, 2004. USEC may terminate the Lease Agreement, with respect to one or both plants, by providing two years' prior notice to DOE. USEC leases

most, but not all, of the buildings and facilities at the plant sites. USEC may increase or decrease the property under the Lease Agreement to meet its changing requirements. Within the contiguous tracts, certain buildings, facilities and areas related to environmental restoration and waste management have been retained by DOE and are not leased to USEC.

At termination of the Lease Agreement, USEC may leave the property in "as is" condition, but must remove all waste generated by USEC which is subject to offsite removal and must place the plants in a safe shutdown condition. Upon termination of the

Lease Agreement, DOE is responsible for the costs of all decontamination and decommissioning of the plants. If removal of any USEC capital improvements increases DOE's decontamination and decommissioning costs, USEC is required to pay such increases. Title to capital improvements not removed by USEC will automatically be transferred to DOE at the end of the Lease Agreement term. At September 30, 1998, USEC had accrued a liability of $24.5 million for lease turnover costs and anticipates accruing $5.6 million for lease turnover costs in fiscal 1999. See "Risk Factors -- Risks Associated with Enrichment Operations -- Termination of Lease Agreement."

Lease Agreement payments include a base rent representing DOE's costs in administering the Lease Agreement, including costs relating to the electric power contracts, and costs relating to DOE's regulatory oversight of the plants. USEC expects that the cost of the Lease Agreement, and leases for office space and equipment to be approximately $5.0 million in fiscal 1999.

DOE is required under the Lease Agreement to indemnify USEC for certain costs and expenses, including:

- certain environmental liabilities attributable to operations prior to the Transition Date;

- certain employee pension, welfare and other benefits or liabilities incurred or accrued prior to the Transition Date; and

- costs or expenses relating to actions taken or not taken prior to the Transition Date pursuant to contracts transferred to USEC on the Transition Date.

In addition, under the Lease Agreement DOE is required to indemnify USEC for costs and expenses related to claims asserted against or incurred by USEC arising out of DOE's operation, occupation or use of the plants after the Transition Date. DOE activities at the plants since the Transition Date have been focused primarily on environmental restoration and waste management and management of depleted UF(6). DOE is required to indemnify USEC against claims for public liability (1) arising out of or in connection with activities under the Lease Agreement, including transportation and (2) arising out of or resulting from a nuclear incident or precautionary evacuation. DOE's obligations are capped at the $8.96 billion statutory limit set forth in the Price-Anderson Act for each nuclear incident or precautionary evacuation occurring inside the United States.

POWER

Overview

The plants require substantial amounts of electric power. Costs for electricity are USEC's largest operating cost, representing 53% to 59% of USEC's production costs. A substantial portion of the electricity for the plants is supplied under contracts at average prices below 2c/kWh in fiscal 1998 and 2.7c/kWh in the three months ended September 30, 1998. Historically, USEC has purchased approximately two-thirds of its requirements under firm contracts, and the remaining one-third as non-firm energy.

At recent electricity rates, average production cost per SWU is lowest when the plants are operated at a production level of approximately 13 million SWU per year. At this production level, the plants require approximately 33 million megawatt hours of electric energy per year or an average power level of 3,700 megawatts.

Average megawatt hours required by the plants for fiscal years 1995 through 1998 were as follows:

	1995	1996	1997	1998
Portsmouth plant.....	1,845	1,455	1,400	1,076
Paducah plant.....	1,875	1,480	1,725	1,307

Operation of both plants at full capacity requires approximately 5,200 megawatts, which is equivalent to the approximate annual electricity consumption of the States of Connecticut or Arkansas. However, USEC anticipates that its energy consumption will decrease as its supply mix changes.

In the 1950s, a number of utilities formed two corporations to supply power to the plants -- Electric Energy, Inc.("EEI") to serve the Paducah plant and Ohio Valley Electric Corporation ("OVEC") to serve the Portsmouth plant. Pursuant to power purchase agreements between DOE and OVEC and EEI, each of which extends through calendar 2005, most of the electricity produced at the two power plants owned by OVEC and approximately one-half of the electricity produced at the plant owned by EEI serves the plants. DOE transferred the benefits of these power purchase arrangements to USEC by agreement. USEC also has an agreement with the Tennessee Valley Authority for the purchase of non-firm power for the Paducah plant.

USEC initiated a number of programs to reduce its power costs, including programs designed to:

- increase the efficiency of power utilization (i.e., the number of SWU produced per MWh of electric energy);

- manage the use of existing power resources to minimize cost per MWh; and

- pursue additional sources of economical power.

Non-firm power prices and reliability of supply vary with the time of year, time of day and weather conditions. Therefore, the ability to adjust the Paducah plant's electrical load in response to availability and price changes is an essential element in managing power costs. The Paducah plant operates equipment which facilitates the rapid changes of load on its enrichment equipment, permitting corresponding rapid changes in electric load. This allows the Paducah plant to swing as much as 400 MW of electrical load in one to two hours, providing prompt response to changes in the price of non-firm power. Decisions to purchase non-firm power are based upon production needs, anticipated power costs and production cost targets including dollar per SWU criteria.

Power Purchase Agreements

EEI. Pursuant to the EEI power purchase agreement, EEI is obligated to provide two types of firm power: "permanent Joppa power" and "firm additional power." Permanent Joppa power refers to the power that USEC receives from EEI's Joppa, Illinois plant. EEI is obligated to provide, and USEC through DOE, is obligated to purchase, a specified percentage of that plant's annual capacity, which percentage is currently 60% but will be reduced to 50% effective January

1, 1999. USEC is obligated to pay the following:

- the demand charge, reflecting the pro rata share of operating costs, depreciation, interest charges, taxes and return on owner's capital, for the specified percentage regardless of whether USEC takes any energy; and

- an energy charge, which covers the pro rata share of the cost of fuel, for the energy USEC does take.

If additional transmission facilities are required to deliver energy from non-EEI sources, USEC must pay 75% of these costs. In addition, USEC is obligated to pay any unamortized costs of additional or modified transmission facilities if it terminates the agreement. Either party may, on an annual basis, reduce its respective obligation by up to 10% of Joppa plant capacity with notice on or before the prior September 1. In addition, each party may reduce its obligation by a greater amount or terminate its entire obligation with five years' notice.

Firm additional power refers to power that is supplied by the utility owners of EEI when permanent Joppa power is insufficient to meet the minimum power requirements of the Paducah plant. The rate for firm additional power is EEI's cost plus a fee of up to $1.00 per MWh. EEI has discretion over when the permanent Joppa power will be made available to USEC during the year. As a result, EEI typically supplies USEC with the more costly firm additional power during the peak demand periods of winter and summer, while supplying USEC with the permanent Joppa power during the low demand periods of spring and fall. Either party may cancel its commitment with respect to firm additional power by providing three years' written notice.

OVEC. Under the OVEC power purchase agreement, OVEC must make available to USEC, through DOE, the net available capacity of its generating plants, less transmission losses and reserve capacity. The cost of permanent power consists of an energy charge, which covers the cost of fuel, and a demand charge, which reflects capital and operating costs, debt service, taxes and a return on owner's capital. In addition, USEC is required to pay the costs of additional and replacement facilities. In the event USEC purchases less than OVEC's net available capacity, then USEC must pay a demand charge but not the energy charge. USEC may reduce its purchase obligation by up to 300 MW per six-month period by giving 60-months' notice and may also terminate the agreement upon three years' notice. If USEC needs power from sources other than OVEC's two power plants, OVEC is obligated to use its best efforts to obtain such power. This power may come from OVEC sponsoring companies or other sources and will be charged at OVEC's cost plus a fee of $1.00 per MWh. OVEC does not have the right to terminate the agreement or reduce its obligation.

At current production levels at the Portsmouth plant, USEC does not need all of the power that it is obligated to purchase from OVEC. Consequently, USEC negotiates to reduce its purchases of the power from OVEC as agreed upon by the parties from time to time. The negotiation historically has involved the reduction in the demand component of the OVEC power charge to USEC. Therefore, while USEC is not obligated to pay the energy component of power that is not utilized, USEC does pay a reduced demand charge for power not taken.

Arrangements with DOE

DOE remains the "named" purchaser under the power purchase agreements with EEI and OVEC. However, under an agreement between USEC and DOE, DOE must make available to USEC the power that it receives under the agreements with EEI and OVEC. DOE must take all actions requested by USEC that are consistent with the terms of the power purchase agreements, including giving its consent to any modification, assignment or termination of the power purchase agreements requested by USEC, except for those which would either extend the term of an

agreement or be inconsistent with DOE orders concerning procedures for contracting for utility services. DOE may not agree to any

amendment, assignment or termination or otherwise exercise any rights or consent to any action of EEI or OVEC without the consent of USEC except in specified circumstances, such as an emergency.

Under the terms of the Lease Agreement, USEC must provide power purchased from EEI or OVEC to DOE for DOE's continuing environmental restoration and waste management operations at the Paducah and Portsmouth plants. DOE must reimburse USEC for such power.

USEC is responsible for all costs associated with the power purchase agreements after the Transition Date, including its pro rata share of post-retirement obligations. Moreover, USEC and DOE are required to share the costs for the decommissioning, shut-down, demolition and closing of OVEC's power plants and the costs for the demolition and shutdown of EEI's power plant. With respect to OVEC, these costs are allocated on the basis of the relative amount of energy consumed by OVEC, DOE and USEC subsequent to October 14, 1992. With respect to EEI, these costs are allocated on the basis of the relative amount of energy consumed by EEI, DOE and USEC over the life of the power purchase agreement.

ADVANCED LASER-BASED TECHNOLOGY

AVLIS

USEC plans to complete the development of and commence commercialization of AVLIS, the next generation of uranium enrichment technology, with the goal of remaining one of the lowest cost suppliers of uranium enrichment service and enhancing its competitive position. Commercial deployment of AVLIS is expected to begin in fiscal 2006. Based on engineering studies and demonstrated systems performance capability, USEC believes that an AVLIS facility would:

- use 5% to 10% of the power currently used by the plants to produce each SWU;

- require significantly less capital investment than new centrifuge plants; and

- use about 20% to 30% less natural uranium to produce comparable amounts of enriched uranium.

In addition, the ability to use modular architecture in designing a laser-based system allows for flexible deployment, enabling capacity to be added as market demand so warrants.

AVLIS Deployment

AVLIS deployment is expected to be accomplished in two phases and is estimated to cost $2.5 billion. The first phase, performance demonstration, design and licensing, began in fiscal 1996 and extends through fiscal 2002. The estimated cost of the first phase is $700.0 million for fiscal 1999 through fiscal 2002. During this phase, USEC expects to:

- demonstrate the plant-like performance of the feed production, enrichment and product conversion processes by the end of calendar 1999;

- complete the final design and detailed cost estimate for an AVLIS facility;

- select a site for the AVLIS facility; and

- obtain NRC licensing and other regulatory approvals for the construction

and operation of the AVLIS facility.

Once the first phase is successfully completed, USEC will initiate the second phase.

The second phase, procurement, construction and startup, is expected to begin in fiscal 2002 and end in fiscal 2007 with the deployment of AVLIS to planned capacity. The estimated cost to complete this phase is $1.8 billion. During this phase, USEC expects to:

- procure the equipment for and begin construction of the AVLIS facility;
- develop plant operation procedures and train plant engineers and supervisors;
- startup the AVLIS facility and train operations and maintenance staff; and
- conduct final testing and perform system activation and integration.

USEC currently anticipates operation of the AVLIS plant at a 9.0 million SWU capacity.

USEC has made certain significant strides toward its goal of deploying AVLIS, including the following:

- USEC has entered into an agreement with DOE pursuant to which USEC received royalty-free rights to the AVLIS technology for uranium enrichment and the ability to utilize DOE's AVLIS facilities at Lawrence Livermore National Laboratory in Livermore, California ("LLNL").
- A USEC-managed group was established to help implement the AVLIS project.
- A plant-like demonstration project was initiated which included an independent assessment of the state of development of the AVLIS enrichment process which resulted in clear identification of components and systems requiring priority attention. USEC has activated and expanded the LLNL demonstration facility to simulate a one-line enrichment plant and achieved positive performance demonstration levels in laser and separator systems. Demonstration of plant-like enrichment capability is scheduled to occur in calendar 1999.
- USEC has entered into joint development agreements with Cameco Corporation ("Cameco") for AVLIS feed conversion services and General Electric Company ("GE") for AVLIS product conversion services.

USEC is also exploring joint development of an alternative UF(6) product conversion facility with another commercial vendor.

USEC is using LLNL to provide scientific and engineering expertise in the performance verification and design areas. USEC has retained Bechtel Group, Inc. to perform architect engineering, engineering systems, and control systems services. Allied Signal Corporation is providing operations and maintenance technicians for operation of the demonstration facility at LLNL. BWX Technologies, formerly Babcock and Wilcox Naval Nuclear Fuels Division, is providing separator engineering and licensing services. All of the foregoing activities are being and will continue to be managed by USEC.

Ownership of Property Relating to AVLIS

In April 1995, USEC entered into an agreement with DOE (the "AVLIS Transfer Agreement") providing for, among other things, the transfer to USEC by DOE of its intellectual and physical property pertaining to the AVLIS technology. DOE has agreed to assign those patents to USEC subject only to certain rights of the

U.S. Government to use the patents (as well as certain other AVLIS-related intellectual property) for governmental purposes. Under the agreement, USEC is not obligated to pay DOE any royalties for its own use of AVLIS. In addition, USEC is not required to pay any portion of royalties received from licensing AVLIS to third parties for enrichment of uranium or other materials for use in facilities for generating electricity.

Under the AVLIS Transfer Agreement, DOE conducts AVLIS research, development and demonstration at LLNL as requested by USEC. USEC reimburses DOE for its costs in conducting AVLIS work, and USEC is liable for any incremental increase in DOE's costs of decontamination and decommissioning the AVLIS facilities at LLNL as a result of the work performed for USEC. The AVLIS research and development work is performed primarily by the University of California under DOE's management and operations contract for LLNL. Inventions that result from this research and development effort will be owned by USEC.

Nuclear Fuel Cycle Issues

AVLIS requires a metallic form of uranium for processing rather than UF(6). Therefore, new industrial capabilities will be required to prepare the feed for enrichment and to convert the enriched product to a form suitable for fabrication as fuel. USEC has entered into joint development agreements with Cameco for AVLIS feed conversion services and GE for AVLIS product conversion services. Under such agreements, if USEC elects not to proceed from the demonstration phase to the deployment phase, but Cameco or GE elects to proceed, or if the agreement is terminated under certain circumstances, USEC must reimburse Cameco or GE for costs and expenses incurred by them in accordance with the project budget and plans. Also, Cameco or GE must transfer certain rights in technology and intellectual property developed in the course of the project to USEC. In the event USEC determines not to deploy AVLIS, these agreements together provide for a maximum cost reimbursement to GE and Cameco of $9.0 million prior to such decision, subject to certain provisions for any cost overruns. As of September 30, 1998, USEC's liability, in the event of termination, to both GE and Cameco was $2.5 million. USEC's potential liability under these agreements increases over time as GE and Cameco costs increase.

If USEC proceeds with AVLIS deployment but elects to do so without entering into an agreement with Cameco for feed conversion services or with GE for product conversion services, USEC is obligated to pay Cameco or GE certain annual royalty payments. Any payments to Cameco would be based on the amount of uranium used by USEC in the AVLIS feedstock. In such event, these payments are estimated to total approximately $5 million per year for ten years but would not exceed $50 million in the aggregate. Payments to GE would include a fixed payment of $5 million plus an annual royalty of $1 million until certain GE patents related to the product conversion expire. Royalty payments to GE would only be made if USEC deployed a product conversion based on the technology developed jointly with GE. The only obligation to GE would be costs described in the preceding paragraph.

Pursuant to the AVLIS Transfer Agreement and the management and operating contract between DOE and the University of California, which operates LLNL for DOE, DOE is required to indemnify the University of California and USEC under the Price-Anderson Act. This indemnification protects against public nuclear liability which arises out of or in connection with research, development and demonstration activities at LLNL. The Energy Policy Act provides, however, that new uranium enrichment facilities will not be eligible for indemnification by DOE or the NRC under the Price-Anderson Act. USEC believes that it should be able to obtain commercially available nuclear liability insurance for all facilities needed to enrich and process uranium by AVLIS.

Additional Potential Applications of AVLIS Technology

In addition to uranium enrichment, USEC is exploring strategic opportunities

for other commercial uses of the AVLIS technology. These include the separation of other isotopes for nuclear power, medical and industrial applications and for machinery, drilling and

coating applications. In connection with pursuing all or any of these technologies, USEC may determine to explore the feasibility of pursuing new business opportunities and may license the technology to others. Under the terms of the AVLIS Transfer Agreement, USEC must pay to DOE a portion of the royalties received by USEC for licensing to third parties applications of AVLIS, except for enrichment of uranium and other materials used in the generation of electricity.

Intellectual Property

USEC holds a large number of patents covering the AVLIS technology. Therefore, USEC relies on the patent laws, confidentiality procedures and contractual provisions to protect its proprietary information and intellectual property rights related to AVLIS. In the 1970s, a company which was at that time working on laser isotope separation filed a number of patent applications certain of which were issued and are currently in effect. Three of these patents will still be in effect in 2005. That company has advised USEC of its belief that AVLIS will use the company's technology. In addition, USEC is aware of patents issued to third parties which cover certain technology used in laser-based products. USEC believes that the systems planned to be employed by USEC in an AVLIS plant will not infringe on any issued patents held by third parties, or that USEC will be able to obtain necessary licenses or take other actions to otherwise avoid infringement.

There are also 12 classified patent applications held by the above-mentioned company resulting from its work on laser isotope separation. If national security considerations ever allow these applications to be declassified and issued, these additional patents would be enforceable for 17 years from the date of issuance. USEC believes that declassification of these patent applications is unlikely. In addition, if these applications were declassified and patents issued and the holder thereof was able to make a successful claim of infringement, USEC believes that it would be able to obtain licenses to such patents or re-engineer the affected apparatus, system or method.

SILEX

USEC continues to keep abreast of alternative uranium enrichment technologies. In fiscal 1997, USEC entered into an exclusive agreement to explore another advanced laser-based enrichment technology, called SILEX. The SILEX process has been under development in Australia since 1992 by Silex Systems Limited, an Australian company, at the facilities of the Australian Nuclear Science and Technology Organization. In fiscal 1997, USEC acquired the rights to the commercial utilization of the SILEX process. USEC is currently evaluating whether the SILEX technology has the potential to be deployable as an economic source of enrichment production in the early 21st century. Through September 30, 1998, USEC has spent $10.6 million on SILEX development activities.

COMPETITION

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

- USEC;

- Tenex, a Russian government entity;

- Eurodif, a consortium controlled by the French government; and

- Urenco, a consortium of the British and Dutch governments and private

German corporations.

There are also smaller suppliers in China and Japan that primarily serve only a portion of their respective domestic markets. While there are only a handful of primary suppliers, there is an excess of production capacity as well as an additional supply of enriched uranium which is available for commercial use from the dismantlement of nuclear weapons in the former Soviet Union and the United States. Most of this excess capacity is held by Tenex, which is subject to certain trade restrictions. USEC also holds significant excess capacity. All of USEC's competitors are owned or controlled by foreign governments which may make business decisions based on factors other than economic considerations.

Tenex, Urenco and Japan Nuclear Fuels Limited ("JNFL") use centrifuge technology which requires a higher initial capital investment but has lower ongoing operating costs than current gaseous diffusion technology. Urenco and JNFL have both announced expansion plans, which together could increase capacity by 2.0 million SWU after the year 2000. Eurodif and JNFL have previously announced that they are exploring new enrichment technologies.

USEC believes that it is well positioned to compete successfully in the industry. Global enrichment suppliers compete primarily in terms of price, and to a lesser degree on reliability of supply and customer service. USEC believes that its prices are competitive. Further, USEC is committed to delivering superior customer service. USEC believes that customers are attracted to its reputation as a reliable long-term supplier of enriched uranium, and USEC intends to continue strengthening this reputation.

REGULATORY OVERSIGHT

NRC

Pursuant to the Atomic Energy Act, the plants are regulated by the NRC. The NRC issued Certificates of Compliance to USEC for the operation of the plants in November 1996. After an interim period to allow an orderly transition from DOE oversight to NRC oversight, the Certificates of Compliance became effective and the NRC began regulatory oversight of USEC operations at the plants on March 3, 1997. The NRC found the Paducah and Portsmouth plants to be generally in compliance with NRC regulations. However, exceptions were noted in certain compliance plans, which set forth binding commitments for actions and schedules to achieve full compliance (the "Compliance Plan"). The Lease Agreement obligates DOE to reimburse USEC for the costs associated with bringing the plants into compliance with the requirements of initial Certification. To settle this reimbursement, DOE has transferred to USEC natural uranium and low enriched uranium in the aggregate amount of $220 million, and thus USEC is now fully responsible for these costs.

The Compliance Plan requires the Paducah plant to complete seismic upgrading of two main process buildings to reduce the risk of release of radioactive and hazardous material (UF(6)) in the event of an earthquake. On March 20, 1998, the NRC issued direction for USEC to complete this upgrade project by June 30, 1999, which was originally estimated to cost $23.0 million, all of which was reimbursed to USEC by transfers of uranium from DOE prior to the Privatization. USEC currently believes it will need additional time to complete this project at an additional cost in excess of $30.0 million, a significant portion of which will be capitalized as permanent improvements to the facilities. Until the modifications are completed, USEC continues to maintain strict limits on operations in those buildings so as to minimize the amount of material that could be released in the event of any earthquake.

USEC also was required to complete seismic upgrades on certain equipment at the Paducah plant by September 30, 1998, which USEC completed on time. The Compliance

Plan also required USEC to update part of the DOE-prepared Safety Analysis Report ("SAR") to determine what the appropriate earthquake level should be for the evaluation of plant equipment and structures at the Paducah plant. USEC has submitted this updated analysis and it is currently being reviewed by the NRC. Depending on the results of this updated analysis of the seismic hazard and the application of the NRC's backfit requirements, additional seismic upgrades to the process buildings and other site structures and components may need to be implemented.

In accordance with the Compliance Plans, USEC submitted for NRC review DOE-prepared SAR updates. In addition, USEC is required to prepare and submit to the NRC an update of the facility and process descriptions contained in the current application. Depending on the results of the NRC review of the SAR updates and the facility and process description updates, USEC will be required to implement a number of changes to the plants and operations.

The NRC has the authority to issue Notices of Violation for violations of the Atomic Energy Act, NRC regulations, or conditions of a certificate, Compliance Plan, or Order. The NRC also has the authority to impose civil penalties for certain violations of NRC regulations. USEC has received Notices of Violation for violation of these regulations and certificate conditions, none of which exceeded $100,000. From time to time, USEC has received and may receive proposed notices of violations from the NRC. USEC does not expect that any proposed notices that it has received as of the date hereof will have a material adverse effect on USEC's financial position. In each case, USEC took prompt corrective action to bring the facilities back into compliance with NRC regulations and identified long-term improvements as well.

The term of the initial NRC certification expired on December 31, 1998. The NRC staff has issued a decision to renew the Certificates of Compliance for a five-year period. USEC anticipates that the Certificates will be issued in January 1999 in conjunction with the transmittal of NRC's report to Congress on the status of the plants. In addition, the NRC must approve any transfer of the certificates. The Privatization Act prohibits the issuance of a license or certificate of compliance to USEC or its successor if the NRC determines that:

- USEC is owned, controlled or dominated by an alien, a foreign corporation or a foreign government;

- the issuance of such a license or certificate of compliance would be inimical to the common defense and security of the United States; or

- the issuance of such a license or certificate of compliance would be inimical to the maintenance of a reliable and economical domestic source of enrichment services.

DOE retains certain regulatory responsibility for those portions of the plants which are leased to USEC that contain highly enriched uranium material. DOE will regulate the highly enriched uranium material activities that occur in the leased areas until all cylinders that contain highly enriched uranium material are cleaned, and the associated areas are brought under NRC regulation. Cylinder cleaning is scheduled to be completed in calendar 2000.

OSHA

USEC's operations are also subject to laws and regulations governing worker health and safety. Through September 30, 1998, USEC had spent $28.9 million to address potential Occupational Safety and Health Act ("OSHA") non-compliances identified by DOE at the Transition Date. Interim actions have been taken to

reduce any immediate health and

safety risks associated with these potential non-compliances. USEC estimates that cash outlays aggregating $4.6 million from September 30, 1998 through 2000 will be required to address the remaining potential non-compliances. DOE has paid USEC the $35.0 million required by the Lease Agreement for modifications of the plants necessitated by OSHA standards in effect on the Transition Date.

ENVIRONMENTAL MATTERS

Overview

The plants were operated by DOE and its predecessor agencies for approximately 40 years prior to the Transition Date. As a result of such operation of the plants, there are contamination and other potential environmental liabilities. The Paducah plant has been designated as a Superfund site, and both plants are undergoing investigations by DOE under the Resource Conservation and Recovery Act ("RCRA"). The Privatization Act provides that the U.S. Government or DOE remains responsible for all liabilities arising from operation of the plants before the Privatization. The U.S. Government or DOE, however, is not responsible for liabilities relating to certain identified wastes stored at the plants as of the Privatization that were generated after the Transition Date, including liabilities relating to the disposal of such waste after the Privatization. In addition, the Privatization Act and the Lease Agreement provide that DOE remains responsible for decontamination and decommissioning of the plants.

Under the AVLIS Transfer Agreement, DOE is generally responsible for the decontamination and decommissioning of the AVLIS facilities at LLNL, except for additional costs, if any, as a result of USEC's operations. DOE is also responsible for any liability attributable to or arising out of DOE's ownership or operation of the LLNL, including, without limitation, those relating to pollution or contamination or any environmental claim, except for those resulting from the negligence or misconduct of USEC. USEC, however, retains liability for, and agrees to reimburse DOE for any liability attributable to actions taken by USEC or its agents, employees or contractors with respect to operation, occupation or use of, or activities at, LLNL or the AVLIS facility after the Privatization.

The Lease Agreement generally requires DOE to indemnify USEC for all costs and expenses arising out of DOE's operation of the plants for matters relating to:

- pollution or contamination from DOE's operations prior to the Transition Date;

- environmental claims for which DOE has assumed liability;

- liability as a result of USEC's status as a permittee, holder, signatory, operator, assignee or successor, to the extent such liability arises from DOE's operation prior to the Transition Date; and

- liability arising from polychlorinated biphenyls ("PCBs"), asbestos and certain other contaminants, except to the extent any such material has been introduced by USEC.

In addition, the Lease Agreement requires DOE to indemnify and reimburse USEC for all costs and expenses arising from DOE's activities, which have been focused primarily on environmental restoration, waste management and management of depleted UF(6), at the plants after the Transition Date. The Lease Agreement

also requires USEC to indemnify and reimburse DOE for all costs and expenses arising from USEC's operations at the plants after the Transition Date. See "Business -- Lease Agreement." The Privatization Act generally provides that liabilities attributable to the operations of USEC prior to the Privatization remain liabilities of the U.S. Government. To the extent an issue arises as to

whether liability resulted from pre- or post-Privatization operations or releases of substances, USEC would seek to apply customary methods of establishing and allocating liability. USEC would negotiate in good faith with the U.S. Government and would evaluate a variety of factors in recommending each party's pro rata share of responsibility. Such factors include the nature of the contaminant, the history of use, and the length of respective operations.

USEC's operations are subject to numerous federal, state and local laws and regulations relating to the protection of health, safety and the environment, including those regulating the emission and discharge into the environment of materials, including radioactive materials. USEC is required to hold multiple permits under these laws and regulations. Environmental compliance is a high priority with USEC. USEC has established an internal environmental regulatory policy and oversight group that reports directly to senior management and has created incentives in the operating contract with LMUS predicated on compliance with environmental requirements.

In addition to costs for the future disposition of depleted UF(6), USEC incurs operating costs and capital expenditures for matters relating to compliance with environmental laws and regulations. These include the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes generated as a result of USEC's operations. Operating costs relating to environmental matters amounted to $30.4 million for fiscal 1996, $24.9 million for fiscal 1997 and $25.4 million for fiscal 1998. Capital expenditures relating to environmental matters amounted to $3.5 million for fiscal 1996, $1.8 million for fiscal 1997 and $4.4 million for fiscal 1998. In fiscal years 1999 and 2000, USEC expects its operating costs and capital expenditures for compliance with environmental laws and regulations, including the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes to remain at about the same levels as in fiscal years 1997 and 1998, exclusive of costs for future disposition of depleted UF(6).

The ultimate costs under environmental, health and safety laws and the time period during which such costs are likely to be incurred are difficult to predict and can be significantly affected by changes in existing law. However, USEC currently believes that environmental capital expenditures and costs will not have a material adverse effect on its financial condition, results of operation or liquidity.

