UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2006

Commission file number 1-14287

USEC Inc.

Delaware	**52-2107911**
(State of incorporation)	*(I.R.S. Identification No.)*

2 Democracy Center
6903 Rockledge Drive, Bethesda, Maryland 20817
(301) 564-3200

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "non-accelerated filer" in Rule 12b-2 of the Exchange Act.)

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of Common Stock held by non-affiliates of the registrant calculated by reference to the closing price of the registrant's Common Stock as reported on the New York Stock Exchange as of June 30, 2006, was $1,031 million. As of January 31, 2007, there were 87,114,000 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders to be held on April 26, 2007, are incorporated by reference into Part III.

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This annual report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains "forward-looking statements" – that is, statements related to future events. In this context, forward-looking statements may address our expected future business and financial performance, and often contain words such as "expects," "anticipates," "intends," "plans," "believes," "will" and other words of similar meaning. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For USEC, particular risks and uncertainties that could cause our actual future results to differ materially from those expressed in our forward-looking statements include, but are not limited to: the success of the demonstration and deployment of our American Centrifuge technology including our ability to meet our target cost estimate and schedule for the American Centrifuge Plant and our ability to secure required external financial support; the cost of electric power used at our gaseous diffusion plant; our dependence on deliveries under the Russian Contract and on a single production facility; our inability under existing long-term contracts to pass on to customers increases in SWU prices under the Russian Contract resulting from significant increases in market prices; the depletion of our uranium inventory in order to meet our uranium delivery obligations under the Russian Contract;

changes in existing restrictions on imports of Russian enriched uranium, including the imposition of duties on imports of enriched uranium under the Russian Contract; the elimination of duties charged on imports of foreign-produced low enriched uranium; pricing trends in the uranium and enrichment markets and their impact on our profitability and the price we pay for enriched uranium under the Russian Contract; changes to, or termination of, our contracts with the U.S. government and changes in U.S. government priorities and the availability of government funding; the impact of government regulation; the outcome of legal proceedings and other contingencies (including lawsuits, government investigations or audits and government/regulatory and environmental remediation efforts); the competitive environment for our products and services; and changes in the nuclear energy industry. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. For a discussion of these risks and uncertainties and other factors that may affect our future results, please see Item 1A of this report entitled "Risk Factors." We do not undertake to update our forward-looking statements except as required by law.

PART I

Items 1 and 2. *Business and Properties*

Overview

USEC, a global energy company, is a leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. We, either directly or through our subsidiaries United States Enrichment Corporation and NAC International Inc. ("NAC"):

- supply LEU to both domestic and international utilities for use in about 150 nuclear reactors worldwide,
- are the exclusive executive agent for the U.S. government for a nuclear nonproliferation program with Russia, known as Megatons to Megawatts,
- are in the process of demonstrating, and expect to deploy, what we expect to be the world's most efficient uranium enrichment technology, known as the American Centrifuge,
- perform contract work for the U.S. Department of Energy ("DOE") and DOE contractors at the Paducah and Portsmouth plants, and
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services, including nuclear materials tracking.

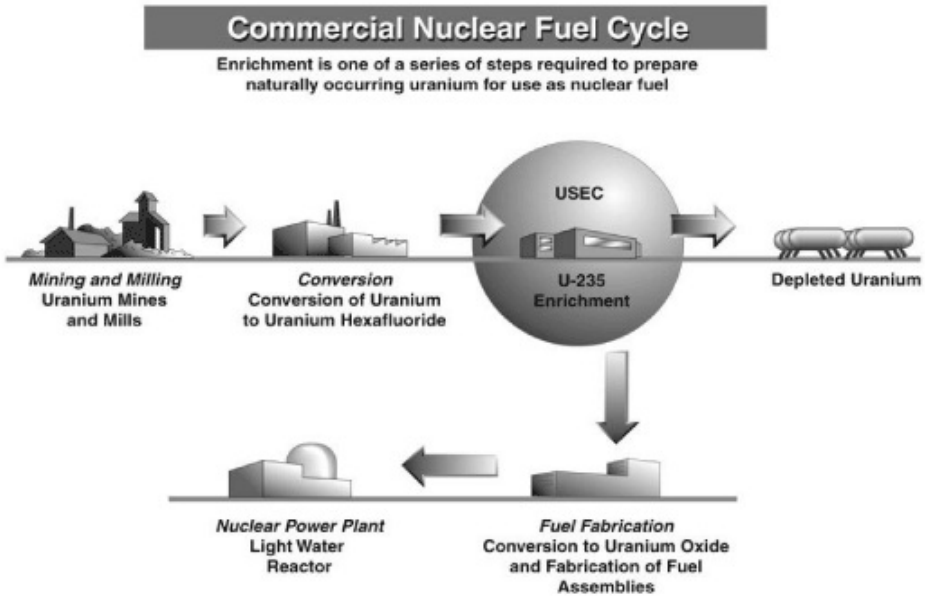
USEC Inc. is organized under Delaware law. USEC was a U.S. government corporation until July 28, 1998, when the company completed an initial public offering of common stock. In connection with the privatization, the U.S. government transferred all of its interest in the business to USEC, with the exception of certain liabilities from prior operations of the U.S. government. References to "USEC" or "we" include USEC Inc. and its wholly owned subsidiaries as well as the predecessor to USEC unless the context otherwise indicates. A glossary of terms is included in Part IV of this annual report.

Uranium and Enrichment

As found in nature, uranium is principally comprised of two isotopes: uranium-235 ("U^{235}") and uranium-238 ("U^{238}"). U^{238} is the more abundant isotope, but it is not fissionable in nuclear reactors. U^{235} is fissionable, but its concentration in natural uranium is only about 0.711% by weight. Most commercial nuclear reactors require LEU fuel with a U^{235} concentration greater than natural uranium and up to 5% by weight. Uranium enrichment is the process by which the concentration of U^{235} is increased to that level.

The following outlines the steps for converting natural uranium into LEU fuel, commonly known as the nuclear fuel cycle:

- *Mining and Milling* – Natural or unenriched uranium is removed from the earth in the form of ore and then crushed and concentrated.
- *Conversion* – Uranium concentrates are combined with fluorine gas to produce uranium hexafluoride, a powder at room temperature and a gas when heated. Uranium hexafluoride is shipped to an enrichment plant.
- *Enrichment* – Uranium hexafluoride is enriched in a process that increases the concentration of U^{235} isotopes in the uranium hexafluoride from its natural state of 0.711% up to 5%, which is usable as a fuel for commercial nuclear power reactors. Depleted uranium is a by-product of the uranium enrichment process. USEC currently has the only commercial uranium enrichment plant operating in the United States. The standard measure of uranium enrichment is a separative work unit ("SWU"). A SWU represents the effort that is required to transform a given amount of natural uranium into two streams of uranium, one enriched in the U^{235} isotope and the other depleted in the U^{235} isotope. SWUs are measured using a standard formula derived from the physics of uranium enrichment. The amount of enrichment contained in LEU under this formula is commonly referred to as its SWU component.
- *Fuel Fabrication* – LEU is converted to uranium oxide and formed into small ceramic pellets by fabricators. The pellets are loaded into metal tubes that form fuel assemblies, which are shipped to nuclear power plants.
- *Nuclear Power Plant* – The fuel assemblies are loaded into nuclear reactors to create energy from a controlled chain reaction. Nuclear power plants generate about 16% of the world's electricity.
- *Consumers* – Businesses and homeowners rely on the steady, baseload electricity supplied by nuclear power and value its clean air qualities.



We produce or acquire LEU from two principal sources. We produce LEU at the gaseous diffusion plant in Paducah, Kentucky, and we acquire LEU by purchasing the SWU component of LEU from Russia under the Megatons to Megawatts program.

Products and Services

Low Enriched Uranium

The majority of our customers are domestic and international utilities that operate nuclear power plants. Revenue is derived primarily from:

- sales of the SWU component of LEU,
- sales of both the SWU and uranium components of LEU, and
- sales of uranium.

Agreements with electric utilities are primarily long-term contracts under which customers are obligated to purchase a specified quantity of SWU or uranium or a percentage of their annual SWU or uranium requirements. Under requirements contracts, customers are not obligated to make purchases if the reactor does not have requirements.

U.S. Government Contract Work

USEC performs contract work for DOE and DOE contractors at the Paducah and Portsmouth plants including:

- maintaining the Portsmouth gaseous diffusion plant in a state of readiness or "cold standby",
- processing out-of-specification uranium, and
- providing infrastructure support services.

USEC, through its subsidiary NAC, is a leading provider of nuclear energy solutions and services, specializing in:

- design, fabrication and implementation of spent nuclear fuel technologies,
- nuclear materials transportation, and
- nuclear fuel cycle consulting services.

Revenue by Geographic Area, Major Customers and Segment Information

Revenue attributed to domestic and foreign customers, including customers in a foreign country representing 10% or more of total revenue, follows (in millions):

	Years Ended December 31,		
	2006	2005	2004
United States	$ 1,109.5	$ 1,074.1	$ 918.2
Foreign:			
Japan	389.8	224.2	215.2
Other	349.3	261.0	283.8
	739.1	485.2	499.0
	$ 1,848.6	**$ 1,559.3**	**$ 1,417.2**

Other than the U.S. government, our 10 largest customers represented 53% of revenue and our three largest customers represented 22% of revenue in 2006. Revenue from U.S. government contracts represented 10% of revenue in 2006, 13% of revenue in 2005, and 12% of revenue in 2004. No other customer represented more than 10% of revenue.

Reference is made to segment information reported in note 15 to the consolidated financial statements.

SWU and Uranium Backlog

Backlog is the aggregate dollar amount of SWU and uranium that we expect to sell under contracts with utilities. At December 31, 2006, we had contracts with utilities aggregating an estimated $7.0 billion through 2015 ($6.7 billion through 2012, including $1.5 billion expected to be delivered in 2007), compared with $5.9 billion at December 31, 2005. Backlog is partially based on customers' estimates of their fuel requirements and certain other assumptions, including our estimates of selling prices and inflation rates. Such estimates are subject to change. Some contracts include pricing elements based on market prices prevailing at the time of delivery. We use an external composite forecast of future market prices in our estimate. Pricing under some new contracts is subject to escalation based on a broad power price index. For purposes of the backlog, we assume increases to the power price index in line with overall inflation rates.

Gaseous Diffusion Plants

Two existing commercial technologies are currently used to enrich uranium for nuclear power plants: gaseous diffusion and gas centrifuge. We currently use the older gaseous diffusion technology and are in the process of demonstrating gas centrifuge technology to replace our gaseous diffusion operations.

Gaseous Diffusion Process

The gaseous diffusion process separates the lighter U^{235} isotopes from the heavier U^{238}. The fundamental building block of the gaseous diffusion process is known as a stage, consisting of a compressor, a converter, a control valve and associated piping. Compressors driven by large electric motors are used to circulate the process gas and maintain flow. Converters contain porous tubes known as a barrier through which process gas is diffused. Stages are grouped together in series to form an operating unit called a cell. A cell is the smallest group of stages that can be removed from service for maintenance. Gaseous diffusion plants are designed so that cells can be taken off line with little or no interruption in the process.

The process begins with the heating of solid uranium hexafluoride to form a gas that is forced through the barrier. Because U^{235} is lighter than U^{238}, it moves through the barrier more easily. As the gas moves, the two isotopes are separated, increasing the U^{235} concentration and decreasing the concentration of U^{238} in the finished product. The gaseous diffusion process requires significant amounts of electric power to push uranium through the barrier.

Paducah Plant

We operate the Paducah gaseous diffusion plant located in Paducah, Kentucky. The Paducah plant consists of four process buildings and is one of the largest industrial facilities in the world. The process buildings have a total floor area of 150 acres, and the site covers 750 acres. We estimate that the maximum capacity of the existing equipment is about 8 million SWU per year and we currently produce about 5 million SWU per year. The Paducah plant has been certified by the U.S. Nuclear Regulatory Commission ("NRC") to produce LEU up to an assay of 5.5% U^{235}.

Portsmouth Plant

The Portsmouth gaseous diffusion plant, located in Piketon, Ohio, is maintained in cold standby under a contract with DOE. We ceased uranium enrichment operations at the Portsmouth plant in 2001. Cold standby is a condition where the plant could be returned to production of 3 million SWU within 18 to 24 months if the U.S. government determined that additional domestic enrichment capacity was necessary. DOE and USEC have periodically extended the cold standby program, most recently through the end of April 2007. The program was modified beginning in 2006 to include actions necessary to transition to a preliminary decontamination and decommissioning program ("cold shutdown").

Lease of Gaseous Diffusion Plants

We lease the Paducah and Portsmouth plants from DOE. The lease covers most, but not all, of the buildings and facilities relating to gaseous diffusion activities. Major provisions of the lease follow:

- except as provided in the DOE-USEC Agreement, we have the right to renew the lease at either plant indefinitely and can adjust the property under lease to meet our changing requirements;
- we may leave the property in an "as is" condition at termination of the lease, but must remove wastes we generate and must place the plants in a safe shutdown condition;
- the U.S. government is responsible for environmental liabilities associated with plant operations prior to July 28, 1998 except for liabilities relating to the disposal of some identified wastes generated by USEC and stored at the plants;
- DOE is responsible for the costs of decontamination and decommissioning of the plants;
- title to capital improvements not removed by USEC will transfer to DOE at the end of the lease term, and if removal of any of our capital improvements increases DOE's decontamination and decommissioning costs, we are required to pay the difference;
- DOE must indemnify us for costs and expenses related to claims asserted against or incurred by us arising out of the U.S. government's operation, occupation, or use of the plants prior to July 28, 1998; and
- DOE must indemnify us against claims for public liability from a nuclear incident or precautionary evacuation in connection with activities under the lease. Under the Price- Anderson Act, DOE's financial obligations under the indemnity are capped at $10 billion for each nuclear incident or precautionary evacuation occurring inside the United States.

In December 2006, USEC and DOE signed a lease agreement for our long-term use of facilities at the Portsmouth plant in Piketon for the American Centrifuge Plant. The lease for these facilities and other support facilities is a stand-alone amendment to our current lease with DOE for the gaseous diffusion plant facilities. Further details are provided in "American Centrifuge".

Raw Materials

Electric Power

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. In 2006, the power load at the Paducah plant averaged 1,370 megawatts. We purchase electric power for the Paducah plant under a multiyear power contract signed with Tennessee Valley Authority ("TVA") in 2000. On June 1, 2006, fixed, below market prices under the 2000 TVA power contract expired and a new one-year pricing agreement went into effect. Costs for electric power increased from approximately 60% of production costs at the Paducah plant to approximately 70%. The new

pricing, which consists of a summer and a non-summer power price, is about 50% higher than the previous pricing and also is subject to a fuel cost adjustment to reflect changes in TVA's fuel costs, purchased power costs, and related costs. For power purchases through December 2006, fuel cost adjustments equaled an average 8% increase over base prices under the new one-year pricing agreement, and we expect that fuel cost adjustments will continue to have a negative impact on us over the term of the one-year agreement. The increase in electric power costs has significantly increased overall LEU production costs, and will increasingly reduce our gross profit margin and cash flow.

The quantity of power purchases under the one-year agreement ranges from 300 megawatts at all hours in the summer months (June – August) to 1,600 megawatts at all hours in the non-summer months. In addition, we can request additional power supply from TVA at market-based prices. Consistent with past practice, TVA made available and we purchased, at market-based prices, an additional 600 megawatts of power at all hours during the summer months of 2006. Negotiations with TVA for the quantity and prices of power after June 1, 2007 are expected to be finalized during the second quarter.

We are required to provide financial assurance to support our payment obligations to TVA. These include an irrevocable letter of credit and weekly prepayments based on the price and our usage of power.

Uranium

Natural uranium is the feedstock in the production of LEU at the Paducah plant. The plant uses the equivalent of approximately 6 million kilograms of uranium each year in the production of LEU. Uranium is a naturally occurring element and is mined from deposits located in Canada, Australia and other countries. According to the World Nuclear Association, there are adequate uranium resources to fuel nuclear power at current usage rates for at least 70 years.

Mined uranium ore is crushed and concentrated and sent to a uranium conversion facility where it is converted to uranium hexafluoride, a form suitable for uranium enrichment. Two commercial uranium converters in North America, Cameco Corporation and ConverDyn, deliver and hold title to uranium at the Paducah plant.

Utility customers provide uranium to us as part of their enrichment contracts or purchase the uranium required to produce LEU from us. Customers who provide uranium to us generally do so by acquiring title to uranium from Cameco, ConverDyn and other suppliers at the Paducah plant. USEC held uranium with an estimated fair value of approximately $5.1 billion at December 31, 2006, to which title was held by customers and suppliers. The uranium is fungible and commingled with our uranium inventory. Title to uranium provided by customers remains with the customer until delivery of LEU, at which time title to LEU is transferred to the customer and we take title to the uranium. The uranium that we sell to utility customers for the production of LEU comes from our uranium inventories, which includes uranium from underfeeding the enrichment process, purchases of uranium from third-party suppliers and uranium that we obtained from DOE prior to privatization.

The quantity of uranium used in the production of LEU is to a certain extent interchangeable with the amount of SWU required to enrich the uranium. Underfeeding is a mode of operation that uses or feeds less uranium, which supplements our supply of uranium, but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, USEC varies its production process to underfeed uranium based on the economics of the cost of electric power relative to the price of uranium.

Coolant

The Paducah plant uses Freon as the primary process coolant. The production of Freon in the United States was terminated in 1995 and Freon is no longer commercially available. In August 2006, we exhausted our existing inventory of Freon at the Paducah plant and began using Freon that we moved from the Piketon plant. A total of 2.9 million pounds from a supply of 4 million pounds of Freon located at the Piketon plant has been transferred to Paducah. We have asserted that we have the right to use the Freon supply from the Piketon plant under our lease with DOE. We expect to continue to use this Freon and we have been in communication with DOE regarding its use. At current use rates, the 2.9 million pounds of Freon now at Paducah would be sufficient to support approximately 10 years of continued operations.

Equipment

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

Equipment utilization at the Paducah plant was 96% of capacity in 2006. The utilization of equipment is highly dependent on power availability and costs. We reduce equipment utilization and the related power load in the summer months when the cost of electric power is high. Equipment utilization is also affected by repairs and maintenance activities.

Russian Contract ("Megatons to Megawatts")

We are the U.S. government's exclusive executive agent ("Executive Agent") in connection with a government-to-government nonproliferation agreement between the United States and the Russian Federation. Under the agreement, we have been designated by the U.S. government to order LEU derived from dismantled Soviet nuclear weapons. In January 1994, USEC, as Executive Agent for the U.S. government, signed a commercial agreement ("Russian Contract") with a Russian government entity known as OAO Techsnabexport ("TENEX", or "the Russian Executive Agent"), Executive Agent for the Federal Agency for Atomic Energy of the Russian Federation, to implement the program.

SWU Component of LEU

We have agreed to purchase approximately 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Over the life of the 20-year Russian Contract, we expect to purchase about 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. As of December 31, 2006, we had purchased 54 million SWU contained in LEU derived from 292 metric tons of highly enriched uranium, the equivalent of about 11,700 nuclear warheads. Purchases under the Russian Contract represent approximately 50% of our supply mix. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of the index is used to minimize the disruptive effect of short-term market price swings. Increases in these price points in recent years have resulted, and likely will continue to result, in increases to the index used to determine prices under the Russian Contract.

The Russian Contract provides that, after the end of 2007, the parties may agree on appropriate adjustments, if necessary, to ensure that the Russian Executive Agent receives at least approximately $7.6 billion for the SWU component over the 20-year term of the Russian Contract through 2013. We do not expect that any adjustments will be required. Officials of the Russian government have announced that Russia will not extend the Russian Contract or the government-to-government agreement it implements, beyond 2013. Accordingly, we do not anticipate that we will purchase significant quantities of Russian SWU after 2013.

Under the terms of a 1997 memorandum of agreement between USEC and the U.S. government, USEC can be terminated, or resign, as the U.S. Executive Agent, or one or more additional executive agents may be named. Any new executive agent could represent a significant new competitor.

Uranium Component of LEU

Under the Russian Contract, we are obligated to provide to TENEX an amount of uranium equivalent to the uranium component of LEU delivered to us by TENEX, totaling about 9 million kilograms per year. We provide the uranium to an account at the Paducah plant maintained on behalf of TENEX. TENEX holds, sells or otherwise exchanges this uranium in transactions with other suppliers or utility customers. From time to time, TENEX may take physical delivery of uranium supplied by a uranium converter that would otherwise deliver such uranium to us. Under these arrangements, the converter provides uranium to TENEX for shipment back to Russia, and the converter receives an equivalent amount of uranium in its account at the Paducah plant.

DOE-USEC Agreement and Related Agreements with DOE

On June 17, 2002, USEC and DOE signed an agreement ("DOE-USEC Agreement") in which both USEC and DOE made long-term commitments directed at resolving issues related to the stability and security of the domestic uranium enrichment industry. USEC and DOE have entered into subsequent agreements relating to these commitments. The following is a summary of material provisions and an update of activities under the DOE-USEC Agreement and related agreements:

Russian Contract

The DOE-USEC Agreement provides that DOE will recommend against removal, in whole or in part, of USEC as the U.S. Executive Agent under the Russian Contract as long as we order the specified amount of LEU from the Russian Executive Agent and comply with our obligations under the DOE-USEC Agreement and the Russian Contract.

Remediating or Replacing Out-of-Specification Uranium

Under the DOE-USEC Agreement, DOE was obligated to remediate or replace 9,550 metric tons of natural uranium transferred to USEC from DOE prior to privatization that contained elevated levels of technetium. The contaminant put the uranium out-of-specification for commercial use. USEC has been operating facilities at the Portsmouth plant in Piketon, Ohio under contract with DOE to process and remove technetium from the out-of-specification uranium, and in October 2006, the remediation project for USEC-owned uranium was completed. USEC has also been processing and removing technetium from out-of-specification uranium owned by DOE under an agreement with DOE entered into in December 2004. These efforts are expected to continue through September 2008, but are subject to additional funding from DOE.

Domestic Enrichment Facilities

Under the DOE-USEC Agreement, we agreed to operate the Paducah plant at a production rate at or above 3.5 million SWU per year. Historically, we have operated at production rates significantly above this level, and in calendar 2007, we expect to produce about 5 million SWU at the Paducah plant. Production at Paducah may not be reduced below a minimum of 3.5 million SWU per year until six months before we have completed a centrifuge enrichment facility capable of producing 3.5 million SWU per year. If the Paducah plant is operated at less than the specified 3.5 million SWU in any given fiscal year, we may cure the defect by increasing SWU production to the 3.5 million SWU level in the ensuing fiscal year. We may only use the right to cure once in each lease period.

If we do not maintain the requisite level of operations at the Paducah plant and have not cured the deficiency, we are required to waive our exclusive rights to lease the Paducah and Portsmouth plants. If we cease operations at the Paducah plant or lose our certification from the NRC, DOE may take actions it deems necessary to transition operation of the plant from USEC to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts. In either event, DOE may be released from its obligations under the DOE-USEC Agreement. We will be deemed to have "ceased operations" at the Paducah plant if we (a) produce less than 1 million SWU per year or (b) fail to meet specific maintenance and operational criteria established in the DOE-USEC Agreement.

Advanced Enrichment Technology

The DOE-USEC Agreement provides that we will begin operations of an enrichment facility using advanced enrichment technology with annual capacity of 1 million SWU (expandable to 3.5 million SWU) in accordance with certain milestones. If, for reasons within our control, we do not meet a milestone and the resulting delay will materially impact our ability to begin commercial operations on schedule, DOE may take any of the following actions:

- terminate the DOE-USEC Agreement, including DOE's obligation to recommend against removal, in whole or in part, of USEC as Executive Agent under the Russian Contract,
- require us to reimburse DOE for increased costs caused by DOE expediting decontamination and decommissioning of facilities used by us for the centrifuge technology,
- require us to transfer our rights to the centrifuge technology and data in the field of uranium enrichment to DOE royalty-free,
- require us to return any leased facilities where the centrifuge technology project was being or was intended to be constructed, and
- except for plant facilities being operated, require us to waive our exclusive rights to lease the Paducah and Portsmouth plants.

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

Other

The DOE-USEC Agreement contains force majeure provisions which excuse our failure to perform under the DOE-USEC Agreement if such failure arises from causes beyond our control and without our fault or negligence.

American Centrifuge

American Centrifuge Technology

We continue our substantial efforts at developing and deploying the American Centrifuge technology as a replacement for the gaseous diffusion technology used at our Paducah plant. The American Centrifuge technology is based on U.S. centrifuge technology, a proven workable technology developed by DOE during the 1970s and 1980s. DOE spent approximately $3.4 billion on research and development and construction of centrifuge facilities and operated hundreds of centrifuges in the process buildings USEC now leases. Work on U.S. centrifuge technology was terminated by DOE because of forecasts of declining demand and DOE budget constraints. We license U.S. gas centrifuge technology from DOE and we are working on improvements to the original DOE design with the intent to reduce costs and improve efficiency through the use of state-of-the-art materials, control systems and manufacturing processes.

Development of Centrifuge Machines

Since early 2005, we have been manufacturing and testing prototype parts, components, subassemblies and full centrifuges in order to finalize the design and gather reliability data. As part of this process, individual parts, subassemblies and individual machines are put through a series of mechanical tests to determine operating parameters and performance capability. These initial tests are run with the centrifuges empty. Subsequently, machines are tested with uranium hexafluoride (UF_6) gas to measure separation performance under plant-like conditions. This testing takes place at our leased facilities in Oak Ridge, Tennessee. Our plan is to assemble a group of these machines in what we call a Lead Cascade, that is, the first cascade in our American Centrifuge Demonstration Facility in Piketon, Ohio.

In mid-2006, we opted to delay building our Lead Cascade of centrifuges to allow for additional testing of individual machines at facilities in Oak Ridge. This resulted in a delay of about one year, but also allowed the USEC project team at Oak Ridge to successfully test machines with an output of approximately 350 SWU per machine, per year. We had set a target performance of 320 SWU per machine, per year, which was about eight times higher than the next best commercially deployed centrifuge. The improved performance to date adds approximately 300,000 SWU to the previously expected plant capacity of 3.5 million SWU. The improvement should result in 3.8 million SWU plant capacity, based on our current estimates of machine output and plant availability.

USEC's project team has frozen the design of the centrifuge machine that will be deployed over the next several months in the initial Lead Cascade, which is expected to be in operation by mid-year. During 2007, the project team will continue to optimize the performance of the centrifuge machines and conduct value engineering demonstrations at the Oak Ridge facility. This work is intended to achieve the lower centrifuge unit costs that our target cost estimate assumes for the machines to be installed in the commercial plant.

Start-up activities at Piketon for the Lead Cascade continue. In August 2006, the NRC assumed oversight of the American Centrifuge Demonstration Facility from the DOE. This regulatory transition allows operation with uranium hexafluoride gas. A small number of centrifuges have been installed at the American Centrifuge Demonstration Facility and have been operated in the last several months. Related cascade systems have been conditioned with uranium hexafluoride gas and USEC expects to introduce the uranium gas into the centrifuges in the near future. These machines will help verify cascade configuration and support system functionality. USEC and its project participants have begun building centrifuge machines based on the frozen design parameters and expect to begin installing the Lead Cascade machines in March or April 2007.

Schedule and Cost Estimate

USEC recently completed a comprehensive review of the deployment schedule and cost of deploying the American Centrifuge Plant. Based on this review, we have revised our deployment schedule and estimate for the cost of the plant. We are working toward beginning commercial plant operations of the American Centrifuge Plant in Piketon, Ohio in late-2009 and having approximately 11,500 machines deployed in 2012, which we expect to operate at a production rate of about 3.8 million SWU per year based on our current estimates of machine output and plant availability.

Based on this review, USEC has a target estimate for the cost of deployment of $2.3 billion in nominal dollars, including amounts already spent and not including costs of financing or a reserve for general contingencies. This estimate reflects the progress we have made to date in demonstrating the American Centrifuge technology, and our understanding of the work remaining to be done to complete demonstration and commercial deployment of the technology. In the process of revising our estimate, we solicited substantial input from the companies we have engaged to work with us in deploying the technology, including Honeywell International, Alliant Techsystems, Boeing Company, and Fluor Enterprises.

The initial estimate of $1.7 billion for deployment of American Centrifuge was an update and extrapolation of cost projections prepared for DOE's centrifuge project. Strong upward cost pressures of key materials that will be needed to manufacture the centrifuges and in the commodities that will be used in construction of the balance of the plant have increased our cost estimate. However, the expected increase in SWU output of individual centrifuges results in an increase in plant capacity that should help to offset some of these cost increases over the long term.

Our target cost estimate is subject to change as certain key variables are difficult to quantify with certainty at this stage of the project. These include potential increases in the market price for key materials and the cost of manufacturing complex centrifuge machine components on a commercial scale. In addition, the target estimate maintains an ambitious schedule for demonstration and deployment activities and reflects certain cost savings we expect to achieve in 2007 and beyond. We are pursuing cost mitigation approaches involving value engineering, high volume manufacturing efficiencies and system/component refurbishment versus replacement to meet our target estimate and to help offset potential future cost increases as we proceed from demonstration to deployment of the project.

Project Funding

We have been funding the American Centrifuge project through internally generated cash since 2002 when we signed the DOE-USEC Agreement and entered into a Cooperative Research and Development Agreement. We expect to have sufficient cash or access to cash through our bank credit facility to fund project activities in 2007, including building and evaluating the Lead Cascade. We expect to spend approximately $340 million in 2007 on the American Centrifuge project. The rate of planned investment will increase substantially after 2007 under our new deployment schedule, with spending in 2008 currently projected to be about double the level of 2007.

During the past four years, we have spent $371 million from internally generated cash to develop and demonstrate the American Centrifuge technology. To fund the balance of the American Centrifuge project, our plan has been to use internally generated cash flow together with funds raised through equity and debt offerings. Given the declining level of cash generated by our existing operations due primarily to increases in electric power costs, the increase in cost to complete the American Centrifuge project and the current level of perceived risk in the project, we will need some form of investment or other participation by a third party and/or the U.S. government to raise the capital required in 2008 and beyond to complete the project on our deployment schedule. We have been exploring such investment or other participation with companies that might have a strategic interest in the nuclear fuel business and with the U.S. government, which we believe has an interest in the deployment of U.S.-owned centrifuge technology. We have also been exploring ways in which our customers and American Centrifuge project participants and vendors could help support the financing of the project. In addition, we continue to pursue operational initiatives to improve our financial position and increase the probability of a successful financing of the project.

Project Milestones under the 2002 DOE-USEC Agreement

We are in discussions with DOE regarding the October 2006 project milestone of obtaining satisfactory reliability and performance data from Lead Cascade operations. We made substantial progress towards meeting this milestone, having obtained substantial satisfactory performance and reliability data with respect to centrifuges and related systems. However, this data is principally from testing at Oak Ridge rather than from Lead Cascade operations. We are also in discussions with DOE regarding the January 2007 milestone that requires us to have secured a financing commitment for a 1 million SWU centrifuge plant. As described in Item 1A, "Risk Factors", a failure to meet one or more milestones that would substantially impact our ability to begin commercial operations on schedule could result in DOE actions or other consequences that could have a material adverse impact on our business.

Given our progress in the American Centrifuge program and our continuing strong commitment to the project, we anticipate that we will reach a mutually acceptable agreement with DOE regarding rescheduling of the October 2006, January 2007 and subsequent milestones. Following are the existing centrifuge project milestones under the DOE-USEC Agreement, the first nine of which have been achieved:

Milestones under DOE-USEC Agreement	Milestone Date	Achievement Date
Begin refurbishment of K-1600 centrifuge testing facility in Oak Ridge, Tennessee	December 2002	December 2002
Build and begin testing a centrifuge end cap	January 2003	January 2003
Submit license application for Lead Cascade to NRC	April 2003	February 2003
NRC dockets Lead Cascade application	June 2003	March 2003
First rotor tube manufactured	November 2003	September 2003
Centrifuge testing begins	January 2005	January 2005
Submit license application for commercial plant to NRC	March 2005	August 2004
NRC dockets commercial plant application	May 2005	October 2004
Begin Lead Cascade centrifuge manufacturing	June 2005	April 2005
Satisfactory reliability and performance data obtained from Lead Cascade	October 2006	Under Discussion
Financing commitment secured for a 1 million SWU centrifuge plant	January 2007	Under Discussion
Begin commercial plant construction and refurbishment	June 2007	Under Discussion
Begin American Centrifuge commercial plant operations at facility in Piketon, Ohio	January 2009	Under Discussion
American Centrifuge Plant capacity at one million SWU per year	March 2010	Under Discussion
American Centrifuge Plant projected to have an annual capacity of 3.5 million SWU	September 2011	Under Discussion

NRC Operating License

In 2004, USEC received an NRC license to operate the American Centrifuge Demonstration Facility. The process of obtaining an operating license for the American Centrifuge Plant continues to move forward. Our license application, submitted in August 2004, seeks a license term of 30 years and authorization to enrich uranium to a U^{235} assay of up to 10%. The plant is expected to have an initial annual production capacity of 3.8 million SWU. The environmental report submitted with the license application evaluates the potential expansion of the plant to an annual production capacity of 7 million SWU.

In May 2006, the NRC issued the final environmental impact statement ("EIS"), and in September 2006, the NRC issued its final safety evaluation report ("SER"). The NRC held a public hearing in October 2006 in Piketon for comment on the SER and the EIS, and the Atomic Safety and Licensing Board ("ASLB") conducted a site visit in December 2006. In February 2007, the NRC issued an order detailing a schedule that anticipates a licensing decision for the American Centrifuge Plant in April 2007. Construction for the commercial plant is expected to begin after the license is issued.

DOE Lease

In December 2006, USEC and DOE signed a lease agreement for our long-term use of facilities in Piketon for the American Centrifuge Plant. The process buildings that will house the cascades of centrifuges encompass more than 14 acres under roof. The lease for these facilities and other support facilities is a stand-alone amendment to our current lease with DOE for the gaseous diffusion plant facilities in Piketon and in Paducah. The initial term runs through June 2009, but can be extended under specific conditions by five years when an NRC license is issued for the American Centrifuge Plant. After the first five-year extension, we have the option to extend the lease term for additional five-year terms up to a date that is 36 years after the date the NRC license is issued. Thereafter, we also have the right to extend the lease for up to an additional 20 years, through 2063, if we agree to demolish the existing buildings leased to us. We pay monthly rent to DOE to cover the cost of administering the lease.

American Centrifuge Asset Retirement Obligation

We own all capital improvements and, unless otherwise consented to by DOE, must remove them at lease turnover. This provision is unlike the lease of our gaseous diffusion plants where we may leave the property in an "as is" condition at termination of the lease. DOE generally only remains responsible for pre-existing conditions of the American Centrifuge leased facilities. At the conclusion of the 36-year lease period, assuming no further extensions, we must return these leased facilities to DOE in a condition that meets NRC requirements and in the same condition as the facilities were in when they were leased to us (other than due to normal wear and tear). We are required to maintain financial assurance for DOE in an amount equal to a current estimate of costs to comply with lease turnover requirements, less the amount of financial assurance required by the NRC for decommissioning. As of December 31, 2006, we had provided $8.8 million of financial assurance in accordance with our decommissioning funding plan, through a surety bond, related to American Centrifuge decommissioning. This amount of asset retirement obligation is recorded in construction work in progress and as part of other long-term liabilities on our balance sheet.

DOE Technology License

In December 2006, USEC and DOE signed an agreement licensing U.S. gas centrifuge technology to USEC for use in building new domestic uranium enrichment capacity. We will pay royalties to the U.S. government on annual revenues from sales of LEU produced in the American Centrifuge Plant. The royalty ranges from 1% to 2% of annual gross revenue from these sales. Payments are capped at $100 million over the life of the technology license.

Risks and Uncertainties

The successful construction and operation of the American Centrifuge Plant is dependent upon a number of factors, including satisfactory performance of the American Centrifuge technology at various stages of demonstration, overall cost and schedule, financing, NRC licensing, and the achievement of milestones under the DOE-USEC Agreement. Risks and uncertainties related to the demonstration, construction and deployment of the American Centrifuge technology are described in further detail in Item 1A, “Risk Factors”.

Nuclear Regulatory Commission – Regulation

Our operations are subject to regulation by the NRC. The Paducah and Portsmouth plants are regulated by and are required to be recertified by the NRC every five years. The term of the current NRC certification expires December 31, 2008, and the NRC will evaluate the plants in connection with the renewal. The NRC will regulate operation of the American Centrifuge Plant and, in August 2006, assumed oversight of the American Centrifuge Demonstration Facility.

The NRC has the authority to issue notices of violation for violations of the Atomic Energy Act of 1954, NRC regulations, and conditions of licenses, certificates of compliance, or orders. The NRC has the authority to impose civil penalties for certain violations of its regulations. We have received notices of violation from NRC for violations of these regulations and certificate conditions. However, none of these has resulted in a fine during the past two years, and in each case, we took corrective action to bring the facilities into compliance with NRC regulations. We do not expect that any proposed notices of violation we have received will have a material adverse effect on our financial position or results of operations.

Environmental Compliance

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

Our operations generate depleted uranium that is stored at the plants. Depleted uranium is a result of the uranium enrichment process where the concentration of the U^{235} isotope in depleted uranium is less than the concentration of .711% found in natural uranium. All liabilities arising out of the disposal of depleted uranium generated before July 28, 1998 are direct liabilities of DOE. The USEC Privatization Act requires DOE, upon USEC’s request, to accept for disposal the depleted uranium generated after the July 28, 1998 privatization date provided we reimburse DOE for its costs.

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

Reference is made to management's discussion and analysis of financial condition and results of operations and note 10 to the consolidated financial statements for information on operating costs relating to environmental compliance.

Occupational Safety and Health

Our operations are subject to regulations of the Occupational Safety and Health Administration governing worker health and safety. We maintain a comprehensive worker safety program that establishes high standards for worker safety, directly involves our employees and monitors key performance indicators in the workplace environment.

Competition and Foreign Trade

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

- USEC,
- Urenco, a consortium of companies owned or controlled by the British and Dutch governments and by two private German utilities,
- a multinational consortium controlled by AREVA, a company principally owned by the French government, and
- the Russian Federal Agency for Atomic Energy, which sells LEU through TENEX, a Russian government-owned entity.

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

In addition to enrichment, LEU may be produced by downblending government stockpiles of highly enriched uranium. Governments control the timing and availability of highly enriched uranium, and the release of this material to the market could impact prevailing market conditions. We have been the primary supplier of downblended highly enriched uranium made available by the U.S. and Russian governments. To the extent we are not selected to market LEU downblended from highly enriched uranium in future years, these quantities would represent a potential source of competition.

Global LEU suppliers compete primarily in terms of price, and secondarily on reliability of supply and customer service. We believe that customers are attracted to our reputation as a reliable long-term supplier of enriched uranium and we intend to continue strengthening this reputation with the planned transition to the American Centrifuge technology.

Urenco, TENEX, and producers in Japan and China use centrifuge technology to produce LEU. Centrifuge technology is a more advanced technology than the gaseous diffusion process currently used by USEC and AREVA. Gaseous diffusion plants generally have higher operating costs than gas centrifuge plants due to the significant amounts of electric power required by the gaseous diffusion process. Urenco has reported the capacity of its facilities was 8.1 million SWU at the end of 2005 and expects to have capacity of 11 million SWU at its European facilities by 2010.

In 2006, the Enrichment Technology Company ("ETC") joint venture between AREVA and Urenco became effective with the acquisition by AREVA of a 50% equity stake in ETC. AREVA has announced plans to install ETC-designed centrifuges to replace AREVA's Georges Besse gaseous diffusion plant. Construction of the first section of the Georges Besse II centrifuge enrichment plant in France has commenced with first production expected in 2009 and full capacity of 7.5 million SWU expected by 2016.

In June 2006, the Nuclear Regulatory Commission issued a license to Louisiana Energy Services ("LES"), a group controlled by Urenco, to construct and operate a gas centrifuge uranium enrichment plant in Lea County, New Mexico. LES commenced construction in August 2006, with operations expected to begin in 2008 and full capacity of 3 million SWU expected in 2013.

All of our current competitors are owned or controlled, in whole or in part, by foreign governments. These competitors may make business decisions in both domestic and international markets that are influenced by political or economic policy considerations rather than exclusively commercial considerations.

LEU supplied by USEC to foreign customers is exported from the United States under the terms of international agreements governing nuclear cooperation between the United States and the country of destination. For example, exports to countries comprising the European Union take place within the framework of an agreement for cooperation (the "EURATOM Agreement") between the United States and the European Atomic Energy Community, which, among other things, permits LEU to be exported from the United States to the European Union for as long as the EURATOM Agreement is in effect.

Government Investigation of Imports from France

In 2002, the U.S. Department of Commerce ("DOC") imposed antidumping and countervailing duty (anti-subsidy) orders on imports of LEU produced in France. The orders were imposed in response to unfair trading practices by our French competitors in connection with imports of LEU into the United States. Since 2002, these orders have been challenged and impacted by further judicial and administrative actions.

In 2005, the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") ruled that:

- SWU contracts were sales of services, not merchandise, and thus were not subject to the U.S. antidumping law, and
- a subsidy provided through government payments under SWU contracts at above-market prices is not subject to the countervailing duty law.

On remand from the Federal Circuit, the DOC determined in March 2006 that:

- the countervailing duty investigation would result in a *de minimis* subsidy margin that would not support imposition of a countervailing duty order on imports of French LEU, and
- the antidumping margin applicable to imports of French LEU is slightly higher than the margin found in the original investigation, but is applicable only to LEU sold for cash, and not to LEU supplied under SWU contracts in which the customer delivers uranium and pays cash for the SWU component of the LEU.

The Court of International Trade ("CIT") subsequently affirmed the DOC's determination in the countervailing duty investigation, but remanded the DOC's determination in the antidumping investigation in order to more precisely define the types of SWU transactions that would be excluded from the antidumping investigation. In May 2006, the DOC issued this further remand determination, and in August 2006, the CIT issued a final decision concluding that DOC had complied with the court's remand order.

The DOC's remand determinations will not be implemented until there is a final decision in the pending appeals of the French LEU cases. The CIT decisions on the DOC's remand determinations have been appealed to the Federal Circuit, and if the Federal Circuit affirms the DOC's remand determinations, any of the parties to the appeal in turn could petition the U.S. Supreme Court to review the Federal Circuit's decision regarding the remand determinations and orders, as well as the 2005 rulings described above.

On January 3, 2007, the DOC and the U.S. International Trade Commission ("ITC") initiated "sunset" reviews of the antidumping and countervailing duty orders against French LEU. In these reviews, which occur every five years, the DOC will determine whether termination of the orders is likely to lead to a continuation or recurrence of dumping or subsidization of French LEU. The ITC will determine whether termination of the orders is likely to lead to a continuation or recurrence of material injury to the U.S. enrichment industry. We are supporting continuation of the orders in the proceedings before both the DOC and ITC.

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

In June 2006, the DOC terminated the countervailing duty order against imports of LEU produced by Urenco in Germany, the Netherlands and the United Kingdom. No duties had been imposed under this order since 2004, but appeals concerning the findings in the original investigation are still pending. Because these pending appeals would be rendered moot if the Urenco order were terminated, USEC has appealed the termination of the order.

Russian Suspension Agreement

Imports of LEU produced in the Russian Federation are subject to restrictions imposed under the Russian Suspension Agreement ("Russian SA"). In July 2005, the DOC and ITC each initiated a "sunset" review of the Russian SA to determine whether termination of the Russian SA is likely to lead to:

- a continuation or recurrence of dumping of Russian uranium products (a determination made by the DOC), or
- a continuation or recurrence of material injury to the U.S. uranium industry, including USEC (a determination made by the ITC).

USEC supported continuation of the Russian SA in the proceedings before both the DOC and ITC, and actively participated in these proceedings.

On May 30, 2006, the DOC announced that it had determined that termination of the Russian SA would result in a recurrence of dumping. On July 18, 2006, the ITC determined that termination of the Russian SA would result in a recurrence of material injury to the U.S. uranium industry. These determinations mean that, absent reversal on appeal, the Russian SA will not be terminated as a result of this five-year sunset review.

The parties who opposed continuation of the Russian SA, as well as the Russian Federation, have appealed the determinations of the DOC and the ITC to the CIT. If the CIT or a higher Federal court reverses either of these determinations, the Russian SA could be terminated, which could result in a significant increase in sales of Russian-produced LEU in the United States that could depress prices and undermine our ability to sell the large quantity of LEU that we are committed to purchase under the Russian Contract. This would substantially reduce our revenues, gross profit margins and cash flows and adversely affect the economics of the American Centrifuge program and our ability to finance it.

The Russian Federation may terminate the Russian SA upon 60 days notice to the DOC. If the Russian Federation were to exercise this right, the DOC would be required to recommence its 1991 antidumping investigation that was suspended as a result of the Russian SA, and would require importers of Russian LEU, including USEC under the Russian Contract, to post bonds to cover estimated duties on imports subject to that investigation. In this event, we would be required to post bonds to cover those duties, which would likely exceed 100% of the value of the imports. Further, if the investigation resulted in an antidumping order, we would have to pay the estimated duties on future imports of Russian LEU in cash. We would be obligated for both posting of the bonds and payment of duties unless a legal mechanism could be identified that would remove these obligations. We are exploring with the U.S. government ways that could possibly reduce or eliminate this obligation. We believe that the cost of posting the bonds and paying any duties ultimately imposed on imports under the Russian Contract would significantly increase our cost of importing Russian LEU and could make the purchase of SWU under the Russian Contract uneconomic.

Employees

A summary of USEC employees by location follows:

Location		No. of Employees at December 31, 2006	2005
Paducah Plant	Paducah, KY	1,147	1,170
Portsmouth Plant	Piketon, OH	1,082	1,204
NAC	Primarily Atlanta, GA	68	73
American Centrifuge	Primarily Oak Ridge, TN and Piketon, OH	295	230
Headquarters	Bethesda, MD	85	85
	Total Employees	**2,677**	**2,762**

The decrease in employees at the Paducah and Portsmouth plants and NAC resulted from the completion of our restructuring efforts initiated in late 2005 and attrition.

The United Steelworkers ("USW") and the Security, Police, Fire Professionals of America ("SPFPA") represented 54% of the employees at the plants at December 31, 2006. The number of employees represented and the term of each contract follows:

	Number of Employees	Contract Term
Paducah plant:		
USW Local 5-550	530	July 2011
SPFPA Local 111	86	March 2007
Portsmouth plant:		
USW Local 5-689	493	May 2010
SPFPA Local 66	94	August 2007

Contract renewal discussions with SPFPA Local 111 are underway and discussions with SPFPA Local 66 are expected in mid-2007.

Available Information

Our internet website is www.usec.com. We make available on our website, or upon request, without charge, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

Our code of business conduct provides a brief summary of the standards of conduct that are at the foundation of our business operations. The code of business conduct states that we conduct our business in strict compliance with all applicable laws. Each employee must read the code of business conduct and sign a form stating that he or she has read, understands and agrees to comply with the code of business conduct. A copy of the code of business conduct is available on our website or upon request without charge. We will disclose on the website any amendments to, or waivers from, the code of business conduct that are required to be publicly disclosed.

We also make available free of charge, on our website, or upon request, our Board of Directors Governance Guidelines and our Board committee charters.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information in this Annual Report on Form 10-K, before deciding to purchase our securities.

The long-term viability of our business depends on our ability to replace our current enrichment facility with the American Centrifuge Plant.

We currently depend on our gaseous diffusion facility in Paducah, Kentucky for approximately one-half of the LEU that we need to meet our delivery obligations to our customers. The gaseous diffusion technology that we use at the Paducah plant is an older, high-operating cost technology that requires substantially greater amounts of electric power than the centrifuge technology used by our competitors. Due to significant increases in our power costs, the possibility of additional power cost increases in the future and the fact that our competitors use enrichment technologies that enable them to produce LEU at a far lower operating cost, the production of LEU using gaseous diffusion technology is becoming increasingly uneconomic . We are focused on developing and deploying an advanced uranium enrichment centrifuge technology, which we refer to as American Centrifuge technology, as a replacement for our gaseous diffusion technology. The American Centrifuge technology is more advanced and substantially more operationally cost-efficient than gaseous diffusion. We are not currently pursuing any strategies to replace our gaseous diffusion plant at Paducah with alternatives other than the American Centrifuge Plant. As a result, if we are unable to successfully and timely demonstrate and deploy the American Centrifuge Plant on a cost-effective basis due to the risks and uncertainties described in this Item or for any other reasons, our gross profit margins, cash flows and results of operations would be materially and adversely affected and our business may not remain viable.

We face a number of risks and uncertainties associated with the successful demonstration, construction and deployment of the American Centrifuge technology.

The American Centrifuge technology is expected to be more operationally cost-efficient than our gaseous diffusion technology that we currently depend on for LEU production at our Paducah plant. Nevertheless, the demonstration, construction and deployment of the American Centrifuge technology is a large and capital-intensive undertaking that is subject to numerous risks and uncertainties.

We are in the process of demonstrating the American Centrifuge technology and are working toward meeting a target schedule for construction of the American Centrifuge Plant. To date, however, we have experienced delays in demonstrating the American Centrifuge technology that have impacted our schedule. These delays resulted from the failure of certain materials to meet specifications, performance issues related to certain centrifuge components and compliance with new regulatory requirements, and we could experience additional delays in the future for these and other reasons. Delays in the program contributed to increases in cost and further delays could have an adverse impact on our ability to deploy the American Centrifuge and on our business and prospects.

To maintain a specific schedule, we may need to make key decisions, including decisions to expend or commit to large amounts of capital and resources, before receipt of all relevant machine performance data and confirmation of the project's costs, schedule and overall viability. There are also risks associated with a substantial ramp-up in supplier capacity and a high production rate of installing centrifuge machines. Delays could also increase our costs for the project, both on an overall basis and in terms of the incremental costs we must incur to recover from delays and stay on schedule, which could jeopardize our ability to finance the project as well as the overall economics and success of the project. In addition, difficulties in forecasting the total costs of the project increase the uncertainty surrounding the project's economics, which will increase the difficulty of securing financing.

The 2002 DOE-USEC Agreement contains specific project milestones relating to the American Centrifuge Plant. We are in discussions with DOE regarding the October 2006 and January 2007 milestones and the schedule for completion of other milestones under this agreement. We believe we will reach a mutually acceptable agreement with DOE regarding rescheduling of these milestones; however, we cannot provide any assurances that we will reach an agreement. If DOE determines that we failed to comply with the terms of the DOE-USEC Agreement, then, unless such failure is determined to arise from causes beyond our control and without our fault or negligence, DOE could exercise one or more remedies under the DOE-USEC Agreement. These could include terminating the DOE-USEC Agreement, revoking our access to DOE's U.S. centrifuge technology that we require for the success of the American Centrifuge project and requiring us to transfer our rights in the American Centrifuge technology and facilities to DOE, and requiring us to reimburse DOE for certain costs associated with the American Centrifuge. DOE could also recommend a reduction or termination of our access to Russian LEU or the Paducah plant. Any of these actions could have a material adverse impact on our business and prospects.

In addition, delays in the demonstration and deployment of the American Centrifuge could make it more difficult for us to attract and retain customers and could extend the time under which we are contractually required to continue to operate our high-cost Paducah plant. These outcomes could substantially reduce our revenues, gross profit margins and cash flows and reduce the likelihood of successful deployment of the American Centrifuge.

Deployment of the American Centrifuge technology will require external financial support that is likely to be difficult to secure.

We will require a significant amount of capital in order to achieve commercial deployment of the American Centrifuge Plant. Under our new deployment schedule, spending on the American Centrifuge project will be increasing substantially after 2007, with spending in 2008 currently projected to be about double the level of 2007. Higher power prices have reduced the amount of cash we expected to have available to provide internal financing for the program. Given the declining level of cash generated by our existing operations due primarily to increases in electric power costs, the increase in cost to complete the American Centrifuge project and the current level of perceived risk in the project, we will need some form of investment or other participation by a third party and/or the U.S. government to raise the capital required in 2008 and beyond to complete the project under our deployment schedule.

We cannot assure investors that we will be able to obtain sufficient external financing (either alone or with the investment or other participation of a third party) and we cannot predict the cost or terms on which such financing will be available, if at all. We also cannot assure investors that we will be able to attract the third party and/or U.S. government investment or other participation that we may need.

Factors that could affect our ability to obtain financing and the cost of the financing or that could affect our ability to successfully attract the third party and/or U.S. government investment or other participation we may need to raise capital could include:

- the success of our demonstration of the American Centrifuge and the estimated costs, efficiency, timing and return on investment of the deployment of the American Centrifuge Plant;
- consequences of a failure to reach an agreement with DOE regarding the October 2006 and January 2007 milestones and other milestones under the 2002 DOE-USEC Agreement;
- our ability to get loan guarantees or other support from the U.S. government;
- SWU prices;
- our perceived competitive position;
- our ability to secure long-term SWU purchase commitments from customers at adequate prices and for adequate duration;
- projected costs for the disposal of depleted uranium and the decontamination and decommissioning of the American Centrifuge Plant, and the impact of related financial assurance requirements;
- the impact of reductions or changes in trade restrictions on imports of Russian and other foreign LEU and related uncertainties;
- additional downgrades in our credit rating;
- market price and volatility of our common stock;
- general economic and capital market conditions;
- conditions in energy markets;
- regulatory developments;
- investor confidence in the industry and in us;
- our reliance on LEU delivered to us under the Russian Contract;
- the level of success of our current operations; and
- restrictive covenants in the agreements governing our revolving credit facility and any future financing arrangements that limit our operating and financial flexibility.

There can be no assurance that we will attract the capital we need in a timely manner or at all. If we do not, we might be forced to slow or stop spending on the project which could result in delays and increased costs, and potentially make the project uneconomic. This would have a material adverse impact on our business and prospects because we believe the long-term viability of our business depends on the deployment of the American Centrifuge project.

Our estimates of the costs of the American Centrifuge project are subject to significant uncertainties that could adversely affect our ability to finance and deploy the American Centrifuge Plant.

Our cost estimates for the American Centrifuge project are based on many assumptions that are subject to change as new information becomes available or as unexpected events occur. Some of the key variables in our estimate are difficult to quantify with certainty at this stage of the project. Further, several key variables, such as the cost of raw materials to build the plant, escalation of factor costs and general inflation, are outside our control. It is also difficult to quantify with certainty at this stage the cost of manufacturing complex centrifuge machine components on a commercial scale. This manufacturing will be done by third parties and while our cost estimates reflect preliminary input from our project participants, we will not know the actual cost until we finalize the design of the centrifuge machines and enter into contractual arrangements with these project participants. In addition, our target estimate of $2.3 billion maintains an ambitious schedule for demonstration and deployment activities and assumes certain costs savings we hope to achieve in 2007 and beyond. We may not be able to maintain this schedule or achieve these cost savings.

Accordingly, we cannot assure investors that costs associated with the American Centrifuge Plant will not be materially higher than anticipated or that efforts that we take to mitigate cost increases will be successful or sufficient. Regardless of our success in demonstrating the technical viability of the American Centrifuge technology, uncertainty surrounding our ability to accurately estimate costs or to limit potential cost increases could jeopardize our ability to successfully finance and deploy the American Centrifuge Plant.

Significant increases in the cost of the electric power supplied to our Paducah plant have materially increased our overall production costs and may, in the future, increase our cost of sales to a level above the average prices we bill our customers.

Dramatically higher costs for power are putting significant pressure on our business and will continue to do so unless and until we are able to deploy more efficient centrifuge technology. The gaseous diffusion enrichment process that we use to produce LEU at our Paducah plant requires significant amounts of electric power. Effective June 1, 2006, costs for electric power under our power contract with the Tennessee Valley Authority ("TVA") increased from approximately 60% of production costs at the Paducah plant to approximately 70%. Pricing for the one-year term ending May 2007 is about 50% higher than the previous pricing. Our power costs are also now subject to monthly adjustments to account for changes in TVA's fuel and purchased-power costs, which means that our actual power costs could be even greater than we anticipate.

Capacity and prices under the TVA contract are only agreed upon through May 2007 and we have not yet contracted for power for periods beyond that time. While we expect to reach an agreement with TVA for power beyond May 2007, we may be unable to reach an acceptable agreement and we are at risk for additional power cost increases in the future.

Although we are currently signing new contracts in which prices for future deliveries are adjusted, in part, on the basis of changes in a power cost index, most of our sales contracts do not include provisions that permit us to pass through increases in power prices to our customers. As a result, our gross profit margin and cash flow under these sales contracts will be significantly reduced by the higher power costs under the amended TVA contract. Additionally, if our power costs continue to rise, profit margins under new sales contracts that we are entering into may be similarly impacted to the extent the adjustments in the power cost index are not sufficient to account for increases in our power costs. Accordingly, if our power costs continue to rise and mitigating steps are unavailable or insufficient, production at the Paducah plant will become increasingly uneconomic at existing contract prices, which will adversely affect the long-term viability of our business.

In accordance with the TVA power contract, we provide financial assurance to support our payment obligations to TVA, including providing an irrevocable letter of credit and making weekly prepayments based on the price and usage of power. A significant increase in the price we pay for power could increase the amount of this financial assurance, which could adversely affect our liquidity and reduce capital resources otherwise available to fund the American Centrifuge project.

Deliveries of LEU under the Russian Contract account for approximately 50% of our supply mix and a significant delay or stoppage of deliveries could affect our ability to meet customer orders and could pose a significant risk to our continued operations.

A significant delay in, or stoppage or termination of, deliveries of LEU from Russia under the Russian Contract or a failure of the LEU to meet the Russian Contract's quality specifications could adversely affect our ability to make deliveries to our customers. A delay, stoppage or termination could occur due to a number of factors, including, but not limited to, logistical or technical problems with shipments, commercial or political disputes between the parties or their governments, or our failure or inability to meet the terms of the Russian Contract. Further, because our annual LEU production capacity is less than our total delivery commitments to customers, an interruption of deliveries under the Russian Contract could, depending on the length of such an interruption, threaten our ability to fulfill these delivery commitments. Depending upon the reasons for the interruption and subject to limitations of liability under our sales contracts, we could be required to compensate customers for a failure or delay in delivery.

The appointment of a substitute or additional executive agent pursuant to the U.S. government's compliance with the terms of the Executive Agent MOA would require that all or part of the fixed quantity of LEU available each year under the Russian Contract be provided to the substitute or additional executive agent. This would not only reduce our access to LEU under the Russian Contract, but would also create a significant new competitor, which could impair our ability to meet our existing delivery commitments while reducing our ability to bid for new sales. Reduced access to LEU under the Russian Contract would also increase our costs and reduce our gross profit margins.

A significant increase in market prices for SWU could result in a significant increase in the price we pay for the SWU Component of Russian LEU.

The price charged to us for the SWU Component of Russian LEU is determined by a formula that employs an index of international and U.S. price points, which in turn reflect market prices. Increases in these price points will result in higher prices for SWU under the Russian Contract. Although any increase may be moderated by the retrospective nature of the formula, a significant increase in prices charged to us by Russia as a result of increasing price points due to significant increases in market prices, would substantially increase our costs of sales and inventories, which, if not offset by increases in our sales prices, would adversely affect our cash flows and results of operations.