Low-Level Radioactive Waste

USEC's operations generate low-level radioactive waste which is currently either stored on-site or shipped off-site for disposal at a commercial facility. Additionally, the Privatization Act requires DOE to accept for disposal, upon USEC's request, all low-level radioactive waste generated by USEC as a result of its operations at the plants. USEC is required to reimburse DOE for this service in an amount equal to DOE's cost, but in no event greater than the amount which would be charged for such service by commercial, state, regional or interstate compact entities.

Mixed Waste

USEC generates mixed waste, which is waste having both a hazardous and radioactive component. USEC has contracted for and is shipping most of its mixed wastes off-site for treatment and disposal. Because of limited treatment and disposal capacity, however, some mixed wastes generated by USEC since the Transition Date are being temporarily stored at DOE's permitted storage facilities at the plants. Although RCRA and its Kentucky and Ohio counterparts

generally require USEC to dispose of such wastes within certain time periods, USEC has entered into consent orders with the States of Kentucky and Ohio. These consent orders permit the continued storage of mixed wastes generated by USEC at

DOE-permitted storage facilities at the plants and provide for a schedule for sending such wastes to off-site treatment and disposal facilities, generally by the year 2000. USEC believes that it will treat or dispose of all of its historically generated mixed wastes within the time periods set forth in the consent orders, generally by the year 2000. However, there can be no assurance that USEC will be able to meet these deadlines due to a number of factors, including:

- the amount of time required for USEC to determine the character of the wastes;

- the limited availability of treatment capacity; and

- whether USEC's waste streams can meet the treatability criteria established by treatment facilities.

If USEC cannot meet the schedules, it may be required to request extensions and continued approval of the storage of mixed waste at the plants. There can be no assurance that such extension or approval will be given, in which case USEC may be subject to enforcement action, including fines and penalties.

Uranium Hexafluoride Tails

USEC's operations generate depleted UF(6), or "tails," as a result of its operations at the plants, which is currently being stored at the plants. Since the Transition Date, USEC has generated significant quantities of depleted UF(6). The Privatization Act and an agreement related to the disposition of depleted UF(6) provide that all liabilities arising out of the disposal of depleted UF(6) generated before the Privatization are direct liabilities of DOE. Depleted UF(6) generated after the Privatization is the responsibility of USEC.

The Privatization Act requires DOE, upon USEC's request, to accept for disposal depleted UF(6) generated after the Privatization, if it is determined to be a low-level radioactive waste. It also requires USEC to reimburse DOE for this service in an amount equal to its cost. Costs accrued for the future treatment and disposal of depleted UF(6) were $55.7 million in fiscal 1998. USEC expects that costs relating to the future treatment and disposal of depleted UF(6) produced from its operations will be lower in fiscal 1999. If depleted UF(6) were also regulated as a hazardous waste, USEC estimates that it would incur additional costs to construct and permit storage facilities, as well as additional operating costs. Since there are no commercially available treatment facilities in the United States to convert significant quantities of depleted UF(6) into a form suitable for disposal, there can be no assurance that USEC's accruals for the disposal of depleted UF(6) will be adequate. Also, there can be no assurance that the increased cost of treatment, storage or disposal will not adversely affect USEC's financial condition and results of operations in the event that UF(6) were regulated as a hazardous waste.

USEC entered into an agreement with DOE pursuant to which USEC paid DOE $50.0 million in June 1998 in consideration for a commitment by DOE to assume responsibility for a certain amount of depleted UF(6). The agreement relates to depleted UF(6) generated by USEC over the period from the Privatization up to 2005.

The State of Ohio issued a Notice of Violation in September 1993 to DOE which alleged DOE violated the State's hazardous waste regulations in its failure to determine whether depleted UF(6) stored at Portsmouth constituted a hazardous waste. DOE has recently signed a consent order with the State of Ohio which permits it to continue to manage depleted UF(6) for ten years while evaluating alternative management options. The Commonwealth of Kentucky and the

State of Ohio have made similar oral inquiries to USEC with respect to whether depleted UF(6) constitutes a hazardous waste. USEC believes, and DOE and NRC have also both taken the position, that depleted UF(6) is a source

material and therefore not a hazardous waste subject to RCRA. Although neither Kentucky nor Ohio has taken any further action relating to this matter, there can be no assurance that the EPA or Kentucky or Ohio will agree with the position taken by DOE and NRC. If they do not agree, the storage of UF(6) at the plants could constitute a violation of RCRA.

Contamination of the Plants

USEC is subject to the provisions of the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"). Pursuant to CERCLA and similar state laws, the owner of real property or operator of facilities on the property may be jointly and severally liable for the costs of removal or remediation of certain hazardous or toxic substances on or under such property, regardless of whether the owner or operator knew of, or was responsible for, the presence of such materials. The Paducah plant, including the leased premises, has been designated on the National Priorities List, more commonly known as a Superfund site under CERCLA. However, the Privatization Act makes DOE or the U.S. Government responsible for any liability in connection with contamination occurring prior to the Privatization. In addition, the Lease Agreement requires DOE to indemnify USEC for all such cleanup costs attributable to operations prior to the Transition Date.

The plants are currently undergoing investigations under RCRA. In connection with such investigations, DOE has identified a number of areas of potential contamination that may require remediation. Some of these areas are located within the leased premises and some will continue to be used by USEC. USEC has not determined whether or to what extent such continued use may contribute to the contamination of these units. Pursuant to the Privatization Act, USEC is liable for contamination, if any, attributable to USEC's operations after the Privatization, and such costs are not subject to reimbursement by DOE.

PCBs

The federal Toxic Substances Control Act ("TSCA") regulates, among other things, the manufacture, use, storage and disposal of PCBs. Both plants contain significant amounts of equipment which have leaked PCB-contaminated oils or which have become contaminated by such oils or store PCB wastes in violation of TSCA. Pursuant to the Lease Agreement, however, DOE has agreed to reimburse and indemnify USEC for any damages incurred by USEC resulting from PCBs or PCB releases from existing equipment, except to the extent any PCBs have been introduced to the plants by USEC.

DOE has operated the plants pursuant to a Federal Facility Compliance Agreement ("FFCA") with EPA in which EPA has agreed not to sue DOE and any of its contractors for alleged violations of TSCA resulting from the PCB-contaminated equipment so long as DOE adheres to certain procedures. Pursuant to the FFCA, DOE has undertaken substantial capital improvements to protect the environment from PCB contamination and to reduce the exposure of workers to PCBs. However, no assurance can be given that private parties which are not bound by the FFCA may not seek to enjoin the use of PCBs at the plants in violation of TSCA. USEC believes that such a lawsuit is unlikely and that it would have defenses in the event of such a lawsuit, including a lawsuit seeking suspension of plant operations.

Wastewater

USEC and DOE share wastewater discharge facilities at both plants. DOE and the plants intermingle their respective wastewaters in such a way that it may not always be possible to determine the origin of discharges that do not comply with the plants' discharge permits. As a result, USEC may be fined for violation

of its permit as a result of DOE's

operations. Although it may not always be possible to establish that noncomplying discharges originated from DOE operations, pursuant to the Lease Agreement DOE has agreed to indemnify and reimburse USEC for any liability incurred by USEC as a result of DOE's contribution to an alleged violation of permit limits.

Air Emissions

USEC has filed applications for permits under Title V of the Clean Air Act relating to its air emissions. The application for the Portsmouth plant includes, among other things, sources covered by appeals of conditions in 56 air permits recently proposed by the State of Ohio. USEC's applications are currently pending and it is not known when the permits will be issued. The permits, when issued, may contain new or additional conditions or emissions standards that may adversely affect USEC's operations.

Transportation

Transportation of natural uranium and enriched uranium product to and from the plants is the responsibility of USEC's customers in all but a few cases. USEC transports uranium between the two plants by rail and by truck and is responsible for transportation of the Russian low enriched uranium from St. Petersburg, Russia. The uranium material is packaged in cylinders which are placed in protective overpacks and shipped on container ships and carried by trucks using special trailers.

FOREIGN TRADE MATTERS

Antidumping Investigations

In 1991, U.S. producers of uranium and uranium workers filed a petition with the U.S. Department of Commerce ("Commerce") alleging that uranium from countries of the then-Soviet Union was being dumped (i.e., sold at unfair prices) in the United States. In the antidumping investigation that followed, Commerce rendered a preliminary determination that uranium imported from Russia and several other former Soviet republics was being dumped in the United States at average dumping margins of 115%. Thus, those imports were exposed to the risk of high U.S. antidumping duties if Commerce issued an affirmative final dumping determination and if the U.S. International Trade Commission (the "ITC") also determined that those imports were causing or threatening material injury to the U.S. industry. The investigations of uranium from Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan were suspended as a result of "suspension agreements" between Commerce and the respective governments. The agreements with Tajikistan and Ukraine have since been terminated. Imports of uranium from Ukraine are currently subject to antidumping duties.

Russian Suspension Agreement

The Russian suspension agreement provides that while all of the highly enriched uranium, or low enriched uranium derived from the highly enriched uranium, purchased from Russia pursuant to the Russian Contract could enter the United States, the associated natural uranium could not be resold in the United States. The Privatization Act supersedes this provision by allowing sales and deliveries of the associated natural uranium in the United States subject to annual quantitative limitations.

In 1994, the Russian suspension agreement was modified (the "Modified Suspension Agreement") to allow, subject to quotas, imports of Russian uranium

and SWU if they were "matched" in equal parts with newly-produced United States uranium and/or SWU in a sale to an end-user in the United States. While quotas for matched natural uranium exist until 2004, the SWU matching quota expired on October 3, 1998. Unless the Modified

Suspension Agreement is otherwise amended, no imports of SWU from the Russian Federation (other than those associated with the Russian Contract) will be allowed until at least 2004.

Commerce and the ITC are scheduled to initiate a review of the Modified Suspension Agreement in August 1999 under legislation that requires periodic review of antidumping and countervailing duty orders and suspension agreements. Under this review, known as a "sunset review," these agencies will determine whether termination of the Modified Suspension Agreement would lead to the continuation or recurrence of material injury or dumping. If either agency makes a negative determination (i.e., that termination would not lead to injury or dumping), the Modified Suspension Agreement would be terminated, without replacement. By statute, the earliest date that the Modified Suspension Agreement can be terminated is January 1, 2000.

Commerce may also terminate the Modified Suspension Agreement on its own initiative if Commerce determines that the Modified Suspension Agreement no longer satisfies the statute. In such case, Commerce and the ITC would restart their antidumping investigations. If Commerce and the ITC issued affirmative final determinations, imports of uranium from Russia would be subject to antidumping duties, which could be very high, and could increase the price USEC pays for SWU under the Russian Contract. If, however, a negative final determination were issued by either agency, then antidumping duties would not be imposed and such uranium could then be sold in competition with USEC-supplied natural uranium, SWU or low enriched uranium. Depending on the quantity of natural uranium, SWU or low enriched uranium involved, such imports could have a material adverse effect on USEC.

In addition, expiration of the Modified Suspension Agreement in 2004 or an earlier modification or termination could affect the level of imports to the United States of SWU from the Russian Federation. The likelihood of such changes, and the effect of such changes on the operations of USEC, if any, is uncertain.

Suspension Agreements Concerning Other CIS Countries

Imports of uranium from Kazakhstan, Kyrgyzstan and Uzbekistan are currently subject to antidumping suspension agreements as well. Under the terms of these agreements, imports of uranium from these countries are subject to certain quantitative restrictions. Under the Kazakhstan and Uzbekistan suspension agreements, natural uranium that is enriched in a third country prior to importation to the U.S. is considered to originate from those countries, and is, therefore, subject to the quotas established in the suspension agreements. The suspension agreements provide that the quantitative restrictions contained therein are to remain in force until 2004. The modification or termination of the suspension agreements prior to that date, if any, could affect the level of imports to the U.S. of uranium from those countries and the level of imports to the U.S. of low enriched uranium enriched from such uranium in third countries. The effect of such changes on the operations of USEC, if any, is uncertain.

As with the Modified Suspension Agreement, the suspension agreements covering imports of uranium from Kazakhstan, Kyrgyzstan and Uzbekistan also could be terminated by Commerce under certain circumstances. If an agreement were terminated with respect to any one or more of these countries, then the previously-suspended antidumping investigation would very probably resume with respect to that country or countries. If Commerce and the ITC issued affirmative

final determinations, then antidumping duties would be imposed on imports of uranium from that country or those countries. Imposition of an antidumping order on imports of uranium from Kazakhstan, Kyrgyzstan and/or Uzbekistan could

severely limit or preclude entirely sales in the United States of uranium from those countries. If, however, a negative final determination is issued by either agency, then antidumping duties would not be imposed and such uranium could then be sold in competition with USEC-supplied natural uranium, SWU or low enriched uranium. Depending on the quantity of natural uranium, SWU or low enriched uranium involved, such imports could have a material adverse effect on USEC.

In November 1998, the Government of Kazakhstan filed a request to terminate the suspension agreement covering imports of uranium from Kazakhstan. Pursuant to the terms of the suspension agreement, Commerce and the ITC are scheduled to reinitiate their antidumping investigations on January 11, 1999, unless the Government of Kazakhstan withdraws its request for termination. If both agencies issue affirmative final determinations, an antidumping duty order will be imposed on uranium imports from Kazakhstan. If either agency issues a negative determination, antidumping duties will not be imposed, and imports of uranium from Kazakhstan could be sold in competition with USEC-supplied natural uranium, SWU or low enriched uranium. The outcome of these investigations, and the possible effect of a negative determination by either agency on USEC's sales, is uncertain.

As with the Modified Suspension Agreement, Commerce and the ITC are scheduled to initiate a sunset review of these suspension agreements in August 1999. Either agency could order the termination of any or all of these agreements. The earliest date that these suspension agreements can be terminated is January 1, 2000. The effect on USEC of termination of any or all of these suspension agreements as a result of the sunset review is uncertain.

Imports of uranium from Ukraine, other than highly enriched uranium, are currently subject to an antidumping duty order, under which the U.S. Customs Service imposes a 129.29 percent ad valorem cash deposit requirement. The rate of this cash deposit requirement could change, based on further proceedings under the order. Changes in the cash deposit rate, if any, could affect the levels of imports of uranium from Ukraine, but the effect of such changes on the operation of USEC, if any, is uncertain. This order is likely to remain in effect at least until 2000.

As with the Modified Suspension Agreement, in August 1999, Commerce and the ITC will initiate a sunset review of this order. As a result of this sunset review, this order could be revoked, but the earliest date on which revocation could occur is January 1, 2000. The effect of revocation of this order on USEC is uncertain.

Agreements for Cooperation

USEC exports to utilities located in countries comprising the European Union ("EU") take place within the framework of an agreement for cooperation between the United States and the European Atomic Energy Community. The agreement permits USEC to export low enriched uranium to the EU for as long as the agreement is in effect.

USEC exports to utilities in other countries under similar agreements for

cooperation. If such agreements for cooperation lapse, terminate or are amended such that USEC could not make sales or deliver products to such jurisdictions, it could have a material adverse effect on USEC.

LITIGATION

USEC is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be

predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on USEC's results of operations or financial position.

PROPERTIES

In addition to the two plants, USEC leases its corporate headquarters office space in Bethesda, Maryland under a lease expiring November 2008. See "Business -- Plants/ Operations" and "Business -- Lease Agreement."

EMPLOYEES

As of September 30, 1998, USEC employed 159 people including 137 at USEC headquarters in Bethesda, Maryland, 13 at LLNL and 9 at the plants. USEC believes that its relationship with its employees is good.

As of September 30, 1998, LMUS employed approximately 4,200 people as follows:

- 2,150 at the Portsmouth plant;

- 1,800 at the Paducah plant; and

- 250 at LMUS administrative headquarters.

Of the 4,200 employees at the plants, 3,550 were involved in enrichment operations and construction activities, and the remainder involved primarily in DOE-funded activities. In addition, USEC directs the activities of several contractors which employ 700 people at LLNL. See "Business -- Plants/Operations." The average years of service for the employees at the plants is 13 years. Two labor unions, the Oil, Chemical and Atomic Workers International Union ("OCAW") and the International Union of United Plant Guard Workers of America ("UPGWA"), represent 1,110 LMUS employees at the Portsmouth plant and 860 LMUS employees at the Paducah plant. In particular, OCAW represents 1,020 employees at the Portsmouth plant and 820 employees at the Paducah plant. UPGWA represents 90 employees at the Portsmouth plant and 40 employees at the Paducah plant.

Subject to provisions of the Treasury Agreement, USEC plans reductions in the plant workforce of 500 persons, as well as an additional 100 persons through normal employee attrition, through fiscal year 2000. Any such workforce reductions would be subject to applicable provisions of the Treasury Agreement.

The Privatization Act provides that if USEC terminates or changes the operating contractor at the plants, all pension plan assets and liabilities relating to accrued benefits of the operating contractor's pension plan must be transferred to a pension plan sponsored by the new contractor or USEC or to a joint labor-management plan. The Privatization Act provides further that any employer at a plant (including USEC or any replacement contractors it retains) must abide by the terms of any unexpired collective bargaining agreement covering employees at the plants and in effect on the date of the Privatization, until the expiration or termination of such agreement. If USEC replaces its operating contractor, the new employer will be required to offer employment to non-management employees of the predecessor contractor to the extent that their

jobs still exist or they are qualified for new jobs. In addition, the Privatization Act requires that certain eligible employees of the operating contractor at the plants continue to receive post-retirement health benefits at substantially the same level of coverage as the level of benefits to which eligible retirees were generally entitled as of the Privatization. It also requires USEC to

fund such costs for the portion of time an employee continues to work after the Transition Date.

Paducah Facility

All hourly rated LMUS employees, excluding guards and salaried employees, are represented by the OCAW, Local 3-550. The current collective bargaining agreement expires on July 31, 2001. All hourly paid LMUS security employees, excluding clerical employees, lieutenants, professional employees, and supervisors, are represented by the UPGWA, Local 111. The current collective bargaining agreement expires on March 1, 2002.

Portsmouth Facility

All hourly rated LMUS security employees, excluding shift commanders, the plant protection force section manager, captains, salaried employees, office clerical employees, professional employees, supervisors and all other persons employed by LMUS at the facility, are represented by the UPGWA, Amalgamated Local 66. The current collective bargaining agreement expires August 4, 2002. The collective bargaining agreement with OCAW, Local 3-689, which represents all hourly employees, excluding security and salaried personnel, expires on May 2, 2000. As of September 30, 1998, the Portsmouth plant has over 3,400 written grievances pending pursuant to the collective bargaining agreements between LMUS and the OCAW and the UPGWA.

CERTAIN ARRANGEMENTS INVOLVING THE U.S. GOVERNMENT

Set forth below is a brief summary of certain of the more significant arrangements between the U.S. Government and USEC.

The Government Oversight Committee

In connection with the Privatization, the U.S. Government established an enrichment oversight committee which monitors and coordinates U.S. Government efforts with respect to the post-Privatization USEC in furtherance of:

- the full implementation of the government-to-government agreement relating to the disposition of Russian highly enriched uranium;
- the application of statutory, regulatory and contractual restrictions on foreign ownership, control or influence of USEC;
- the development and implementation of U.S. Government policy regarding uranium enrichment and related technologies, processes and data; and
- the collection and dissemination of information within the U.S. Government relevant to the foregoing objectives.

On June 19, 1998, USEC entered into a memorandum of agreement with DOE which established annual and quarterly reporting requirements for USEC in support of the oversight committee's purposes.

Executive Agent Memorandum of Agreement

USEC has been designated as the Executive Agent of the United States under a government-to-government agreement between the United States and the Russian Federation to purchase approximately 92 million SWU derived from 500 metric tons of highly enriched uranium recovered from nuclear weapons of the former Soviet Union for use in commercial electricity production. Under the Executive Agent MOA, USEC can be terminated, or resign, as the U.S. Executive Agent upon 30-days notice; however, USEC

would nonetheless have the right and the obligation to purchase SWU that is to be delivered during the calendar year of the date of termination and the following calendar year.

Liabilities Memorandum of Agreement

The Privatization Act allocates the responsibility for certain liabilities between USEC and the U.S. Government. It generally provides that liabilities arising from operations of USEC after the Privatization are liabilities of USEC, and liabilities attributable to operations of USEC and the predecessor government agencies prior to the Privatization remain liabilities of the U.S. Government. The one exception to this general allocation relates to certain liabilities of USEC arising from operations between the Transition Date and the Privatization that USEC retained pursuant to a memorandum of agreement between USEC and the Office of Management and Budget.

Lease Agreement For Production Facilities

USEC leases the plants from DOE under the Lease Agreement for nominal rent, with options for indefinite extensions. USEC also provides services to DOE for environmental restoration, waste management and other activities at the plants for which it is currently reimbursed at cost.

Treasury Agreement Regarding Ownership and Operation of the Plants and Certain Other Matters

USEC entered into the Treasury Agreement, pursuant to which USEC made the following commitments, among others:

- to abide by the Privatization Act provisions, including the provision which prohibits the sale of more than 10% of the outstanding voting stock to any one person for a three-year period after the Privatization;

- 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 Privatization;

- to the extent commercially practicable, to:

  -- take steps reasonably calculated in good faith to ensure that workforce reductions at the plants through fiscal year 2000 are conducted in a manner consistent with USEC's strategic plan, do not exceed 500 employees, and are effected in substantially equal parts in each of fiscal years 1999 and 2000;

  -- in each of fiscal years 1999 and 2000, seek to achieve such workforce reductions through a program of voluntary separation before instituting a program of involuntary separation; and

  -- with respect to such workforce reductions, provide benefits and take other measures to minimize workforce disruptions that are no less favorable to the workforce than would have been the case prior to the Privatization and that are in accordance with an agreement between USEC and DOE concerning worker assistance; and

- to continue operation of the plants until at least January 1, 2005, subject to the following exceptions:

  -- the occurrence of any event beyond the reasonable control of USEC, such as fires, floods, or acts of God, that prevents the continued operation of a plant by USEC;

  -- if the Operating Margin of USEC is less than 10% in a twelve consecutive month period;

  -- if the long-term corporate credit rating of USEC is, or is reasonably expected in the next twelve months to be, downgraded below an investment grade rating;

  -- if the Operating Interest Coverage Ratio of USEC is less than 2.5x in a twelve consecutive month period;

  -- if there is a decrease in annual worldwide demand for SWU to less than 28 million SWU; or

  -- if there is a decrease in the average price for all SWU under USEC's long-term firm contracts to less than $80 per SWU (in 1998 dollars).

Operating Margin is defined in the Treasury Agreement to mean (x) earnings plus interest, taxes and any extraordinary, nonrecurring charges divided by (y) total revenue. Operating Interest Coverage Ratio is defined to mean (x) earnings plus interest and taxes divided by (y) gross interest expense. None of the exceptions to USEC's obligation to operate the plants is currently applicable and, based on information known to USEC, USEC does not believe that any of these exceptions would be applicable in the near future. Based on information known to USEC, USEC does not anticipate that the average SWU price under USEC's long-term firm contracts is likely to fall below $80 per SWU (in 1998 dollars) in the near future.

Pursuant to a requirement in the Treasury Agreement, USEC entered into an agreement with its officers and directors whereby they agreed not to, and to use their best efforts to cause their family members not to, acquire any Shares or other securities convertible into or exchangeable for shares of Common Stock for 180 days following consummation of the IPO.

Electricity Memorandum of Agreement

USEC entered into a memorandum of agreement with DOE pursuant to which DOE transferred the benefits of its power purchase agreements with EEI and OVEC to USEC, although DOE remains the named purchaser under such power purchase agreements.

Certain Transfers from DOE

Under the Privatization Act, DOE is required to transfer to USEC, at no cost, up to 50 metric tons of highly enriched uranium, representing 3.4 million SWU and 5,000 metric tons of natural uranium, and up to 7,000 metric tons of natural uranium. USEC received the 7,000 metric tons of natural uranium in April 1998, and expects to receive the 50 metric tons of highly enriched uranium over the period September 1998 to September 2003. In May 1998, USEC also received an additional 3,800 metric tons of natural uranium and 45 metric tons of low enriched uranium, representing 280,000 SWU and 453 metric tons of natural uranium, to settle DOE's liabilities for certain nuclear safety upgrade costs and to satisfy certain remaining obligations of DOE to USEC. See "Business -- Natural Uranium and Highly Enriched Uranium from DOE."

Agreement Regarding AVLIS Research

AVLIS research, development and demonstration is conducted at LLNL under

DOE's management and operations contract with the University of California. Inventions that result from the AVLIS research and development effort funded by USEC will be owned by USEC. See "Business -- Advanced Laser-Based Technology."

Depleted UF(6) Memorandum of Agreement

USEC entered into a memorandum of agreement with DOE pursuant to which title to depleted UF(6) generated by USEC before the Privatization was transferred to DOE in accordance with the Privatization Act.

DOE Agreement Regarding Depleted UF(6) Disposal

USEC entered into an agreement with DOE pursuant to which USEC has paid DOE $50.0 million and DOE has assumed responsibility for a certain amount of depleted UF(6) generated by USEC over the period from the privatization date to 2005.

MANAGEMENT

BOARD OF DIRECTORS

The Board of Directors of USEC consists of seven members, which includes six "independent directors" (within the meaning of the regulations of the New York Stock Exchange, Inc.) as follows:

NAME	AGE AT SEPTEMBER 30, 1998	PRINCIPAL OCCUPATION
James R. Mellor, Chairman(2)	68	Retired Chairman and Chief Executive Officer of General Dynamics Corporation
Joyce F. Brown, Ph.D.(1)	52	President of the Fashion Institute of Technology of the State University of New York
Frank V. Cahouet(1,2)	66	Retired Chairman, President and Chief Executive Officer of Mellon Bank Corporation
John R. Hall(2,3)	65	Retired Chairman and Chief Executive Officer of Ashland, Inc.
Dan T. Moore, III(2)	58	President of Dan T. Moore Company, Inc.
William H. Timbers, Jr.(3)	48	President and Chief Executive Officer of USEC
William H. White(1,3)	44	President and Chief Executive Officer of WEDGE Group Incorporated

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(1) Member of the Audit, Finance and Corporate Responsibility Committee.

(2) Member of the Compensation Committee.

(3) Member of the Regulatory Affairs Committee.

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

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

Frank V. Cahouet served as Chairman and Chief Executive Officer of Mellon Bank Corporation from 1987 to 1998, and served as President from 1990 to 1998. Mr. Cahouet is also a director of Avery Dennison Corporation, Saint-Gobain Corporation, and Allegheny Teledyne Incorporated.

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

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

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

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

COMMITTEES

The Board of Directors of USEC has created an Audit, Finance and Corporate Responsibility Committee, a Regulatory Affairs Committee and a Compensation Committee. The Audit, Finance and Corporate Responsibility Committee is responsible for reviewing USEC's accounting processes, financial controls and reporting systems, as well as the selection of USEC's independent auditors and the scope of the audits to be conducted. It also is responsible for monitoring the policies, practices and programs of USEC in its relations with the government, customers, suppliers, employees, shareholders and the communities in which the plants are located. The Regulatory Affairs Committee is responsible for regulatory matters and compliance. The Compensation Committee is responsible for recommending to the Board of Directors compensation for USEC's key employees and overall incentive compensation programs and policies for USEC.

COMPENSATION OF DIRECTORS

Each non-employee director currently receives an annual retainer of $20,000 for service on the Board of Directors. See also "Certain Relationships and Related Transactions."

EXECUTIVE OFFICERS

The Company's executive officers and their ages are as follows:

NAME	AGE AT SEPTEMBER 30, 1998	POSITION
William H. Timbers, Jr.	48	President and Chief Executive Officer
George P. Rifakes	64	Senior Executive Vice President
James H. Miller	49	Executive Vice President
Jeffry E. Sterba	43	Executive Vice President
Robert J. Moore	41	Senior Vice President and General Counsel
Henry Z Shelton, Jr.	55	Senior Vice President and Chief Financial Officer
James N. Adkins	62	Vice President, Production
J. William Bennett	51	Vice President, Advanced Technology
William J. Bruttaniti	49	Vice President and Chief Information Officer
Richard O. Kingdon	43	Vice President, Strategic Analysis
Philip G. Sewell	52	Vice President, Corporate Development and International Trade
Darryl A. Simon	41	Vice President, Human Resources and Administration
Robert Van Namen	37	Vice President, Marketing and Sales
Charles B. Yulish	61	Vice President, Corporate Communications

Officers serve at the pleasure of the Board of Directors.

William H. Timbers, Jr. -- See above.

George P. Rifakes has been Senior Executive Vice President of USEC since January 1999. From 1993 to 1998, he served as Executive Vice President, Operations. Prior to joining USEC, Mr. Rifakes was Vice President of Commonwealth Edison Company in Chicago, Illinois, where he was employed since 1957 with responsibilities in corporate planning, purchasing, fuel, economic analysis, and least-cost planning and marketing. He also served as President of the Cotter Corporation, a wholly-owned uranium subsidiary of Commonwealth Edison, from 1976 to 1992.

James H. Miller has been Executive Vice President of USEC since January 1999. From 1995 to 1998, he served as Vice President, Production. Before joining USEC, Mr. Miller was President of ABB Environmental Systems, Inc. From 1993 to 1994, he served as President of U.C. Operating Services, a joint venture between Louisville Gas & Electric Company and Baltimore Gas & Electric Company. From 1986 to 1993, he worked for ABB Resource Recovery Systems, serving as President from 1990 to 1993.

Jeffry E. Sterba joined USEC as Executive Vice President in January 1999. Prior to this appointment, Mr. Sterba spent 21 years at Public Service Company of New Mexico, most recently serving as Executive Vice President and Chief Operating Officer.

Robert J. Moore has been Senior Vice President and General Counsel of USEC since January 1999, Vice President and General Counsel since 1994 and General Counsel since 1993. From 1993 to 1998, he served as Secretary. Prior to joining USEC, Mr. Moore was appointed to numerous senior legal and policy positions, serving as Director of the California Governor's Office in Washington, D.C. and as General Counsel to two Presidential and Congressional Commissions.

Henry Z Shelton, Jr. has been Senior Vice President and Chief Financial Officer of USEC since January 1999. From 1993 to 1998, he served as Vice President, Finance and Chief Financial Officer. From 1989 to 1993, Mr. Shelton served as a Board member and Vice President, Finance for Sun International Exploration and Production Company, a subsidiary of the Sun Company, Inc., headquartered in London, England. Previously, Mr. Shelton worked for the Sun Company organization for 23 years.

James N. Adkins, Jr. was appointed Vice President, Production of USEC in January, 1999. From 1994 to 1998, Mr. Adkins was Manager, Production Support. Before joining USEC, Mr. Adkins was a Division Vice President and General Manager at Haliburton NUS Corporation from 1989 to 1993. His division provided plant support services and products to utilities, other industrial plants and government facilities.

J. William Bennett has been Vice President, Advanced Technology of USEC since 1994. From 1993 to 1994 he served as Vice President, Production of USEC. Immediately before joining USEC, he served as Director of DOE's Office of Uranium Enrichment Operations. Prior to that, he was Director of DOE's Office of Geologic Repositories and Director of DOE's Office of Light Water Reactor Technology.

William J. Bruttaniti joined USEC as Vice President and Chief Information Officer in October 1998. Prior to this appointment, Mr. Bruttaniti spent more than two years as a senior manager with KPMG Peat Marwick LLP, most recently serving as interim Chief Information Officer for USEC on a consultancy basis. From 1991 to 1996, Mr. Bruttaniti served as the Chief Information Officer for U.S. Industries, a consumer products manufacturer.

Richard O. Kingdon has been Vice President, Strategic Analysis of USEC since January 1999. From 1993 to 1998, he served as Vice President, Marketing and Sales. Prior to joining USEC, Mr. Kingdon was Director, Strategic Planning, at Otis Elevator Company, a division of the United Technologies Corporation. From 1990 to 1993, he was Director, Sales and Marketing, for the Otis United Kingdom operation. Prior to 1990, Mr. Kingdon was a Manager in the consulting firm of Bain & Company.

Philip G. Sewell has been Vice President, Corporate Development and International Trade of USEC since April 1998, and Vice President, Corporate Development of USEC since 1993. From 1988 to 1993, Mr. Sewell served as Deputy Assistant Secretary of DOE and was responsible for the overall management of the uranium enrichment program. Mr. Sewell served in the United States Government for 28 years in various positions of increasing responsibility.

Darryl A. Simon joined USEC as Vice President, Human Resources and Administration in August 1997. Prior to this appointment, Mr. Simon spent seven years with ManorCare Health Services based in Gaithersburg, Maryland, most recently serving as Vice President, Human Resources Planning and Leadership Development. Prior to ManorCare, he held assignments of increasing responsibility within various industries and organizations.

Robert Van Namen joined USEC as Vice President, Marketing and Sales in January 1999. Prior to this appointment, Mr. Van Namen spent fourteen years with Duke Power Company, most recently serving as Manager of the Nuclear Fuel Management Section.

Charles B. Yulish has been Vice President, Corporate Communications of USEC since 1995. Immediately before joining USEC, Mr. Yulish was Executive Vice President and Managing Director of E. Bruce Harrison Co. Prior to joining E. Bruce Harrison Co. in 1993, he served as partner of Holt, Ross and Yulish. Both companies are energy and environmental public relations firms.

EXECUTIVE COMPENSATION

The following table sets forth information regarding the compensation of the Chief Executive Officer and the four most highly paid executive officers in fiscal 1998. Since its inception, USEC has not granted any stock options, stock awards or stock appreciation rights or made any long-term incentive plan awards or payouts.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	ALL OTHER COMPENSATION(1)
William H. Timbers, Jr. Chief Executive Officer	1998	$331,400	$25,000	$7,540
George P. Rifakes. Executive Vice President	1998	$290,600	$25,000	$6,400
Henry Z Shelton, Jr. Vice President and Chief Financial Officer	1998	$249,800	$25,000	$6,400
Robert J. Moore. Vice President, General Counsel and Secretary	1998	$215,200	$25,000	$9,328
James H. Miller. Vice President, Production	1998	$203,900	$25,000	$6,400

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(1) Represents USEC's 401(k) matching contributions and for Mr. Timbers represents USEC's 401(k) matching contributions of $6,400 and a life insurance premium of $1,140.

USEC has proposed that its stockholders approve a stock-based executive incentive compensation plan at the annual meeting scheduled to be held in February 1999.

PENSION PLAN TABLE

USEC maintains a tax-qualified defined benefit pension plan ("USEC's Retirement Plan") for employees not currently enrolled in either the Civil Service Retirement System or the Federal Employees' Retirement System. The following table provides examples of

benefits for USEC's Retirement Plan at the normal retirement age of 65 payable as a life annuity. These benefits are not subject to deductions for Social Security.

FINAL AVERAGE COMPENSATION	YEARS OF PARTICIPATION AT AGE 65 ESTIMATED ANNUAL RETIREMENT BENEFITS 15	20	25	30	35
$ 50,000	$ 9,375	$11,250	$13,125	$15,000	$16,875
100,000	18,750	22,500	26,250	30,000	33,750
150,000	28,125	33,750	39,375	45,000	50,625
200,000	30,000	36,000	42,000	48,000	54,000
250,000	30,000	36,000	42,000	48,000	54,000
300,000	30,000	36,000	42,000	48,000	54,000
350,000	30,000	36,000	42,000	48,000	54,000

Earnings are averaged over the five consecutive calendar years during which a participant's earnings were highest. Earnings include salary, overtime, bonuses and commission. Credited Service is based on the number of plan years (January 1 through December 31) commencing January 1, 1994 during which a participant completes at least 1,000 hours of service.

As of June 30, 1998, the years of credited service under the retirement plans for Messrs. Timbers, Rifakes, Shelton, Moore and Miller were 4.5, 4.5, 4.5, 5.0 and 2.5, respectively.

SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

USEC maintains a supplemental retirement plan in which Mr. Timbers currently participates. Under the supplemental retirement plan, the participant is entitled to receive a total retirement benefit of 60% of final average salary, commencing at age 62. The value of the benefits from the supplemental retirement plan is offset by the benefits from USEC's Retirement Plan and Social Security benefits.

EMPLOYMENT AND SEVERANCE AGREEMENTS

USEC is not a party to any employment or severance agreements.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

None of the officers or directors currently owns any shares of USEC's common stock. The Treasury Agreement prohibits the officers and directors of USEC from acquiring, and requires them to use their best efforts to cause their family members not to acquire, any shares or other securities convertible into or exchangeable for shares of USEC's common stock for 180 days following consummation of the IPO.

As of January 4, 1999, based solely upon a review of filings made by third parties pursuant to Sections 13(d) and 13(g) of the Securities and Exchange Act of 1934, as amended, there are no persons who beneficially own more than 5% of the outstanding shares of common stock of USEC.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In August 1998, USEC entered into an agreement with James R. Mellor, the Chairman of the Board of Directors, under which Mr. Mellor will provide certain consulting services to USEC. For the period from July 28, 1998 through July 27, 1999, Mr. Mellor will be paid $255,000 for his services under the agreement.

DESCRIPTION OF THE NOTES

We will issue the senior notes under an indenture, dated , 1999 between us and First Union National Bank, as trustee. We have summarized portions of the indenture below. The summary is not complete. The indenture has been incorporated by reference as an exhibit to the registration statement which includes this prospectus, and you should read the indenture for provisions that are important to you. The indenture and not this description defines your rights as holders of the senior notes. Capitalized terms used in the summary have the meanings specified in the indenture. You can find the definitions of certain terms used in this description under the subheading "Certain Definitions".

GENERAL

- We will issue senior notes with a maximum aggregate principal amount of $ million.

- The senior notes will mature on .

- The senior notes will bear interest at % per annum from , 1999 or, if interest has already been paid, from the date it was most recently paid.

- We will pay interest on the senior notes semi-annually on and of each year, commencing , 1999, to the registered holder of the senior note (or any predecessor senior note) at the close of business on the preceding or , as the case may be.

- The senior notes will not be subject to any sinking fund.

- We may redeem all or a portion of the senior notes at our option and at any time as described below.

- The senior notes will be our unsecured obligations and will rank on a parity with all of our other unsecured and unsubordinated indebtedness.

- The senior notes will have the effect of being subordinated to all existing and future third-party indebtedness and other liabilities of our Subsidiaries (including trade payables).

- We or our Subsidiaries may issue an unlimited amount of additional indebtedness under the indenture.

OPTIONAL REDEMPTION

We may at our option and at any time redeem the senior notes, in whole or in part, in principal amounts of $1,000 or multiples thereof. The redemption price will equal the sum of:

(1) an amount equal to 100% of the principal amount thereof; and

(2) a make-whole premium,

together with accrued and unpaid interest up to but not including the redemption date.

We will calculate the make-whole premium as:

(1) the aggregate present value as of the redemption date of each

dollar of principal of such senior notes being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such redemption had not been made, determined by discounting, on a semi-annual basis, such principal and interest at a rate equal to the sum of the Treasury Yield (determined on the business day immediately preceding the redemption

date) plus basis points from the respective dates on which such principal and interest would have been payable if such redemption had not been made, in excess of

(2) the aggregate principal amount of such senior notes being redeemed.

"Treasury Yield" means, in connection with the calculation of any make-whole premium on any senior note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as complied by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar data)) equal to the then remaining maturity of such senior note; provided that if no United States Treasury security is available with such a constant maturity for which a closing yield is given, the Treasury Yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the closing yields of United States Treasury securities for which such yields are given, except that if the remaining maturity of such security is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

If we redeem less than all of the senior notes at any time, the trustee will select the senior notes for redemption on a pro rata basis, by lot or by such method as the trustee will deem fair and appropriate; provided we will not redeem senior notes of $1,000 or less in part. We will mail notices of redemption by first class mail at least 30 but not more than 60 days before the redemption date to each registered holder of senior notes to be redeemed at its registered address.

If we redeem any senior note in part only, the notice of redemption that relates to such senior note will state the portion thereof to be redeemed. We will issue a new senior note in principal amount equal to the unredeemed portion in the name of the registered holder thereof upon cancellation of the original senior note.

On and after the redemption date, interest will cease to accrue on senior notes or portions of them called for redemption unless we default in the payment of the redemption price.

BOOK ENTRY PROCEDURES

The senior notes will be issued in the form of one or more fully registered global notes (the "Global Notes"). Each such Global Note will be deposited with, or on behalf of, The Depository Trust Company, as Depositary, and registered in the name of the Depositary or a nominee thereof. The Depositary will maintain the senior notes in denominations of $1,000 and larger multiples of $1,000 through its book-entry facilities. Unless and until it is exchanged in whole or in part for senior notes in definitive form, no Global Note may be transferred except as a whole by the Depositary to a nominee of such Depositary or by a nominee of such Depositary to such Depositary.

Ownership of beneficial interests in senior notes will be limited to Persons that have accounts with the Depositary ("Participants") or Persons that may hold interests through Participants. Upon the issuance of Global Notes, the Depositary will credit, on its book-entry registration and transfer system, the Participants' accounts with the respective principal amounts of such senior notes beneficially owned by such Participants. Ownership of beneficial interests in such Global Note will be shown on, and the transfer of such ownership interests will be effected only through, records maintained by the Depositary or its nominee (with respect to interests of Participants) and on the records of Participants (with respect to interests of persons holding through Participants). The laws of some states

may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in Global Notes.

So long as the Depositary, or its nominee, is the registered owner of a Global Note, the Depositary or its nominee, as the case may be, will be considered the sole owner or registered holder of senior notes represented by such Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note will not be entitled to have the senior notes represented by such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of such senior notes in definitive form and will not be considered the owners or registered holders thereof under the indenture. Accordingly, each Person owning a beneficial interest in a Global Note must rely on the procedures of the Depositary and, if such Person is not a Participant, on the procedures of the Participant through which such Person owns its interest, to exercise any rights of a registered holder under the indenture.

We understand that under existing industry practices, in the event that we request any actions of registered holders or that an owner of a beneficial interest in such a Global Note desires to give or take any action which a registered holder is entitled to give or take under the indenture, the Depositary would authorize the Participants holding the relevant beneficial interests to give or take such action, and such Participants would authorize beneficial owners owning through such Participants to give or take such action or would otherwise act upon the instructions of beneficial owners holding through them.

Payment of principal of, premium, if any, and interest on, senior notes registered in the name of the Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered holder of the Global Notes representing such senior notes. None of USEC, the trustee or any other agent of USEC or agent of the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests or for supervising or reviewing any records relating to such beneficial ownership interests.

We expect that the Depositary, upon receipt of any payment of principal or interest in respect of a Global Note, will credit the accounts of the Participants with payment in amounts proportionate to their respective beneficial interests in such Global Note as shown on the records of the Depositary. We also expect that payments by Participants to owners of beneficial interests in a Global Note will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants.

The Depositary has advised us as follows: the Depositary is a limited-purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depositary was created to hold securities of its Participants and to facilitate the clearance and settlement transactions among its Participants in such securities through electronic book-entry changes in accounts of the Participants, thereby eliminating the need for physical movement of securities certificates. The Participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own the Depositary. Access to the Depositary's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or

indirectly. Persons who are not Participants may beneficially own securities held by the Depositary only through Participants.

If the Depositary is at any time unwilling or unable to continue as Depositary or the Depositary ceases to be a clearing agency registered under the Exchange Act and a successor Depositary registered as a clearing agency under the Exchange Act is not appointed by USEC in 90 days, then upon notification to the trustee, the Global Notes will, upon surrender thereof by the Depositary, be transferable or exchangeable for senior notes in definitive form of like tenor and of an equal aggregate principal amount, in denominations of $1,000 and larger multiples of $1,000. Such definitive senior notes shall be registered in such name or names, and issued to such Person or Persons, in each case as the Depositary shall identify to the trustee as the beneficial owners of the senior notes. It is expected that such instructions may be based upon directions received by the Depositary from Participants with respect to ownership of beneficial interests in such Global Notes. None of USEC, the trustee or any other agent of USEC or agent of the trustee will have any liability for any delay by the Depositary in identifying the beneficial owners of the senior notes, and each such Person may conclusively rely on and shall be protected in relying on, instruction from the Depositary for all purposes (including with respect to registration and delivery, and the respective principal amount, of the senior notes to be issued).

SAME-DAY SETTLEMENT AND PAYMENT

Settlement for the senior notes will be made in immediately available funds. So long as the senior notes are subject to the Depositary's book-entry system, the senior notes will trade in the Depositary's Same-Day Funds Settlement System until maturity, and therefore the Depositary will require that secondary trading activity be settled in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the senior notes.

LIMITATION ON LIENS

The indenture will provide that we will not, and will not permit any of our Subsidiaries to, create, assume or incur any Lien on any principal property to secure any liabilities for borrowed money or guarantees therefor ("Debt") of USEC or any other Person (other than the senior notes) unless we effectively secure the senior notes equally and ratably with, or prior to, such Debt so long as such Debt shall be secured.

The term "principal property" refers to the land, land improvements, buildings and fixtures (to the extent they constitute real property interests, including any leasehold interest therein) constituting the principal corporate office and any manufacturing plant or facility (whether now owned or hereafter acquired) which:

(1) is owned by USEC or any of its Subsidiaries;

(2) is located within any of the present 50 states of the United States (or the District of Columbia);

(3) in the opinion of the Board of Directors of USEC, is of material importance to the total business as it exists as of the date hereof conducted by USEC and its subsidiaries taken as a whole; and

(4) the gross book value of which exceeds 3% of Consolidated Net Tangible Assets.

The following are excluded from the foregoing restriction:

- any statutory or governmental Lien or Lien arising by operation of law, or any mechanics', repairmen's, materialmen's, suppliers', carriers', landlords', warehousemen's or similar Lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined Lien which is incidental to construction, development, improvement or repair;

- Liens of taxes and assessments which are (a) for the then current year, (b) not at the time delinquent, or (c) delinquent but the validity of which is being contested at the time by USEC or any of its Subsidiaries in good faith;

- any Lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

- any Lien in favor of USEC or any of its Subsidiaries;

- any Lien in favor of the United States of America or any State thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any State thereof, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred by USEC or any of its Subsidiaries for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such Lien;

- any Lien on any property or assets created at the time of the acquisition of such property or assets by USEC or any or its

Subsidiaries, or within 180 days after such time, to secure all or part of the purchase price for such property or assets or Debt incurred to finance such purchase price, whether such Debt was incurred prior to, at the time of, or within 180 days of, such acquisition; provided that, any such Lien does not extend to any other property or assets of USEC or any of its Subsidiaries;

- any Lien on any property to secure all or part of the cost of the development, construction, repair or improvement thereon or to secure Debt incurred prior to, at the time of, or within 180 days after, the completion of such development, construction, repair or improvement or the commencement of full operations thereof (whichever is later) to provide funds for any such purpose; provided that, any such Lien does not extend to any other property or assets of USEC or any of its Subsidiaries;

- any Lien on any property or assets existing thereon at the time of acquisition thereof by USEC or any of its Subsidiaries (whether or not the obligations secured thereby are assumed by USEC or any of its Subsidiaries); provided that such Lien was not created as a result of or in connection with or in anticipation of any such transaction and does not extend to any other property or assets of USEC or any of its Subsidiaries;

- the assumption by USEC or any of its Subsidiaries of obligations secured by any Lien existing at the time of acquisition by USEC or any of its Subsidiaries of the property or assets subject to such Lien or at the time of the acquisition of the Person which owns such property or assets; provided that such Lien was not created as a result of or in connection with or in anticipation of any such

transaction and does not extend to any other property or assets of USEC or any of its Subsidiaries;

- any Lien on any property or assets of a Person existing thereon at the time:

  (a) such Person becomes a Subsidiary of USEC;

  (b) such Person is merged into, or consolidated with, USEC or any of its Subsidiaries; or

  (c) of a sale, lease or other disposition of the properties of a Person (or division thereof) as an entirety or substantially as an entirety to USEC or any of its Subsidiaries;

  provided that such Lien was not created as a result of or in connection with or in anticipation of any such transaction and does not extend to any other property or assets of USEC or any of its Subsidiaries;

- any Lien on any property or assets of USEC or any of its Subsidiaries in existence on the date of the indenture;

- any Lien arising by reason of any attachment, judgment, decree or order of any governmental or court authority, so long as any proceeding initiated to review such attachment, judgment, decree or order shall not have been terminated or the period within which such proceeding may be initiated shall not expire, or such attachment, judgment, decree or order shall otherwise be effectively stayed; and

- any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancings, refundings or replacements) of any Lien, in whole or part, that is referred to in the above clauses, or any Debt secured thereby.

Notwithstanding the foregoing, under the indenture, USEC may, and may permit any of its Subsidiaries to, create, assume or incur any Lien upon any principal property to secure any Debt of USEC or any Person (other than the senior notes) that is not excepted by the above clauses without securing the senior notes, provided that, after giving effect to the creation, assumption or incurrence of such Lien and Debt, and the application of proceeds of such Debt, if any, received by USEC or any of its Subsidiaries as a result thereof, the aggregate principal amount of all Debt then outstanding secured by such Lien and all similar Liens, together with all net sale proceeds from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by the clauses of the covenant below entitled "Limitation on Sale-Leaseback Transactions") would not exceed 10% of Consolidated Net Tangible Assets.

LIMITATION ON SALE-LEASEBACK TRANSACTIONS

The indenture will provide that we will not, nor will we permit any of our Subsidiaries to sell or transfer any principal property to a Person (other than USEC or any of its Subsidiaries) and take back a lease of such principal property ("Sale-Leaseback Transaction"), unless:

- the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than three years;

- USEC or such Subsidiary would be entitled to incur Debt secured by a Lien on principal property subject thereto in a principal amount equal to or exceeding the net sale proceeds from such Sale-Leaseback Transaction without equally

and ratably securing the senior notes pursuant to the above covenant entitled "Limitation on Liens"; or

- USEC or such Subsidiary, within a 180 day period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the net sale proceeds (which, in the case of a sale and transfer other than for cash, shall be an amount equal to the fair market value of the principal property so leased) from such Sale-Leaseback Transaction to:

(a) the prepayment, repayment, reduction or retirement of any pari passu Debt of USEC or any of its Subsidiaries, or

(b) the expenditure or expenditures for principal property used or to be used in the ordinary course of business of USEC or any of its Subsidiaries.

CERTAIN DEFINITIONS

The indenture will define the following terms as follows:

"Consolidated Net Tangible Assets" means, at any date of determination, the total amount of assets after deducting therefrom:

(1) all current liabilities (excluding (a) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (b) current maturities of long-term debt), and

(2) the value (net of any applicable reserves) of all goodwill, trade

names, trademarks, patents or other like intangible assets, all as set forth, or on a pro forma basis would be set forth, in the consolidated balance sheet of USEC and its Subsidiaries.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset given to secure Debt, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction with respect to any such mortgage, lien, pledge, charge, security interest or encumbrance).

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Subsidiary" means, with respect to any Person,

(1) any corporation or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the Subsidiaries of that Person (or a combination thereof) and

(2) any partnership,

(a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or

(b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

CONSOLIDATION, MERGER AND SALE OF ASSETS

USEC may consolidate with or merge into, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person, provided that:

- USEC is the continuing entity or if USEC is not the continuing entity, the continuing entity must be a Person organized and validly existing under the laws of a domestic jurisdiction and must assume USEC's obligations on the senior notes and under the indenture;

- after giving effect to the transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall exist; and

- USEC has delivered to the trustee an Officer's Certificate and Opinion of Counsel, each stating that the transaction complies with these conditions.

EVENTS OF DEFAULT

Each of the following will constitute an Event of Default under the indenture:

- failure to pay principal of or any premium on any senior note when due;

- failure to pay any interest on any senior note when due, continued for 30 days;

- failure to perform any other covenant of USEC or its Subsidiaries in the senior notes or indenture, continued for 60 days after written notice has been given by the trustee, or the registered holders of at least 25% in principal amount of the then outstanding senior notes, as provided in the indenture;

- a default in the payment of the principal of, or interest on, any note, bond, coupon or other instrument or agreement evidencing or pursuant to which there is outstanding Debt of USEC or any of its Subsidiaries whether such Debt now exists or shall thereafter be created, having an aggregate principal amount exceeding $35 million (or its equivalent in any other currency or currencies), other than the senior notes, when that Debt becomes due and payable (whether at maturity, upon redemption or acceleration or otherwise), if such default shall continue for more than the period of grace, if any, originally applicable thereto and the time for payment of such amount has not been expressly extended; and

- certain events in bankruptcy, insolvency or reorganization of USEC or any of its Subsidiaries.

If an Event of Default (other than an Event of Default described in the bankruptcy, insolvency or reorganization clause above) with respect to any of the senior notes shall occur and be continuing, either the trustee or the registered holders of at least 25% of the then outstanding senior notes by notice to USEC as provided in the indenture may declare the principal amount of senior notes to be due and payable immediately.

If an Event of Default described in the bankruptcy, insolvency or reorganization clause above shall occur, the principal amount of all the then outstanding senior notes will automatically, and without any action by the trustee or any registered holder, become immediately due and payable.

After any acceleration, but before a judgment or decree for the payment of the money due has been obtained by the trustee, the registered holders of a majority in aggregate principal amount of the then outstanding senior notes, by written notice to the trustee, may rescind and annul such acceleration and its consequences if all Events of Default, other than the non-payment of accelerated principal, have been cured or waived as provided in the indenture. For information as to waiver of defaults, see "-- Modification and Waiver".

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the registered holders of the senior notes, unless such registered holders of the senior notes shall have

offered to the trustee reasonable indemnity. Subject to such provisions for the indemnification of the trustee, the registered holders of a majority in aggregate principal amount of the then outstanding senior notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to such senior notes.

No registered holder of any senior note will have any right to institute any proceeding with respect to the indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless:

- such registered holder has previously given to the trustee written notice of a continuing Event of Default with respect to the senior notes;

- the registered holders of at least 25% in aggregate principal amount of the then outstanding senior notes have made written request, and such registered holder or registered holders have offered reasonable indemnity, to the trustee to institute such proceeding in respect to such Event of Default as trustee; and

- the trustee has failed to institute such proceeding, and has not received from the registered holders of a majority in aggregate principal amount of the then outstanding senior notes a direction inconsistent with such request, within 60 days after such notice, request and offer. However, such limitations do not apply to any proceeding which is instituted by a registered holder of a senior note for the enforcement of payment of the principal of or interest on such senior note on or after the applicable due date specified in such senior note.

USEC will be required to furnish to the trustee annually a statement by certain of its officers as to whether or not USEC or any of its Subsidiaries, to their knowledge, is in default in the performance or observance of any of the terms, provisions and conditions of the indenture and, if so, specifying all such known defaults.

MODIFICATION AND WAIVER

Modifications and amendments of the indenture may be made by USEC and the trustee with the consent of the registered holders of a majority in principal amount of the then outstanding senior notes.

However, without the consent of the registered holder of each senior note affected thereby, USEC and the trustee may not:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any such senior note;

- reduce the principal amount of, or any interest on, any such senior note;

- reduce the amount of principal of any such senior note payable upon acceleration of the maturity thereof;

- change the place or currency of payment of principal of, or interest on, any such senior note;

- impair the right to institute suit for the enforcement of any payment on or with respect to any such senior note;

- reduce the percentage in principal amount of such senior note, the consent of whose registered holders is required for modification or amendment of the indenture;

- reduce the percentage in principal amount of such senior note necessary for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults; or

- modify such provisions with respect to modification and waiver.

The registered holders of a majority in principal amount of the then outstanding senior notes may waive compliance by USEC or any of its Subsidiaries with certain restrictive provisions of the indenture or waive any past default under the indenture. However, a continuing default in the payment of principal of or interest on such senior notes and compliance with covenants and provisions of the indenture that under the proviso in the preceding paragraph cannot be amended without the consent of the registered holder of each senior note affected thereby may not be waived.

The indenture provides that in determining whether the registered holders of the requisite principal amount of the senior notes have given or taken any direction, notice, consent, waiver or other action under the indenture as of any date, certain senior notes, including those that have been defeased and discharged as described under "-- Satisfaction and Discharge; Defeasance -- Defeasance and Discharge" will not be deemed to be outstanding.

Except in certain limited circumstances, USEC will be entitled to set any day as a record date for the purpose of determining the registered holders of senior notes entitled to give or take any direction, notice, consent, waiver or other action under the indenture, in the manner and subject to the limitations provided in the indenture. In certain limited circumstances, the trustee also will be entitled to set a record date for action by registered holders of senior notes. If a record date is set for any action to be taken by registered holders of the senior notes, such action may be taken only by persons who are registered holders of such senior notes on the record date.

SATISFACTION AND DISCHARGE; DEFEASANCE

Satisfaction and Discharge. The indenture will provide that USEC may satisfy and discharge certain obligations to registered holders of senior notes which have not already been delivered to the trustee for cancellation and which have either become due and payable or are by their terms due and payable within one year or are to be called for redemption within one year by:

- depositing or causing to be deposited with the trustee funds in an amount sufficient to pay the principal and any premium and interest to the date of such deposit or to the stated maturity or any applicable redemption date, as the case may be;

- paying or causing to be paid all other sums payable under the indenture with respect to such senior notes; and

- delivering to the trustee an Officer's Certificate relating to such satisfaction and discharge.

Defeasance and Discharge. The indenture will provide that USEC will be discharged from all its indebtedness and obligations with respect to senior notes upon the deposit in trust for the benefit of the registered holders of such outstanding senior notes of money or U.S. Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and interest on such outstanding senior notes at maturity in accordance with the terms of the indenture and such outstanding senior notes.

Notwithstanding the foregoing, under the indenture, USEC will not be discharged from the following:

- certain obligations to exchange or register the transfer of such outstanding senior notes and to replace stolen, lost or mutilated outstanding senior notes;

- the obligation to maintain paying agencies; and

- the obligation to hold moneys for payment in trust.

Such defeasance or discharge may occur only if, among other things, USEC has delivered to the trustee an Opinion of Counsel to the effect that USEC has received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that registered holders of such outstanding senior notes will not recognize gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge were not to occur.