Changes in, or termination of, the Russian Suspension Agreement could lead to significantly increased competition from Russian LEU or, if replaced with tariffs, could increase our costs under the Russian Contract.

The Russian Suspension Agreement is a 1992 agreement between the United States and Russia that today precludes Russian LEU from being sold for consumption in the United States except under the Russian Contract. The agreement could be terminated (1) unilaterally by the Russian government upon 60 days notice or (2) as a result of periodic administrative procedures under U.S. international trade laws. For example, a "sunset review" of the Russian Suspension Agreement is conducted every five years by the Department of Commerce and the U.S. International Trade Commission. Final

determinations in the latest sunset review were made in May and July of 2006 and were in favor of maintaining the existing suspension agreement. However, interested parties who participated in the sunset review have appealed the decisions of the Department of Commerce and the U.S. International Trade Commission to the Court of International Trade and, if unsuccessful at that court, could pursue such appeals to higher Federal courts. Such appeals could result in a reversal of either or both of these decisions, which ultimately could lead to termination of the Russian Suspension Agreement, without any offsetting restraints on increases in Russian imports of LEU.

Officials of the Russian and U.S. governments are currently engaged in discussions regarding a possible amendment to the Russian Suspension Agreement that would permit Russia to sell SWU in the United States in future years in addition to the sales currently made by Russia under the Russian Contract. The details of these intergovernmental discussions are confidential and it is unclear whether any relaxation of restrictions will include measures to avoid an adverse impact on domestic enrichers, such as USEC, or whether the Russians might take action to terminate the Russian Suspension Agreement if they are dissatisfied with the results of these discussions.

Unless accompanied by equivalent limitations on imports or unless other steps are taken by the U.S. government to limit the impact on USEC, a termination of the Russian Suspension Agreement, or a modification of the terms or the scope of the Russian Suspension Agreement, could result in a significant increase in sales of Russian-produced LEU in the U.S. This could depress prices and undermine our ability to sell the large quantity of LEU that we are committed to purchase under the Russian Contract. This could substantially alter the economics of the American Centrifuge project and our ability to obtain financing for it, reduce our revenues, gross profit margins and cash flows, and jeopardize our ability to secure the long-term sales contracts we need to continue operating our existing enrichment plant and pursue the deployment of the American Centrifuge.

Alternatively, if the Russian Federation unilaterally terminated the Russian Suspension Agreement, the Department of Commerce would be required to recommence its antidumping investigation and would require importers of Russian LEU, including us under the Russian Contract, to post bonds to cover estimated duties on imports subject to that investigation that would likely exceed 100% of the value of the imports. Further, if the investigation resulted in an antidumping order, we would have to pay estimated duties on future imports of Russian LEU in cash. Because we have a fixed commitment to purchase the Russian LEU under the Russian Contract and must continue to import the Russian LEU in order to meet our obligations to customers, we may not have any alternative to posting the bonds or paying these duties. Depending on the cost of the bonds and the magnitude of the duties imposed, the increase in our costs could materially and adversely affect our gross profit margins, cash flows, liquidity and results of operations and our business may not remain viable.

We depend on a single production facility in Paducah, Kentucky for approximately 50% of our LEU supply and significant or extended unscheduled interruptions in production could affect our ability to meet customer orders and pose a significant risk to, or could significantly limit, our continued operations and profitability.

Our annual imports of Russian LEU account for only approximately one-half of the total amount of LEU that we need to meet our delivery obligations to customers. In addition, some customers do not permit us to deliver Russian LEU to them under their contracts with us. Accordingly, our production at the Paducah plant is needed to meet our annual delivery commitments. An interruption of production at the Paducah plant would result in a drawdown of our inventories of LEU, and, depending on the length and severity of the production interruption, we could be unable to meet our annual delivery commitments, with adverse effects on our costs, results of operations, cash flows and long-term viability. Depending upon the reasons for the interruption and subject to limitations on our liability under our sales contracts, we also could be required to compensate customers for our failure to deliver on time.

Production interruptions at the Paducah plant could be caused by a variety of factors, such as:

- equipment breakdowns,
- interruptions of electric power, or an inability to purchase electric power at an acceptable price,
- regulatory enforcement actions,
- labor disruptions,
- unavailability or inadequate supply of uranium feedstock or coolant,
- natural or other disasters, including seismic activity in the vicinity of the Paducah plant, which is located near the New Madrid fault line, or
- accidents or other incidents.

The Paducah plant is owned by the U.S. government. Our rights to the plant are defined under a lease agreement with DOE and the law that the lease agreement implements. Under the DOE-USEC Agreement, we could lose our right to extend the lease of the Paducah plant and could be required to waive our exclusive right to lease the facility if we fail on more than one occasion within specified periods to meet certain production thresholds and fail to cure the deficiency. In addition, DOE could assume responsibility for operation of the Paducah plant if we cease production at the Paducah plant and fail to recommence production within time periods specified in the DOE-USEC Agreement. Without a lease to the Paducah plant and absent access to other sources of LEU, we would be unable to meet our annual delivery commitments to customers once our available inventories were exhausted.

The rights of our creditors under the documents governing our indebtedness may limit our operating and financial flexibility.

We have entered into a five-year, revolving credit facility providing for an aggregate commitment of $400 million, including up to $300 million in letters of credit, secured by our assets and the assets of our subsidiaries. The revolving credit facility includes various operating and financial covenants that restrict our ability, and the ability of our subsidiaries to, among other things, incur or prepay other indebtedness, grant liens, sell assets, make investments and declare or pay dividends or other distributions. Complying with these covenants may make it more difficult for us to successfully execute our business strategy. For example, these covenants could limit the amount of cash we can use to finance the American Centrifuge Plant. The revolving credit agreement also requires that we maintain a minimum amount of inventory. The revolving credit facility also contains reserve provisions that may reduce the facility's availability periodically.

Our failure to comply with obligations under the revolving credit facility or other agreements such as the DOE-USEC Agreement could result in an event of default under the credit facility. A default, if not cured or waived, could permit acceleration of our indebtedness. We cannot be certain that we will be able to remedy any default. If our indebtedness is accelerated, we cannot be certain that we will have funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

A decrease in prices for SWU and uranium could adversely affect our gross profit margins in current and future periods.

Changes in the prices of SWU and uranium are influenced by numerous factors, such as:

- SWU and uranium production levels and costs in the industry,
- supply and demand shifts,
- actions taken by governments to regulate, protect or promote trade in nuclear material, including but not limited to the continuation of existing restrictions on unfairly priced imports,
- actions of competitors,
- exchange rates,
- availability of alternate fuels, and
- inflation.

The long-term nature of our contracts with customers may prolong the adverse impact of low market prices on our gross profit margins. For example, even as prices increase and we secure new higher-priced contracts, we are contractually obligated to deliver SWU and uranium at lower prices under contracts signed prior to the increase.

The long-term nature of our customer contracts could adversely affect our results of operations in current and future years.

As is typically the case in our industry, we sell nearly all of our SWU under long-term contracts. The prices that we charge under our existing contracts (particularly those reflecting terms agreed to prior to 2006) typically only increase with inflation. Therefore, these contracts do not allow us to pass along increases in our costs, such as increased power costs or increases in the prices we pay under the Russian Contract for SWU, or to take advantage of market increases in the price of SWU. We anticipate that these limitations, combined with our cost-structure and our sensitivity to increased power costs due to the power-intensive gaseous diffusion technology that we currently depend on, will reduce our ability to cover our cost of sales with revenues earned under our customer contracts and will materially and adversely impact our gross profit margins and cash flows in current and future periods.

In addition, our older contracts give customers the flexibility to determine the amounts of natural uranium that they deliver to us, which can result in our receiving less uranium from customers than we transferred from our inventory to the Russian Federation under the Russian Contract. Over time, to the extent our inventory, including uranium generated through underfeeding, is insufficient to absorb the difference, we could be required to purchase uranium to continue to meet our obligations to the Russian Federation, which, depending on the market price of uranium, could have an adverse impact on our gross profit margins, cash flows, results of operations and liquidity.

We face significant competition from three major producers who may be less cost sensitive or may be favored due to national loyalties.

We compete with three major producers, all of which are wholly or substantially owned by governments: AREVA (France), TENEX (Russia), and Urenco (Germany, Netherlands, UK). We also compete with Louisiana Energy Services, a group controlled by Urenco, that has begun constructing a uranium enrichment plant in New Mexico. Our competitors may have greater financial resources, including access to below-market financing terms and support from their government owners, which may enable them to be less cost- or profit-sensitive. In addition, decisions by our competitors may be influenced by political and economic policy considerations rather than commercial considerations. For example, despite the relatively flat demand for LEU in the markets in which we sell, our competitors may elect to increase their production or exports of LEU thereby depressing prices and reducing demand for our LEU, which could adversely affect our revenues, cash flows and results of operations. Similarly, the elimination or weakening of existing restrictions on imports from our competitors could adversely affect our revenue, cash flows and results of operations.

The release of excess government stockpiles of enriched uranium into the market could depress market prices and reduce demand for LEU from USEC.

The U.S. and foreign governments have stockpiles of LEU that they could sell in the market. In addition, LEU may be produced by downblending stockpiles of highly enriched uranium owned by the U.S. and foreign governments. Given the relatively flat demand for LEU in the markets in which we sell, the release of these stockpiles into the market can depress prices and reduce demand for LEU from USEC, which could adversely affect our revenues, cash flows and results of operations.

Our dependence on our largest customers could adversely affect us.

Our 10 largest customers (other than the U.S. government) represented 53% of our revenue in 2006, and our three largest customers represented 22% of our revenue in 2006. To the extent our existing contracts with these customers include prices that are greater than or equal to market prices, a reduction in purchases from these customers, whether due to their decision to increase purchases from our competitors or for other reasons, including a disruption in their operations that reduces their need for LEU from USEC, could adversely affect our business and results of operations. Conversely, to the extent that our contracts with these customers include prices that are lower than market prices, a decision by these customers to exercise options under these contracts to purchase more from us also could adversely affect our business and results of operations.

We are seeking to improve the pricing under our long-term contracts with our customers, including our largest customers, as these contracts come up for renewal. However, because price is the most significant factor in a customer's choice of an enricher, customers may reduce their purchases from us if we attempt to increase our prices in order to offset increases in our costs, resulting in the loss of the contracts being renewed. Moreover, once lost, customers are difficult to regain because they typically purchase under long-term contracts. Therefore, given the need to maintain existing customer relationships, particularly with our largest customers, our ability to raise prices in order to respond to increases in costs or other developments may be limited. In addition, because we have a fixed commitment to order LEU derived from at least 30 metric tons of highly enriched uranium each year under the Russian Contract and to purchase the approximately 5.5 million SWU deemed to be contained in such material, any reduction in purchases by our customers below the level required for us to resell both our own production and the Russian material could adversely affect our revenues, cash flows and results of operations.

Our ability to compete in certain foreign markets may be limited for political, legal and economic reasons.

Agreements for cooperation between the U.S. government and various foreign governments control the export of nuclear materials from the United States. If any of the agreements with countries in which our customers are located were to lapse, terminate or be amended, it is possible we would not be able to make sales or deliver LEU to customers in those countries. This could adversely affect our results of operations.

Purchases of SWU by customers in the European Union (EU) is subject to a policy of the Euratom Supply Agency that seeks to limit foreign enriched uranium to no more than 20% of EU consumption per year. Further, we are precluded from selling in the Russian Federation by the absence of an agreement for cooperation that permits exports to Russia.

Recent court decisions may reduce our ability to protect ourselves from unfairly priced imports, which could adversely affect our results of operations.

Recent decisions of the U.S. Court of International Trade and the U.S. Court of Appeals for the Federal Circuit could preclude the U.S. Department of Commerce from imposing antidumping and countervailing duties to offset unfairly-priced LEU imported from foreign countries. Under these rulings, we would be unable to use certain U.S. trade laws to protect us from unfairly priced LEU in the future, thereby increasing the possibility that our competitors will seek to increase market share by reducing prices to unfair levels. An increase in our competitors' market share and the accompanying reduction in market prices could adversely affect our results of operations.

Our future prospects are tied directly to the nuclear energy industry worldwide.

Potential events that could affect either nuclear reactors under contract with us or the nuclear industry as a whole, include:

- accidents, terrorism or other incidents, at nuclear facilities or involving shipments of nuclear materials,
- regulatory actions or changes in regulations by nuclear regulatory bodies,
- disruptions in other areas of the nuclear fuel cycle, such as uranium supplies or conversion,
- civic opposition to, or changes in government policies regarding, nuclear operations,
- business decisions concerning reactors or reactor operations,
- the need for generating capacity, or
- consolidation within the electric power industry.

These events could adversely affect us to the extent they result in a reduction or elimination of contractual requirements, the suspension or reduction of nuclear reactor operations, the reduction of supplies of raw materials, lower demand, burdensome regulation, disruptions of shipments or production, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

Changes to, or termination of, any of our agreements with the U.S. government, or deterioration in our relationship with the U.S. government, could adversely affect our results of operations.

USEC, or our subsidiaries, are a party to a number of agreements and arrangements with the U.S. government that are important to our business, including:

- leases for the gaseous diffusion plants and American Centrifuge facilities,
- the Executive Agent MOA under which we are designated the U.S. Executive Agent and purchase the SWU component of LEU under the Russian Contract,
- the DOE-USEC Agreement and other agreements that address issues relating to the domestic uranium enrichment industry and centrifuge technology,
- electric power purchase agreements with the Tennessee Valley Authority, and
- contract work for DOE and DOE contractors at the Portsmouth and Paducah plants, including contracts for maintenance of the Portsmouth plant in "cold standby" or "cold shutdown" states,

Termination or expiration of one or more of these agreements, without replacement with an equivalent agreement or arrangement that accomplishes the same objectives as the terminated or expired agreement(s), could reduce our profitability and results of operations. In addition, deterioration in our relationship with the U.S. agencies that are parties to these agreements could impair or impede our ability to successfully implement these agreements, which could adversely affect our results of operations.

Our existing U.S. government contracts are subject to continued appropriations by Congress and may be terminated if future funding is not made available.

Approximately 10% of our revenues are from U.S. government contracts. All contract work for DOE, including cold standby of the Portsmouth plant, cleanup of out-of-specification uranium and certain NAC consulting and transportation activities, is subject to the availability of DOE funding and congressional appropriations. If funds were not available, we could be required to terminate these operations and incur related termination costs. In addition, the criteria for award of contracts to USEC or NAC may change, such that USEC or NAC are not eligible to compete for such contracts, which could adversely affect our results of operations.

Revenue from U.S. government contract work is based on cost accounting standards and allowable costs that are subject to audit by the Defense Contract Audit Agency. Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs. Audit adjustments could reduce the amounts we are allowed to bill for DOE contract work or require us to refund to DOE a portion of amounts already billed.

Our operations are highly regulated by the NRC and DOE.

Our operations, including the Paducah and Portsmouth plants, the American Centrifuge Demonstration Facility, and NAC, are regulated by the NRC. In addition, the construction and operation of the American Centrifuge Plant must be licensed by the NRC, which would regulate our activities at the plant.

The gaseous diffusion plants are required to be recertified every five years and the term of the current certification expires on December 31, 2008. The NRC could refuse to renew either or both of the certificates if it determines that we are foreign owned or controlled or the issuance of a certificate would be adverse to United States defense or security objectives. If the certificate for the Paducah plant were not renewed, we could no longer produce LEU at the Paducah plant, which would threaten our ability to make deliveries to customers.

The NRC has the authority to issue notices of violation for violations of the Atomic Energy Act of 1954, NRC regulations and conditions of licenses, certificates of compliance, or orders. The NRC has the authority to impose civil penalties for some violations of its regulations. Penalties under NRC regulations could include substantial fines, imposition of additional requirements or withdrawal or suspension of licenses or certificates. If significant penalties were imposed on us, they could adversely affect our results of operations.

In August 2004, USEC submitted an application to the NRC for a license to operate the American Centrifuge Plant. In February 2007, the NRC issued an order detailing a schedule that anticipates a licensing decision in April 2007. Failure to obtain a license for the construction and operation of the American Centrifuge Plant in a timely manner could have a significant adverse impact on our ability to finance and deploy the American Centrifuge technology or to meet the requirements of the DOE-USEC Agreement. Our American Centrifuge facilities in Oak Ridge are subject to regulation by DOE. DOE has the authority to impose civil penalties and additional requirements which could adversely affect our results of operations.

Our operations are subject to numerous federal, state and local environmental protection laws and regulations.

We incur substantial costs for 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 our operations. Unanticipated events or regulatory developments, however, could cause the amount and timing of future environmental expenditures to vary substantially from those expected.

Under a cleanup agreement with the EPA, we removed certain material from the Starmet site in South Carolina that was attributable to quantities of depleted uranium we had sent there under a 1998 contract. We could incur additional costs associated with our share of costs for cleanup of the Starmet site, resulting from a variety of factors, including a decision by federal or state agencies to recover costs for prior cleanup work or require additional remediation at the site.

Pursuant to numerous federal, state and local environmental laws and regulations, we are required to hold multiple permits. Some permits require periodic renewal or review of their conditions, and we cannot predict whether we will be able to renew such permits or whether material changes in permit conditions will be imposed. Changes in permits could increase costs of producing LEU and reduce our profitability while an inability to secure or renew permits could prevent us from producing LEU needed to meet our delivery obligations to customers.

Our operations involve the use, transportation and disposal of toxic, hazardous and/or radioactive chemicals and could result in liability without regard to our fault or negligence.

Our plant operations involve the use of toxic, hazardous, and radioactive chemicals. A chemical release would primarily pose a health risk to humans or animals in proximity to the release. If an accident were to occur, its severity could be significantly affected by the volume of the release and the speed of corrective action taken by plant emergency response personnel, as well as other factors beyond our control, such as weather and wind conditions. Actions taken in response to an actual or suspected release of chemicals could result in significant costs.

The Price-Anderson Act requires DOE to indemnify USEC against claims for public liability arising out of or in connection with activities under the lease resulting from a nuclear incident or precautionary evacuation. If an incident or evacuation is not covered under Price-Anderson, we could be held liable for damages regardless of fault, which could have an adverse effect on our results of operations and financial condition. In connection with international transportation of LEU, it is possible for a claim to be asserted which may not fall within the indemnification under Price-Anderson.

NAC's business involves providing products and services for the storage and transportation of toxic, hazardous and radioactive materials, which, if released or mishandled, could cause personal injury and property damage (including environmental contamination). NAC obtains nuclear liability insurance to protect against third party liability resulting from a nuclear incident, but this insurance contains exclusions and limits and there is no assurance that this insurance would cover all potential liabilities.

In our contracts, USEC and NAC seek to protect ourselves from liability, but there is no assurance that such contractual limitations on liability will be effective in all cases or that our insurance will cover all the liabilities we have assumed under those contracts. The costs of defending against a claim arising out of a nuclear incident or precautionary evacuation, and any damages awarded as a result of such a claim, could adversely affect our results of operations and financial condition.

The dollar amount of our sales backlog, as stated at any given time, is not necessarily indicative of our future sales revenues.

Backlog is the aggregate dollar amount of SWU and uranium that we expect to sell under contracts with utilities. As of December 31, 2006, our sales backlog was an estimated $7.0 billion through 2015 ($6.7 billion through 2012, including $1.5 billion expected to be delivered in 2007). There can be no assurance that the revenues projected in our backlog will be realized, or, if realized, will result in profits. Backlog is partially based on customers' estimates of their fuel requirements and certain other assumptions, including our estimates of selling prices and inflation rates. Such estimates are subject to change. For example, some of our contracts include pricing elements based on market prices prevailing at the time of delivery. We use an external composite forecast of future market prices in estimating the price that we will be entitled to charge under such contracts in the future. These forecasts may not be accurate, and therefore our estimate of future prices could be overstated. Pricing under some new contracts is subject, in part, to escalation based on a broad power price index. For purposes of the backlog, we assume increases to the power price index in line with overall inflation rates. However, because the index is not geared to general inflation rates, our estimates of future prices under these contracts could be inaccurate. Any inaccuracy in our estimates of future prices would add to the imprecision of our backlog estimate.

For a variety of reasons, the amounts of SWU and uranium that we will sell in the future under our existing contracts, or the timing of customer purchases under those contracts, may differ from our estimates. Customers may not purchase as much as we predicted, or at the times we anticipated, as result of operational difficulties, changes in fuel requirements or other reasons. Reduced purchases would adversely affect the revenues we actually receive from contracts included in the backlog. For example, our revenue could be adversely affected by actions of the NRC or nuclear regulators in foreign countries issuing orders to delay, suspend or shut down nuclear reactor operations within their jurisdictions. Increases in our costs of production or other factors could cause some of the sales included in our backlog to be at prices that are below our cost of sales, which could adversely affect our results of operations in future years, and customers may purchase more under lower priced contracts than we predicted.

We use estimates in accounting for the future disposition of depleted uranium and changes in these estimates or in actual costs could affect our future financial results and liquidity.

We store depleted uranium at the Paducah and Portsmouth plants and accrue estimated costs for its future disposition. The long-term liability for depleted uranium is dependent upon the volume of depleted uranium generated and estimated processing, transportation and disposal costs, which involves many assumptions. Our estimated cost and accrued liability are subject to changes as new information becomes available, and an increase in the estimate would have an adverse effect on our results of operations.

We anticipate that we will send most or all of our depleted uranium to DOE for disposition unless a more economic disposal option is available. DOE is constructing facilities at the Paducah and Portsmouth plants to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process our depleted uranium if we provided it to DOE. If we were to dispose of our uranium in this way, we would be required to reimburse DOE for the related costs of disposal, including our pro rata share of capital costs.

The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance. Our estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Any increase in our estimated unit cost of disposal will require us to provide additional financial assurance and could adversely affect our liquidity. The amount of future depleted uranium disposal costs could also vary substantially from amounts accrued and an increase in our actual cost of disposal could have a material adverse impact on our results of operations in future years.

Deferral of revenue recognition could result in volatility in our quarterly and annual results.

We do not recognize revenue for sales of uranium or LEU until the uranium or LEU is physically delivered. Consequently, in sales transactions where we have received payment and title has transferred to the customer but delivery has not occurred because the terms of the agreement require us to hold the uranium to which the customer has title or because a customer encounters brief delays in taking delivery of LEU at our facilities, recognition of revenue is deferred until the uranium or LEU is physically delivered. This deferral can potentially be over an indefinite period and is outside our control and can result in volatility in our quarterly and annual results. If a significant amount of revenue is deferred or a significant amount of previously deferred revenue is recognized, in a given period, earnings in that period will be affected, which could result in volatility in our quarterly and annual results. Additional information on our deferred revenue is provided in note 8 to our consolidated financial statements.

Our operating results may fluctuate significantly from quarter to quarter, and even year to year, which could have an adverse effect on our cash flows.

Under their contracts with us, our customers determine their requirements based on their refueling schedules for nuclear reactors, which generally range from 12 to 18 months, or in some cases up to 24 months. Customer payments for the SWU component of LEU typically average $12 million per order. As a result, a relatively small change in the timing of customer orders may cause operating results to be substantially above or below expectations, which could have an adverse effect on our cash flows.

The levels of returns on pension and post-retirement plan assets, changes in interest rates and other factors affecting the amounts we have to contribute to fund future pension liabilities could adversely affect our earnings in future periods.

Our earnings may be positively or negatively impacted by the amount of expense we record for our employee benefit plans. This is particularly true with expense for our pension plans. Generally Accepted Accounting Principles in the United States (GAAP) require that we calculate expense for the plans using actuarial valuations. These valuations are based on assumptions that we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The key year-end assumptions used to estimate pension expense for the following year are the discount rate, the expected rate of return on plan assets, healthcare cost trend rates and the rate of increase in future compensation levels. For additional information and a discussion regarding how our financial statements can be affected by pension plan accounting policies, see Critical Accounting Estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations, and note 12 to our consolidated financial statements.

Anti-takeover provisions in Delaware law and in our charter, bylaws and shareholder rights plan could delay or prevent an acquisition of USEC.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of our company, even if a change of control would be beneficial to our existing shareholders. Our certificate of incorporation, or charter, establishes restrictions on foreign ownership of our securities. Other provisions of our charter and bylaws may make it more difficult for a third party to acquire control of us without the consent of our board of directors. We also have adopted a shareholder rights plan, which could increase the cost of, or prevent, a takeover attempt. These various restrictions could deprive shareholders of the opportunity to realize takeover premiums for their shares.

Item 1B. ***Unresolved Staff Comments***

None.

Item 3. ***Legal Proceedings***

DOE Contract Services Matter

The U.S. Department of Justice ("DOJ") asserted in a letter to USEC dated July 10, 2006 that DOE may have sustained damages in an amount that exceeds $6.9 million under USEC's contract with DOE for the supply of cold standby services at the Portsmouth plant. DOJ indicated that it was assessing possible violations of the Civil False Claims Act ("FCA") and related claims in connection with invoices submitted under that contract. We have responded to DOJ's letter and have been cooperating with DOJ and the DOE Office of Investigations with respect to their inquiries into this matter. We continue to believe that the government does not have any legitimate bases for asserting any FCA or related claims under the cold standby contract, and intend to defend vigorously any such claim that might be asserted against it.

Other

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

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

None

Executive Officers of the Company

Executive officers are elected by and serve at the discretion of the Board of Directors. Executive officers at February 15, 2007 follow:

Name	Age	Position
John K. Welch	56	President and Chief Executive Officer
John C. Barpoulis	42	Senior Vice President and Chief Financial Officer
Timothy B. Hansen	43	Senior Vice President, General Counsel and Secretary
Philip G. Sewell	60	Senior Vice President, American Centrifuge and Russian HEU
Robert Van Namen	45	Senior Vice President, Uranium Enrichment
W. Lance Wright	59	Senior Vice President, Human Resources and Administration
John M.A. Donelson	42	Vice President, Marketing and Sales
Stephen S. Greene	49	Vice President and Treasurer
Victor N. Lopiano	56	Vice President, American Centrifuge
J. Tracy Mey	46	Controller and Chief Accounting Officer
E. John Neumann	59	Vice President, Government Relations
Russell B. Starkey, Jr.	64	Vice President, Operations

John K. Welch has been President and Chief Executive Officer since September 2005. Prior to joining USEC, Mr. Welch served as a consultant to several government and corporate entities. Mr. Welch was Executive Vice President and Group Executive, Marine Systems for General Dynamics Corporation from January 2000 to March 2003, and President of General Dynamics Electric Boat from 1995 to 2000.

John C. Barpoulis has been Senior Vice President and Chief Financial Officer since August 2006. Mr. Barpoulis joined USEC as Vice President and Treasurer in March 2005 and served as Treasurer until February 2007. Prior to joining USEC, Mr. Barpoulis was Vice President and Treasurer of National Energy & Gas Transmission, Inc. (formerly a subsidiary of PG&E Corporation) and certain of its subsidiaries from 2003 to March 2005 and was Vice President and Assistant Treasurer from 2000 to 2003. National Energy & Gas Transmission, Inc. and certain of its subsidiaries filed for protection under Chapter 11 of the United States Bankruptcy Code in July 2003.

Timothy B. Hansen has been Senior Vice President, General Counsel and Secretary since August 2002. Mr. Hansen left USEC in November 2004 and returned in January 2005 to serve as General Counsel and Secretary on an interim, part-time basis. He returned to his current position in September 2005. Mr. Hansen has held positions of progressively more responsibility since joining USEC as Assistant General Counsel in 1994.

Philip G. Sewell has been Senior Vice President, American Centrifuge and Russian HEU since September 2005. Mr. Sewell was Senior Vice President directing international activities and corporate development programs since August 2000 and assumed responsibility for the American Centrifuge program in April 2005. Prior to that, Mr. Sewell was Vice President, Corporate

Development and International Trade since April 1998, and was Vice President, Corporate Development since 1993.

Robert Van Namen has been Senior Vice President, Uranium Enrichment since September 2005. Mr. Van Namen was Senior Vice President directing marketing and sales activities since January 2004 and was Vice President, Marketing and Sales since January 1999. Prior to joining USEC, Mr. Van Namen was Manager of Nuclear Fuel for Duke Power Company.

W. Lance Wright has been Senior Vice President, Human Resources and Administration since February 2005, and was Vice President, Human Resources and Administration since August 2003. Prior to joining USEC, Mr. Wright was Vice President and Principal of Boyden Global Executive Search since January 2002, and previously held director and manager positions in Human Resources at ExxonMobil Corporation since 1986.

John M.A. Donelson has been Vice President, Marketing and Sales since December 2005 and was previously Director, North American and European Sales since June 2004, Director, North American Sales since August 2000 and Senior Sales Executive since July 1999.

Stephen S. Greene was named Vice President and Treasurer in February 2007. Prior to joining USEC, Mr. Greene was a Vice President and Executive Director of Pace Global Energy Services, an energy consulting firm, from January 2006 to January 2007. Previously, Mr. Greene was a Vice President of Progress Energy, an electric utility holding company, and prior to that a Vice President of National Energy & Gas Transmission, Inc. (formerly a subsidiary of PG&E Corporation).

Victor N. Lopiano has been Vice President, American Centrifuge since December 2005 and was Director, Projects in USEC's corporate development department since January 2000. Mr. Lopiano joined USEC in 1996 as USEC's senior manager at the Lawrence Livermore National Laboratory. Prior to joining USEC, Mr. Lopiano held senior management positions with various business units of ABB, Inc. over an 11-year period including Senior Vice President, Operations, ABB Environmental Systems; Vice President, ABB Project Services, Power Plant Systems; and Vice President, Engineering & Facility Operations, ABB Resource Recovery Systems.

J. Tracy Mey was named Controller and Chief Accounting Officer in January 2007 and was Controller since June 2005. Prior to joining USEC, Mr. Mey was Controller and Chief Accounting Officer of Power Services Company, a national energy company and former subsidiary of PG&E Corporation, from June 2004 to May 2005, and previously was Corporate Controller of National Energy & Gas Transmission, Inc. (formerly a subsidiary of PG&E Corporation) since 1994.

E. John Neumann has been Vice President, Government Relations since April 2004. Prior to joining USEC, Mr. Neumann was Vice President, Government Relations, for the Edison Electric Institute since 1995.

Russell B. Starkey, Jr. has been Vice President, Operations since February 2005 and was General Manager of the Paducah plant since October 2001, Training Manager since April 1998 and Senior Staff Consultant since October 1997.

PART II

Item 5. ***Market for Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

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

	2006		2005	
	High	Low	High	Low
First Quarter ended March 31	$ 15.84	$11.08	$ 18.69	$ 9.39
Second Quarter ended June 30	14.65	9.74	16.95	11.94
Third Quarter ended September 30	12.18	9.19	16.25	9.79
Fourth Quarter ended December 31	13.52	9.35	12.95	9.05

USEC declared and paid a dividend of 13.75 cents per share in each quarter of 2005. In February 2006, the Board of Directors voted to discontinue paying a common stock dividend in order to redirect those funds to reduce the level of external financing needed for construction of the American Centrifuge Plant. Accordingly, we have no intention to pay cash dividends in the foreseeable future.

There are 250 million shares of common stock and 25 million shares of preferred stock authorized. At January 31, 2007, there were 87,114,000 shares of common stock issued and outstanding and approximately 37,000 beneficial holders of common stock. No preferred shares have been issued.

The following table gives information about the Company's common stock that may be issued under the USEC Inc. 1999 Equity Incentive Plan and Employee Stock Purchase Plan as of December 31, 2006.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,212,000	$ 9.45	7,690,000(1)
Equity compensation plans not approved by security holders	—	—	—
Total	1,212,000		7,690,000

(1) Includes 7,543,000 shares available for issuance under the USEC Inc. 1999 Equity Incentive Plan (net of awards which terminate or are cancelled without being exercised or that are settled for cash) and 147,000 shares available for issuance under the Employee Stock Purchase Plan.

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

To comply with statutory requirements and to meet conditions for maintaining NRC certification of the plants, our certificate of incorporation, or charter, sets forth restrictions on foreign ownership of securities, including a provision prohibiting foreign persons (as defined in the charter) from collectively having beneficial ownership of more than 10% of our voting securities. Our charter also contains enforcement mechanisms with respect to the foreign ownership restrictions, including suspension of voting rights, redemption of such shares and/or the refusal to recognize the transfer of shares on our record books.

Fourth Quarter 2006 Issuer Purchases of Equity Securities

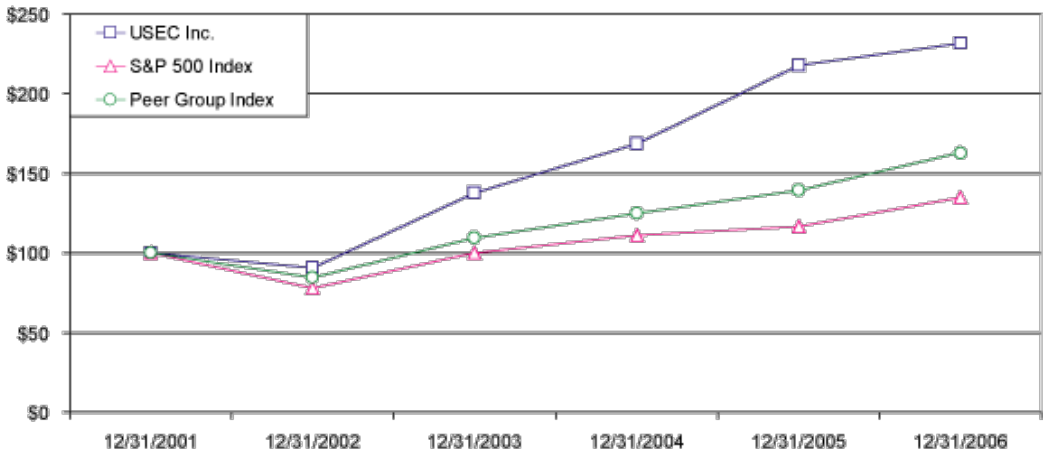
Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 – October 31	—	—	—	—
November 1 – November 30	1,631	$ 10.52	—	—
December 1 – December 31	1,839	$ 12.97	—	—
Total	**3,470**	**$ 11.82**	**—**	**—**

(1) These purchases were not made pursuant to a publicly announced repurchase plan or program. Represents 3,470 shares of common stock surrendered to USEC to pay withholding taxes in connection with the vesting of restricted stock under the 1999 Equity Incentive Plan.

In 2006, we did not make any unregistered sales of equity securities.

PERFORMANCE GRAPH

The following graph shows a comparison of cumulative total returns for an investment in the common stock of USEC Inc., the S&P 500 Index, and a peer group of companies. USEC is the only U.S. company in the uranium enrichment industry. However, USEC has identified a peer group of companies that share similar business attributes with it. This group includes utilities with nuclear power generation capabilities, chemical processing companies, and aluminum companies. USEC supplies companies in the utility industry, and its business is similar to that of chemical processing companies. USEC shares characteristics with aluminum companies in that they are both large users of electric power. The graph reflects the investment of $100 on December 31, 2001 in the Company's common stock, the S&P 500 Index and the peer group, and reflects the reinvestment of dividends.



	December 31, 2001	December 31, 2002	December 31, 2003	December 31, 2004	December 31, 2005	December 31, 2006
USEC Inc.	$ 100.00	$ 90.74	$ 137.46	$ 168.92	$ 217.81	$ 231.84
S&P 500 Index	$ 100.00	$ 77.90	$ 100.24	$ 111.15	$ 116.61	$ 135.02
Peer Group Index[1]	$ 100.00	$ 84.68	$ 109.48	$ 125.13	$ 139.15	$ 163.21

(1) The Peer Group consists of: Air Products and Chemicals, Inc., Albemarle Corporation, Alcoa Inc., Constellation Energy Group, Inc., Dominion Resources, Inc., Duke Energy Corporation, Eastman Chemical Company, Exelon Corporation, Georgia Gulf Corporation, NL Industries, Inc., PPL Corporation, Praxair, Inc., Progress Energy, Inc., The Southern Company, and XCEL Energy Inc. In accordance with SEC requirements, the return for each issuer has been weighted according to the respective issuer's stock market capitalization at the beginning of each year for which a return is indicated.

Item 6. ***Selected Financial Data***

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. Selected financial data as of and for the years ended December 31, 2006, 2005, 2004 and 2003, the six-month period ended December 31, 2002, and the fiscal year ended June 30, 2002, have been derived from consolidated financial statements that have been audited by independent public accountants. In 2002, the Board of Directors approved a change in fiscal year end from June 30 to December 31, effective December 31, 2002.

	Years Ended December 31,					Six-Month Period Ended December 31,	Fiscal Year Ended June 30,
	2006	2005	2004	2003	2002 (Unaudited)	2002	2002
	(millions, except per share data)						
Revenue:							
Separative work units	$ 1,337.4	$ 1,085.6	$ 1,027.3	$1,110.8	$ 1,181.5	$ 668.0	$1,289.3
Uranium	316.7	261.3	224.0	159.9	75.3	43.2	116.9
U.S. government contracts and other	194.5	212.4	165.9	166.0	123.4	69.6	102.6
Total revenue	1,848.6	1,559.3	1,417.2	1,436.7	1,380.2	780.8	1,508.8
Cost of sales:							
Separative work units and uranium	1,349.2	1,148.4	1,071.6	1,124.1	1,174.2	675.2	1,305.7
U.S. government contracts and other	162.5	181.4	151.5	150.2	115.2	66.0	100.9
Total cost of sales	1,511.7	1,329.8	1,223.1	1,274.3	1,289.4	741.2	1,406.6
Gross profit	336.9	229.5	194.1	162.4	90.8	39.6	102.2
Special charges (credits), net	3.9(1)	7.3(2)	—	—	(6.7)(3)	—	(6.7)(3)
Advanced technology costs	105.5	94.5	58.5	44.8	22.9	16.0	12.6
Selling, general and administrative	48.8	61.9	64.1	69.4	54.1	27.6	50.7
Other (income) expense, net	—	(1.0)(4)	(1.7)(5)	—	—	—	—
Operating income (loss)	178.7	66.8	73.2	48.2	20.5	(4.0)	45.6
Interest expense	14.5	40.0	40.5	38.4	36.5	18.6	36.3
Interest (income)	(6.2)	(10.5)	(3.9)	(5.4)	(7.0)	(3.2)	(8.7)
Income (loss) before income taxes	170.4	37.3	36.6	15.2	(9.0)	(19.4)	18.0
Provision (credit) for income taxes	64.2	15.0	13.1	6.2	(5.0)	(6.7)	4.5
Net income (loss)	**$ 106.2**	**$ 22.3**	**$ 23.5**	**$ 9.0**	**$ (4.0)**	**$ (12.7)**	**$ 13.5**
Net income (loss) per share – basic and diluted	$ 1.22	$ .26	$ .28	$ .11	$ (.05)	$ (.16)	$ .17
Dividends per share	$ —	$ .55	$ .55	$ .55	$ .55	$ .275	$ .55

	December 31,					June 30,
	2006	2005	2004	2003	2002	2002
			(millions)			
Balance Sheet Data						
Cash, cash equivalents, and short-term investments	$ 171.4	$ 259.1	$ 174.8	$ 249.1	$ 171.1	$ 279.2
Inventories:						
Current	900.0	974.3	1,009.4	883.2	862.1	889.7
Long-term	24.2	71.4	156.2	266.1	390.2	415.5
Total assets	1,861.4	2,080.8	2,003.4	2,134.8	2,108.4	2,228.2
Current portion of long-term debt	—	288.8	—	—	—	—
Long-term debt	150.0	150.0	475.0	500.0	500.0	500.0
Other long-term liabilities	300.3	270.2	244.4	256.0	265.0	263.2
Stockholders' equity	986.0	907.6	918.7	923.6	953.5	986.4

(1) Special charges of $3.9 million in 2006 include a $2.6 million impairment of an intangible asset established in 2004 relating to the acquisition of NAC, $1.5 million related to consolidation of office space in connection with the 2005 restructuring plan, and special credits totaling $0.2 million representing changes in estimate of costs for termination benefits charged in 2005.

(2) The plan to restructure headquarters and field operations resulted in special charges of $7.3 million in 2005 related to termination benefits, principally consisting of severance benefits.

(3) The special credit of $6.7 million in the fiscal year ended June 30, 2002, represented a change in estimate of costs for consolidating plant operations originally accrued in the fiscal year ended June 30, 2000.

(4) Other income in 2005 includes $1.0 million from customs duties paid to USEC as a result of trade actions.

(5) Other income in 2004 includes income of $4.4 million from customs duties paid to USEC as a result of trade actions, partly offset by an expense of $2.7 million for acquired-in-process research and development expense relating to the acquisition of NAC.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

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

Overview

USEC, a global energy company, is a leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. We, either directly or through our subsidiaries United States Enrichment Corporation and NAC International Inc. ("NAC"):

- supply LEU to both domestic and international utilities for use in about 150 nuclear reactors worldwide,
- are the exclusive executive agent for the U.S. government under a nuclear nonproliferation program with Russia, known as Megatons to Megawatts,
- are in the process of demonstrating, and expect to deploy, what we expect to be the world's most efficient uranium enrichment technology, known as the American Centrifuge,
- perform contract work for the U.S. Department of Energy ("DOE") and DOE contractors at the Paducah and Portsmouth plants, and
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services, including nuclear materials tracking.

Low Enriched Uranium

LEU is sold and measured by two components: separative work units ("SWU") and uranium. SWU is a standard unit of measurement which represents the effort required to transform a given amount of natural uranium into two components: enriched uranium having a higher percentage of U^{235} and depleted uranium having a lower percentage of U^{235}. The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment. The amount of enrichment contained in LEU under this formula is commonly referred to as the SWU component.

We produce or acquire LEU from two principal sources. We produce LEU at the gaseous diffusion plant in Paducah, Kentucky, and we acquire LEU from Russia under a contract (the "Russian Contract") to purchase the SWU component of LEU recovered from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants.

Our View of the Business Today

The nuclear industry today is at its best point in more than two decades as governmental policy, public acceptance, environmental concerns about global warming and economics have joined together to promote new nuclear power plant construction in the United States and many other nations. Better performance, lower costs and a lengthening record of safety at the existing fleet of 435 commercial reactors worldwide have served to improve the reputation of nuclear power as a solution to a growing demand for electricity. The World Nuclear Association recently estimated a net addition of approximately 70 reactors worldwide by 2015. In the United States, utilities and consortiums of utilities have indicated to the U.S. Nuclear Regulatory Commission ("NRC") that they intend to apply for construction and operating licenses over the next several years for more than 25 new reactors. In addition, many existing U.S. reactors are being licensed to operate for 20 additional years.

The market price for our product has improved recently. Market fundamentals suggest that SWU prices should remain firm as supply and demand for LEU needed to fuel the next generation of reactors seeks a balance. We see our role in the nuclear fuel cycle as essential to the success of the revival of nuclear power.

It is against this positive backdrop that we are working to deploy a new generation of uranium enrichment technology. We currently operate a 50-year-old plant that employs an energy intensive technology, which we are working to replace with the more efficient American Centrifuge Plant in order to remain competitive. The path to financing and building the American Centrifuge Plant has significant challenges over the next several years, and 2007 will be a critical year for USEC.

Our primary challenges include addressing a decline in gross profit margins resulting from electric power costs increasing faster than we can realize higher prices under existing contracts with our customers, financing the construction of the American Centrifuge and scaling up to produce thousands of complex centrifuge machines for the American Centrifuge Plant.

In 2006, we entered into a one-year pricing agreement to purchase electric power from the Tennessee Valley Authority ("TVA"). We have a 10-year agreement with TVA to provide electricity to our Paducah gaseous diffusion plant through May 2010. The first six years of that agreement established power prices at an industrial rate that recognized USEC as a unique customer with an attractive power load profile. The one-year pricing agreement signed in 2006 increased the price we pay TVA for power by approximately 50%, and introduced additional risk through a fuel cost adjustment provision that allows TVA to pass on fuel-related costs to USEC each month. As the higher cost of power rolls through our SWU inventory, our cost of sales will increase during 2007 and put significant pressure on our gross profit margin. We are currently negotiating with TVA regarding power prices beyond May 31, 2007. Although energy prices are generally lower than one year ago and TVA is expected to restart its Browns Ferry 1 nuclear plant this spring, we have no assurance that the price we pay going forward will be lower than the current agreement. Thus, the high cost of energy likely will continue to adversely affect our gross profit margin until the American Centrifuge Plant is complete.

We have benefited from a rise in SWU and uranium prices in recent years. Over the two-year period ended December 31, 2006, SWU and uranium prices have increased 27 percent and 156 percent, respectively. However, the long-term nature of nuclear fuel contracts and the lack of immediate contractual adjustments for higher production costs mean that our average price billed to customers will rise at a slower rate than our cost of sales, and our gross profit margin is expected to decline from 18 percent in 2006 to roughly 9 to 10 percent in 2007. In addition, an inventory of natural uranium that has provided us with substantial earnings and cash flow in recent years will be substantially depleted by the end of 2007, further pressuring our profitability. We now include formulas in new contracts to supply LEU that take into account power prices in the United States, changes to the market price of SWU and inflation. As we sign more contracts at higher prices and more favorable terms, and our older, lower priced contracts expire, the increased revenues earned will begin to offset the higher cost of sales.

To supplement our production, we purchase the SWU component of LEU that we order from Russia under a 20-year government-to-government agreement that we refer to as "Megatons to Megawatts." The pricing formula for these purchases uses a discount off an index of U.S. and international price points. Because recent increases in market prices for SWU have pushed up these price points substantially, the price we pay Russia will also increase. While our newer sales contracts include pricing formulas that will generate higher prices in the future, many of our current deliveries of LEU are being made under older, lower priced contracts. As a result, we expect that the price we pay Russia for SWU will increase faster than our average price billed to customers increases, further pressuring gross profit margins. In addition, we must transfer to Russia natural uranium equivalent to the natural uranium component of LEU delivered to us. As uranium prices have gone up, utility

customers have used contractual flexibility to reduce the amount of uranium they deliver to USEC for the LEU we deliver to them under their contracts to purchase SWU. Because the amount of uranium that must be transferred to Russia is fixed under the Russian Contract, this has resulted in a mismatch between the amount of uranium that we must give TENEX for the Russian LEU delivered to us and the uranium that we later receive from the customers to whom we choose to deliver the Russian LEU. We currently have sufficient uranium supplies to meet our obligations under the Russian Contract, but we may need to obtain additional uranium in future years to make up the difference created by this mismatch.

A stable domestic enrichment market is essential to the successful financing and deployment of the American Centrifuge technology. In the past, unrestrained Russian imports undermined the stability of the domestic market and the U.S. government proposed significant tariffs on Russian uranium imports. Those tariffs were not implemented after the Russian government signed a Suspension Agreement with the U.S. Department of Commerce that essentially restricts direct Russian access to the U.S. market but allows LEU imports under the Megatons to Megawatts program. In 2006, at the conclusion of its periodic review of the continued need for that Suspension Agreement, the U.S. International Trade Commission found that elimination of existing restrictions on Russian imports would likely result in material injury to the U.S. uranium industry. Nonetheless, the Russian government continues to seek greater access to the U.S. market and has stated that it does not intend to extend the Megatons to Megawatts program beyond 2013. The two governments have been in discussions that could result in providing limited Russian access to the U.S. market after 2013. Given the high priority that the Bush Administration has placed on building new nuclear power plants in the United States and the importance of a secure domestic nuclear fuel supply, we believe the U.S. government will seek reasonable limits on Russian imports beyond 2013. We support this balanced approach that will provide the market with needed Russian LEU while sustaining a stable domestic enrichment market that can support investment in new uranium enrichment facilities. If, however, Russia were permitted to make significant sales in the U.S. market, or to begin selling before we have secured an adequate backlog of sales of the LEU produced by the American Centrifuge plant, that would present a significant risk that long-term SWU prices could drop to a level where USEC could no longer justify an investment in the American Centrifuge Plant.

We believe the American Centrifuge technology is essential to the successful renaissance of nuclear power in the United States. Utilities must be certain that there will be a dependable supply of nuclear fuel before investing billions of dollars in new nuclear power plants. The American Centrifuge can be a reliable and cost-effective source of enriched uranium for USEC's customers for decades to come. We, in turn, must ensure that our shareholders can earn a reasonable return on their investment in a new enrichment plant.

In mid-2006, USEC decided to delay building its Lead Cascade of centrifuges to allow for additional testing of individual machines at facilities in Oak Ridge, Tennessee. This resulted in a delay of about one year, but the USEC project team at Oak Ridge has successfully tested machines with an output of approximately 350 SWU, per machine, per year. USEC had set a target performance of 320 SWU per machine, per year, which was about eight times higher than the next best commercially deployed centrifuge. The improved performance to date adds approximately 300,000 SWU to the previously expected plant capacity of 3.5 million SWU and partially offset the long-term economic impact of increases in construction costs.

USEC's project team has frozen the design of the centrifuge machine that will be deployed over the next several months in the initial Lead Cascade. This Lead Cascade, which is expected to be in operation by mid-year, will provide important performance and reliability data for the project.

USEC recently completed a comprehensive review of the cost of deploying the American Centrifuge Plant. Based on this review, we have revised our estimate for the cost of the plant. This estimate reflects the progress we have made to date in demonstrating the American Centrifuge technology, and our understanding of the work remaining to be done to complete demonstration and commercial deployment of the technology. In the process of revising our estimate, we solicited substantial input from the companies we have engaged to work with us in deploying the technology, including Honeywell International, Alliant Techsystems, Boeing Company, and Fluor Enterprises.

Based on this review, USEC has a target estimate for the cost of deployment of $2.3 billion in nominal dollars, including amounts already spent and not including costs of financing or a reserve for general contingencies. The initial estimate of $1.7 billion for deployment of American Centrifuge was an update and extrapolation of cost projections prepared for DOE's centrifuge project. Increases in the costs of key materials that will be needed to manufacture the centrifuges and of the commodities that will be used in construction of the balance of the plant have resulted in strong upward cost pressures in our estimates. However, the expected increase in SWU output of individual centrifuges results in an anticipated increase in plant capacity that should help to offset some of these cost increases over the long term.

Our target cost estimate is subject to change as certain key variables are difficult to quantify with certainty at this stage of the project. These include potential increases in the market price for key materials and the cost of manufacturing complex centrifuge machine components on a commercial scale. In addition, the target estimate maintains an ambitious schedule for demonstration and deployment activities and reflects certain cost savings we expect to achieve in 2007 and beyond. We are pursuing cost mitigation approaches involving value engineering, high volume manufacturing efficiencies and system/component refurbishment versus replacement to meet our target estimate and help offset potential future cost increases as we proceed from demonstration to deployment of the project.

We have been funding the American Centrifuge project through internally generated cash since 2002 when we signed the DOE-USEC Agreement and entered into a Cooperative Research and Development Agreement. We expect to have sufficient cash or access to cash through our bank credit facility to fund project activities in 2007, including building and evaluating the Lead Cascade. We expect to spend approximately $340 million in 2007 on the American Centrifuge project. The rate of planned investment will increase substantially after 2007 under our new deployment schedule, with spending in 2008 currently projected to be about double the level of 2007.

During the past four years, we have spent $371 million from internally generated cash to develop and demonstrate the American Centrifuge technology. To fund the balance of the American Centrifuge project, our plan has been to use internally generated cash flow together with funds raised through equity and debt offerings. Given the declining level of cash generated by our existing operations due primarily to increases in electric power costs, the increase in cost to complete the American Centrifuge project and the current level of perceived risk in the project, we will need some form of investment or other participation by a third party and/or the U.S. government to raise the capital required in 2008 and beyond to complete the project on our deployment schedule. We have been exploring such investment or other participation with companies that might have a strategic interest in the nuclear fuel business and with the U.S. government, which we believe has an interest in the deployment of U.S.-owned centrifuge technology. We have also been exploring ways in which our customers and American Centrifuge project participants and vendors could help support the financing of the project. In addition, we continue to pursue operational initiatives to improve our financial position and increase the probability of a successful financing of the project.

We are focused on meeting theses substantial challenges, and we are excited about the prospects for the nuclear power industry and the important role that USEC will play in fueling that future. We believe that over the longer term, the deployment of the American Centrifuge Plant will provide our customers with an efficient and reliable source of low enriched uranium, and that our production costs will be more predictable and stable than under the current technology's variable and high power costs. In addition, the American Centrifuge Plant will provide the United States with energy security for nuclear fuel, which provides substantial national security benefits.

Revenue from Sales of SWU and Uranium

The majority of our customers are domestic and international utilities that operate nuclear power plants. Revenue is derived primarily from:

- sales of the SWU component of LEU,
- sales of both the SWU and uranium components of LEU, and
- sales of uranium.

Our agreements with electric utility customers are primarily long-term contracts under which they are obligated to purchase a specified quantity of SWU or uranium or a percentage of their annual SWU or uranium requirements. Under requirements contracts, our customers are not obligated to make purchases if the reactor does not have requirements. Backlog is the aggregate dollar amount of SWU and uranium that we expect to sell under contracts with utilities. At December 31, 2006, we had contracts with utilities aggregating an estimated $7.0 billion through 2015 ($6.7 billion through 2012, including $1.5 billion expected to be delivered in 2007), compared with $5.9 billion at December 31, 2005. Backlog is partially based on customers' estimates of their fuel requirements and certain other assumptions, including our estimates of selling prices and inflation rates. Such estimates are subject to change. Some contracts include pricing elements based on market prices prevailing at the time of delivery. We use an external composite forecast of future market prices in our estimate. Pricing under some new contracts is subject to escalation based on a broad power price index. For purposes of the backlog, we assume increases to the power price index in line with overall inflation rates.

Our revenues and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer requirements are determined by refueling schedules for nuclear reactors, which are affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Our revenue could be adversely affected by actions of the NRC or nuclear regulators in foreign countries issuing orders to delay, suspend or shut down nuclear reactor operations within their jurisdictions.

Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons. Customer payments for the SWU component of LEU typically average $12 million per order. Customer requirements and orders are more predictable over the longer term, and we believe our performance is best measured on an annual, or even longer, business cycle.

Our financial performance over time can be significantly affected by changes in prices for SWU. The SWU price indicator for new long-term contracts, as published by TradeTech in Nuclear Market Review, is an indication of base year prices under new long-term enrichment contracts in our primary markets. The long-term price for uranium hexafluoride, as calculated using indicators published in Nuclear Market Review, the spot price indicator for uranium hexafluoride, and the SWU price indicator as of year-end follow:

	December 31,		
	2006	2005	2004
SWU price indicator ($/SWU)	$ 136.00	$ 113.00	$107.00
Uranium hexafluoride:			
Spot price indicator ($/KgU)	199.00	106.00	63.00
Long-term price composite ($/KgU)	192.54	106.06	75.32

Since our backlog includes contracts awarded to us in previous years, the average SWU price billed to customers typically lags the current price indicators. While the SWU price indicator increased 6% in 2005 and 20% in 2006, our average SWU price billed to customers increased 2% in 2005 and 5% in 2006. We expect this trend of steady increases in our average SWU price billed to customers to continue with increasing sales under newer contracts.

Most of our uranium inventory has been committed under sales contracts with utility customers, and the positive impact of higher prices is limited to sales under new contracts and to sales under contracts with prices determined at the time of delivery.

A substantial portion of our earnings and cash flows in recent years has been derived from sales of uranium. Revenue from uranium sales, and related earnings and cash flows, will decrease as our inventory of uranium available for sale is depleted. The volume of uranium sold declined 17% in 2006 compared to 2005, and we expect the volume to be about 50-60% lower in 2007 compared to 2006 reflecting the substantial completion of sales of our uranium inventory as this inventory is depleted.

We will continue to supplement our supply of uranium by underfeeding the production process at the Paducah plant, as long as it continues to be economical, and by purchasing uranium from suppliers in connection with specific customer contracts. Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we vary our production process to underfeed uranium based on the economics of the cost of electric power relative to the price of uranium. Although rising uranium prices in the market may continue to make underfeeding economical, increases in power costs reduce the benefits to us of underfeeding.

We also use our uranium inventories (including uranium generated by underfeeding) to supply uranium to the Russian Federation for the LEU we receive under the Russian Contract. We replenish this uranium with uranium supplied by customers under our contracts for the sale of SWU. SWU quantities in the LEU we order from Russia under the Russian Contract are calculated based on a fixed U^{235} assay of depleted uranium ("tails assay") of 0.3%. However, due to the high market price of uranium, many of our customers are currently exercising rights under their contracts to order LEU based on a tails assay of less than 0.3%. This means that more SWU, but less uranium, is associated with the LEU we deliver to these customers than would be the case if the customers ordered LEU at a tails assay of 0.3%. Our new sales contracts require customers to deliver amounts of natural uranium that are closer to the amounts we deliver under the Russian Contract. However, customers who receive Russian LEU under older contracts that include the right to select a tails assay lower than 0.3% deliver to us less uranium than we deliver to the Russian Federation for that LEU. This creates a shortfall of uranium that we must make up. We can make up some of this shortfall through underfeeding, but over time underfeeding may not produce sufficient uranium to account for the full amount of the shortfall. If this happens, we will have to purchase uranium to deliver to Russia. Given the substantial increase in market prices for uranium, this will increase our cost of sales. Some of the increase is partially offset by higher revenues on the sale of the increased quantity of SWU associated with LEU ordered by customers at tails assays lower than 0.3%.

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

Revenue from U.S. Government Contracts

We perform and earn revenue from contract work for DOE and DOE contractors at the Paducah and Portsmouth plants, including contracts for cold standby and processing out-of-specification uranium at the Portsmouth plant. DOE and USEC have periodically extended the cold standby program, most recently through the end of April 2007. The program was modified beginning in 2006 to include actions necessary to transition to a preliminary decontamination and decommissioning program ("cold shutdown"). Processing of USEC-owned out-of-specification uranium under contract with DOE was completed in October 2006, and we expect that the processing of DOE-owned out-of-specification uranium for DOE will continue through September 2008. Continuation of U.S. government contracts is subject to DOE funding and Congressional appropriations, and the processing of out-of-specification uranium is currently funded through February 2008. Revenue from U.S. government contracts is based on allowable costs determined under government cost accounting standards. Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs and are subject to audit by the Defense Contract Audit Agency. Revenue from U.S. government contracts includes revenue from NAC.

Cost of Sales

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

We have agreed to purchase approximately 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Over the life of the 20-year Russian Contract, we expect to purchase about 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium, and as of December 31, 2006, we had purchased 54 million SWU contained in LEU derived from 292 metric tons of highly enriched uranium, the equivalent of about 11,700 nuclear warheads. Purchases under the Russian Contract approximate 50% of our supply mix. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of the index is used to minimize the disruptive effect of short-term market price swings. Increases in these price points in recent years have resulted, and likely will continue to result, in increases to the index used to determine prices under the Russian Contract.

The Russian Contract provides that, after the end of 2007, the parties may agree on appropriate adjustments, if necessary, to ensure that the Russian Executive Agent receives at least approximately $7.6 billion for the SWU component over the 20-year term of the Russian Contract through 2013. We do not expect that any adjustments will be required. Officials of the Russian government have announced that Russia will not extend the Russian Contract or the government-to-government agreement it implements, beyond 2013. Accordingly, we do not anticipate that we will purchase significant quantities of Russian SWU after 2013.