Defeasance of Certain Covenants. The indenture will provide that USEC and its Subsidiaries may omit to comply with certain restrictive covenants, including the covenants described under "Limitation on Liens", "Limitation on Sale-Leaseback Transactions" and "Consolidation, Merger and Sale of Assets", in which event certain Events of Default, which are described above (with respect to such respective covenants) under "Events of Default", will no longer

constitute Events of Default with respect to the senior notes. USEC, in order to exercise such option to defease such covenants, will be required to:

- deposit, in trust for the benefit of the registered holders of outstanding senior notes, money or U.S. Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and interest on such senior notes at maturity in accordance with the terms of the indenture and such outstanding senior notes; and

- among other things, deliver to the trustee an Opinion of Counsel to the effect that registered holders of such outstanding senior notes will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and defeasance were not to occur.

If subsequent to the completion of a defeasance of certain covenants as described in the immediately preceding paragraph, such outstanding senior notes are declared due and

payable because of the occurrence of any remaining Event of Default and the amount of money and U.S. Government Obligations so deposited in trust would be sufficient to pay amounts due on such senior notes at maturity but may not be sufficient to pay amounts due on such senior notes upon any acceleration resulting from such Event of Default, then USEC would remain liable for such payments.

NOTICES

Notices to registered holders of the senior notes will be given by mail to the addresses of such registered holders as they may appear in the Security Register.

TITLE

USEC, the trustee and any agent of USEC or the trustee may treat the Person in whose name a senior note is registered as the absolute owner thereof (whether or not the senior notes may be overdue) for the purpose of making payment and for all other purposes.

GOVERNING LAW

The indenture and the senior notes will be governed by, and construed in accordance with, the laws of the State of New York.

The senior notes will not be obligations of, or guaranteed as to principal or interest by, the United States government.

UNDERWRITING

Subject to the terms and conditions set forth in a purchase agreement (the "Purchase Agreement") among USEC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., Lehman Brothers Inc., NationsBanc Montgomery Securities LLC and Blaylock & Partners, L.P. (the "Underwriters"), USEC has agreed to sell to the Underwriters, and the Underwriters have severally agreed to purchase, the respective principal amounts of the senior notes set forth after their names below. The Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the senior notes if any are purchased.

UNDERWRITER	PRINCIPAL AMOUNT OF SENIOR NOTES
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
NationsBanc Montgomery Securities LLC	
Blaylock & Partners, L.P.	
Total	$

The Underwriters have advised USEC that they propose initially to offer the senior notes to the public at the public offering prices set forth on the cover page of this prospectus, and to certain dealers at such prices less a concession not in excess of % of the principal amount of the senior notes. The Underwriters may allow, and such dealers may reallow, discounts not in excess of % of the principal amount of the senior notes, to certain other dealers. After the initial offering of the senior notes, the public offering price, concession and discount may be changed.

The senior notes are a new issue of securities with no established trading market. USEC does not intend to apply for listing of the senior notes on any national securities exchange but has been advised by the Underwriters that they presently intend to make a market in the senior notes as permitted by applicable laws and regulations. The Underwriters are not obligated, however, to make a market in the senior notes and any such market making may be discontinued at any time at the sole discretion of the Underwriters. Accordingly, no assurance can be given as to the trading market for the senior notes.

In order to facilitate the offering of the senior notes, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the

price of the senior notes. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the senior notes. If the Underwriters create a short position in the senior notes in connection with the offering, i.e., if they sell more senior notes than are set forth on the cover page of this prospectus, the Underwriters may reduce that short position by purchasing senior notes in the open market. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The Underwriters may also impose a penalty bid on certain Underwriters and any selling group members. This means that if the Underwriters purchase senior notes in the open market to reduce the Underwriters' short position or to stabilize the price of the senior notes, they may reclaim the amount of the selling concession from the Underwriters and any selling group members who sold those senior notes as part of the offering. The imposition of a penalty bid might

also have an effect on the price of the senior notes to the extent it were to discourage resales of the senior notes.

Neither USEC nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the senior notes. In addition, neither USEC nor any of the Underwriters makes any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

USEC has agreed to indemnify the Underwriters against certain liabilities (including reimbursements to the Underwriters for certain fees and expenses of their counsel), including civil liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Underwriters may be required to make in respect of such liabilities.

A portion of the net proceeds from the sale of the senior notes is expected to be used to repay outstanding borrowings under the credit facility under which Morgan Guaranty and Bank of America are lenders. Morgan Guaranty is an affiliate of J.P. Morgan Securities Inc., an underwriter of this offering. Bank of America is an affiliate of NationsBanc Montgomery Securities LLC, an underwriter of this offering.

In the ordinary course of their respective businesses, the Underwriters or their affiliates have performed, and may in the future perform, investment banking, commercial banking or other financial services for USEC.

LEGAL MATTERS

The validity of the issuance of the senior notes offered hereby will be passed upon for USEC by Skadden, Arps, Slate, Meagher & Flom LLP, Washington, D.C., special counsel for USEC, and for the Underwriters by Davis Polk & Wardwell, New York, New York.

EXPERTS

The financial statements of USEC as of June 30, 1997 and 1998 and for each of the three years in the period ended June 30, 1998, included in this

prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting.

USEC INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of USEC Inc.:

We have audited the accompanying balance sheets of USEC Inc., a Delaware corporation, (formerly United States Enrichment Corporation) as of June 30, 1997 and 1998, and the related statements of income and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

generally accepted accounting principles.

/s/ Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of USEC Inc.:

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

The objective of the pro forma statement of income is to show what the significant effects on the historical statement of income might have been had the IPO Transactions occurred at an earlier date. However, the pro forma statement of income is not necessarily indicative of the results of operations that would have been attained had the IPO Transactions actually occurred earlier.

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

/s/ Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

USEC INC.

CONSOLIDATED BALANCE SHEETS
(MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 30, 1997	JUNE 30, 1998	SEPTEMBER 30, 1998 (UNAUDITED)
ASSETS			
Current Assets			
Cash	$1,261.0	$1,177.8	$ 48.4
Accounts receivable -- customers	249.3	218.5	220.6
Receivables from Department of Energy	134.4	17.9	17.1
Inventories:			
Separative Work Units	573.8	687.0	699.4
Uranium	131.5	184.5	199.7
Uranium provided by customers	726.2	315.0	222.6
Materials and supplies	12.4	24.8	22.4

Total Inventories	1,443.9	1,211.3	1,144.1
Payments for future deliveries under Russian Contract	79.6	63.4	50.0
Other	23.3	39.5	30.8
Total Current Assets	3,191.5	2,728.4	1,511.0
Property, Plant and Equipment, net	111.5	131.9	133.0
Other Assets			
Deferred income taxes	--	--	54.5
Deferred costs for depleted UF(6)	--	50.0	50.0
Uranium inventories	103.6	561.0	562.7
Payment for future deliveries under Russian Contract	50.0	--	--
Total Other Assets	153.6	611.0	667.2
Total Assets	$3,456.6	$3,471.3	$2,311.2
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term debt	$ --	$ --	$ 265.0
Accounts payable and accrued liabilities	159.7	168.0	151.1
Payables to Department of Energy	17.4	14.9	14.8
Uranium owed to customers	726.2	315.0	222.6
Payables under Russian Contract	10.2	8.4	54.8
Nuclear safety upgrade costs	--	41.2	36.1
Total Current Liabilities	913.5	547.5	744.4
Long-term debt	--	--	300.0
Other Liabilities			
Advances from customers	34.9	34.3	34.5
Depleted UF(6) disposition	336.4	372.6	4.3
Other liabilities	80.5	96.4	85.3
Total Other Liabilities	451.8	503.3	124.1
Commitments and Contingencies (Notes 6, 11 and 12)			
Stockholders' Equity			
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized, none issued	--	--	--
Common stock, par value $.10 per share, 250,000,000 shares authorized, 100,000,000 shares issued and outstanding	10.0	10.0	10.0
Excess of capital over par value	1,054.2	1,357.1	1,067.6
Retained earnings	1,027.1	1,053.4	65.1
Total Stockholders' Equity	2,091.3	2,420.5	1,142.7
Total Liabilities and Stockholders' Equity	$3,456.6	$3,471.3	$2,311.2

See notes to consolidated financial statements.

USEC INC.

CONSOLIDATED STATEMENTS OF INCOME
(MILLIONS, EXCEPT PER SHARE DATA)

	YEARS ENDED JUNE 30,				THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1998	1998	1997	1998
				PRO FORMA	(UNAUDITED)	
Revenue						
Domestic	$ 901.6	$ 950.8	$ 896.2	$ 896.2	$319.7	$176.9
Asia	441.3	487.5	442.8	442.8	83.2	79.9
Europe and other	69.9	139.5	82.2	82.2	37.5	51.1
	1,412.8	1,577.8	1,421.2	1,421.2	440.4	307.9
Cost of sales	973.0	1,162.3	1,062.1	1,062.1	342.1	248.6
Gross profit	439.8	415.5	359.1	359.1	98.3	59.3
Special charges for workforce reductions and						

Privatization costs	--	--	46.6	46.6	--	--
Project development costs	103.6	141.5	136.7	136.7	32.2	31.6
Selling, general and administrative	36.0	31.8	34.7	34.7	8.1	7.9
Operating income	300.2	242.2	141.1	141.1	58.0	19.8
Interest expense	--	--	--	36.0	--	6.5
Other (income) expense, net	(3.9)	(7.9)	(5.2)	(5.2)	(2.0)	(1.6)
Income before income taxes	304.1	250.1	146.3	110.3	60.0	14.9
Provision (benefit) for income taxes	--	--	--	41.9	--	(48.2)
Net income	$ 304.1	$ 250.1	$ 146.3	$ 68.4	$ 60.0	$ 63.1
Net income per share -- basic and diluted				$ .68		$ .63
Average number of shares outstanding				100.0		100.0

See notes to consolidated financial statements.

USEC INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(MILLIONS)

	YEARS ENDED JUNE 30,			THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1998	1997	1998
				(UNAUDITED)	
Cash Flows from Operating Activities					
Net income	$ 304.1	$ 250.1	$ 146.3	$ 60.0	$ 63.1
Adjustments to reconcile net income to net cash provided by operating activities:					
Deferred income taxes				--	(54.5)
Advance payment to DOE for electric power				(60.0)	--
Depreciation and amortization	13.7	14.6	16.1	3.8	5.2
Depleted UF(6) disposition costs	90.6	72.0	55.7	14.5	5.2
Payments to DOE for disposition of depleted UF(6)	--	--	(66.0)	--	--
Advances from customers -- (decrease)	(4.4)	(20.1)	(.6)	14.1	0.2
Changes in operating assets and liabilities:					
Accounts receivable -- (increase) decrease	(84.3)	97.6	30.8	(22.6)	(2.1)
Net receivables from Department of Energy -- (increase) decrease	(68.9)	5.5	(35.4)	0.7	0.7
Inventories -- (increase)	(49.8)	(3.5)	(142.5)	27.9	(26.9)
Payments under Russian Contract, net	(66.0)	(50.1)	64.4	46.8	59.8
Accounts payable and accrued liabilities -- increase (decrease)	(7.2)	(17.3)	13.4	(10.6)	(32.9)
Other	(8.1)	7.3	(8.9)	8.5	10.8
Net Cash Provided by Operating Activities	119.7	356.1	73.3	83.1	28.6
Cash Flows Used in Investing Activities					
Capital expenditures	(15.6)	(25.8)	(36.5)	(5.9)	(5.7)
Cash Flows from Financing Activities					
Dividends paid	(120.0)	(120.0)	(120.0)	--	--
Exit Dividend paid to U.S. Treasury	--	--	--	--	(1,709.4)
Proceeds from issuance of debt	--	--	--	--	589.0
Repayment of debt	--	--	--	--	(24.0)
Debt issuance costs	--	--	--	--	(2.6)
Costs related to the IPO	--	--	--	--	(5.3)
Payments under Russian Contract for purchase of natural uranium transferred to Department of Energy	(86.1)	(74.3)	--	--	--
Net Cash Used in Financing Activities	(206.1)	(194.3)	(120.0)	--	(1,152.3)
Net Increase (Decrease)	(102.0)	136.0	(83.2)	77.2	(1,129.4)
Cash at Beginning of Period	1,227.0	1,125.0	1,261.0	1,261.0	1,177.8

Cash at End of Period	$1,125.0	$1,261.0	$1,177.8	$1,338.2	$ 48.4
Supplemental Cash Flow Information					
Interest paid	--	--	--	--	$ 5.3
Supplemental Schedule of Non-Cash Financing Activities					
Transfer of responsibility for depleted uranium disposition to DOE	--	--	--	--	$ 373.8

See notes to consolidated financial statements.

USEC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

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

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

Customers typically deliver uranium to the enrichment facilities to be processed or enriched under enrichment contracts. Customers are billed for SWU used at the enrichment facilities to separate specific quantities of uranium containing .711% of U(235) into two components: enriched uranium having a higher percentage of U(235) and depleted UF(6) having a lower percentage of U(235).

USEC has exclusive commercial rights to deploy the Atomic Vapor Laser Isotope Separation ("AVLIS") technology, an advanced laser based enrichment process that is expected to significantly reduce production costs. USEC expects to begin deployment of an AVLIS plant by 2006.

2. INITIAL PUBLIC OFFERING

On July 28, 1998, the sale of USEC's common stock in connection with an initial public offering (the "IPO") was completed, resulting in net proceeds to the U.S. Government aggregating $3,092.1 million, including $1,382.7 million from the IPO and $1,709.4 million from the exit dividend paid to the U.S.

Treasury (the "Exit Dividend"). The U.S. Government, the selling shareholder, sold its entire interest. USEC did not receive any proceeds from the IPO.

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

Pursuant to the USEC Privatization Act, depleted uranium hexafloride ("UF(6)") generated by USEC through the date of the IPO was transferred to DOE in July 1998; liabilities and contingencies incurred

through the date of the IPO were allocated between USEC and the U.S. Government; 50 metric tons of highly enriched uranium and 7,000 metric tons of natural uranium from DOE's excess inventories were transferred to USEC in May 1998; certain employee benefit protections were established for workers at the plants; 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; and certain foreign ownership limitations were established.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

In connection with the IPO consummated in July 1998, 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

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

INVENTORIES

Inventories of uranium and SWU are valued at the lower of cost or market. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the plants and SWU purchase costs, mainly under the Russian Contract. Production costs at the plants include purchased electric power, labor and benefits, depleted UF(6) disposition costs, materials, major overhauls, maintenance and repairs, and other costs. Purchased SWU is recorded at acquisition cost plus related shipping costs.

PROPERTY, PLANT AND EQUIPMENT

Construction work in progress is recorded at acquisition or construction cost. Upon being placed into service, costs are transferred to leasehold improvements or machinery and equipment at which time depreciation commences. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of their useful lives which range from three to ten years or the plant lease period which is estimated to extend through 2005. 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):

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

REVENUE

Revenue is recognized at the time enriched uranium is shipped under the terms of long-term requirements contracts with domestic and foreign electric utility customers. Under 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, 1996, 1997 or 1998. Revenue attributed to domestic and international customers follows:

	YEARS ENDED JUNE 30,		
	1996	1997	1998
Domestic	64%	60%	63%
Asia	31	31	31
Europe and other	5	9	6
	100%	100%	100%

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

ENVIRONMENTAL COSTS

Environmental costs relating to operations are charged to production costs as incurred. Estimated future environmental costs, including depleted UF(6) disposition and waste disposal, resulting from operations where environmental assessments indicate that storage, treatment or disposal is probable and costs can be reasonably estimated, are accrued and charged to production costs.

PROJECT DEVELOPMENT COSTS

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

INCOME TAXES

USEC was exempt from income taxes up to the time of the IPO. USEC transitioned to taxable status on July 28, 1998, at the time of the IPO. 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 any contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and costs and expenses during the periods presented such as, but not limited to, accrued costs for the disposition of depleted UF(6) and the operating lease period of the plants. Actual results could differ from those estimates.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The unaudited consolidated financial statements as of and for the three months ended September 30, 1998, included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial results for the interim period. Operating results for the three months ended September 30, 1998, are not necessarily indicative of the results that may be expected for the year ending June 30, 1999.

RECLASSIFICATIONS

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

4. PRO FORMA STATEMENT OF INCOME

The pro forma statement of income for the year ended June 30, 1998, reflects the sale of 100 million shares of Common Stock in connection with the IPO, interest expense on borrowings from banks, and USEC's transition to taxable status at the time of the IPO (the "IPO Transactions"). The objective of the pro forma statement of income is to show the significant effects of the IPO Transactions as if the IPO had occurred at the beginning of the year ended June 30, 1998.

Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.55% on $550.0 million of borrowings incurred at the time of the IPO, as if such borrowings had occurred at the beginning of the fiscal year ended June 30, 1998.

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

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

5. INVENTORIES

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

	JUNE 30,	
	1997	1998
CURRENT ASSETS		
Separative Work Units	$ 573.8	$ 687.0
Uranium	131.5	184.5
Uranium provided by customers	726.2	315.0
Materials and supplies	12.4	24.8
	1,443.9	1,211.3
LONG-TERM ASSETS		
Uranium	103.6	561.0
CURRENT LIABILITIES		
Uranium owed to customers	(726.2)	(315.0)
INVENTORIES, REDUCED BY URANIUM OWED TO CUSTOMERS	$ 821.3	$1,457.3

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

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

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

$761.9 million based on estimated fair values at June 30, 1997 and 1998, respectively.

6. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN CONTRACT

In January 1994, USEC signed the 20-year Russian Contract with Techsnabexport Co., Ltd. (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, 1998, USEC purchased 7.4 million SWU derived from 40 metric tons of highly enriched uranium at an aggregate cost of $639.9 million, including related shipping charges, as follows:

	SWU	COST
	(MILLIONS)	
YEARS ENDED JUNE 30,		
1995	0.3	$ 22.7
1996	1.7	144.1
1997	1.8	157.3
1998	3.6	315.8
	7.4	$639.9

Subject to certain purchase price adjustments for U.S. inflation, as of June 30, 1998, USEC has committed to purchase SWU derived from highly enriched uranium through 2001 as follows:

CALENDAR YEAR	SWU	DERIVED FROM METRIC TONS OF HIGHLY ENRICHED URANIUM	AMOUNT
	(MILLIONS)		(MILLIONS)
Six Months Ended December 31, 1998	3.6	20	$ 308.8
1999	5.5	30	475.8
2000	5.5	30	475.8
2001	5.5	30	475.8
			$1,736.2

Over the life of the Russian 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, 1998, were to prevail over the remaining life of the contract, the cost of SWU purchased and expected to be purchased from TENEX would amount to approximately $8 billion.

As of June 30, 1998, USEC had made payments aggregating $260.0 million to TENEX as credits for future SWU deliveries. As of June 30, 1998, $196.6 million

had been applied against purchases of SWU, and the remaining balance of $63.4 million is scheduled to be applied as follows: $13.4 million by December 31, 1998, and $50.0 million in calendar year 1999.

7. INCOME TAXES

USEC was exempt from income taxes up to the time of the IPO. USEC transitioned to taxable status on July 28, 1998, at the time of the IPO. Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and USEC's estimate of the tax bases of its assets and liabilities resulted in deferred income tax benefits of $54.5 million at the time of the IPO as follows: $17.3 million for SWU and uranium inventory costs, $9.0 million for plant lease turnover costs, $7.8 million for contractor pension costs, $6.9 million for decommissioning and shutdown costs at dedicated electric power generation facilities, and $13.5 million for other temporary differences relating primarily to other liabilities.

8. DEBT

On July 28, 1998, at the time of the IPO, USEC borrowed $550.0 million in variable rate debt under a credit facility comprised of three tranches. Tranche A is a 364-day revolving credit facility for

$400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at USEC's option, into a one-year term loan. Tranche C is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Interest is paid at a rate equal to, at USEC's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin" or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on USEC's credit rating. The weighted average interest rate for borrowings under the credit facility, including the amortization of fees, amounted to 6.8% (unaudited) for the period ended September 30, 1998.

At September 30, 1998, borrowings under the credit facility amounted to $565.0 million, as follows: (a) $400.0 million under Tranche A, a 364-day revolving credit facility, (b) $100.0 million under Tranche B, a 364-day revolving credit facility, convertible at USEC's option, into a one-year term loan, and (c) $65.0 million under Tranche C, a five-year revolving credit facility.

Long-term debt of $300.0 million at September 30, 1998, represents amounts borrowed and/or available under the credit facility as follows: (a) $150.0 million borrowed under Tranche B, with an ultimate maturity of July 2000, and (b) $150.0 million available under Tranche C, a five-year revolving credit facility with an ultimate maturity of July 2003.

The credit facility requires 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, including restrictions on borrowings by subsidiaries. The failure to satisfy any of the covenants would constitute an event of default. The credit facility also

includes other customary events of default, including without limitation, nonpayment, material misrepresentations, cross-default to other indebtedness, bankruptcy, and change of control.

9. PROJECT DEVELOPMENT COSTS

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

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

USEC has entered into joint development agreements with Cameco Corporation ("Cameco") for AVLIS feed conversion services and General Electric Company ("GE") for AVLIS product conversion services, both of which are necessary because AVLIS requires a metallic form of uranium for processing rather than UF(6). However, USEC is investigating a product conversion process using UF(6) with another commercial vendor. Both joint development agreements with Cameco and GE obligate USEC to reimburse costs and expenses incurred by its partners if USEC elects not to proceed to the deployment phase under certain circumstances. USEC's maximum liability under both agreements is $9.0 million, subject to certain provisions for cost overruns. The contracts also provide that if USEC proceeds with AVLIS deployment but elects to do so without entering into agreements with Cameco and GE, USEC must pay certain royalty payments. In such event, in the case of Cameco, these payments would not exceed $50.0 million in the

aggregate. In the case of GE, the payment would include a fixed payment of $5.0 million plus an annual royalty of $1.0 million until certain GE patents related to the product conversion expire.

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

During the year ended June 30, 1997, USEC began to evaluate SILEX, a potential new advanced enrichment technology to separate U(235) from U(238). USEC plans to continue evaluating SILEX technology during fiscal 1999.

10. ENVIRONMENTAL MATTERS

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

liabilities of USEC through the date of the IPO remain obligations of the U.S. Government.

DEPLETED UF(6)

Depleted UF(6) is stored in cylinders at the plants as a solid. USEC accrues estimated costs for the future disposition of depleted UF(6), based upon estimates for transportation, conversion and disposition. The accrued liability amounted to $372.6 million at June 30, 1998. Pursuant to the USEC Privatization Act, in July 1998, depleted UF(6) generated by USEC through the time of the IPO was transferred to DOE. Depleted UF(6) generated after the IPO is the responsibility of USEC.

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. All liabilities related to the disposal of stored wastes generated prior to July 1, 1993, are the responsibility of DOE.

NUCLEAR INDEMNIFICATION

Pursuant to the Energy Policy Act and under the terms of the lease agreement with DOE, 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 transportation of uranium to and from the plants.

11. LEGAL PROCEEDINGS

In 1995, 15 of USEC's customers filed four substantially similar lawsuits in the U.S. Court of Federal Claims challenging prices under their Utility Services Contracts. Five of the 15 customers thereafter negotiated new contracts with USEC and withdrew from the litigation. In August 1996, the trial court granted the United States' motion for summary judgment dismissing one of the suits; in July 1997, the Court of Appeals for the Federal Circuit affirmed that decision. In December 1997, the trial court granted

the United States' motions to dismiss the remaining suits; the plaintiffs did not seek to appeal those decisions.

12. COMMITMENTS AND CONTINGENCIES

POWER COMMITMENTS

Under the terms of the plant lease, USEC purchases electric power at amounts equivalent to actual cost 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 and is obligated to make minimum annual payments for demand charges, whether or not it takes delivery of power, estimated as follows (in millions):

YEARS ENDED JUNE 30,	
1999	$122.7
2000	119.8
2001	121.3
2002	99.5
2003	42.2
	$505.5

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

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

LEASE COMMITMENTS

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

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 lease period, which is estimated to extend through 2005, and the accrued cost included in other liabilities amounted to $24.5 million at September 30, 1998.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

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

At June 30, 1998, trade receivables from sales of SWU to electric utility customers located in the United States, Asia and Europe amounted to $149.9 million, $62.7 million, and $5.9 million, respectively. USEC has provided

extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.0 million at June 30, 1998. Interest accrues on the unpaid balance.

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

14. STOCKHOLDERS' EQUITY

Changes in stockholders' equity follow (in millions):

	COMMON STOCK, PAR VALUE $.10 PER SHARE	EXCESS OF CAPITAL OVER PAR VALUE	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balance at June 30, 1995	$10.0	$1,214.6	$ 712.9	$ 1,937.5
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Net income	--	--	304.1	304.1
Balance at June 30, 1996	10.0	1,214.6	897.0	2,121.6
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Transfer to DOE of uranium purchased under the Russian Contract	--	(160.4)	--	(160.4)
Net income	--	--	250.1	250.1
Balance at June 30, 1997	10.0	1,054.2	1,027.1	2,091.3
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Net income	--	--	146.3	146.3
Transfers of uranium from DOE	--	302.9	--	302.9
Balance at June 30, 1998	10.0	1,357.1	1,053.4	2,420.5
Exit Dividend paid to U.S. Treasury	--	(658.0)	(1,051.4)	(1,709.4)
Transfer of responsibility for depleted uranium to DOE	--	373.8	--	373.8
Costs related to the IPO	--	(5.3)	--	(5.3)
Net income	--	--	63.1	63.1
BALANCE AT SEPTEMBER 30, 1998 (UNAUDITED)	$10.0	$1,067.6	$ 65.1	$ 1,142.7

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

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

Under the USEC Privatization Act, in April 1998, DOE transferred to 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.

Pursuant to the USEC 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.

Pursuant to the USEC Privatization Act, at the time of the IPO on July 28, 1998, depleted uranium generated by USEC from July 1993 to July 1998 was transferred to DOE, and the accrued liability of $373.8 million for depleted uranium disposition was transferred to stockholders' equity.

15. EMPLOYEE BENEFIT PLANS

Effective January 1994, a non-contributory defined benefit pension plan was established by USEC to provide retirement benefits to its employees based on salary and years of service. Certain employees who transferred from other government agencies elected to continue participation in the federal retirement programs. Pension costs, including costs for USEC's 401(k) plan, amounted to $1.0 million for each of the years ended June 30, 1996, 1997 and 1998. At June 30, 1998, based on an assumed discount rate of 7.5%, an assumed compensation rate of 5% and an assumed rate of return on plan assets of 8%, the actuarial value of projected benefit obligations was $1.0 million, none of which was vested, the fair value of plan assets was $1.1 million, and the amount of unfunded accrued pension costs included in current liabilities was $0.1 million.

16. OPERATIONS AND MAINTENANCE CONTRACT

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

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

Special charges amounted to $46.6 million for the year ended June 30, 1998, for costs related to the Privatization and certain severance and transition benefits to be paid with respect to 500 plant workers in connection with workforce reductions over the next two fiscal years as follows:

	FISCAL YEAR ENDED JUNE 30, 1998
	(MILLIONS)
Privatization costs	$13.8
Worker and community transition assistance benefits	20.0
Worker's 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 workers' pre-existing severance benefits of $12.8 million are expected to be paid by July 1999.

17. TRANSACTIONS WITH THE DEPARTMENT OF ENERGY

In June 1998, USEC paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted UF(6) generated by USEC from its operations at the plants from October 1998 to 2005. The prepaid asset will be amortized as a charge against production costs using a straight line method over the life of the agreement.

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 $68.5 million, $53.4 million, and $51.6 million for the years ended June 30, 1996, 1997 and 1998, respectively. Amounts receivable from DOE for actual costs incurred for services amounted to $10.0 million and $17.9 million at June 30, 1997 and 1998, respectively.

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

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

18. 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, 1998					
Revenue(1)	$440.4	$322.3	$294.0	$364.5	$1,421.2
Cost of sales	342.1	235.7	214.4	269.9	1,062.1
Gross profit	98.3	86.6	79.6	94.6	359.1
Special charges for workforce reductions and Privatization costs(2)	--	--	--	46.6	46.6
Project development costs(3)	32.2	35.4	35.4	33.7	136.7
Selling, general and administrative	8.1	8.9	7.8	9.9	34.7
Other (income) expense, net	(2.0)	0.6	(3.9)	0.1	(5.2)
Net income(4)	$ 60.0	$ 41.7	$ 40.3	$ 4.3	$ 146.3
Year Ended June 30, 1997					
Revenue(1)	$422.9	$485.1	$216.4	$453.4	$1,577.8
Cost of sales	307.9	364.2	161.3	328.9	1,162.3

Gross profit	115.0	120.9	55.1	124.5	415.5
Project development costs(3)	35.7	39.2	32.6	34.0	141.5
Selling, general and administrative	8.6	8.6	8.5	6.1	31.8
Other (income) expense, net	(2.3)	(.9)	(1.1)	(3.6)	(7.9)
Net income(4)	$ 73.0	$ 74.0	$ 15.1	$ 88.0	$ 250.1

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

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

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

(4) USEC was exempt from federal, state and local income taxes until the time of the IPO.

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USEC INC.

% SENIOR NOTES DUE

PROSPECTUS

MERRILL LYNCH & CO.

J.P. MORGAN & CO.

LEHMAN BROTHERS

NATIONSBANC MONTGOMERY SECURITIES LLC

BLAYLOCK & PARTNERS, L.P.

JANUARY , 1999

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the estimated expenses to be incurred in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions, to be paid by USEC:

SEC registration fee	$ 139,000
Printing and engraving fees	250,000
Legal fees and expenses	375,000
Accounting fees and expenses	125,000
Blue Sky fees and expenses	10,000
Trustee fees	20,000
Miscellaneous	150,000
Total	$1,069,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

USEC's By-Laws incorporate substantially the provisions of the General Corporation Law of the State of Delaware (the "DGCL") in providing for indemnification of directors and officers against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an officer or director of USEC. In addition, USEC is authorized to indemnify employees and agents of USEC and may enter into indemnification agreements with its directors and officers providing mandatory indemnification to them to the maximum extent permissible under Delaware law.

USEC's Certificate of Incorporation provides that USEC shall indemnify (including indemnification for expenses incurred in defending or otherwise participating in any proceeding) its directors and officers to the fullest extent authorized or permitted by the DGCL, as it may be amended, and that such right to indemnification shall continue as to a person who has ceased to be a director or officer of USEC and shall inure to the benefit of his or her heirs, executors and administrators except that such right shall not apply to proceedings initiated by such indemnified person unless it is a successful proceeding to enforce indemnification or such proceeding was authorized or consented to by the Board of Directors. USEC's Certificate of Incorporation also specifically provides for the elimination of the personal liability of a director to the corporation and its stockholders for monetary damages for breach of fiduciary duty as a director. The provision is limited to monetary damages, applies only to a director's actions while acting within his or her capacity as a director, and does not entitle USEC to limit director liability for any judgment resulting from (a) any breach of the director's duty of loyalty to USEC or its stockholders; (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (c) paying an illegal dividend or approving an illegal stock repurchase; or (d) any transaction from which the director derived an improper benefit.

Section 145 of the DGCL provides generally that a person sued (other than in a derivative suit) as a director, officer, employee or agent of a corporation may be indemnified by the corporation for reasonable expenses, including counsel fees, if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the person's conduct was unlawful. In the case of a derivative suit, a director, officer, employee or agent of the corporation may be indemnified by the corporation for reasonable expenses, including attorneys'

fees, if the person has acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in the case of a derivative suit in respect of any claim as to which such director, officer, employee or agent has been adjudged to be liable to the corporation unless the Delaware Court of Chancery or the court in which such action or suit was brought shall determine that such person is fairly and reasonably entitled to indemnity for proper expenses. Indemnification is mandatory under

section 145 of the DGCL in the case of a director or officer who is successful on the merits in defense of a suit against him.

The Purchase Agreement provides that the Underwriters are obligated, under certain circumstances, to indemnify USEC, the directors, certain officers and controlling persons of USEC Inc. against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Act"). Reference is made to the form of Purchase Agreement filed as Exhibit 1.1, hereto.

USEC has entered into indemnification agreements with the directors and certain officers pursuant to which USEC has agreed to maintain directors' and officers' insurance and to indemnify such officers to the fullest extent permitted by applicable law except for certain claims described therein. Reference is made to the form of Director and Officer Indemnification Agreement filed as Exhibit 10.25 hereto.

USEC maintains directors and officers liability insurance for the benefit of its directors and certain of its officers.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Not applicable.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following exhibits are filed as part of this registration statement.

EXHIBIT NO.	DESCRIPTION
1.1	Form of Purchase Agreement.
3.1	Certificate of Incorporation of USEC Inc.***
3.2	Bylaws of USEC Inc.***
4.1	Form of Indenture between USEC Inc. and First Union National Bank.
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP.
10.1	Lease Agreement between the United States Department of Energy and the United States Enrichment Corporation dated as of July 1, 1993, including notice of exercise of option to renew.**
10.2	Gaseous Diffusion Plant Operation and Maintenance Contract between Lockheed Martin Utility Services, Inc. and USEC, dated October 1, 1995, including notice of exercise of option to renew.**
10.3	Lockheed Martin Guaranty for Lockheed Martin Utility Services, Inc. with the United States Enrichment Corporation, dated October 1, 1995.**

10.4 Memorandum of Agreement dated December 15, 1994 between the United States Department of Energy and USEC regarding the transfer of functions and activities, as amended.**

10.5 Memorandum of Agreement dated April 27, 1995 between the United States Department of Energy and USEC regarding the transfer and funding of AVLIS, as amended.**

10.6 Composite Copy of Power Agreement, dated October 15, 1952, between Ohio Valley Electric Corporation and the United States of America acting by and through the United States Atomic Energy Commission and, subsequent to January 18, 1975, the Administrator of Energy Research and Development and, subsequent to September 30, 1977, the Secretary of the Department of Energy.**

10.7 Modification No. 16 to power agreement between Ohio Valley Electric Corporation and United States of America acting by and through the Secretary of the Department of Energy, dated January 1, 1998.**

10.8 Modification No. 12, dated September 2, 1987 by and between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy amending and restating the power agreement dated May 4, 1951, together with all previous modifications.**

10.9 Modification Nos. 13, 14 and 15 to power agreement between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy, dated January 18, 1989, March 6, 1991 and October 1, 1992, respectively.**

EXHIBIT NO. DESCRIPTION

10.10 Power Contract between Tennessee Valley Authority and USEC, dated October 12, 1995.**

10.11 Memorandum of Agreement between the United States Department of Energy and the United States Enrichment Corporation for electric power, entered into as of July 1, 1993.**

10.12 Contract between Lockheed Martin Utility Services, Inc., Paducah gaseous diffusion plant and Oil, Chemical and Atomic Workers International Union AFL-CIO and its local no. 3-550, July 31, 1996-July 31, 2001.**

10.13 Contract between Lockheed Martin Utility Services, Inc., Portsmouth gaseous diffusion plant, and Oil, Chemical and Atomic Workers International Union and its local no. 3-689, April 1, 1996-May 2, 2000.**

10.14 Contract between Lockheed Martin Utility Services, Inc., Paducah gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated plant guards local no. 111, January 31, 1997-March 1, 2002.**

10.15 Contract between Lockheed Martin Utility Services, Inc., Portsmouth gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated local no. 66, August 3, 1997-August 4, 2002.**

10.16 Joint Development, Demonstration and Deployment Agreement between Cameco Corporation and USEC, dated July 26, 1996.**

10.17 Contract between USEC, Executive Agent of the United States of America, and Techsnabexport, Executive Agent of the

Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994, as amended.**

10.18 Memorandum of Agreement, dated April 6, 1998, between the Office of Management and Budget and USEC relating to post-Privatization liabilities.**

10.19 Memorandum of Agreement, dated May 18, 1998, between the United States Department of Energy and USEC relating to depleted uranium generated prior to the privatization date.**

10.20 Memorandum of Agreement, dated April 20, 1998, between the United States Department of Energy and USEC for transfer of natural uranium and highly enriched uranium and for blending down of highly enriched uranium.**

10.21 Agreement, dated as of July 14, 1998, between USEC and the U.S. Department of the Treasury regarding post-closing conduct.**

10.22 Agreement between USEC and DOE regarding provision by USEC of information to the U.S. Government's Enrichment Oversight Committee, dated June 19, 1998.**

10.23 Revolving Loan Agreement, dated July 28, 1998, among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank, N.A., BancAmerica Robertson Stephens, and USEC Inc.***

10.24 Amendment No. 1 to Revolving Loan Agreement among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank N.A., BancAmerica Robertson Stephens, and USEC Inc., dated October 8, 1998.

10.25 Form of Director and Officer Indemnification Agreement.**

10.26 Memorandum of Agreement entered into as of April 18, 1997 between the United States, acting by and through the United States Department of State and the United States Department of Energy, and USEC for USEC to serve as the United States Government's Executive Agent under the Agreement between the United States and the Russian Federation concerning the disposal of highly enriched uranium extracted from nuclear weapons.**

10.27 Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and USEC regarding disposal of depleted UF(6).**

10.28 Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and USEC regarding certain worker benefits.**

10.29 Agreement dated August 19, 1998, between USEC Inc. and James R. Mellor.***

12.1 Statement regarding Ratio of Earnings to Fixed Charges.+

21.1 Subsidiaries of the Registrant.+

23.1 Consent of Arthur Andersen LLP, independent public accountants.

23.2 Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in the opinion filed as Exhibit No. 5.1).

EXHIBIT NO.	DESCRIPTION
24.1	Powers of Attorney (set forth on signature page of this registration statement).+
25.A	Statement of Eligibility of Trustee and Qualification of

First Union National Bank, Form T-1.

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+ Previously filed.

* To be filed by amendment.

** Incorporated by reference from USEC Inc.'s Registration Statement on Form S-1 (File No. 333-57955) filed with the Commission on June 29, 1998, including Amendment No. 1 thereto.

*** Incorporated by reference from USEC Inc.'s Annual Report on Form 10-K, dated June 30, 1998.

(b) Financial statement schedules have been omitted because they are not applicable, are not required, or the information that would otherwise be included is contained in the Consolidated Financial Statements.

(c) Portions of these Exhibits have been omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Commission.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the registrant pursuant to provisions described in Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed

to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the Purchase Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Bethesda, Maryland on January 6, 1999.

USEC INC.

By: /s/ WILLIAM H. TIMBERS, JR.

Name: William H. Timbers, Jr.
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment to the Registration Statement has been signed by the following persons in the capacities indicated below on January 6, 1999.

SIGNATURE	TITLE(S)
*	Chairman of the Board and Director
James R. Mellor	
*	Director
Joyce F. Brown, Ph.D.	
*	Director
Frank V. Cahouet	
*	Director
John R. Hall	
*	Director
Dan T. Moore, III	
*	Director
William H. White	
/s/ WILLIAM H. TIMBERS, JR.	President and Chief Executive Officer (Principal Executive Officer) and Director
William H. Timbers, Jr.	
/s/ HENRY Z SHELTON, JR.	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Henry Z Shelton, Jr.	

*By: /s/ HENRY Z SHELTON, JR.

Henry Z Shelton, Jr.
Attorney-in-Fact

EXHIBIT 1.1

USEC INC.
(A DELAWARE CORPORATION)

% SENIOR NOTES DUE 200[ ]

PURCHASE AGREEMENT

[ ], 1999

[ ], 1999

Merrill Lynch, Pierce, Fenner &
Smith Incorporated
J.P. Morgan Securities Inc.
Lehman Brothers Inc.
NationsBanc Montgomery Securities LLC
Blaylock & Partners, L.P.
as Representatives of the
several Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce,
Fenner & Smith Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Ladies and Gentlemen:

USEC Inc., a Delaware corporation (the "COMPANY"), confirms its agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MERRILL LYNCH") and each of the other Underwriters named in Schedule A hereto (collectively, the "UNDERWRITERS", which term shall also include any underwriter substituted as hereinafter provided in Section 9 hereof), for whom Merrill Lynch, J.P. Morgan Securities Inc., Lehman Brothers Inc., NationsBanc Montgomery Securities LLC and Blaylock & Partners, L.P. are acting as representatives (in such capacity, the "REPRESENTATIVES"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective principal amounts set forth in said Schedule A of $[ ] million aggregate principal amount of the Company's % Senior Notes due 200[ ] (the "SECURITIES"). The Securities are to be issued pursuant to an indenture dated as of [ ], 1999 (the "INDENTURE") between the Company and First Union National Bank, as trustee (the "TRUSTEE").

The Company understands that the Underwriters propose to make a public offering of the Securities as soon as the Representatives deem advisable after this

Agreement has been executed and delivered and the Indenture has been qualified under the Trust Indenture Act of 1939, as amended (the "TRUST INDENTURE ACT").

The Company has filed with the Securities and Exchange Commission (the "COMMISSION") a registration statement relating to the Securities. The registration statement as amended at the time it becomes effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A under the Securities Act of 1933, as amended (the "SECURITIES ACT"), is hereinafter referred to as the "REGISTRATION STATEMENT"; the prospectus in the form first used to confirm sales of Securities is hereinafter referred to as the "PROSPECTUS" (including in the case of all references to the Registration Statement or the Prospectus, documents incorporated by reference therein). If the Company has filed an abbreviated registration statement to register additional % Senior Notes due 200[ ] pursuant to Rule 462(b) under the Securities Act (the "RULE 462 REGISTRATION STATEMENT"), then any reference herein to the term "REGISTRATION STATEMENT" shall be deemed to include such Rule 462 Registration Statement.

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to and agrees with each of the Underwriters that:

(a) The Registration Statement has become effective, no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to (A) statements or omissions in the Registration

Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein or (B) that part of the Registration Statement that constitutes the Statement of Eligibility (Form T-1) under the Trust Indenture Act.

(c) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the state of Delaware, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole. As used herein, "subsidiary" and "subsidiaries" refers to the Company's subsidiaries (either individually or collectively, as the context may require) listed on Exhibit A hereto.

(d) Each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing

under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole; all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly by the Company, free and clear of all liens, encumbrances, equities or claims.

(e) This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company.

(f) The Indenture has been duly authorized by the Company and duly qualified under the Trust Indenture Act and, when duly executed and

delivered by the Company and the Trustee, will constitute a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

(g) The Securities have been duly authorized and, on the Closing Date (as defined in Section 3), will have been duly executed by the Company and, when authenticated, issued and delivered in the manner provided for in the Indenture and delivered against payment of the purchase price therefor as provided in this Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law), and will be in the form contemplated by, and entitled to the benefits of, the Indenture.

(h) The Securities and the Indenture will conform in all material respects to the respective statements relating thereto contained in the Prospectus and will be in substantially the respective forms filed as exhibits to the Registration Statement.

(i) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement, the Indenture and the Securities, will not contravene any provision of applicable law or the charter or by-laws of the Company or any agreement or other instrument binding upon the Company and its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company and its subsidiaries, and, except as described in the Prospectus, no material

consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the

Company of its obligations under this Agreement, the Indenture and the Securities, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Securities.

(j) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(k) There are no material legal or governmental proceedings pending or, to the knowledge of the Company, threatened to which the Company or any of its Subsidiaries is a party, or of which the Company's or and of its subsidiaries' property is the subject, that are required to be described in the Registration Statement or the Prospectus and are not so described, or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required.

(l) Except as described in the Prospectus, the Company and its subsidiaries have all necessary consents, authorizations, approvals, clearances, orders, certificates and permits of and from, and have made all declarations and filings with, all federal, state, local and other governmental authorities (including, without limitation, the Nuclear Regulatory Commission and the Occupational Safety and Health Administration), all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use their respective properties and assets and to conduct their respective businesses in the manner described in the Prospectus, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(m) Except as described in the Prospectus, the Company or its subsidiaries own, or have the right to use, all material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names currently

employed by the Company and its subsidiaries in connection with the business now operated by the Company and its subsidiaries, and, except as described in the Prospectus, none of the Company or any of its subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(n) Each preliminary prospectus publicly filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(o) The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "INVESTMENT COMPANY" as such term is defined in the Investment Company Act of 1940, as amended.

(p) Except as described in the Prospectus, the Company and its subsidiaries (i) are in compliance with any and all applicable federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("ENVIRONMENTAL LAWS"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(q) Except as described in the Prospectus, to the best of the Company's knowledge, there are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related

constraints on operating activities and any potential liabilities to third parties) that would, after taking into account existing indemnities from the United States Department of Energy and after giving effect to the Privatization Act, Chapter 1, Title 3 of Public Law 104-134, and the Energy Policy Act of 1992, Public Law 102-486, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(r) Except as described in the Prospectus, no material labor dispute with the employees of the Company or any of its subsidiaries or, to the knowledge of the Company, of Lockheed Martin Utility Services, Inc. exists, or, to the knowledge of the Company, is imminent that could have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(s) The Company, its subsidiaries and each other person or entity that, together with the Company and its subsidiaries, is treated as a single employer under Section 414 of the Internal Revenue Code of 1986, as amended (the "CODE") (each such person or entity being an "ERISA AFFILIATE"), comply in all material respects with the Employee Retirement Income Security Act of 1974, as amended ("ERISA") if and to the extent applicable. The Company, its subsidiaries and each ERISA Affiliate comply in all material respects with the Code, if and to the extent applicable, with respect to each pension plan (as defined in Section 3(2) of ERlSA) maintained by the Company, its

subsidiaries or such ERISA Affiliate, and none of the Company, its subsidiaries or any of their respective ERISA Affiliates has incurred any material liability to any pension plan or to the Pension Benefit Guaranty Corporation that has not been fully paid as of the date hereof.

(t) The Company and its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (l) transactions are executed in accordance with management's general or specific authorizations; (2) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principals and to maintain asset accountability; (3) access to assets is permitted only in accordance with management's general or specific authorization; and (4) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

2. AGREEMENTS TO SELL AND PURCHASE. The Company hereby agrees to sell to the several Underwriters, and each Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from the Company at the price set forth in Schedule B, the aggregate principal amount of Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional principal amount of Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 9 hereof.

3. PAYMENT AND DELIVERY. Payment for the purchase price for, and delivery of certificates for, the Securities shall be made at the offices of Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York, 10017, or at such other place as shall be agreed upon by the Representatives and the Company, at 9:00 a.m. (New York City time) on the third (fourth, if the pricing occurs after 4:30 p.m. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 9), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called the "CLOSING DATE").

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for and make payment of the purchase price for, the Securities which it has agreed to purchase. Merrill Lynch, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Securities to be purchased by any Underwriter whose funds have not been received by the Closing Date, but such payment shall not relieve such Underwriter from its obligations hereunder.

Certificates for the Securities shall be in such denominations ($1,000 or integral multiples thereof) and registered in such names as the Representatives may request in writing at least one full business day before the Closing Date. The Securities, which may be in temporary form, will be made available for examination

and packaging by the Representatives in the City of New York not later than 10:00 a.m. (New York City time) on the business day prior to the Closing Date.

4. CONDITIONS TO THE UNDERWRITERS' OBLIGATIONS. The obligations of the Company to sell the Securities to the Underwriters and the several obligations of the Underwriters to purchase and pay for the Securities on the Closing Date are subject to the condition that the Registration Statement shall have become effective not later than 5:30 p.m. (New York City time) on the date hereof.

The several obligations of the Underwriters are subject to the following further conditions:

(a) (i) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) that, in your reasonable judgment, is material and adverse and that makes it, in your reasonable judgment, impracticable to market the Securities on the terms and in the manner contemplated in the Prospectus.

(ii) As of the Closing Date, the Securities shall be rated at least [ ] by Moody's Investor's Service Inc. and [ ] by Standard & Poor's Ratings Group, and the Company shall have delivered to the Representatives a letter dated the Closing Date, from each such rating agency, or other evidence satisfactory to the Representatives, confirming that the Securities have such ratings; and since the date of this Agreement, there shall not have occurred a downgrading in the rating assigned to the Securities or any of the Company's other debt securities by any "NATIONALLY RECOGNIZED STATISTICAL RATING AGENCY", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Securities Act, and no such organization shall have publicly announced that it has under surveillance or review its rating of the Securities or any of the Company's other debt.

(b) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the

Company, to the effect set forth in Section 4(a)(ii) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date (the officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened).

(c) The Underwriters shall have received on the Closing Date an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel for the Company, dated the Closing Date, to the effect set forth in Exhibit B hereto.

(d) The Underwriters shall have received on the Closing Date an opinion of Robert J. Moore, Esq., Senior Vice President and

General Counsel of the Company, dated the Closing Date, to the effect set forth in Exhibit C hereto.

(e) The Underwriters shall have received on the Closing Date an opinion of Davis Polk & Wardwell, counsel for the Underwriters, dated the Closing Date, covering the matters referred to in subparagraphs (iii), (iv), (v), (vii), (ix) (as to the statements in the Prospectus under "DESCRIPTION OF THE NOTES" and "UNDERWRITING") and (xiii) set forth in Exhibit B hereto.

The opinions of Skadden, Arps, Slate, Meagher & Flom LLP and Robert J. Moore, Esq. described in paragraphs (c) and (d) above shall be rendered to the Underwriters at the request of the Company and shall so state therein.

(f) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "COMFORT LETTERS" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided that the letter delivered on the Closing Date shall use a "CUT-OFF DATE" not earlier than the date hereof.

5. COVENANTS OF THE COMPANY. In further consideration of the agreements of the Underwriters herein contained, the Company covenants with each Underwriter as follows:

(a) To furnish to you, without charge, four signed copies of the Registration Statement (including exhibits thereto) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and to furnish to you in New York City, without charge, prior to 5:00 p.m. New York City time on the business day following the date of this Agreement and during the period mentioned in paragraph (c) below, as many copies of the Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object in a timely manner, and to file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) If, during such period after the first date of the public offering of the Securities as in the opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you will furnish to the Company) to which Securities may have been sold by you on behalf of

the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with applicable law. The expense of complying with this Section 6(c) shall be borne by the Company in respect of any

amendment or supplement required during the nine-month period after effectiveness of the Registration Statement and by the Underwriters thereafter.

(d) To endeavor to qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request.

(e) To make generally available to the Company's security holders and to you as soon as practicable an earning statement covering the twelve-month period ending December 31, 1999 that satisfies the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(f) During the period beginning on the date hereof and continuing to and including the Closing Date, not to offer, sell, contract to sell or otherwise dispose of any debt securities of the Company or warrants to purchase or otherwise acquire debt securities of the Company substantially similar to the Securities (other than (i) the Securities and (ii) commercial paper issued in the ordinary course of business), without the prior written consent of Merrill Lynch.

6. EXPENSES. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, all expenses incident to the performance of the Company's obligations under this Agreement will be paid or caused to be paid by the Company, including: (i) the fees, disbursements and expenses of the Company's counsel and the Company's accountants in connection with the registration and delivery of the Securities under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Prospectus and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Securities to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any Blue Sky memorandum in connection with the offer and sale of the Securities under state securities laws and all expenses in connection with the qualification of the Securities for offer and sale under state securities laws as provided in Section 5(d) hereof,

including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky memorandum, which are not expected to exceed $5,000, (iv) all filing fees, if any, incurred in connection with the review and qualification of the offering by the National Association of Securities Dealers, Inc., (v)

any fees charged by the rating agencies for the rating of the Securities, (vi) the cost of printing certificates representing the Securities, (vii) the costs and charges of any trustee, transfer agent, registrar or depositary, (viii) the costs and expenses of the Company relating to investor presentations on any "ROAD SHOW" undertaken in connection with the marketing of the offering of the Securities, including, without limitation, expenses of the Company associated with the production of road show slides and graphics, fees and expenses of any consultants engaged by the Company in connection with the road show presentations, and travel and lodging expenses of the representatives and officers of the Company and any such consultants, and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that except as provided in this Section, Section 7 entitled "INDEMNITY AND CONTRIBUTION", and the last paragraph of Section 9 below, the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, transfer taxes payable on resale of any of the Securities by them and any advertising expenses connected with any offers they may make.

7. INDEMNITY AND CONTRIBUTION. (a) From and after the Closing Date, the Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through

you expressly for use therein; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Securities, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Securities to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability unless such failure is the result of non-compliance by the Company with Section 5(a) hereof.

(b) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, the directors of the Company, the officers of the Company who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the

Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished to the Company in writing by such Underwriter through you expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to paragraph (a) or (b) of this Section 7, such person (the "INDEMNIFIED PARTY") shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PARTY") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to

represent the indemnified party in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (i) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act and (ii) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either such Section, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Underwriters and such control persons of Underwriters, such firm shall be designated in writing by Merrill Lynch. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the

indemnified party in accordance with such

request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement (i) includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding and (ii) does not include a statement as to an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) To the extent the indemnification provided for in paragraph (a) or (b) of this Section 7 is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other hand from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the indemnifying party or parties on the one hand and of the indemnified party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other hand in connection with the offering of the Securities shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Securities (before deducting expenses) received by the Company and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate initial public offering price of the Securities. The relative fault of the Company on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information

and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the respective principal amount of Securities they have purchased hereunder, and not joint.

(e) The Company and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were

treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) of this Section 7. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 7 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the principal amount of Securities set forth opposite their respective names in Schedule A hereto, and not joint.

(f) The indemnity and contribution provisions contained in this Section 7 and the representations, warranties and other statements of the Company contained in this Agreement shall remain operative and in full force and effect regardless of (i) termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter or by or on behalf of the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Securities;

8. TERMINATION. This Agreement shall be subject to termination by notice given by you to the Company, if (a) after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, Inc., the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and (b) in the case of any of the events specified in clauses (a)(i) through (iv), such event, singly or together with any other such event, makes it, in your judgment, impracticable to market the Securities on the terms and in the manner contemplated in the Prospectus.

9. EFFECTIVENESS; DEFAULTING UNDERWRITERS. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date any one or more of the Underwriters shall fail or refuse to purchase Securities that it has or they have agreed to purchase hereunder on such date, and the aggregate principal amount of Securities which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate principal amount of

Securities to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the principal amount of Securities set forth opposite their respective names in Schedule A bears to the principal amount of Securities set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Securities which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the principal amount of Securities that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 9 by an amount in excess of one-ninth of such principal amount of Securities without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Securities and the aggregate principal amount of Securities with respect to which such default occurs is more than one-

tenth of the aggregate principal amount of Securities to be purchased by all of the Underwriters, and arrangements satisfactory to you and the Company for the purchase of such Securities and are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected.

If this Agreement shall be terminated by the Underwriters, or any of them because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, the Company will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder.

10. COUNTERPARTS. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

11. APPLICABLE LAW. This Agreement, and the rights and obligations of the parties hereunder, shall be governed by, and construed and interpreted in accordance with the internal laws of the State of New York, without giving effect to the provisions thereof relating to conflicts of law.

12. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

USEC Inc., a Delaware corporation

By:

Name:
Title:

Accepted as of the date hereof

Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner &
Smith Incorporated
J.P. Morgan Securities Inc.
Lehman Brothers Inc.
NationsBanc Montgomery Securities LLC
Blaylock & Partners, L.P.

Acting severally on behalf of themselves
and the several Underwriters named
in Schedule A hereto.

By: Merrill Lynch, Pierce,
Fenner & Smith Incorporated

By:

Name:
Title:

SCHEDULE A

Underwriters

Underwriter	Principal Amount of Securities to be Purchased
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
NationsBanc Montgomery Securities LLC	
Blaylock & Partners, L.P.	
[Names of other Underwriters]	
Total	$

SCHEDULE B

USEC Inc.

% Senior Notes due 200[ ]

1. The initial public offering price of the Securities shall be __% of the principal amount thereof, plus accrued interest, if any, from the date of issuance.

2. The purchase price to be paid by the Underwriters for the Securities shall be __% of the principal amount thereof.

3. The interest rate on the Securities shall be __% per annum.

EXHIBIT A

SUBSIDIARIES OF USEC INC.

Name of Subsidary	State of Incorporation
United States Enrichment Corporation	Delaware
USEC Services Corporation	Delaware
USEC Overseas, Inc.	U.S. Virgin Islands

EXHIBIT B

Opinions to be delivered by Skadden, Arps, Slate, Meagher & Flom LLP

(i) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the state of Delaware, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(ii) each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a

material adverse effect on the Company its subsidiaries, taken as a whole;

(iii) this Agreement has been duly authorized, executed and delivered by the Company;

(iv) the Indenture has been duly authorized, executed and delivered by the Company and (assuming the due authorization, execution and delivery thereof by the Trustee) constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally

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and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law);

(v) the Securities are in the form contemplated by the Indenture, have been duly authorized by the Company, assuming that the Securities have been duly authenticated by the Trustee in the manner described in its certificate delivered to you today (which fact such counsel need not determine by an inspection of the Securities), the Securities have been duly executed, issued and delivered by the Company and constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law), and will be entitled to the benefits of the Indenture;

(vi) the Indenture has been duly qualified under the Trust Indenture Act;

(vii) the Securities and the Indenture conform as to legal matters in all material respects to the descriptions thereof contained in the Prospectus;

(viii) the execution and delivery by the Company of, and the performance by the Company of its obligations under this Agreement will not contravene any provision of applicable law or the charter or by-laws of the Company or, to the best of such counsel's knowledge, any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or, to the best of such counsel's knowledge, any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and, except as described in the Prospectus, no material consent, approval, authorization or order of, or qualification with, any governmental

body or agency is required for the performance by the Company of its obligations under this Agreement, the Indenture and the Securities, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Securities or which are not required to be obtained, made or taken prior to the date hereof;

(ix) the statements (A) in the Prospectus under the caption, "DESCRIPTION OF THE NOTES" and (B) in the Registration Statement in Items 14 and 15, in each case insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein;

(x) the Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "INVESTMENT COMPANY" as such term is defined in the Investment Company Act of 1940, as amended;

(xi) each of the Registration Statement, as of the Effective Date, and the Prospectus, as of its date, appeared on its face to have been appropriately responsive in all material respects to the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder, except that such counsel does not: (i) express any opinion as to the financial statements and related notes, schedules and other financial and statistical data included in or excluded from the Registration Statement or the Prospectus or (ii) except as set forth in clause (x) above, assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus;

(xii) (A) except as provided in the Prospectus, and based solely upon such counsel's review of the Search Reports dated October 23, 1995 and May 24, 1996 provided by Thomson and Thomson, an independent trademark search company, the Company

and its subsidiaries own or have the right to use the trademark "USEC" (the "TRADEMARK") in connection with the business of uranium enrichment in all areas within the United States where such mark is in use. Such counsel may note that, in the United States, trademark rights can accrue based on use of a mark without benefit of registration, and that the Thomson and Thomson search reveals only such users of similar marks and only such information about such users that appear in Thomson and Thomson's databases. Accordingly, there may be additional information or prior users of similar marks which is not revealed in the Thomson and Thomson search reports, providing a basis for a third party to assert superior rights in the Trademark; and (B) except as set forth in the Prospectus, to such counsel's knowledge, none of the Company or any of its subsidiaries has received any notice from a third party, which remains unresolved, as to infringement of or conflict with asserted rights of others with respect to any patents, patent rights, licenses, inventions, copyrights, knowhow (including trade secrets or other unpatented and/or

unpatentable propriety or confidential information, systems or procedures), trademarks, service marks and trade names, which, singly or in the aggregate, would be likely to result in a material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole; and

(xiii) no facts have come to such counsel's attention that have caused such counsel to believe that the Registration Statement, at the time it became effective, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading or that the Prospectus, as of its date and as of the date of the opinion, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading, except that such counsel expresses no opinion or belief with respect to the financial statements and related notes, schedules and other financial and statistical data included in or excluded from the Registration Statement or the Prospectus, the exhibits to the Registration Statement or that part of

the Registration Statement that constitutes the Form T-1 heretofore referred to.