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. In 2006, the power load at the Paducah plant averaged 1,370 megawatts. We purchase electric power for the Paducah plant under a multiyear power contract signed with TVA in 2000. On June 1, 2006, fixed, below market prices under the 2000 TVA power contract expired and a new one-year pricing agreement went into effect. Costs for electric power increased from approximately 60% of production costs at the Paducah plant to approximately 70%. The new pricing, which consists of a summer and a non-summer power price, is about 50% higher than the previous pricing. This price is also subject to a fuel cost adjustment to reflect changes in TVA's fuel costs, purchased power costs, and related costs. For power purchases through December 2006, fuel cost adjustments equaled an average 8% increase over base prices under the new one-year pricing agreement, and we expect that fuel cost adjustments will continue to have a negative impact on us over the term of the one-year agreement. The increase in electric power costs has significantly increased overall LEU production costs, and will increasingly reduce our gross profit margin and cash flow.

The quantity of power purchases under the one-year agreement ranges from 300 megawatts at all hours in the summer months (June – August) to 1,600 megawatts at all hours in the non-summer months. In addition, we can request additional power supply from TVA at market-based prices. Consistent with past practice, TVA made available and we purchased, at market-based prices, an additional 600 megawatts of power at all hours during the summer months of 2006. Negotiations with TVA for the quantity and prices of power after June 1, 2007 are expected to be finalized during the second quarter.

We are required to provide financial assurance to support our payment obligations to TVA. These include an irrevocable letter of credit and weekly prepayments based on the price and our usage of power.

We store depleted uranium at the Paducah and Portsmouth plants and accrue estimated costs for its future disposition. We anticipate that we will send most or all of our depleted uranium to DOE for disposition unless a more economic disposal option becomes available. DOE is constructing facilities at the Paducah and Portsmouth plants to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process our depleted uranium if we provided it to DOE. If we were to dispose of our uranium in this way, we would be required to reimburse DOE for the related costs of disposing our depleted uranium, including our pro rata share of DOE's capital costs. Processing DOE's depleted uranium is expected to take about 25 years. The timing of the disposal of our depleted uranium has not been determined. The long-term liability for our depleted uranium disposition is dependent upon the volume of the depleted uranium that we generate and estimated processing, transportation and disposal costs. The liability for depleted uranium disposition, based on current-dollar cost estimates, is $71.5 million at December 31, 2006. This liability could increase by an estimated $20 to $25 million per year depending on production volumes until a disposal agreement or methodology is determined. In addition, changes in the accrued liability resulting from changes in the estimated unit cost affect results of operations for accumulated depleted uranium, and production costs for depleted uranium generated thereafter. Our estimate of the unit cost is based primarily on estimated cost data obtained from DOE without consideration given to contingencies or reserves, and was increased by 2% in the second quarter of 2006.

The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance. Our estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Our estimated cost and accrued liability, as well as financial assurance we provide for the disposition of depleted uranium, are subject to change as additional information becomes available.

Advanced Technology Costs

We continue our substantial efforts at developing and deploying the American Centrifuge technology as a replacement for the gaseous diffusion technology used at our Paducah plant. Expenditures related to American Centrifuge technology for the twelve months ended December 31, 2006, 2005, and 2004, as well as to-date activity, follow (in millions):

	2006	2005	2004	Cumulative as of December 31, 2006
Total expenditures (A)	$ 144.5	$ 108.7	$ 64.2	$ 370.7
Amount expensed	$ 103.3	$ 92.7	$ 58.1	$ 307.4
Amount capitalized (B)	$ 41.2	$ 16.0	$ 6.1	$ 63.3

(A) Total expenditures are all American Centrifuge costs including demonstration facility, licensing activities, commercial plant facility, program management, and interest related costs.

(B) Cumulative capitalized costs include interest of $4.0 million at December 31, 2006, $0.9 million at December 31, 2005, and $0.2 million at December 31, 2004.

For discussions of the target cost estimate and financing plan for the American Centrifuge program, see "Management's Discussion and Analysis – Our View of the Business Today", and "Management's Discussion and Analysis – Liquidity and Capital Resources – Potential Impacts to Liquidity – American Centrifuge Funding", respectively. Risks and uncertainties related to the demonstration, construction and deployment of the American Centrifuge technology are described in Item 1A, "Risk Factors".

Advanced technology costs also include research and development efforts undertaken for NAC, relating primarily to its new generation MAGNASTOR™ dual-purpose dry storage system for spent fuel. MAGNASTOR™, or Modular, Advanced Generation, Nuclear All-purpose Storage System, consists of a concrete cask and a welded stainless steel transportation storage canister with a welded closure lid to safely store spent nuclear fuel. A license application for the MAGNASTOR™ storage system was submitted in 2004 and withdrawn in February 2007 as a result of NRC comments that further analyses regarding the basket design and structural integrity were required in order for them to complete their review. NAC will submit a revised license application in the third quarter of 2007 with expanded confirmatory analysis. We expect final certification by the end of 2008. The design of the MAGNASTOR system was demonstrated in the fourth quarter of 2006 with the fabrication of a prototype basket. The transportation license application is expected to be submitted in the second half of 2007.

Government Investigation of Imports from France

In 2002, the U.S. Department of Commerce ("DOC") imposed antidumping and countervailing duty (anti-subsidy) orders on imports of LEU produced in France. The orders were imposed in response to unfair trading practices by our French competitors in connection with imports of LEU into the United States. Since 2002, these orders have been challenged and impacted by further judicial and administrative actions.

In 2005, in connection with these appeals, the U.S. Court of Appeals for the Federal Circuit concluded that:

- SWU contracts were sales of services, not merchandise, and thus were not subject to the U.S. antidumping law, and
- a subsidy provided through government payments under SWU contracts at above-market prices is not subject to the countervailing duty law.

The orders were remanded to the DOC for further action in light of the Federal Circuit's decision. In March 2006, the DOC determined (i) that the countervailing duty investigation would result in a *de minimis* subsidy margin that would not support imposition of a countervailing duty order on imports of French LEU, and (ii) the antidumping margin applicable to imports of French LEU is slightly higher than the margin found in the original investigation, but is applicable only to LEU sold for cash, and not to LEU supplied under SWU contracts in which the customer delivers uranium and only pays cash for the SWU component of the LEU. The DOC's determinations were affirmed by the Court of International Trade and are now being appealed by USEC to the Federal Circuit. If the Federal Circuit affirms the DOC's determinations, any of the parties to the appeal in turn could petition the U.S. Supreme Court to review the Federal Circuit's decision regarding the remand determinations and orders, as well as the 2005 rulings described above.

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

In June 2006, the DOC terminated the countervailing duty order against imports of LEU produced by Urenco in Germany, the Netherlands and the United Kingdom. No duties had been imposed under this order since 2004, but appeals concerning the findings in the original investigation are still pending. Because these pending appeals would be rendered moot if the Urenco order were terminated, USEC has appealed the termination of the order.

Russian Suspension Agreement

Imports of LEU produced in the Russian Federation are subject to restrictions imposed under the Russian Suspension Agreement ("Russian SA"). In July 2005, the DOC and ITC each initiated a "sunset" review of the Russian SA to determine whether termination of the Russian SA is likely to lead to:

- a continuation or recurrence of dumping of Russian uranium products (a determination made by the DOC), or
- a continuation or recurrence of material injury to the U.S. uranium industry, including USEC (a determination made by the ITC).

USEC supported continuation of the Russian SA in the proceedings before both the DOC and ITC, and actively participated in these proceedings.

On May 30, 2006, the DOC announced that it had determined that termination of the Russian SA would result in a recurrence of dumping. On July 18, 2006, the ITC determined that termination of the Russian SA would result in a recurrence of material injury to the U.S. uranium industry. These determinations mean that, absent reversal on appeal, the Russian SA will not be terminated as a result of this five-year sunset review. However, following each determination, the parties who opposed continuation of the Russian SA, as well as the Russian Federation, have appealed the determinations of the DOC and the ITC to the Court of International Trade. Those appeals are currently pending.

Critical Accounting Estimates

Our significant accounting policies are summarized in note 1 to the consolidated financial statements, which were prepared in accordance with generally accepted accounting principles. Included within these policies are certain policies which require critical accounting estimates and judgments. Critical accounting estimates are those which require management to make assumptions about matters that are uncertain at the time the estimate was made and for which different estimates, often based on complex judgments, probabilities and assumptions that we believe to be reasonable, but are inherently uncertain and unpredictable, could have a material impact on our operating results and financial condition. It is also possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. We are also subject to risks and uncertainties that may cause actual results to differ from estimated amounts, such as the healthcare environment, legislation and regulation.

The sensitivity analyses used below are not intended to provide a reader with our predictions of the variability of the estimates used. Rather, the sensitivities used are included to allow the reader to understand a general cause and effect of changes in estimates.

We have identified the following to be our critical accounting estimates:

Pension and Postretirement Health and Life Benefit Costs and Obligations

We provide retirement benefits under defined benefit pension plans and postretirement health and life benefit plans. The valuation of benefit obligations and costs is based on provisions of the plans and actuarial assumptions that involve judgments and estimates. Changes in actuarial assumptions could impact benefit obligations and benefit costs, as follows:

- The expected return on plan assets was 8.0% for 2006 and is 8.0% for 2007. The expected return is based on historical returns and expectations of future returns for the composition of the plans' equity and debt securities. A 0.5% change in the expected return on plan assets would affect annual pension costs by $3.4 million and postretirement health and life costs by $0.3 million.
- A discount rate of 5.75% was used at December 31, 2006 to calculate the net present value of benefit obligations. The rate is determined based on the investment yield of high quality corporate bonds. A 0.5% reduction in the discount rate would affect the valuation of pension benefit obligations by $47.9 million and postretirement health and life benefit obligations by $9.8 million, and the resulting changes in the valuations would affect annual pension costs by $4.3 million and postretirement health and life costs by $1.0 million.
- The healthcare costs trend rates are 9% projected in 2007 reducing to 5% in 2011. The healthcare costs trend rate represents our estimate of the annual rate of increase in the gross cost of providing benefits. The trend rate is a reflection of health care inflation assumptions, changes in healthcare utilization and delivery patterns, technological advances, and changes in the health status of our plan participants. A 1% increase in the healthcare cost trend rates would affect postretirement health benefit obligations by about $10.1 million and would affect costs by about $1.2 million.

Costs for the Future Disposition of Depleted Uranium and Plant Lease Turnover Costs

SWU and uranium inventories include estimates and judgments for production quantities and production costs. Production costs include estimates of future expenditures for the conversion, transportation, and disposition of depleted uranium, the treatment and disposal of hazardous, low-level radioactive and mixed wastes, and plant lease turnover costs. Lease turnover costs are estimated and are accrued over the expected productive life of the plant. An increase or decrease in production costs has an effect on inventory costs and cost of sales over current and future periods.

We store depleted uranium generated from our operations at the Paducah and Portsmouth plants and accrue estimated costs for its future disposition. We anticipate that we will send most or all of our depleted uranium to DOE for disposition unless a more economic disposal option becomes available. DOE is constructing facilities at the Paducah and Portsmouth plants to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process our depleted uranium if we provided it to DOE. If we were to dispose of our uranium in this way, we would be required to reimburse DOE for the related costs of disposing our depleted uranium, including our pro rata share of DOE's capital costs. Processing DOE's depleted uranium is expected to take about 25 years. The timing of the disposal of our depleted uranium has not been determined. The long-term liability for depleted uranium disposition is dependent upon the volume of depleted uranium that we generate and estimated processing, transportation and disposal costs. Our calculation of the estimated unit cost is based primarily on projected cost data obtained from DOE without consideration given to contingencies or reserves. Our estimate of the unit cost is periodically reviewed as additional information becomes available, and was increased by 2% in the second quarter of 2006.

The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance. Our estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Our estimated cost and accrued liability, as well as financial assurance we provide for the disposition of depleted uranium, are subject to change as additional information becomes available.

The amount and timing of future costs could vary from amounts accrued. Accrued liabilities for depleted uranium and lease turnover costs are $71.5 million and $55.5 million, respectively, as of December 31, 2006.

American Centrifuge Technology Costs

Costs relating to the demonstration and deployment of the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities and estimates and judgments involving the completion of project milestones. Centrifuge costs relating to the demonstration of American Centrifuge technology are charged to expense as incurred. Demonstration costs include NRC licensing of the American Centrifuge Demonstration Facility in Piketon, Ohio, engineering activities, and assembling and testing of centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility. Capitalized costs relating to the American Centrifuge technology include or will include NRC licensing, engineering activities, construction of centrifuge machines and equipment, leasehold improvements and other costs directly associated with the American Centrifuge Plant. Capitalized centrifuge costs are recorded in property, plant and equipment as part of construction work in progress. The continued capitalization of such costs is subject to ongoing review and successful project completion, including NRC licensing, financing, and installation and operation of centrifuge machines and equipment. As of December 31, 2006 we had capitalized $63.3 million related to design, licensing, and permitting of American Centrifuge technology. If conditions change and deployment were no longer probable, costs that were previously capitalized would be charged to expense.

I*ncome Taxes*

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. To the extent that the final tax outcome of these matters is different than the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made. To the extent that the provision for income taxes increases/decreases by 1% of income from continuing operations, net income would have declined/improved by $1.7 million in 2006.

Accounting for income taxes involves estimates and judgments relating to the tax bases of assets and liabilities and the future recoverability of deferred tax assets. In assessing the realization of deferred tax assets, we determine whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon generating sufficient taxable income in future years when deferred tax assets are recoverable or are expected to reverse. Factors that may affect estimates of future taxable income include, but are not limited to, competition, changes in revenue, costs or profit margins, market share, and developments related to the American Centrifuge technology. We have determined that it is more likely than not that deferred tax assets will be realized.

Determining the need for or amount of a valuation allowance involves judgments, estimates and assumptions. We review historical results, forecasts of taxable income based upon business plans, eligible carryforward periods, periods over which deferred tax assets are expected to reverse, developments related to the American Centrifuge technology, tax planning opportunities, and other relevant considerations. The underlying assumptions may change from period to period. In the event we were to determine that it is more likely than not that all or some of the deferred tax assets will not be realized in future years, a valuation allowance would result.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). This interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. This interpretation is effective for fiscal years beginning after December 15, 2006. USEC will adopt FIN 48 as of January 1, 2007, as required and report the impact of adoption in the first quarter of 2007. The cumulative effect of adopting FIN 48 will be recorded to retained earnings. On February 7, 2007, the FASB directed its staff to draft an amendment to FIN 48 to provide guidance as to when an uncertain tax position is ultimately settled with a taxing authority. The Internal Revenue Service (“IRS”) is examining USEC’s federal income tax returns for 1998 through 2003. With the exception of one issue, USEC has reached agreement with the IRS on all other matters. As a result, USEC anticipates that the audit will conclude and the statute of limitations will expire for 1998 through 2002 by March 31, 2007. Due to the pending FASB guidance, the status of the IRS audit, and the pending expiration of the statute of limitations, USEC is currently unable to estimate the cumulative effect to retained earnings of adopting FIN 48.

Results of Operations

The following tables show for the years ended December 31, 2006, 2005 and 2004, certain items from the accompanying Consolidated Condensed Statements of Income detailed by reportable segments and in total.

Segment Information

We have two reportable segments measured and presented through the gross profit line of our income statement: the low enriched uranium ("LEU") segment with two components, separative work units ("SWU") and uranium, and the U.S. government contracts segment. The LEU segment is our primary business focus and includes sales of the SWU component of LEU, sales of both SWU and uranium components of LEU, and sales of uranium. The U.S. government contracts segment includes work performed for DOE and DOE contractors at the Portsmouth and Paducah plants as well as nuclear energy solutions provided by NAC. Intersegment sales were less than $0.1 million in 2006 and 2005 and have been eliminated in consolidation. There were no intersegment sales in 2004. Segment information is discussed following this table (in millions):

	LEU Segment	U.S. Government Contracts Segment	Total
2006			
Revenue	$ 1,654.1	$ 194.5	$ 1,848.6
Cost of sales	1,349.2	162.5	1,511.7
Gross profit	$ 304.9	$ 32.0	$ 336.9
2005			
Revenue	$ 1,346.9	$ 212.4	$1,559.3
Cost of sales	1,148.4	181.4	1,329.8
Gross profit	$ 198.5	$ 31.0	$ 229.5
2004			
Revenue	$ 1,251.3	$ 165.9	$ 1,417.2
Cost of sales	1,071.6	151.5	1,223.1
Gross profit	$ 179.7	$ 14.4	$ 194.1

Revenue

Total revenue increased $289.3 million in 2006 compared to 2005 and $142.1 million in 2005 compared to 2004. Total LEU revenue increased $307.2 million in 2006 compared to 2005 and $95.6 million in 2005 compared to 2004 as shown in the table below (in millions, except percentage change):

	SWU Revenue	Uranium Revenue	Total LEU Revenue
2006	$ 1,337.4	$ 316.7	$ 1,654.1
2005	1,085.6	261.3	1,346.9
Increase from 2005 to 2006	$ 251.8	$ 55.4	$ 307.2
Percentage Change	23%	21%	23%
2005	$ 1,085.6	$ 261.3	$ 1,346.9
2004	1,027.3	224.0	1,251.3
Increase from 2004 to 2005	$ 58.3	$ 37.3	$ 95.6
Percentage Change	6%	17%	8%

Revenue from sales of SWU increased $251.8 million in 2006 compared to 2005. In 2006, the volume of SWU sold increased 18% and the average price billed to customers increased 5%. The increase in volume reflects net increases in purchases by customers and the timing of utility customer refuelings. The increase in the average price reflects higher prices charged to customers under contracts signed in recent years, price increases from contractual provisions for inflation, and the mix of deliveries under newer versus older contracts.

Revenue from sales of SWU increased $58.3 million in 2005 compared to 2004. In 2005, the volume of SWU sold increased 4% and the average price billed to customers increased 2%. The increase in volume reflects the timing and mix of customer orders and increases in contractual commitments from customers. The increase in the average price reflects contractual provisions for inflation and sales under contracts signed in recent years with higher prices.

Revenue from sales of uranium increased $55.4 million in 2006 compared to 2005. The average price for uranium delivered increased 45% in 2006. The volume of uranium sold declined 17% reflecting a reduction in uranium inventories available for sale. Revenue from sales of uranium increased $37.3 million in 2005 compared to 2004. In 2005, the average price for uranium delivered increased 15% and the volume of uranium sold increased 1%. The increases in the average prices for uranium delivered in 2005 and 2006 reflect higher prices charged to customers under contracts signed in recent years.

Revenue from our U.S. government contracts segment follows (in millions):

	Years Ended December 31,		
	2006	2005	2004
Contract work at Portsmouth	$ 156.7	$ 167.5	$ 151.4
Contract work at Paducah	11.6	17.2	11.6
NAC (acquired November 2004)	26.2	27.7	2.9
U.S. government contracts segment revenue	**$ 194.5**	**$ 212.4**	**$ 165.9**

Revenue from the U.S. government contracts segment declined $17.9 million (or 8%) in 2006 compared to 2005, primarily due to declines in DOE and other contract work at the Portsmouth and Paducah plants. Contract work to provide support services to DOE contractors at both plants was reduced in 2006 compared to 2005, and the removal of legacy equipment and refurbishment of the centrifuge process buildings at the Portsmouth plant was completed in August 2006. Revenue at the Portsmouth plant also decreased in 2006 compared to 2005 as a result of the final settlement of the project-to-date incentive fee earned on the cold standby contract in 2005 that was not replicated in 2006. These reductions in 2006 revenues compared to 2005 were partially offset by additional work associated with the remediation of out-of-specification uranium for DOE during the year.

Revenue from the U.S. government contracts segment increased $46.5 million (or 28%) in 2005 compared to 2004, reflecting a full year of revenue from NAC, which we acquired in November 2004. Revenue at the Portsmouth plant increased primarily due to additional work associated with the remediation of out-of-specification uranium for DOE, refurbishing a portion of the centrifuge process buildings for DOE, and new work associated with the depleted uranium processing facilities being constructed by DOE at the site. Revenue at the Portsmouth plant also increased in 2005 as a result of the final settlement of the project-to-date incentive fee earned on the cold standby contract. The increase of contract work at the Paducah plant resulted primarily from cylinder reimbursements and new work related to the depleted uranium processing facilities being constructed by DOE at the site.

Cost of Sales

Cost of sales for SWU and uranium increased $200.8 million (or 17%) in 2006 and $76.8 million (or 7%) in 2005 compared to the corresponding prior periods, resulting primarily from increases in the volume of SWU sold of 18% in 2006 and 4% in 2005. Cost of sales per SWU was 2% higher in 2006 and 3% higher in 2005 reflecting increases in the monthly moving average inventory costs, as discussed below. Under the monthly moving average inventory cost method coupled with our inventories of SWU and uranium, an increase or decrease in production or purchase costs has an effect on inventory costs and cost of sales over current and future periods. The unit cost of sales per SWU during the fourth quarter was 3% higher than the corresponding period in 2005, reflecting a 49% increase in production costs per SWU due to higher power costs, a higher starting inventory cost and higher prices paid under the Russian Contract.

Production costs increased $97.6 million (or 18%) in 2006 compared to 2005. Production levels increased 4% in 2006 and unit production costs increased 13%. The cost for electric power increased $98.0 million, reflecting an increase in the average cost per megawatt hour and an increase in megawatt hours purchased. The effect of higher power costs on the unit production cost was partially offset by decreases in labor and benefits costs resulting from the 2005 organizational restructuring and by the increase in production. The average cost per megawatt hour increased 25% in 2006, reflecting higher prices under the one-year pricing agreement with TVA that went into effect on June 1, 2006. The utilization of electric power, a measure of production efficiency, was about the same as in 2005. Direct labor and benefit costs of production declined $2.2 million in 2006 compared to 2005.

Production costs increased $34.0 million (or 7%) in 2005 compared to 2004. Production levels decreased 1% in 2005 and unit production costs increased 7%. The cost for electric power increased $21.0 million. The average cost per megawatt hour increased 9% in 2005, reflecting increases in the cost of market-based power purchased above the fixed-price power included in the 2000 TVA power contract. The utilization of electric power, a measure of production efficiency, slightly increased in 2005 compared to 2004. Direct labor and benefit costs of production in 2005 were about the same as in 2004. Estimated costs for the future disposition of depleted uranium increased in 2005 due to a 10% increase in the estimated unit disposition cost and declines in transfers of depleted uranium to DOE under the DOE-USEC Agreement. USEC's effective disposition costs were reduced for quantities of depleted uranium transferred to DOE under the agreement, and transfers under the agreement were completed in the quarter ended June 30, 2005.

We purchase 5.5 million SWU per year under the Russian Contract. Purchase costs for the SWU component of LEU under the Russian Contract increased $7.9 million in 2006 compared to 2005, and increased $15.6 million in 2005 compared to 2004 due to increases in the market-based purchase cost per SWU. Purchase prices paid under the Russian Contract are set by a market-based pricing formula and have increased as market prices have increased in recent years.

Cost of sales for the U.S. government contracts segment declined $18.9 million (or 10%) in 2006 compared to 2005, primarily due to declines in DOE and other contract work at the Portsmouth and Paducah plants as highlighted in the revenue discussion. Portsmouth and Paducah expenses were $15.3 million less in 2006 compared to 2005 and reflect reduced contract work as well as a reduction in field operations staffing implemented at the end of 2005. In addition, NAC reduced its overall cost of sales by $3.6 million from 2005 to 2006 reflecting cost reduction initiatives and staff reductions taken during the year.

Cost of sales for the U.S. government contracts segment increased $29.9 million (or 20%) in 2005 compared to 2004. The increase primarily reflects costs related to NAC, which we acquired in November 2004. NAC's cost of sales were $16.7 million greater on a consolidated basis with USEC in 2005, reflecting twelve months of activity, compared to the amount included in our consolidated operations in 2004 since acquisition date. Contract-related costs at the Portsmouth plant increased $8.8 million from 2004 to 2005 primarily due to additional work associated with the remediation of out-of-specification uranium for DOE, refurbishing a portion of the centrifuge process buildings for DOE, and new work associated with the depleted uranium processing facilities being constructed by DOE at the site. Contract-related costs at Paducah increased $4.5 million from 2004 to 2005 primarily from costs associated with cylinder reimbursements and new work related to the depleted uranium processing facilities being constructed by DOE at the site.

Gross Profit

Gross profit for the LEU segment increased $106.4 million (or 54%) in 2006 and $18.8 million (or 10%) in 2005 compared to corresponding prior periods. Our gross profit margin was approximately 18% in 2006 compared to 15% in 2005. Sales of uranium in 2006 and 2005 generated a higher gross profit margin than in prior years as a result of increases in prices of uranium over the last few years.

Gross profit for the U.S. government contracts segment increased $1.0 million (or 3%) in 2006 compared to 2005. NAC contributed $2.0 million of the increased gross profit in 2006 compared to 2005 as cost reductions exceeded reduced revenues. Offsetting NAC's increase were declines in DOE and other contract work at the Portsmouth and Paducah plants, as well as the lack of incentive fees and nonrecurring items that occurred in 2005. Offsetting some of these declines in 2006 were favorable increases in allowable benefit costs used to invoice government contracts.

Gross profit for the U.S. government contracts segment increased $16.6 million (or 115%) in 2005 compared to 2004. Gross profit of NAC, which we acquired in November 2004, amounted to $9.2 million in 2005 as compared to $1.0 million included in USEC's consolidated operations in 2004. Gross profit increased $7.5 million in 2005 as compared to 2004 for our Portsmouth operations, primarily related to the final settlement of project to date incentive fees earned on the cold standby contract. In addition, we resolved a number of outstanding issues and recovered past due billings to a DOE contractor, for which an allowance had previously been accrued, resulting in nonrecurring income of $2.3 million in 2005.

Non-Segment Information

The following table presents elements of the accompanying Consolidated Statements of Income that are not categorized by segment (amounts in millions):

	Years Ended December 31,		
	2006	2005	2004
Gross profit	$ 336.9	$ 229.5	$ 194.1
Special charges (credits), net	3.9	7.3	—
Advanced technology costs	105.5	94.5	58.5
Selling, general and administrative	48.8	61.9	64.1
Other (income) expense, net	—	(1.0)	(1.7)
Operating income	178.7	66.8	73.2
Interest expense	14.5	40.0	40.5
Interest (income)	(6.2)	(10.5)	(3.9)
Income before income taxes	170.4	37.3	36.6
Provision for income taxes	64.2	15.0	13.1
Net income	**$ 106.2**	**$ 22.3**	**$ 23.5**

Special Charges (Credits), Net

Special charges (credits), net, consisted of the following (in millions):

	Years Ended December 31,		
	2006	2005	2004
Special charges (credits) for organizational restructuring, net	$ 1.3	$ 7.3	$ —
Special charge for intangible asset impairment	2.6	—	—
Special charges (credits), net	**$ 3.9**	**$ 7.3**	**$ —**

In September 2005, we announced a restructuring of our organization. This included the implementation of an involuntary reduction of 38 employees in the headquarters operations located in Bethesda, Maryland, including the elimination of some senior positions and the realignment of responsibilities under a smaller senior management team. The restructuring was intended to place a priority on the demonstration and deployment of American Centrifuge, while maintaining reliable and efficient enrichment operations. The workforce reductions resulted in special charges for termination benefits of $4.5 million, of which $2.7 million was paid or utilized during 2005 and $1.8 million in 2006. Additionally, facility related charges of $1.5 million related to efforts undertaken to consolidate office space at the headquarters location were accrued during the first quarter of 2006 and utilized during the second quarter of 2006.

In October 2005, USEC continued its restructuring efforts, announcing voluntary and involuntary staff reductions at its field organizations. This resulted in the reduction of 151 employees and special charges for termination benefits of $2.8 million consisting principally of severance benefits. Of these termination charges, $1.5 million was paid or utilized during 2005 and $1.1 million in the first quarter of 2006. Credits of $0.1 million were recorded in each of the third and fourth quarters of 2006 representing changes in estimate of costs for termination benefits.

The impairment of an intangible asset established in 2004 relating to the acquisition of NAC resulted in a special charge of $2.6 million in the fourth quarter of 2006. The amount allocated to customer contracts and relationships from the NAC acquisition was $3.9 million. Of the total amount allocated to customer contracts and relationships, $3.4 million was related to the contracts and relationship with DOE related to the Nuclear Materials Management and Safeguards System ("NMMSS"). As of October 1, 2005, a three-year, $25 million contract extension to manage NMMSS for DOE became effective. The NMMSS portion of the intangible asset was determined based on the fair value of the three-year NMMSS contract extension along with expected renewals and was anticipated to be amortized over an expected life of 13 years. During the fourth quarter 2006, DOE verbally communicated to NAC that the NMMSS contract will be set aside for a small business after the contract expires in 2008. Additionally, DOE issued a solicitation on November 29, 2006 seeking qualified small businesses with an interest to bid. NAC is not considered a qualified small business as defined by DOE. As a result of this action by DOE, USEC has reviewed the potential impairment of the intangible asset created from the NAC acquisition and has determined that a special charge of $2.6 million be taken as a write-down to the intangible asset.

Advanced Technology Costs

Advanced technology costs increased $11.0 million (or 12%) in 2006 compared to 2005, reflecting increased demonstration costs for the American Centrifuge technology.

Advanced technology costs increased $36.0 million (or 62%) in 2005 compared to 2004. Expenses increased primarily as a result of an increase in the number of employees and contractors working on American Centrifuge demonstration activities, increased spending to manufacture centrifuge components for the Lead Cascade, and costs to upgrade equipment at the American Centrifuge Demonstration Facility in Piketon, Ohio in preparation for the anticipated startup of centrifuge machines in the Lead Cascade.

Advanced technology costs also include research and development efforts undertaken for NAC, relating primarily to its new generation MAGNASTOR™ storage system. NAC-related advanced technology costs are $2.1 million in 2006, $1.8 million in 2005 and $0.3 million in 2004.

Selling, General and Administrative

Selling, general, and administrative expenses declined $13.1 million (or 21%) in 2006 compared to 2005, reflecting reductions in salaries and employee benefit expenses from the organizational restructuring of headquarters that was announced in September 2005. Salaries and employee benefit expenses declined $4.7 million, consulting expenses declined $1.0 million and office lease expenses declined $1.0 million compared to the prior year. Expenses in 2005 include a charge of $7.6 million in connection with the settlement of the executive termination matters with USEC's former president and chief executive officer.

Selling, general, and administrative expenses declined $2.2 million (or 3%) in 2005 compared to 2004. Based on a focused effort by management to continue to reduce selling, general and administrative expenses, consulting expenses declined $5.1 million and compensation and employee benefit costs declined $5.0 million in 2005 compared to 2004, even with the addition of expenses related to NAC for the full year. The declines were offset by the settlement of the executive termination matters with USEC's former president and chief executive officer. In connection with the settlement, and after taking into account amounts previously accrued, we recorded a charge of $7.6 million in the fourth quarter of 2005.

Other (Income) Expense, Net

In December 2005 and in December 2004, we received $1.0 million and $4.4 million, respectively, from U.S. Customs and Border Protection as a distribution of countervailing duties to injured domestic producers under the Continued Dumping and Subsidy Offset Act of 2000. The duties were paid to USEC as reimbursement of certain qualifying expenses we incurred following the issuance of countervailing duty orders in 2002 against LEU from Germany, the Netherlands, and the United Kingdom. Offsetting this other income in 2004 were acquired in-process research and development costs of $2.7 million which were, in accordance with generally accepted accounting principles, charged to expense in 2004 in connection with the acquisition of the outstanding common stock of NAC. The amount allocated to in-process research and development represents the estimated fair value, based on risk-adjusted cash flows and historical costs expended, relating to MAGNASTOR™.

Operating Income

Operating income increased $111.9 million (or 168%) in 2006 compared to 2005. The increase reflects higher gross profits principally in the LEU business segment, lower selling, general and administrative expenses, slightly offset by higher centrifuge demonstration costs.

Operating income declined $6.4 million (or 9%) in 2005 compared to 2004. The decline in the comparative period reflects higher centrifuge demonstration costs and the special charges for organizational restructuring, offset by higher gross profits in both operating segments and lower selling, general and administrative expenses.

Interest Expense and Interest Income

Interest expense declined $25.5 million (or 64%) in 2006 compared to 2005. The decline resulted primarily from our repayment of $288.8 million of our 6.625% senior notes on the scheduled maturity date in January 2006, and an increase of $2.4 million in capitalized interest related to American Centrifuge. Interest expense declined $0.5 million (or 1%) in 2005 compared to 2004. The decline resulted primarily from the repurchase in December 2004 of $25.0 million of the 6.625% senior notes due January 20, 2006. The interest expense reduction was offset by additional interest expense accrued on federal tax matters related to an Internal Revenue Service audit that is in process for the years through 2003.

Interest income declined $4.3 million (or 41%) in 2006 compared to 2005 due to reduced cash and investment balances following the senior note repayment and interest income earned in 2005 on inventory balances maintained at nuclear fuel fabricators. Interest income increased $6.6 million (or 169%) in 2005 compared to 2004, due to a higher average balance of invested cash, cash equivalents and short-term investments, and a higher average rate of return.

Provision for Income Taxes

The provision for income taxes in 2006 was $64.2 million with an overall effective income tax rate of 38%. Differences between the effective tax rate in 2006 as compared to the statutory federal and state income tax rate include the effects of state deferred tax asset reductions offset by research and other tax credits.

The provision for income taxes in 2005 was $15.0 million with an overall effective income tax rate of 40%. We recorded negative effects on deferred tax assets from reductions in the Kentucky and Ohio tax rates in 2005. Excluding the effects of the Kentucky and Ohio deferred tax asset reduction, our effective tax rate would have been 30% in 2005. The most significant items in the remaining difference in the effective rates between 2006 and 2005 reflect accruals of a nontaxable Medicare subsidy, research and other tax credits, and other nondeductible expenses.

The provision for income taxes of $13.1 million in 2004 reflects an effective income tax rate of 36%. Differences between the effective tax rate of 36% in 2004 and the statutory federal income tax rate of 35% include research and other tax credits, an accrual of a nontaxable Medicare subsidy, nondeductible acquired in-process research and development expense, and other nondeductible expenses.

Net Income

Net income increased $83.9 million (or $.96 per share) in 2006 compared to 2005. The improvement primarily reflects higher gross profits in the LEU business segment and decreases in interest expense as well as lower selling, general and administrative expenses, slightly offset by higher centrifuge demonstration costs.

Net income decreased $1.2 million (or $.02 per share) in 2005 compared to 2004. The decrease in net income primarily reflects higher centrifuge demonstration costs, special charges for organizational restructuring, and higher provision for income taxes, partly offset by higher gross profit from both operating segments and lower selling, general and administrative expenses.

2007 Outlook

Revenue in 2007 is expected to be approximately $1.86 billion, with $1.54 billion coming from the sale of SWU. We expect the volume of SWU sold to increase by approximately 10 percent over 2006 and the average price billed to customers will increase by 4 to 5 percent. Uranium is expected to generate approximately $135 million in revenue as the volume of uranium delivered declines by about half compared to 2006. Uranium and SWU revenues include previously deferred revenue that is expected to be recognized during the year as deliveries of low enriched uranium are made to customers. Revenue from U.S. government contracts and other is expected to total about $185 million, down slightly from 2006.

USEC's guidance reflects an increase of more than 50 percent in power costs since June 1, 2006, under a one-year agreement with the Tennessee Valley Authority. USEC uses the average monthly inventory methodology, which delayed the impact of these higher power costs on the cost of sales in 2006 but will significantly affect 2007 results. The price USEC will pay Russia for low enriched uranium purchased under the Megatons to Megawatts program, which represents about half of our supply, is expected to increase by approximately 5 percent. Our production costs and the price we pay Russia for low enriched uranium are both increasing faster than our average price billed to customers. We expect our gross profit margin to decline over the next several years, with the gross profit margin in 2007 expected to be roughly 9 to 10 percent.

Total spending on the American Centrifuge project in 2007 is expected to be approximately $340 million, initially split between $130 million in expense, $190 million in capital expenditures and the remainder in prepayments for specialty materials and new manufacturing facilities. The allocation of spending between expense and capital expenditures will ultimately be dependent on our ability to move the project from a demonstration phase to a commercial plant phase in which significant expenditures will be capitalized.

The higher volume of SWU sold and a higher expected SWU price billed to customers is expected to be more than offset by higher unit cost of goods sold, lower volume of uranium sales and higher expenses related to the American Centrifuge demonstration. USEC expects expenses for selling, general and administrative (SG&A) to be approximately $53 million and interest expense to be $10 million. USEC expects a net loss for 2007 in a range of $10 to $20 million. Due to the anticipated net loss for 2007 and recent changes in state tax laws, we expect our 2007 effective tax rate to be in the range of 15 to 20 percent. We expect to report losses in the second and third quarters.

The earnings guidance provided by USEC is subject to a number of assumptions and uncertainties that could affect results either positively or negatively. Variations from our expectations could cause substantial differences between our guidance and ultimate results. Among the factors that could affect net income are:

- The outcome of ongoing negotiations with TVA regarding the price of electricity provided to USEC after June 1, 2007;
- The timing of recognition of previously deferred revenue;
- The timing of the decision to begin capitalizing most spending related to the American Centrifuge. Any further delays could result in more spending allocated as expense, which would have a direct negative impact on net income;
- Movement and timing of customer orders; and
- Additional uranium sales related to underfeeding the production process at Paducah.

Cash flow from operations in 2007 is expected to be negative $65 to $75 million, a reduction of approximately $350 million from 2006. The reduction in cash flow from operations is expected to be a result of lower customer collections due to the timing of orders delivered in the fourth quarter and revenue recognition of deferred sales where the cash was previously collected. Other factors include higher disbursements for electric power, higher spending on the American Centrifuge and higher disbursements to Russia under the Megatons to Megawatts program. USEC expects to end the year with short-term debt under the bank credit facility and a small cash balance.

Liquidity and Capital Resources

Overall, we have generated positive cash flows from operating activities ranging from $52.6 million to $278.1 million over the past three years. We provide for additional liquidity through our cash balances, working capital and access to our bank credit facility. In January 2006, we repaid the remaining balance of the 6.625% senior notes amount of $288.8 million on the scheduled maturity date. This payment was accomplished through a combination of the use of cash on hand and utilization of the bank credit facility. During 2005 and 2004, we repurchased $36.2 million and $25.0 million, respectively, of the 6.625% senior notes.

We have been funding the American Centrifuge project through internally generated cash since 2002 when we signed the DOE-USEC Agreement and entered into a Cooperative Research and Development Agreement. We expect to have sufficient cash or access to cash through our bank credit facility to fund project activities in 2007, including building and evaluating the Lead Cascade. We expect to spend approximately $340 million in 2007 on the American Centrifuge project. The rate of planned investment will increase substantially after 2007 under our new deployment schedule, with spending in 2008 currently projected to be about double the level of 2007.

During the past four years, we have spent $371 million from internally generated cash to develop and demonstrate the American Centrifuge technology. To fund the balance of the American Centrifuge project, our plan has been to use internally generated cash flow together with funds raised through equity and debt offerings. Given the declining level of cash generated by our existing operations due primarily to increases in electric power costs, the increase in cost to complete the American Centrifuge project and the current level of perceived risk in the project, we will need some form of investment or other participation by a third party and/or the U.S. government to raise the capital required in 2008 and beyond to complete the project on our deployment schedule. We have been exploring such investment or other participation with companies that might have a strategic interest in the nuclear fuel business and with the U.S. government, which we believe has an interest in the deployment of U.S.-owned centrifuge technology. We have also been exploring ways in which our customers and American Centrifuge project participants and vendors could help support the financing of the project. In addition, we continue to pursue operational initiatives to improve our financial position and increase the probability of a successful financing of the project.

The change in cash and cash equivalents from our Consolidated Statements of Cash Flows are as follows on a summarized basis (in millions):

	Years Ended December 31,		
	2006	2005	2004
Net Cash Provided by Operating Activities	$ 278.1	$ 188.9	$ 52.6
Net Cash (Used in) Investing Activities	(79.6)	(26.3)	(34.3)
Net Cash (Used in) Financing Activities	(286.2)	(78.3)	(57.6)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (87.7)**	**$ 84.3**	**$ (39.3)**

Operating Activities

During 2006, we generated net cash flow from operating activities of $278.1 million. Results of operations contributed $106.2 million to cash flow as well as $36.7 million in non-cash adjustments for depreciation and amortization. A reduction in net inventory balances of $176.1 million period to period also contributed to cash flow, as we sold from existing inventories as well as from current production. Reductions in accounts payable and other liabilities reduced cash flow from operations by $82.1 million during the period, principally from tax payments, prepayment modifications under the amended TVA contract, and payments to our former president and chief executive officer in settlement of his claims. The timing of other balance sheet items, principally the timing of accounts receivable collections, also contributed to the increase in cash flow.

During 2005, we generated net cash flow from operating activities of $188.9 million. Results of operations contributed $22.3 million of cash flow as well as $35.0 million in non-cash adjustments for depreciation and amortization. Cash flow in 2005 had benefited from a net inventory reduction or liquidation of $76.3 million and an increase in the amount owed from timing of purchases of SWU under the Russian Contract of $21.9 million. In addition, $42.0 million of deferred profits relating to LEU and uranium that were sold but not shipped during the year increased cash flow. These increases in cash flow were slightly offset by the timing of other balance sheet items.

During 2004, we generated net cash flow from operating activities of $52.6 million principally from our results of operations with adjustments to reconcile net income to net cash provided by operating activities for items such as depreciation, amortization, and the timing of deferred tax benefits. Short-term investments declined $35.0 million and were converted to cash in 2004. Cash flow in 2004 was reduced by increased payments of $29.6 million from timing of purchases of SWU under the Russian Contract, $17.0 million from the build up of inventories, and $12.1 million of deferred profits related to previously sold LEU and uranium that were shipped and recognized into income. Included in the other items above and reducing cash provided by operating activities was a payment of a previously accrued obligation of $33.2 million resulting from the settlement of termination obligations under the OVEC power purchase agreement. The remaining increase to cash flow from operations was primarily due to the timing of both accounts receivable collections and accounts payable payments.

Investing Activities

Capital expenditures include capitalized costs associated with the American Centrifuge Plant as well as ongoing gaseous diffusion plant upgrades and enhancements. Capital expenditures amounted to $44.8 million in 2006, $26.3 million in 2005, and $20.2 million in 2004. Cash flows used in investing activities also include the additional interest-earning cash deposits of $34.8 million made during 2006. These cash deposits are collateral for surety bonds placed during the year for financial assurance relating primarily to the future disposition of depleted uranium generated in our enrichment process and American Centrifuge decontamination and decommissioning. Net cash used in investing activities in 2004 also included funding related to our acquisition of NAC in November 2004.

Financing Activities

The issuance of common stock, primarily from the exercise of stock options, and related tax benefit provided cash flow from financing activities of $2.5 million in 2006, $8.8 million in 2005, and $14.3 million in 2004. There were 87.1 million shares of common stock outstanding at December 31, 2006, compared with 86.6 million at December 31, 2005, an increase of 0.5 million shares (or 1%) and 85.1 million at December 31, 2004, or an increase from 2004 to 2005 of 1.5 million shares (or 2%).

In February 2006, the Board of Directors voted to discontinue paying a common stock dividend in order to redirect those funds to reduce the level of external financing needed for construction of the American Centrifuge Plant. Dividends paid to stockholders amounted to $47.3 million in 2005 and $46.3 million in 2004 (or a quarterly rate of $0.1375 per share).

During 2005 and 2004, we repurchased $36.2 million and $25.0 million, respectively, of the 6.625% senior notes, due January 20, 2006, excluding premiums.

We repaid the remaining principal balance of our 6.625% senior notes of $288.8 million on the scheduled maturity date of January 20, 2006, using cash on hand and borrowing under our bank credit facility of approximately $78.5 million. We repaid the $78.5 million borrowing with funds from operations by the end of January 2006. During 2006, aggregate borrowings and repayments amounted to $133.8 million, and the peak amount borrowed was the $78.5 million used to repay the senior notes described above. There were no short-term borrowings under the revolving credit facility at December 31, 2006 or at December 31, 2005. As described in Capital Structure and Financial Resources below, the bank credit facility was amended in October 2006. Financing costs of $0.3 million related to the amendment are deferred and amortized over the life of the facility.

Working Capital

	December 31,	
	2006	2005
	(millions)	
Cash and cash equivalents	$ 171.4	$ 259.1
Accounts receivable- trade	215.9	256.7
Inventories	900.0	974.3
Current portion of long-term debt	—	(288.8)
Other current assets and liabilities, net	(303.3)	(338.6)
Working capital	**$ 984.0**	**$ 862.7**

Inventories included in current assets decreased $74.3 million (or 8%) at December 31, 2006, compared with December 31, 2005 reflecting lower expected SWU delivery requirements in the first half of 2007 compared to corresponding period in 2006. Uranium inventories reflect higher unit costs and reduced quantities available for sale.

There were no short-term borrowings at December 31, 2006 or 2005. At December 31, 2005, current portion of long-term debt consisted of the remaining balance of $288.8 million of 6.625% senior notes due January 20, 2006, which were paid in full at maturity.

Capital Structure and Financial Resources

At December 31, 2006, our long-term debt consisted of $150.0 million of 6.750% senior notes due January 20, 2009. The senior notes are unsecured obligations and rank on a parity with all of our other unsecured and unsubordinated indebtedness. We repaid the remaining balance of our 6.625% senior notes of $288.8 million on the scheduled maturity date of January 20, 2006. The total debt-to-capitalization ratio was 13% at December 31, 2006 and 33% at December 31, 2005.

In August 2005, we entered into a five-year, syndicated bank credit facility, providing up to $400.0 million in revolving credit commitments, including up to $300.0 million in letters of credit, secured by assets of USEC Inc. and our subsidiaries. The credit facility is available to finance working capital needs, refinance existing debt and fund capital programs, including the American Centrifuge project. Borrowings under the facility are subject to limitations based on established percentages of eligible accounts receivable and inventory. Financing costs of $3.5 million related to the facility are deferred and amortized over the five-year life.

Utilization of the revolving credit facility at December 31, 2006 and December 31, 2005 follows:

	December 31,	
	2006	2005
	(millions)	
Short-term borrowings	$ —	$ —
Letters of credit	35.8	25.0
Available credit	346.2	375.0

Effective July 20, 2006, available credit ("availability") under the credit facility was reduced by $150.0 million because of a reserve referred to in the agreement as the "senior note reserve" tied to the aggregate amount of proceeds received by us from any future debt or equity offerings. Effective October 16, 2006, the credit agreement was amended to modify the treatment of this reserve. Following the amendment, the senior note reserve is now treated as a reduction to our qualifying assets (such as eligible inventory and accounts receivable) that establish the borrowing base, rather than directly reducing availability. This means that the senior note reserve now reduces availability under the credit facility only at such time and to the extent that we do not have sufficient qualifying assets available to cover the reserve and our other reserves. Our other reserves against our qualifying assets currently consist primarily of a reserve for future obligations to DOE with respect to the turnover of the gaseous diffusion plants to them at the end of the term of the lease of these facilities.

The revolving credit facility also contains various other reserve provisions that reduce available borrowings under the facility periodically or restrict the use of borrowings, including covenants that can periodically limit us to $50.0 million in capital expenditures based on available liquidity levels. Other reserves under the revolving credit facility, such as availability reserves and borrowing base reserves, are customary for credit facilities of this type.

We expect that our cash, internally generated funds from operations and available financing under the credit facility will be sufficient over the next 12 months to meet our cash needs.

Outstanding borrowings under the facility bear interest at a variable rate equal to, based on our election, either:

- the sum of (1) the greater of the JPMorgan Chase Bank prime rate and the federal funds rate plus ½ of 1% plus (2) a margin ranging from 0.25% to 0.75% based upon collateral availability, or
- the sum of LIBOR plus a margin ranging from 2.0% to 2.5% based on collateral availability.

The revolving credit facility includes various customary operating and financial covenants, including restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, maintenance of a minimum amount of inventory, and payment of dividends or other distributions. Failure to satisfy the covenants would constitute an event of default under the revolving credit facility. As of December 31, 2006, we were in compliance with all of the covenants.

In September 2006, Moody's announced the implementation of a new rating methodology for its North American Metals & Mining sector and, as a result, lowered its credit ratings on USEC's senior notes ($150.0 million) to B3 from B2. On February 15, 2007, Moody's changed USEC's outlook from "stable" to "rating under review" and placed USEC's corporate family rating of B1 and senior unsecured debt rating of B3 under review for possible downgrade. Our current credit ratings are as follows:

	Standard & Poor's	Moody's
Corporate credit/family rating	B-	B1
Senior unsecured debt	CCC	B3
Outlook	Negative	Rating Under Review

We do not have any debt obligations that are accelerated or in which interest rates increase in the event of a credit rating downgrade, although reductions in our credit ratings may increase the cost and reduce the availability of financing to us in the future.

Contractual Commitments

USEC had contractual commitments at December 31, 2006, estimated as follows (in millions):

	2007	2008	2009	2010	2011	Thereafter	Total
Financing (1):							
Debt	$ —	$ —	$ 150.0	$ —	$ —	$ —	$ 150.0
Interest on debt	10.1	10.1	5.1	—	—	—	25.3
	10.1	10.1	155.1	—	—	—	175.3
Production and Related Activities:							
Power purchase commitments for the Paducah plant (2)	187.8	—	—	—	—	—	187.8
Purchase commitments (3)	29.7	—	—	—	—	—	29.7
Expected payments on operating leases	9.1	7.4	6.6	5.7	5.1	67.8	101.7
Other long-term liabilities (4)	15.1	15.1	5.0	6.8	39.5	218.8	300.3
	241.7	22.5	11.6	12.5	44.6	286.6	619.5
Purchase of SWU and Uranium for Resale (5)	536.3	586.2	626.0	681.4	703.6	1,402.6	4,536.1
	$ 788.1	**$ 618.8**	**$ 792.7**	**$ 693.9**	**$ 748.2**	**$ 1,689.2**	**$ 5,330.9**

(1) The 6.750% senior notes amounting to $150.0 million are due January 20, 2009.

(2) We purchase electric power for the Paducah plant under a power purchase agreement with TVA. Capacity and prices are fixed through May 2007. We expect to contract for electric power for the period subsequent to May 2007.

(3) Purchase commitments are enforceable and legally binding and consist of purchase orders or contracts issued to vendors and suppliers to procure materials and services.

(4) Other long-term liabilities reported on the balance sheet include pension benefit obligations and postretirement health and life benefit obligations amounting to $148.9 million, accrued depleted uranium disposition costs of $71.5 million, and the long-term portion of accrued lease turnover costs of $53.6 million.

(5) Commitments to purchase SWU and uranium for resale include commitments to purchase SWU under the Russian Contract and to purchase uranium from suppliers. We have agreed to purchase 5.5 million SWU each year for the remaining term of the Russian Contract through 2013. Over the life of the 20-year Russian Contract, we expect to purchase 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of the index is used to minimize the disruptive effect of any short-term price swings. Actual amounts will vary based on changes in the price points.

Potential Impacts to Liquidity – Financial Assurance Requirements

The NRC requires that we guarantee the disposition of our depleted uranium and stored wastes with financial assurance. The financial assurance requirement for depleted uranium and stored wastes is based on the quantity of depleted uranium and waste at the end of the year plus expected depleted uranium generated over the coming year. The financial assurance requirements for 2007, principally the amount associated with disposition of depleted uranium, total $154.7 million, or $63.3 million greater than 2006. The increase reflects an increase in the quantity of depleted uranium as well as an increase in the unit disposition cost. The unit disposition cost for purposes of the financial assurance requirement includes additional contingencies and other potential costs to meet NRC requirements. The financial assurance requirements for 2007 are covered by a combination of a $24.1 million letter of credit and $130.6 million under two surety bonds. The amount of financial assurance needed in the future could increase by an estimated $30 to $40 million per year depending on production volumes and the estimated unit disposition cost.

The liability for the disposition of depleted uranium generated to date, included in long-term liabilities, increased $24.5 million to $71.5 million at December 31, 2006, compared with December 31, 2005. The increase reflects depleted uranium generated in 2006 and an increase in the estimated unit disposition cost earlier in the year. Our estimated cost and accrued liability, as well as financial assurance we provide for the disposition of depleted uranium, are subject to change as additional information becomes available.

Effective in 2006, financial assurance is also required for the ultimate decontamination and decommissioning ("D&D") of the American Centrifuge facilities. At the conclusion of the 36-year lease period, assuming no further extensions, we must return these leased facilities to DOE in a condition that meets NRC requirements and in the same condition as the facilities were in when they were leased to us (other than due to normal wear and tear). We are required to maintain financial assurance for DOE in an amount equal to a current estimate of costs to comply with lease turnover requirements, less the amount of financial assurance required by the NRC for decommissioning. A surety bond in the amount of $8.8 million was provided to the NRC in 2006 for the D&D requirement under the license for the American Centrifuge facility. We anticipate approximately $8 million of additional financial assurance needed in 2007, to be provided to DOE, related to the on-going construction activities. The financial assurance increase will be needed commensurate with the timing of the NRC license. At this time, it is unclear whether the financial assurance will be provided as a letter of credit or surety bond and the extent that cash collateral will be required to be deposited.

The surety bonds, for both the disposition of depleted uranium and D&D, are collateralized by interest earning cash deposits included in other long-term assets at December 31, 2006.

A summary of financial assurances, related liabilities and cash collateral as of December 31, 2006 and 2005 follows (in millions):

	December 31, 2006	December 31, 2005
Depleted Uranium:		
Long-term liability for depleted uranium disposition	$ 71.5	$ 47.0
Financial assurance primarily for depleted uranium:		
Letters of credit	$ 24.1	$ 24.1
Surety bonds	130.6	67.3
Total financial assurance for depleted uranium	$ 154.7	$ 91.4
Decontamination and decommissioning ("D&D") of American Centrifuge:		
Long-term liability for asset retirement obligation	$ 8.8	$ —
Financial assurance related to D&D:		
Letters of credit	$ —	$ —
Surety bonds	8.8	—
Total financial assurance related to D&D	$ 8.8	$ —
Other financial assurance:		
Letters of credit	$ 11.7	$ 0.9
Surety bonds	3.6	2.3
Total other financial assurance	$ 15.3	$ 3.2
Total financial assurance:		
Letters of credit	**$ 35.8**	**$ 25.0**
Surety bonds	**143.0**	**69.6**
Total financial assurance	**$ 178.8**	**$ 94.6**
Cash collateral deposit for surety bonds	**$ 60.8**	**$ 24.6**

Off-Balance Sheet Arrangements

Other than the letters of credit issued under the facilities as discussed above, there were no material off-balance sheet arrangements, obligations, or other relationships at December 31, 2006 or 2005.

Environmental Matters

In addition to estimated costs for the future disposition of depleted uranium, we incur costs 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. Environmental liabilities associated with plant operations prior to July 28, 1998, are the responsibility of the U.S. government, except for liabilities relating to certain identified wastes generated by us and stored at the plants. DOE remains responsible for decontamination and decommissioning of the gaseous diffusion plants. Operating costs for environmental compliance, including estimated costs relating to the future disposition of depleted uranium, amounted to $32.2 million in 2006, $32.3 million in 2005, and $19.5 million in 2004.

USEC and certain federal agencies were identified as potentially responsible parties under CERCLA for a site in Barnwell, South Carolina previously operated by Starmet CMI ("Starmet"), one of USEC's former contractors. In February 2004, USEC entered into an agreement with the U.S. Environmental Protection Agency ("EPA") to clean up certain areas at Starmet's Barnwell site. Under the agreement, USEC was responsible for removing certain material from the site that was attributable to quantities of depleted uranium USEC had sent to the site. In December 2005, the EPA confirmed that USEC completed its clean up obligations under the agreement. USEC could incur additional costs associated with its share of costs for cleanup of the Starmet site, resulting from a variety of factors, including a decision by federal or state agencies to recover costs for prior cleanup work or require additional remediation at the site.

New Accounting Standards Not Yet Implemented

Reference is made to note 1 of the notes to the consolidated financial statements for information on new accounting standards not yet implemented.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

At December 31, 2006, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

USEC has long-term debt consisting of $150.0 million in 6.750% senior notes scheduled to mature January 20, 2009. At December 31, 2006, the fair value of the senior notes is $148.3 million and the balance sheet carrying amount is $150.0 million. The fair value is calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities. USEC has not entered into financial instruments for trading purposes.

Reference is made to additional information reported in management's discussion and analysis of financial condition and results of operations included herein for quantitative and qualitative disclosures relating to:

- commodity price risk for electric power requirements for the Paducah plant (refer to "Overview – Cost of Sales" and "Results of Operations – Cost of Sales"),
- commodity price risk for raw materials needed for construction of the American Centrifuge Plant, that could affect the overall cost of the project (refer to "Overview – Our View of the Business Today"), and
- interest rate risk relating to any outstanding borrowings at variable interest rates under the $400.0 million revolving credit agreement (refer to "Liquidity and Capital Resources – Capital Structure and Financial Resources").

Item 8. *Consolidated Financial Statements and Supplementary Data*

Reference is made to the index to consolidated financial statements appearing elsewhere in this annual report.

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

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

USEC maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by USEC in reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As of the end of the period covered by this report, USEC carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon, and as of the date of, this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

USEC's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) and for an assessment of the effectiveness of internal control over financial reporting. USEC's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of USEC's internal control over financial reporting as of December 31, 2006, based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of USEC's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, USEC's internal control over financial reporting.

Item 9B. ***Other Information***

None.

PART III

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

Certain information regarding executive officers is included in Part I of this annual report. Additional information concerning directors and executive officers is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held on April 26, 2007.

Item 11. ***Executive Compensation***

Information concerning management compensation is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held on April 26, 2007.

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

Information concerning security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held on April 26, 2007.

Item 13. ***Certain Relationships and Related Transactions***

Information concerning certain relationships and related transactions is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held on April 26, 2007.

Item 14. ***Principal Accountant Fees and Services***

Information concerning principal accountant fees and services is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held on April 26, 2007.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) (1) *Consolidated Financial Statements*

Reference is made to the consolidated financial statements appearing elsewhere in this annual report.

(2) *Financial Statement Schedules*

No financial statement schedules are required to be filed as part of this annual report.

(3) *Exhibits*

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report and such Exhibit Index is incorporated herein by reference. The accompanying Exhibit Index identifies each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report, and such listing is incorporated herein by reference.

SIGNATURES

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

USEC Inc.

February 27, 2007

/s/ John K. Welch

John K. Welch
President and Chief Executive Officer

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

Signature	Title	Date
/s/ John K. Welch **John K. Welch**	President and Chief Executive Officer (Principal Executive Officer) and Director	February 27, 2007
/s/ John C. Barpoulis **John C. Barpoulis**	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2007
/s/ J. Tracy Mey **J. Tracy Mey**	Controller and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2007
/s/ James R. Mellor **James R. Mellor**	Chairman of the Board	February 27, 2007
/s/ Michael H. Armacost **Michael H. Armacost**	Director	February 27, 2007
/s/ Joyce F. Brown **Joyce F. Brown**	Director	February 27, 2007
/s/ Joseph T. Doyle **Joseph T. Doyle**	Director	February 27, 2007
/s/ John R. Hall **John R. Hall**	Director	February 27, 2007
/s/ W. Henson Moore **W. Henson Moore**	Director	February 27, 2007
/s/ Joseph F. Paquette, Jr. **Joseph F. Paquette, Jr.**	Director	February 27, 2007
/s/ James D. Woods **James D. Woods**	Director	February 27, 2007

USEC Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of USEC Inc's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15a(1) present fairly, in all material respects, the financial position of USEC Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the consolidated financial statements, the Company changed the manner in which it accounts for stock based compensation as of January 1, 2006.

As discussed in Note 12 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans as of December 31, 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
McLean, Virginia
February 23, 2007

USEC Inc.
CONSOLIDATED BALANCE SHEETS
(millions, except share and per share data)

	December 31, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 171.4	$ 259.1
Restricted short-term investments	—	17.8
Accounts receivable – trade	215.9	256.7
Inventories:		
Separative work units	701.7	790.3
Uranium	189.1	171.3
Materials and supplies	9.2	12.7
Total Inventories	900.0	974.3
Deferred income taxes	24.0	39.1
Other current assets	97.8	68.7
Total Current Assets	1,409.1	1,615.7
Property, Plant and Equipment, net	189.9	171.2
Other Long-Term Assets		
Deferred income taxes	156.2	100.6
Deposit for surety bonds	60.8	24.6
Pension asset	13.8	86.2
Inventories	24.2	71.4
Goodwill	6.8	7.5
Intangibles	0.6	3.6
Total Other Long-Term Assets	262.4	293.9
Total Assets	**$ 1,861.4**	**$ 2,080.8**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ —	$ 288.8
Accounts payable and accrued liabilities	129.1	217.4
Payables under Russian Contract	105.3	111.6
Uranium owed to customers and suppliers	56.9	2.3
Deferred revenue and advances from customers	133.8	132.9
Total Current Liabilities	425.1	753.0
Long-Term Debt	150.0	150.0
Other Long-Term Liabilities		
Depleted uranium disposition	71.5	47.0
Postretirement health and life benefit obligations	128.7	153.9
Pension benefit liabilities	20.2	—
Other liabilities	79.9	69.3
Total Other Long-Term Liabilities	300.3	270.2
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized, none issued	—	—
Common stock, par value $.10 per share, 250,000,000 shares authorized, 100,320,000 shares issued	10.0	10.0
Excess of capital over par value	970.6	970.6
Retained earnings	137.5	31.3
Treasury stock, 13,178,000 and 13,749,000 shares	(95.5)	(99.5)
Deferred compensation	—	(2.7)
Accumulated other comprehensive loss, net of tax	(36.6)	(2.1)
Total Stockholders' Equity	986.0	907.6
Total Liabilities and Stockholders' Equity	**$ 1,861.4**	**$ 2,080.8**

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2006	2005	2004
Revenue:			
Separative work units	$ 1,337.4	$ 1,085.6	$ 1,027.3
Uranium	316.7	261.3	224.0
U.S. government contracts and other	194.5	212.4	165.9
Total revenue	1,848.6	1,559.3	1,417.2
Cost of sales:			
Separative work units and uranium	1,349.2	1,148.4	1,071.6
U.S. government contracts and other	162.5	181.4	151.5
Total cost of sales	1,511.7	1,329.8	1,223.1
Gross profit	336.9	229.5	194.1
Special charges (credits), net	3.9	7.3	—
Advanced technology costs	105.5	94.5	58.5
Selling, general and administrative	48.8	61.9	64.1
Other (income) expense, net	—	(1.0)	(1.7)
Operating income	178.7	66.8	73.2
Interest expense	14.5	40.0	40.5
Interest (income)	(6.2)	(10.5)	(3.9)
Income before income taxes	170.4	37.3	36.6
Provision for income taxes	64.2	15.0	13.1
Net income	**$ 106.2**	**$ 22.3**	**$ 23.5**
Net income per share – basic and diluted	$ 1.22	$ .26	$ .28
Dividends per share	$ —	$ .55	$ .55
Weighted average number of shares outstanding:			
Basic	86.6	86.1	84.1
Diluted	86.8	86.6	84.8

See notes to consolidated financial statements.

USEC Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Years Ended December 31,		
	2006	2005	2004
Cash Flows From Operating Activities			
Net income	$ 106.2	$ 22.3	$ 23.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	36.7	35.0	31.8
Deferred income taxes	(13.4)	(43.2)	2.6
Impairment of intangible asset	2.6	—	—
Changes in operating assets and liabilities:			
Short-term investments – decrease	—	—	35.0
Accounts receivable – (increase) decrease	40.8	(18.2)	16.0
Inventories – net (increase) decrease	176.1	76.3	(17.0)
Payables under Russian Contract – increase (decrease)	(6.3)	21.9	(29.6)
Payment of termination settlement obligation under power purchase agreement	—	—	(33.2)
Deferred revenue, net of deferred costs – increase (decrease)	(3.7)	42.0	(12.1)
Accrued depleted uranium disposition	24.5	19.8	(3.8)
Accounts payable and other liabilities – increase (decrease).	(82.1)	26.2	36.9
Other, net	(3.3)	6.8	2.5
Net Cash Provided by Operating Activities	278.1	188.9	52.6
Cash Flows Used in Investing Activities			
Capital expenditures	(44.8)	(26.3)	(20.2)
Deposits for surety bonds	(34.8)	—	—
Investment in NAC Holding Inc., net of cash acquired	—	—	(8.1)
Deposit relating to acquisition of NAC Holding Inc.	—	—	(6.0)
Net Cash (Used in) Investing Activities	(79.6)	(26.3)	(34.3)
Cash Flows Used in Financing Activities			
Borrowings under credit facility	133.8	4.7	116.2
Repayments under credit facility	(133.8)	(4.7)	(116.2)
Dividends paid to stockholders	—	(47.3)	(46.3)
Repayment and repurchases of senior notes, including premiums	(288.8)	(36.3)	(25.6)
Excess tax benefit related to stock-based compensation	0.4	—	—
Payments made for deferred financing costs	(0.3)	(3.5)	—
Common stock issued	2.5	8.8	14.3
Net Cash (Used in) Financing Activities	(286.2)	(78.3)	(57.6)
Net Increase (Decrease)	(87.7)	84.3	(39.3)
Cash and Cash Equivalents at Beginning of Period	259.1	174.8	214.1
Cash and Cash Equivalents at End of Period	**$ 171.4**	**$ 259.1**	**$ 174.8**
Supplemental Cash Flow Information			
Interest paid	$ 19.3	$ 32.6	$ 35.2
Income taxes paid	107.3	38.7	3.6

See notes to consolidated financial statements.

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

	Common Stock, Par Value $.10 per Share	Excess of Capital over Par Value	Retained Earnings	Treasury Stock	Deferred Comp-ensation	Accumulated Other Compre-hensive Income (Loss)	Total Stockholders' Equity	Compre-hensive Income (Loss)
Balance at December 31, 2003	$ 10.0	$1,009.0	$ 32.8	$ (127.7)	$ (0.5)	$ —	$ 923.6	$ —
Exercise of stock options	—	0.5	—	12.5	—	—	13.0	—
Restricted and other stock issued, net of amortization	—	0.7	—	6.0	(1.1)	—	5.6	—
Dividends paid to stockholders	—	(46.3)	—	—	—	—	(46.3)	—
Comprehensive income:								
Minimum pension liability, net of income tax benefit of $0.4 million	—	—	—	—	—	(0.7)	(0.7)	(0.7)
Net income	—	—	23.5	—	—	—	23.5	23.5
Balance at December 31, 2004	10.0	963.9	56.3	(109.2)	(1.6)	(0.7)	918.7	$ 22.8
Common stock issued:								
Exercise of stock options	—	0.3	—	5.1	—	—	5.4	—
Restricted and other stock issued, net of amortization	—	6.4	—	4.6	(1.1)	—	9.9	—
Dividends paid to stockholders	—	—	(47.3)	—	—	—	(47.3)	—
Comprehensive income:								
Minimum pension liability, net of income tax benefit of $0.9 million	—	—	—	—	—	(1.4)	(1.4)	(1.4)
Net income	—	—	22.3	—	—	—	22.3	22.3
Balance at December 31, 2005	10.0	970.6	31.3	(99.5)	(2.7)	(2.1)	907.6	$ 20.9
Common stock issued:								
Exercise of stock options	—	—	—	2.1	—	—	2.1	—
Restricted and other stock issued, net of amortization	—	2.7	—	1.9	—	—	4.6	—
Eliminate deferred compensation under SFAS No. 123(R)	—	(2.7)	—	—	2.7	—	—	—
Reduction in minimum pension liability, net of income tax of $0.5 million	—	—	—	—	—	1.1	1.1	1.1
Recognition of funding status of retirement plans under SFAS No. 158, net of tax	—	—	—	—	—	(35.6)	(35.6)	—
Net income	—	—	106.2	—	—	—	106.2	106.2
Balance at December 31, 2006	**$ 10.0**	**$ 970.6**	**$ 137.5**	**$ (95.5)**	**$ —**	**$ (36.6)**	**$ 986.0**	**$ 107.3**

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

USEC Inc. ("USEC") is a global energy company and is the world's leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants.

Customers typically provide uranium to us as part of their enrichment contracts. Customers are billed for the separative work units ("SWU") deemed to be contained in the LEU delivered to them. SWU is a standard unit of measurement that represents the effort required to transform a given amount of uranium into two streams: enriched uranium having a higher percentage of U^{235} and depleted uranium having a lower percentage of U^{235}. The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment.

Consolidation

The consolidated financial statements include the accounts of USEC Inc., its principal subsidiary, United States Enrichment Corporation, and its other subsidiaries including NAC International Inc. ("NAC"), acquired in November 2004. All material intercompany transactions are eliminated. Certain amounts in the consolidated financial statements have been reclassified to conform with the current presentation.

Cash and Cash Equivalents

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

Inventories

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

Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. The quantity of uranium that is earned or added to uranium inventory from underfeeding is accounted for as a byproduct of the enrichment process, the costs for which are based on the net realizable value of the uranium. Uranium inventory costs are increased and SWU inventory costs are reduced as a result of underfeeding uranium.

Revenue

Revenue is derived from sales of the SWU component of LEU, from sales of both the SWU and uranium components of LEU, and from sales of uranium. Revenue is recognized at the time LEU or uranium is delivered under the terms of contracts with domestic and international electric utility customers. USEC often advance ships LEU to nuclear fuel fabricators for scheduled or anticipated orders from utility customers. Based on customer orders, USEC generally arranges for the transfer of title of LEU from USEC to the customer for the specified quantity of LEU at the fuel fabricator. Revenue is recognized when delivery of LEU to the customer occurs at the fuel fabricator. Some customers take title and delivery of LEU at the Paducah plant, and revenue is recognized when delivery of LEU to the customer is complete.

Certain customers make advance payments to be applied against future orders or deliveries. Advances from customers are reported as deferred revenue, and revenue is recognized as LEU is delivered. Under SWU barter contracts, USEC exchanges SWU for electric power or uranium. Revenue from the sale of SWU under barter contracts is recognized at the time LEU is delivered and is based on the fair market value of the electric power or uranium received in exchange for SWU. Revenue from SWU barter contracts amounted to $12.5 million in 2006 and $11.9 million in 2005. There were no barter sales in 2004.

USEC performs contract work at the Portsmouth and Paducah plants and through NAC. Contract work is primarily for the U.S. Department of Energy ("DOE") and DOE contractors. U.S. government contract revenue includes billings for fees and reimbursements for allowable costs that are determined in accordance with the terms of the underlying contracts. USEC records revenue as work is performed and as fees are earned. Amounts representing contract change orders or revised provisional billing rates are accrued and included in revenue when they can be reliably estimated and realization is probable. Revenues determined based on allowable costs include pension and other allocated costs that are determined in accordance with government cost accounting standards, whereas costs and expenses reflected in the financial statements are determined in accordance with generally accepted accounting principles. The final settlement of the allowable costs submitted for reimbursement is subject to audit by the Defense Contract Audit Agency ("DCAA"). The government auditors (DCAA) are in the process of reviewing the final settlement of allowable costs proposed by USEC for the twelve months ended June 2002, the six months ended December 2002, and the twelve months ended December 2003. Revenue relevant to the reimbursement of allowable costs for subsequent years is also subject to the results of DCAA audits and reviews.

Advanced Technology Costs

USEC is in the process of demonstrating its next-generation American Centrifuge uranium enrichment technology. Costs relating to the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities and estimates and judgments involving the completion of project milestones.

Centrifuge costs relating to the demonstration of American Centrifuge technology are charged to expense as incurred. Demonstration costs include Nuclear Regulatory Commission ("NRC") licensing of the American Centrifuge Demonstration facility in Piketon Ohio, engineering activities, and assembling and testing of centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility.

Capitalized costs relating to the American Centrifuge technology include or will include NRC licensing, engineering activities, construction of centrifuge machines and equipment, leasehold improvements and other costs directly associated with the American Centrifuge commercial plant. Capitalized centrifuge costs are recorded in property, plant and equipment as part of construction work in progress. Cumulative capitalized costs include interest of $4.0 million at December 31, 2006, $0.9 million at December 31, 2005, and $0.2 million at December 31, 2004. The continued capitalization of such costs is subject to ongoing review and successful project completion, including NRC licensing, financing, and installation and operation of centrifuge machines and equipment. If conditions change and deployment were no longer probable, costs that were previously capitalized would be charged to expense. USEC's ability to move from a demonstration phase to a commercial plant phase in which significant expenditures will be capitalized will be based on when the technology is determined to have a high probability of commercial success and meets company targets of physical control and technical achievement.

In 2002, USEC and DOE signed an agreement ("DOE-USEC Agreement") in which both USEC and DOE made long-term commitments directed at resolving issues related to the stability and security of the domestic uranium enrichment industry. Discussion of USEC's commitments related to American Centrifuge project milestones under the DOE-USEC Agreement is provided in note 11.

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 and amortization commences.

USEC leases the Paducah gaseous diffusion plant located in Paducah, Kentucky and the Portsmouth gaseous diffusion plant located in Piketon, Ohio from DOE. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of the useful life of the assets or the expected productive life of the plant, which is estimated to be 2010 for the Paducah plant, commensurate with the existing lease agreement. At the end of the lease, ownership of plant and equipment that USEC leaves at the gaseous diffusion plants transfers to DOE, and responsibility for decontamination and decommissioning of the gaseous diffusion plants remains with DOE. Property, plant and equipment assets related to the gaseous diffusion plants at December 31, 2006 are not subject to an asset retirement obligation. Maintenance and repair costs are charged to production costs as incurred.

USEC leases facilities in Piketon, Ohio from DOE for the American Centrifuge. USEC owns all capital improvements and, unless otherwise consented to by DOE, must remove them at lease turnover. At the conclusion of the 36-year lease period, assuming no further extensions, USEC is required to return these leased facilities to DOE in a condition that meets NRC requirements and in the same condition as the facilities were in when they were leased to USEC (other than due to normal wear and tear). USEC is required to provide financial assurance in an amount equal to a current estimate of costs to comply with lease turnover requirements. The accounting for asset retirement obligations requires that the present value of retirement costs that USEC has a legal obligation to pay, be recorded as a liability with an equivalent amount added to the asset cost as construction takes place. Upon commencement of commercial operations, the asset cost will be depreciated over the appropriate period. As of December 31, 2006, USEC has provided $8.8 million of financial assurance in accordance with our decommissioning funding plan, through a surety bond, related to American Centrifuge decommissioning. This amount of asset retirement obligation is recorded in construction work in progress and as part of other long-term liabilities.

A summary of changes in property, plant and equipment follows (in millions):

	December 31, 2003	Capital Expenditures (Depreciation)	Transfers, Retirements, and Other	December 31, 2004	Capital Expenditures (Depreciation)	Transfers and Retirements	December 31, 2005
Construction work in progress	$ 9.1	$ 19.2	$ (15.0)	$ 13.3	$ 28.0	$ (12.3)	$ 29.0
Leasehold improvements	151.4	—	5.7	157.1	—	4.4	161.5
Machinery and equipment	160.1	1.0	13.2	174.3	0.4	5.0	179.7
	320.6	20.2	3.9	344.7	28.4	(2.9)	370.2
Accumulated depreciation and amortization	(135.5)	(31.8)	0.6	(166.7)	(34.7)	2.4	(199.0)
	$ 185.1	**$ (11.6)**	**$ 4.5**	**$ 178.0**	**$ (6.3)**	**$ (0.5)**	**$ 171.2**

	December 31, 2005	Capital Expenditures (Depreciation)	Transfers and Retirements	December 31, 2006
Construction work in progress	$ 29.0	$ 53.9	$ (11.1)	$ 71.8
Leasehold improvements	161.5	—	6.5	168.0
Machinery and equipment	179.7	1.2	1.1	182.0
	370.2	55.1	(3.5)	421.8
Accumulated depreciation and amortization	(199.0)	(36.3)	3.4	(231.9)
	$ 171.2	**$ (18.8)**	**$ (0.1)**	**$ 189.9**

Long-Lived Assets

USEC evaluates the carrying value of long-lived assets by performing impairment tests whenever adverse conditions or changes in circumstances indicate a possible impairment loss. Impairment tests are based on a comparison of estimated future cash flows to the carrying values of long-lived assets. If impairment is indicated, the asset carrying value is reduced to fair market value or, if fair market value is not readily available, the asset is reduced to a value determined by applying a discount rate to expected cash flows.

Financial Instruments

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

Concentrations of Credit Risk

Credit risk could result from the possibility of a customer failing to perform or pay according to the terms of a contract. Extension of credit is based on an evaluation of each customer's financial condition. USEC regularly monitors credit risk exposure and takes steps to mitigate the likelihood of such exposure resulting in a loss.

Environmental Costs

Environmental costs relating to operations are accrued and charged to inventory costs as incurred. Estimated future environmental costs, including depleted uranium disposition and waste disposal, are accrued where environmental assessments indicate that storage, treatment or disposal is probable and costs can be reasonably estimated. USEC stores depleted uranium at the Paducah and Portsmouth plants for future disposition. Changes in the estimated unit disposal cost result in charges to cost of sales for the accumulated quantity of depleted uranium. Liabilities for waste and depleted uranium disposition are based on current-dollar cost estimates and are not discounted.

Stock-Based Compensation

Effective January 1, 2006, USEC adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payment", whereby compensation cost relating to share-based payments is recognized in the financial statements. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized over the requisite service period, which is either immediate recognition if the employee is eligible to retire, or on a straight-line basis until the earlier of either the date of retirement eligibility or the end of the nominal vesting period. Prior to January 1, 2006, USEC accounted for share-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", with pro forma disclosures in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". Under APB No. 25, USEC recognized expense for restricted stock and restricted stock units in the income statement and disclosed the fair value of compensation related to stock options and the employee stock purchase plan. SFAS No. 123(R) requires USEC to expense all stock-based compensation, including restricted stock, restricted stock units, stock options and costs associated with the employee stock purchase plan.

Under the modified prospective transition method, prior periods have not been revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the pro forma disclosures under SFAS No. 123.

Deferred Income Taxes

USEC follows the asset and liability approach to account for deferred income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences of temporary differences between the balance sheet carrying amounts of assets and liabilities and their respective tax bases. Deferred income taxes are based on income tax rates in effect for the years in which temporary differences are expected to reverse. The effect on deferred income taxes of a change in income tax rates is recognized in income when the change in rates is enacted in the law. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets may not be realized.

Net Income per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is calculated by increasing the weighted average number of shares by the assumed conversion of potentially dilutive stock compensation awards.

	Years Ended December 31,		
	2006	2005	2004
		(in millions)	
Weighted average number of shares outstanding:			
Basic	86.6	86.1	84.1
Dilutive effect of stock compensation awards	.2	.5	.7
Diluted	**86.8**	**86.6**	**84.8**

Other options to purchase shares of common stock having an exercise price greater than the average share market price are excluded from the calculation of diluted earnings per share.

	Years Ended December 31,		
	2006	2005	2004
Options excluded from diluted earnings per share calculation:			
Options to purchase common stock (in millions)	.4	.2	.1
Exercise price	$11.88 to $16.90	$13.25 to $16.90	$10.44 to $14.00

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts presented and disclosed in the consolidated financial statements. Significant estimates and judgments include, but are not limited to, pension and postretirement health and life benefit costs and obligations, costs for the conversion, transportation and disposition of depleted uranium, accounting treatment for expenditures on American Centrifuge, plant lease turnover costs, the tax bases of assets and liabilities, the future recoverability of deferred tax assets, and determination of the valuation allowance for deferred tax assets. Actual results may differ from such estimates, and estimates may change if the underlying conditions or assumptions change.

New Accounting Standards Not Yet Implemented

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. USEC will adopt FIN 48 as of January 1, 2007, as required and report the impact of adoption in the first quarter of 2007. The cumulative effect of adopting FIN 48 will be recorded to retained earnings. On February 7, 2007, the FASB directed its staff to draft an amendment to FIN 48 to provide guidance as to when an uncertain tax position is ultimately settled with a taxing authority. The Internal Revenue Service ("IRS") is examining USEC's federal income tax returns for 1998 through 2003. With the exception of one issue, USEC has reached agreement with the IRS on all other matters. As a result, USEC anticipates that the audit will conclude and the statute of limitations will expire for 1998 through 2002 by March 31, 2007. Under FIN 48, if not previously recognized, the benefit of a tax position is recognized when either the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired or at the time new information leads to a conclusion that an uncertain tax position is more likely than not to be sustained based upon the position's technical merits. Due to the pending FASB guidance, the status of the IRS audit, and the pending expiration of the statute of limitations, USEC is currently unable to estimate the cumulative effect to retained earnings of adopting FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement clarifies the definition of fair value, establishes a framework for measuring fair value when required or permitted under other accounting pronouncements, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are evaluating the statement and have not determined whether or not it will have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are evaluating the statement and have not determined whether or not it will have a material effect on our financial position or results of operations.

2. ACQUISITION OF NAC HOLDING INC.

In November 2004, USEC acquired all the outstanding common stock of NAC Holding Inc. and its wholly owned subsidiary NAC International Inc. (collectively "NAC") from Pinnacle West Capital Corporation for $16.1 million in cash, including amounts placed in escrow, plus the assumption of certain liabilities of NAC. NAC provides U.S. and foreign customers with spent nuclear fuel storage solutions, nuclear materials transportation, and nuclear fuel cycle consulting services. Of the purchase cost, $11.4 million was allocated to intangible assets related to customer contracts and relationships as well as goodwill. NAC is included in the U.S. government contracts segment of USEC's operations.

The amount allocated to customer contracts and relationships from the NAC acquisition was $3.9 million. Of the total amount allocated to customer contracts and relationships, $3.4 million was related to the contracts and relationship with DOE related to the Nuclear Materials Management and Safeguards System ("NMMSS"). As of October 1, 2005, a three-year, $25 million contract extension to manage NMMSS for DOE became effective. The NMMSS portion of the intangible asset was determined based on the fair value of the three-year NMMSS contract extension along with expected renewals and was anticipated to be amortized over an expected life of 13 years. During the fourth quarter 2006, DOE verbally communicated to NAC that the NMMSS contract will be set aside for a small business after the contract expires in 2008. Additionally, DOE issued a solicitation on November 29, 2006 seeking qualified small businesses with an interest to bid. NAC is not considered a qualified small business as defined by DOE. As a result of this action by DOE, USEC has reviewed the potential impairment of the intangible assets created from the NAC acquisition and has determined that a special charge of $2.6 million be taken as a write-down to the amount allocated to customer contracts and relationships. The special charge was calculated after analyzing cash flow projections and comparing the results to the estimated fair value of the assets acquired at the date of acquisition. The remaining portion of intangible assets relating to the NMMSS contract has an expected life terminating in 2008.

The amount allocated to goodwill from the NAC acquisition was $7.5 million. Factors that contribute to the establishment of goodwill included, but were not limited to, the assembled workforce that produces and sells current and future products and services and the positive reputation that NAC has in the nuclear fuel industry. As part of the acquisition, a tax-related valuation allowance of $2.3 million was established primarily for state net operating losses that are available to offset future taxable income of NAC. A valuation allowance is provided if it is more likely than not that all or a portion of a deferred tax asset will not be realized. During 2006, USEC recognized $0.7 million of tax benefits earned or expected to be earned from the net operating losses. The offset to these benefits was recorded as a reduction to goodwill. The goodwill amount is not deductible for income tax purposes.

Intangible assets associated with the NAC acquisition are as follows (in millions):

	December 31, 2006	December 31, 2005
Intangible assets:		
Goodwill	$ 6.8	$ 7.5
Customer contracts and relationships, net	0.6	3.6
	$ 7.4	**$ 11.1**

Intangible assets subject to amortization are as follows (in millions):

	Year Ended December 31, 2006			Year Ended December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer contracts and relationships	$ 1.3	$ (0.7)	$0.6	$ 3.9	$ (0.3)	$3.6

Amortization expense was $0.4 million in 2006, $0.3 million in 2005 and less than $0.1 million in 2004. Future amortization expense is estimated at $0.4 million in 2007 and $0.2 million in 2008.

3. ACCOUNTS RECEIVABLE, OTHER CURRENT ASSETS, ACCOUNTS PAYABLE AND ACCRUED LIABILITES

	December 31, 2006	December 31, 2005
	(millions)	
Accounts receivable – trade, net (1):		
Utility customers:		
Trade receivables	$ 176.3	$ 207.0
Uranium loaned to customers	—	1.5
	176.3	208.5
Department of Energy (2):		
U.S. government contracts	19.8	33.6
Unbilled revenue	19.8	14.6
	39.6	48.2
	$ 215.9	**$ 256.7**
Other current assets:		
Deferred costs relating to deferred revenue	$ 78.4	$ 55.7
Prepaid items	19.4	13.0
	$ 97.8	**$ 68.7**
Accounts payable and accrued liabilities:		
Accounts payable	$ 68.6	$ 86.9
Accrued interest payable on long-term debt	5.2	13.5
Accrued income taxes payable	7.4	37.4
Other accrued liabilities	47.9	79.6
	$ 129.1	**$ 217.4**

(1) Valuation and allowances for doubtful accounts were $14.4 million and $12.5 million at December 31, 2006 and 2005, respectively.

(2) Billings under government contracts are invoiced based on provisional billing rates approved by DOE. Unbilled revenue represents the difference between actual costs incurred and invoiced amounts. USEC expects to invoice and collect the unbilled amounts as provisional billing rates are revised, submitted to and approved by DOE.

4. INVENTORIES

	December 31,	
	2006	2005
	(millions)	
Current assets:		
Separative work units	$ 701.7	$ 790.3
Uranium	189.1	171.3
Materials and supplies	9.2	12.7
	900.0	974.3
Long-term assets:		
Uranium	24.2	—
Out-of-specification uranium	—	37.6
Highly enriched uranium from DOE	—	33.8
	24.2	71.4
Current liabilities:		
Inventories owed to customers and suppliers	(56.9)	(2.3)
Inventories, net	**$ 867.3**	**$ 1,043.4**

Inventories Owed to Customers and Suppliers

Generally, title to uranium provided by customers as part of their enrichment contracts does not pass to USEC until delivery of LEU. In limited cases, however, title to the uranium passes to USEC immediately upon delivery of the uranium by the customer. Uranium provided by customers for which title passed to USEC is recorded on the balance sheet at estimated fair values of $4.3 million at December 31, 2006 and $2.3 million at December 31, 2005.

Additionally, USEC owed SWU and uranium inventories to fabricators with a cost totaling $52.6 million at December 31, 2006. Fabricators process LEU into fuel for use in nuclear reactors. Under inventory optimization arrangements between USEC and domestic fabricators, fabricators order bulk quantities of LEU from USEC based on scheduled or anticipated orders from utility customers for deliveries in future periods. As delivery obligations under actual customer orders arise, USEC satisfies these obligations by arranging for the transfer to the customer of title to the specified quantity of LEU on the fabricator's books. Fabricators have other inventory supplies and, where a fabricator has elected to order less material from USEC than USEC is required to deliver to its customers at the fabricator, the fabricator will use these other inventories to satisfy USEC's customer order obligations on USEC's behalf. In such cases, the transfer of title of LEU from USEC to the customer may result in quantities of SWU and uranium owed by USEC to the fabricator. The amounts of SWU and uranium owed to fabricators are satisfied as future bulk deliveries are made.

Uranium Provided by Customers and Suppliers

USEC held uranium with estimated fair values of approximately $5.1 billion at December 31, 2006, and $2.3 billion at December 31, 2005, to which title was held by customers and suppliers and for which no assets or liabilities were recorded on the balance sheet. Utility customers provide uranium to USEC as part of their enrichment contracts. Title to uranium provided by customers remains with the customer until delivery of LEU at which time title to LEU is transferred to the customer, and title to uranium is transferred to USEC.

Remediating or Replacing Out-of-Specification Uranium

In October 2006, USEC and DOE completed a project to replace or remediate 9,550 metric tons of natural uranium transferred to USEC from DOE prior to privatization which contained elevated levels of technetium that put the uranium out-of-specification for commercial use. USEC continues to operate facilities at the Portsmouth plant in Piketon, Ohio to process and remove contaminants from DOE-owned out-of-specification uranium under an agreement with DOE entered into in December 2004. These efforts are expected to continue through September 2008, but are subject to additional funding from DOE.

DOE provided uranium that met specification to USEC in February 2005 and March 2006, and the proceeds from USEC's sales of such uranium were used to reimburse USEC for costs incurred in remediating both USEC and DOE-owned out-of-specification uranium. Proceeds from these sales of uranium, pending payment to USEC for processing costs, were invested for DOE and reported as restricted short-term investments, and were expended by July 2006. The balance sheet carrying amount of $17.8 million at December 31, 2005 is stated at fair value. Following the use of the proceeds from the sales of uranium transferred by DOE, DOE has made direct payment for USEC's processing costs.

Revenue and costs related to the processing of DOE and USEC out-of-specification uranium are recognized in the U.S. government contracts segment.

Highly Enriched Uranium from DOE

In 1998, USEC received claim to 50 metric tons of highly enriched uranium from DOE. USEC contracted to downblend the highly enriched uranium over several years and receive the resulting LEU for sale to utility customers. USEC announced the completion of this nonproliferation initiative in July 2006.

5. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN CONTRACT

USEC is the U.S. government's exclusive executive agent ("Executive Agent") in connection with a government-to-government nonproliferation agreement between the United States and the Russian Federation. Under the agreement, USEC has been designated by the U.S. government to order LEU derived from dismantled Soviet nuclear weapons. In January 1994, USEC, as Executive Agent for the U.S. government, signed a commercial agreement ("Russian Contract") with a Russian government entity known as OAO Techsnabexport ("TENEX", or "the Russian Executive Agent"), Executive Agent for the Federal Agency for Atomic Energy of the Russian Federation, to implement the program.

USEC has agreed to purchase approximately 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Over the life of the 20-year Russian Contract, USEC expects to purchase about 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium, and as of December 31, 2006, USEC had purchased 54 million SWU contained in LEU derived from 292 metric tons of highly enriched uranium. Purchases under the Russian Contract approximate 50% of USEC's supply mix. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of the index is used to minimize the disruptive effect of any short-term market price swings. Increases in these price points in recent years have resulted, and likely will continue to result, in increases to the index used to determine prices under the Russian Contract.

The Russian Contract provides that, after the end of 2007, the parties may agree on appropriate adjustments, if necessary, to ensure that the Russian Executive Agent receives at least approximately $7.6 billion for the SWU component over the 20-year term of the Russian Contract through 2013. From inception of the Russian Contract in 1994 through December 31, 2006, USEC has purchased the SWU component of LEU at an aggregate cost of approximately $4.6 billion. Purchases of SWU under the Russian Contract are expected to be approximately $0.5 billion per year through 2013.

6. INCOME TAXES

The provision for income taxes follows (in millions):

	Years Ended December 31,		
	2006	2005	2004
Current:			
Federal	$ 70.4	$ 51.7	$ 8.8
State and local	7.2	6.5	1.7
	77.6	58.2	10.5
Deferred:			
Federal	(14.4)	(42.4)	2.9
State and local	1.0	(0.8)	(0.3)
	(13.4)	(43.2)	2.6
	$ 64.2	**$ 15.0**	**$ 13.1**

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 tax assets and liabilities, as follows (in millions):

	December 31,	
	2006	2005
Deferred tax assets:		
Plant lease turnover and other exit costs	$ 23.4	$ 23.2
Employee benefits costs	68.6	46.0
Inventory	7.6	15.9
Property, plant and equipment	40.8	24.2
Tax intangibles	5.4	6.4
Deferred costs for depleted uranium	26.1	19.0
Net operating loss carryforwards	1.9	2.0
Accrued expenses	6.9	5.6
Other	2.2	1.2
	182.9	143.5
Valuation allowance	(1.4)	(2.3)
Deferred tax assets, net of valuation allowance	181.5	141.2
Deferred tax liabilities:		
Prepaid expenses	1.3	1.5
Deferred tax liabilities	1.3	1.5
	$ 180.2	**$ 139.7**

The valuation allowances of $1.4 million at December 31, 2006 and $2.3 million at December 31, 2005 reduce deferred tax assets and are recorded as a result of the acquisition of NAC, primarily for state net operating losses that are available to offset future taxable income of NAC. The NAC state net operating losses can be carried forward from 4 to 19 years. A valuation allowance is provided if it is more likely than not that all or a portion of a deferred tax asset will not be realized. Tax benefits earned or expected to be earned from the net operating losses are recorded as reductions to goodwill and have been reflected in the balance. The goodwill amount will not be deductible for income tax purposes. The deferred tax asset, net of valuation allowance, is more likely than not to be realized in future years based on an assessment of positive and negative available evidence.

A reconciliation of income taxes calculated based on the federal statutory income tax rate of 35% and the effective tax rate follows:

	Years Ended December 31,		
	2006	2005	2004
Federal statutory tax rate	35%	35%	35%
State income taxes, net of federal	2	2	3
Export tax incentives	(1)	(1)	(2)
Nontaxable accrual of Medicare subsidy	—	(6)	(3)
Research and other tax credits	(1)	(5)	(4)
Nondeductible acquired in-process research and development expense	—	—	3
Other nondeductible expenses	1	2	3
Impact of state rate changes on deferred taxes	2	12	—
Other	—	1	1
	38%	**40%**	**36%**

USEC recorded negative effects on deferred tax assets, as shown in the reconciliation above, for the impact of state rate changes on deferred taxes due to reductions in the Kentucky state tax rate and the Ohio state tax rate during 2006 and 2005.

The Internal Revenue Service ("IRS") is examining USEC's federal income tax returns for years through 2003. With the exception of one issue, USEC has reached agreement with the IRS on all other matters. As a result, USEC anticipates that the audit will conclude and the statute of limitations will expire for the years through 2002 by March 31, 2007.

7. DEBT

Senior Notes

	December 31,	
	2006	2005
	(millions)	
6.625% senior notes, due January 20, 2006	$ —	$ 288.8
6.750% senior notes, due January 20, 2009	150.0	150.0
	$ 150.0	**$ 438.8**

In December 2004, USEC repurchased $25.0 million of the 6.625% senior notes, due January 20, 2006. The cost of the repurchase was $25.6 million and included a premium of $0.6 million. In November and December 2005, USEC repurchased a total of $36.2 million of the 6.625% senior notes, due January 20, 2006. The cost of the repurchase was $36.3 million and included a premium of $0.1 million. USEC repaid the remaining balance of the 6.625% senior notes amounting to $288.8 million on the scheduled maturity date of January 20, 2006.

The 6.750% senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc. The senior notes are not subject to any sinking fund requirements. Interest is paid every six months on January 20 and July 20. The senior notes may be redeemed by USEC at any time at a redemption price equal to the principal amount plus any accrued interest up to the redemption date plus a make-whole premium.

At December 31, 2006, the fair value of the senior notes calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities was $148.3 million, compared with the balance sheet carrying amount of $150.0 million.

Revolving Credit Facility

In August 2005, USEC entered into a five-year, syndicated bank credit facility, providing up to $400.0 million in revolving credit commitments, including up to $300.0 million in letters of credit, secured by assets of USEC Inc. and its subsidiaries. The revolving credit facility is available to finance working capital needs, refinance existing debt and fund capital programs, including the American Centrifuge project. Effective July 20, 2006, available credit ("availability") under the credit facility was reduced by $150.0 million because of a reserve referred to in the agreement as the "senior note reserve" tied to the aggregate amount of proceeds received by USEC from any future debt or equity offerings. Effective October 16, 2006, the credit agreement was amended to modify the treatment of this reserve. Following the amendment, the senior note reserve is now treated as a reduction to USEC's qualifying assets (such as eligible inventory and accounts receivable) that establish the borrowing base, rather than directly reducing availability. The senior note reserve now reduces availability under the credit facility only at such time and to the extent that USEC does not have sufficient qualifying assets available to cover the reserve and USEC's other reserves. USEC's other reserves against its qualifying assets currently consist primarily of a reserve for future obligations to DOE with respect to the turnover of the gaseous diffusion plants to them at the end of the term of the lease of these facilities.

Financing costs of $3.5 million and $0.3 million to obtain and amend the bank credit facility, respectively, were deferred and are being amortized over the life of the facility. There were no short-term borrowings under the revolving credit facility at December 31, 2006 or at December 31, 2005. In 2006, aggregate borrowings and repayments amounted to $133.8 million, and the peak amount outstanding was $78.5 million. Letters of credit issued under the facility amounted to $35.8 million at December 31, 2006 and $25.0 million at December 31, 2005. Availability under the credit facility was $346.2 million at December 31, 2006 and $375.0 million at December 31, 2005.

Outstanding borrowings under the facility bear interest at a variable rate equal to, based on USEC's election, either:

- the sum of (1) the greater of the JPMorgan Chase Bank prime rate and the federal funds rate plus ½ of 1% plus (2) a margin ranging from .25% to .75% based upon collateral availability, or
- the sum of LIBOR plus a margin ranging from 2.0% to 2.5% based on collateral availability.

The revolving credit facility includes various operating and financial covenants that are customary for transactions of this type, including, without limitation, restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, maintenance of a minimum amount of inventory, and payment of dividends or other distributions. Failure to satisfy the covenants would constitute an event of default under the revolving credit facility.

The revolving credit facility also contains various reserve provisions that may reduce the facility's availability periodically or restrict the use of borrowings. In addition to the senior note reserve described above, the facility contains covenants that can periodically limit USEC to $50 million in capital expenditures based on available liquidity levels. Other reserves under the revolving credit facility, such as availability reserves and borrowing base reserves, are customary for credit facilities of this type.

8. DEFERRED REVENUE AND ADVANCES FROM CUSTOMERS

Deferred revenue and advances from customers were as follows (in millions):

	December 31,	
	2006	2005
Deferred revenue	$ 129.4	$ 106.8
Advances from utility customers	4.4	8.3
Proceeds from sales of DOE uranium	—	17.8
	$ 133.8	**$ 132.9**

In a number of sales transactions, title to uranium or LEU is transferred to the customer and USEC receives payment under normal credit terms without physically delivering the uranium or LEU to the customer. This may occur because the terms of the agreement require USEC to hold the uranium to which the customer has title, or because the customer encounters brief delays in taking delivery of LEU at USEC's facilities. In such cases, recognition of revenue is deferred until uranium or LEU to which the customer has title is physically delivered rather than at the time title transfers to the customer. Related costs associated with deferred revenue, reported in other current assets, totaled $78.4 million at December 31, 2006 and $55.7 million at December 31, 2005.

Deferred revenue and advances from customers at December 31, 2005 included proceeds from sales of DOE uranium that were pending payment to USEC as reimbursement for USEC's costs in processing out-of-specification uranium.

9. ORGANIZATIONAL RESTRUCTURING

In September 2005, USEC announced a restructuring of the Company's organization. This included the implementation of an involuntary reduction of 38 employees in the headquarters operations located in Bethesda, Maryland, including the elimination of some senior positions and the realignment of responsibilities under a smaller senior management team. The workforce reductions resulted in special charges for termination benefits of $4.5 million, of which $2.7 million was paid or utilized during 2005 and $1.8 million in 2006. Additionally, facility related charges of $1.5 million related to efforts undertaken to consolidate office space at the headquarters location were accrued during the first quarter of 2006 and utilized during the second quarter of 2006.

In October 2005, USEC continued its restructuring efforts, announcing voluntary and involuntary staff reductions at its field organizations. This resulted in the reduction of 151 employees and special charges for termination benefits of $2.8 million consisting principally of severance benefits. Of these termination charges, $1.5 million was paid or utilized during 2005 and $1.1 million in the first quarter of 2006. Credits of $0.1 million were recorded in each of the third and fourth quarters of 2006 representing changes in estimate of costs for termination benefits.

A summary of special charges for organizational restructuring and the related balance sheet account information follows (in millions):

	Special Charge	Paid and Utilized	Balance Dec. 31, 2005	Special Charge (Credit)	Paid and Utilized	Balance Dec. 31, 2006
Workforce reductions:						
Corporate	$ 4.5	$ (2.7)	$ 1.8	$ —	$ (1.8)	$ —
Field operations	2.8	(1.5)	1.3	(0.2)	(1.1)	—
Facility related charges:						
Corporate	—	—	—	1.5	(1.5)	—
Total	**$ 7.3**	**$ (4.2)**	**$ 3.1**	**$ 1.3**	**$ (4.4)**	**$ —**

Organizational restructuring costs are not classified by segment as USEC utilizes gross profit as its segment measure.

10. ENVIRONMENTAL COMPLIANCE

Environmental compliance costs include the handling, treatment and disposal of hazardous substances and wastes. Pursuant to the USEC Privatization Act, environmental liabilities associated with the Paducah and Portsmouth plants prior to July 28, 1998 are the responsibility of the U.S. government, except for liabilities relating to certain identified wastes generated by USEC and stored at the plants. DOE remains responsible for decontamination and decommissioning of the gaseous diffusion plants. Refer below to USEC's obligations for American Centrifuge decontamination and decommissioning.

Depleted Uranium

USEC stores depleted uranium at the Paducah and Portsmouth plants and accrues estimated costs for its future disposition. USEC anticipates that it will send most or all of its depleted uranium to DOE for disposition unless a more economic disposal option becomes available. DOE is constructing facilities at the Paducah and Portsmouth plants to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process USEC's depleted uranium if provided to DOE. If we were to dispose of our uranium this way, USEC would be required to reimburse DOE for the related costs of disposal, including a pro rata share of DOE's capital costs. Processing DOE's depleted uranium is expected to take about 25 years. The timing of the disposal of USEC's depleted uranium has not been determined. The long-term liability for depleted uranium disposition is dependent upon the volume of depleted uranium generated and estimated processing, transportation and disposal costs. USEC's estimate of the unit cost is based primarily on estimated cost data obtained from DOE without consideration given to contingencies or reserves. USEC's estimate is periodically reviewed as additional information becomes available, and was increased by 2% in 2006. USEC's estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC.

Compliance with NRC regulations requires that USEC provide financial assurance regarding the cost of the eventual disposition of USEC's depleted uranium and stored wastes. The financial assurance requirement is based on our year-end liability plus expected volume increases over the coming year, including NRC required contingencies, totaling to an annual projected required amount. The financial assurance requirements for 2007, principally the amount associated with disposition of depleted uranium, total $154.7 million and are covered by a combination of a $24.1 million letter of credit and $130.6 million under two surety bonds. This letter of credit is included in USEC's total letters of credit issued and outstanding.

USEC's estimated cost and accrued liability for depleted uranium disposition, as well as related financial assurances USEC provides, are subject to change as additional information becomes available.

Stored Wastes

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 Paducah and Portsmouth plants pursuant to permits, orders and agreements with DOE and various state agencies. Liabilities accrued for the treatment and disposal of stored wastes generated by USEC's operations amounted to $6.0 million at December 31, 2006, and $5.1 million at December 31, 2005.

American Centrifuge Decontamination and Decommissioning

USEC leases facilities in Piketon, Ohio from DOE for the American Centrifuge. USEC owns all capital improvements and, unless otherwise consented to by DOE, must remove them at lease turnover. At the conclusion of the 36-year lease period, assuming no further extensions, USEC is required to return these leased facilities to DOE in a condition that meets NRC requirements and in the same condition as the facilities were in when they were leased to USEC (other than due to normal wear and tear). USEC is required to maintain financial assurance for DOE in an amount equal to a current estimate of costs to comply with lease turnover requirements, less the amount of financial assurance required of USEC by the NRC for decommissioning. The accounting for asset retirement obligations requires that the present value of retirement costs that USEC has a legal obligation to pay, be recorded as a liability with an equivalent amount added to the asset cost as construction takes place. Upon commencement of commercial operations, the asset cost will be depreciated over the appropriate period. The liability is accreted over time by applying an interest method of allocation to the liability. During 2006, USEC provided $8.8 million of financial assurance in accordance with USEC's decommissioning funding plan, through a surety bond, related to American Centrifuge decommissioning. The surety bond was collateralized with an interest-earning cash deposit of $2.0 million. Commensurate with the American Centrifuge Plant lease signed December 7, 2006, this amount of asset retirement obligation is recorded in construction work in progress and as part of other long-term liabilities.

Surety Bond Collateral

Other long-term assets at December 31, 2006 include interest-earning cash deposits of $60.8 million provided as collateral for surety bonds relating primarily to depleted uranium and American Centrifuge decontamination and decommissioning.

11. COMMITMENTS AND CONTINGENCIES

Power Contracts and Commitments

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. USEC purchases electric power for the Paducah plant under a power purchase agreement signed with the Tennessee Valley Authority ("TVA") in 2000, and amended in April 2006. Capacity under the TVA agreement is fixed through May 2007, and prices are subject to monthly fuel cost adjustments to reflect changes in TVA's fuel costs, purchased power costs, and related costs. As of December 31, 2006, USEC is obligated, whether or not it takes delivery of electric power, to make minimum payments for the purchase of electric power of $187.8 million for the period January through May 2007.

American Centrifuge Technology

USEC is working to develop and deploy the American Centrifuge technology as a replacement for the gaseous diffusion technology used at the Paducah plant. The DOE-USEC Agreement contains specific project milestones relating to the American Centrifuge plant. Under the DOE-USEC Agreement, if, for reasons within USEC's control, USEC fails to meet one or more milestones and the resulting delay would substantially impact USEC's ability to begin commercial operations on schedule, DOE could take a number of actions that could have a material adverse impact on USEC's business. These actions include terminating the DOE-USEC Agreement, recommending a reduction or termination of USEC's access to Russian LEU or the Paducah plant, revoking USEC's access to DOE's U.S. centrifuge technology that USEC requires for the success of the American Centrifuge project and requiring us to transfer our rights in centrifuge technology and facilities to DOE royalty-free, or supporting competing projects for production of LEU.

USEC is in discussions with DOE regarding the October 2006 project milestone under the DOE-USEC Agreement of obtaining satisfactory reliability and performance data from Lead Cascade operations. USEC made substantial progress towards meeting this milestone, having obtained substantial satisfactory performance and reliability data with respect to centrifuges and related systems. However, this data is principally from testing at Oak Ridge rather than from Lead Cascade operations. USEC is also in discussions with DOE regarding the January 2007 milestone that requires USEC to have secured a financing commitment for a 1 million SWU centrifuge plant.

Given the progress in the American Centrifuge program and the continuing strong commitment to the project, USEC anticipates reaching a mutually acceptable agreement with DOE regarding rescheduling of the October 2006, January 2007 and subsequent milestones. However, USEC cannot provide any assurances that it will reach an agreement or that DOE will not assert its rights under the agreement.

Settlement of Power Contract – Ohio Valley Electric Corporation

In 2001 and prior years, USEC purchased electric power for the Portsmouth plant under a contract with DOE. DOE acquired the power under a power purchase agreement with the Ohio Valley Electric Corporation ("OVEC"). USEC ceased uranium enrichment operations at the Portsmouth plant in 2001 and the power purchase agreement was terminated in 2003. As a result of termination of the power purchase agreement, DOE was responsible for a portion of the costs incurred by OVEC for postretirement health and life insurance benefits and for the eventual decommissioning, demolition and shutdown of the coal-burning power generating facilities owned and operated by OVEC. In 2004, OVEC and DOE, and DOE and USEC, entered into agreements and settled all the issues relating to the termination. Pursuant to the agreements, in 2004 USEC paid the previously accrued amount of $33.2 million representing its share of the postretirement health and decommissioning, demolition and shutdown cost obligations.

Legal Matters

Environmental Matter

USEC and certain federal agencies were identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (commonly known as Superfund), for a site in Barnwell, South Carolina previously operated by Starmet CMI ("Starmet"), one of USEC's former contractors. In February 2004, USEC entered into an agreement with the U.S. Environmental Protection Agency ("EPA") to clean up certain areas at Starmet's Barnwell site. Under the agreement, USEC was responsible for removing certain material from the site that was attributable to quantities of depleted uranium USEC had sent to the site. In December 2005, the EPA confirmed that USEC completed its clean up obligations under the agreement. USEC could incur additional costs associated with its share of costs for cleanup of the Starmet site, resulting from a variety of factors, including a decision by federal or state agencies to recover costs for prior cleanup work or require additional remediation at the site.

DOE Contract Services Matter

The U.S. Department of Justice ("DOJ") asserted in a letter to USEC dated July 10, 2006 that DOE may have sustained damages in an amount that exceeds $6.9 million under USEC's contract with DOE for the supply of cold standby services at the Portsmouth plant. DOJ indicated that it was assessing possible violations of the Civil False Claims Act ("FCA") and related claims in connection with invoices submitted under that contract. USEC has responded to DOJ's letter and has been cooperating with DOJ and the DOE Office of Investigations with respect to their inquiries into this matter. USEC continues to believe that the government does not have any legitimate bases for asserting any FCA or related claims under the cold standby contract, and intends to defend vigorously any such claim that might be asserted against it.

Other

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

Lease Commitments

Operating costs incurred under the operating leases with DOE for the Paducah, Piketon, and Oak Ridge facilities, and leases for office space and equipment amounted to $9.1 million in 2006, $10.8 million in 2005, and $8.2 million in 2004. Future estimated minimum lease payments and expected lease administration payments follow (in millions):

2007	$ 9.1
2008	7.4
2009	6.6
2010	5.7
2011	5.1
Thereafter	67.8
	$ 101.7

Gaseous Diffusion Plant Lease

The lease of the Paducah gaseous diffusion plant located in Paducah, Kentucky and the Portsmouth gaseous diffusion plant located in Piketon, Ohio (the "GDPs"), which are owned by the U.S. government, is based on the lease agreement dated as of July 1, 1993 between the United States Enrichment Corporation and DOE (the "GDP Lease"). Except as provided in the DOE-USEC Agreement, USEC has the right to extend the lease for the plants indefinitely and may terminate the lease in its entirety or with respect to one of the plants at any time upon two years' notice. DOE retained responsibility for decontamination and decommissioning of the gaseous diffusion plants. At termination of the lease, USEC may leave the property in an "as is" condition, but must remove all wastes generated by USEC, which are subject to off-site disposal, and must place the plants in a safe shutdown condition. Lease turnover costs are estimated and are accrued over the expected productive life of the plant which is estimated to be 2010 for the Paducah plant. Accrued liabilities for lease turnover costs are not discounted and amounted to $55.5 million at December 31, 2006 and $54.1 million at December 31, 2005.

American Centrifuge Plant Lease

On December 7, 2006, USEC's wholly owned subsidiary, United States Enrichment Corporation entered into a lease agreement with DOE for the lease of the gas centrifuge enrichment plant facilities at Piketon, Ohio and related personal property which are owned by the U.S. government (the "GCEP Lease"). The GCEP Lease is an amendment to the GDP Lease and will be subleased to USEC Inc. The GCEP Lease applies only to the facilities and areas used for the American Centrifuge and replaces a temporary lease with DOE for the American Centrifuge Demonstration Facility that is being terminated in accordance with its terms. The GCEP lease does not materially alter the lease terms applicable to the GDPs.

The GCEP Lease covers facilities, areas and related personal property required for deployment of the American Centrifuge demonstration facility and the American Centrifuge commercial plant. Major provisions of the GCEP Lease include:

- The initial term of the GCEP Lease expires June 30, 2009, but can be extended under specified conditions by five years when an NRC license is issued for the American Centrifuge Plant. After the first five-year extension, USEC has the option to extend the lease term for additional five-year terms up to a date that is 36 years after the date the NRC license is issued. Thereafter, USEC also has the right to extend the GCEP Lease for up to an additional 20 years, through 2063, if it agrees to demolish the existing buildings leased to USEC;
- USEC has the option, with DOE's consent, to expand the leased property to meet its needs until the earlier of September 30, 2013 or the expiration or termination of the GDP Lease;
- Rent is based on the cost of lease administration and regulatory oversight and is initially estimated to be approximately $1.9 million per year, but is based on the amount of administration and oversight needed;
- USEC must maintain any NRC required financial assurance and must also maintain financial assurance for DOE in an amount equal to a current estimate of costs to comply with lease turnover requirements that are not covered by the NRC financial assurance;
- USEC may terminate the GCEP Lease upon three years' notice. DOE may terminate for default, including default under the Company's June 2002 agreement with DOE (which includes milestones for demonstration and deployment of the American Centrifuge), abandonment of the American Centrifuge project, and failure to operate at 1 million SWU per year over a 2 year rolling average period (beginning the earlier of when the American Centrifuge Plant reaches 3.5 million SWU capacity or four years after issuance of a license from NRC for the American Centrifuge Plant);
- USEC owns all capital improvements and, unless otherwise consented by DOE, must remove them at lease turnover; and
- DOE generally remains responsible for pre-existing conditions of the leased facilities. USEC must return the leased facilities to DOE in a condition that meets NRC requirements and is in the same condition as the facilities were in when they were leased to United States Enrichment Corporation (other than due to normal wear and tear).

Also as part of the amendment to the GDP Lease, on December 7, 2006, United States Enrichment Corporation and DOE amended the Memorandum of Agreement between DOE and United States Enrichment Corporation for Services, dated as of July 1, 1993 (the "Services MOA"). The Services MOA governs services that United States Enrichment Corporation and DOE provide to one another in support of each other's activities at the GDPs, and was amended to also cover GCEP Lease services and to clarify those "captive services" (such as provision of water) that United States Enrichment Corporation provides to DOE on a cost basis.

Office Space and Equipment Leases

USEC has office space and equipment leases for our corporate headquarters in Bethesda, Maryland through November 2016, for our NAC operations in Norcross, Georgia through February 2012, and for a Washington DC office through June 2008.

DOE Technology License

On December 7, 2006, USEC entered into a license agreement with DOE which provides USEC with a non-exclusive license in DOE inventions that pertain to enriching uranium using gas centrifuge technology. The license provides for annual royalty payments beginning January 1, 2009 based on a varying percentage (one percent up to two percent) of USEC's annual revenues from sales of the SWU component of LEU produced by USEC at the American Centrifuge Plant and any other facility using DOE centrifuge technology. There is a minimum annual royalty payment of $100,000 and the maximum cumulative royalty over the life of the license is $100 million.

12. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS

There are approximately 7,300 employees and retirees covered by defined benefit pension plans providing retirement benefits based on compensation and years of service, and approximately 3,700 employees, retirees and dependents covered by postretirement health and life benefit plans. DOE retained the obligation for postretirement health and life benefits for workers who retired prior to July 28, 1998. Pursuant to the supplemental executive retirement plans ("SERP") and pension restoration plan, USEC provides executive officers additional retirement benefits in excess of qualified plan limits imposed by tax law.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", requiring the recognition in the balance sheet of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability, and an offsetting adjustment to accumulated other comprehensive income (loss), a component of stockholders' equity. SFAS No. 158 requires prospective application, and is effective beginning with USEC's financial statements at December 31, 2006. SFAS No. 158 requires balance sheet recognition of net actuarial losses and prior service costs and benefits (items that are deferred and recognized as net periodic benefit costs in the statement of income over time). SFAS No. 158 also requires that plan assets and benefit obligations be measured at the year-end balance sheet date, which is consistent with USEC's practice. SFAS No. 158 does not impact the measurement of plan assets and benefit obligations, nor the determination of the amount of net periodic benefit cost in the statement of income.

For USEC's defined benefit pension plans and the postretirement health and life benefit plans, the incremental effect of applying SFAS No. 158 is shown below. Pre-SFAS No. 158 amounts include the effects of recording the additional minimum liability that would have been recognized at December 31, 2006 (in millions):

	Pre-SFAS No. 158	Adoption Adjustments	Post-SFAS No. 158
Pension asset	$ 85.8	$ (72.0)	$ 13.8
Intangible asset	1.1	(1.1)	—
Pension benefit liability – current	—	(0.3)	(0.3)
Pension benefit liability – long-term	(13.0)	(7.2)	(20.2)
Postretirement health and life benefit obligations	(146.7)	18.0	(128.7)
Deferred tax asset – long-term	0.8	26.9	27.7
Accumulated other comprehensive loss, net of tax	1.0	35.6	36.6

Changes in the projected benefit obligations and plan assets and the funded status of the plans follow (in millions):

	Defined Benefit Pension Plans		Postretirement Health and Life Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2006	2005	2006	2005
Changes in Benefit Obligations				
Obligations at beginning of year	$ 742.2	$ 701.1	$ 202.7	$ 253.8
Actuarial (gains) losses, net	(16.9)	29.7	(7.5)	1.3
Plan amendments	0.7	0.1	—	(66.4)
Curtailment and special termination benefits	—	(0.5)	—	0.1
Settlements	—	(10.5)	—	—
Service costs	18.3	16.7	4.7	7.2
Interest costs	40.7	39.7	11.0	14.4
Gross benefits paid	(40.6)	(34.1)	(8.9)	(7.7)
Less federal subsidy on benefits paid	N/A	N/A	0.2	—
Obligations at end of year	744.4	742.2	202.2	202.7
Changes in Plan Assets				
Fair value of plan assets at beginning of year	684.7	657.4	69.6	64.5
Actual return on plan assets	77.5	52.9	7.1	4.7
USEC contributions	16.1	8.5	5.7	8.1
Benefits paid	(40.6)	(34.1)	(8.9)	(7.7)
Fair value of plan assets at end of year	737.7	684.7	73.5	69.6
(Unfunded) status at end of year	(6.7)	(57.5)	(128.7)	(133.1)
Adjustment prior to SFAS No. 158 application:				
Unrecognized prior service costs (benefit)	N/A	11.9	N/A	(66.4)
Unrecognized net actuarial losses	N/A	117.3	N/A	45.6
Net balance sheet amount	**N/A**	**$ 71.7**	**N/A**	**$ (153.9)**
Amounts recognized in assets and liabilities:				
Noncurrent assets	$ 13.8	$ 86.2	$ —	$ —
Current liabilities	(0.3)	(17.9)	—	—
Noncurrent liabilities	(20.2)	—	(128.7)	(153.9)
	$ (6.7)	**$ 68.3**	**$ (128.7)**	**$ (153.9)**
Amounts recognized in accumulated other comprehensive income, pre-tax:				
Unfunded minimum pension liability	N/A	$ 3.4	N/A	N/A
Net actuarial loss (gain)	$ 71.3	N/A	$ 33.9	N/A
Prior service cost (credit)	11.0	N/A	(51.9)	N/A
	$ 82.3	**$ 3.4**	**$ (18.0)**	**N/A**
Assumptions used to determine benefit obligations at end of year:				
Discount rate	5.75%	5.50%	5.75%	5.50%
Compensation increases	4.00	3.75	4.00	3.75

Projected benefit obligations for the defined benefit pension plans and the postretirement health and life benefit plans were discounted at an annual rate of 5.75% to determine the present values as of December 31, 2006. The discount rate is the estimated rate at which the benefit obligations could be effectively settled on the measurement date taking into account the nature and duration of the benefit obligations of the plans. The discount rate was determined by taking the average of high quality corporate bond yields of different maturities weighted by the amount and timing of our projected benefit payments.