EXHIBIT C

Opinions to be delivered by Robert J. Moore, Esq.

(i) such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of their respective properties is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or of any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required;

(ii) except as described in the Prospectus, no material labor dispute with the employees of the Company or any of its subsidiaries or, to the knowledge of such counsel, of Lockheed Martin Utility Services, Inc. exists, or, to such counsel's knowledge, is imminent that could have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(iii) except as described in the Prospectus, the Company and its subsidiaries have, to such counsel's

knowledge, all necessary consents, authorizations, approvals, clearances, orders, certificates and permits of and from, and have made all declarations and filings with, all federal, state, local and other governmental authorities (including, without limitation, the Nuclear Regulatory Commission and the Occupational Safety and Health Administration), all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use their respective properties and assets and to conduct their respective business in the manner described in the Prospectus, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company and its subsidiaries, taken as a whole; and

(iv) except as described in the Prospectus, to such counsel's knowledge, each of the Company and its subsidiaries (A) is in

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compliance with any and all applicable Environmental Laws, (B) has received all permits, consents, authorizations, clearances, orders, certificates, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and (C) is in compliance with all terms and conditions of any such permit, consent, authorization, clearance, order, certificate, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, consents, authorizations, clearances, orders, certificates, licenses or other approvals or failure to comply with the terms and conditions of such permits, certificates, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

EXHIBIT 4.1

==========

USEC INC.

AND

FIRST UNION NATIONAL BANK, Trustee

Indenture

Dated as of [ ], 1999

$_____

[ ]% Senior Notes Due 200[ ]

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THIS INDENTURE, dated as of _____ [ ], 1999 between USEC Inc., a Delaware corporation (the "COMPANY"), and First Union National Bank, a national banking association (the "TRUSTEE"),

W I T N E S S E T H :

WHEREAS, the Company has duly authorized the issuance of its [ ]% Senior Notes Due 200[ ] (the "SECURITIES") and, to provide, among other things, for the authentication, delivery and administration thereof, the Company has duly authorized the execution and delivery of this Indenture;

WHEREAS, the Securities and the Trustee's certificate of authentication shall be in substantially the form of Exhibit A;

AND WHEREAS, all things necessary to make the Securities, when executed by the Company and authenticated and delivered by the Trustee as in the Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid indenture and agreement according to its terms, have been done;

NOW, THEREFORE:

In consideration of the promises and the purchases of the Securities by the Holders thereof, the Company and the Trustee mutually covenant and agree for the equal and proportionate benefit of the respective Holders from time to time of the Securities as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. Certain Terms Defined. The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939 or the definitions of which in the Securities Act of 1933 are referred to in the Trust Indenture Act of 1939 (except as herein otherwise expressly provided or unless the context otherwise clearly requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture. All accounting terms used herein and not expressly defined shall have the meanings given to them

in accordance with GAAP (whether or not such is indicated herein). The words "HEREIN", "HEREOF" and "HEREUNDER" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

"BOARD OF DIRECTORS" means, with respect to any Person, the Board of Directors of such Person, or any authorized committee of the Board of Directors of such Person.

"BOARD RESOLUTION" means a copy of a resolution, certified by the Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized by law to close.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's capital stock or other ownership interests, whether now outstanding or issued after the date of the Indenture, including, without limitation, all Common Stock and Preferred Stock.

"CERTIFICATED SECURITIES" means securities issued in the form of permanent certificated securities in registered form in substantially the form hereinabove recited.

"COMMISSION" means the Securities and Exchange Commission.

"COMMON STOCK" means, with respect to any Person, any and all shares of such Person's Capital Stock (excluding Preferred Stock of such Person), including, without limitation, all series and classes of such common stock.

"CONSOLIDATED NET TANGIBLE ASSETS" means, at any date of determination, the total amount of assets after deducting therefrom (a) all current liabilities (excluding (i) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (ii) current maturities of long-term debt), and (b) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents or other like intangible assets, all assets, all as set forth, or on a pro forma basis would be set forth, in the consolidated balance sheet of the Company and its Subsidiaries.

"CONSOLIDATED NET WORTH" of any Person means, at any date of determination, stockholder's equity of such Person, less (i) any amounts attributable

to Redeemable Stock or any equity security convertible into or exchangeable for Debt, (ii) the cost of treasury stock and (iii) the principal amount of any promissory notes receivable from the sale of the Capital Stock of such Person (excluding the effects of foreign currency exchange adjustments under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52).

"CORPORATE TRUST OFFICE" means the office of the Trustee at which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which this Indenture is dated, located at 800 East Main Street, Lower Mezzanine, VA3279, Richmond, Virginia 23219.

"DEBT" means (without duplication) all liabilities for borrowed money and any guarantee therefor.

"DEFAULT" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"DEPOSITARY" means The Depository Trust Company, its nominees, and their respective successors.

"EVENT OF DEFAULT" means any event or condition specified as such in Section 4.01 which shall have continued for the period of time, if any, therein designated.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles in the United States of America as in effect on the Issue Date, including, without limitation, those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession.

"HOLDERS", "HOLDER OF SECURITIES", "SECURITYHOLDER" or other similar terms means a person in whose name a Security is registered.

"INDENTURE" means this instrument as originally executed and delivered or, if amended or supplemented as herein provided, as so amended or supplemented.

"INTEREST PAYMENT DATE" means each semiannual interest payment date on [ ] and [ ] of each year, commencing [ ], 1999.

"ISSUE DATE" means the date and time at which the Securities are originally issued under the Indenture.

"LIEN" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset given to secure Debt, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes)

of any jurisdiction with respect to any such mortgage, lien, pledge, charge, security interest or encumbrance).

"MAKE-WHOLE PREMIUM" means, in connection with any optional redemption of any security, the excess, if any, of (i) the aggregate present value as of the Redemption Date of each dollar of principal of such securities being redeemed and the amount of interest (exclusive of interest accrued to the Redemption Date) that would have been payable in respect of such dollar if such redemption had not been made, determined by discounting, on a semi-annual basis, such principal and interest at a rate equal to the sum of the Treasury Yield (determined on the Business Day immediately preceding the Redemption Date) plus [ ] basis points from the respective dates on which such principal and interest would have been payable if such redemption had not been made, over (ii) the aggregate principal amount of such securities being redeemed.

"OBLIGATIONS" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Debt.

"OFFICER" means, with respect to the Company, (i) the Chairman of the Board of Directors, the President, any Vice President, the Chief Financial Officer, and (ii) the Treasurer or any Assistant Treasurer, or the Secretary or any Assistant Secretary.

"OFFICERS' CERTIFICATE" means a certificate signed by the Chairman of the Board of Directors or the President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") of the Company and delivered to the Trustee. Each such certificate shall comply with Section 314 of the Trust Indenture Act of 1939 and include the statements provided for in Section 11.05.

"OPINION OF COUNSEL" means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Company or who may be other counsel satisfactory to the Trustee. Each such opinion shall comply with Section 314 of the Trust Indenture Act of 1939 and include the statements provided for in Section 11.05,

and such others as may reasonably be requested by the Trustee, if and to the extent required hereby.

"OUTSTANDING", when used with reference to Securities, subject to the provisions of Article Eleven, means, as of any particular time, all Securities authenticated and delivered by the Trustee under this Indenture, except

(a) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside, segregated and held in trust by the Company (if the Company shall act as its own paying agent), provided that if such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as herein provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Securities in substitution for which other Securities shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.08 (unless proof satisfactory to the Trustee and the Company is presented that any of such Securities is held by a person in whose hands such Security is a legal, valid and binding

obligation of the Company).

"PERMITTED LIENS" means: (a) any statutory or governmental Lien or Lien arising by operation of law, or any mechanics', repairmen's, materialmen's, suppliers', carriers', landlords', warehousemen's or similar Lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined Lien which is incidental to construction, development, improvement or repair; (b) Liens of taxes and assessments which are (i) for the then current year, (ii) not at the time delinquent, or (iii) delinquent but the validity of which is being contested at the time by the Company or any of its Subsidiaries in good faith; (c) any Lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations; (d) any Lien in favor of the Company or any of its Subsidiaries; or (e) any Lien in favor of the United States of America or any State thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any State thereof, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred by

the Company or any of its Subsidiaries for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such Lien.

"PERSON" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof.

"PREFERRED STOCK" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's preferred or preference stock, whether now outstanding or hereafter issued, including, without limitation, all series and classes of such preferred or preference stock.

"PRINCIPAL" wherever used with reference to the Securities or any Security or any portion thereof, shall be deemed to include "AND PREMIUM, IF ANY".

"PRINCIPAL PROPERTY" means the land, land improvements, buildings and fixtures (to the extent they constitute real property interests, including any leasehold interest therein) constituting the principal corporate office and any manufacturing plant or facility (whether now owned or hereafter acquired) which: (a) is owned by the Company or any of its Subsidiaries; (b) is located within any of the present 50 states of the United States (or the District of Columbia); (c) in the opinion of the Board of Directors of the Company, is of material importance to the total business as it exists as of the date hereof conducted by the Company and its Subsidiaries taken as a whole; and (d) the gross book value of which exceeds 3% of Consolidated Net Tangible Assets.

"REGULAR RECORD DATE" for the Interest payable on any Interest Payment Date (except a date for payment of defaulted interest) means [ ] or [ ] (whether or not a Business Day) as the case may be, next preceding such Interest Payment Date.

"RESPONSIBLE OFFICER" when used with respect to the Trustee means any vice president (whether or not designated by numbers or words added before or after the title "vice president"), any trust officer, any assistant trust officer, any assistant vice president, any assistant secretary, any assistant treasurer, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is

referred because of his or her knowledge of and familiarity with the particular subject.

"SALE-LEASEBACK TRANSACTION" means the sale or transfer by the Company or any of its Subsidiaries of any Principal Property to a Person (other than the Company or any of its Subsidiaries) and the taking back by the Company or any of its Subsidiaries, as the case may be, of a lease of such Principal Property.

"SECURITY" or "SECURITIES" means any Security or Securities, as the case may be, authenticated and delivered under this Indenture.

"STATED MATURITY" means (i) with respect to any debt security, the date specified in such debt security as the fixed date on which the final installment of principal of such debt security is due and payable and (ii) with respect to any scheduled installment of principal of or interest on any debt security, the date specified in such debt security as the fixed date on which such installment is due and payable.

"SUBSIDIARY" means, with respect to any Person, (i) any corporation or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the Subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

"TREASURY YIELD" means, in connection with the calculation of any Make-Whole Premium on any Security, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar data)) equal to the then remaining maturity of such Security; provided that if no United States Treasury security is available with such a constant maturity for which a closing yield is given, the Treasury Yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the closing yields of United States Treasury securities for which such yields are given, except that if the remaining maturity of such Security is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"TRUST INDENTURE ACT OF 1939" means the Trust Indenture Act of 1939, as amended, as in force at the date as of which this Indenture was originally executed,

and "TIA", when used in respect of an indenture supplemental hereto, means such Act as in force at the time such indenture supplemental hereto becomes effective.

"TRUSTEE" means the entity identified as "Trustee" in the first paragraph hereof and, subject to the provisions of Article Five, shall also include any successor trustee.

"U.S. GOVERNMENT OBLIGATIONS" means securities issued or directly and fully guaranteed or insured by the United States of America or any agent or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof).

SECTION 1.02. Other Definitions.

Term	Defined in Section
"Acceleration Notice"	4.02
"Agent Members"	2.07
"Covenant Defeasance"	10.03
"Event of Default"	4.01
"Global Security"	2.04
"incorporated provision"	11.07
"Legal Defeasance"	10.02
"Registrar"	2.06
"Security Register(s)"	2.06

ARTICLE 2

ISSUE, EXECUTION, FORM AND REGISTRATION OF SECURITIES

SECTION 2.01. Authentication and Delivery of Securities. Upon the execution and delivery of this Indenture, or from time to time thereafter, Securities in an aggregate principal amount not in excess of the amount specified in the form of Security hereinabove recited (except as otherwise provided in Section 2.08) may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Securities to or upon the written order of the Company, signed by its Chairman of the Board of Directors, or any Vice Chairman of the Board of Directors, or its President or any Vice President (whether or not designated by a number or numbers or a word or

words added before or after the title "Vice President") without any further action by the Company.

SECTION 2.02. Execution of Securities. The Securities shall be signed on behalf of the Company by its Chairman of the Board of Directors or its President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President"). Such signature may be the manual or facsimile signatures of the present or any future such officers.

In case any officer of the Company who shall have signed any of the Securities shall cease to be such officer before the Security so signed shall be authenticated and delivered by the Trustee or disposed of by the Company, such Security nevertheless may be authenticated and delivered or disposed of as though the person who signed such Security had not ceased to be such officer of the Company; and any Security may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Security, shall be the proper officers of the Company, although at the date of the execution and delivery of this Indenture any such person was not such officer.

SECTION 2.03. Certificate of Authentication. Only such Securities as shall bear thereon a certificate of authentication substantially in the form hereinabove recited, executed by the Trustee by manual signature of one of its

authorized signatories, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee upon any Security executed by the Company shall be conclusive evidence, and the only evidence, that the Security so authenticated has been duly authenticated and delivered hereunder and that the Holder is entitled to the benefits of this Indenture.

SECTION 2.04. Form, Denomination and Date of Securities; Payments of Interest. The Securities and the Trustee's certificates of authentication shall be substantially in the form recited above. The Securities shall be issuable in denominations provided for in the form of Security recited above. The Securities shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers of the Company executing the same may determine with the approval of the Trustee.

Any of the Securities may be issued with appropriate insertions, omissions, substitutions and variations, and may have imprinted or otherwise reproduced thereon such legend or legends, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto, including those required by Section 2.05, or with the rules of any securities market in which the Securities are admitted to trading, or to conform to general usage.

Each Security shall be dated the date of its authentication, shall bear interest from the applicable date and shall be payable on the dates specified on the face of the form of Security recited above.

The Securities shall be issued initially in the form of one or more global Securities (a "GLOBAL SECURITY") deposited with the Trustee as custodian for the Depositary.

The person in whose name any Security is registered at the close of business on any Regular Record Date with respect to any Interest Payment Date shall be entitled to receive the interest, if any, payable on such Interest Payment Date notwithstanding any transfer or exchange of such Security subsequent to the Regular Record Date and prior to such Interest Payment Date, except if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, in which case such defaulted interest, plus (to the extent lawful) any interest payable on the defaulted interest, shall be paid to the persons in whose names outstanding Securities are registered at the close of business on a subsequent record date (which shall be not less than five Business Days prior to the date of such payment) established by notice given by mail by or on behalf of the Company to the holders of Securities not less than 15 days preceding such subsequent record date.

SECTION 2.05. Global Security Legends. Each Global Security shall bear the following legends on the face thereof:

> UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY OR SUCH OTHER REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO. OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE.

SECTION 2.06. Registration, Transfer and Exchange. The Securities are issuable only in registered form. The Company will keep at each office or agency to be maintained for the purpose as provided in Section 3.02 (the "REGISTRAR") a register or registers (the "SECURITY REGISTER(s)") in which, subject to such reasonable regulations as it may prescribe, it will register, and will register the transfer of, Securities as in this Article provided. Such Security Register shall be in written form in the English language or in any other form capable of being converted into such form within a reasonable time. At all reasonable times such Security Register or Security Registers shall be open for inspection by the Trustee.

Upon due presentation for registration of transfer of any Security at each such office or agency, the Company shall execute and the Trustee shall authenticate and make available for delivery in the name of the transferee or transferees a new Security or Securities in authorized denominations for a like aggregate principal amount.

A Holder may transfer a Security only by written application to the Registrar stating the name of the proposed transferee and otherwise complying with the terms of this Indenture. No such transfer shall be effected until, and such transferee shall succeed to the rights of a Holder only upon, final acceptance and registration of the transfer by the Registrar in the Security Register. Prior to the registration of any transfer by a Holder as provided herein, the Company, the Trustee, and any agent of the Company shall treat the person in whose name the Security is registered as the owner thereof for all purposes whether or not the Security shall be overdue, and neither the Company, the Trustee, nor any such agent shall be affected by notice to the contrary. Furthermore, any Holder of a Global Security shall, by acceptance of such Global Security, agree that transfers of beneficial interests in such Global Security may be effected only through a book entry system maintained by the Holder of such Global Security (or its agent) and that ownership of a beneficial interest in the Security shall be required to be reflected in a book entry. When Securities are presented to the Registrar or a co-Registrar with a request to register the transfer or to exchange them for an equal principal amount of Securities of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested if the requirements for such transactions set forth herein are met. To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Securities at the Registrar's request.

The Company may require payment of a sum sufficient to cover any tax or other similar governmental charge that may be imposed in connection with any exchange or registration of transfer of Securities (other than any such transfer taxes or other similar governmental charge payable upon exchanges pursuant to Section 2.10, 7.05 or 9.03). No service charge to any Holder shall be made for any such transaction.

The Company shall not be required to exchange or register a transfer of (a) any Securities for a period of 15 days next preceding the first mailing of notice of redemption of Securities to be redeemed, or (b) any Securities selected, called or being called for redemption except, in the case of any

Security where public notice has been given that such Security is to be redeemed in part, the portion thereof not so to be redeemed.

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

SECTION 2.07. Book-Entry Provisions for Global Securities. (a) Each Global Security shall (i) be registered in the name of the Depositary for such Global Securities or the nominee of such Depositary, (ii) be delivered to the Trustee as custodian for such Depositary and (iii) bear legends as set forth in Section 2.05.

Members of, or participants in, the Depositary ("AGENT MEMBERS") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depositary, or the Trustee as its custodian, or under the Global Security, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any Security.

(b) Transfers of a Global Security shall be limited to transfers of such Global Security in whole, but not in part, to the Depositary, its successors or their respective nominees. Interests of beneficial owners in a Global Security may be transferred in accordance with the rules and procedures of the Depositary. In addition, Certificated Securities shall be transferred to all beneficial owners in exchange for their beneficial interests if (i) the Depositary notifies the Company that it is unwilling or unable to continue as Depositary for the Global Security or the

Depository ceases to be a "clearing agency" registered under the Exchange Act and a successor depositary is not appointed by the Company within 90 days of such notice or (ii) an Event of Default of which a Responsible Officer of the Trustee has actual notice has occurred and is continuing and the Registrar has received a request from the Depositary to issue such Certificated Securities.

(c) In connection with the transfer of the entire Global Security to beneficial owners pursuant to paragraph (b) of this Section, such Global Security shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depositary in exchange for its beneficial interest in such Global Security an equal aggregate principal amount of Certificated Securities of authorized denominations.

(d) The registered holder of a Global Security may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Securities.

SECTION 2.08. Mutilated, Defaced, Destroyed, Lost and Stolen Securities. In case any temporary or definitive Security shall become mutilated, defaced or be apparently destroyed, lost or stolen, and in the absence of notice to the Company that such Security has been acquired by a bona fide purchaser, the Company in its discretion may execute, and upon the written request of any officer of the Company, the Trustee shall authenticate and make available for delivery, a new Security, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced Security, or in lieu of

and substitution for the Security so apparently destroyed, lost or stolen. In every case the applicant for a substitute Security shall furnish to the Company and to the Trustee and any agent of the Company or the Trustee such security or indemnity as may be required by them to indemnify and defend and to save each of them harmless and, in every case of destruction, loss or theft evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Upon the issuance of any substitute Security, the Company may require the payment of a sum sufficient to cover any transfer tax or other similar governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security which has matured or is about to mature, or has been called for redemption in full, shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Company in its discretion may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated or defaced Security), if the applicant for such payment shall furnish to the Company and

to the Trustee and any agent of the Company or the Trustee such security or indemnity as any of them may require to save each of them harmless from all risks, however remote, and, in every case of apparent destruction, loss or theft, the applicant shall also furnish to the Company and the Trustee and any agent of the Company or the Trustee evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Every substitute Security issued pursuant to the provisions of this Section by virtue of the fact that any Security is apparently destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the apparently destroyed, lost or stolen Security shall be at any time enforceable by anyone and shall be entitled to all the benefits of (but shall be subject to all the limitations of rights set forth in) this Indenture equally and proportionately with any and all other Securities duly authenticated and delivered hereunder. All Securities shall be held and owned upon the express condition that, to the extent permitted by law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, defaced, or apparently destroyed, lost or stolen Securities and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.09. Cancellation of Securities. All Securities surrendered for payment, redemption, registration of transfer or exchange, if surrendered to the Company or any agent of the Company or the Trustee, shall be delivered to the Trustee for cancellation or, if surrendered to the Trustee, shall be cancelled by it; and no Securities shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. If the Company shall acquire any of the Securities, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation. All cancelled Securities held by the Trustee shall be disposed of by the Trustee in accordance with its customary procedures (or destroyed) and certification of their disposal shall be delivered to the Company unless the Company directs that cancelled Securities be returned to it.

SECTION 2.10. Temporary Securities. Pending the preparation of definitive Securities, the Company may execute and, upon receipt of an order from the Company, the Trustee shall authenticate and make available for delivery temporary Securities (printed, lithographed, typewritten or otherwise reproduced, in each case in form satisfactory to the Trustee). Temporary Securities shall be issuable as registered Securities without coupons, of any

authorized denomination, and substantially in the form of the definitive Securities but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Company with the concurrence of the Trustee. Temporary

Securities may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Security shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities. Without unreasonable delay the Company shall execute and shall furnish definitive Securities and thereupon temporary Securities may be surrendered in exchange therefor without charge at each office or agency to be maintained by the Company for the purpose pursuant to Section 3.02, and the Trustee shall authenticate and make available for delivery in exchange for such temporary Securities a like aggregate principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.11. CUSIP and CINS Numbers. The Company in issuing the Securities may use "CUSIP" and "CINS" numbers (if then generally in use), and the Trustee shall use CUSIP numbers and CINS numbers, as the case may be, in notices of redemption or exchange as a convenience to Holders; provided that any such notice shall state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of redemption or exchange and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or exchange shall not be affected by any defect or omission of such numbers. The Company shall promptly notify the Trustee of any change in the CUSIP number or CINS number, as the case may be.

ARTICLE 3

COVENANTS OF THE COMPANY AND THE TRUSTEE.

SECTION 3.01. Payment of Principal and Interest. The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on, each of the Securities at the place or places, at the respective times and in the manner provided in the Securities. Each installment of interest on the Securities may be paid by mailing checks for such interest payable to or upon the written order of the holders of Securities entitled thereto as they shall appear on the registry books of the Company, or by wire transfer to such holders in immediately available funds, to such bank or other entity in the continental United States as shall be designated by such holders and shall have appropriate facilities for such purpose, or in accordance with the standard operating procedures of the Depositary.

SECTION 3.02. Offices for Payments, etc. So long as any of the Securities remain outstanding, the Company will maintain in The Borough of Manhattan, The

City of New York, an office or agency (which may be a drop facility): (a) where the Securities may be presented or surrendered for payment, (b) where the Securities may be surrendered for registration of transfer and for exchange as in this Indenture provided and (c) where notices and demands to or upon the

Company in respect of the Securities or of this Indenture may be served. The Company will give to the Trustee prompt written notice of the location of any such office or agency and of any change of location thereof. In case the Company shall fail to maintain any such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Corporate Trust Office, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside The Borough of Manhattan and The City of New York) where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; provided, however, that no such designation or recission shall in any manner relieve the Company of its obligation to maintain an office or agency in The Borough of Manhattan or The City of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or recission and any change in the location of any such other office or agency. The Company hereby designates the Trustee c/o First Union National Bank, 40 Broad Street, Fifth Floor, Suite 550, New York, New York 10004 as such drop facility in compliance with this Section 3.02

SECTION 3.03. Appointment to Fill a Vacancy in Office of Trustee. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 5.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.04. Paying Agents. Whenever the Company shall appoint a paying agent other than the Trustee, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section,

(a) that it will comply with the provisions of the Trust Indenture Act applicable to it as a paying agent,

(b) that it will hold all sums received by it as such agent for the payment of the principal of or interest on the Securities (whether such sums have been paid to it by the Company or by any other obligor on the Securities) in trust for the benefit of the holders of the Securities or of the Trustee,

(c) that it will give the Trustee notice of any failure by the Company (or by any other obligor on the Securities) to make any payment of the principal of or interest on the Securities when the same shall be due and payable, and

(d) that it will pay any such sums so held in trust by it to the Trustee upon the Trustee's written request at any time during the continuance of the failure referred to in clause (c) above.

Upon payment over to the Trustee, the paying agent (if other than the Company) shall have no further liability for the money delivered to the Trustee.

Whenever the Company shall have one or more paying agents, the Company will, no later than one Business Day prior to each due date of the principal of or interest on the Securities, deposit with the paying agent in an account established for the benefit of the Holders, a sum sufficient to pay such principal or interest, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of any failure to take such action.

If, before 1:00 p.m. one day prior to payment date, funds have been received by the Trustee for payment of debt service due the following day, funds shall be invested in any money market fund substantially all of which is invested in direct obligations of the United States of America or obligations of

which are unconditionally guaranteed by the United States of America. All interest earnings will be paid to the Company.

If the Company shall act as its own paying agent, it will, on or before each due date of the principal of or interest on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal or interest so becoming due. The Company will promptly notify the Trustee of any failure to take such action.

Anything in the prior two paragraphs to the contrary notwithstanding, in connection with any payment of principal and interest, the Company will, for so long as the Depository is a Holder of the Securities, deposit sums with the paying agent sufficient to pay such amounts not later than the time required by the Depository's rules and regulations as in effect at the time such payment is due.

Anything in this Section to the contrary notwithstanding, the Company may at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Company or any paying agent hereunder, as required by this Section, such sums to be held by the Trustee upon the trusts herein contained.

Anything in this Section to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section are subject to the provisions of Sections 10.05 and 10.06.

SECTION 3.05. Certificates to Trustee. (a) The Company will deliver to the Trustee within 120 days after the end of each fiscal year of the Company a certificate from the principal executive, financial or accounting officer of the Company stating that such officer has conducted or supervised a review of the activities of the Company and its Subsidiaries and the Company's and its Subsidiaries' performance under the Indenture and that, to the best of such officer's knowledge, based upon such review, the Company has fulfilled all obligations thereunder or, if there has been a default in the fulfillment of any such obligation (determined without regard to any period of grace or requirement of notice provided in the Indenture), specifying each such default and the nature and status thereof.

(b) The Company will deliver to the Trustee, as soon as possible and in any event within 10 days after the Company becomes aware of the occurrence of an Event of Default or a Default, an Officers' Certificate setting forth the details of such Event of Default or Default, and the action which the Company proposes to take with respect thereto.

(c) The Company will deliver to the Trustee within 120 days after the end of each fiscal year of the Company a written statement by the Company's independent public accountants stating (i) that their audit examination has included a review of the terms of this Indenture and the Securities as they relate to accounting matters, and (ii) whether, in connection with their audit examination, any Default has come to their attention and, if such a Default has come to their attention, specifying the nature and period of the existence thereof.

SECTION 3.06. Securityholders' Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders and shall otherwise comply with Section 312(a) of the Trustee Indenture Act. If and so long as the Trustee shall not be the Registrar, the Company will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the holders of the Securities pursuant to Section 312 of the Trust Indenture Act of 1939 (a) semi-annually not more than 15 days after each Regular

Record Date as of such Regular Record Date, and (b) at such other times as the Trustee may request in writing, within thirty days after receipt by the Company of any such request as of a date not more than 15 days prior to the time such information is furnished.

SECTION 3.07. Reports by the Trustee. (a) The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as

may be required pursuant to the Trust Indenture Act of 1939 at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act of 1939, the Trustee shall, within sixty days after each April 15 following the date of this Indenture deliver to Holders a brief report, dated as of such April 15, which complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange, if any, upon which the Securities are listed, with the Commission and with the Company. The Company will promptly notify the Trustee when the Securities are listed on any stock exchange or of any delisting thereof.

SECTION 3.08. Limitation on Liens. The Company shall not, and shall not permit any of its Subsidiaries to, create, assume or incur any Lien on any Principal Property to secure any Debt of the Company or any other Person (other than the Securities) without effectively providing that the Securities shall be secured equally and ratably with, or prior to, such Debt so long as such Debt shall be secured. There is, however, excluded from the foregoing restriction the following: (a) Permitted Liens; (b) any Lien on any (i) property or assets created at the time of the acquisition of such property or assets by the Company or any of its Subsidiaries, or within 180 days after such time, to secure all or part of the purchase price for such property or assets or Debt incurred to finance such purchase price, whether such Debt was incurred prior to, at the time of, or within 180 days of, such acquisition; provided that, any such Lien does not extend to any other property or assets of the Company or any of its Subsidiaries, or (ii) property to secure all or part of the cost of the development, construction, repair or improvement thereon or to secure Debt incurred prior to, at the time of, or within 180 days after, the completion of such development, construction, repair or improvement or the commencement of full operations thereof (whichever is later) to provide funds for any such purpose; provided that, any such Lien does not extend to any other property or assets of the Company or any of its Subsidiaries; (c) (i) any Lien on any property or assets existing thereon at the time of acquisition thereof by the Company or any of its Subsidiaries (whether or not the obligations secured thereby are assumed by the Company or any of its Subsidiaries), or (ii) the assumption by the Company or any of its Subsidiaries of obligations secured by any Lien existing at the time of acquisition by the Company or any of its Subsidiaries of the property or assets subject to such Lien or at the time of the acquisition of the Person which owns such property or assets, or (iii) any Lien on any property or assets of a Person existing thereon at the time (1) such Person becomes a Subsidiary of the Company, (2) such Person is merged into, or consolidated with, the Company or any of its Subsidiaries or (3) of a sale, lease or other disposition of the properties of a Person (or division thereof) as an entirety or substantially as an entirety to the Company or any of its Subsidiaries, provided that in each of the foregoing cases listed in this clause (c), such Lien was not created as a result of or

in connection with or in anticipation of any such transaction and does not extend to any other property or assets of the Company or any of its Subsidiaries; (d) any Lien on any property or assets of the Company or any of its Subsidiaries in existence on the date of the Indenture; (e) any Lien arising by reason of any attachment, judgment, decree or order of any governmental or court authority, so long as any proceeding initiated to review such attachment, judgment, decree or order shall not have been terminated or the period within which such proceeding may be initiated shall not expire, or such attachment, judgment, decree or order shall otherwise be effectively stayed; and (f) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancings, refundings or replacements) of any Lien, in whole or part, that is referred to in clauses (a) through (e) (inclusive) above, or any Debt secured thereby.

Notwithstanding the foregoing, under the Indenture, the Company may, and may permit any of its Subsidiaries to, create, assume or incur any Lien upon any Principal Property to secure any Debt of the Company or any Person (other than the Securities) that is not excepted by clauses (a) through (f) (inclusive) above without securing the Securities, provided that, after giving effect to the creation, assumption or incurrence of such Lien and Debt, and the application of proceeds of such Debt, if any, received by the Company or any of its Subsidiaries as a result thereof, the aggregate principal amount of all Debt then outstanding secured by such Lien and all similar Liens, together with all net sale proceeds from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses (i) through (iii) (inclusive) of Section 3.09) would not exceed 10% of Consolidated Net Tangible Assets.

SECTION 3.09. Limitation on Sale-Leaseback Transactions. The Company shall not, nor shall it permit any of its Subsidiaries to, engage in a Sale-Leaseback Transaction, unless: (a) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than three years; (b) the Company or such Subsidiary would be entitled to incur Debt secured by a Lien on Principal Property subject thereto in a principal amount equal to or exceeding the net sale proceeds from such Sale-Leaseback Transaction without equally and ratably securing the Securities pursuant to Section 3.08; or (c) the Company or such Subsidiary, within a 180 day period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the net sale proceeds (which, in the case of a sale and transfer other than for cash, shall be an amount equal to the fair market value of the Principal Property so leased) from such Sale-Leaseback Transaction to (i) the prepayment, repayment, reduction or retirement of any pari passu Debt of the Company or any of its Subsidiaries, or (ii) the expenditure or expenditures for Principal Property used or to be used in the ordinary course of business of the Company or any of its Subsidiaries.

SECTION 3.10. SEC Reports. (i) So long as any of the Securities remain outstanding, whether or not the Company is then required to file with the Commission information, documents or reports pursuant to Section 13 or Section 15(d) of the Exchange Act, the Company will file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which would be required pursuant to such sections if the Company were subject thereto. All obligors on the Securities will comply with Section 314(a) of the Trust Indenture Act of 1939.

(ii) The Company shall promptly mail copies of all such annual reports, information, documents and other reports provided to the Trustee pursuant to Section 3.10(i) hereof within 15 days of the delivery thereof with the Trustee to the Holders at their addresses appearing in the register of Securities maintained by the Registrar. The Company shall also make such information available to securities analysts and prospective investors upon request.

(iii) Delivery of such reports, information and documents to the Trustee

is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 3.11. Existence. Subject to Articles Three and Eight of this Indenture, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the existence of each of its Subsidiaries in accordance with the respective organizational documents of the Company and each such Subsidiary and the rights (whether pursuant to charter, partnership certificate, agreement, statute or otherwise), material licenses and franchises of the Company and each such Subsidiary, provided that the Company shall not be required to preserve any such right, license or franchise, or the existence of any Subsidiary, if the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries taken as a whole.

SECTION 3.12. Payment of Taxes and Other Claims. The Company will pay or discharge and shall cause each of its Subsidiaries to pay or discharge, or cause to be paid or discharged, before the same shall become delinquent (a) all material taxes, assessments and governmental charges levied or imposed upon (i) the Company or any such Subsidiary, (ii) the income or profits of any such Subsidiary which is a corporation or (iii) the property of the Company or any such Subsidiary and (b) all material lawful claims for labor materials and supplies that, if unpaid, might by law become a lien upon the property of the Company or any such Subsidiary; provided

that the Company shall not be required to pay or discharge, or cause to be paid or discharged, any such tax, assessment, charge or claim the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves have been established.

SECTION 3.13. Maintenance of Properties and Insurance. The Company will cause all properties used or useful in the conduct of its business or the business of any of its Subsidiaries, to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided that nothing in this Section 3.13 shall prevent the Company or any such Subsidiary from discontinuing the use, operation or maintenance of any of such properties or disposing of any of them, if such discontinuance or disposal is, in the judgment of the Company, desirable in the conduct of the business of the Company or such Subsidiary.

The Company will provide or cause to be provided, for itself and its Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds customarily insured against by corporations similarly situated and owning like properties, including, but not limited to, products liability insurance and public liability insurance, with reputable insurers or with the government of the United States of America, or an agency or instrumentality thereof, in such amounts, with such deductibles and by such methods as shall be customary for corporations similarly situated in the industry in which the Company or such Subsidiary, as the case may be, is then conducting business.

SECTION 3.14. Waiver of Stay, Extension or Usury Laws. The Company covenants (to the extent that it may lawfully do so) that it will not (i) at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law

that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture and the Company will expressly waive all benefit or advantage of any such law and (ii) hinder, delay or impede the execution of any power granted to the Trustee under this Indenture and will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 4

REMEDIES OF THE TRUSTEE AND HOLDERS ON EVENT OF DEFAULT

SECTION 4.1. Events of Default. Each of the following constitutes an "EVENT OF DEFAULT":

(a) default in the payment of principal of, or premium, if any, on any Security when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Security when the same becomes due and payable, and such default continues for a period of 30 days;

(c) the Company defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Securities (other than (a), or (b) above) and such default or breach continues for a period of 60 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Securities;

(d) default in the payment of the principal of, or interest on, any note, bond, coupon or other instrument or agreement evidencing or pursuant to which there is outstanding Debt of the Company or any of its Subsidiaries, whether such Debt now exists or shall hereafter be created, having an aggregate principal amount exceeding $35.0 million (or its equivalent in any other currency or currencies), other than the Securities, when that Debt becomes due and payable (whether at maturity, upon redemption or acceleration or otherwise), if such default shall continue for more than the period of grace, if any, applicable thereto and the time for payment of such amount has not been expressly extended;

(e) a court having jurisdiction in the premises enters a decree or order for (A) relief in respect of the Company or any of its Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (B) appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any of its Subsidiaries or for all or substantially all of the property and assets of the Company or any of its Subsidiaries or (C) the winding up or liquidation of the affairs of the Company or any of its Subsidiaries and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(f) the Company or any of its Subsidiaries (A) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under

any such law, (B) consents to the appointment of or taking possession by a

receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any of its Subsidiaries or for all or substantially all of the property and assets of the Company or any of its Subsidiaries or (C) effects any general assignment for the benefit of creditors.

SECTION 4.02. Acceleration. If an Event of Default (other than an Event of Default specified in clause (e) or (f) of Section 4.01 that occurs with respect to the Company) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders (the "ACCELERATION NOTICE")), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued interest on the Securities to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued interest shall be immediately due and payable. In the event of a declaration of acceleration because an Event of Default set forth in clause (d) of Section 4.01 has occurred and is continuing, such declaration of acceleration shall be automatically rescinded and annulled if the event of default triggering such Event of Default pursuant to clause (d) of Section 4.01 shall be remedied or cured by the Company or the relevant Subsidiary or waived by the holders of the relevant Debt within 60 days after the declaration of acceleration with respect thereto. If an Event of Default specified in clause (e) or (f) Section 4.01 occurs with respect to the Company, the principal of, premium, if any, and accrued interest on the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

SECTION 4.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any appropriate remedy to collect the payment of principal or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 4.04. Waiver of Past Defaults. The Holders of at least a majority in principal amount of the outstanding Securities by written notice to the Company and to the Trustee, may waive all past defaults and rescind and annul a declaration

of acceleration and its consequences if (i) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Securities that have become due solely by such declaration of acceleration, have been cured or waived and (ii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 4.05. Control by Majority. The Holders of at least a majority in aggregate principal amount of the outstanding Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of

Holders of Securities not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Securities.

SECTION 4.06. Limitation on Suits. A Holder may not pursue any remedy with respect to the Indenture or the Securities unless:

(i) the Holder gives the Trustee written notice of a continuing Event of Default with respect to the Securities;

(ii) the Holders of at least 25% in aggregate principal amount of outstanding Securities make a written request to the Trustee to pursue the remedy;

(iii) such Holder or Holders offer the Trustee indemnity satisfactory to the Trustee against any costs, liability or expense;

(iv) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(v) during such 60-day period, the Holders of at least a majority in aggregate principal amount of the outstanding Securities do not give the Trustee a direction that is inconsistent with the request; it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and proportionate benefit of all Holders.

SECTION 4.07. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal, premium, if any, and interest on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

SECTION 4.08. Collection Suit by Trustee. If an Event of Default specified in Section 4.01(a) or (b) hereof occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Company or any other obligor for the whole amount of principal, premium, if any, and interest remaining unpaid on the Securities and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover amounts due the Trustee under Section 5.07 hereof, including the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 4.09. Trustee May File Proofs of Claim. The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor upon the Securities), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.07 hereof. To

the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.07 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties which the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 4.10. Priorities. If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 5.07, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to Holders for amounts due and unpaid on the Securities for principal, premium, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal, premium, if any and interest, respectively; and

Third: to the Company or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 4.10 upon five Business Days prior notice to the Company.

SECTION 4.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 4.06 hereof, or a suit by Holders of more than 10% in aggregate principal amount of the then outstanding Securities.

ARTICLE 5

CONCERNING THE TRUSTEE

SECTION 5.01. Duties and Responsibilities of the Trustee; During Default; Prior to Default. The Trustee, prior to the occurrence of a Default and after the curing or waiving of any Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the

same degree of care and skill in their exercise, as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that

(a) prior to the occurrence of an Event of Default of which the Trustee has actual notice and after the curing or waiving of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such statements, certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of the facts stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted by it (i) in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or (ii) in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

This Section 5.01 is in furtherance of and subject to Sections 315 and 316 of the Trust Indenture Act of 1939.

SECTION 5.02. Certain Rights of the Trustee. In furtherance of and subject to the Trust Indenture Act of 1939, and subject to Section 5.01:

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, Officers' Certificate or any other certificate, statement, instrument, opinion, report, notice, request, consent,

order, bond, debenture, note, coupon, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the secretary or an assistant secretary of the Company;

(c) the Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the trusts or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture;

(f) prior to the occurrence of a Default hereunder, of which the Trustee has actual notice, and after the curing or waiving of all Defaults, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested in writing so to do by the holders of not less than a majority in aggregate principal amount of the Securities then outstanding, and, if the Trustee shall determine to make such investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; provided that, if the payment within a reasonable time to the Trustee of the costs,

expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to proceeding; the reasonable expenses of every such examination shall be paid by the Company or, if paid by the Trustee or any predecessor trustee, shall be repaid promptly by the Company upon demand;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys not regularly in its employ and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder;

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture; and

(i) The Trustee shall have no duty to inquire as to the performance of the Company's covenants herein.

SECTION 5.03. Trustee Not Responsible for Recitals, Disposition of Securities or Application of Proceeds Thereof. The recitals contained herein and

in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of any of the Securities or of the proceeds thereof.

SECTION 5.04. Trustee and Agents May Hold Securities; Collections, etc. The Trustee or any agent of the Company or the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not the Trustee or such agent and may otherwise deal with the Company and receive, collect, hold and retain collections from the Company with the same rights it would have if it were not the Trustee or such agent. However, subject to Section 5.13 hereof, the Trustee will comply with Sections 310(b) and 311 of the Trust Indenture Act of 1939.

SECTION 5.05. Moneys Held by Trustee. Subject to the provisions of Section 10.06 hereof, all moneys received by the Trustee shall, until used or applied as herein

provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by mandatory provisions of law. Neither the Trustee nor any agent of the Company or the Trustee shall be under any liability for interest on any moneys received by it hereunder except as otherwise agreed with the Company.

SECTION 5.06. Notice of Default. If any Default or any Event of Default occurs and is continuing and if such Default or Event of Default is actually known to a Responsible Officer of the Trustee, the Trustee shall mail to each Holder in the manner and to the extent provided in Trust Indenture Act of 1939 Section 313(c) notice of the Default or Event of Default within 90 days after it occurs, unless such Default or Event of Default has been cured; provided, however, that, except in the case of a default in the payment of the principal of, premium, if any, or interest on any Security, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders.

SECTION 5.07. Compensation and Indemnification of Trustee and Its Prior Claim. The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as shall be agreed in writing between the Company and the Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) and the Company covenants and agrees to pay or reimburse the Trustee and each predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify the Trustee and each predecessor Trustee for, and to hold it harmless against, any and all loss, liability, damage, claim or expense, including taxes (other than taxes based on the income of the Trustee) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder and its duties hereunder, including the costs and expenses of defending itself against or investigating any claim of liability in the premises. The obligations of the Company under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be a senior lien to that of the

Securities upon all property and funds held or collected by the Trustee as such,

except funds held in trust for the benefit of the holders of particular Securities, and the Securities are hereby subordinated to such senior claim.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 4.01(e) or Section 4.01(f), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or state bankruptcy, insolvency or other similar law.

SECTION 5.08. Right of Trustee to Rely on Officers' Certificate, etc. Subject to Sections 5.01 and 5.02, whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 5.09. Persons Eligible for Appointment as Trustee. The Trustee hereunder shall at all times be a corporation having a combined capital and surplus of at least $100,000,000, and which is eligible in accordance with the provisions of Section 310(a) of the Trust Indenture Act of 1939. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of a Federal, State or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 5.09, it shall resign immediately and in the manner and with the effect hereinafter specified.

SECTION 5.10. Resignation and Removal; Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice of resignation to the Company. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument in duplicate, executed by authority of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning trustee may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others

similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with the provisions of Section 310(b) of the Trust Indenture Act of 1939, after written request

therefor by the Company or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months; or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 5.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder; or

(iii) the Trustee shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or a receiver or liquidator of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors of the Company, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to Section 315(e) of the Trust Indenture Act of 1939, any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Trustee and appoint a successor trustee by delivering to the Trustee so removed, to the successor trustee so appointed and to the Company the evidence provided for in Section 6.01 of the action in that regard taken by the Securityholders.

If no successor trustee shall have been so appointed and have accepted appointment 30 days after the mailing of such notice of removal, the trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor trustee. Such court may thereupon,

after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(d) Any resignation or removal of the Trustee and any appointment of a successor trustee pursuant to any of the provisions of this Section 5.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 5.11.

SECTION 5.11. Acceptance of Appointment by Successor Trustee. Any successor trustee appointed as provided in Section 5.10 shall execute and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, upon payment of its charges then unpaid, the trustee ceasing to act shall, subject to Section 10.06, pay over to the successor trustee all moneys at the time held by it hereunder and shall execute and deliver an instrument transferring to such successor trustee all such rights, powers, duties and obligations. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a prior claim upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 5.07.

Upon acceptance of appointment by a successor trustee as provided in this Section 5.11, the Company shall mail notice thereof by first-class mail to the holders of Securities at their last addresses as they shall appear in the Security Register. If the acceptance of appointment is substantially contemporaneous with the resignation, then the notice called for by the preceding sentence may be combined with the notice called for by Section 5.10. If the Company fails to mail such notice within 10 days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

SECTION 5.12. Merger, Conversion, Consolidation or Succession to Business of Trustee. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or to which the Trustee's assets may be sold, or any corporation resulting from any merger, conversion, consolidation or sale to which the Trustee shall be a party or by which the Trustee's property may be bound, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided that such corporation shall be eligible under the provisions of Section 5.09, without the

execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee and deliver such Securities so authenticated; and, in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificate shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have; provided, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 5.13. Preferential Collection of Claims. Reference is made to Section 311 of the Trust Indenture Act of 1939. For purposes of Section 311(b)(4) and (6) of such Act, the following terms shall mean:

(a) "CASH TRANSACTION" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "SELF-LIQUIDATING PAPER" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

ARTICLE 6

CONCERNING THE HOLDERS

SECTION 6.01. Evidence of Action Taken by Holders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee. Proof of execution of any instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Sections 5.01 and 5.02) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Article.

SECTION 6.02. Proof of Execution of Instruments and of Holding of Securities; Record Date. Subject to Sections 5.01 and 5.02, the execution of any instrument by a Securityholder or his agent or proxy may be proved in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Securities shall be proved by the Security register or by a certificate of the Registrar thereof. The Company may set a record date for purposes of determining the identity of holders of Securities entitled to vote or consent to any action referred to in Section 6.01, which record date may be set at any time or from time to time by notice to the Trustee, for any date or dates (in the case of any adjournment or resolicitation) not more than 60 days nor less than five days prior to the proposed date of such vote or consent, and thereafter, notwithstanding any other provisions hereof, only holders of Securities of record on such record date shall be entitled to so vote or give such consent or to withdraw such vote or consent.

SECTION 6.03. Securities Owned by Company Deemed Not Outstanding. In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities which are owned by the Company or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Securities which a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not

the Company or any other obligor upon the Securities or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Securities. In case of a dispute as to such right, the advice of counsel shall be full protection in respect of any decision made by the Trustee in accordance with such advice. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Securities, if any, known by the Company to be owned or held by or for the account of any of the above-described persons; and, subject to Sections 5.01 and 5.02, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Securities not listed therein are outstanding for the purpose of any such determination.

SECTION 6.04. Right of Revocation of Action Taken. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 6.01, of

the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security the serial number of which is shown by the evidence to be included among the serial numbers of the Securities the Holders of which have consented to such action may, by filing written notice at the Corporate Trust Office and upon proof of holding as provided in this Article, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security and of any Securities issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon any such Security. Any action taken by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action shall be conclusively binding upon the Company, the Trustee and the holders of all the Securities.

ARTICLE 7

SUPPLEMENTAL INDENTURES

SECTION 7.01. Supplemental Indentures Without Consent of Holders. The Company and the Trustee may amend or supplement this Indenture or the Securities without the consent of any Holder:

(i) to cure any ambiguity, defect or inconsistency;

(ii) to provide for uncertificated Securities in addition to or in place of certificated Securities;

(iii) to provide for the assumption of the Company's obligations to the Holders of the Securities in the case of a merger, consolidation or sale of assets pursuant to Article Eight hereof;

(iv) to make any change that would provide any additional rights or benefits to the Holders of the Securities or that does not adversely affect the legal rights hereunder of any such Holder; or

(v) to comply with requirements of the Commission in order to effect or maintain the qualification of this Indenture under the Trust Indenture Act of 1939.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon receipt by the Trustee of the documents described in Section 7.04 hereof, the Trustee shall join with the Company in the execution of any supplemental indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into such supplemental indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

SECTION 7.02. With Consent of Holders. Except as provided in the next succeeding paragraphs, this Indenture or the Securities may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding (including consents obtained in connection with a tender offer or exchange offer for such Securities), and any existing default or compliance with any provision of this Indenture or the Securities may be waived with the consent of the Holders of a majority in aggregate principal amount of the then outstanding Securities (including consents obtained in connection with a tender offer or exchange offer for such Securities).

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders as aforesaid, and upon receipt by the Trustee of the documents described in Section 7.04 hereof, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Holders under this Section 7.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture or waiver. Subject to Sections 4.04 and 4.07 hereof, the Holders of a majority in aggregate principal amount of the Securities then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or the Securities. Without the consent of each Holder affected, however, an amendment or waiver may not (with respect to any Security held by a non-consenting Holder):

(i) change the Stated Maturity of the principal of, or any installment of interest on, any Security;

(ii) reduce the principal amount of, or premium, if any, or interest on, any Security;

(iii) reduce any amount payable on redemption of the Securities or upon the occurrence on an Event of Default;

(iv) change the place or currency of payment of principal of, premium, if any, or interest on, any Security;

(v) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Security;

(vi) reduce the above-stated percentage of outstanding Securities the consent of whose Holders is necessary to modify or amend the Indenture;

(vii) waive a default in the payment of principal of, premium, if any, or interest on the Securities;

(viii) reduce the percentage or aggregate principal amount of outstanding Securities the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults; or

(ix) modify or change any provision of the Indenture with respect to modification and waiver.

Neither the Company nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise to any Holder of any notes for or as an inducement to

any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Securities unless such consideration is offered to be paid or agreed to be paid to all Holders of the Securities that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

SECTION 7.03. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 7.04. Documents to Be Given to Trustee; Compliance with TIA. The Trustee, subject to the provisions of Sections 5.01 and 5.02, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such supplemental indenture complies with the applicable provisions of this Indenture. Every such supplemental indenture shall comply with the TIA.

SECTION 7.05. Notation on Securities in Respect of Supplemental Indentures. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article may bear a notation approved by the Trustee as to form (but not as to substance) as to any matter provided for by such supplemental indenture or as to any action taken at any such meeting. If the Company or the Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Securities then outstanding.

ARTICLE 8

CONSOLIDATION, MERGER OR SALE OF ASSETS

SECTION 8.01. Consolidation, Merger or Sale of Assets. The Company shall not consolidate with, merge with or into, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to, any Person nor permit any Person to merge with or into the Company unless:

(i) the Company shall be the continuing Person, or the Person (if other than the Company) formed by such consolidation or into which the Company is merged or that acquired or leased such property and assets of the Company shall be a corporation organized and validly existing under the laws of the United States of America or any jurisdiction thereof and shall expressly assume, by a supplemental indenture, executed and delivered to the Trustee, all of the obligations of the Company on all of the Securities and under the Indenture;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(iii) the Company delivers to the Trustee an Officers' Certificate and Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with.

SECTION 8.02. Successor Corporation Substituted. (a) Upon any

consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Company in accordance with Section 8.01 hereof, the successor corporation formed by such consolidation or into or with which the Company is merged or to which such sale, assignment, transfer, lease, conveyance or other disposition is made shall succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition, the provisions of this Indenture referring to the "Company" shall refer instead to the successor corporation), and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein.

(b) Notwithstanding the foregoing, (i) a consolidation or merger by the Company with or into, or (ii) the sale, assignment, transfer, lease, conveyance or other disposition by the Company of all or substantially all of its property or assets

to, one or more of its Subsidiaries shall not relieve the Company from its obligations under this Indenture and the Securities.

SECTION 8.03. Opinion of Counsel to Trustee. The Trustee, subject to the provisions of Sections 5.01 and 5.02, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, conveyance, sale, transfer, lease, exchange or other disposition complies with the applicable provisions of this Indenture.

ARTICLE 9

REDEMPTION OF SECURITIES

SECTION 9.01. Right of Optional Redemption; Prices. The Company at its option may, at any time, redeem in whole or in part, in principal amounts of $1,000 or any integral multiple thereof, the Securities upon payment of a redemption price equal to the sum of (i) an amount equal to 100% of the principal amount thereof and (ii) the Make-Whole Premium, together with accrued and unpaid interest up to but not including the Redemption Date.

SECTION 9.02. Notice of Redemption; Partial Redemptions. Notice of redemption to the holders of Securities to be redeemed as a whole or in part shall be given by mailing notice of such redemption by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to such holders of Securities at their last addresses as they shall appear upon the registry books. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice. Failure to give notice by mail, or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

The notice of redemption to each such Holder shall identify the Securities to be redeemed (including CUSIP or CINS numbers) and shall specify the principal amount of each Security held by such Holder to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In case any Security is to be redeemed in part only the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such

Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be issued.

The notice of redemption of Securities to be redeemed at the option of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

No later than 10:00 a.m. on the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more paying agents (or, if the Company is acting as its own paying agent, set aside, segregate and hold in trust as provided in Section 3.04) an amount of money sufficient to redeem on the redemption date all the Securities so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. The Company will deliver to the Trustee at least 70 days prior to the date fixed for redemption an Officers' Certificate stating the aggregate principal amount of Securities to be redeemed.

If less than all of the Securities are to be redeemed at any time, the Trustee shall select, either pro rata, by lot or by any other method it shall in its sole discretion deem fair and appropriate, Securities to be redeemed in whole or in part; provided that no Security of $1,000 in principal amount or less shall be redeemed in part. The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 9.03. Payment of Securities Called for Redemption. If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the Company shall default in the payment of such Securities at the redemption price, together with interest accrued to said date) interest on the Securities or portions of Securities so called for redemption shall cease to accrue and, except as provided in Sections 5.05 and 11.06, such Securities shall cease from and after the date fixed for redemption to be entitled to any benefit or security under this Indenture, and the Holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Securities at a place of payment specified in said notice, said Securities or the specified portions thereof shall be paid

and redeemed by the Company at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any semi-annual payment of interest becoming due on or prior to the date fixed for redemption shall be payable to the holders of such Securities registered as such on the relevant Regular Record Date subject to the terms and provisions of Section 2.04 hereof.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Security.

Upon presentation of any Security redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to or on the order of the Holder thereof, at the expense of the Company, a new Security or Securities, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 9.04. Exclusion of Certain Securities from Eligibility for Selection for Redemption. Securities shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number in a written statement signed by an authorized officer of the Company and delivered to the Trustee at least 40 days prior to the last date on which notice of redemption may be given as being owned of record and beneficially by, and not pledged or hypothecated by either (a) the Company or (b) an entity specifically identified in such written statement as directly or indirectly controlling or controlled by or under direct or indirect common control with the Company.

ARTICLE 10

DEFEASANCE AND COVENANT DEFEASANCE

SECTION 10.01. Company's Option to Effect Defeasance or Covenant Defeasance. The Company may at its option by a Board Resolution, at any time, elect to have either Section 10.02 or Section 10.03 applied to the outstanding Securities upon compliance with the conditions set forth below in this Article Ten.