In accordance with SFAS No. 158, the current liability for underfunded plans was measured as the expected benefit payments for 2007 for each plan in excess of the fair value of the plan assets at December 31, 2006. Therefore, the current liability reflects 2007 projected benefit payments for SERP and the pension restoration plan.

Projected benefit obligations are based on actuarial assumptions including future increases in compensation. Accumulated benefit obligations are based on actuarial assumptions but do not include possible future increases in compensation. The accumulated benefit obligation for all defined benefit pension plans was $669.1 million at December 31, 2006 and $669.1 million at December 31, 2005. The accumulated benefit obligation for the defined benefit plan with an accumulated benefit obligation in excess of the fair value of plan assets was $26.6 million at December 31, 2006, and $28.3 million at December 31, 2005. Those plans with an accumulated benefit obligation in excess of plan assets had plan assets with a fair value of $13.6 million at December 31, 2006 and $9.3 million at December 31, 2005.

The expected cost of providing pension benefits is accrued over the years employees render service, and actuarial gains and losses are amortized over the employees' average future service life. For postretirement health and life benefits, actuarial gains and losses and prior service costs or benefits are amortized over the employees' average remaining years of service from age 40 until the date of full benefit eligibility.

The Pension Protection Act eliminated the sunset provision of the Economic Growth and Tax Reconciliation Relief Act ("EGTRRA"), which would have decreased the annual compensation back to an indexed pre-EGTRRA amount. The impact was a net increase of $0.4 million in the liability and is reflected as a plan amendment.

USEC began receiving federal subsidy payments in 2006 in connection with a change in Medicare law affecting corporations that sponsor prescription drug benefits. The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides prescription drug benefits under Medicare ("Medicare Part D") as well as federal subsidy payments to sponsors of plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. USEC in consultation with its actuaries has determined that the prescription drug provisions of its postretirement health benefit plan are at least actuarially equivalent to Medicare Part D.

The change in the postretirement health and life benefit obligation for the year ended December 31, 2005 reflects the institution of a $100,000 lifetime cap on post-age 65 claims for medical and drug coverage under the postretirement health benefit plan. The institution of the cap reduced the postretirement health benefit obligation by $66.4 million which will be amortized over the average remaining years of service until full eligibility.

The components of net benefit costs for pension and postretirement health and life benefit plans were as follows (in millions):

	Defined Benefit Pension Plans Years Ended December 31,			Postretirement Health and Life Benefit Plans Years Ended December 31,		
	2006	2005	2004	2006	2005	2004
Service costs	$ 18.3	$ 16.7	$ 14.6	$ 4.7	$ 7.2	$ 7.3
Interest costs	40.7	39.7	38.4	11.0	14.4	14.0
Expected return on plan assets (gains)	(53.8)	(54.9)	(50.9)	(5.5)	(5.5)	(4.8)
Amortization of prior service costs (credit)	1.7	1.7	2.0	(14.5)	(0.9)	(2.4)
Amortization of actuarial (gains) losses, net	5.3	3.2	1.8	2.6	1.5	1.4
Settlements	—	(4.9)	—	—	—	—
Curtailment losses	—	0.6	—	—	0.1	—
Net benefit costs	**$ 12.2**	**$ 2.1**	**$ 5.9**	**$ (1.7)**	**$ 16.8**	**$ 15.5**
Assumptions used to determine net benefit costs:						
Discount rate	5.50%	5.75%	6.00%	5.50%	5.75%	6.00%
Expected return on plan assets	8.00	8.50	8.50	8.00	8.50	8.50
Compensation increases	3.75	3.75	4.00	3.75	3.75	4.00

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic pension benefit cost during 2007 are $1.0 million and $1.7 million, respectively. The estimated net loss and prior service cost credit for the postretirement health and life plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2007 are $1.6 million and $14.5 million, respectively.

The expected return on plan assets is based on the weighted average of long-term return expectations for the composition of the plans' equity and debt securities. Expected returns for each asset class are based on historical returns and expectations of future returns. Independent investment advisors manage assets in each category to maximize investment returns within reasonable and prudent levels of risk. Risk is reduced by diversifying plan assets in a broad mix of asset classes and by following a strategic asset allocation approach. Asset classes and target weights are adjusted periodically to optimize the long-term portfolio risk/return tradeoff, to provide liquidity for benefit payments, and to align portfolio risk with the underlying obligations.

Healthcare cost trend rates used to measure postretirement health benefit obligations follow:

	Postretirement Health Benefit Plans December 31,	
	2006	2005
Healthcare cost trend rate for the following year	9%	9%
Long-term rate that the healthcare cost trend rate gradually declines to	5%	5%
Year that the healthcare cost trend rate is expected to reach the long-term rate	2011	2010

A one-percentage-point change in the assumed healthcare cost trend rates would have an effect on the postretirement health benefit obligation and costs, as follows (in millions):

	One Percentage Point	
	Increase	Decrease
Postretirement health benefit obligation	$ 10.1	$ (9.6)
Net benefit costs	1.2	(1.1)

Benefit Plan Assets

The allocation of plan assets between equity and debt securities and the target allocation range by asset category follows:

	Percentage of Plan Assets December 31,		Target Allocation Range
	2006	2005	2006
Defined Benefit Pension Plans:			
Equity securities	64%	66%	50-70%
Debt securities	36	34	30-50
	100%	**100%**	
Postretirement Health and Life Benefit Plans:			
Equity securities	68%	66%	55-75%
Debt securities	32	34	25-45
	100%	**100%**	

Benefit Plan Cash Flows

USEC expects cash contributions to the plans in 2007 will be as follows: $10.1 million for the defined benefit pension plans and $3.3 million for the postretirement health and life benefit plans.

Estimated future benefit plan payments and expected subsidies from Medicare follow (in millions):

	Defined Benefit Pension Plans	Postretirement Health and Life Benefit Plans	Expected Subsidies From Medicare
2007	$ 36.0	$ 9.8	$ 0.3
2008	37.0	11.2	0.4
2009	38.5	12.7	0.5
2010	40.0	14.2	0.6
2011	41.7	15.5	0.8
2012 to 2016	255.6	91.7	7.3

Other Plans

USEC sponsors a 401(k) defined contribution plan for employees. Employee contributions are matched at established rates. Amounts contributed are invested in securities, and the funds are administered by an independent trustee. USEC's matching cash contributions amounted to $6.1 million in 2006, $6.1 million in 2005, and $5.6 million in 2004. Under the 401(k) restoration plan, executive officers contribute and USEC matches contributions in excess of amounts eligible under the 401(k) plan. USEC's matching contributions amounted to $0.1 million in 2006, less than $0.1 million in 2005, and $0.1 million in 2004.

13. STOCK-BASED COMPENSATION

USEC has stock-based compensation plans available to grant non-qualified stock options, restricted stock, restricted stock units, performance awards and other stock-based awards to key employees and non-employee directors. Stock-based compensation expense amounted to $4.3 million in 2006, $4.9 million in 2005, and $5.3 million in 2004.

In February 1999 and in April 2004, stockholders approved an aggregate amount of 14.1 million shares of common stock for issuance under the USEC Inc. 1999 Equity Incentive Plan over a 10-year period. There were 7,543,000 shares available for future awards under the plan at December 31, 2006 (excluding outstanding awards which terminate or are cancelled without being exercised or that are settled for cash), including 5,051,000 shares available for grants of stock options and 2,492,000 shares available for restricted stock or restricted stock units, performance awards and other stock-based awards. USEC's practice is to issue shares under stock-based compensation plans from treasury stock.

Effective January 1, 2006, USEC adopted the provisions of SFAS No. 123(R), "Share-Based Payment", whereby compensation cost relating to share-based payments is recognized in the financial statements. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized over the requisite service period, which is either immediate recognition if the employee is eligible to retire, or on a straight-line basis until the earlier of either the date of retirement eligibility or the end of the nominal vesting period. Prior to January 1, 2006, USEC accounted for share-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", with pro forma disclosures in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". Under APB No. 25, USEC recognized expense for restricted stock and restricted stock units in the income statement and disclosed the fair value of compensation related to stock options and the employee stock purchase plan. SFAS No. 123(R) requires USEC to expense all stock-based compensation, including restricted stock, restricted stock units, stock options and costs associated with the employee stock purchase plan.

Prior to adoption of SFAS No. 123(R), USEC used a straight-line amortization of stock-based compensation over the nominal vesting period. Under SFAS No. 123(R), compensation cost for stock-based awards granted after the adoption is recognized over the requisite service period. USEC has determined that application of the nominal vesting period approach to the unvested outstanding awards at the end of 2005 and application of the requisite service period approach to stock-based compensation awarded beginning in 2006 did not have a material impact on the consolidated financial statements for the year ended December 31, 2006.

Under the modified prospective transition method, prior periods have not been revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the pro forma disclosures under SFAS No. 123.

On December 12, 2005, USEC accelerated the vesting of all outstanding and unvested stock options with an exercise price greater than the closing price on December 12, 2005 of $12.41 per share. Options to purchase 131,509 shares, including 21,000 shares held by non-employee directors, having an exercise price of either $13.98 or $16.90 per share, became exercisable immediately as a result of the vesting acceleration. The accelerated vesting did not result in the recognition of compensation expense since the options had no intrinsic value. The primary purpose of the acceleration was to eliminate the future compensation expense USEC would otherwise recognize in the consolidated statements of income with respect to these options once SFAS No.123(R) became effective in 2006. In addition, because these options had exercise prices in excess of current market values, and were not fully achieving their original objectives of incentive compensation and retention, the Board of Directors believed the acceleration might have a positive effect on morale, retention, and perceptions of option value. The financial effect of this acceleration was to reduce compensation expense in USEC's pre-tax earnings by $0.3 million in 2006, $0.2 million in 2007 and $0.1 million in 2008.

Stock Options

The intrinsic value of an option, if any, represents the excess of the fair value of the common stock over the exercise price. The determination of the fair value of stock option awards is affected by USEC's stock price and a number of complex and subjective variables. Fair value is estimated using the Black-Scholes option pricing model, which includes a number of assumptions including USEC's estimates of stock price volatility, employee stock option exercise behaviors, future dividend payments, and risk-free interest rates.

The expected term of options granted is estimated as the average of the vesting term and the contractual term of the option, as illustrated in SEC Staff Accounting Bulletin No. 107, "Share-Based Payment". Future stock price volatility is estimated based on historical volatility for the recent period equal to the expected term of the options. The risk-free interest rate for the expected option term is based on the U.S. Treasury yield curve in effect at the time of grant. No cash dividends are expected in the foreseeable future and therefore an expected dividend yield of zero is used in the option valuation model. Historical data are used to estimate pre-vesting option forfeitures at the time of grant. Estimates for option forfeitures are revised in subsequent periods if actual forfeitures differ from those estimates. The requirements of SFAS No. 123(R) result in the recognition of compensation expense for stock option awards that are expected to vest. USEC recognized expense of $0.7 million for the year ended December 31, 2006. The impact of adopting SFAS No. 123(R) was immaterial to basic and diluted earnings per share.

The assumptions used to value option grants in the three years ended December 31, 2006 follow:

	Years Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.6%	3.8%	3.0%
Expected dividend yield	—	4%	7%
Expected volatility	41%	42%	40%
Expected option life	3.5 years	3.5 years	4.0 years
Weighted-average grant date fair value	$ 4.21	$ 4.07	$ 1.60

Stock options vest or become exercisable in equal annual installments over a one to three year period and expire 5 or 10 years from the date of grant. A summary of stock option activity follows:

	Stock Options (thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2005	1,355	8.97		
Granted	288	12.28		
Exercised	(292)	7.31		
Forfeited or expired	(139)	15.10		
Outstanding at December 31, 2006	**1,212**	**$ 9.45**	**4.3**	**$ 4.3**
Exercisable at December 31, 2006	**822**	**$ 8.40**	**4.4**	**$ 3.9**

The total intrinsic value of options exercised was $1.3 million, $4.8 million and $4.2 million during the years ended December 31, 2006, 2005, and 2004, respectively. Cash received from the exercise of stock options during the years ended December 31, 2006, 2005 and 2004 was $2.1 million, $5.4 million and $13.0 million, respectively.

Stock options outstanding and options exercisable at December 31, 2006, follow (options in thousands):

Stock Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life in Years	Options Exercisable
$3.63 to $6.97	163	4.1	163
7.00	107	6.6	107
7.02 to 7.13	187	5.1	187
8.05	104	2.2	69
8.50	142	4.6	142
10.44 to 11.88	103	3.7	36
12.09	262	4.3	—
12.19 to 14.28	57	3.9	31
16.90	87	3.3	87
	1,212	**4.3**	**822**

Restricted Stock and Restricted Stock Units

Compensation costs for grants of restricted stock and restricted stock units were originally recognized in the financial statements under APB Opinion No. 25 and are now recognized under SFAS No. 123(R). USEC recognized expense of $3.5 million, $4.8 million and $4.6 million for the years ended December 31, 2006, 2005 and 2004, respectively. A new long-term incentive program was established April 24, 2006, effective March 1, 2006. Under the new plan, the target award denominated in shares of USEC stock is determined based on the average closing price of USEC's common stock in the calendar month prior to the beginning of the performance period. The awards are then marked to market each period, with 80% of the adjustment based on the ending price of USEC's common stock. The remaining 20% is based on a market condition and is valued using a Monte Carlo model. Compensation cost for these awards is generally recognized over a three-year service period. The awards under the long-term incentive plan can be settled in cash or USEC stock, or can be deferred for future settlement at the employee's discretion. Since there is the potential for cash settlement, the awards are classified as a liability. Non-employee directors are granted restricted stock units as part of their compensation for serving on the Board of Directors. The restricted stock units vest over one or three years.

The fair value of restricted stock is determined based on the closing price of USEC's common stock on the grant date. Compensation cost for restricted stock is amortized to expense on a straight-line basis over the vesting period, which, depending on the grant, is amortized ratably over a one-, three- or five-year period. Sale of such shares is restricted prior to the date of vesting. A summary of restricted shares activity for the year ended December 31, 2006 follows (shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value
Restricted Shares at December 31, 2005	721	10.44
Granted	249	12.25
Vested	(117)	14.13
Forfeited	(55)	13.11
Restricted Shares at December 31, 2006	**798**	**$ 10.28**

Employee Stock Purchase Plan

In February 1999, stockholders approved the USEC Inc. 1999 Employee Stock Purchase Plan under which 2.5 million shares of common stock can be purchased over a 10-year period by participating employees at 85% of the lower of the market price at the beginning or the end of each six-month offer period. This plan was amended in 2005 to provide that the purchase price is 85% of the market price at the end of the six-month offer period and to institute a minimum holding period of one year. Employees can elect to designate up to 10% of their compensation to purchase common stock under the plan. The requirements of SFAS No. 123(R) result in the recognition of compensation costs for the discounts provided under the Employee Stock Purchase Plan. USEC recognized expense of $0.1 million for the year ended December 31, 2006 related to this plan. Shares purchased by employees amounted to 57,000 in 2006, 455,000 in 2005, and 404,000 in 2004. At December 31, 2006, there were 147,000 remaining shares available for purchase under the plan.

Total Stock-Based Compensation

Total stock-based compensation resulted in an expense of $4.3 million, or $2.6 million after tax, for the year ended December 31, 2006. Stock-based compensation costs capitalized as part of the cost of inventory amounted to $0.3 million for the year ended December 31, 2006.

The following table illustrates the effect on net income for the years ended December 31, 2005 and 2004 under the pro forma disclosure requirements of SFAS No. 123 (in millions, except per share data):

	Years Ended December 31,	
	2005	2004
Net income, as reported	$ 22.3	$ 23.5
Add – Stock-based compensation expense included in reported results, net of tax	3.0	3.3
Deduct – Stock-based compensation expense determined under the fair-value method, net of tax	(6.0)	(5.1)
Pro forma net income	**$ 19.3**	**$ 21.7**
Net income per share – basic and diluted:		
As reported	$ .26	$ .28
Pro forma	.22	.26

As of December 31, 2006, there was $6.7 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted, of which $5.8 million relates to restricted shares and restricted stock units, and $0.9 million relates to stock options. That cost is expected to be recognized over a weighted-average period of 2.0 years.

Tax Effect

Prior to the effective date of SFAS No. 123(R), the benefits of tax deductions in excess of recognized compensation expense related to the exercise of stock options and disqualifying dispositions are presented as operating cash flows on USEC's consolidated statement of cash flows. Effective January 1, 2006, in accordance with SFAS No. 123(R), the gross windfall tax benefits are classified as financing cash flows, and amounted to $0.4 million for the year ended December 31, 2006. USEC elected to use the long-form method to calculate its historical pool of windfall tax benefits.

14. STOCKHOLDERS' EQUITY

Dividend Payments

Cash dividend payments at a quarterly rate of $.1375 per share amounted to $47.3 million in 2005 and $46.3 million in 2004. In February 2006, the Board of Directors voted to discontinue paying a common stock dividend.

Common Stock

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

	Shares Issued	Treasury Stock	Shares Outstanding
Balance at December 31, 2003	100,320	(17,766)	82,554
Common stock issued	—	2,595	2,595
Balance at December 31, 2004	100,320	(15,171)	85,149
Common stock issued	—	1,422	1,422
Balance at December 31, 2005	100,320	(13,749)	86,571
Common stock issued	—	571	571
Balance at December 31, 2006	**100,320**	**(13,178)**	**87,142**

Preferred Stock Purchase Rights

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

15. REVENUE BY GEOGRAPHIC AREA, MAJOR CUSTOMERS AND SEGMENT INFORMATION

Revenue attributed to domestic and foreign customers, including customers in a foreign country representing 10% or more of total revenue, follows (in millions):

	Years Ended December 31,		
	2006	2005	2004
United States	$ 1,109.5	$1,074.1	$ 918.2
Foreign:			
Japan	389.8	224.2	215.2
Other	349.3	261.0	283.8
	739.1	485.2	499.0
	$ 1,848.6	**$ 1,559.3**	**$1,417.2**

Other than the U.S. government, our 10 largest customers represented 53% of revenue and our three largest customers represented 22% of revenue in 2006. Revenue from U.S. government contracts represented 10% of revenue in 2006, 13% of revenue in 2005, and 12% of revenue in 2004. No other customer represented more than 10% of revenue.

USEC has two reportable segments measured and presented through the gross profit line of the income statement: the low enriched uranium (“LEU”) segment with two components, separative work units (“SWU”) and uranium, and the U.S. government contracts segment. The LEU segment is USEC’s primary business focus and includes sales of the SWU component of LEU, sales of both SWU and uranium components of LEU, and sales of uranium. The U.S. government contracts segment includes work performed for DOE and DOE contractors at the Portsmouth and Paducah plants as well as nuclear energy solutions provided by NAC. Intersegment sales were less than $0.1 million in 2006 and 2005 and have been eliminated in consolidation. There were no intersegment sales in 2004.

	Years Ended December 31,		
	2006	2005	2004
		(millions)	
Revenue			
LEU segment:			
Separative work units	$ 1,337.4	$1,085.6	$ 1,027.3
Uranium	316.7	261.3	224.0
	1,654.1	1,346.9	1,251.3
U.S. government contracts segment	194.5	212.4	165.9
	$ 1,848.6	**$ 1,559.3**	**$ 1,417.2**
Segment Gross Profit			
LEU segment	$ 304.9	$ 198.5	$ 179.7
U.S. government contracts segment	32.0	31.0	14.4
Gross profit	336.9	229.5	194.1
Advanced technology costs	105.5	94.5	58.5
Selling, general, and administrative	48.8	61.9	64.1
Other, net	3.9	6.3	(1.7)
Operating income	178.7	66.8	73.2
Interest expense, net of interest income	8.3	29.5	36.6
Income before income taxes	**$ 170.4**	**$ 37.3**	**$ 36.6**

	December 31,		
	2006	2005	2004
		(millions)	
Assets			
LEU segment	$1,800.1	$2,008.5	$1,952.1
U.S. government contracts segment	61.3	72.3	51.3
	$ 1,861.4	**$ 2,080.8**	**$ 2,003.4**

USEC's long-term or long-lived assets include property, plant and equipment and other assets reported on the balance sheet at December 31, 2006, all of which were located in the United States.

16. QUARTERLY FINANCIAL DATA (Unaudited)

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

	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Year 2006
Revenue	$ 361.3	$ 525.3	$ 417.8	$ 544.2	$ 1,848.6
Cost of sales	269.3	445.7	365.7	431.0	1,511.7
Gross profit	92.0	79.6	52.1	113.2	336.9
Special charges (credit), net	1.5(1)	—	(0.1)(1)	2.5(1)	3.9(1)
Advanced technology costs	19.8	27.3	23.9	34.5	105.5
Selling, general and administrative	11.7	14.1	10.9	12.1	48.8
Operating income	59.0	38.2	17.4	64.1	178.7
Interest expense	4.7	3.5	3.2	3.1	14.5
Interest (income)	(1.8)	(0.5)	(1.7)	(2.2)	(6.2)
Provision for income taxes	21.5	13.6	6.0	23.1	64.2
Net income	**$ 34.6**	**$ 21.6**	**$ 9.9**	**$ 40.1**	**$ 106.2**
Net income per share – basic and diluted	$ .40	$ .25	$ .11	$ .46	$ 1.22
Average number of shares outstanding – basic	86.3	86.6	86.7	86.8	86.6
Average number of shares outstanding – diluted	86.6	86.9	86.9	87.0	86.8

	March 31, 2005	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Year 2005
Revenue	$ 311.2	$ 277.4	$ 421.0	$ 549.7	$ 1,559.3
Cost of sales	263.5	235.2	384.5	446.6	1,329.8
Gross profit	47.7	42.2	36.5	103.1	229.5
Special charges	—	—	4.5(1)	2.8(1)	7.3(1)
Advanced technology costs	22.7	23.9	20.5	27.4	94.5
Selling, general and administrative	15.2	14.0	12.3	20.4	61.9
Other (income) expense, net	—	—	—	(1.0)(2)	(1.0)(2)
Operating income (loss)	9.8	4.3	(0.8)	53.5	66.8
Interest expense	8.7	9.1	9.0	13.2	40.0
Interest (income)	(1.9)	(3.2)	(2.3)	(3.1)	(10.5)
Provision (credit) for income taxes	2.1	1.4	(2.3)	13.8	15.0
Net income (loss)	**$ 0.9**	**$ (3.0)**	**$ (5.2)**	**$ 29.6**	**$ 22.3**
Net income (loss) per share – basic and diluted	$ .01	$ (.03)	$ (.06)	$ .34	$ .26
Average number of shares outstanding – basic	85.5	86.2	86.3	86.5	86.1
Average number of shares outstanding – diluted (3)	86.0	86.2	86.3	86.9	86.6

(1) In 2005, the plan to restructure headquarters and field operations resulted in special charges of $7.3 million related to termination benefits. In 2006, special charges consisted of a $1.5 million charge related to consolidation of office space in connection with the 2005 restructuring plan, credits of $0.2 million representing changes in estimate of costs for termination benefits charged in 2005, and a $2.6 million impairment of an intangible asset established in 2004 relating to the acquisition of NAC.

(2) Other income in the three months and year ended December 31, 2005, includes $1.0 million from customs duties paid to USEC as a result of trade actions.

(3) No dilutive effect of stock compensation awards is recognized in those periods in which a net loss has occurred.

GLOSSARY

American Centrifuge – An advanced uranium enrichment technology based on the proven workable U.S. centrifuge technology developed by DOE in the mid-1980s.

American Centrifuge Demonstration Facility – Demonstration facility in Piketon, Ohio where USEC plans to install a Lead Cascade of centrifuge machines to demonstrate the American Centrifuge technology.

American Centrifuge Plant – USEC's planned commercial uranium enrichment facility using centrifuge technology. USEC plans to install thousands of centrifuge machines and operate the facility in the gas centrifuge enrichment plant buildings in Piketon, Ohio owned by DOE.

Assay – The concentration of U^{235} expressed by percentage of weight in a given quantity of uranium ore, uranium hexafluoride, uranium oxide or other uranium form. An assay of 3 to 5% U^{235} is required for most commercial nuclear power plants.

Cascade – Enrichment stages piped together in a series or combination series/parallel arrangement to form the production process in a gas centrifuge plant or a gaseous diffusion plant.

Centrifuge – A technology for enriching uranium by spinning uranium hexafluoride at high speed and using centrifugal force to separate the heavier U^{238} from the lighter U^{235}.

CERCLA – The Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. 9601 et seq.), a federal law passed in 1980 by the Superfund Amendments and Reauthorization Act. The act created a government trust fund, commonly known as Superfund, to investigate and clean up abandoned or uncontrolled hazardous waste sites.

Depleted Uranium – Uranium hexafluoride that is depleted in the U^{235} isotope as a result of the enrichment process.

DOC – The U.S. Department of Commerce.

DOE – The U.S. Department of Energy.

Downblending –The diluting or mixing of highly enriched uranium with depleted or natural uranium to produce low enriched uranium with a concentration of U^{235} of less than 5% for use in commercial nuclear reactors.

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

EPA – The U.S. Environmental Protection Agency.

Executive Agent MOA – The Executive Agent Memorandum of Agreement under which USEC is designated the U.S. Executive Agent under the Russian Contract to order LEU from dismantled Soviet nuclear weapons.

Freon – The trade name for a group of chlorofluorocarbons (CFCs) used primarily as a refrigerant. The Paducah plant uses Freon as the primary process coolant. The production of Freon in the United States was terminated in 1995.

Gaseous Diffusion – A means of enriching uranium hexafluoride, which is heated to a gas and passed repeatedly through a porous barrier to separate the heavier U^{238} from the lighter U^{235}. The gas that diffuses through the barrier becomes increasingly more concentrated or enriched.

Highly Enriched Uranium –Uranium enriched in the isotope U^{235} to an assay equal to or greater than 20%.

Isotope – One or more atoms of an element having the same atomic number but different mass number.

Lead Cascade – An array of full-size centrifuge machines operating in a closed-loop configuration, whereby samples are withdrawn for testing purposes and the enriched and depleted uranium streams are recombined into feed material.

Low Enriched Uranium ("LEU") – Uranium enriched in the isotope U^{235} to an assay of less than 20%. Commercial grade LEU typically has an assay of 3 to 5% and is used as fuel in nuclear reactors for the generation of electric power.

Megatons to Megawatts – The Russian Contract.

Megawatt ("MW") – A megawatt equals 1,000 kilowatts. One megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.

Natural Uranium – Uranium that has not been enriched.

NMMSS – The Nuclear Materials Management and Safeguards System of the DOE and NRC.

NRC – The U.S. Nuclear Regulatory Commission.

OVEC – Ohio Valley Electric Corporation, an electric power supplier to the Portsmouth plant.

Russian Contract – Contract, dated January 14, 1994, between USEC and TENEX to implement the Agreement between the United States and the Russian Federation Concerning the Disposition of Highly Enriched Uranium Extracted from Nuclear Weapons. Under the contract, USEC serves as Executive Agent for the United States Government, and TENEX serves as Executive Agent for the Federal Agency for Atomic Energy of the Russian Federation.

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

Technetium – A byproduct from the operation of nuclear reactors and a contaminant in natural uranium.

TENEX – OAO Techsnabexport, Executive Agent for the Federal Agency for Atomic Energy of the Russian Federation under the Russian Contract.

TVA – Tennessee Valley Authority, a federally-chartered corporation that supplies electric power to the Paducah gaseous diffusion plant.

Underfeeding – A mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power.

Uranium – One of the heaviest elements found in nature. Approximately 993 of every 1000 uranium atoms are U^{238} while approximately seven atoms are U^{235}, which can be made to split, or fission, and generate heat energy.

Uranium Hexafluoride – Uranium chemical compound produced from converting natural uranium oxide into a fluoride at a conversion plant. Uranium hexafluoride is the feed material for uranium enrichment plants.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Incorporation of USEC Inc., incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1, filed June 29, 1998 (Commission file number 333-57955).
3.2	Amended and Restated Bylaws of USEC Inc., dated September 13, 2000, incorporated by reference to Exhibit 3.3 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (Commission file number 1-14287).
4.1	Indenture, dated January 15, 1999, between USEC Inc. and First Union National Bank, incorporated by reference to Exhibit 4.2 of the Annual Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission file number 1-14287).
4.2	Rights Agreement, dated April 24, 2001, between USEC Inc. and Fleet National Bank, as Rights Agent, including the form of Certificate of Designation, Preferences and Rights as Exhibit A, the form of Rights Certificates as Exhibit B and the Summary of Rights as Exhibit C, incorporated by reference to Exhibit 4.3 of the Registration Statement on Form 8-A filed April 24, 2001 (Commission file number 1-14287).
10.1	Lease Agreement between the United States Department of Energy ("DOE") and the United States Enrichment Corporation, dated as of July 1, 1993, including notice of exercise of option to renew, incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-1, filed June 29, 1998 (Commission file number 333-57955).
10.2	Supplemental Agreement No. 1 to the Lease Agreement between DOE and the United States Enrichment Corporation, dated as of December 7, 2006. (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2). (a)
10.3	Contract between United States Enrichment Corporation, Executive Agent of the United States of America, and AO Techsnabexport, Executive Agent of the Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994, as amended ("Russian Contract") incorporated by reference to Exhibit 10.17 of the Registration Statement on Form S-1, filed June 29, 1998 (Commission file number 333-57955).
10.4	Amendment No. 11, dated June 1998, to Russian Contract, incorporated by reference to Exhibit 10.4 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.5	Amendment No. 12, dated March 4, 1999, to Russian Contract, incorporated by reference to Exhibit 10.36 of the Annual Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission file number 1-14287).
10.6	Amendment No. 13, dated November 11, 1999, to Russian Contract, incorporated by reference to Exhibit 10.6 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.7	Amendment No. 14, dated October 27, 2000, to Russian Contract, incorporated by reference to Exhibit 10.7 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.8	Amendment No. 15, dated January 18, 2001, to Russian Contract, incorporated by reference to Exhibit 10.8 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.9	Memorandum of Agreement, dated April 6, 1998, between the Office of Management and Budget and United States Enrichment Corporation relating to post-privatization liabilities, incorporated by reference to Exhibit 10.18 of the Registration Statement on Form S-1, filed June 29, 1998 (Commission file number 333-57955).
10.10	Memorandum of Agreement, dated April 20, 1998, between DOE and United States Enrichment Corporation for transfer of natural uranium and highly enriched uranium and for blending down of highly enriched uranium, incorporated by reference to Exhibit 10.20 of the Registration Statement on Form S-1, filed June 29, 1998 (Commission file number 333-57955).

Exhibit No.	Description
10.11	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 DOE, and United States Enrichment Corporation for United States Enrichment Corporation to serve as the United States Government's Executive Agent under the Agreement between the United States and the Russian Federation concerning the disposal of highly enriched uranium extracted from nuclear weapons, incorporated by reference to Exhibit 10.26 of the Registration Statement on Form S-1/A, filed July 21, 1998 (Commission file number 333-57955).
10.12	Memorandum of Agreement, entered into as of June 30, 1998, between DOE and United States Enrichment Corporation regarding certain worker benefits, incorporated by reference to Exhibit 10.28 of the Registration Statement on Form S-1/A, filed July 21, 1998 (Commission file number 333-57955).
10.13	Power Contract between Tennessee Valley Authority and United States Enrichment Corporation, dated July 11, 2000 ("TVA Power Contract"), incorporated by reference to Exhibit 10.45 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (Commission file number 1-14287). (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2).
10.14	Supplement No. 1 dated March 2, 2006 to TVA Power Contract, incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission file number 1-14287). (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2).
10.15	Supplement No. 2 dated March 2, 2006 to TVA Power Contract, incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission file number 1-14287). (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2).
10.16	Amendatory Agreement (Supplement No. 3) dated April 3, 2006 to TVA Power Contract, incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission file number 1-14287). (Certain information has been omitted and filed separately pursuant to confidential treatment under Rule 24b-2).
10.17	Agreement, dated June 17, 2002, between DOE and USEC Inc., incorporated by reference to Exhibit 10.54 of the current report on Form 8-K filed June 21, 2002 (Commission file number 1-14287).
10.18	Modification 1 to Agreement dated June 17, 2002 between DOE and USEC Inc., dated August 20, 2002, incorporated by reference to Exhibit 10.15 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.19	Cooperative Research and Development Agreement, Development of an Economically Attractive Gas Centrifuge Machine and Enrichment Process, by and between UT-Battelle, LLC, under its DOE Contract, and USEC Inc., dated June 30, 2000, Amendment A, dated July 12, 2002, and Amendment B, dated September 11, 2002, incorporated by reference to Exhibit 10.58 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (Commission file number 1-14287).
10.20	Administrative Order on Consent for Removal Action in the Matter of Starmet CMI, dated February 6, 2004, between the United States Environmental Protection Agency, United States Enrichment Corporation, DOE and United States Department of the Army, incorporated by reference to Exhibit 10.64 of the Annual Report on Form 10-K for the year ended December 31, 2003 (Commission file number 1-14287).
10.21	Stock Purchase Agreement, dated July 29, 2004, by and among Pinnacle West Capital Corporation, El Dorado Investment Company and USEC Inc., incorporated by reference to Exhibit 10.67 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (Commission file number 1-14287).
10.22	Amendment to the Stock Purchase Agreement, dated November 18, 2004, by and among USEC Inc., Pinnacle West Capital Corporation and El Dorado Investment Company, incorporated by reference to Exhibit 10.74 of the current report on Form 8-K filed November 19, 2004 (Commission file number 1-14287).
10.23	Memorandum of Understanding between USEC Inc. and DOE, dated October 22, 2004, Effectuating the Transfer of Natural Uranium Hexafluoride for Affected Inventory, incorporated by reference to Exhibit 10.68 of the current report on Form 8-K filed October 28, 2004 (Commission file number 1-14287).

Exhibit No.	Description
10.24	Memorandum of Agreement between USEC Inc. and DOE, dated as of December 10, 2004, for the Continued Operation of Portsmouth S&T Facilities for the Processing of Affected Inventory in Fiscal Year 2005 and Thereafter, incorporated by reference to Exhibit 10.75 of the current report on Form 8-K filed December 16, 2004 (Commission file number 1-14287).
10.25	Amendment No. 1 to the December 10, 2004 Memorandum of Agreement between DOE and USEC Inc., dated May 16, 2005, incorporated by reference to Exhibit 10.23 of the Annual Report on Form 10-K for the year ended December 31, 2005 (Commission file number 1-14287).
10.26	Amendment No. 2 to the December 10, 2004 Memorandum of Agreement between DOE and USEC Inc., dated February 9, 2006, incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission file number 1-14287).
10.27	Amendment No. 3 to the December 10, 2004 Memorandum of Agreement between DOE and USEC Inc., dated June 23, 2006, incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission file number 1-14287).
10.28	Amendment No. 4 to the December 10, 2004 Memorandum of Agreement between DOE and USEC Inc., dated September 18, 2006, incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission file number 1-14287).
10.29	Amendment No. 5 to the December 10, 2004 Memorandum of Agreement between DOE and USEC Inc., dated November 30, 2006. (a)
10.30	Amended and Restated Revolving Credit Agreement dated as of August 18, 2005 among USEC Inc., United States Enrichment Corporation, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative and collateral agent, J.P. Morgan Securities, Inc., Merrill Lynch Capital and Goldman Sachs Credit Partners, L.P., as joint book managers and joint lead arrangers, Merrill Lynch Capital and Goldman Sachs Credit Partners, L.P., as co-syndication agents, GMAC Commercial Finance LLC and Wachovia Bank, National Association, as co-documentation agents, and CIT Capital Securities, LLC, as co-agent, incorporated by reference to Exhibit 10.83 of the Current Report on Form 8-K filed on August 23, 2005 (Commission file number 1-14287).
10.31	First Amendment to Amended and Restated Revolving Credit Agreement dated as of August 18, 2005 among USEC Inc., United States Enrichment Corporation, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative and collateral agent, and the other financial institutions named therein, dated March 6, 2006, incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission file number 1-14287).
10.32	Second Amendment to Amended and Restated Revolving Credit Agreement among USEC Inc., United States Enrichment Corporation, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative and collateral agent, and the other financial institutions named therein, dated October 16, 2006, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on October 19, 2006 (Commission file number 1-14287).
10.33	Amended and Restated Omnibus Pledge and Security agreement dated as of August 18, 2005 by USEC Inc., United States Enrichment Corporation, NAC Holding Inc. and NAC International Inc., in favor of JPMorgan Chase Bank, N.A., as administrative and collateral agent for the lenders, incorporated by reference to Exhibit 10.84 of the Current Report on Form 8-K filed on August 23, 2005 (Commission file number 1-14287).
10.34	License dated December 7, 2006 between the United States of America, as represented by DOE, as licensor, and USEC Inc., as licensee. (a)
10.35	Form of Director and Officer Indemnification Agreement, incorporated by reference to Exhibit 10.25 of the Registration Statement on Form S-1/A, filed July 21, 1998 (Commission file number 333-57955). (b)
10.36	Form of Change in Control Agreement with executive officers, incorporated by reference to Exhibit 10.40 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (Commission file number 1-14287). (b)

Exhibit No.	Description
10.37	Form of First Amendment to Change in Control Agreement with executive officers, incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission file number 1-14287). (b)
10.38	Form of Change in Control Agreement with senior executive officers, incorporated by reference to Exhibit 10.82 to the quarterly report on Form 10-Q for the quarter ended June 30, 2005 (Commission file number 1-14287). (b)
10.39	Form of First Amendment to Change in Control Agreement with senior executive officers, incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission file number 1-14287). (b)
10.40	USEC Inc. 1999 Equity Incentive Plan, incorporated by reference to Exhibit 10.35 of the Registration Statement on Form S-8, No. 333-71635, filed February 2, 1999. (b)
10.41	First Amendment to the USEC Inc. 1999 Equity Incentive Plan, incorporated by reference to Annex B of Schedule 14A filed March 31, 2004, with respect to the 2004 annual meeting of shareholders (Commission file number 1-14287). (b)
10.42	Form of Employee Nonqualified Stock Option Agreement, incorporated by reference to Exhibit 4.4 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (Commission file number 1-14287). (b)
10.43	Form of Employee Nonqualified Stock Option Agreement in connection with an employment agreement, incorporated by reference to Exhibit 4.5 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (Commission file number 1-14287). (b)
10.44	Form of Employee Restricted Stock Award Agreement (stock in lieu of annual incentive), incorporated by reference to Exhibit 4.6 of the Annual Report on Form 10-K for the year ended December 31, 2004 (Commission file number 1-14287). (b)
10.45	Form of Employee Restricted Stock Award Agreement (three year vesting), incorporated by reference to Exhibit 4.7 of the Annual Report on Form 10-K for the year ended December 31, 2004 (Commission file number 1-14287). (b)
10.46	Form of Non-Employee Director Nonqualified Stock Option Agreement, incorporated by reference to Exhibit 4.8 of the Annual Report on Form 10-K for the year ended December 31, 2004 (Commission file number 1-14287). (b)
10.47	Form of Non-Employee Director Restricted Stock Award Agreement — Founder's Stock and Incentive Stock, incorporated by reference to Exhibit 4.9 of the Annual Report on Form 10-K for the year ended December 31, 2004 (Commission file number 1-14287). (b)
10.48	Form of Non-Employee Director Restricted Stock Award Agreement — Annual Retainers and Meeting Fees, incorporated by reference to Exhibit 4.10 of the Annual Report on Form 10-K for the year ended December 31, 2004 (Commission file number 1-14287). (b)
10.49	Form of Non-Employee Director Restricted Stock Unit Award Agreement (Annual Retainers and Meeting Fees), incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed on April 28, 2006 (Commission file number 1-14287). (b)
10.50	Form of Non-Employee Director Restricted Stock Unit Award Agreement (Incentive Awards), incorporated by reference to Exhibit 10.3 of the current report on Form 8-K filed on April 28, 2006 (Commission file number 1-14287). (b)
10.51	USEC Inc. Pension Restoration Plan, dated September 1, 1999, incorporated by reference to Exhibit 10.39 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (Commission file number 1-14287). (b)
10.52	USEC Inc. 401(k) Restoration Plan, incorporated by reference to Exhibits 10.41(a) through (f) of the Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 (Commission file number 1-14287). (b)
10.53	USEC Inc. Supplemental Executive Retirement Plan, dated April 7, 1999 and amended April 25, 2001, incorporated by reference to Exhibit 10.51 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission file number 1-14287). (b)

Exhibit No.	Description
10.54	Summary Sheet for 2005 Non-Employee Director Compensation, incorporated by reference to Exhibit 10.77 to the Current Report on Form 8-K filed on April 27, 2005 (Commission file number 1-14287). (b)
10.55	Summary Sheet for 2006 Non-Employee Director Compensation, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 18, 2006 (Commission file number 1-14287). (b)
10.56	Summary Sheet for 2007 Non-Employee Director Compensation. (a)(b)
10.57	Summary of 2005 Annual Performance Objectives for Executive Officers, incorporated by reference to Exhibit 10.81 to the Current Report on Form 8-K filed on June 20, 2005 (Commission file number 1-14287). (b)
10.58	Severance Agreement and General Release dated September 12, 2005 by and between the Company and Lisa Gordon-Hagerty, incorporated by reference to Exhibit 10.89 of the Current Report on Form 8-K filed on September 13, 2005 (Commission file number 1-14287). (b)
10.59	Summary of Compensation Arrangements for Certain Executive Officers, incorporated by reference to Exhibit 10.90 of the Current Report on Form 8-K filed on September 16, 2005 (Commission file number 1-14287). (b)
10.60	Letter Agreement dated December 1, 2005, by and between USEC Inc. and James R. Mellor, Chairman of the Board, incorporated by reference to Exhibit 10.91 of the Current Report on Form 8-K filed on December 6, 2005 (Commission file number 1-14287). (b)
10.61	Summary of Compensation Arrangement with James R. Mellor. (a)(b)
10.62	Summary of 2006 Annual Performance Objectives for Executive Officers, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on February 10, 2006 (Commission file number 1-14287). (b)
10.63	USEC Inc. 2006 Supplemental Executive Retirement Plan, effective April 24, 2006, incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission file number 1-14287). (b)
10.64	Executive Incentive Plan Summary Plan Description, incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed on April 28, 2006 (Commission file number 1-14287). (b)
10.65	Summary of Employment Arrangement for Chief Financial Officer, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K/A filed on September 11, 2006 (Commission File Number 1-14287). (b)
21	Subsidiaries of USEC Inc. (a)
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm. (a)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). (a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). (a)
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (a)
99.1	Letter from U.S. Department of State, dated August 23, 2002, in compliance with Rule 0-6 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 99.4 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (Commission file number 1-14287).
99.2	Annual CEO Certification dated May 25, 2006, as filed with the New York Stock Exchange. (a)

(a) Filed herewith

(b) Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this report.

EXHIBIT 10.2

SUPPLEMENTAL AGREEMENT NO. 1 TO THE LEASE AGREEMENT BETWEEN THE UNITED STATES DEPARTMENT OF ENERGY AND THE UNITED STATES ENRICHMENT CORPORATION

SUPPLEMENTAL AGREEMENT NO. 1 TO THE
LEASE AGREEMENT BETWEEN
THE UNITED STATES DEPARTMENT OF ENERGY AND
THE UNITED STATES ENRICHMENT CORPORATION

THIS SUPPLEMENTAL AGREEMENT NO. 1, dated as of 12/7/06, to the LEASE AGREEMENT ("Lease") entered into as of July 1, 1993, between THE UNITED STATES DEPARTMENT OF ENERGY ("Department"), acting by and through the Secretary of Energy ("Secretary"), or his designee, and THE UNITED STATES ENRICHMENT CORPORATION, a Delaware corporation and successor to the government-owned United States Enrichment Corporation ("Corporation"), acting by and through its Board of Directors or its designee, hereby amends the Lease as follows:

WITNESSETH:

WHEREAS, the Corporation leases portions of the Portsmouth Gaseous Diffusion Plant site ("PORTS") located in Piketon, Ohio and portions of the Paducah Gaseous Diffusion Plant site ("PAD") located in Paducah, Kentucky from the Department pursuant to the Lease; and

WHEREAS, Section 3.4 of the Lease permits the Corporation to expand the scope of the Lease, subject to procedures set forth in Section 3.5 of the Lease; and

WHEREAS, the Department and USEC Inc. ("USEC"), the parent corporation of the Corporation, entered into an Agreement dated June 17, 2002 ("June 17th Agreement"), whereby, inter alia, USEC made long-term commitments to facilitate the deployment of a new, cost-effective advanced enrichment technology on a rapid schedule, and pursuant to this June 17th Agreement, USEC announced on December 3, 2003, that it intends to site its commercial gas centrifuge plant at the PORTS; and

WHEREAS, the parties desire to amend the Lease to create a "stand alone" section of the Lease that is specifically applicable to facilities, areas, and personal property at PORTS that the Corporation desires to lease for the construction and operation of USEC's commercial gas centrifuge plant and its demonstration facilities for such plant, hereinafter referred to as the "GCEP Lease;" and

WHEREAS, the parties have entered into an Agreement Concerning the Temporary Lease of Certain Facilities in Support of the American Centrifuge Program, dated February 17, 2004 ("Temporary Lease"), whereby the Department agreed to

lease certain facilities at the PORTS to the Corporation as an amendment to this Lease and the Parties desire to incorporate the facilities leased under the Temporary Lease into the “stand alone” section of this Lease and to terminate the Temporary Lease in accordance with the terms of the Temporary Lease;

NOW, THEREFORE, under the authority of Section 3107 of the USEC Privatization Act (Subchapter A of Chapter 1 of Title III of Pub. L. 104-134) (“Privatization Act”); Sections 161g and 161v of the Atomic Energy Act of 1954, as amended (42 U.S.C. §§ 2201g and 2201v) (“AEA”); 42 U.S.C. §7259; and Sections 3.4 and 3.5 of this Lease, and in accordance with Section 13.1, the Department and the Corporation hereby agree to amend the Lease as follows:

1. Replace Table of Contents pp. i — iii, with new Table of Contents pp. i — iii, Revision 1.

2. Delete 13.1 in its entirety and substitute in its place the following:

Section 13.1 Lease Amendments. Except for the changes made pursuant to Section 3.4, Section 3.7, Section 9.3, Section 9.5, Section 11.1, Section 12.1, Section 13.2, Section 15.2, Exhibit F, Memorandum of Agreement between United States Department of Energy and United States Enrichment Corporation for Services, Modification No. 1, and Appendixes A and B of the Regulatory Oversight Agreement, no change, amendment or modification of this Lease shall be valid or binding unless such change, amendment or modification is described in a writing and is duly executed and consented to by the Secretary and by the Board of Directors of the Corporation, or by any person authorized by them to provide such consent.

3. Add to the Lease the following new ARTICLE XVI:

ARTICLE XVI — LEASE OF GAS CENTRIFUGE ENRICHMENT PLANT FACILITIES AND PERSONALTY — APPENDIX 1

Section 16.1 —Provisions Applicable to Gas Centrifuge Enrichment Plant. The Lease Agreement between the United States Department of Energy and the United States Enrichment Corporation, a Delaware Corporation (successor to the government-owned United States Enrichment Corporation), covering the

Department's facilities, areas, and personal property to be leased to the Corporation at PORTS for a gas centrifuge uranium enrichment demonstration facility ("Lead Cascade") and the construction and operation of a Gas Centrifuge Enrichment Plant ("Commercial Plant") by the Corporation under the authority of Section 3107 of the Privatization Act' Sections 161g and 161v of the AEA, and Sections 3.4, 3.5, and 13.1 of this Lease, which has been executed by the parties as a part of this Lease, is hereby incorporated into this Lease as Appendix 1. The provisions of the GCEP Lease (as defined in Appendix 1) shall only apply to the lease of GCEP Leased Premises and GCEP Leased Personalty (as those terms are defined in the GCEP Lease) and shall survive the termination, expiration, revocation, or relinquishment of this Lease.

Section 16.2 —Termination of the Temporary Lease. On the GCEP Lease Execution Date (as defined in Appendix 1), the Temporary Lease shall terminate and be of no further effect except that any approvals, consents or authorizations by the Parties provided under the Temporary Lease shall be deemed to have been properly granted under the GCEP Lease.

Section 16.3 —Transfer of Property. Any real or personal property which is to be leased to the Corporation under Section 3.1 or 3.2 of the GCEP Lease as GCEP Leased Premises and GCEP Leased Personalty (as defined in Appendix 1) and which is currently leased to the Corporation under the Lease (including the Temporary Lease) shall be deemed to be returned to the Department, pursuant to Section 3.4 of the Lease and leased to the Corporation under the GCEP Lease as of the GCEP Lease Effective Date (as defined in Appendix 1) for such GCEP Leased Premises and GCEP Leased Personalty. It is agreed that the Lease Turnover Requirements of the Lease shall not apply to such GCEP Leased Premises and GCEP Leased Personalty and that all GCEP Lease requirements shall apply.

4. Delete in its entirety Exhibit F of the Lease, Memorandum of Agreement between United States Department of Energy and United States Enrichment Corporation for Services, dated July 1, 1993, and substitute in its place the attached revised Exhibit F, Memorandum of Agreement between United States Department of Energy and United States Enrichment Corporation for Services, Modification No. 1.

5. A new Appendix 1 is hereby added to the Lease and is attached hereto in its entirety.

6. Except as otherwise expressly provided for in this Supplemental Agreement No. 1 or subsequent modifications in accordance with Section 13.1, all other provisions of the Lease shall remain unchanged.

IN WITNESS WHEREOF, the above terms and conditions are acknowledged and agreed upon as indicated by the signatures of their duly authorized representatives affixed below. This Supplemental Agreement No. 1 shall be effective upon execution by the Department as of the day and year first above written.

UNITED STATES DEPARTMENT OF ENERGY

BY: /s/ Samuel W. Bodman
TITLE: Secretary of Energy
DATE: 12/7/06

AND

UNITED STATES ENRICHMENT CORPORATION

BY: /s/ John K. Welch
TITLE: President & CEO
DATE: 12/1/06

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Exhibit N	Activities Required by the Corporation for the Department to Achieve Targeted Turnover Dates in Exhibit A

EXHIBIT F

MEMORANDUM OF AGREEMENT between

UNITED STATES DEPARTMENT OF ENERGY

and

UNITED STATES ENRICHMENT CORPORATION

for the SUPPLY OF SERVICES

Modification No. 1

MEMORANDUM OF AGREEMENT

between
UNITED STATES DEPARTMENT OF ENERGY
and
UNITED STATES ENRICHMENT CORPORATION
for the
SUPPLY OF SERVICES
Modification No. 1

THIS AGREEMENT ("Services Agreement Modification No. 1"), entered into as of this 7th day of Dec., 2006, ("Execution Date") by and between the UNITED STATES OF AMERICA herein after referred to as the "Government"), represented by the DEPARTMENT OF ENERGY (hereinafter referred to as "DOE" or the "Department"), and the UNITED STATES ENRICHMENT CORPORATION (hereinafter referred to as "USEC" or the "Corporation");

WITNESSETH THAT:

WHEREAS, DOE and USEC have entered into a Lease, effective July 1, 1993 ("Lease" or "GDP Lease"), whereby USEC is leasing certain uranium enrichment facilities at the Portsmouth Gaseous Diffusion Plant and the Paducah Gaseous Diffusion Plant ("GDPs"); and

WHEREAS, DOE and USEC have entered into a modification of the GDP Lease for USEC's lease of certain Gas Centrifuge Enrichment Plant facilities, areas, and personal property ("GCEP Lease"), at the Portsmouth Gaseous Diffusion Plant site ("PORTS"); and

WHEREAS, the execution of the GCEP Lease necessitated the updating of the Memorandum of Agreement between DOE and USEC for Services, dated as of July 1, 1993 ("Services Agreement") attached to the GDP Lease as Exhibit F in order to provide a vehicle for the Parties to continue to provide services to one another in support of each other's activities at the GDP sites;

WHEREAS, this revised Services Agreement is hereby designated as Services Agreement Modification No. 1;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I – DEFINITIONS

Unless defined herein, terms used in this Services Agreement Modification No. 1 shall have the meaning given to them in the GDP Lease. For purposes of this Services Agreement Modification No. 1, the term "Captive Services" shall mean

those services identified in Attachment B with an asterisk (*) and will be supplied to DOE (or its contractors or subcontractors in accordance with ARTICLE II) without fee/profit pursuant to Article IV.A.1

ARTICLE II – PURPOSES OF SERVICES AGREEMENT MODIFICATION NO. 1

1. The general purposes of this Services Agreement Modification No. 1 are to enable DOE to provide to USEC certain services at the GDPs and to enable USEC to provide to DOE certain services at the GDPs. Nothing in this Services Agreement Modification No. 1 shall be interpreted to require either DOE or USEC (each, "a Party") to furnish any service or services to the other Party in the event service(s) of that type is not necessary for a Party's own programmatic needs or to require either Party to purchase any service(s), captive or otherwise, from the other Party.

2. For the purposes of obtaining Captive Services as designated on Appendix B of this Services Agreement Modification No. 1, the definition of the Parties shall include any prime contractor or subcontractor performing work on behalf of either DOE or USEC. An agreement for Captive Services approved in advance by the DOE Lease Administrator between a DOE prime contractor or subcontractor and USEC for work approved after execution of this Services Agreement Modification No. 1 shall be treated as an agreement under the provisions of this Services Agreement Modification No. 1, including, but not limited to, the provisions related to ARTICLE IV A.1, and shall be on a cost reimbursable basis.

ARTICLE III – SERVICES TO BE PROVIDED

1. Consistent with ARTICLE II, and at USEC's request, DOE agrees to make available to or on behalf of USEC at the GDP sites the services set forth in Appendix A.

2. Consistent with ARTICLE II, and at DOE's request, USEC agrees to make available to or on behalf of DOE at the GDP sites the services set forth in Appendix B.

3. Services shall be provided to DOE and USEC in accordance with a written Work Authorization which shall include specific details such as scope of work, cost estimates, schedule requirements, applicable work rules, and other appropriate requirements applicable to the service requested. Any reduction in services which results in a reduction in workforce shall require 90 days prior notice.

4. Work Authorizations or other implementing agreements previously issued pursuant to the Services Agreement, dated as of July 1, 1993, shall continue to be in effect under the terms of each respective Work Authorization or other implementing agreement, unless and until superseded by a subsequent agreement, contract, or Work Authorization.

5. The provisions of this Services Agreement Modification No. 1 shall apply only to services provided pursuant to a Work Authorization or similar type agreement agreed to and issued under this Services Agreement Modification No. 1 and shall not be construed to modify, alter or affect any other existing or future agreement or contract between the Parties to provide goods or services.

ARTICLE IV – CHARGES

A. Charges for Services

The following charges shall apply for the services provided under this Services Agreement Modification No. 1 in Appendix A and Appendix B except for electric power delivered under ARTICLE IV, Section B. below.

1. The charges to be paid for each service provided under this Services Agreement Modification No. 1 shall be agreed to and specified in a separate Work Authorization or similar type agreement. The charges to be paid for each service provided under Appendix A shall be in accordance with applicable DOE pricing regulations, directives, and policies in effect at the time the service is performed. The charges for Captive Services (as listed in Appendix B) shall not include fee/profit. Charges for non-Captive services may include fee/profit as agreed to by the Parties. Unless otherwise prohibited by law, the charges to each user (e.g., DOE, USEC, or USEC's Sublessee) will be pro-rated for each service and/or utility by the percentage of service and/or utility used.

2. In the event a Party's request for services results in a need to increase or decrease the capacity of any infrastructure necessary to supply the requested services, each Party agrees to pay its respective pro rata share of all charges, rates, and liabilities associated with all necessary improvements or modifications, except that costs associated with improvements or modifications performed solely for the benefit of one Party shall be paid solely by that Party and shall not be imposed on the other Party.

B. Charges for Electric Power

1. The following charges shall apply to the delivery of electric power from USEC to DOE identified in Appendix B:

DOE shall pay its pro rata share of all charges, rates, and liabilities associated with DOE's right under this Services Agreement Modification No. 1 to receive electric power for its own use on or after July 1, 1993.

2. The following charges shall apply to the delivery of electric power from DOE to USEC identified in Appendix A:

In the event DOE provides electric power to USEC, USEC agrees to pay, based upon previously agreed to procedures contained in Exhibit E, Attachment A, entitled “Advance Payments by the United States Enrichment Corporation,” its pro rata share of all charges, rates, and liabilities associated with electric power furnished under this Services Agreement Modification No. 1 for USEC’s own use.

ARTICLE V – BILLINGS AND PAYMENT

The following shall apply for the services provided in Appendix A and Appendix B except for electric power delivered under ARTICLE IV, Section B. 2 above.

1. On July 1, 1993, USEC made a payment to DOE for the services it estimated it would require in the first 45 days. Upon receipt of invoices for services rendered, USEC shall promptly remit payments to assure a sufficient budgetary resource continues to be available. This process will continue on a monthly basis to ensure that a forty-five day advance is available to DOE.

2. USEC shall invoice DOE not more than monthly for services/work provided, with full payment due net 30 days from receipt by DOE of a proper invoice.

3. Amounts due DOE shall be payable to DOE and shall be sent to the address specified on the bill. Amounts due USEC shall be payable to USEC and shall be sent to the address specified on the bill. Either party may, by written notice given the other, change the payee designation herein.

4. Notwithstanding any agreement to the contrary, any advance payments made by DOE to USEC pursuant to ARTICLE V.2 of the Services Agreement, dated July 1, 1993 and which previously have not been returned to DOE or previously used to offset amounts due from DOE, shall be returned to DOE within thirty (30) days of the Execution Date of this Services Agreement Modification No. 1.

ARTICLE VI – PRIORITY OF SERVICES

USEC and DOE agree to perform for each other on priority basis any and all service required for emergencies or compliance with applicable federal, state and local regulations.