SECTION 10.02. Legal Defeasance and Discharge. Upon the Company's exercise under Section 10.01 hereof of the option applicable to this Section 10.02, the Company shall be deemed to have been discharged from any and all Obligations with respect to all outstanding Securities on the date which is the 123rd day after the deposit referred to in Section 10.04(a); provided that all of the conditions set forth

below are satisfied (hereinafter, "LEGAL DEFEASANCE"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Debt represented by the outstanding Securities, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 10.05 hereof and the other Sections of this Indenture referred to in clauses (i) and (ii) of this Section 10.02, and to have satisfied all its other obligations under such Securities and this Indenture (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (i) the rights of Holders of outstanding Securities to receive solely from the trust fund described in Section 10.04 hereof, and as more fully set forth in such Section, payments in respect of the principal of, premium, if any, and interest on such Securities when such payments are due, (ii) the Company's obligations with respect to such Securities under Sections 2.01, 2.02, 2.05, 2.06, 2.07, 2.08, 2.10, 3.01, 3.02, 3.04 and 10.05 hereof, (iii) the rights, powers, trusts, duties and immunities of the Trustee hereunder, including, without limitation, the Trustee's rights under Section 5.07 hereof, and the Company's obligations in connection therewith and with this Article Ten. Subject to compliance with this Article Ten, the Company may exercise its option under this Section 10.02 notwithstanding the prior exercise of its option under Section 10.03 hereof with respect to the Securities.

SECTION 10.03. Covenant Defeasance. Upon the Company's exercise under Section 10.01 hereof of the option applicable to this Section 10.03, the Company shall be released from its obligations under the covenants contained in Sections 3.08, 3.09, 3.10, clauses (c) and (d) of Article 4 and Article 8 hereof with

respect to the outstanding Securities on and after the date the conditions set forth below are satisfied (hereinafter, "COVENANT DEFEASANCE"), and the Securities shall thereafter be deemed not outstanding for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed outstanding for all other purposes hereunder. For this purpose, such Covenant Defeasance means that, with respect to the outstanding Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 4.01(c) or (d) hereof, but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby.

If subsequent to the completion of a defeasance of certain covenants as described in the immediately preceding paragraph, such outstanding Securities are declared due and payable because of the occurrence of any remaining Event of

Default and the amount of money and U.S. Government Obligations deposited in trust, as described below, would be sufficient to pay amounts due on such Securities at Stated Maturity but may not be sufficient to pay amounts due on such Securities upon any acceleration resulting from such Event of Default, then the Company would remain liable for such payments.

SECTION 10.04. Conditions to Legal or Covenant Defeasance. The following shall be the conditions to application of either Section 10.02 or Section 10.03 hereof to the outstanding Securities:

(a) the Company has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay the principal of, premium, if any, and accrued interest on the Securities on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Securities;

(b) in the case of an election under Section 10.02 hereof, the Company has delivered to the Trustee (i) either (x) an Opinion of Counsel to the effect that Holders will not recognize income, gain or loss for Federal income tax purposes as a result of the Company's exercise of its option under this Article Ten and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, which Opinion of Counsel must be based upon (and accompanied by a copy of) a ruling of the Internal Revenue Service to the same effect unless there has been a change in applicable Federal income tax law after the date of the Indenture such that a ruling is no longer required or (y) a ruling directed to the Trustee received from the Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (ii) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(c) in the case of an election under Section 10.03 hereof, the delivery by the Company to the Trustee of (i) an Opinion of Counsel to the effect that, among other things, the Holders will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had

not occurred and (ii) an Opinion of Counsel to the effect that the creation of the defeasance trust does not

violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(d) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 123rd day after the date of such deposit, and such deposit shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which the Company is bound,

(e) if at such time the Securities are listed on a national securities exchange, the Company has delivered to the Trustee an Opinion of Counsel to the effect that the Securities will not be delisted as a result of such deposit, defeasance and discharge,

(f) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit made by the Company pursuant to its election under Sections 10.02 or 10.03 hereof was not made by the Company with the intent of preferring the Holders of the Securities over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others, and

(g) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the Legal Defeasance under Section 10.02 or the Covenant Defeasance under Section 10.03 (as the case may be) have been complied with as contemplated by this Section 10.04.

SECTION 10.05. Deposited Money and Government Securities to Be Held in Trust; Other Miscellaneous Provisions. Subject to Section 10.06 hereof, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee pursuant to Section 10.04 hereof in respect of the outstanding Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any paying agent (including the Company acting as paying agent) as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal of, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the money or U.S. Government Obligations deposited pursuant to Section 10.04 hereof or the principal and interest

received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Securities.

Anything in this Article Ten to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon the Company's request any money or U.S. Government Obligations held by it as provided in Section 10.04 hereof which, in the opinion of a nationally recognized firm of independent

public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 10.04(a) hereof), are in excess of the amount thereof which would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

SECTION 10.06. Repayment to Company. Any money deposited with the Trustee or any paying agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest on any Security and remaining unclaimed for two years after such principal, premium, if any, or interest has become due and payable shall be paid to the Company on its written request or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such paying agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such paying agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in The New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 10.07. Reinstatement. If the Trustee or paying agent is unable to apply any money or U.S. Government Obligations in accordance with Section 10.02 or 10.03 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 10.02 or 10.03 hereof until such time as the Trustee or paying agent is permitted to apply all such amounts in accordance with Section 10.02 or 10.03 hereof, as the case may be; provided, however, that, if the Company makes any payment of principal of, premium, if any, or interest on any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Security to receive such payment from the amounts held by the Trustee or paying agent.

ARTICLE 11

MISCELLANEOUS PROVISIONS

SECTION 11.01. Incorporators, Stockholders, Officers, Directors, Employees and Controlling Persons of Company Exempt from Individual Liability. No recourse for the payment of the principal of, premium, if any, or interest on any of the Securities or any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company contained in this Indenture, or in any Security, or because of the creation of any indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer, director, employee or controlling person, as such, of the Company or of any successor Person, either directly or through the Company or any successor Person, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the holders thereof and as part of the consideration for the issue of the Securities.

SECTION 11.02. Provisions of Indenture for the Sole Benefit of Parties and Holders. Nothing in this Indenture or in the Securities, expressed or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and their successors and the holders of the Securities, any legal or equitable right, remedy or claim under this Indenture or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors

and of the holders of the Securities.

SECTION 11.03. Successors and Assigns of Company Bound by Indenture. All the covenants, stipulations, promises and agreements in this Indenture contained by or in behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 11.04. Notices and Demands on Company, Trustee and Holders. Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Company may be given or served by being deposited postage prepaid, first-class mail (except as otherwise specifically provided herein) addressed (until another address of the Company is filed by the Company with the Trustee) to USEC, Inc., 2 Democracy Center, 6903 Rockledge Drive, Bethesda, MD 20817, Attention: Legal Department, with a copy to the Treasurer. Any notice, direction, request or demand by the Company or any Securityholder to or upon the Trustee shall be

deemed to have been sufficiently given or made, for all purposes, if given or made at the Corporate Trust Office.

Where this Indenture provides for notice to Holders, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder entitled thereto, at his last address as it appears in the Security Register. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. The Trustee may waive notice to it of any provision herein, and such waiver shall be deemed to be for its convenience and discretion. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Company and Securityholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

SECTION 11.05. Officers' Certificates and Opinions of Counsel; Statements to Be Contained Therein. Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person making such certificate or opinion has read such covenant or condition, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based, (c) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an

informed opinion as to whether or not such covenant or

condition has been complied with and (d) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Any certificate, statement or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the Company, upon the certificate, statement or opinion of or representations by an officer or officers of the Company, unless such counsel knows that the certificate, statement or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate, statement or opinion of an officer of the Company or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of the Company, unless such officer or counsel, as the case may be, knows that the certificate or opinion or representations with respect to the accounting matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate or opinion of any independent firm of public accountants filed with the Trustee shall contain a statement that such firm is independent.

SECTION 11.06. Payments Due on Saturdays, Sundays and Holidays. If the date of maturity of interest on or principal of the Securities or the date fixed for redemption of any Security shall not be a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

SECTION 11.07. Conflict of Any Provision of Indenture with Trust Indenture Act of 1939. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with another provision included in this Indenture by operation of Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939 (an "INCORPORATED PROVISION"), such incorporated provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the Trust Indenture Act provision shall be deemed to

apply to this Indenture as so modified or shall be excluded from applying to the Indenture as the case may be.

SECTION 11.08. New York Law to Govern. This Indenture and each Security shall be deemed to be a contract under the laws of the State of New York, and for all purposes including the obligations of the Company and the rights of holders of the Securities arising out of or in connection with the Securities, including the obligations of the Company to pay all principal, interest or other amounts payable under the Indenture and such Security, will be governed by and shall be construed in accordance with the laws of said State, without giving

effect to the conflict of laws provisions thereof, except as may otherwise be required by mandatory provisions of law.

SECTION 11.09. Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 11.10. Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of [ ], 1999.

USEC INC.,
as Issuer

By

Title:

FIRST UNION NATIONAL BANK,
as Trustee

By

Title:

EXHIBIT A

[FORM OF FACE OF SECURITY]

No. $
[CUSIP] [CINS]

USEC Inc.
[ ]% Senior Note Due 200[ ]

USEC Inc., a Delaware corporation (the "COMPANY"), for value received hereby promises to pay to [ ] or registered assigns the principal sum of [ ] Dollars at the Company's office or agency for said purpose in The City of New York, on [month/date], 200[ ], in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually on [month/date] and [month/date] (each an "INTEREST PAYMENT DATE") of each year, commencing with [month/date], 1999, on said principal sum in like coin or currency at the rate per annum set forth above at said office or agency from the most recent Interest Payment Date to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or, if no interest on the Securities has been paid or duly provided for, from [month/date], 199[ ]. Notwithstanding the foregoing, if the date hereof is after [month/date] or [month/date] (each a "REGULAR RECORD DATE"), as the case may be, and before the immediately following Interest Payment Date, this Security shall bear interest from such Interest Payment Date; provided, that if the Company

shall default in the payment of interest due on such Interest Payment Date then this Security shall bear interest from the next preceding Interest Payment Date to which interest on the Securities has been paid or duly provided for. The interest so payable on any Interest Payment Date will, except as otherwise provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Security is registered at the close of business on the Regular Record Date preceding such Interest Payment Date whether or not such day is a business day; provided that interest may be paid, at the option of the Company, by mailing a check therefor payable to the registered holder entitled thereto at such holder's last address as it appears on the Security register or by wire transfer, in immediately available funds, to such bank or other entity in the continental United States as shall be designated in writing by such holder prior to the relevant Regular Record Date and shall have appropriate facilities for such purpose, or in accordance with the standard operating procedures of the Depositary (as defined in the Indenture).

Interest, other than default interest, on the Securities will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee acting under the Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

USEC INC.

By:

Name:
Title:

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

Dated:

This is one of the Securities described in the within-mentioned Indenture.

FIRST UNION NATIONAL BANK,
as Trustee

By:

Authorized Signatory

[FORM OF REVERSE OF SECURITY]

USEC Inc.

[ ]% Senior Note Due 200[ ]

This Security is one of a duly authorized issue of debt securities of the Company, limited to the aggregate principal amount of $, issued or to be issued pursuant to an indenture dated as of [ ], 1999 (the "Indenture"), duly executed and delivered by the Company to First Union National Bank, as Trustee (herein called the "TRUSTEE"). Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders (the words "HOLDERS" or "HOLDER" meaning the registered holders or registered holder) of the Securities.

This Security will bear interest until final maturity at a rate per annum shown above, except as provided in the next paragraph. The Company will pay interest on overdue principal of, premium, if any, and to the extent lawful, interest on overdue installments of interest, at a [ ]% rate per annum based on a 360-day year consisting of twelve 30-day months.

In case an Event of Default (as defined in the Indenture) shall have occurred and be continuing, the principal of all the Securities may be declared due and payable, in the manner and with the effect, and subject to the conditions, provided in the Indenture. The Indenture provides that in certain events such declaration and its consequences may be waived by the holders of a majority in aggregate principal amount of the Securities then outstanding and that, prior to any such declaration, such holders may waive any past default under the Indenture and its consequences except a default in the payment of principal of, premium, if any, or interest on any of the Securities. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Security and any Security which may be issued in exchange or substitution herefor, whether or not any notation thereof is made upon this Security or such other Securities.

The Indenture permits the Company and the Trustee, with the consent of the holders of at least a majority in aggregate principal amount of the Securities at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Securities; provided that no such modification or amendment may, without the consent of each holder affected

thereby, (i) change the Stated Maturity (as defined in the Indenture) of the principal of, or any installment of interest on, any Security, (ii) reduce the principal amount of, or premium, if any, or any interest on, any Security, (iii) reduce the amount of principal of any Security payable upon acceleration of the maturity thereof, (iv) change the place or currency of payment of principal of, premium, if any, or interest on, any Security, (v) impair the right to institute suit for the enforcement of any payment on or with respect to any Security, (vi) reduce the above-stated percentage of outstanding Securities the consent of whose holders is necessary to modify or amend the Indenture, (vii) reduce the percentage in principal amount of outstanding Securities the consent of whose holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults, or (viii) modify any provision of the Indenture with respect to modification and waiver.

Notwithstanding the foregoing, without the consent of any holder of

Securities, the Company and the Trustee may amend or supplement the Indenture or the Securities to cure any ambiguity, defect or inconsistency, to provide for uncertificated Securities in addition to or in place of certificated Securities, to provide for the assumption of the Company's obligations to holders of Securities in the case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the holders of Securities or that does not adversely affect the legal rights under the Indenture of any such holder, or to comply with requirements of the Commission (as defined in the Indenture) in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act of 1939 (as defined in the Indenture).

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Security at the place, times, and rate, and in the currency, herein prescribed.

The Securities are issuable only as registered Securities without coupons in denominations of $1,000 and any integral multiple of $1,000.

At the office or agency of the Company referred to on the face hereof and in the manner and subject to the limitations provided in the Indenture, Securities may be exchanged for a like aggregate principal amount of Securities of other authorized denominations.

Upon due presentment for registration of transfer of this Security at the above-mentioned office or agency of the Company, a new Security or Securities of authorized denominations, for a like aggregate principal amount, will be issued to the transferee as provided in the Indenture. No service charge shall be made for any such

transfer, but the Company may require payment of a sum sufficient to cover any tax or other similar governmental charge that may be imposed in connection therewith.

The Securities may be redeemed at the option of the Company, in whole or in part, in principal amounts of $1,000 or any integral multiple thereof at any time, upon mailing a notice of such redemption by first class mail not less than 30 nor more than 60 days prior to the Redemption Date, all as provided in the Indenture, at a redemption price equal to the sum of (i) an amount equal to 100% of the principal amount thereof and (ii) the Make-Whole Premium, together with accrued and unpaid interest up to but not including the Redemption Date.

Subject to payment by the Company of a sum sufficient to pay the amount due on redemption, interest on this Security (or portion hereof if this Security is redeemed in part) shall cease to accrue upon the date duly fixed for redemption of this Security (or portion hereof if this Security is redeemed in part).

The Company, the Trustee, and any authorized agent of the Company or the Trustee, may deem and treat the registered holder hereof as the absolute owner of this Security (whether or not this Security shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Company or the Trustee or any authorized agent of the Company or the Trustee), for the purpose of receiving payment of, or on account of, the principal hereof and premium, if any, and, subject to the provisions on the face hereof, interest hereon and for all other purposes, and neither the Company nor the Trustee nor any authorized agent of the Company or the Trustee shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of, premium, if any, or the interest on this Security, for any claim based thereon, or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or

agreement of the Company in the Indenture, or in any of the Securities or because of the creation of any Debt (as defined in the Indenture) represented thereby, against any incorporator, shareholder, officer, director, employee or controlling person of the Company or of any successor Person thereof, either directly or through the Company or any successor Person, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

The Indenture is hereby incorporated by the reference and to the extent of any variance between the provisions hereof and the Indenture, the Indenture shall control.

This Security shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State, except as may otherwise be required by mandatory provisions of law.

This Security will not be an obligation of, or guaranty as to principal or interest by, the United States government.

[FORM OF TRANSFER NOTICE]

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto

Insert Taxpayer Identification No.

- ---

Please print or typewrite name and address including zip code of assignee

- ---

the within Security and all rights thereunder, hereby irrevocably constituting and appointing _____ attorney to transfer said Security on the books of the Company with full power of substitution in the premises.

Date: ----------

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned instrument in every particular, without alteration or any change whatsoever.

Signature Guarantee: ----------

Exhibit 5.1

[Skadden, Arps, Slate, Meagher & Flom LLP Letterhead]

January 6, 1999

USEC Inc.
Two Democracy Center
6903 Rockledge Drive
Bethesda, MD 20817

Re: USEC Inc.
Registration on Form S-1

Ladies and Gentlemen:

We have acted as special counsel to USEC Inc., a Delaware corporation (the "Company"), in connection with the public offering of the Company's Senior Notes, as described in the Registration Statement, as defined below (the "Securities"), to be issued under an indenture (the "Indenture") to be entered into between the Company and First Union National Bank, as Trustee (the "Trustee").

This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act of 1933, as amended (the "Act").

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Registration Statement on Form S-1 (File No. 333-67117) as filed with the Securities and Exchange Commission (the "Commission") on November 12, 1998 under the Act, Amendment No. 1 to the Registration Statement on Form S-1 as filed with the Commission on December 18, 1998 and Amendment No. 2 to the Registration Statement on Form S-1 filed with the Commission on January 6, 1999 (such Registration Statement, as so amended, being hereinafter referred to as the "Registration Statement"); (ii) the form of the Purchase Agreement (the "Purchase Agreement") proposed to be en-

tered into between the Company, as issuer, and Merrill Lynch & Co., as representative of the several underwriters named therein (the "Underwriters"), filed as an exhibit to the Registration Statement; (iii) the form of the Indenture filed as an exhibit to the Registration Statement; (iv) the form of the Securities; (v) the Certificate of Incorporation of the Company, as presently in effect; (vi) the By-Laws of the Company, as presently in effect; and (vii) certain resolutions of the Board of Directors of the Company relating to the issuance and sale of the Securities and related matters. We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company and such agreements, certificates of public officials, certificates of officers or other representatives of the

Company and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents executed or to be executed by parties other than the Company, we have assumed that such parties had or will have the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof. As to any facts material to the opinions expressed herein which we have not independently established or verified, we have relied upon statements and representations of officers and other representatives of the Company and others.

We have assumed that the execution and delivery by the Company of the Securities and the performance by the Company of its obligations thereunder will not violate, conflict with or constitute a default under (i) any agreement or instrument to which the Company or its

properties is subject (except that we do not make the assumption set forth in this clause (i) with respect to the Certificate of Incorporation or By-laws of the Company), (ii) any law, rule or regulation to which the Company is subject (except that we do not make the assumption set forth in this clause (ii) with respect to those laws, rules and regulations of the States of Delaware and New York and of the United States of America, in each case, that, in our experience, are normally applicable to transactions of the type provided for by the Registration Statement, but without our having made any special investigation with respect to any other laws, rules or regulations), (iii) any judicial or regulatory order or decree of any governmental authority or (iv) any consent, approval, license, authorization or validation of, or filing, recording or registration with any governmental authority.

Members of our firm are admitted to the bar in the State of New York, and we do not express any opinion as to the laws of any other jurisdiction other than the Delaware General Corporation Law.

Based upon and subject to the foregoing, we are of the opinion that when (i) the Registration Statement becomes effective under the Act, and the Indenture has been qualified under the Trust Indenture Act of 1939, as amended; (ii) the definitive terms of the Securities and of their issuance and sale have been duly approved and authorized by all necessary corporate action; (iii) the Indenture and the Purchase Agreement have been duly executed and delivered; and (iv) the Securities have been duly executed and authenticated in accordance with the terms of the Indenture and delivered to and paid for by the Underwriters as contemplated by the Purchase Agreement, the Securities will be valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that (a) enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws now or hereafter in

effect relating to creditors' rights generally and (2) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in

equity) and (b) the waiver contained in Section 3.14 of the Indenture may be deemed unenforceable.

We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement. We also consent to the reference to our firm under the caption "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Skadden, Arps, Slate, Meagher & Flom LLP

Exhibit 10.24

AMENDMENT NO. 1 TO
REVOLVING LOAN AGREEMENT

This Amendment No. 1 to Revolving Loan Agreement (this "Amendment") dated as of October 8, 1998 is entered into with reference to the Revolving Loan Agreement dated as of July 28, 1998 among USEC Inc. ("Borrower"), the Lenders party thereto, First Union National Bank and Nationsbank, N.A., as Syndication Agents, and Bank of America National Trust and Savings Association, as Documentation Agent and Administrative Agent (the "Loan Agreement"). Capitalized terms used but not defined herein are used with the meanings set forth for those terms in the Loan Agreement.

Borrower and the Administrative Agent, acting with the consent of the Requisite Lenders pursuant to Section 11.2 of the Loan Agreement, agree as follows:

1. Section 11.8. Section 11.8(b) of the Loan Agreement is amended by striking clauses (iv) and (v) thereof and inserting in their place the following:

> (iv) assignments of a Pro Rata Share of any of Tranche A, Tranche B or Tranche C need not be accompanied by an assignment of the same Pro Rata Share of any other Tranche, or of any Pro Rata Share at all of any other Tranche, (v) [Intentionally Omitted],

2. Exhibit D. Exhibit D to the Loan Agreement is amended to delete all references to the provisions contained in clauses (iv) or (v) of Section 11.8(b) of the Loan Agreement, as in effect prior to this Amendment.

3. Conditions Precedent. The effectiveness of this Amendment shall be conditioned upon the receipt by the Administrative Agent of all of the following, each properly executed by a Responsible Official of each party thereto and dated as of the date hereof:

(a) Counterparts of this Amendment executed by all parties hereto; and

(b) Written consent of the Requisite Lenders as required under Section 11.2 of the Loan Agreement in the form of Exhibit A to this Amendment.

4. Representation and Warranty. Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default has occurred and remains continuing.

5. Confirmation. In all other respects, the terms of the Loan Agreement and the other Loan Documents are hereby confirmed.

IN WITNESS WHEREOF, Borrower and the Administrative Agent have executed this Amendment as of the date first written above by their duly authorized representatives.

USEC INC.

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Administrative Agent

By: /s/ Henry Z Shelton, Jr

Henry Z Shelton, Jr.
Vice President & CFO

By: /s/ Gina Meador

Gina Meador
Vice President

Exhibit A to Amendment

CONSENT OF LENDER

Reference is hereby made to that certain Revolving Loan Agreement dated as of July 28, 1998 among USEC Inc. ("Borrower"), the Lenders party thereto, First Union National Bank and Nationsbank, N.A., as Syndication Agents, and Bank of America National Trust and Savings Association, as Documentation Agent and Administrative Agent (the "Loan Agreement").

The undersigned Lender hereby consents to the execution and delivery of Amendment No. 1 to the Loan Agreement by the Administrative Agent on its behalf, substantially in the form of the most recent draft thereof presented to the undersigned Lender.

Date: October 1, 1998

Bank of America, National Trust and Savings Association

[Name of Institution]

By /s/ Dianne P. Allen

Dianne P. Allen, Vice President

[Printed Name and Title]

Exhibit A to Amendment

CONSENT OF LENDER

Reference is hereby made to that certain Revolving Loan Agreement dated as of July 28, 1998 among USEC Inc. ("Borrower"), the Lenders party thereto, First Union National Bank and Nationsbank, N.A., as Syndication Agents, and Bank of America National Trust and Savings Association, as Documentation Agent and Administrative Agent (the "Loan Agreement").

The undersigned Lender hereby consents to the execution and delivery of Amendment No. 1 to the Loan Agreement by the Administrative Agent on its

behalf, substantially in the form of the most recent draft thereof presented to the undersigned Lender.

Date: October 1, 1998

Wachovia Bank, N.A.

[Name of Institution]

By /s/ Fitzhugh L. Wickham III

Fitzhugh L. Wickham III, Vice President

[Printed Name and Title]

Exhibit A to Amendment

CONSENT OF LENDER

Reference is hereby made to that certain Revolving Loan Agreement dated as of July 28, 1998 among USEC Inc. ("Borrower"), the Lenders party thereto, First Union National Bank and Nationsbank, N.A., as Syndication Agents, and Bank of America National Trust and Savings Association, as Documentation Agent and Administrative Agent (the "Loan Agreement").

The undersigned Lender hereby consents to the execution and delivery of Amendment No. 1 to the Loan Agreement by the Administrative Agent on its behalf, substantially in the form of the most recent draft thereof presented to the undersigned Lender.

Date: October 1, 1998

Fleet National Bank

[Name of Institution]

By /s/ Stephen J. Hoffman

Stephen J. Hoffman, Assistant Vice President

[Printed Name and Title]

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use in this amendment no.2 to the registration statement of our reports dated July 31, 1998, included herein, and to all references to our Firm included in this amendment no.2 to the registration statement.

/s/ Arthur Andersen LLP

Washington, D.C.

January 6, 1999

EXHIBIT 25.A

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY AND QUALIFICATION
UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED,
OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE
Check if an application to determine eligibility of a trustee
pursuant to Section 305(b) (2) _____

FIRST UNION NATIONAL BANK

(Exact name of Trustee as specified in its charter)

230 SOUTH TRYON STREET, 9TH FL. CHARLOTTE, NC (Address of principal executive office)	28288-1179 (Zip Code)	22-1147033 (I.R.S. Employer Identification No.)

Patricia A. Welling (804) 343-6067
800 East Main Street, Richmond, Virginia 23219

USEC INC.
(Exact name of obligor as specified in its charter)

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

% Senior Notes due 200( )
(Title of the indenture securities)

1. GENERAL INFORMATION.

(a) The following are the names and addresses of each examining or

supervising authority to which the Trustee is subject:

The Comptroller of the Currency, Washington, D.C.
Federal Reserve Bank of Richmond, Richmond, Virginia.
Federal Deposit Insurance Corporation, Washington, D.C.
Securities and Exchange Commission, Division of Market Regulation, Washington, D.C.

(b) The Trustee is authorized to exercise corporate trust powers.

2. AFFILIATIONS WITH OBLIGOR.

The obligor is not an affiliate of the Trustee.

3. VOTING SECURITIES OF THE TRUSTEE.

Response not required.
(See answer to Item 13)

4. TRUSTEESHIPS UNDER OTHER INDENTURES.

Response not required.
(See answer to Item 13)

5. INTERLOCKING DIRECTORATES AND SIMILAR RELATIONSHIPS WITH THE OBLIGOR OR UNDERWRITERS.

Response not required.
(See answer to Item 13)

6. VOTING SECURITIES OF THE TRUSTEE OWNED BY THE OBLIGOR OR ITS OFFICIALS.

Response not required.
(See answer to Item 13)

7. VOTING SECURITIES OF THE TRUSTEE OWNED BY UNDERWRITERS OR THEIR OFFICIALS.

Response not required.
(See answer to Item 13)

8. SECURITIES OF THE OBLIGOR OWNED OR HELD BY THE TRUSTEE.

Response not required.
(See answer to Item 13)

9. SECURITIES OF UNDERWRITERS OWNED OR HELD BY THE TRUSTEE.

Response not required.
(See answer to Item 13)

10. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF VOTING SECURITIES OF CERTAIN AFFILIATES OR SECURITY HOLDERS OF THE OBLIGOR.

Response not required.
(See answer to Item 13)

11. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF ANY SECURITIES OF A PERSON OWNING 50 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR.

Response not required.
(See answer to Item 13)

12. INDEBTEDNESS OF THE OBLIGOR TO THE TRUSTEE.

Response not required.
(See answer to Item 13)

13. DEFAULTS BY THE OBLIGOR.

A. None
B. None

14. AFFILIATIONS WITH THE UNDERWRITERS.

Response not required.
(See answer to Item 13)

15. FOREIGN TRUSTEE.

Trustee is a national banking association organized under the laws of the United States.

16. LIST OF EXHIBITS.

(1) *Articles of Incorporation.

(2) Certificate of Authority of the Trustee to conduct business. No Certificate of Authority of the Trustee to commence business is furnished since this authority is continued in the Articles of Association of the Trustee.

(3) *Certificate of Authority of the Trustee to exercise corporate trust powers.

(4) *By-Laws.

(5) Inapplicable.

(6) Consent by the Trustee required by Section 321(b) of the Trust Indenture Act of 1939 as amended. Included at Page 5 of this Form T-1 Statement.

(7) *Report of condition of Trustee. (Incorporated herein by reference per SEC registration number 333- 58547).

(8) Inapplicable.

(9) Inapplicable.

* Exhibits thus designated have heretofore been filed with the Securities and Exchange Commission, have not been amended since filing are incorporated herein by reference (See Exhibit T-1 Registration Number 333- 58547).

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, as amended, the Trustee, FIRST UNION NATIONAL BANK, a national banking association organized and existing under the laws of the United States of America, has duly caused this Statement of Eligibility and Qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Richmond, and in the Commonwealth of Virginia on the 4th day of January, 1999.

FIRST UNION NATIONAL BANK
(Trustee)

BY:/s/ PATRICIA A. WELLING

EXHIBIT T-1 (6)

CONSENT OF TRUSTEE

Under Section 321(b) of the Trust Indenture Act of 1939 and in connection with the issuance by USEC, Inc. % Senior Notes due 200( ), First Union National Bank, as the Trustee herein named, hereby consents that reports of examinations of said Trustee by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon requests therefor.

FIRST UNION NATIONAL BANK

BY:/s/ PATRICIA A. WELLING

Dated: January 4, 1999