ARTICLE VII — MODIFICATIONS TO THE SERVICES AGREEMENT NO. 1

Consistent with Section 13.1, DOE and USEC agree that within five (5) years of the Execution Date of this Services Agreement Modification No. 1, and thereafter, every five years, the Parties will review and revise, as appropriate, the provisions of this Services Agreement Modification No. 1. In addition, in the event facilities and/or infrastructure currently leased by USEC are returned to DOE that are associated with providing certain Captive Services (such as Fire Protection, Plant Protection and Security Program Administration, Emergency Management, and Utilities), and DOE's mission dictates that it retain operational responsibility for such facilities and/or infrastructure, APPENDIX A will be modified to include such Captive Services.

IN WITNESS WHEREOF, the above terms and conditions are acknowledged and agreed upon as indicated by the signatures of the duly authorized representatives affixed below. This Services Agreement Modification No. 1 shall be effective upon execution by the Department as of the day and year first above written.

UNITED STATES DEPARTMENT OF ENERGY

BY: /s/ Larry W. Clark

TITLE: Assistant Manager for Nuclear Fuel Supply

DATE: 12/7/06

AND

UNITED STATES ENRICHMENT CORPORATION

BY: /s/ Philip G. Sewell

TITLE: Senior Vice President

DATE: December 1, 2006

APPENDIX A

Services to be Provided by DOE

At USEC's request, DOE agrees to perform the services set forth below at the costs to be negotiated in accordance with Article IV for each respective group of services.

1. Storage of USEC — generated Hazardous Wastes at PAD and PORTS as required by Exhibit C of the GDP Lease. This provision does not apply to hazardous waste generated by USEC within the GCEP Leased Premises after the GCEP Lease Execution Date, unless otherwise agreed to by DOE.

2. Safeguards and Security — Technical Surveillance Countermeasures/Operation Security Support and TEMPEST.

3. Other services and utilities, such as the provision of electric power and the disposal of classified material, if and as agreed to by the Parties.

APPENDIX B

Services to be provided by USEC

At DOE's request, USEC agrees to perform the services set forth below at the costs to be negotiated in accordance with Article IV for each respective service.

1. Maintenance — At DOE's request, perform maintenance on DOE facilities and calibration on DOE systems and equipment.
2. Janitorial — Provide janitorial services for DOE facilities.
3. Analytical Laboratories — Manage the analytical laboratories and provide analytical services to DOE.

*4. Fire Protection — Manage the Fire Protection Program, including emergency medical services, and provide fire protection to DOE facilities.

*5. Plant Protection and Security Program Administration — Manage the Protective Forces and Security Program and provide services as requested to protect DOE's security interests.

*6. Emergency Management — Manage and provide the emergency management support systems, including emergency facilities and equipment, emergency response organization, emergency operations center, radiation/criticality accident alarm system, meteorological monitoring system, emergency communication systems, emergency notification system, and emergency notification and reporting.

*7. Utilities — Provide utility services, including water, steam, air, nitrogen, sewer, natural gas, and electricity/ power operations.

*8. Nuclear Materials Control and Accountability — Provide nuclear materials control and accountability functions required for the nuclear materials belonging to DOE that are stored, processed or handled at PAD and PORTS. All program elements shall be administered according to the appropriate DOE Orders.

*9. Computer Services — Manage and provide computing services

*10. Telecommunications — Provide telecommunications systems support and services.

11. Cylinder Handling — Provide inspection, testing, restacking and maintenance of DOE cylinders.
12. Medical — Provide medical services for employees.

13. Stores — Maintenance and management of inventories.

14. Environmental Base — Air, water, and soil monitoring; studies, tests, and analyses.

15. Safety and Health — Health Physics Monitoring, Industrial Hygiene, Radiation Protection, and Safety and Health System.

*16. Records Management — Maintenance, processing, transferring, retrieval, and storage.

17. a. Garage — Provide repair and maintenance services on DOE vehicles.

*b. Garage — Repair and maintenance service on radiologically contaminated vehicles/equipment or vehicles/equipment operating in classified or restricted areas/emergency is considered a Captive Service.

18. Quality Assurance

*19. Respirator Services — Respirator cleaning and fit testing. Service includes cleaning of contaminated and potentially contaminated respirators, including fit testing services in the on-site respirator facility.

*20. Laundry Services

*21. Radio Repair and Calibration — Frequency synchronization, operation, and maintenance of radio repeaters and operation of radio relay network.

*22. HEU Surveillance and Maintenance — Performance of checks and record pressure on HEU cells, maintenance support of HEU cells; and Uranium Analytical Services for Buffered HEU Cells (Buffer gas sampling and analyses on shutdown HEU cells).

23. Other services if and as agreed to by the Parties.

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* Captive Services

APPENDIX 1

LEASE AGREEMENT
BETWEEN
THE UNITED STATES DEPARTMENT OF ENERGY
AND
THE UNITED STATES ENRICHMENT CORPORATION
FOR THE GAS CENTRIFUGE ENRICHMENT PLANT

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LIST OF EXHIBITS

APPENDIX 1
LEASE AGREEMENT BETWEEN
THE UNITED STATES DEPARTMENT OF ENERGY AND
THE UNITED STATES ENRICHMENT CORPORATION
FOR THE GAS CENTRIFUGE ENRICHMENT PLANT

THIS APPENDIX 1 LEASE AGREEMENT FOR THE GCEP LEASED PREMISES and GCEP LEASED PERSONALTY (as defined below) ("GCEP Lease") is entered into as of December 7, 2006 ("GCEP Lease Execution Date"), between THE UNITED STATES DEPARTMENT OF ENERGY ("Department"), acting by and through the Secretary of Energy ("Secretary"), or his designee, and THE UNITED STATES ENRICHMENT CORPORATION, a Delaware corporation ("Corporation"), acting by and through its Board of Directors or its designee. Each of the Department and the Corporation is a "Party" and are collectively referred to as the "Parties."

WITNESSETH:

WHEREAS, the Corporation as the successor to the government-owned United States Enrichment Corporation leases portions of the Portsmouth Gaseous Diffusion Plant site located in Piketon, Ohio ("PORTS Site") and portions of the Paducah Gaseous Diffusion Plant site located in Paducah, Kentucky ("PAD Site") from the Department pursuant to a Lease Agreement dated July 1, 1993, as amended (the "Lease" or "GDP Lease"); and

WHEREAS, Section 3.4 of the GDP Lease permits the Corporation to expand the scope of the GDP Lease, subject to procedures set forth in Section 3.5 of the GDP Lease; and

WHEREAS, the Department and USEC Inc., the parent corporation of the Corporation, entered into an Agreement dated June 17, 2002 ("June 17th Agreement"), whereby, inter alia, USEC Inc. made long-term commitments to facilitate the deployment of a new, cost-effective advanced enrichment technology on a rapid schedule, and pursuant to this June 17th Agreement, USEC Inc. announced on December 3, 2003, that it intends to site its commercial gas centrifuge plant at the PORTS Site; and

WHEREAS, the parties desire to amend the GDP Lease to create a "stand alone" section of the GDP Lease that is specifically applicable to the PORTS Site facilities, areas and personal property that the Corporation desires to lease for the construction and operation of the Lead Cascade Facilities and the Commercial Plant (as such terms are defined herein);

NOW, THEREFORE, under the authority of Section 3107 of the USEC Privatization Act (42 U.S.C. §§ 2297h) ("Privatization Act"); Sections 161g and 161v of the Atomic Energy Act of 1954, as amended (42 U.S.C. §§ 2201g and 2201v) ("AEA"); Section 649 of the Department of Energy Organization Act (42 U.S.C. §7259); 42 U.S.C. §7259; and in accordance with Sections 3.4, 3.5, and 13.1 of the GDP Lease, the Department and the Corporation hereby agree to the following terms and conditions:

ARTICLE I
DEFINITIONS

Section 1.1 –~~T~~erms. The following additional terms when capitalized and used in this GCEP Lease (including the Exhibits hereto) shall have the meanings indicated below. The meanings specified are applicable to both the singular and the plural.

"Capital Improvement" shall mean any change, alteration, addition, or other improvement made by the Corporation to the GCEP Leased Premises (as such term is hereinafter defined) which does not constitute routine maintenance or repair of such GCEP Leased Premises.

"Capital Improvement Notice" shall have the meaning ascribed to it in Section 4.5(b).

"Commercial Plant" shall mean the commercial uranium enrichment plant using advanced enrichment technology that the Corporation will construct and operate in accordance with the June 17th Agreement and a license issued by the Nuclear Regulatory Commission ("NRC").

"Common Areas" shall mean those areas within the GCEP Leased Premises, designated in accordance with Section 3.1(c) herein, in which the Department, its contractors, subcontractors, agents, and representatives conduct activities in accordance with applicable Department requirements.

"Condition Report" shall mean the assessment performed by the Department that generally describes the current condition of the facility, its components, and infrastructure, being proposed to be leased under Section 3.1, including descriptive and analytical text, and to the extent practicable, photographs, of the building structure, roof, mechanical, plumbing, fire protection and electric systems.

"Corporation" shall mean the United States Enrichment Corporation, its agents, representatives, and, if approved under the provisions of Article XIV, its sublessees, successors, and assigns.

“Corporation Lease Representative” shall have the meaning ascribed to it in Section 11.1(b) hereof.

“Corrective Actions” shall have the meaning given to such term in the Solid Waste Disposal Act, as amended.

“Decontamination and Decommissioning” shall mean those activities, including Response Actions or Corrective Actions, undertaken to decontaminate and decommission facilities and related property.

“Demolition” shall mean the total dismantlement of the GCEP Leased Facilities, any fixtures, and systems down to slab on grade, and removal of all resulting debris and Material of Environmental Concern (including any contamination contained in such debris and Material of Environmental Concern, regardless of origin or whether such debris, contamination, or Material of Environmental Concern exists as the result of the actions of the Department or its authorized representatives) from the GCEP Leased Premises and PORTS in accordance with applicable Laws and Regulations. “Demolition” shall also include removal, remediation, decontamination, and cleanup of any contamination and Material of Environmental Concern from the slab in accordance with applicable Laws and Regulations, including NRC unrestricted free release requirements. “Demolition” shall not include any removal, remediation, decontamination, or cleanup of any contamination or other Material of Environmental Concern below the slab.

“Department” shall mean the United States Department of Energy, its agents, representatives, and those persons acting upon its behalf.

“Department Lease Administrator” shall have the meaning ascribed to it in Section 11.1(a) hereof.

“Department’s Personal Property” shall mean the Department’s personal property but shall not include GCEP Leased Personalty or Material of Environmental Concern.

“Disposition Plan” shall have the meaning ascribed to it in Sections 3.2 and 4.3(f) hereof.

“Environmental Claim” shall mean any claim, action, cause of action, investigation or notice by any person or entity alleging potential liability (including potential liability for investigatory costs, cleanup costs, governmental Response Actions, Corrective Actions, natural resource damages, property damages, personal injuries, penalties, or fines) arising out of, based on or resulting from (a) the presence, or release

into the environment, of any Material of Environmental Concern at any location or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Laws.

“Environmental Laws” shall mean all laws, regulations and other requirements established by any Government Authority relating to pollution or protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata) or regulating the handling of or exposure to radioactive materials, including the Laws and Regulations relating to emissions, discharges, releases or threatened releases of Material of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Material of Environmental Concern.

“Environmentally Non-Sensitive” shall mean any action which does not materially increase the risk of a violation of Environmental Laws and does not materially increase the cost of Decontamination and Decommissioning.

“Environmentally Sensitive” shall mean any action which materially increases the risk of a violation of Environmental Laws or materially increases the cost of Decontamination and Decommissioning.

“GCEP Clean-up Activities” shall mean those Department funded activities performed by the Corporation under the Work Authorization entitled “Surplus Centrifuge Equipment Removal,” No. Portsmouth -01, as amended.

“GCEP Lease” shall mean the provisions set out in this APPENDIX 1 LEASE AGREEMENT BETWEEN THE UNITED STATES DEPARTMENT OF ENERGY AND THE UNITED STATES ENRICHMENT CORPORATION FOR THE GAS CENTRIFUGE ENRICHMENT PLANT, including all Exhibits hereto. It is understood that the GCEP Lease, unless otherwise expressly stated herein, does not incorporate either directly or indirectly any other terms of the GDP Lease.

“GCEP Lease Administration” shall have the meaning ascribed to it in Section 8.1 hereof.

“GCEP Lease Effective Date” shall have the meaning ascribed to it in Section 3.1(a) hereof.

“GCEP Lease Execution Date” shall mean the date as contained in the first sentence of the first paragraph of this GCEP Lease.

“GCEP Lease Term” shall mean the period from the GCEP Lease Execution Date to the date the GCEP Lease expires or terminates, including any subsequent Renewal Periods.

“GCEP Leased Facilities” shall mean those structures and related fixtures located inside such structures listed in Exhibit H and which are included within the GCEP Leased Premises, but does not include the land under or surrounding such buildings.

“GCEP Leased Personalty” shall have the meaning ascribed to it in Section 3.2 hereof.

“GCEP Leased Premises” shall have the meaning ascribed to it in Section 3.1(a) hereof and includes GCEP Leased Facilities and Common Areas.

“GDPs” shall mean the gaseous diffusion uranium enrichment plant owned by the United States of America located at Paducah, Kentucky, and the gaseous diffusion uranium enrichment plant owned by the United States of America at Piketon, Ohio, including all the real property within the boundary of both such plants, or any portion thereof, regardless of whether any such real property is leased to the Corporation.

“GDP Lease” shall mean the Lease and all Exhibits entered into between the Department and the Corporation, dated July 1, 1993, and any modifications thereafter, except for the GCEP Lease contained in this Appendix 1.

“Government Authority” shall mean any department, agency or instrumentality of the federal government, of any state, or of any municipality or of any political subdivision of any state or municipality.

“HEU Agreement” shall have the meaning ascribed to it in Section 12.4 hereof.

“Incremental Turnover Costs” shall have the meaning ascribed to it in Section 4.3(g) hereof.

“Initial Term” shall have the meaning ascribed to it in Section 7.1 hereof.

“Laws and Regulations” shall mean all laws and regulations (including all Environmental Laws), and other requirements of any Government Authority (including any standards established by the NRC to protect public health and safety from radiological hazard and to provide for the common defense and security) which apply to the Department or the Corporation, as the case may be.

“Lead Cascade” or “Lead Cascade Facilities” shall mean the Corporation’s demonstration facilities located in Buildings X-3001, X-3012, X-7725 (partial), X-7726 (partial) and X-7727H which were leased to the Corporation pursuant to the Temporary Lease (as such term is defined herein).

“Material of Environmental Concern” shall mean any material subject to classification as a hazardous waste under the Solid Waste Disposal Act, as amended, and any material such as pollutants, contaminants, wastes, toxic substances, petroleum and refined petroleum products, hazardous substances, radioactive materials, and other like subject matter.

“Nonexclusive Easements and Rights-of-Way” shall have the meaning ascribed to it in Section 3.1(b) hereof.

“NRC” shall mean the United States Nuclear Regulatory Commission, and any successor agency thereto.

“PAD Site” shall mean the gaseous diffusion uranium enrichment plant owned by the United States of America located at Paducah, Kentucky, including all the real property within the boundary of such plant, or any portion thereof, regardless of whether any such real property is leased to the Corporation.

“PORTS” shall mean the gaseous diffusion uranium enrichment plant owned by the United States of America located in Piketon, Ohio, including all the real property within the boundary of such plant, or any portion thereof, regardless of whether any such real property is leased to the Corporation, exclusive of the GCEP Leased Premises.

“PORTS Site” shall mean the gaseous diffusion uranium enrichment plant owned by the United States of America located in Piketon, Ohio, including all the real property within the boundary of such plant, or any portion thereof, regardless of whether any such real property is leased to the Corporation, inclusive of the GCEP Leased Premises.

“Production Shortfall Cure Period” shall have the meaning ascribed to it in Section 12.2(d) hereof.

“Regulatory Agency” shall mean any Government Authority which is empowered to administer or enforce Laws and Regulations.

“Regulatory Oversight Agreement” shall have the meaning ascribed to it in Section 6.3 hereof.

“Regulatory Permits” shall mean all licenses, permits, certificates, approvals, authorizations and other requirements mandated by Laws and Regulations for the occupation, use or operation of the GCEP Leased Premises.

“Released Facilities and Equipment List” shall have the meaning ascribed to it in Section 3.5 hereof.

“Renewal Period” shall have the meaning ascribed to it in Section 7.2 hereof.

“Rent” shall have the meaning ascribed to it in Section 8.1 hereof.

“Rent Period” shall have the meaning ascribed to it in Section 8.1 hereof.

“Response Actions” shall have the meaning given such term in the Comprehensive Environmental Response, Compensation and Liability Act, as amended.

“Safety Basis” shall mean a systematic analysis that identifies facility and external hazards and their potential for initiating accident sequences, the potential accident sequences, their likelihood and consequences, and any accident preventing or consequence mitigating feature.

“Services Agreement” shall have the meaning ascribed to it in Section 6.1 hereof.

“Successor in Interest” shall mean one who succeeds to the Corporation’s control of the GCEP Leased Premises and GCEP Leased Personalty as the result of a transfer of all the Corporation’s assets or of the entire portion of assets performing this GCEP Lease, and meets all the requirements as set forth in ARTICLE XIV.

“Targeted Turnover Date” shall have the meaning ascribed to it in Exhibit A hereof.

“Temporary Lease” shall mean the Agreement between the U.S. Department of Energy and the United States Enrichment Corporation Concerning the Temporary Lease of Certain Facilities in Support of the American Centrifuge Program, dated February 17, 2004.

“Turnover Requirements” shall have the meaning ascribed to it in Section 4.4 hereof.

Section 1.2 – Headings. Article and Section headings in this GCEP Lease are provided only for ease of reference and not interpretation.

Section 1.3 – Rules of Interpretation

(a) The words “without limitation,” whether stated or not, are implied to follow the use of any words such as “including” or “excluding” that are employed in this GCEP Lease. The words “hereof” or “herein” or “hereunder” when used in this GCEP Lease shall mean pertaining to this GCEP Lease.

(b) All Exhibits to this GCEP Lease shall be incorporated into this GCEP Lease by reference as appropriate and will be deemed to be an integral part of this GCEP Lease. In the event of any inconsistency between Exhibits A through N and the Articles of this GCEP Lease, the Articles of this GCEP Lease shall control.

Section 1.4 – Relationship to Other Agreements

(a) Upon the GCEP Lease Effective Date as to each facility, area (or portions thereof) or property in accordance with Section 3.1, the rights or benefits, substantial or procedural, of the Parties with respect to the GCEP Leased Premises and GCEP Leased Personalty identified in Exhibits A and B hereto, or by any future amendment to those Exhibits, shall be governed solely by this GCEP Lease. The Parties agree that after the date any facility, area (or portions thereof) or property are leased under this GCEP Lease or listed on the Released Facilities and Equipment List (as referenced in Section 3.5), the rights and benefits under the GDP Lease with respect to such GCEP Leased Premises and GCEP Leased Personalty or property listed on the Released Facilities and Equipment Listing may not be exercised, revived or reconstituted under the GDP Lease, except as may be expressly agreed to in writing by the Parties.

(b) Nothing in the GDP Lease or the Temporary Lease shall apply to the GCEP Lease, unless expressly incorporated herein. The facilities leased to the Corporation under the Temporary Lease as of the GCEP Lease Execution Date shall be leased to the Corporation under this GCEP Lease and the Temporary Lease shall terminate as of the GCEP Lease Execution Date. This GCEP Lease does not revise or modify any provision of the June 17th Agreement, attached hereto as Exhibit C.

ARTICLE II
AUTHORITY OF THE PARTIES

Section 2.1 – Corporation. The Corporation is authorized to enter into this GCEP Lease and it has taken all the necessary actions required of the Corporation to execute and deliver this GCEP Lease.

Section 2.2 – Department. The Department is authorized under the AEA and the Privatization Act to enter into this GCEP Lease and the Secretary, or his designee, has taken all the necessary actions required of the Department to execute and deliver this GCEP Lease.

ARTICLE III
GRANT OF LEASE

Section 3.1 – Lease of Real Property

(a) The Department hereby leases to the Corporation on an "as is" basis, subject to any Department obligation with respect to preexisting contamination as specified in Sections 4.2, 4.6 and 5.3 of this GCEP Lease and the Corporation's obligations in Sections 4.3 and 4.4 of this GCEP Lease, that certain real property and improvements and fixtures located thereon, and easements, rights of way and appurtenances, utility lines, corridors, common walls, pipes, parking areas, service roads, railway lines, loading facilities, sidewalks, avenues of ingress, egress and access and all other similar items on the PORTS Site which appertain to such property and easements as identified and described in the maps and attachments which form Exhibit A to this GCEP Lease ("GCEP Leased Premises"). This GCEP Lease shall only become effective as to each facility or area (or portions thereof) identified in Exhibit A on the dates specified in Exhibit A, unless an alternate date is otherwise agreed to in writing by the Parties ("GCEP Lease Effective Date"). This GCEP Lease is subject to all existing easements, rights of way and appurtenances over, across, in, and upon the GCEP Leased Premises as of the GCEP Lease Execution Date. The Department will not grant any additional easements, rights of way or appurtenances over, across, in, and upon, the GCEP Leased Premises without the approval of the Corporation, which approval shall not be unreasonably withheld.

(b) It is recognized that the Corporation may need the right of access or the non-exclusive use of other areas, facilities, easements, rights of way, appurtenances, utility lines, corridors, common walls, pipes, parking areas, service roads, railway lines, loading facilities, sidewalks, avenues of ingress, egress and access and all other similar items on the PORTS Site which appertain to the GCEP Leased Premises but are not

leased to the Corporation ("Nonexclusive Easements and Rights-of-Way"). Prior to the Corporation's commencement of construction of the Commercial Plant, the Corporation shall identify the Nonexclusive Easements and Rights-of-Way needed for access or non-exclusive use, and upon agreement of the Parties, and subject to notice and procedures to be agreed upon by the Department and the Corporation, a list of these Easements and Rights-of-Way shall be appended to this GCEP Lease as Exhibit D. The list of Easements and Rights-of-Way shall be amended by the Parties from time to time to reflect changes to PORTS and any future expansion of the Commercial Plant. In the event the Corporation needs access to those parts of PORTS which have not been identified as GCEP Leased Premises or Nonexclusive Easements and Rights-of-Way, such access, subject to and upon agreement of the Parties, and notice and procedures to be agreed upon by the Department and the Corporation, shall be granted on a temporary basis only as necessary for the operation of the Corporation's facilities included in the GCEP Leased Premises or to fulfill its obligations under this GCEP Lease. The Corporation agrees to pay its *pro rata* share of costs to the Department of maintaining the Nonexclusive Easements and Rights-of-Way based upon the Corporation's relative usage of the particular easement or right-of-way.

(c) The Department reserves the right for itself and its contractors to have access to, and non-exclusive use of those areas within the GCEP Leased Premises designated as "Common Areas" in Exhibit A, subject to notice and procedures to be agreed to by the Parties. The Department further reserves the right for itself and its contractors to have access to those parts of the GCEP Leased Premises which are not designated as "Common Areas," subject to notice and procedures to be agreed to by the Parties.

(d) Notwithstanding anything contained in this Section 3.1, the Department and the Corporation will each have such access as it requires to all parts of the GCEP Leased Premises and PORTS reasonably necessary to respond to emergencies.

Section 3.2 —Lease of Personal Property. The Department hereby leases to the Corporation on an "as is" basis those certain items of personal property which are related to activities conducted by the Corporation under this GCEP Lease and are described in Exhibit B ("GCEP Leased Personalty"). When added to Exhibit B, the Corporation will become responsible for complying with applicable Regulatory Agency and GCEP Lease requirements, including the removal and/or disposal of all radiological contamination, and for the disposal of all personalty described in Exhibit B at the end of the personalty's useful life, or at the termination, revocation, or expiration of this GCEP Lease, whichever occurs first. The Department will have the right, at its sole option, to transfer to the Corporation the title to individual items of the GCEP Leased Personalty and remove them from Exhibit B during the GCEP Lease Term. Prior to the Corporation's disposal of GCEP Leased Personalty

described in Exhibit B, the Corporation will obtain the Department's written approval of a Disposition Plan appropriate to the sensitivity of the material proposed for disposal. The Corporation shall be responsible for all costs associated with GCEP Leased Personalty disposition and any necessary radiation surveys performed prior to public release of the property. Upon disposition, all Trigger List and Classified Property as defined in 41 C.F.R. § 109 shall be destroyed in accordance with 41 C.F.R. § 109 and Department direction. All other GCEP Leased Personalty shall be disposed of in accordance with 41 C.F.R. §109, except as otherwise authorized by the Department. The Department retains the option to require the return of individual items of GCEP Leased Personalty to Department control after the Corporation complies with the Turnover Requirements as set forth in Section 4.4.

Section 3.3 —Department's Personal Property on the GCEP Leased Premises.

(a) The Department's personal property (other than GCEP Leased Personalty or Material of Environmental Concern) ("Department's Personal Property") located on the GCEP Leased Premises on the GCEP Lease Effective Date may remain on the GCEP Leased Premises through September 30, 2006, or the GCEP Lease Effective Date specified in Exhibit A for the particular facility or areas in which the property is located, whichever is later. Prior to September 30, 2006, or the GCEP Lease Effective Date, the Department may temporarily bring on to the GCEP Leased Premises additional Department's Personal Property for storage of like kind and constituents as are existing on the GCEP Lease Execution Date, provided such storage (1) is in compliance with applicable Laws and Regulations, compliance agreements and licenses (including approved integrated safety analysis and other licensing bases); (2) does not unreasonably interfere with the Corporation's construction, operation, or maintenance of the Lead Cascade or Commercial Plant in accordance with the milestones in the June 17th Agreement; and (3) there is no reasonable alternate location available for the storage of the personal property on the PORTS. The Department shall provide reasonable advance notice to the Corporation prior to bringing additional personal property under this subsection (a).

(b) Effective on the GCEP Lease Effective Date and thereafter, the Department's Personal Property may remain on the GCEP Leased Premises, provided that the Department's storage of any of its personal property (1) is in compliance with applicable Laws and Regulations or applicable compliance agreements; and (2) is placed in the storage areas described in Exhibit E-1.

(c) Except as provided herein, the Department shall be solely responsible for the storage of the Department's Personal Property located on the GCEP Leased Premises, whether located thereon on the GCEP Lease Effective Date, or brought onto the GCEP Leased Premises after the GCEP Lease Execution Date. In the event that

the Corporation, within its business judgment, determines that consolidation or relocation of the Department's Personal Property, within the GCEP Leased Premises is necessary, the Corporation may, at its risk and expense, perform such activities associated with the consolidation or relocation of such personal property of the Department within the GCEP Leased Premises. The Corporation shall notify the Department of any change in the location of the Department's Personal Property within sixty (60) days of such relocation. By written notice to the Department, the Corporation may request to dispose of any of the Department's Personal Property remaining on GCEP Leased Premises after the date specified in Section 3.3(a). Within sixty (60) days of receiving such request, the Department shall either approve the request or permit the Corporation to remove the property from the GCEP Leased Premises onto a non-leased portion of the PORTS. In the event the Department approves the request to dispose of the property, the Corporation may, at its own expense, dispose of the property in a manner that is in accordance with applicable Laws and Regulations. In the event the Department determines that disposition of the property is not allowable, the Corporation may, at its expense, remove the property from the GCEP Leased Premises onto a non-leased portion of the PORTS, which is agreed to by the Parties. A listing of the Department's Personal Property located on the GCEP Leased Premises as of the GCEP Lease Execution Date is agreed to and attached as Exhibit E-2 to this GCEP Lease. Updates to Exhibit E-2 shall be made by the Department on a periodic basis as necessary to reflect changes in the Department's Personal Property located in the GCEP Leased Premises. Within sixty (60) days prior to the GCEP Lease Effective Date for an area or facility, the Corporation and the Department shall perform a final walk down of the area or facility to be leased and identify any Department's Personal Property which is not listed in either Exhibit B or Exhibit E-2 remaining in such area or facility. With the agreement of the Parties, any such newly identified Department's Personal Property shall be included in Exhibit B; otherwise such property shall be included in Exhibit E-2.

(d) Except as otherwise provided in Section 3.3(c), if the Department decides to remove its personal property listed on Exhibit E-2, the Department will be solely responsible for and shall pay the cost of removing from the GCEP Leased Premises and disposing of the Department's Personal Property identified on Exhibit E-2 located on the GCEP Leased Premises and for the Decontamination and Decommissioning of such personal property.

(e) At the end of the GCEP Lease Term, any personal property located in or on the GCEP Leased Premises that is not listed in Exhibit B as leased to the Corporation or listed in Exhibit E-2 as the Department's Personal Property shall become the responsibility of the Corporation for dispositioning in accordance with Section 3.2 of the GCEP Lease.

Section 3.4 —Department's Storage of Material of Environmental Concern in the GCEP Storage Areas

(a) The Parties recognize that certain unleased portions of Building X-7725 contain Material of Environmental Concern owned by either the Department or the Corporation located in both RCRA permitted storage areas and other storage areas (GCEP Storage Areas) in Building X-7725, and that these GCEP Storage Areas are not currently available to the Corporation to be included as part of the GCEP Leased Premises. It is the Department's current plan, however, to remove the Department's Material of Environmental Concern for which a known disposition path exists from the GCEP Storage Areas, and, pursuant to applicable Laws and Regulations, including state hazardous waste requirements, close the associated RCRA permitted storage areas located within Building X-7725. The Department shall make a good faith effort to remove all Material of Environmental Concern from the GCEP Storage Areas, close the RCRA permitted storage areas and turn over the GCEP Storage Areas to the Corporation in accordance with Exhibit A. In the event that sufficient appropriated funds are not made available for such purpose, a reasonable disposition path does not exist, or the off-site vendor's current waste movement schedule does not allow for movement for certain of the Department's Material of Environmental Concern located in the GCEP Storage Areas, the Department shall make a good faith effort to remove the Department's Material of Environmental Concern from the GCEP Storage Areas and make the area(s) available to the Corporation as soon thereafter as such funding, disposition paths and waste movement schedules limitations are removed to allow for such movement. In the event that sufficient appropriated funds are not made available for such purpose (based upon the Department's normal practices in fiscal administration and execution of appropriated budgets), a disposition path is not available, or the off-site vendor's current waste movement schedule does not allow the Department to remove some or all of the Material of Environmental Concern located in the GCEP Storage Areas, the Corporation, at its sole option, may move or may pay for the movement of the Department's Material of Environmental Concern from the GCEP Storage Area to another Department storage area at PORTS, provided such storage (1) is in compliance with applicable Laws and Regulations, compliance agreements, and approved Safety Basis documentation; and (2) does not unreasonably interfere with the Department's need for such storage space. If the Department determines it is necessary to support Department site programmatic needs, and in the event sufficient appropriated funds are made available for such purpose (based upon the Department's normal practices in fiscal administration and execution of appropriated budgets), and the requisite regulatory approvals are obtained, the Department shall seek to expand (and/or modify the RCRA permit for) existing Storage Areas or permit new RCRA storage areas outside of the GCEP Leased Premises at PORTS to enable the removal of some or all Material of Environmental Concern from the GCEP Storage Areas. The Corporation shall remain responsible for the costs of relocating and disposing of

Material of Environmental Concern owned by the Corporation and stored in the GCEP Storage Areas. If requested by the Corporation, the Department shall add additional, or expand the existing RCRA storage areas at PORTS outside of the GCEP Leased Premises, including modifying the permit for the existing RCRA permitted area or permit new RCRA storage areas to store Material of Environmental Concern located in the GCEP Storage Areas, provided the Corporation furnishes the funding to the Department for all costs associated with such relocation, including permit or permit modification, modifications to the storage areas, and any associated safety documentation; all regulatory approvals can be obtained; and the requested permit modification and associated activities do not unreasonably interfere with the Department's activities. The Department agrees that upon the completion of its waste removal and approved RCRA closure activities, it will expand the GCEP Lease to include those previously-designated GCEP Storage Areas as part of the GCEP Leased Premises. Nothing in this Section 3.4 shall be construed to impose an obligation on or require the Department to move any Material of Environmental Concern from the GCEP Storage Areas to an interim storage location while awaiting a disposition path to become available for final storage or disposition.

(b) Prior to October 1, 2006, the Department may temporarily bring in to the GCEP Storage Areas additional characterized Material of Environmental Concern, provided (1) such storage is in compliance with applicable Laws and Regulations, compliance agreements and licenses (including approved integrated safety analysis and other licensing bases); (2) such additional material, or equivalent volume of material is removed by the Department prior to October 1, 2006; and (3) it does not unreasonably interfere with the Corporation's construction, operation, or maintenance of the Lead Cascade or Commercial Plant in accordance with the milestones in the June 17th Agreement. After October 1, 2006, the Department will only bring in to the GCEP RCRA-permitted storage areas such additional characterized RCRA waste of like kind and constituents as exists on the GCEP Lease Execution Date, upon a showing to the Corporation that no other existing RCRA permitted storage area is reasonably available at PORTS.

(c) Except as otherwise provided in Section 3.4(a), and in the event that sufficient appropriated funds are made available for such purpose (based upon the Department's normal practices in fiscal administration and execution of appropriated budgets), the Department shall be solely responsible for and shall pay the cost of removing from the GCEP Storage Areas and disposing of the Department's Material of Environmental Concern located in the GCEP Storage Areas and for the storage, treatment, disposal, and the Decontamination and Decommissioning of such material, and for the final closure of the Department's RCRA-permitted storage areas within Building X-7725.

Section 3.5 —Planning for Site Reuse. Within two (2) years [eighteen (18) months, if feasible] of the GCEP Lease Execution Date, the Corporation shall provide to the Department a list of the facilities, personal property, including equipment, and areas at PORTS that the Corporation will not need for the construction, operation, and maintenance of the Commercial Plant, including any anticipated expansion of the Commercial Plant and which the Corporation is willing to release from any contractual or statutory rights it may have to expand this GCEP Lease or the GDP Lease (the "Released Facilities and Equipment List"), which shall be added to this GCEP Lease as Exhibit F. The Corporation shall also identify any security issues and environmental concerns of which it is aware with respect to any facilities, personal property, including equipment, and areas included on this Released Facilities and Equipment List. After submission of the Released Facilities and Equipment List, as it prepares for and implements plans for the termination of the Department's operations at the PORTS, the Department may propose to add, in accordance with Section 15.2 of this GCEP Lease, additional facilities, personal property, including equipment, and areas at the PORTS Site, to the Released Facilities and Equipment List. Such facilities, equipment, and areas shall be added to the Released Facilities and Equipment List unless the Corporation within sixty (60) days of receipt of the Department's proposal provides the Department with notice in accordance with Section 15.2 and demonstrates that it has a reasonably foreseeable business need for the facilities, personal property, including equipment, and areas for use in connection with its operations and maintenance of the Commercial Plant. Subject to the termination of the option to expand described in Section 3.8, the Corporation, may, in its discretion, amend the Released Facilities and Equipment List to include on the list additional facilities, personal property, including equipment, and areas at any time. Section 3.4 (a) and Section 3.5(a) of the GDP Lease shall not apply to any facilities, personal property, including equipment, and areas included on the Corporation's Released Facilities List, and any contractual or statutory rights the Corporation may have to expand this GCEP Lease or the GDP Lease are hereby waived and relinquished with respect to facilities, personal property, including equipment, and areas identified on the Released Facilities and Equipment List.

Section 3.6 —Option to Expand and No Option to Reduce Leasehold. Unless the Corporation is in a "Production Shortfall Cure Period" as defined in Section 12.2, and except as provided in Section 3.5, the Corporation shall have the option to expand the scope of this GCEP Lease, subject to the option procedure described in Section 3.7 and limited to the period prior to the termination of its option to expand as described in Section 3.8 of this GCEP Lease, in the following manner:

(a) The Corporation may request to amend Exhibit A to include within this GCEP Lease additional real property, improvements and fixtures of the Department located at PORTS along with its related easements and appurtenances, provided such

request is made to the Department Lease Administrator in accordance with Section 15.2 of this GCEP Lease. The Department will not dispose of any real property at PORTS which is not on the Released Facilities and Equipment List without first offering the Corporation the opportunity to include such real property within this GCEP Lease.

(b) Upon the Department's consent, the Corporation may amend Exhibit B to include within this GCEP Lease additional categories or items of personal property for use in centrifuge development whether located within the GCEP Leased Premises, the PORTS, the PAD Site, or the centrifuge-related facilities at the Department's East Tennessee Technology Park in Oak Ridge, Tennessee. The Corporation shall be responsible for paying the costs of removing and transporting the desired item to the GCEP Leased Premises, including any oversight or other costs incurred by the Department and its contractor(s) for the removal, packaging and transportation of the personal property, as well as all ultimate disposition costs of such GCEP Leased Personalty, consistent with Sections 4.3 and 4.4 of this GCEP Lease. Once such GCEP Leased Personalty has been added to Exhibit B of this GCEP Lease, it shall be removed from the non-leased premises on a schedule consistent with, and that does not interfere with, the Department's activities.

(c) Unless otherwise approved by the Department, the Corporation shall not be entitled to delete either categories or items from Exhibits A and B to this GCEP Lease and return to the Department any part of the GCEP Leased Premises and the GCEP Leased Personalty prior to the expiration or termination of this GCEP Lease.

(d) The Corporation shall be responsible in accordance with Sections 4.3 and 4.4 of this GCEP Lease for the Decontamination and Decommissioning and the disposal and removal of GCEP Leased Personalty, or for the return of such GCEP Leased Personalty to the Department as described in Section 3.2.

Section 3.7 ~~–~~Option Procedure

(a) If the Corporation seeks to exercise any option to expand its leasehold in accordance with the options described in Section 3.6 of this GCEP Lease, the Corporation shall provide sixty (60) days' notice thereof to the Department. The Department will review the Corporation's request and upon the Department's consent, which shall not be unreasonably withheld, Exhibits A and B, as the case may be, will be amended to reflect the change. Examples of when the Department may reasonably withhold its consent to expand the leasehold include, but are not limited to:

(1) the Department or its contractors have an ongoing or future programmatic need for the property;

(2) the proposed expansion conflicts with the Department's plans for Decontamination and Decommissioning or the Demolition of the other facilities, buildings, or areas at PORTS;

(3) the proposed expansion would require the expenditure of Department funding or increase the Department's Decontamination and Decommissioning or its Demolition costs; or

(4) the proposed expansion would adversely affect the Department's on-going or future plans, programs, or operations and such adverse effect cannot be mitigated at the Corporation's expense.

(b) In the event the Department intends to dispose of real property at PORTS, then, in accordance with Section 3.6, the Corporation shall have ninety (90) days after receipt of notice from the Department to exercise its option to expand the scope of the GCEP Lease to include such property. In the event the Corporation fails to exercise its option within such ninety (90) day period then such property will be added to the Released Facilities and Equipment List.

Section 3.8 ~~–~~Termination of Option to Expand. The Corporation's option to expand the GCEP Leased Premises pursuant to Sections 3.5 or Section 3.6 of this GCEP Lease shall terminate on September 30, 2013, or upon expiration or termination of the GDP Lease, whichever event occurs earlier. Following termination of this option to expand this GCEP lease, Section 3.5(a) and Section 3.6(a) of the GDP Lease shall not apply to any facilities, personal property, including equipment, or areas that have not been added to Exhibits A or B of the GCEP Lease, and any contractual or statutory rights the Corporation has to expand this GCEP Lease or the GDP Lease are hereby waived and relinquished with respect to facilities, personal property, including equipment, and areas that have not been previously included under the GCEP Lease or GDP Lease. Nothing in this Section shall: (1) modify or amend the Corporation's right under the GDP Lease to expand or reduce its leasehold for use in connection with operation of the PAD Site or (2) prevent the Parties from agreeing in writing to an extension or modification of this provision

Section 3.9 ~~–~~Quiet Enjoyment. The Department agrees that the Corporation will have full possession, use and quiet enjoyment of the GCEP Leased Premises and GCEP Leased Personalty, subject to the terms and conditions of this GCEP Lease, and applicable Laws and Regulations.

ARTICLE IV
GCEP LEASED PREMISES
AND GCEP LEASED PERSONALTY

Section 4.1 – Use of GCEP Leased Premises and GCEP Leased Personalty. The Corporation will use the GCEP Leased Premises and the GCEP Leased Personalty for the purpose of (a) constructing and operating the Lead Cascade Facilities and a Commercial Plant for the production and sale of enriched uranium, using advanced enrichment technology and (b) for conducting other activities related to or in support of the Lead Cascade and the Commercial Plant. The Corporation may engage in a use of the GCEP Leased Premises or GCEP Leased Personalty at the GCEP which is not for the purpose of producing or selling enriched uranium using advanced enrichment technology only if the Department consents in writing to such use.

Section 4.2 – Physical Condition of GCEP Leased Premises and Leased Personalty

(a) Consistent with Section 15.26 and Exhibit G, Notice of Hazardous Substances, the Parties acknowledge that there may be Material of Environmental Concern and contamination attributable to the Department's former occupation and use of the GCEP Leased Premises. The Parties also acknowledge that the Department has funded certain cleanup activities in the GCEP Leased Facilities in order to remove certain Department-owned personalty and Material of Environmental Concern (GCEP Clean-up Activities). Prior to the Corporation occupying the GCEP Leased Facilities (as listed in Exhibit H), both the Department and the Corporation must review and acknowledge acceptance of the Condition Report(s). Condition Reports for buildings leased as of the GCEP Execution Date are attached hereto as Exhibit I. Prior to the GCEP Lease Effective Date for any GCEP Leased Facilities, a Condition Report(s) shall be prepared by the Department to reflect the condition of the GCEP Leased Facilities at the time of transfer under this GCEP Lease. In the event that the Corporation modifies or improves the condition of the GCEP Leased Facilities, such modifications shall be reflected through a supplement to the original Condition Report prepared by the Corporation and submitted to the Department Lease Administrator. Any disputes shall be resolved in accordance with Section 15.15.

(b) The Corporation acknowledges that at the time it accepts for lease any building, facility, area or equipment as part of the GCEP Leased Premises or GCEP Leased Personalty in accordance with Section 3.1 that it has inspected and knows the condition of the GCEP Leased Premises and the GCEP Leased Personalty, and it is understood that the GCEP Leased Premises and GCEP Leased Personalty are leased in an "as is" condition without any representation or warranty by the Department whatsoever, and without obligation on the part of the Department to remove fixtures or

to make any alterations, repairs, or additions. Except for GCEP Clean-up Activities, all costs associated with preparing any GCEP Leased Premises for leasing, including the costs of removing and relocating the Department's contractors from the proposed GCEP Leased Premises, shall be borne by the Corporation. The Department makes no representation, express or implied, relating to the quality, merchantability, fitness for a particular purpose or condition of the GCEP Leased Premises or GCEP Leased Personalty. Nothing in this Section shall affect the Parties' responsibilities under ARTICLE V of this GCEP Lease.

(c) The Corporation will, at its expense, throughout the GCEP Lease Term, maintain the GCEP Leased Premises in good and serviceable condition, except for normal wear and tear. The Corporation shall repair any of the GCEP Leased Premises when in the Corporation's business judgment it is necessary to do so in order to maintain them in accordance with the requirements of applicable Laws and Regulations and the requirements of the GCEP Lease, including the duty to maintain the GCEP Leased Premises in good and serviceable condition, except for normal wear and tear. In addition, the Corporation agrees to engage in good housekeeping practices, including grounds keeping, performing janitorial services sufficient to generally maintain the GCEP Leased Premises, and ensuring that all rubbish is stored properly and disposing of all rubbish on a basis sufficient to minimize the unsightly presence of rubbish, garbage, or unwanted personal property outside of the GCEP Leased Facilities or designated storage areas for such material. Personalty having no further economic use and that is not affixed to the GCEP Leased Premises and not stored within GCEP Leased Facilities or designated storage areas shall be removed from the GCEP Leased Premises within a reasonable period of time, but in no case shall such personalty remain on the GCEP Leased Premises for more than six months without the Department's consent, unless the Corporation can demonstrate that such continued storage is in accordance with industry standards. The Corporation is expressly prohibited from relocating any rubbish, garbage, or unwanted personal property removed under this Section to PORTS, the PAD Site, and/or any other Department-owned facility, unless the Department's prior consent is obtained. Nothing in this Section 4.2(c) shall be construed to require the removal of the Corporation's depleted uranium hexafluoride from the GCEP Leased Premises, so long as storage of such depleted uranium hexafluoride is performed in accordance with applicable Laws and Regulations.

Section 4.3 —Return of GCEP Leased Premises, GCEP Leased Facilities, and GCEP Leased Personalty

(a) Upon termination, expiration, revocation or relinquishment of this GCEP Lease for any reason, the Corporation shall vacate the GCEP Leased Premises and shall, prior to returning to the Department the GCEP Leased Premises, unless

otherwise authorized by the Department, and at no cost to the Department, remove the Capital Improvements, equipment, fixtures, appurtenances, and other improvements furnished and installed on the GCEP Leased Premises by the Corporation or others in concert with the Corporation, or on the Corporation's behalf, in connection with the Corporation's activities. Unless the Corporation assumes Demolition responsibilities as provided for in Section 7.2, the Corporation also shall, excepting normal wear and tear, restore the GCEP Leased Facilities to the "same or as good a condition" as initially leased and reflected in the Condition Report(s), except that with respect to GCEP Leased Facilities which the Department has leased to the Corporation and funded cleanup activities, the obligation shall be to return such facilities in the "same or as good a condition" as existed at the completion of Department-funded GCEP cleanup activities as set out in Exhibit I. It is agreed that the GCEP Leased Facilities are in "the same or as good a condition" so long as the total costs of Decontamination and Decommissioning and Demolition of the GCEP Leased Facilities are not increased beyond such costs for Decontaminating and Decommissioning and Demolition of the GCEP Leased Facilities in the same condition as they are in at the time of the initial lease of such GCEP Leased Facilities.

To assist the Parties in determining what responsibilities are owed by the Corporation in returning the GCEP Leased Facilities in the "same or as good a condition," at the expiration, revocation, or termination of this GCEP Lease, an inspection shall be accomplished and a final Condition Report(s) of the GCEP Leased Facilities shall be prepared and submitted to the Department of the same scope as the Condition Report(s) prepared under Section 4.2(a). The Department approved Condition Report(s) shall constitute a baseline for determining whether such GCEP Leased Facilities meet the "same or as good a condition" test at such time as the Corporation seeks to return the GCEP Leased Facilities to the Department. Upon the Department's consent, the Corporation shall provide the Department with an alternative to a final Condition Report(s) which represents its basis for establishing that the returned GCEP Leased Facilities have met the "same or as good a condition" test.

In the event of a dispute, the Department and the Corporation agree to jointly engage (on a mutually agreed to and equally shared cost basis) an independent engineering firm mutually agreed to by the Department and the Corporation to assist in determining whether the GCEP Leased Facilities meet the "same or as good a condition" test and, if not, how much the total cost of Decontamination and Decommissioning and Demolition of the GCEP Leased Facilities has been increased as a result of not meeting such test. In the event no agreement is reached using an independent engineering firm, the provisions of Section 15.15 — Disputes shall apply. Notwithstanding this Section 4.3, the Corporation shall be responsible for and will pay any costs associated with the removal of any Material of Environmental Concern that is attributable to or arises out of the Corporation's occupation or operation of the GCEP

Leased Premises. Prior to returning the GCEP Leased Premises and GCEP Leased Personalty to the Department, the Corporation will comply with the Turnover Requirements as set forth in Section 4.4 hereof.

(b) At the end of the GCEP Lease Term, the Corporation shall, unless otherwise authorized by the Department, and at no cost to the Department, remove from the GCEP Leased Premises all personal property owned by the Corporation in addition to the property identified in paragraph (a) (including any Material of Environmental Concern) and all GCEP Leased Personalty except GCEP Leased Personalty to be returned to the Department. The Corporation shall not be entitled or permitted to leave any of its personal property (including personal property contaminated by radioactive or hazardous materials) on the GCEP Leased Premises, or remove such property to PORTS, the PAD Site, and/or any other Department-owned facility at the end of the GCEP Lease Term, unless otherwise authorized in writing by the Department. If at the end of the GCEP Lease Term, the Department exercises the option to accept the return of any individual item of GCEP Leased Personalty, the Corporation shall, at no cost to the Department, remove all radiological, hazardous and toxic contamination from the personalty that was not identified in writing to the Department before the Corporation took possession of the personalty.

(c) Prior to returning the GCEP Leased Facilities, the Corporation will comply with the following criteria:

(1) For radiological contamination, the GCEP Leased Facilities shall be returned in a condition that meets NRC's radiological criteria for unrestricted use in 10 CFR § 20.1402, as amended.

(2) For non-radiological contamination, the Corporation shall remove non-radiological contamination attributable to its operations in the GCEP Leased Facilities as necessary to restore the GCEP Leased Facilities to the "same or as good a condition" as initially leased under Exhibit I and reflected in the Condition Report(s). If records or process knowledge exists that there was contamination attributable to both the Department's and the Corporation's use or occupation of the GCEP Leased Facilities, then the Corporation shall, without cost to the Department, also cleanup the portion of the contamination attributable to the Department, provided the cleanup of the portion attributable to the Department's use or occupation does not increase the total cost of the cleanup which the Corporation would otherwise have been required to perform, absent such contamination. In determining responsibility for non-radioactive contamination found in the GCEP Leased Facilities, the Parties agree that if a source of contamination entered the GCEP Leased Facilities during the GCEP Lease Term, then the presumption will be that the contamination is the result of the

Corporation's operations. In the event the Corporation establishes that the contamination was not the result of the Corporation's operations, then the burden of proof shifts to the Department to demonstrate that such contamination was not the result of the Department's activities.

(d) With respect to the portion of the GCEP Leased Premises that are not GCEP Leased Facilities, as that term is defined above, the Corporation shall, to the extent caused by the Corporation's operations, be responsible for cleaning up any spills or releases of Material of Environmental Concern on a timely basis and taking such other actions as are necessary to ensure that the GCEP Leased Premises are in a condition that does not pose a threat to human health and the environment, including those actions necessary to comply with all applicable Laws and Regulations.

(e) The Corporation shall provide annually to the Department copies of the Material Safety Data Sheets (MSDS) that the Corporation is required under applicable OSHA regulations to have available at the GCEP Leased Premises during the previous year together with identifying the areas within the GCEP Leased Premises that the Corporation used or stored such materials. The Corporation shall also annually report to the Department any spills or releases required to be reported to any federal, state, and local Regulatory Agency, together with available information on the Corporation's response and cleanup of the spill or release.

(f) Prior to the Corporation's disposal of GCEP Leased Personalty described in Exhibit B, the Corporation will obtain the Department's written approval of a Disposition Plan appropriate to the sensitivity of the material proposed for disposal and consistent with the Department's property management and nonproliferation requirements. At the Department's option, individual items of GCEP Leased Personalty may be returned to the Department, provided all applicable Section 4.4 - Turnover Requirements have been met.

(g) As security for assuring that the Corporation will comply with all GCEP Lease requirements regarding the removal of its Capital Improvements, equipment, fixtures, appurtenances, and other improvements furnished and installed on the GCEP Leased Premises in connection with the Corporation's activities, and any other GCEP Lease provisions, including, but not limited to Sections 4.3 and 4.4, the Corporation shall:

(1) Maintain the financial assurance in the form and amount as required by the NRC under license issued to the Corporation for the Lead Cascade and/or the Commercial Plant;

(2) Furnish to the Department, prior to the beginning of

construction/refurbishment of the Commercial Plant, and maintain throughout the GCEP Lease Term, financial assurance in a form and amount approved by the Department for Decontamination and Decommissioning of the Commercial Plant. The amount shall be equal to the current estimate of actual additional costs to return the GCEP Leased Premises in accordance with the requirements of the GCEP Lease for work that is not included in any current NRC-approved Decommissioning Funding Plan for the GCEP Leased Premises (hereinafter the "Incremental Turnover Costs"). The financial assurance may be provided incrementally as site construction for the Commercial Plant facilities occurs. The initial estimate of Incremental Turnover Costs shall be submitted to the Department within thirty (30) days of the GCEP Lease Execution Date, and shall be attached as Exhibit J. Updates to Exhibit J shall be provided to the Department in accordance with Section 4.3(g)(3) and incorporated into this GCEP Lease.

The financial assurance proposed for the Department's approval shall be provided in one or more of the forms of financial assurance described in 10 C.F.R. §70.25(f), including a prepayment into an account segregated from the Corporation's assets and outside the Corporation's administrative control, a surety bond, letter of credit, line of credit or external sinking fund, which the Department has the right to use without approval of the Corporation in the event the Corporation fails to comply with Sections 4.3 and 4.4.

(3) Throughout the GCEP Lease Term, within ten (10) business days of submittal to the NRC, the Corporation shall provide to the Department any revisions to the Corporation's Decommissioning Funding Plan, and any revisions to any associated financial instruments. The estimate of the Incremental Turnover Costs shall be periodically revised by the Corporation and provided to the Department within twenty-four (24) months of the most recent update of the estimate provided to the Department, or within sixty (60) days after the NRC approves any update of the Decommissioning Funding Plan, whichever occurs first.

(4) In the event that the Department makes a determination that any proposed or existing financial assurance provided by the Corporation does not provide financial assurance in an amount as required by Section 4.3(g)(2), it shall provide notice to the Corporation specifying how the proposed or existing financial instruments fails to comply with Section 4.3(g)(2). If the Corporation does not dispute the Department's determination, the Corporation, within sixty (60) days of receipt of such notice, shall increase the financial assurance to the amount specified by the Department in its notice. In the event of a dispute, the Department and the Corporation agree to jointly engage (on a mutually agreed

to, equally shared cost basis) an independent engineering firm mutually agreed to by the Department and the Corporation to assist in determining the current estimate of the Incremental Turnover Costs. In the event no agreement is reached using an independent engineering firm, the provisions of Section 15.15 Disputes shall apply.

(h) Within thirty (30) days of NRC's approval of its Decommissioning Plan, the Corporation shall submit to the Department a copy of said Decommissioning Plan and a schedule for the return of the GCEP Leased Premises. The Corporation shall provide to the Department a Final Condition Report as required by Section 4.3(a), a Turnover Report documenting its compliance with Sections 4.3 and 4.4, and a Disposition Plan as required by Section 3.2 and Section 4.3(f), at least one hundred and eighty (180) days prior to the date the particular facility or area is scheduled to be returned to the Department. Upon the Department's approval that all applicable GCEP Lease requirements have been met, the Corporation shall return the GCEP Leased Premises to the Department, upon a mutually agreed to date. Within sixty days following turnover of the GCEP Leased Premises, the Department will perform a final inspection of the returned former GCEP Leased Premises and provide to the Corporation a Department Deficiency Notice(s) on any deficiency conditions that were previously reported and have not been corrected, or have occurred in the interval following the pre-turnover inspection and the date the facility or area was returned to the Department. Following GCEP Leased Premises turnover, the Corporation agrees to remain responsible for the correction of pre-turnover deficiencies, subject to the disputes procedure detailed in this Section. The Department's failure to provide a Department Deficiency Notice(s) by the sixtieth day following GCEP Leased Premises turnover shall be deemed to be acceptance of the GCEP Leased Premises. Within thirty (30) days of receipt of any Department Deficiency Notice, the Corporation shall inform the Department if it agrees with the Department and how it intends to cure any deficiencies identified (Corporation's Notice of Intent). The Department and the Corporation shall attempt to resolve any disputes through negotiation within thirty (30) days of the Corporation's Notice of Intent. If the Corporation provides notice to the Department that it intends to cure the deficiencies identified by the Department in its notice, the Department will permit the Corporation, at its expense, to perform such work as is necessary to cure the deficiencies. The Corporation shall cure the deficiencies within sixty (60) days of or, if greater than sixty (60) days are required to cure, commence actions necessary to cure the deficiencies within sixty (60) days of the agreed date the Department permits the Corporation to commence work to cure the deficiencies. If the Corporation fails to address the deficiencies within sixty (60) days or other mutually agreed to time period, then the Department may undertake to cure the deficiencies and the Corporation shall reimburse the Department for the Department's costs incurred to cure any failure by the

Corporation to comply with the requirements of Sections 4.3 and 4.4 identified in the Department Deficiency Notice.

Section 4.4 —Turnover Requirements. At the end of the GCEP Lease Term or at any time the Corporation or the Department terminates this GCEP Lease pursuant to Sections 12.1 or 12.2, respectively hereof, or the Corporation terminates this GCEP Lease pursuant to Section 9.3 hereof (except that in the case of termination under such Section 9.3, only with respect to facilities which are not destroyed) or the Corporation, with the approval of the Department, returns any portion of the Leased Premises pursuant to Section 3.6, the Corporation shall, at its cost, prior to returning to the Department any GCEP Leased Facility, take the following actions with respect to such facility (collectively such actions being referred to as the "Turnover Requirements"):

(a) Provide the Department with documentation of its plans, including updates provided to the NRC during the GCEP Lease Term, to place such facility into an acceptable condition for return to the Department consistent with the requirements described in Section 4.3 and subsections (b) through (g) of this Section.

(b) Complete and document the final deactivation/shutdown of the facility and document that no future use of the facility is planned. Remove all Capital Improvements, equipment, fixtures, appurtenances, and other improvements furnished and installed on the GCEP Leased Premises in connection with the Corporation's activities in accordance with Section 4.3. Compliance with this section requires physical removal of all such property from the GCEP Leased Premises and the PORTS. The Corporation is expressly prohibited from relocating such property to PORTS, the PAD Site, and/or any other Department-owned facility, unless the Department's prior consent is obtained.

(c) Remove all waste generated by the Corporation at the GCEP Leased Premises or at PORTS as a result of its activities under this GCEP Lease (including any Material of Environmental Concern) and which is subject to and authorized by Laws and Regulations for offsite disposal. The Corporation will remain responsible for the ultimate treatment and disposal of all waste generated by the Corporation as a result of its activities under this GCEP Lease. The Corporation is expressly prohibited from relocating such waste to PORTS, the PAD Site, and/or any other Department-owned facility, unless the Department's prior consent is obtained.

(d) For structures at the facility, provide the Department with the

Corporation's radiological/hazardous materials records, documentation of the configuration of the facility and related systems, drawings, specifications, procedures, manuals, and available unplanned occurrences records applicable to the facility in a mutually agreed upon electronic format. For soil, surface water, and groundwater conditions at the facility, provide the Department with the Corporation's data and reports that describe those conditions and the nature and extent of contamination therein.

(e) Place structures at such facility in the "same or as good a condition" as initially leased, as that term is defined in Section 4.3(a), and in a safe secure condition, removing any threats to human health and safety. To the extent applicable, existing radiation monitoring systems shall be in a physical condition adequate to monitor the potential release of any radioactive contamination. In addition, the final Condition Report(s) prepared under Section 4.3(a) and the Corporation's most current radiation contamination/hazardous and toxic material survey done by the Corporation for the facility and surrounding areas that demonstrates compliance with the Turnover Requirements of this GCEP Lease shall be provided to the Department.

(f) Provide to the Department a status report of the facility's compliance with environmental, health, and safety regulatory requirements. If any facility is in noncompliance with NRC or environmental, health and safety regulatory requirements applicable to the Corporation, the Corporation shall implement a strategy approved by the NRC or other appropriate Regulatory Agency for meeting such regulatory requirements and, at its cost, prior to returning to the Department any of the GCEP Leased Premises, restore the facility to regulatory compliance.

(g) In accordance with Section 4.3, remove all Material of Environmental Concern that is attributable to or arises out of the Corporation's occupation or operation as a result of its activities under this GCEP Lease. The Corporation is expressly prohibited from relocating such Material of Environmental Concern to PORTS, the PAD Site, and/or any other Department-owned facility, unless the Department's prior consent is obtained. Nothing in this GCEP Lease shall be construed as prohibiting the Corporation from transferring depleted uranium or other materials to the Department or its contractor(s) pursuant to Section 3113 of the USEC Privatization Act (42 U.S.C. § 2297h-11) or otherwise affecting the rights and obligations of the Department or the Corporation under Section 3113.

Section 4.5 —Permissible Changes

(a) The Corporation will not demolish or destroy any of the real or personal property which constitutes GCEP Leased Premises or GCEP Leased Personalty without first proposing such course of action to the Department and obtaining the Department's consent. Such written proposal shall contain all the necessary information which the Department may require. The Department shall make a good faith effort to respond within thirty (30) days of receipt of the Corporation's proposal. The Department will not withhold its consent to such a proposal if the Demolition or destruction does not significantly interfere with the Department's activities or plans at PORTS. The Corporation will be solely responsible for and will pay all the costs related to the Demolition or destruction, including the cost of transporting, storing and disposing of all the material resulting from such Demolition or destruction or removal. Any action taken pursuant to this Section by the Department and the Corporation shall be done in accordance with all applicable Laws and Regulations.

(b) The Corporation may, at any time, at its expense, make a Capital Improvement which the Corporation, in its business judgment deems appropriate, so long as the Corporation provided notice to the Department in accordance with this subsection. If the total project cost of the Capital Improvement proposed to be made on the GCEP Leased Premises requires the expenditure of less than $500,000, the Corporation will not be required to secure the Department's approval to undertake such Capital Improvement, but instead, will provide notice of all such Capital Improvements in a listing which shall be provided to the Department within thirty days of the end of each calendar year. If the total projected cost of any proposed Capital Improvement requires the expenditure of $500,000.00 or more, a description of the proposed Capital Improvement and the Corporation's analysis that the proposed Capital Improvement is Environmentally Non-Sensitive and will not interfere with the Department's operations ("Capital Improvement Notice") shall be submitted to the Department. Each Capital Improvement Notice shall contain an analysis that any proposed Capital Improvement is Environmentally Non-Sensitive and does not interfere with the Department's operations by describing whether the proposed Capital Improvement complies with all of the following criteria:

(1) The proposed Capital Improvement is not in an area that is the subject of a Department federal or state-permitted area, or identified as a solid waste management unit of the Department under state hazardous waste laws;

(2) The proposed Capital Improvement is not in an area that the Department has plans to perform a response, remedial, or corrective action under CERCLA or RCRA or other federal, state, or local law;

(3) The proposed Capital Improvement would not result in a change in the flow rate, chemical, radiological, or physical content of any regulated outfall or emission source of the Department that could result in an exceedance of permitted levels or other violation of permitted conditions;

(4) The proposed Capital Improvement would not impact the Department's air or other monitoring program or cause a violation of any of the Department's Federal, State, or local permits;

(5) The proposed Capital Improvement would not generate waste that was contaminated as a result of the Department's past or present operations and that is regulated under Federal or State environmental, health, safety or nuclear regulations, or subject to any other restriction with respect to its management, storage, handling, transportation, treatment and/or disposal by any regulatory authority;

(6) The proposed Capital Improvement would not negatively affect any services and utilities that are provided by the Corporation to the Department;

(7) The proposed Capital Improvement would not affect the design, construction, operation, maintenance, Decontamination and Decommissioning, or Demolition of non-leased facilities and systems;

(8) The proposed Capital Improvement would not result in an impact to the Department's authorization basis or Safety Analysis;

(9) The proposed Capital Improvement would not pose a hazard to the Department's operations or act as an initiating event for an accident;

(10) The proposed Capital Improvement would not result in increased costs to the Department; and

(11) The proposed Capital Improvement would not affect current financial assurance requirements or the Corporation agrees to amend its financial instrument to cover any requirement for additional financial assurance.

(12) The proposed Capital Improvement is a type of activity that the Department has determined, through consultation with the Corporation that would not have an adverse effect on historic properties either eligible for listing or listed in the National Registry for Historic Places.

The Corporation shall be entitled to commence making such Capital Improvement, and consent by the Department will be deemed provided, unless the Department notifies the Corporation within sixty (60) days of receipt of the Capital Improvement Notice that, in the Department's judgment, the making of such proposed Capital Improvement fails to meet one or more of the above criteria. Disagreements between the parties regarding the applicability of the above criteria shall be resolved pursuant to Section 15.15 of this GCEP Lease. In the event the Corporation determines that a proposed Capital Improvement fails to meet one or more of the aforementioned criteria, the Department Lease Administrator shall be notified of such proposed Capital Improvement to the GCEP Leased Premises, regardless of dollar amount, and the Department's consent to the proposed Capital Improvement shall be obtained prior to the making of the proposed Capital Improvement. In no event shall the Corporation be allowed to make any Capital Improvement while the parties are in either formal or informal dispute resolution or prior to the Department issuing its consent to the making of the proposed Capital Improvement. Nothing in this Section 4.5 shall be construed as requiring approval by the Department Lease Administrator for performance of minor repairs, routine maintenance, or for the installation or minor modification of equipment, fixtures, utilities or other work performed by the Corporation to the interior of the GCEP Leased Facilities. If it is determined that the making of the proposed Capital Improvement meets all of the above criteria, or the Parties agree that an appropriate "work around" can be made, the Corporation will be permitted to undertake the work. The Corporation shall be solely responsible for and will pay the cost of the Capital Improvement, including, but not limited to, transporting, storing and disposing of any material resulting from such Capital Improvement. Any action taken by the Department and the Corporation pursuant to this Section shall be done in accordance with all applicable Laws and Regulations. In accordance with this Section 4.5, and subject to any consultation requirements mandated by Section 106 of the National Historic Preservation Act, the Department hereby consents to the proposed Capital Improvements contained in Exhibit K.

(c) The Corporation shall become the owner of and shall take title to each and every Capital Improvement. Prior to the expiration, revocation, relinquishment, or termination of the GCEP Lease, the Corporation shall, unless otherwise authorized by the Department, and at no cost to the Department, remove all Capital Improvements, equipment, fixtures, appurtenances, and other improvements furnished and installed on the GCEP Leased Premises in connection with the Corporation's activities and in the event that such removal increases the costs of the Department for the Decontamination and Decommissioning and Demolition of the GCEP Leased Premises to which any such Capital Improvement was attached, then as provided in Section 4.3, the Corporation will pay any such increase in Decontamination and Decommissioning and Demolition costs. Any Disputes will be resolved pursuant to Section 15.15 of this GCEP Lease.

(d) The Corporation shall not conduct any subsurface excavation, digging, drilling or other disturbance of the surface except in accordance with applicable Laws and Regulations and in accordance with Exhibit L, the Shared Site Agreement.

Section 4.6 —Decontamination and Decommissioning and Turnover Costs. The Corporation shall be responsible for returning the GCEP Leased Premises to the Department in accordance with Section 4.3 and 4.4. In the event the Corporation fails to return the GCEP Leased Premises to the Department in the condition required by Section 4.3 and 4.4, the Corporation will pay the costs incurred by the Department to return the GCEP Leased Premises as required by Sections 4.3 and 4.4, or the Department shall be entitled, without approval of the Corporation, to utilize funds required to be segregated for the Department's financial assurance as set forth in Section 4.3(g) of this GCEP Lease. Except as expressly provided otherwise in this GCEP Lease, the Department shall remain responsible for all other costs of Decontamination and Decommissioning the GCEP Leased Premises associated with the Department's ownership and operation of the GCEP Leased Premises prior to the GCEP Lease Effective Date.

Section 4.7 —Permits. The Corporation, at its expense, shall obtain and maintain all necessary permits, licenses, certifications and/or authorizations required for its construction, occupancy, and operations of the GCEP Leased Premises during the GCEP Lease Term, and shall strictly comply with all such permit requirements. The Department shall not be required to furnish such permits, licenses, certifications, and/or authorizations on behalf of the Corporation. However, in accordance with Section 15.8, the Department shall assist the Corporation in its efforts to obtain such licenses, permits, certifications, or authorizations provided such assistance does not impose any additional obligations or liabilities on the Department or its contractors. At the request of the Department, the Corporation shall produce any required licenses, permits, certifications, or authorizations. The Corporation shall provide, either on the GCEP Leased Premises or elsewhere, at its expense such storage facilities it may need for the storage of any radioactive, hazardous, classified, solid, and other waste generated by the Corporation, in accordance with applicable law, permit, or regulations, unless otherwise agreed to in writing by the Department.

ARTICLE V.
ALLOCATION OF LIABILITIES

Section 5.1 —Disclaimer. Except as provided in ARTICLE X with respect to nuclear incidents as defined in Section 11 of the Atomic Energy Act, the Department and its contractors shall not be responsible for damages to property or injuries to or death of persons which may arise from or be incident to the use and occupation of the GCEP Leased Premises by the Corporation. In addition, except as otherwise expressly

provided in this GCEP Lease, neither the Department and its contractors nor the Corporation and its contractors shall be responsible for consequential, punitive, or incidental damages, including lost profits, loss of sales or revenue, costs associated with idled plant, labor, or equipment, additional production costs, costs of delays, or costs of money, interest, or penalties. The Department and its contractors shall not be liable to the Corporation for damages to the property or injuries to or death of the persons of the Corporation, its contractors, agents, employees, or representatives or others who may be on the GCEP Leased Premises at their invitation, or losses of any kind from the Department's or its contractors' activities, unless, as authorized by applicable Laws and Regulations, the damage or loss results from willful misconduct, lack of good faith, or material failure to exercise due diligence (including failure to comply with applicable Laws and Regulations or compliance agreements) on the part of the Department or its contractors. The Corporation shall not be reimbursed by the Department for damages or losses (and expenses incidental to such liabilities) for which the Corporation has failed to insure or to maintain insurance as required under Section 9.1. The provisions of this Article V shall not prevent the Corporation from seeking damages of any kind from a third party, except as limited herein for contractors performing work for the Department. The provisions of this ARTICLE V shall not affect any matters under the jurisdiction of another agency of the U.S. Government.

Section 5.2 —Indemnification by the Corporation. Except as provided in ARTICLE X with respect to nuclear incidents as defined in Section 11 of the Atomic Energy Act, the Corporation agrees to indemnify, reimburse, defend and hold the Department and its contractors harmless for, and against all costs and expenses related to claims, damages, injunctions, orders, judgments, penalties, and reasonable attorneys' fees asserted against or incurred by the Department and its contractors which are attributable to or arising out of the Corporation or its contractors' operation, occupation, or use of the GCEP Leased Premises. The Corporation agrees to further indemnify the Department with respect to any "release" as defined in Section 101(22) of CERCLA or any hazardous substance as defined in Section 101(14) of CERCLA or petroleum (including crude oil) onto or from the GCEP Leased Premises at any time which is generated by or results from actions of the Corporation or its contractors; for failure of the Corporation or its contractors to comply with applicable environmental Laws and Regulations; and for transportation, deposit, storage, or disposal by the Corporation or its contractors of hazardous substances or petroleum off the GCEP Leased Premises.

Section 5.3 —Responsibilities of the Department. Except as expressly provided elsewhere in this GCEP Lease, including Section 4.3, the Department acknowledges its liability and responsibilities under applicable Laws and Regulations for hazardous substances, including radioactive contaminants, existing on the GCEP Leased Premises as of the commencement of this GCEP Lease, or thereafter on the GCEP

Leased Premises which are the result of the actions of the Department or its authorized representatives. To the extent the acts or omissions of the Corporation or its contractors cause or add to any liability, expense or remediation cost resulting from conditions in existence prior to the GCEP Lease Effective Date, or thereafter on the GCEP Leased Premises, the Corporation shall be responsible for that portion of the liability, expense, or remediation costs reasonably attributable to the Corporation's act or failure to act. The Corporation shall not be responsible for pollution caused by others except for its contractors. Except as expressly provided elsewhere in this GCEP Lease, including Section 4.3, nothing in this GCEP Lease shall be construed as modifying, waiving or otherwise altering the liability of the Department, the United States Government or the Corporation as specified in the Privatization Act.

Section 5.4 –Notice and Disputes. Promptly after receipt by a Party entitled to reimbursement or protection pursuant to this ARTICLE V of notice of the commencement of any action, such Party will, if a claim in respect thereof is to be made against the other Party under this ARTICLE V, notify the other Party in writing of the commencement thereof. Section 15.15 shall govern any disputes between the Department and the Corporation regarding the requirements of this ARTICLE V.

ARTICLE VI
SUPPORT

Section 6.1 –Services Agreement. The Department and the Corporation will provide services to each other in connection with their use of the GCEP Leased Premises in the manner described in the Memorandum of Agreement between the Department and the Corporation for Services, Modification No. 1, Exhibit F to the GDP Lease and any subsequent modifications ("Services Agreement"). The Parties shall, during the time frame that the Services Agreement is under review as required by Section VII of the Services Agreement, determine whether the Services Agreement is the appropriate vehicle under which services can be provided to the GCEP Leased Premises and make any necessary changes to this Section 6.1 as a result of such review.

Section 6.2 –Utilities. Unless otherwise provided in Section 6.1, the Corporation shall be responsible for obtaining its utility services for the GCEP Leased Premises such as electric power, telephone services, natural gas, sanitary water and sewer from non-Departmental sources. The Corporation acknowledges that the Department plans to initiate and ultimately conduct Decontamination and Decommissioning and Demolition activities at the PORTS and that ownership of all or some utilities may be transferred from the Department to a successor owner(s). In the event such a transfer is contemplated, the Department agrees to either (a) provide the Corporation with two

(2) years' advance notice prior to the transfer of the utility or utilities so that the Corporation shall be able to obtain such services from alternate sources, or (b) in the event the Department is unable to provide two years' notice, the Department shall provide as much advance notice as practicable and shall make a good faith effort to require as a condition of the transfer of any utility that the utility or utilities be continued to be provided to the Corporation on the same terms and conditions for a period that when added to the amount of notice provided the Corporation will provide the Corporation with two (2) years from the receipt of notice from the Department to obtain services from alternative sources.

Section 6.3 —Regulatory Oversight Agreement

(a) Activities at the GCEP Leased Premises that are not licensed by the NRC are subject to the nuclear safety and safeguards and security oversight authority of the Department. Once an activity is licensed by the NRC, the regulatory oversight of such activity will transition to the NRC in accordance with a Memorandum of Understanding or other agreement between the Department of Energy and the Nuclear Regulatory Commission applicable to such activities on the GCEPLeased Premises. The Department has determined that the requirements set forth in the Regulatory Oversight Agreement ("ROA") attached hereto as Exhibit M, are reasonable and appropriate, and shall constitute the Nuclear Safety and Safeguards and Security Requirements applicable to the Corporation until the NRC assumes regulatory responsibility for such activity, and that compliance with these requirements will enable the Corporation to conduct activities safely and protect the public health and safety and provide for the common defense and security. Inspection and enforcement activities will also be a requisite part of the ROA.

(b) With respect to both the Lead Cascade Facilities and the Commercial Plant, facilities or areas within facilities may be transitioned in phases to the NRC due to the nature of the activities occurring in a particular facility. The transition date(s) will be mutually agreed upon by NRC and the Department, following notice to and discussion with the Corporation.

ARTICLE VII
TERM

Section 7.1 ~~–~~Initial Term.

(a) This GCEP Lease will commence on the GCEP Lease Execution Date, and expire on June 30, 2009, unless renewed pursuant to this Section 7.1 or Section 7.2 of this GCEP Lease by the Corporation.

(b) The Corporation has the exclusive right to renew this GCEP Lease on the same terms and conditions, for up to seven successive periods of five (5) years each, plus one additional year, PROVIDED, the Corporation certifies and, at the request of the Department shall provide appropriate documentation to the Department, that the following condition precedents are met for each successive period in the time frames as set forth in Section 7.1(c):

(1) the Corporation has an NRC License that is effective at the time it exercises its option to renew the GCEP Lease;

(2) The Corporation is meeting its obligations under Article III of the June 17th Agreement (taking into account any applicable materiality, cure, force majeure and other provisions of the June 17th Agreement);

(3) The Corporation does not intend to abandon, and remains committed to, the advanced enrichment technology deployment project and commercial operations at the Commercial Plant; and

(4) No determination has been made by the Department that the Corporation has constructively or formally abandoned the advanced enrichment technology deployment project in accordance with Article 3 of the June 17th Agreement.

(c) If the Corporation chooses to exercise its right to renew this GCEP Lease under this Section 7.1 for the first five-year renewal period, the Corporation will provide the Department with written notice thereof, including its certification and appropriate documentation of its completion of the condition precedents as set forth in Section 7.1(b) at least ninety (90) days prior to July 1, 2009. If the Corporation chooses to exercise its right to renew this GCEP Lease under this Section 7.1 for one or more of the remaining six successive periods of five (5) years each, plus one additional year, the Corporation will provide the Department with written notice thereof, including its certification and appropriate documentation of its completion of the condition precedents as set forth in Section 7.1(b), at least two (2) years prior to the expiration of the GCEP Lease Term, but in no event shall notice be provided to the Department sooner than

three (3) years prior to the end of the GCEP Lease Term. No other action by the Parties is required to effectuate a renewal under this Section 7.1.

(d) This GCEP Lease shall expire no later than thirty-six years from the date the NRC license for the Commercial Plant is issued, unless renewed pursuant to Section 7.2.

Section 7.2 – GCEP Lease Renewal

(a) The Corporation has the exclusive option to renew this GCEP Lease on the same terms and conditions (except for any changes required by applicable Laws and Regulations existing at the end of the GCEP Lease Term) as are contained herein and shall have the right to do so, at the Corporation's option, for four (4) additional term(s) of up to five (5) years each, for a total not to exceed twenty (20) additional years (each additional term a "Renewal Period"), provided the following conditions for each Renewal Period are met:

(1) the Corporation is not in a "Production Shortfall Cure Period" as set forth in Section 12.2;

(2) the Corporation has an NRC License that is effective at the time it exercises its option to renew the GCEP Lease and, in the event that at the time of the exercise of an option to renew this GCEP Lease its NRC license expires prior to the expiration of the requested Renewal Period, a request for renewal of its existing license, the term of the renewal requested coincides with or exceeds the term of the Renewal Period, has been docketed by the NRC;

(3) The Corporation is meeting its obligations under Article III of the June 17th Agreement and the Corporation is operating at or above 3.0 million SWU annually; and

(4) In addition to performing the requirements contained in Sections 4.3 and 4.4, the Corporation agrees, at its expense, unless otherwise directed by the Department, to perform Demolition of the GCEP Leased Facilities at the end of the GCEP Lease Term, consistent with the Department's long-term stewardship plans for the PORTS Site. In the event the Corporation exercises this exclusive option(s) to renew the GCEP Lease Term under this Section 7.2, the Corporation shall revise its estimate of Incremental Turnover Costs contained in Exhibit J to include the costs associated with the Decontamination and Decommissioning and Demolition of the

GCEP Leased Facilities and provide such revised estimate to the Department for its approval in accordance with Section 4.3(g).

(b) The criteria established in (1) through (4) above for the Corporation's exercise of the exclusive option shall not prevent the Parties from negotiating the terms of an extension to the GCEP Lease in the event those criteria cannot be met or are no longer relevant.

(c) If the Corporation chooses to exercise its right to renew this GCEP Lease, for each Renewal Period, the Corporation will provide the Department Lease Administrator with notice thereof, along with its documentation of compliance with the foregoing conditions, at least two (2) years prior to the expiration of the GCEP Lease Term, but in no event shall notice be provided to the Department sooner than three (3) years prior to the end of the GCEP Lease Term.

ARTICLE VIII
RENT

Section 8.1 – ~~G~~GCEP Lease Payment

(a) For the cost of administering this GCEP Lease and providing regulatory oversight of the GCEP Leased Premises pursuant to Exhibit M, the Regulatory Oversight Agreement for the Gas Centrifuge Enrichment Plant Leased Premises (all such administration referred to as "GCEP Lease Administration"), the Corporation will pay the Department, commencing on the Execution Date of this GCEP Lease, for each twelve (12) month period of October 1 to September 30, thereafter, until the end of the GCEP Lease Term (each such twelve (12) month period of October 1 to September 30 being a "Rent Period," the sum of $ 1,886,540.00, which sum shall be composed of the Department's costs in administering this GCEP Lease and the Department's costs in providing regulatory oversight of the GCEP Leased Premises pursuant to the Regulatory Oversight Agreement ("Rent"). The Rent shall be increased or decreased during Rent Period, as the case may be, by the Department to reflect its actual costs incurred in GCEP Lease Administration; provided however that the Corporation shall not be required for any Rent Period to pay the Department more than the Department's actual costs for such Rent Period. The Corporation shall also pay to the Department within thirty (30) days of receiving a request for payment from the Department for costs incurred by the Department after the expiration, termination, revocation, or relinquishment of this GCEP Lease in restoring the GCEP Leased Premises in accordance with Sections 4.3 and 4.4 of this GCEP Lease.

(b) Rent will be payable monthly in advance on the first day of the month. By November 1 of each year the Department will submit an invoice to the Corporation for its estimated costs of GCEP Lease Administration during the upcoming Rent Period. The Department shall determine the actual cost of GCEP Lease Administration following the end of such Rent Period and issue an invoice by December 1 of each year which shall reconcile any difference between the estimated and actual costs of GCEP Lease Administration in such Rent Period. Such invoice shall provide enough detail for the Corporation to calculate the difference between its monthly payments to the Department and the Department's actual costs in GCEP Lease Administration. The Department will grant the Corporation and its accountants such access to the Department's books and records respecting GCEP Lease Administration and any other costs for which the Department seeks reimbursement as the Corporation may reasonably require to verify the Department's actual costs associated thereto.

(c) By December 31 of each year, the Corporation shall pay the Department or the Department shall credit the Corporation an appropriate amount which shall reconcile any difference between the amount of Rent paid by the Corporation in the previous Rent Period and the actual costs incurred during the previous Rent Period by the Department for GCEP Lease Administration.

(d) Rent payments by the Corporation shall be made to the Department by wire transfer to the Department's headquarters account No. 89-00-0001 at the United States Department of Treasury. In the event any Rent payments are more than ten (10) days late, the Corporation will, in addition to such Rent, pay interest on the amount of Rent which is due and owing on that date at the rate per annum equal to the prevailing prime rate of interest set by the Federal Reserve for such day divided by the number of days in the year and for each day thereafter at such rate until the Rent is paid.

(e) The costs incurred by the Department in GCEP Lease Administration will be reimbursed fully by the Corporation pursuant to this Section 8.1. For all facilities leased by the Corporation under this GCEP Lease Agreement, the Corporation agrees to assume full responsibility to maintain and provide upkeep of the GCEP Leased Premises. Total costs (including such costs as those related to Capital Improvements, alterations, maintenance, utilities, lease administration, plant overhead, plant management overhead, general and administrative [G&A], home office allocation, etc.) associated with the alteration, maintenance and upkeep of facilities for commercial production activities (as opposed to dedicated to Independent Research and Development [IR&D] activities) will be excluded from costs that are directly or indirectly charged to government contracts (including work authorizations). Upon agreement of the Parties, total reasonable costs associated with the maintenance and upkeep of shared facilities and Common Areas will be allocated to the benefiting programs in a causal beneficial manner that is consistent with the Corporation's current Cost

Accounting Standards Board Disclosure Statement in effect at the time the costs are incurred.

For purposes of this subparagraph, the term “commercial production activities” means all activities associated with the construction, alteration and operation of enrichment-associated facilities for the purpose of making a product for eventual commercial sale. For purposes of this subparagraph the term “shared facilities” means facilities that contain, are used for or support both (i) government activities and government funded work and (ii) commercial production activities.

Section 8.2 —Rent During Renewal Periods. The Rent payable by the Corporation pursuant to Section 8.1 of this GCEP Lease shall be determined in accordance with Section 8.1 hereof during any Renewal Period.

ARTICLE IX
INSURANCE AND DAMAGE

Section 9.1 —Corporation Insurance All insurance required of the Corporation on the GCEP Leased Premises shall be for the protection of the Department and the Corporation against their respective risks and liabilities in connection with the GCEP Leased Premises. A certificate of insurance shall be furnished to the Department Lease Administrator no later than thirty (30) days after the Execution Date of the GCEP Lease. The Corporation agrees that not less than thirty (30) days prior to the expiration of any insurance required by this Lease, it will furnish the Department Lease Administrator a certificate of insurance to cover the same risks.

The Corporation shall maintain throughout the GCEP Lease Term and provide evidence of an amount of automobile and commercial general liability insurance coverage for bodily injury and property damage that is reasonably expected, and ordinarily carried by a like-sized corporation engaged in similar, but not necessarily identical, industrial activities to satisfy its legal requirements and discharge its obligations. Initially the amount of such insurance coverage for each incident shall not be less than one million dollars ($1,000,000) of automobile insurance and two million dollars ($2,000,000) for bodily injury and property damage, which minimum shall be revised by the Department, in consultation with the Corporation, every two (2) years to reflect a reasonable minimum amount. The Corporation shall also maintain workers’ compensation and other legally required insurance with respect to the Corporation’s employees and agents.

Each policy of insurance against loss or damage to the Department’s property shall name the Corporation and the United States of America (Department of Energy)

as loss payees as their interest may appear and shall contain a loss payable clause reading substantially as follows:

"Payments for losses under the Corporation's property insurance related to losses to the GCEP Leased Premises, if any, shall be adjusted with Corporation, and the proceeds shall be payable to Corporation and to the Treasurer of the United States of America, as their interests may appear."

Additionally, each property policy of insurance shall contain an endorsement reading substantially as follows:

"The insurer waives any right of subrogation against the United States of America which might arise by reason of any payment made under this policy."

Section 9.2 —Partial Casualty to the GCEP Leased Premises In the event a part of the GCEP Leased Premises is significantly damaged as a result of any foreseen or unforeseen cause or event, whether such cause or event results from action by the Department or by the Corporation or by any other person or entity, regardless of fault and whether insured against or not, then notwithstanding any requirement in Section 4.2(c) in this Lease to maintain such property in good and serviceable condition, the Corporation will have the option, but will not be required, to repair such casualty if, in the Corporation's business judgment, the economic value of repairing such casualty outweighs the cost of the necessary repairs. If the Corporation chooses not to repair such casualty, the Department may, at its expense, repair the casualty; provided, however, that if insurance proceeds are available to the Corporation to pay any cost of repairing such casualty, the Department shall be entitled to use such insurance proceeds for such repair. If neither the Corporation nor the Department chooses to repair such casualty, the Corporation agrees to conduct, at its cost, such Decontamination and Decommissioning, and Demolition of the damaged facility and remediate any environmental damage to the GCEP Leased Premises that resulted from the casualty as is required to protect public health and safety by the Regulatory Authority having jurisdiction. Under no circumstances shall the Department become liable for the Corporation's failure to initiate or implement such actions. Any insurance proceeds collected in excess of repairs made shall be shared by the Department and the Corporation as their interests may appear.

Section 9.3 —Total Destruction of GCEP Leased Premises. In the event the GCEP Leased Premises are damaged as a result of any foreseen or unforeseen cause or event, whether such cause or event results from action by the Department or by the Corporation or by any other person or entity, regardless of fault and whether insured against or not, to such an extent that, in the business judgment of the Corporation, the damage makes such GCEP Leased Premises completely unusable by the

Corporation, then notwithstanding the requirement in Section 4.2(c) of this GCEP Lease to maintain such property in good and serviceable condition, the Corporation will have the option to terminate this GCEP Lease with respect to the entire GCEP Lease pursuant to Section 12.1, provided the Corporation agrees to conduct, at its cost, such Decontamination and Decommissioning and Demolition of the damaged facility and remediate any environmental damage to the GCEP Leased Premises that resulted from the casualty as is required to protect public health and safety by the Regulatory Authority having jurisdiction. Under no circumstances shall the Department become liable for the Corporation's failure to initiate or implement such actions. Any insurance proceeds collected in excess of repairs made shall be shared by the Department and the Corporation as their interests may appear.

Section 9.4 – Repairable Casualty to GCEP Leased Personalty. In the event GCEP Leased Personalty is damaged as a result of any foreseen or unforeseen cause or event, whether such cause or event results from action by the Department or the Corporation or by any other person or entity, regardless of fault and whether insured against or not, the Corporation shall have the option, but will not be required, to repair the casualty if in the Corporation's business judgment the economic value of repairing such damage outweighs the cost of the necessary repairs. If the Corporation chooses not to repair such casualty, the Department may, at its expense, repair the casualty; provided, however, that if insurance proceeds are available to the Corporation to pay the cost of repairing such casualty, the Department shall be entitled to use such insurance proceeds for such repair. If neither the Corporation nor the Department chooses to repair such casualty, the Corporation agrees, subject to the approval of the Department, to remove the damaged Leased Personalty from the GCEP Leased Premises, pursuant to Sections 3.2 and 4.3(c) as required to protect public health and safety, provided however, that the Department under no circumstances shall become liable for the Corporation's failure to initiate or implement such actions. Any net insurance proceeds collected in excess of repairs made shall be shared by the Department and the Corporation as their interests may appear. In the event damaged GCEP Leased Personalty is not repaired, Exhibit B to this GCEP Lease will be amended, if necessary, to reflect the change.

Section 9.5 - Lost or Destroyed GCEP Leased Personalty. In the event an item of GCEP Leased Personalty is lost or destroyed as a result of any foreseen or unforeseen cause or event, whether such cause or event results from action by the Department or the Corporation or by any other person or entity, regardless of fault and whether insured against or not, the Corporation shall have the option, but will not be required, to replace the item of GCEP Leased Personalty which has been lost or destroyed unless such item of GCEP Leased Personalty is necessary for the Department to conduct any Decontamination and Decommissioning and Demolition activities at the GCEP Lease Premises. If the Corporation chooses not to replace an

item of GCEP Leased Personalty which has become lost or destroyed, the Department may, at its expense, replace such GCEP Leased Personalty; provided, however, that if insurance proceeds are available to the Corporation to pay the cost of replacing such GCEP Leased Personalty, the Department shall be entitled to use such insurance proceeds for such replacement. If neither the Corporation nor the Department chooses to repair such casualty, the Corporation agrees, subject to the approval of the Department, to remove the damaged Leased Personalty from the GCEP Leased Premises, pursuant to Sections 3.2 and 4.3(c) as required to protect public health and safety. Under no circumstances shall the Department become liable for the Corporation's failure to initiate or implement such actions. Any net insurance proceeds collected in excess of replacement costs shall be shared by the Department and the Corporation as their interests may appear. In the event GCEP Leased Personalty is lost or completely destroyed and not replaced, Exhibit B to this GCEP Lease will be amended, if necessary, to reflect the change.

Section 9.6 – No Duty to Repair or Rebuild by the Department. Nothing contained in this GCEP Lease shall impose on the Department any duty to repair or rebuild, in the event part or all of the GCEP Leased Premises or GCEP Leased Personalty are damaged as a result of any foreseen or unforeseen cause or event, whether such cause or event results from action by the Department or by the Corporation, or by any other person or entity, regardless of fault and whether insured against or not.

ARTICLE X
PRICE-ANDERSON INDEMNIFICATION

Section 10.1 – Price-Anderson Nuclear Hazards Indemnification by the Department

(a) Authority. This clause is incorporated into this GCEP Lease pursuant to the authority contained in subsection 170d. of the Act.

(b) Definitions. The definitions set out in the Act shall apply to this clause.

(c) Financial protection. The Corporation shall obtain and maintain, at its expense, financial protection to cover public liability, as described in paragraph (d)(2) below in such amount and of such type as is commercially available at commercially reasonable rates, terms and conditions, provided that in the event NRC grants a license for a uranium enrichment facility not located on federally-owned property, the amount is no more than the amount required by the NRC for the other facility.

(d) Indemnification.

(1) To the extent that the Corporation and other persons indemnified are not compensated by any financial protection required by paragraph (c), the Department will indemnify the Corporation and other persons indemnified up to the full amount authorized by Section 170 against (i) claims for public liability as described in subparagraph (d)(2) of this clause; and (ii) such legal costs of the Corporation and other persons indemnified as are approved by the Department.

(2) The public liability referred to in subparagraph (d)(1) of this clause is public liability as defined in the Act which (i) arises out of or in connection with the activities under this GCEP Lease, including transportation; and (ii) arises out of or results from a nuclear incident or precautionary evacuation, as those terms are defined in the Act.

(e) Waiver of Defenses.

(1) In the event of a nuclear incident, as defined in the Act, arising out of nuclear waste activities, as defined in the Act, the Corporation, on behalf of itself and other persons indemnified, agrees to waive any issue or defense as to charitable or governmental immunity.

(2) In the event of an extraordinary nuclear occurrence which:

(i) arises out of, results from or occurs in the course of the construction, possession or operation of a production or utilization facility; or

(ii) arises out of, results from, or occurs in the course of transportation of source material, by-product material, or special nuclear material to or from a production or utilization facility; or

(iii) arises out of or results from the possession, operation, or use by the Corporation or a subcontractor of a device utilizing special nuclear material or by-product material, during the course of the GCEP Lease activity; or

(iv) arises out of, results from, or occurs in the course of nuclear waste activities, the Corporation, on behalf of itself and other persons indemnified, agrees to waive:

(A) Any issue or defense as to the conduct of the claimant (including the conduct of persons through whom the claimant derives its cause of action) or the fault of persons indemnified, including, but not limited to:

1. Negligence;

2. Contributory negligence;

3. Assumption of risk; or

4. Unforeseen intervening causes, whether involving the conduct of a third person or an act of God;

(B) Any issue or defense as to charitable or governmental immunity; and

(C) Any issue or defense based on any statute of limitations, if suit is instituted within 3 years from the date on which the claimant first knew, or reasonably could have known, of his injury or damage and the cause thereof. The waiver of any such issue or defense shall be effective regardless of whether such issue or defense may otherwise be deemed jurisdictional or relating to an element in the cause of action. The waiver shall be judicially enforceable in accordance with its terms by the claimant against the person indemnified.

(v) The term extraordinary nuclear occurrence means an event which the Department has determined to be an extraordinary nuclear occurrence as defined in the Act. A determination of whether or not there has been an extraordinary nuclear occurrence will be made in accordance with the procedures in 10 CFR Part 840.

(vi) For the purposes of that determination, “offsite” as that term is used in 10 CFR Part 840 means away from “the contract location” which phrase means any Department facility, installation, or site at which activity under this GCEP Lease is being carried on, and any Corporation-owned or -controlled facility, installation, or site at which the Corporation is engaged in the performance of activity under this GCEP Lease.

(3) The waivers set forth above:

(i) Shall be effective regardless of whether such issue or defense may otherwise be deemed jurisdictional or relating to an element in the cause of action;

(ii) Shall be judicially enforceable in accordance with their terms by the claimant against the person indemnified;

(iii) Shall not preclude a defense based upon a failure to take reasonable steps to mitigate damages;

(iv) Shall not apply to injury or damage to a claimant or to a claimant's property which is intentionally sustained by the claimant or which results from a nuclear incident intentionally and wrongfully caused by the claimant;

(v) Shall not apply to injury to a claimant who is employed at the site of and in connection with the activity where the nuclear incident or extraordinary nuclear occurrence takes place, if benefits therefore are either payable or required to be provided under any workmen's compensation or occupation disease law;

(vi) Shall not apply to any claim resulting from a nuclear incident occurring outside the United States;

(vii) Shall be effective only with respect to those obligations set forth in this Section and in insurance policies, contracts or other proof of financial protection; and

(viii) Shall not apply to, or prejudice the prosecution or defense of, any claim or portion of claim which is not within the protection afforded under (A) the limit of liability provisions under subsection 170e. of the Act, or (B) the terms of this agreement and the terms of insurance policies, contracts, or other proof of financial protection.

(f) Notification and Litigation of Claims. The Corporation shall give immediate written notice to the Department of any known action or claim filed or made against the Corporation or other person indemnified for public liability as defined in paragraph (d)(2). Except as otherwise directed by the Department, the Corporation shall furnish promptly to the Department, copies of all pertinent papers received by the Corporation or filed with respect to such actions or claims. The Department shall have the right to, and may collaborate with, the Corporation and any other person indemnified

in the settlement or defense of any action or claim and shall have the right to (1) require the prior approval of the Department for the payment of any claim that the Department may be required to indemnify hereunder; and (2) appear through the Attorney General on behalf of the Corporation or other person indemnified in any action brought upon any claim that the Department may be required to indemnify hereunder, take charge of such action, and settle or defend any such action. If the settlement or defense of any such action or claim is undertaken by the Department, the Corporation or other person indemnified shall furnish all reasonable assistance in effecting a settlement or asserting a defense.

(g) Continuity of the Department's Obligations. The obligations of the Department under this clause shall not be affected by any failure on the part of the Corporation to fulfill its obligation under this GCEP Lease and shall be unaffected by the death, disability, or termination of the existence of the Corporation, or by the completion, termination or expiration of this GCEP Lease.

(h) Effect of other Clauses. The provisions of this clause shall not be limited in any way by, and shall be interpreted without reference to, any other clause of this GCEP Lease provided, however, that this clause shall be subject to any provisions that are later added to this GCEP Lease as required by applicable Federal law, including statutes, executive orders and regulations, to be included in Nuclear Hazards Indemnity Agreements.

(i) Inclusion in Contracts. The Corporation shall insert this clause in any contract for the management, operation, design, repair, maintenance, or modification of the GCEP Leased Premises which may involve the risk of public liability, as that term is defined in the Act and further described in paragraph (d)(2) above. However, this clause shall not be included in contracts in which the person or entity under contract with the Corporation is subject to NRC financial protection requirements under Section 170b. of the Act or NRC agreements of indemnification under Sections 170c. or k. of the Act for the activities under the contract.

(j) Relationship to General Indemnity. To the extent that the Corporation is compensated by any financial protection, or is indemnified pursuant to this clause, or is effectively relieved of public liability by an order or orders limiting same, pursuant to 170e of the Act, the provisions of Article V of this GCEP Lease with respect to indemnification of the Corporation shall not apply, but only to such extent.

ARTICLE XI
REPRESENTATIVES

Section 11.1 – Authorized Representatives

(a) The Department appoints the Manager, Oak Ridge Office to be its representative ("Department Lease Administrator") with authority to act on behalf of the Department in connection with matters related to this GCEP Lease other than modifications of this GCEP Lease pursuant to Article XIII hereof. The Department may designate a different Department Lease Administrator at any time upon written notice thereof to the Corporation.

(b) The Corporation shall appoint a person as its representative ("Corporation Lease Representative") with authority to act on behalf of the Corporation in connection with matters related to this GCEP Lease other than modifications of this GCEP Lease pursuant to Article XIII hereof. The Corporation may designate a different Corporation Lease Representative at any time upon written notice thereof to the Department.

ARTICLE XII
TERMINATION

Section 12.1 – Termination for Convenience. The Corporation shall have the right to terminate this GCEP Lease in whole, but not in part, at its convenience, at any time during the GCEP Lease Term (including during any Renewal Period), upon at least three years' notice to the Department, if in the Corporation's business judgment, such termination is economically necessary.

Section 12.2 – Termination by the Department. The Department may terminate this GCEP Lease at any time in accordance with the notice and procedures set forth in the following subsections:

(a) Subject to Section 12.4, if the Corporation fails to substantially perform or comply with any of the terms and conditions of this GCEP Lease, and such failure continues and persists therein for ninety (90) days after notice thereof in writing by the Department ("Cure Notice"), provided if more than ninety (90) days is reasonably required to cure such failure, the Department may only terminate if the Corporation does not commence to cure such failure within such ninety (90) day period and thereafter, takes appropriate actions to complete such cure with due diligence.

(b) In the event the Corporation is required under Article 3 of the June 17th Agreement to "return any property leased by USEC upon which the advanced

technology project was being or was intended to be constructed" due to the Corporation's failure to meet any of the advanced technology demonstration and deployment milestones set forth in the June17th Agreement, provided the Department has complied with the process relating to such determinations contained in Article 3 of the June 17th Agreement.

(c) In the event the Corporation is determined to have constructively or formally abandoned the advanced enrichment technology deployment project in accordance with Article 3 of the June 17th Agreement.

(d) Subject to Section 12.4, in the event the Corporation fails to operate the Commercial Plant at a level at or above an annual average of one million (1,000,000) SWU per year as measured over a rolling two-year performance period. The first two-year performance period shall commence on either the date the Corporation has installed and commenced operation of at least 3.5 million SWU annual capacity in the Commercial Plant, or the date four (4) years after the NRC issues a license for the Commercial Plant, whichever is earlier. In the event the Corporation fails during any two-year performance period to operate the Commercial Plant at a level at or above an annual average of one million (1,000,000) SWU per year, then upon receipt of notice of such failure from the Department (the "Production Shortfall Notice") the Corporation shall have one-hundred and eighty (180) days from the receipt of the Department's notice to cure such failure and return the operation of the Commercial Plant to a level at or above an annual average of one million (1,000,000) SWU per year("Production Shortfall Cure Period"). If more than one-hundred and eighty (180) days is reasonably required to cure such failure, the Department may only terminate if the Corporation does not commence to cure such failure within such one-hundred and eighty day period and thereafter, take appropriate actions to complete such cure with due diligence. If in the one-year period immediately following the Production Shortfall Cure Period the Corporation fails to produce at a level at or above one million (1,000,000) SWU, then the Department may terminate this GCEP Lease upon ninety (90) days written notice. Commencing in the month following the date the Corporation has installed and commenced operation of at least 3.5 million SWU annual capacity in the Commercial Plant or the date four (4) years after the NRC issues a license for the Commercial Plant, whichever is earlier, the Corporation shall provide monthly to the Department a statement of the previous month's production. The Corporation will have no more than two opportunities to cure a production shortfall in the first eight year lease period of the GCEP Lease Term commencing on the date four (4) years after the NRC issues a license for the Commercial Plant and no more than one opportunity to cure a production shortfall in any subsequent eight year lease period.

Section 12.3 – Actions upon Termination

(a) Upon termination of this GCEP Lease by either the Corporation or the Department for any reason, the Corporation will commence to return the GCEP Leased Premises and GCEP Leased Personalty, if any, to the Department in accordance with ARTICLE IV of this GCEP Lease. Prior to returning the GCEP Leased Premises and GCEP Leased Personalty, if any, to the Department, the Corporation will comply with all other applicable GCEP Lease requirements, including Section 4.4 Turnover Requirements.

(b) In the event this GCEP Lease is terminated by either the Corporation under Section 12.1, or by the Department in accordance with Section 12.2, all contractual rights are extinguished with respect to the Corporation to lease the GCEP Leased Premises under the GDP Lease, the GCEP Lease, or any other lease on the effective date of termination. In the event this GCEP Lease is terminated by either the Corporation under Section 12.1, or by the Department in accordance with Section 12.2, the Corporation further agrees that, to the extent permitted by law, such termination constitutes a waiver of any statutory rights it has or may have to further lease the GCEP Leased Premises under the GDP Lease, the GCEP Lease, or any other lease on the effective date of termination.

Section 12.4 – Force Majeure

(a) Except for defaults of the Corporation's contractors at any tier, the Corporation shall not be in default because of any failure to perform its obligations under this GCEP Lease if the failure arises from causes beyond the control and without the fault or negligence of the Corporation. Examples of these causes include without limitation (1) acts of God or the public enemy, (2) acts of the Government in its sovereign capacity, (3) fires, (4) floods, (5) epidemics, (6) quarantine restrictions, (7) strikes, (8) freight embargoes, (9) earthquakes, and (10) unusually severe weather. Additionally, for purposes of this Section 12.4 of this GCEP Lease only, another example of a cause under which the Corporation shall not be in default because of any failure to perform its obligations under this GCEP Lease if such failure arises from causes beyond the control and without the fault or negligence of the Corporation is that there has been a substantial and demonstrable increase, as reflected in official U.S. imports statistics, in U.S. imports for consumption of Russian enriched uranium, other than the material currently committed to come into the U.S. under the existing contract, dated January 14, 1994, between the Corporation and OAO Techsnabexport to implement the Agreement between the United States and the Russian Federation Concerning the Disposition of Highly Enriched Uranium Extracted from Nuclear Weapons ("HEU Agreement") and the Corporation demonstrates such increase in U.S. imports for consumption has had a substantial adverse material impact on the domestic

uranium enrichment industry. In each instance, the Corporation's failure to perform must arise from causes and be beyond the control and without the fault or negligence of the Corporation. The term "default" as used in this Section includes the failure to make progress so as to endanger completion of performance of the Corporation's obligations under this GCEP Lease.

(b) If the failure to perform is caused by the failure of a contractor at any tier to perform or make progress, and if the cause of the failure was beyond the control of both the Corporation and the contractor, and without the fault or negligence of either, the Corporation shall not be deemed to be in default, unless (1) the contracted supplies or services were obtainable from other sources; and (2) the Corporation failed to purchase these supplies or services from the other sources.

(c) In order to invoke this Section 12.4, the Corporation must request a determination by the Department on whether any failure to perform results from one or more of the causes in the first paragraph above. Upon the request of the Corporation and within sixty (60) days of the Corporation's submission of its position, the Department will ascertain the facts and circumstances of the failure of performance upon an assertion of a circumstance triggering this clause. If the Department determines that any failure to perform results from one or more of the causes in the first paragraph above, the schedule for performance of the affected commitments shall be extended for the period of the excused delay. The Corporation may appeal this determination within thirty (30) days to the Secretary of Energy (or designee), who's determination will be considered the final agency action under this Agreement. The Corporation retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee). Nothing in this Section is intended to provide the Corporation with more than one opportunity per incident to request a determination that a failure to perform results from one of the causes listed in this Section or the June 17th Agreement.

ARTICLE XIII
MODIFICATIONS

Section 13.1 ~~–~~GCEP Lease Amendments. Changes, amendments, or modifications made pursuant to Section 3.3, Section 3.6, Section 3.7, Section 6.1, Section 9.3, Section 9.4, Section 9.5, Section 11.1, Section 12.1, Section 14.2, Section 14.3, Section 15.2, Section 15.9, and Exhibits A ~~—~~N shall be valid or binding if approved in writing by the Parties' representatives designated in Section 11.1. No other changes, amendments or modifications of this GCEP Lease shall be valid or binding unless such change, amendment or modification is described in writing and is duly

executed and consented to by the Secretary and by the Board of Directors of the Corporation, or by any person authorized by them to provide such consent.

ARTICLE XIV
ASSIGNMENTS AND SUBLEASES

Section 14.1 – No Assignment; Substitution of Department. The Department shall not have the right to assign this GCEP Lease and any such assignment shall be void. The Department may be substituted under this GCEP Lease only by a successor agency or department or instrumentality of the United States which assumes all of the duties and obligations of the Department under this GCEP Lease.

Section 14.2 – No Assignment; Substitution of Corporation.

(a) The Corporation shall not have the right to assign this GCEP Lease and any such assignment shall be void except as permitted under this Article XIV.

(b) If the Corporation wishes the Department to recognize a Successor in Interest to this GCEP Lease, the Corporation must submit a written request to the Department Lease Administrator. The Corporation shall submit all information necessary for the Department to evaluate the proposed agreement for recognizing a Successor in Interest. The information should include, as applicable, as the documents become available:

(1) The document describing the proposed transaction, e.g., purchase/sale agreement or memorandum of understanding;

(2) A list of all affected leases, contracts, and work authorizations between the Corporation and the Department, as of the date of sale or transfer of assets, showing for each, as of that date the:

(i) Lease, contract, and work authorization number and type;

(ii) Name and address of the Department's representative for each lease, contract, and work authorization;

(iii) Total dollar value, as amended; and

(iv) Approximate remaining unpaid balance

(3) Evidence of the Successor in Interest's ability to perform;

(4) A certified copy of each resolution of the corporate parties' boards of directors or other document authorizing the transfer of assets;

(5) A certified copy of the minutes of each corporate party's stockholder meeting if necessary to approve the transfer of assets;

(6) An authenticated copy of the Successor in Interest's certificate and articles of incorporation, if a corporation was formed for the purpose of receiving the assets involved in performing the GCEP Lease;

(7) The opinion of legal counsel for the Corporation and the Successor in Interest stating that the transfer was properly effected under applicable Laws and Regulations and the effective date of the transfer;

(8) Balance sheets of the Corporation and the Successor in Interest as of the date immediately before and after the transfer of assets, audited by independent accountants;

(9) Evidence that any Facility Clearance, security clearance, and Foreign Ownership, Control, or Influence (FOCI) requirements have been met;

(10) The consent of all sureties if such a method of financial assurance is provided under 4.3(g) of this GCEP Lease; and

(11) Any other information reasonably requested by the Department Lease Administrator.

(c) Upon the Department's consent, which shall not be unreasonably withheld, the Corporation may be substituted under this GCEP Lease by a Successor in Interest, provided a novation agreement between the Department and the Corporation and the Successor in Interest is properly executed. The novation agreement shall include, as a minimum, the following requirements:

(1) The Successor in Interest holds an appropriate Facility Clearance and a favorable Foreign Ownership, Control, or Influence Determination;

(2) The Successor in Interest assumes all the Corporation's obligations under the GCEP Lease;

(3) The Corporation waives all rights under the GCEP Lease against the Government;

(4) The Corporation guarantees performance of the GCEP Lease by the Successor in Interest; and

(5) Nothing in the novation agreement shall relieve the Corporation or Successor in Interest from compliance with any Laws and Regulations.

(d) If the Department's interests are adequately protected with an alternative formulation of the information, the Department Lease Administrator may modify the documents or information to be submitted under this Section 14.2.

(e) The Corporation may assign the GCEP Lease to any person or entity, whether affiliated with the Corporation or otherwise, if the Corporation receives the consent of the Department to such assignment.

Section 14.3 –~~S~~ubleases

(a) The Corporation may sublease any part or all of the GCEP Leased Premises or the GCEP Leased Personalty to any person or entity, whether affiliated with the Corporation or otherwise, if the Corporation receives the consent of the Department to such a sublease. The Department shall not unreasonably withhold its consent to any such sublease, but such consent may be subject to reasonable conditions, including those set forth in Section 14.3(c).

(b) The Corporation shall have the right to operate the GCEP Leased Premises of the GCEP under this GCEP Lease or to engage an operator for such GCEP Leased Premises. No contract for the operation of such GCEP Leased Premises shall be deemed a sublease, except that any such contract shall be subject to, and consistent with, all terms, conditions, covenants, provisions, and agreements contained in this GCEP Lease.

(c) With respect to any sublease entered into between the Corporation and USEC Inc., the Corporation represents to the Department that:

(1) The Sublease between the Corporation and USEC Inc. shall require assumption of and shall be subject to, and consistent with, all terms, conditions, covenants, provisions, and agreements contained in this GCEP Lease.

(2) The Corporation expressly agrees that any such Sublease will impose no new obligations, liabilities, and costs on the Department.

(3) The Corporation acknowledges that the making of any assignment, transfer, or subletting, in whole, or in part, other than to USEC Inc. for Lead Cascade activities and construction and operation of the Commercial Plant requires the Department's express consent.

(4) The Sublease between the Corporation and USEC Inc. shall not operate to relieve the Corporation from its obligations under this GCEP Lease, and notwithstanding any such assignment, transfer, or subletting, the Corporation shall be liable for the payment of all Rent and other charges and for the due performance of all the covenants, agreements, terms and provisions of this GCEP Lease.

(5) The Corporation guarantees performance of the GCEP Lease by the Sublessee.

(d) Based upon these representations, consent to sublease the GCEP Leased Premises and GCEP Leased Personalty, or any portion thereof, to USEC Inc. for the purpose of conducting Lead Cascade activities and constructing and operating a Commercial Plant is hereby granted to the Corporation. Failure to comply with Section 14.3(c) voids the Department's consent to the sublease and in such an event, the Corporation agrees to terminate any sublease between the Corporation and USEC Inc. Possession of specific areas or portions of areas within the GCEP Leased Premises by the Corporation may be turned over to USEC Inc. upon the completion of GCEP Clean-up Activities within the area or portion of the area and written notification to the Department of the turnover of the areas or portions of areas to USEC Inc.

ARTICLE XV
MISCELLANEOUS

Section 15.1 – Entire GCEP Lease . This GCEP Lease contains the entire understanding of the Department and the Corporation with respect to its subject matter. This GCEP Lease reflects all agreements and commitments made prior to the date hereof with respect to this GCEP Lease by the Department and the Corporation, and is intended to be consistent with Exhibit C, the June 17 th Agreement. There are no other oral or written understandings, terms or conditions and neither the Department nor the Corporation has relied upon any representation or statement, expressed or implied, which is not contained in this GCEP Lease.

Section 15.2 – Notices. In order to be effective, any notice, demand, offer, response, request or other communication made with respect to this GCEP Lease by either the Department or the Corporation must be in writing and signed by the one initiating the communication and must be hand-delivered or sent by registered letter, telefax or by a recognized overnight delivery service that requires evidence of receipt at the addresses for such communication given below:

For the Department: Mr. Larry Clark, Assistant Manager for Nuclear Fuel Supply
Department of Energy
Oak Ridge Office
P.O. Box 2001
Oak Ridge, TN 37831
Fax: (865) 241-4439

For the Corporation: Mr. Vic Lopiano, Vice-President American Centrifuge
USEC Inc.
6903 Rockledge Drive
Bethesda, MD 20817
FAX: (301) 564-3205

The Department and the Corporation have the right to change the place to which communications are sent or delivered by similar notice sent or delivered. The effective date of any communication shall be the date of the receipt of such communication by the addressee.

Section 15.3 – Severability. The invalidity of one or more phrases, sentences, clauses, subsections, sections or articles contained in this GCEP Lease shall not affect the validity of the remaining portions of this GCEP Lease so long as the material purposes of this GCEP Lease can be determined and effectuated. If such invalidity alters the fundamental allocation of risks or benefits or the rights and obligations of the Department or the Corporation contemplated in this GCEP Lease, the Department and the Corporation will use their best efforts to negotiate in good faith to restructure this GCEP Lease to reflect its original purposes.

Section 15.4 – No Waiver. The failure of either the Department or the Corporation to rely upon any of the provisions of this GCEP Lease or to require compliance with any of its terms at any time shall in no way affect the validity of this GCEP Lease or any part thereof, and shall not be deemed a waiver of the right of the Department or the Corporation, as the case may be, to rely upon or require strict compliance with any and each such provision at a different time.

Section 15.5 – Applicable Law. This GCEP Lease will be governed and construed in accordance with the federal laws of the United States of America.

Section 15.6 – Binding Nature of GCEP Lease. This GCEP Lease will be binding upon the Department and the Corporation and their respective successors.

Section 15.7 – GCEP Lease Not Joint Venture. Nothing contained in this GCEP Lease will be construed as creating or establishing a joint venture or partnership between the Department and the Corporation.

Section 15.8 – Further Assistance. The Department and the Corporation will provide such information, execute and deliver any agreements, instruments and documents, coordinate with one another with respect to shared site issues, plant changes, and control of work activities, and take such other actions as may be reasonably necessary or required, which are not inconsistent with the provisions in this GCEP Lease and which do not involve the assumption of obligations or expenditure of funds, other than those expressly provided for in this GCEP Lease, in order to give full effect to this GCEP Lease and to carry out its intent and the intent of the Privatization Act, including actions reasonably necessary to facilitate the Department's Decontamination and Decommissioning and Demolition of the PORTS when the PORTS is returned to the Department's control.

Section 15.9 – Property Records and Other Information. As set forth in Section 3.2, the Department leases to the Corporation certain items of personal property which are related to activities conducted by the Corporation under this GCEP Lease and are described in the GCEP Leased Personalty listing attached as Exhibit B to this GCEP Lease. Exhibit B represents the GCEP Leased Personalty listing as of the GCEP Lease Execution Date. The inventory data shall include basic information as follows where available:

(a) Lease number

(b) Asset type

(c) Description of item such as name, serial number, and other identifying information

(d) Property control number, i.e., barcode number

(e) Unit acquisition cost and unit of measure (estimate if actual is not available)

(f) Acquisition document reference and date (optional)

(g) Manufacturer's name, model and serial number

(h) Quantity received or fabricated

(i) Location (site, building or area number)

(j) Custodial name and organization code or Corporation custodian

for the property (can be single point of contact)

(k) Use status (active, storage, excess, etc.)

(l) High risk designation (See, 41 CFR 109-1.53, “Management of High Risk Personal Property”)

(m) Disposition document

Subject to other provisions of this GCEP Lease, additional items of personal property owned by the Department may be added to Exhibit B of this GCEP Lease throughout the GCEP Lease Term by the Corporation with the consent of the Department. Inventories shall be conducted annually and an inventory summary sheet, “FY___ Physical Inventories Performed” shall be submitted by November 1 each year listing all GCEP Leased Personalty. A list identifying any changes will be attached. Electronic data lists are acceptable in a mutually agreed upon electronic format. Information for the Facilities Information Management System (FIMS), the Department’s real property information database will be established by the Corporation as a baseline inventory record and updated as needed with reporting submitted as required by the Department. Such inventory updates will be mutually agreed to by the Department and the Corporation. The updated listings will become attachments to this GCEP Lease and serve as a record of changes in the GCEP Leased Personalty.

Section 15.10 – ~~S~~Survival. Notwithstanding any termination, expiration, revocation, or relinquishment of this GCEP Lease, whether pursuant to the terms hereof or otherwise by operation of law, Section 3.3, Section 3.4, Section 3.5, Section 4.3, Section 4.4, Section 4.5, Section 4.6, Article V, Section 8.1, Section 9.3, Section 10.1, ,Section 12.3, Section 12.4, Section 15.12, Section 15.13, Section 15.15, Section 15.21, Section 15.22, and Section 15.23, as well as those portions of any memorandum of agreement between the Department and the Corporation which are related thereto, or by their terms are intended to continue, shall survive any such termination, expiration, revocation, or relinquishment of this GCEP Lease.

Section 15.11 – ~~N~~No Rights in Others. This GCEP Lease is not intended to create any right or benefit, substantive or procedural, enforceable by a third party against the United States, its agencies or instrumentalities (including the Department), officers or employees of the United States Government, or any other person.

Section 15.12 – ~~D~~Department’s Payment Obligations. Any obligations of the Department to make payments or commit resources under this GCEP Lease are subject to the availability of sufficient appropriated funds being made available for such purpose, based upon the Department’s normal practices in fiscal administration and execution of appropriate budgets, whether specifically herein stated or not.

Section 15.13 – Corporation's Payment Obligation. Unless otherwise expressly agreed to by the Department, all activities attributable to and related to the GCEP Lease Premises and GCEP Leased Personalty, including, but not limited to, maintenance costs, associated infrastructure costs, costs associated with security and the removal of any Department-owned equipment or personal property, and costs associated with implementation of International Atomic Energy Agency ("IAEA") safeguards under the U.S.-IAEA Safeguards Agreement and the Additional Protocol thereto, which includes the reporting of nuclear material inventories and declarations of Corporation activities, and related IAEA inspection and complementary access visits that are required under the U.S.-IAEA Safeguards Agreement and its Additional Protocol, respectively, will be funded by the Corporation and not subject to reimbursement by the Department under the Services Agreement or other contractual vehicle.

Section 15.14 – Environment. The Corporation shall not unlawfully pollute the air, ground, or water or create a public nuisance. The Corporation shall use all reasonable means available to protect the environment and natural resources from damage arising from this GCEP Lease or activities incident to it and, where damage nonetheless occurs, the Corporation shall be liable to restore the damaged resources. The Corporation shall, at no cost to the Department, promptly comply with present and future Laws and Regulations, ordinances, regulations, or instructions controlling the quality of the environment. This shall not affect the Corporation's right to contest their validity or enjoin their applicability. The Corporation shall not be responsible for pollution caused by others, unless it results from activities performed on behalf of the Corporation. If the Corporation discovers contamination not previously identified on the GCEP Leased Premises, the Corporation shall immediately cease activities in the area of contamination, notify the Department's Authorized Representative, and take preventative and mitigative actions, in accordance with applicable Laws and Regulations.

Section 15.15 – Disputes (July 2002)

(a) This GCEP Lease is subject to the Contract Disputes Act of 1978, as amended (41 U.S.C. 601-613)(CDA).

(b) Except as provided in the CDA, all disputes arising under or relating to this GCEP Lease shall be resolved under this section.

(c) "Claim," as used in this clause, means a written demand or written assertion by one of the leasing Parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of GCEP Lease terms, or other relief

arising under or relating to this GCEP Lease. However, a written demand or written assertion by the Corporation seeking the payment of money exceeding $100,000 is not a claim under the CDA until certified. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a claim under the CDA. The submission may be converted to a claim under the CDA, by complying with the submission and certification requirements of this clause, if it is disputed either as to liability or amount or is not acted upon in a reasonable time.

(d)(1) A claim by the Corporation shall be made in writing and, unless otherwise stated in this GCEP Lease, submitted within 6 years after accrual of the claim to the Department Lease Administrator for a written decision. A claim by the Department against the Corporation shall be subject to a written decision by the Department Lease Administrator.

(2)(i) The Corporation shall provide the certification specified in paragraph (d)(2)(iii) of this section when submitting any claim exceeding $100,000.

(ii) The certification requirement does not apply to issues in controversy that have not been submitted as all or part of a claim.

(iii) The certification shall state as follows: “I certify that the claim is made in good faith; that the supporting data are accurate and complete to the best of my knowledge and belief; that the amount requested accurately reflects the GCEP Lease adjustment for which the Corporation believes the Department is liable; and that I am duly authorized to certify the claim on behalf of the Corporation.”

(3) The certification may be executed by any person duly authorized to bind the Corporation with respect to the claim.

(e) For Corporation claims of $100,000 or less, the Department Lease Administrator must, if requested in writing by the Corporation, render a decision within 60 days of the request. For Corporation-certified claims over $100,000, the Department Lease Administrator must, within 60 days, decide the claim or notify the Corporation of the date by which the decision will be made.

(f) The Department Lease Administrator’s decision shall be final unless the Corporation appeals or files a suit as provided in the CDA.

(g) If the claim by the Corporation is submitted to the Department Lease Administrator or a claim by the Department is presented to the Corporation, the parties, by mutual consent, may agree to use alternative dispute resolution (ADR). If the Corporation refuses an offer for ADR, the Corporation shall inform the, Department

Lease Administrator in writing, of the Corporation's specific reasons for rejecting the offer.

(h) The Department shall pay interest on the amount found due and unpaid from (1) the date that the Department Lease Administrator receives the claim (certified, if required); or (2) the date that payment otherwise would be due, if that date is later, until the date of payment. With regard to claims having defective certifications, as defined in FAR 33.201, interest shall be paid from the date that the Department Lease Administrator initially receives the claim. Simple interest on claims shall be paid at the rate, fixed by the Secretary of the Treasury as provided in the CDA, which is applicable to the period during which the Department Lease Administrator receives the claim and then at the rate applicable for each 6-month period as fixed by the Treasury Secretary during the pendency of the claim.

(i) The Corporation shall proceed diligently with performance of this GCEP Lease, pending final resolution of any request for relief, claim, appeal, or action arising under or relating to the GCEP Lease, and comply with any decision of the Department Lease Administrator.

Section 15.16 – Transfer of Title to the Corporation. The Parties acknowledge that at some future time, it may be in the best interests of both Parties for the Department to transfer title to any or all of the GCEP Leased Premises to the Corporation on terms that are consistent with the Department's reasonable responsibilities, programmatic activities, and plans. Any such transfer shall be subject to negotiation of terms that are mutually agreed upon by the Parties.

Section 15.17- Conditions of Privileges Granted by the Department. The exercise of the privileges granted shall be without cost or expense to the Department; shall be subject to the legal right of the Department to construct, use, and maintain facilities on the non-leased portions of the PORTS Site; shall be subject to other existing out grants of the Department on the GCEP Leased Premises; and shall be without liability to the Department for failure to supervise or inspect activities or facilities of the Department. The Department shall make reasonable efforts to provide adequate advance written notice to the Corporation of its activities to be granted to third parties consistent with Exhibit L, the Shared Site Agreement.

Section 15.18 – Hazardous and/or Radiological Material of Environmental Concern. In addition to the reporting requirements in Section 4.3(e), the Corporation shall annually provide the following reports on Material of Environmental Concern utilized, manufactured, shipped, stored, or received by the Corporation to the Department: Annual Hazardous Chemical Inventory Report; Annual Toxic Release

Inventory Report; and a Low-Level Radioactive Waste Generator Report. The Corporation shall further provide the Department annually with a report of the quantities managed, utilized, manufactured, shipped, stored, received by the Corporation, or introduced by the Corporation into the GCEP Leased Premises for the following Material of Environmental Concern: polychlorinated biphenyls, transuranics, chromates, trichloroethylene, asbestos, pentachlorophenol, beryllium, and, at the request of the Department, any other Material of Environmental Concern that is not reported under Section 4.3(e) or this Section 15.8.

Section 15.19 –~~C~~ultural Items.

(a) The Corporation shall not remove or disturb, or cause or permit to be removed or disturbed, any historical, archaeological, architectural, or other cultural artifacts, relics, vestiges, remains, or objects of antiquity. In the event such items are discovered on the GCEP Leased Premises, the Corporation shall immediately notify the Department Lease Administrator and protect the site and the material from further disturbance until the Department gives clearance to proceed.

(b) Federal agencies have an obligation under Section 106 of the National Historic Preservation Act to review all planned undertakings for impacts to historic properties that are eligible for listing on the National Register of Historic Places and under Section 110 of the National Historic Preservation Act to identify historic properties owned or under the control of the Department. To assure that the Department is afforded the opportunity to fulfill any obligation it may have for leased historic or potentially historic properties, the Corporation will notify the Department of any activities which have the potential to cause effects on historic properties. All such notification shall include a project summary, including details of the proposed undertaking and property affected, a proposed recommendation, and any other information the Department deems necessary to evaluate the undertaking and support Section 106 consultation.

(c) The Corporation further agrees to identify any historic properties and sites and assess any impacts associated with the construction and operation of the Commercial Plant and it shall include the determination and assessment in its Environmental Report submitted to the NRC to support the preparation of the NRC Environmental Impact Statement (EIS).

Section 15.20 –~~L~~aws, Ordinances, Regulations. The Corporation shall comply with all applicable Law and Regulations and ordinances of the Federal Government, State, county, and municipality wherein the GCEP Leased Premises are located.

Section 15.21 – Security

(a) Responsibility. It is the Corporation's duty to safeguard all classified information, special nuclear material, and other Department property. The Corporation shall, in accordance with all applicable security regulations and requirements, be responsible for safeguarding all classified information and protecting against sabotage, espionage, loss or theft of the classified documents and material in the Corporation's possession or in the possession of the Corporation's contractors, vendors, or partners, in connection with performance of work under this GCEP Lease. Except as otherwise agreed to by the Department, or under the Access Permit No. 99-01 (issued pursuant to 10 C.F.R. Part 725), the Corporation shall, upon termination, expiration, revocation, or relinquishment of this GCEP Lease for any reason, transmit to the Department any classified matter in the possession of the Corporation, its contractors, vendors, or partners, or any person under the Corporation's control in connection with performance of this GCEP Lease. If retention by the Corporation of any classified matter is required after the termination, expiration, revocation, or relinquishment of this GCEP Lease for any reason, the Corporation shall identify the items and types or categories of matter proposed for retention, the reasons for the retention of the matter and the proposed period of retention. If the retention is approved by the Department Lease Administrator, the Corporation agrees to comply with applicable orders and regulations of the Department. Special nuclear material shall not be retained after the termination, expiration, revocation, or relinquishment of this GCEP Lease for any reason, except as otherwise permitted by law. Nothing in this GCEP Lease shall affect the Corporation's obligations related to or ability to possess classified information or special nuclear material at other locations under applicable regulation.

(b) The Access Permit. The Corporation agrees to comply with Access Permit No. 99-01, or any subsequently issued Access Permit, issued pursuant to 10 C.F.R. Part 725.

(c) Definition of Classified Information. The term "classified information" means Restricted Data, Formerly Restricted Data, or National Security Information.

(d) Definition of Restricted Data. The term "Restricted Data" means all data concerning (1) design, manufacture, or utilization of atomic weapons; (2) the production of special nuclear material; or (3) the use of special nuclear material in the production of energy, but shall not include data declassified or removed from the Restricted Data category pursuant to Section 142 of the Atomic Energy Act of 1954, as amended.

(e) Definition of Formerly Restricted Data. The term “Formerly Restricted Data” means all data removed from the Restricted Data category under Section 142d. of the Atomic Energy Act of 1954, as amended.

(f) Definition of National Security Information. The term “National Security Information” means any information or material, regardless of its physical form or characteristics, that is owned by, produced for or by, or is under the control of the United States Government, that has been determined pursuant to Executive Order 12958 or prior Orders to require protection against unauthorized disclosure, and which is so designated.

(g) Definition of Special Nuclear Material (SNM). SNM means: (1) plutonium, uranium enriched in the isotope 233 or in the isotope 235, and any other material which pursuant to the provisions of Section 51 of the Atomic Energy Act of 1954, as amended, has been determined to be SNM, but does not include source material; or (2) any material artificially enriched by any of the foregoing, but does not include source material.

(h) Security Clearance of Personnel. The Corporation shall not permit any individual to have access to any classified information, except in accordance with the Atomic Energy Act of 1954, as amended, Executive Order 12968, and all applicable regulations or requirements applicable to the particular level and category of classified information to which access is required. During the period that the Department is responsible for the access authorization program with respect to the GCEP Leased Premises, the Corporation shall provide to the Department any requested information related to the access authorization process, including information regarding personnel refresher training.

(i) Criminal Liability. It is understood that disclosure of any classified information obtained or possessed under this Lease to any person not entitled to receive it, or failure to safeguard any classified information that may come to the Corporation or any person under the Corporation’s control under this GCEP Lease, may subject the Corporation, its agents, employees, or subcontractors to criminal liability under the laws of the United States. (See the Atomic Energy Act of 1954, as amended, 42 U.S.C. § 2011 et seq.; 18 U.S.C. §§ 793 and 794; and E.O.12958 and E.O. 12968).

(j) Contracts and Purchase Orders. Except as otherwise authorized in writing by the Department Lease Administrator, the Corporation shall insert provisions similar to the foregoing in all contracts and purchase orders for work performed at the GCEP Leased Premises.

(k) Sale/Release/Barter/Transfer of Classified/Sensitive Equipment. Except as otherwise authorized in writing by the Department or as provided for in applicable regulations, the Corporation shall not sell, barter, transfer, or release any classified and/or sensitive material, information, or equipment.

Section 15.22 – Classification. In the performance of work under this GCEP Lease, the Corporation shall comply with all applicable regulations involving the classification and declassification of information, documents, or material. In this Section, "information" means facts, data, or knowledge itself; "document" means the physical medium on or in which information is recorded; and "material" means a product or substance which contains or reveals information, regardless of its physical form or characteristics. Classified information is "Restricted Data" and "Formerly Restricted Data" (classified under the Atomic Energy Act of 1954, as amended) and "National Security Information" (classified under Executive Order 12958 or prior Executive Orders). The original decision to classify or declassify information is considered an inherently governmental function. For this reason, only Government personnel may serve as original classifiers, i.e., Federal Government Original Classifiers. Other personnel (Government or the Corporation) may serve as derivative classifiers which involves making classification decisions based upon classification guidance which reflect decisions made by Federal Government Original Classifiers.

The Corporation shall ensure that any document or material that may contain classified information is reviewed by a duly designated Derivative Classifier in accordance with applicable Laws and Regulations. In addition, the Corporation shall insure that documents or material relating to a classified subject area which are intended for widespread dissemination or public release are reviewed by a Classification Officer in accordance with applicable regulations. For information which is not addressed in classification guidance, but whose sensitivity appears to warrant classification, the Corporation and its contractor shall ensure that such information is reviewed in accordance with applicable Laws and Regulations.

In addition, the Corporation shall ensure that existing classified documents (containing either Restricted Data or Formerly Restricted Data or National Security Information) which are in its possession or under its control at the GCEP Leased Premises are periodically reviewed as required by applicable regulations by a Derivative Declassifier(s) appointed in accordance with applicable regulations.

The Corporation shall insert this clause in any contract which involves or may involve access to classified information under this GCEP Lease.

Section 15.23 – Unclassified Controlled Nuclear Information/Export Controlled Information/Official Use Only

(a) Documents, information and/or equipment originated by the Corporation or furnished by the Government to the Corporation in connection with this GCEP Lease may contain "Unclassified Controlled Nuclear Information" and/or "Export Controlled Information" as determined pursuant to Section 148 of the Atomic Energy Act of 1954, as amended, and U.S. Laws and Regulations. The Corporation shall be responsible for the identification and protection of such documents, information, and/or equipment from unauthorized dissemination in accordance with applicable regulations, requirements, and instructions.

(b) Documents, information and/or equipment originated by the Corporation or furnished by the Government to the Corporation in connection with this GCEP Lease may contain knowledge that is "Official Use Only" as determinable by derivative classifiers and classification guides shall be identified and protected as required by applicable regulations.

Section 15.24 – Regulatory Oversight of Sections 15.21, 15.22, and 15.23. Oversight and enforcement of Sections 15.21, 15.22 and 15.23 shall be conducted in accordance with Section 6.3 of this GCEP Lease. Nothing in this GCEP Lease shall be construed as modifying, conferring or limiting the regulatory authority or responsibilities of the Department or the NRC.

Section 15.25 – Environmental Impact Statement. Pursuant to Section 3107 of the Privatization Act, the execution of this modification to the GDP Lease is not considered to be a major Federal action significantly affecting the quality of the human environment for purposes of Section 102 of the National Environmental Policy Act of 1969 (42 U.S.C. § 4332). However, pursuant to 42 U.S.C. § 2243(a), the issuance of a license to construct and operate an enrichment facility by the NRC is considered a major Federal action significantly affecting the quality of the human environment for purposes of Section 102 of the National Environmental Policy Act of 1969 (42 U.S.C. § 4332). No construction or operations may take place in the GCEP Leased Premises except as permitted under applicable NRC regulations and an Environmental Impact Statement Record of Decision. Prior to performing any work in the GCEP Leased Premises, the Corporation shall be responsible for performing a wetlands/floodplains assessment survey and shall include the determination and assessment in its Environmental Report submitted to the NRC to support the preparation of the NRC EIS.

Section 15.26 – Notice of Hazardous Substances. In accordance with 40 C.F.R. § 373.3, Exhibit G provides notice of hazardous substances stored for one year or more, known to have been released, or disposed of. The information contained in

Exhibit G is required under the authority of regulations promulgated under Section 120(h) of the Comprehensive Environmental Response, Liability, and Compensation Act ("CERCLA" or "Superfund"), 42 U.S.C. § 9620(h).

Section 15.27 – Continuation After Termination of the GDP Lease. In the event that the GDP Lease, to which this GCEP Lease is appended as Appendix 1, terminates, expires or is modified by the parties, the Department and the Corporation agree that this GCEP Lease shall remain in force and the Department and the Corporation's obligations under this GCEP Lease shall continue and be unaffected by such termination, expiration or modification.

IN WITNESS WHEREOF, the above terms and conditions are acknowledged and agreed upon as indicated by the signatures of the duly authorized representatives affixed below. This GCEP Lease shall be effective upon execution by the Department as of the day and year first above written.

UNITED STATES DEPARTMENT OF ENERGY

BY: /s/ Samuel W. Bodman
TITLE: Secretary of Energy
DATE: 12/7/06

AND

UNITED STATES ENRICHMENT CORPORATION

BY: /s/ John K. Welch
TITLE: President & CEO
DATE: 12/1/06

EXHIBIT A

GCEP LEASED PREMISES

Revision 0

FACILITY	DESCRIPTION	TARGETED LEASE DATE*	GCEP LEASE EFFECTIVE DATE
X-220E1	Evacuation Public Address System	01/07	
X-220E3	Power Public Address Systems	01/07	
X-220R	Public Warning Siren System	01/07	
X-745G-2	Cylinder Storage Yard	01/07	
X-745H	Cylinder Storage Yard	01/07	
X-2220N	Security Access Control and Alarm System	01/07	
X-2230J	Liquid Effluent System	01/07	
X-2232C (New)	Interconnecting Process Piping Area	01/07	
X-3000**	Office Building	12/06	
X-3000T1	IAEA Trailer	05/05	GCEP LEASE EXECUTION
X-3001	Process Building	04/04	GCEP LEASE EXECUTION
X-3002 ***	Process Building (South Half) Process Building (North Half)	09/06 03/07	
X-3012	Process Support Building	05/04	GCEP LEASE EXECUTION
X-3346	Feed and Customer Services Building	01/07	
X-3346A (New)	Feed and Product Shipping and Receiving Building Area	01/07	
X-3356 (New)	Product and Tails Withdrawal Building Area	01/07	
X-6000	GCEP Cooling Tower Water Pump House	01/07	
X-6001	Cooling Tower	01/07	
X-6001A	Valve House	01/07	
X-6002	Boiler System	03/07	
X-6002A	Oil Storage Facility	03/07	
X-7721	Maintenance, Stores and Training Building	01/07	
X-7725	Container Wash, Container Dry, Rotor Balance, 4th Floor Control Room	01/05	GCEP LEASE EXECUTION
X-7725	Buffer Storage and 5th Floor	11/04	GCEP LEASE EXECUTION
X-7725	Part of 4th Floor	01/05	GCEP LEASE EXECUTION

PORTSMOUTH FACILITIES, SYSTEMS, AND AREAS (INCLUDING COMMON AREAS) LEASED TO THE CORPORATION

FACILITY	DESCRIPTION	TARGETED LEASE DATE*	GCEP LEASE EFFECTIVE DATE
X-7725	Portions of 2nd, 3rd, 4th Floors	01/05	GCEP LEASE EXECUTION
X-7725	Recycle/Assembly Facility 2nd Floor Office Areas	10/05	GCEP LEASE EXECUTION
X-7725	Recycle/Assembly Facility 3rd Floor Office Areas and Fourth Floor Mechanical Room	02/06	GCEP LEASE EXECUTION
X-7725****	Recycle/Assembly Facility 1st, 2nd, 3rd, 4th, 5th Floors (Remainder of Facility)	7/07	
X-7725A	Waste Accountability Facility	12/06	
X-7725C (New)	Chemical Storage Building Area	01/07	
X-7726	Centrifuge Training and Test Facility (First Floor)	06/04	GCEP LEASE EXECUTION
X-7726	Centrifuge Training and Test Facility 2nd Floor Office Areas	01/05	GCEP LEASE EXECUTION
X-7726	Centrifuge Training and Test Facility 3rd Floor Office Areas	12/04	GCEP LEASE EXECUTION
X-7726	Centrifuge Training and Test Facility (Remainder of Facility, except for gas test stand area)	07/05	GCEP LEASE EXECUTION
X-7726	Centrifuge Training and Test Facility Gas Test Stand Area	07/07	
X-7727H	Interplant Transfer Corridor	04/04	GCEP LEASE EXECUTION
X-7745R	Recycle/Assembly Storage Yard	01/07	
X-7745S	Area South of X-3001/X-3002	01/07	
X-7746E (New)	Cylinder Storage Yard Area	01/07	
X-7746N (New)	Cylinder Storage Yard Area	01/07	
X-7746W (New)	Cylinder Storage Yard Area	01/07	
X-7746S (New)	Cylinder Storage Yard Area	01/07	
XT-860A	Rubb Bldg at X-7725	01/07	
XT-860B	Rubb Bldg at X-3346	01/07	
Department's Contractor Lay down Area	Triangular area about 3 acres Northwest of X-7721, West of X-2207D, Southeast of Construction Road and West of Truck Access Road	01/07	

PORTSMOUTH FACILITIES, SYSTEMS, AND AREAS (INCLUDING COMMON AREAS) LEASED TO THE CORPORATION

FACILITY	DESCRIPTION	TARGETED LEASE DATE*	GCEP LEASE EFFECTIVE DATE
Department's Contractor Trailers	Area North of X-2207E Parking Lot	01/07	
Corporation's Contractor Trailer Area	Approximately 2.8 acres bounded by construction by Construction Road, West by Perimeter Road, North by drainage ditch and area is directly South of X-6614E.	01/07	
Common Areas			
Grassy/Unimproved areas (Area 1)	Grassy/Unimproved areas outlined on drawing DX-CL-1222-A rev. 0, noted as Common Areas	01/07	
Grassy/Unimproved areas (Area 2)	Grassy/Unimproved areas outlined on drawing DX-CL-1222-A rev. 0, noted as Common Areas	03/07	
GCEP Roads	Roads as identified on drawing DX-CL-1222-A rev 0., noted as Common Areas	01/07	
Center Aisle Ways	Center Aisle Ways in X-3001, X-3002, X-3012 and X-7725 as depicted on drawing DX-LS-1214-A. (These areas will remain Common Areas so long as the Department is conducting activities in the X-7725 and X-3002)	GCEP Lease Execution	

* Targeted Lease Date — The "Targeted Lease Date" represents the parties' best current estimate of facility availability. The parties agree to seek establishment of an agreed upon date within the month indicated when the facility, system, or area will be leased to the Corporation, absent unforeseen intervening events and subject to the availability of funding as described in Section 15.12, compliance with clearance requirements, and any additional requirements indicated by a double, triple, or quadruple asterisk. In the event that either Party determines that the Targeted Lease Date is not feasible for either Party, the Parties agree, no later than 90 days prior to a Targeted Lease Date, to seek agreement upon a revised Targeted Lease Date or an acceptable GCEP Lease Effective Date.

** Lease of the X-3000 by 12/06 is contingent upon completion by the Corporation of the terms set forth in Exhibit N.

*** Lease of the X-3002 is contingent upon completion by the Corporation of the terms set forth in Exhibit N.

**** Lease of the RCRA permitted storage area in the X-7725 in 7/07 is contingent upon sufficient appropriated funds being made available for such purpose (based upon the Department's normal practices in fiscal administration and execution of appropriated budgets) and the availability of the X-720. Since the Corporation has requested the Department to treat the Corporation's troublesome wastes, the Targeted Lease Date will be extended as necessary to accommodate the treatment of the Corporation's wastes.

EXHIBIT A
LEASE MAP PER EXHIBIT A, REV. 0
[MAP CONTAINS EXPORT CONTROLLED INFORMATION,
PLEASE PROTECT APPROPRIATELY]

The following exhibit contains export controlled or official use only information and has been omitted pursuant to a request for confidential treatment.

EXHIBIT B
GCEP LEASED PERSONALTY
Revision 0

The following exhibit contains export controlled or official use only information and has been omitted pursuant to a request for confidential treatment.

EXHIBIT C

AGREEMENT BETWEEN

U.S. DEPARTMENT OF ENERGY (“DOE”) AND USEC INC. (“USEC”)

(June 17, 2002 Agreement)

AGREEMENT BETWEEN
THE U.S. DEPARTMENT OF ENERGY ("DOE")
AND
USEC INC. ("USEC")

The U.S. DEPARTMENT OF ENERGY ("DOE") and USEC INC. ("USEC") hereby agree as follows:

Article 1: Ensure continued removal of Russian weapons-origin highly-enriched uranium (HEU) under the US-Russia HEU Purchase Agreement ("US-Russia HEU Agreement").

US-Russia HEU Agreement

- Each year USEC remains the sole Executive Agent (EA) for the United States under the US-Russia HEU Agreement, USEC must order, and take delivery of, if made available by the Russian Executive Agent, LEU derived from at least 30 metric tons per year weapons-origin HEU, subject to instructions to USEC under the US-Russia HEU Agreement and the Executive Agent Memorandum of Agreement (MOA) by the United States Government (USG).
- If USEC satisfactorily performs the above-referenced obligation and all other of its obligations under this Agreement and the US-Russia HEU Agreement, DOE agrees to recommend against the removal, in whole or in part, of USEC as EA under the US-Russia HEU Agreement.
- If USEC fails to meet this obligation, DOE may terminate this Agreement and be released from DOE's obligations under this Agreement.
- USG retains its rights to remove and replace USEC as EA or to designate additional EAs under the MOA.

Article 2: Ensure the stability of existing domestic enrichment capabilities, including operations at the Portsmouth Gaseous Diffusion Plant (GDP) site and continued operation of the Paducah GDP at or above 3.5 MM SWU per year until new, cost-effective advanced enrichment technology is deployed commercially in the U.S.

A. Operations at the Portsmouth GDP site

- USEC will maintain leased real and personal property at the Portsmouth GDP site (other than the property subject to the cold standby contract) in a condition that will permit its consideration as a candidate site for USEC's deployment of advanced uranium enrichment technology.
- USEC will not unreasonably withhold its agreement for DOE to allow private entities access to and utilize non-leased real and personal property at DOE's Portsmouth GDP site for activities not associated with enrichment of uranium so long as any such use will not have a material adverse impact on USEC's advanced enrichment technology program.
- As further described in Article 4 of this Agreement, USEC agrees to operate the Shipping and Transfer (S/T) facilities for 15 months following the execution of this Agreement to remove the contaminants from a portion of its Affected Inventory to meet ASTM C-787-90 or produce material acceptable to USEC for use as feed material in its enrichment facility.
- If USEC fails to maintain leased real and personal property at the Portsmouth GDP site other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for USEC's deployment of advanced uranium enrichment technology or fails to operate the S/T facilities for 15 months as described above, USEC agrees to waive any statutory exclusive right it may have to lease the Portsmouth GDP under section 3107(b) of the Privatization Act **(** and the implementing lease provisions) and USEC agrees to waive its rights under Section 3.4(a) and (c) of the lease to include Portsmouth GDP real and personal property in its leasehold before DOE disposes of such property. (In taking any actions as a result of the preceding waivers, DOE agrees that the authorized actions for failure to maintain Portsmouth in a condition that will permit its consideration as a candidate site for deployment of advanced enrichment technology or failure to operate the S/T facilities for 15 months do not include transitioning USEC from its operation of the Paducah enrichment facilities as is provided for in the event USEC "ceases enrichment operations at Paducah" as defined in this Agreement unless there has been a determination that USEC has ceased enrichment operations at Paducah pursuant to that portion of the Agreement.) If USEC fails to maintain leased real and personal property at Portsmouth other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for USEC's deployment of advanced enrichment technology or fails to operate the S/T for 15 months as described above, as the case may be, DOE also may terminate this Agreement and be released from its obligations under it.

- If USEC plans not to maintain leased real and personal property at Portsmouth other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for USEC's deployment of advanced uranium enrichment technology or fails to operate the S/T for 15 months as described above, as the case may be, USEC must provide notice to DOE. If DOE believes that USEC is not maintaining leased real and personal property at Portsmouth other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for the deployment of advanced enrichment technology or that USEC has failed to operate the S/T for 15 months as described above, as the case may be, DOE will notify USEC of that belief. In either event, USEC will have an opportunity (within thirty (30) days) to provide its position regarding USEC's compliance with its obligation to maintain leased real and personal property at Portsmouth other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for the deployment of advanced enrichment technology or to operate the S/T for 15 months as described above, as the case may be, to DOE's Director of Nuclear Energy, Science and Technology (NE).
- Within sixty (60) days of USEC's submission to DOE, NE will determine whether USEC is in compliance with the obligation to maintain leased real and personal property at Portsmouth other than the property subject to the cold standby contract in a condition that will permit its consideration as a candidate site for USEC's deployment of advanced enrichment technology, or to operate the S/T for 15 months as described above, as the case may be, and what action, if any DOE will take. USEC may appeal this determination within thirty (30) days to the Secretary of Energy (or designee), whose determination will be considered to be a final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

B. USEC's Commitment to Operate Paducah

- USEC shall operate the Paducah GDP at a level at or above 3.5 MM SWU per year as measured each year of USEC's fiscal year (July 1 to June 30). USEC may not reduce this production level until six months before USEC has the permanent addition of 3.5 MM SWU per year of new capacity installed based on advanced enrichment technology. In the event USEC does not expand its 1 MM SWU commercial plant to a capacity of 3.5 MM SWU per year, USEC shall continue to maintain SWU production at the Paducah GDP at a level at or above 3.5 MM SWU per year as measured each year of USEC's fiscal year (July 1 to June 30).
- USEC will not unreasonably withhold its agreement for DOE to allow private entities access to and utilize the non-leased real or personal property at DOE's Paducah GDP site

for activities not associated with enrichment of uranium so long as any such use will not have a material adverse impact on USEC's GDP operations, USEC's deployment of advanced enrichment technology, or USEC's compliance with the NRC Part 76 Certificate at the Paducah GDP site.

- If USEC fails to operate the Paducah GDP at a level at or above an annual rate of 3.5 MM SWU per year as measured each year of USEC's fiscal year (July 1 to June 30) before USEC is within six months of having installed the permanent addition of 3.5 MM SWU per year of new capacity based on advanced enrichment technology (hereinafter "USEC Paducah GDP production deficiency period"), USEC will have one opportunity in each five-year or six-year lease term to cure this deficiency in the immediately succeeding USEC fiscal year. If USEC repeats a Paducah GDP production deficiency period in the immediately succeeding USEC fiscal year or in any fiscal year thereafter in the same five-year or six-year lease term, USEC agrees to waive its statutory exclusive right to lease the GDPs under section 3107(b) of the Privatization Act (and the implementing lease provisions) and USEC agrees to waive its rights under Section 3.4(a) and (c) of the lease to include GDP real and personal property in its leasehold before DOE disposes of such property. **(** In taking any actions as a result of the preceding waivers, DOE agrees that the authorized actions for failure to operate the Paducah GDP at or above 3.5 MM SWU per year do not include transitioning USEC from its operation of the Paducah enrichment facilities as is provided for in the event USEC "ceases enrichment operations at Paducah" as defined in this Agreement unless there has been a determination that USEC has ceased enrichment operations at Paducah pursuant to that portion of the Agreement.) In the event of a USEC Paducah GDP production deficiency period (after one unsuccessful cure period in the same five-year or six-year lease term), DOE also may terminate this Agreement and be released from its obligations under it.
- In the event a USEC Paducah production deficiency period falls in the last year of the lease term and USEC certifies to DOE that it will attempt to cure the deficiency by increasing Paducah GDP production to achieve the 3.5 MM SWU per year level, DOE will extend the lease one additional year (with an additional one-year option period, exercisable in the sole discretion of DOE). The preceding sentence affects only the lease term, and does not directly or indirectly affect any other portion of the lease, including Section 4.4 Turnover Requirements ; provided, however, in the event the USEC Paducah production deficiency is cured in the extended one year lease period, the normal lease renewal procedures will be reinstituted thereafter.

C. Monitoring and Compliance Process for Paducah Operations Commitment

- USEC will provide quarterly historical production and annual projected production reports to DOE to enable DOE to monitor Paducah operational levels. USEC also shall

provide DOE advance notice at least 120 days before implementation of any "plant closing" or "mass layoff" as those terms are defined in 29 U.S.C. 2101 (a)(2) and (3), respectively.

- If USEC is not within six months of having installed the permanent addition of 3.5 MM SWU per year of new capacity based on advanced enrichment technology and the Paducah GDP will or does fall below an operational level of 3.5 MM SWU per year, USEC must provide notice to DOE. If DOE believes that the Paducah GDP has or will fall below an operational level of 3.5 MM SWU per year, it will notify USEC of that belief. In either event, USEC will have an opportunity (within thirty (30) days) to provide its position regarding USEC's compliance with its obligation to operate the Paducah GDP at or above 3.5 MM SWU per year to DOE's Director of Nuclear Energy, Science and Technology (NE).
- Within sixty (60) days of USEC's submission to DOE, NE will determine whether USEC is in compliance with the 3.5 MM SWU per year commitment and what action, if any DOE will take. USEC may appeal this determination within thirty (30) days to the Secretary of Energy (or designee), whose determination will be considered to be a final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).
- If USEC believes that the domestic enrichment market is otherwise stable and viable but that a significant change has taken place in the domestic or international enrichment markets such that continued operation of the Paducah GDP at or above 3.5 MM SWU per year is commercially impracticable, it may present its position to DOE. No amendment to this Agreement is effective without the written agreement of both Parties.

D. Assurance Regarding Continuity of Paducah Enrichment Operations

- If USEC "ceases enrichment operations at the Paducah GDP"(as defined below) or loses its NRC certificate for operating the Paducah GDP prior to six months before USEC has the permanent addition of 3.5 MM SWU per year of new capacity installed based on advanced enrichment technology, DOE, directly or through contract, may take actions it deems necessary to transition operation of the Paducah GDP site from USEC operation to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts. USEC shall promptly inform DOE in advance in the event it is planning to cease operations at the Paducah GDP or has advance knowledge that it will lose its NRC certificate for operating the Paducah GDP.
- The term "ceases enrichment operations at the Paducah GDP" means: (i) a determination by USEC to stop the production of enriched uranium at the Paducah GDP; (ii) USEC does not produce enriched uranium at the Paducah GDP at a 1MM SWU per year level

for any consecutive 12-month period following execution of this Agreement; or (iii) USEC is not taking actions appropriate to maintaining the ability of the Paducah GDP to operate at an annualized rate of 5.5 MM SWU per year.

- The Parties agree that the "actions appropriate to maintaining the ability of the Paducah GDP to operate at an annualized rate of 5.5 MM SWU per year" means the Paducah GDP enrichment cascade will be maintained such that at least 150 cells at all times must either be operating, in standby, undergoing maintenance, or on a maintenance schedule (i.e., the cells have not been abandoned) to be capable of supporting, within an 8-month period, a ramp-up to produce at an annualized rate of 5.5 MM SWU per year, with **a** product assay of up to 4.95 percent at 0.3 percent tails. USEC shall maintain dry air buffering on all cells not utilized for uranium enrichment operations that are capable of being buffered (i.e., cells not in operation, in standby, or undergoing maintenance). USEC shall not discontinue such cell buffering on any cell capable of being buffered (i.e., abandon) without providing DOE at least 180 days' advance written notice (except in an emergency situation) and provide DOE with the opportunity to protect the barrier at the Paducah GDP site of any cell proposed by USEC for abandonment. In the event of an emergency situation preventing 180 days' advance notice, USEC shall provide written notice to DOE as soon as reasonably possible after the emergency situation is under control. If DOE commences to protect the barrier of any cell proposed for abandonment, then that cell and related cell equipment shall be deleted from the USEC leasehold and no longer available to USEC for future use in its enrichment operations without the agreement of DOE and reimbursement to DOE for the costs incurred in protecting the barrier. USEC will provide to DOE quarterly reports regarding cell operation to include the number of cells that have been abandoned and the number of cells that are in operation, in standby, undergoing maintenance or on a maintenance schedule, and such other information that DOE may reasonably request to monitor USEC's performance under this provision.

  To "transition operation of the Paducah GDP site from USEC operation" to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts, means USEC agrees that DOE may designate an alternate operator, may terminate all or a portion of the GDP leasehold, and/or require the return of the leased facilities in good and operable condition. USEC also agrees to waive any lease provisions that would interfere with DOE's ability to step onto the Paducah GDP site for these purposes and agrees not to oppose legislation required to permit DOE's implementation of this provision (e.g., to amend section 3112 of the Privatization Act to authorize DOE to provide enrichment services). In the event DOE transitions operations of Paducah from USEC, DOE may terminate this Agreement and be released of its obligations under it.

  In the event USEC ceases enrichment operations at the Paducah GDP (as that phrase is defined), or in the event USEC loses its NRC certificate for operating the Paducah GDP, the transition of Paducah operation will commence promptly upon DOE's request and

USEC agrees to waive its statutory exclusive right to lease the GDPs under section 3107(b) of the Privatization Act (and the implementing lease provisions) and its rights under Section 3.4(a) and (c) of the lease to include GDP real and personal property in its leasehold before DOE disposes of such property. The foregoing transition will not occur if the period at which USEC ceases enrichment operations at the Paducah GDP (as that phrase is defined), or USEC loses its NRC certificate for operating the Paducah GDP is within six months of USEC's having installed the permanent addition of 3.5 MM SWU per year of new capacity based on advanced enrichment technology . In the event the parties cannot agree on whether USEC has ceased enrichment operations at the Paducah GDP (as that phrased is defined), USEC will have an opportunity (within thirty (30) days) to provide its position regarding whether USEC has ceased enrichment operations to NE.

Within sixty (60) days of USEC's submission to DOE, NE will determine whether USEC has ceased enrichment operations at the Paducah GDP and what action, if any, DOE will take. USEC may appeal this determination within thirty (30) days to the Secretary of Energy (or designee), whose determination will be considered to be the final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

Article 3: Facilitate the deployment of new, cost-effective advanced enrichment technology in the U.S. on a rapid schedule.

USEC Deployment of Advanced Enrichment Technology

- USEC must begin commercial operations of a plant using advanced enrichment technology and with capacity of 1.0 MM SWU per year (expandable to 3.5 MM SWU per year) pursuant to the Milestones described below at the Portsmouth GDP site or the Paducah GDP site. Site selection and operation will be subject to all applicable federal, state and local laws and regulations, including the National Environmental Policy Act, if applicable.
- To ensure the rapid deployment of advanced enrichment technology capacity pursuant to the Milestones set out below, DOE will not dispose of any real or personal property at a GDP site that may be useable for USEC's deployment of advanced enrichment technology, without first offering USEC the opportunity to include the property within its lease.
- The advanced technology demonstration and deployment milestones for this Agreement are:

December 2002	USEC begins refurbishment of K-1600 facility
January 2003	USEC builds and begins testing a centrifuge end cap.
April 2003	Submit License Application for Lead Cascade to NRC (sited at either Paducah or Portsmouth)
June 2003	NRC dockets Lead Cascade Application
November 2003	First rotor tube manufactured
January 2005	Centrifuge testing begins
March 2005	Submit License Application to NRC for Commercial Plant (sited at either Paducah or Portsmouth)
May 2005	NRC dockets Commercial Plant application
June 2005	Begin Lead Cascade centrifuge manufacturing
October 2006	Satisfactory reliability and performance data obtained from Lead Cascade operations
January 2007	Financing commitment secured for a 1 MM SWU Centrifuge Plant
June 2007	Begin commercial plant construction/refurbishment
January 2009	Begin Portsmouth commercial plant operations, or
January 2010	Begin Paducah commercial plant operations
March 2010	Portsmouth Centrifuge Plant annual capacity at 1 million SWU per year, or
March 2011	Paducah Centrifuge Plant annual capacity at 1 million SWU per year
September 2011	Portsmouth Centrifuge Plant (if expanded at USEC's option) projected to have an annual capacity at 3.5 million SWU per year,
September 2012	Paducah Centrifuge Plant (if expanded at USEC's option) projected to have an annual capacity at 3.5 million SWU per year.

- Prior to making a decision, public announcement, or NRC license submittal regarding the siting of either the Lead Cascade or the Commercial Plant, as referenced above, at the Portsmouth GDP site or the Paducah GDP site, USEC will consult with and coordinate with DOE.
- USEC shall prepare and submit to DOE an Advanced Enrichment Deployment Plan (the "Plan") in phases as described below. The Plan shall include a detailed description of each milestone listed above and make specific reference to the actions USEC believes are required to be taken by DOE in order to attain each milestone. Unless otherwise expressly agreed by DOE, all activities related to the development and execution of the Plan will be funded by USEC, except those that, absent the Plan, would have been DOE's responsibility (e.g., pre-privatization facility D&D). Each phase of the Plan will be submitted to a Technical Coordinating Deployment Working Group (the "Deployment Working Group") to be made up of DOE and USEC representatives. Except as provided below with respect to the Phase I Plan, within 45 days of the submission by USEC of each phase of the Plan, DOE shall respond in writing as to DOE's ability to meet the

actions requested of DOE as outlined in USEC's Plan. During this forty-five day period it is expected that there will be a dialogue between USEC and DOE to arrive at a consensus for the timing of USEC and DOE site-specific activities resulting in an agreed-upon Deployment Working Group Plan **("** DWG Plan **")** that will be used by the Deployment Working Group to monitor milestone progress and act as a benchmark for coordinating DOE site-specific activities.

- USEC shall submit its Phase I Plan covering the milestones relating to the first twelve months after execution of this Agreement to DOE no later than June 30, 2002 and the Deployment Working Group shall reach agreement on Phase I of DWG Plan no later than July 31, 2002. USEC shall submit its Phase II Plan covering the milestones through the end of 2004 by September 30, 2002, its Phase III Plan covering the milestones through the end of 2006 by November 30, 2002 and its Phase IV Plan covering the milestones through September 2012 by January 31, 2003. The Deployment Working Group will meet periodically to consider amendments to each of these Plans as required to take account of changing circumstances, more complete information and the procedures and remedies outlined below.
- The Deployment Working Group will monitor USEC's advanced enrichment deployment activities (including demonstration activities), USEC's milestone progress, and coordinate DOE site-specific activities. USEC will provide DOE access to such supporting documentation, including progress towards meeting milestone dates, as may be needed regarding the deployment of advanced technology, including USEC's business plan for advanced enrichment technology.
- If DOE believes that USEC has not met a milestone set out in this Agreement, it will provide notice of that belief to USEC. If USEC is aware that it has missed, or will miss, a milestone, USEC will so notify DOE along with an explanation of the reasons for missing the milestone. In either case, USEC will have an opportunity to present to NE its position regarding compliance with the milestone date(s) and its position on whether a delay in meeting the milestone has a material impact on USEC's ability to begin commercial operations at the new plant on schedule, whether (and how) the delay can be cured, and whether USEC's delay in meeting the milestone was beyond USEC's control and without its fault or negligence. NE (within 60 days) will determine whether USEC is in compliance with the required milestone and whether a delay in meeting the milestone has a material impact on USEC's ability to begin commercial operations at the new plant on schedule.
- If NE determines that a milestone has not been met and that a delay in meeting the milestone has a material impact on USEC's ability to begin commercial operations at the new plant on schedule, NE will determine whether the delay was beyond the control and without the fault or negligence of USEC, and what, if any, action under the Agreement

should be taken by DOE. NE's determination can be appealed by USEC within 30 days to the Secretary of Energy (or designee), whose determination shall be considered to be the final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

- Until such time as USEC has secured (and demonstrated to DOE) firm financing commitment(s) for the construction of a 1 MM SWU annual capacity advanced enrichment technology commercial plant and has begun construction of such plant, if USEC fails to meet a milestone and it is determined that a delay in meeting the milestone has a material impact on USEC's ability to begin commercial operations at the new plant on schedule and that the cause of the delay was beyond the control and without the fault or negligence of USEC, DOE and USEC will jointly agree to adjust the milestones as appropriate to accommodate the delaying event.
- If USEC fails to meet a milestone and it is determined that a delay in meeting the milestone has a material impact on USEC's ability to begin commercial operations at the new plant on schedule and that the cause of the delay was not beyond the control or without the fault or negligence of USEC **:** (1) DOE may terminate the Agreement and be relieved of obligations under it; (2) at DOE's request, USEC agrees to reimburse DOE for any increase in costs caused by expediting the decontamination and decommissioning of facilities to have been used by USEC for deployment of advanced enrichment technology (e.g., increase in overall cost relative to a budget or baseline **)** ; (3) USEC agrees to transfer to DOE royalty free exclusive rights in the field of uranium enrichment worldwide in all centrifuge intellectual property owned or controlled by USEC, either developed or background under the ORNL CRADAs; agrees to deliver to DOE copies (copying costs to be reimbursed) of all technical data necessary to further develop or practice technology covered by the transfer of IP rights which data may be subject to proprietary restrictions as appropriate; and agrees to the cancellation of any license by DOE or ORNL to USEC relating to the subject matter of the ORNL CRADAs in the field of centrifuge uranium enrichment; (4) USEC agrees, at DOE's request, to return any property leased by USEC upon which the advanced enrichment technology project was being or was intended to be constructed; and (5) except for those GDP facilities then currently operating, USEC agrees to waive its statutory exclusive right to lease the GDPs (and the implementing lease provisions) and its rights under Section 3.4(a) and 3.4(c) of the lease to have the opportunity to include GDP property in its leasehold before DOE disposes of the property (In taking any actions as a result of the preceding waivers, DOE agrees that the authorized actions for failure to meet milestone(s) as provided under this provision do not include transitioning USEC from its operation of the Paducah enrichment facilities as is provided for in the event USEC "ceases enrichment operations at Paducah"as defined in this Agreement unless there has been a determination that USEC has ceased enrichment operations at Paducah pursuant to that portion of the Agreement.)

- Once USEC has secured (and demonstrated to DOE) firm financing commitment(s) for the construction of a 1 MM SWU annual capacity advanced enrichment technology commercial plant and has begun construction of such plant, DOE's remedies described in the previous two paragraphs shall be limited to those circumstances under which USEC's gross negligence in project planning and execution is responsible for schedule delays or in the circumstance where USEC constructively or formally abandons the project. Further, if USEC has secured (and demonstrated to DOE) a firm financing commitment for the construction of a 1 MM SWU annual capacity advanced enrichment technology commercial plant and has begun construction of such plant, then any use of intellectual property rights or data transferred or delivered pursuant to the previous sentence and item #3 above by third parties for private non-governmental purposes shall be at a reasonable royalty taking into account the relative equities of the Parties. In the event USEC's gross negligence in project planning and execution is responsible for schedule delays or in the circumstance where USEC constructively or formally abandons the project after USEC has secured (and demonstrated to DOE) a firm financing commitment for the construction of a 1 MM SWU annual capacity advanced enrichment technology commercial plant and has begun construction of such plant, DOE may also recommend USEC's removal, in whole or in part, as EA under the Russian HEU Agreement.
- If USEC is no longer willing or able to proceed with the advanced enrichment technology deployment project, it must provide advance notice to DOE that it intends to abandon the project. In that event, or in the event NE determines (after USEC has had an opportunity to present its position) that USEC's failure to meet a milestone set out in the Agreement constitutes a constructive abandonment of the advanced enrichment technology deployment project, NE may take, or direct USEC to take as the case may be, any of the actions identified in (1) through (5) above. Any determination by NE is appealable to the Secretary of Energy (or designee), whose determination shall be considered to be the final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

Article 4: DOE Commitments

A. Execution of Cooperative Research and Development Agreement (CRADA)

- Within thirty days of USEC's request following the execution of this Agreement, DOE agrees to authorize the execution of the CRADA(with similar terms as the expired CRADA provided such terms are not inconsistent with the terms of this Agreement) by Oak Ridge National Laboratory (ORNL) for the USEC-funded work associated with DOE-owned gas centrifuge technology. The Parties agree to work together in good faith

to attempt to negotiate an expanded CRADA to address the scope of ORNL support of the entire demonstration and lead cascade projects.

B. Out -of-Specification Uranium Inventory

- Without any admission of liability, DOE agrees to replace any out-of-specification uranium hexafluoride (up to 9,550 MTU) not meeting ASTM C-787-90 for commercial natural uranium hexafluoride (the "ASTM Specification") transferred by DOE to USEC on or about June 30, 1993, April 20, 1998, and May 18, 1998 (the "Affected Inventory") as described in this provision:

  (a)In exchange for DOE's taking title, but not custody (until processing), of DUF6 generated by USEC at the Paducah GDP [1] during USEC's fiscal years 2002 and 2003 and one-half the amount of DUF6 generated during USEC's fiscal years 2004 and 2005 for a total of up to 23.3 million KgU of DUF6 (the "Specified DUF6"), USEC agrees to operate, entirely at its cost excluding infrastructure costs (DOE will pay all site infrastructure costs, subject to the availability of appropriations), the Portsmouth Shipping and Transfer (S/T) facilities for fifteen (15) months following the date of execution of this Agreement to remove contaminants from a portion of its Affected Inventory to meet ASTM C-787-90 or produce material acceptable to USEC for use as feed material in its enrichment facility. At the end of each month, USEC will release the United States from any and all liability and claims relating to or arising from DOE's transfer of the portion of the Affected Inventory equal to the amount processed during the month that meets the ASTM specification or is accepted by USEC, subject to DOE's taking title to the DUF6 as described above. At the end of the 15-month period, USEC agrees to have released, regardless of the actual amount processed, a minimum of 2800 MTU. Such releases shall first relate to the May 18, 1998 transfer, and continue to relate next to the April 20, 1998 transfer, and then the June 30, 1993 transfer. As USEC operates the S/T facility to remove contaminants to meet the referenced ASTM standard, USEC will provide to DOE monthly reports on the technetium contamination of each cylinder of the Affected Inventory before processing, other available test data after processing and the number of cylinders processed in the S/T facility that meets the ASTM Specification or are accepted by USEC. DOE will document its taking title to the Specified DUF6 upon receipt of USEC's confirmation of the Specified DUF6 generated

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[1] The DUF6 shall not exceed the design base criteria contained in Table 1 of the DOE RFP NO. DE-RP05-01OR22717, dated October 31, 2000 Part I, Section C, IV.A. (Attachment 1). USEC will ensure that the DUF6 is placed either in new cylinders or in washed cylinders. USEC will provide DOE the data from the samples tested by USEC in accordance with its operating procedures each month for the DUF6 generated.

at the Paducah GDP each month.[2] DOE's obligation to take title to the Specified DUF6 is conditional on USEC's operation of the Portsmouth S/T facilities for the processing of at least 2800 MTU of its Affected Inventory for 15 months. This paragraph is the exclusive means for the replacement of at least 2800 MTU of the Affected Inventory (and any amount in excess of 2800 MTU actually processed by USEC during the 15-month period) relating to the transfers indicated above regardless of whether USEC's operation of the S/T facility removes contaminants from 2800 MTU of the Affected Inventory. The Parties acknowledge that USEC's operation of the S/T facility for 15 months and DOE's taking title to the Specified DUF6 are material obligations of this Agreement.

(b) With respect to the Affected Inventory remaining which has not been released in accordance with (a) above, DOE will endeavor to engage relevant third parties in a discussion to determine whether USECs remaining Affected Inventory can be replaced, remedied or exchanged. In the event arrangements for the replacement of the remaining Affected Inventory are not in place by March 31, 2003, DOE agrees, subject to the availability of appropriated funds and legislative authority for this purpose, at DOE's sole option, to exchange, replace, or reimburse USEC to clean-up an amount equal to 3,293 MTU less the amount actually processed at the S/T facility to meet the ASTM Specification or accepted by USEC by March 31, 2003 (credited first to the most recent transfers). Thereafter, DOE will continue to engage third parties concerning exchange or technology solutions for the remaining affected inventory until a final transfer, subject to the availability of appropriated funds and legislative authority for this purpose. With each DOE-effectuated transfer described in this paragraph (b) above or other mutually agreeable resolution, USEC shall transfer to DOE (or a designated third party) a corresponding quantity of the Affected Inventory, and USEC shall execute a release relieving the United States of any and all liability relating to or arising from DOE's transfer of a corresponding quantity of out-of-specification uranium hexafluoride transferred by DOE to USEC in the above-referenced transfers.

(c) This provision is subject to the availability of appropriated funds and legislative authority, and compliance with applicable law including the National Environmental Policy Act.

[2] All transportation, storage, waste disposal, container purchases and any incidental expenses for processing USEC's Affected Inventory under paragraph (a) shall be borne by USEC. The Parties will use the agreement found at Exhibit C of the Lease to govern the storage of up to 2 B-25 containers with dimensions of 4' x 4' x 6' of USEC-owned technetium waste generated from the processing of USEC's Affected Inventory under paragraph (a) which USEC is not authorized by law to store. All transportation and storage expenses for Paducah-generated DUF6 until such time as it has been delivered to DOE at DOE request for conversion and disposal shall be the responsibility of USEC.

(d) The Parties agree the resolution of USEC's Affected Inventory set forth in this provision is the exclusive method for resolution of the issues and related claims regarding the Affected Inventory between the Parties.

(e) This provision survives the termination of this Agreement so long as USEC is providing enrichment services in the United States either through the operation of (i) its existing gaseous diffusion plant in Paducah Kentucky by producing at least 1 million SWU annually for each 12-month period or (ii) a new enrichment facility in the United States based on advanced enrichment technology.

C. Accounts Payable

Having already paid approximately $12.37 million of the claimed $18 million in January 2002 accrued to such date, DOE commits to expediting resolution of the currently outstanding accounts payable as of the date of this Agreement.

Article 5: Miscellaneous

A. Cooperation and Consultation

The Parties recognize that the successful accomplishment of the objectives of this Agreement requires the continued cooperation and consultation of DOE and USEC. Accordingly, the Parties expect the Deployment Working Group described above to meet frequently in an effort to identify and address any issues that may impact the schedule. DOE will use all reasonable efforts to support USEC's requested DOE actions within available resources and take limitations in this regard into account when implementing the process and procedures for developing the Deployment Working Group Plan and schedule adjustment described in this Agreement. DOE and USEC shall consult with each other as necessary and appropriate to carry out the objectives of this Agreement. Further, at least once every two years the Deputy Secretary of Energy and the President and Chief Executive Officer of USEC shall meet to discuss the implementation of this Agreement.

DOE and USEC shall provide such information, execute and deliver such agreements, instruments and documents, and take such other actions, including supporting legislation, as may be reasonably necessary or required, which are not inconsistent with the provisions of this Agreement and which do not involve the assumption of obligations other than those provided for in this Agreement, in order to give full effect to this Agreement and carry out its intent.

B. Force Majeure

a. Except for defaults of USEC contractors at any tier, USEC shall not be in default because of any failure to perform its commitments under this Agreement under its terms if the failure arises from causes beyond the control and without the fault or negligence of USEC. Examples of these causes are (1) acts of God or the public enemy, (2) acts of the Government in its sovereign capacity (3) fires, (4) floods, (5) epidemics, (6) quarantine restrictions, (7) strikes, (8) freight embargoes, (9) earthquakes, and (10) unusually severe weather. Additionally, for purposes of this paragraph of this Agreement only, another example of a cause under which USEC shall not be in default because of any failure to perform its commitments under this Agreement if such failure arises from causes beyond the control and without the fault or negligence of USEC is that there has been a substantial and demonstrable increase, as reflected in official U.S. imports statistics, in U.S. imports for consumption of Russian enriched uranium, other than the material currently committed to come into the U.S. under the existing HEU Agreement, and USEC demonstrates such increase in U.S. imports for consumption has had a substantial adverse material impact on the domestic uranium enrichment industry. In each instance, the failure to perform must arise from causes and be beyond the control and without the fault or negligence of USEC. "Default" includes the failure to make progress so as to endanger completion of performance of USEC's obligations under this Agreement.

b. If the failure to perform is caused by the failure of a contractor at any tier to perform or make progress, and if the cause of the failure was beyond the control of both USEC and the contractor, and without the fault or negligence of either, USEC shall not be deemed to be in default, unless (1) the contracted supplies or services were obtainable from other sources; and (2) USEC failed to purchase these supplies or services from the other sources.

c. In order to invoke the protections of this clause, USEC must request a determination by DOE on whether any failure to perform results from one or more of the causes in the first paragraph above. Upon the request of USEC and within sixty (60) days of USEC's submission of its position, NE will ascertain the facts and circumstances of the failure of performance upon an assertion of a circumstance triggering this clause. If NE determines that any failure to perform results from one or more of the causes in the first paragraph above, the schedule for performance of the affected commitments shall be extended for the period of the excused delay. USEC may appeal this determination within thirty (30) days to the Secretary of Energy (or designee), whose determination will be considered the final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

C. Termination

DOE may terminate this Agreement and be relieved of DOE's future obligations under this Agreement if it determines that, under the standards set forth in 48 CFR 9.406-2 and 48 CFR 9.407-2 and, after taking into account the factors listed in 48 CFR 406-1, termination is in the Government's interest. In making its determination under this provision, DOE shall not be required to follow the procedures set out in 48 CFR 9.406 and 48 CFR 9.407. If DOE determines that termination may be warranted under this provision, it will provide USEC with written notice that termination is under consideration. USEC shall have an opportunity within thirty (30) days of receipt of the notice from DOE to provide its position to DOE's Director of Nuclear Energy, Science and Technology (NE). Within sixty (60) days of USEC's submission to DOE, NE shall notify USEC of his/her determination of whether DOE will determination the Agreement. NE may extend this period for good cause. USEC may appeal this determination to the Secretary of Energy (or designee) whose determination shall be considered to be final agency action under this Agreement. USEC retains all remedies available to it under the Administrative Procedure Act to challenge the decision of the Secretary (or designee).

D. Implementing Provisions

The Parties agree that, within 15 days of the execution of this Agreement, they will develop mutually acceptable implementing provisions on the following subjects which are to be incorporated into this Agreement:

– Prompt access by DOE (and designated representatives) to data and information needed to monitor compliance with terms of the Agreement.

– Terms on use and disclosure of trade secret/proprietary information.

– No impairment or modification of Executive Agent MOA.

Article 6: Binding Agreement

DOE and USEC, in consideration of the mutual promises, commitments and obligations set forth herein, agree that the obligations in this Agreement are binding on each, as well as on their successor organizations, as of this date of June 17, 2002.

/s/ Lee Liberman Otis	**/s/ William H. Timbers**
Lee Liberman Otis	**William H. Timbers**
General Counsel	**President and Chief Executive Officer**
U.S. Department of Energy	**USEC Inc.**

Modification 1
to
AGREEMENT BETWEEN
THE U.S. DEPARTMENT OF ENERGY ("DOE")
AND
USEC INC. ("USEC")

DOE and USEC hereby agree:

A. Pursuant to Article 5.D. of the AGREEMENT BETWEEN THE U.S. DEPARTMENT OF ENERGY ("DOE") AND USEC INC. ("USEC"), dated June 17, 2002 (the "DOE-USEC Agreement of June 17, 2002)," the Parties modify the DOE-USEC Agreement of June 17, 2002 to incorporate the following additional provisions into the DOE-USEC Agreement of June 17, 2002:

1. ***Executive Agent Memorandum of Agreement (MOA)***

Nothing in the DOE-USEC Agreement of June 17, 2002 shall be construed as affecting, impairing, modifying or superseding any provision of the MEMORANDUM OF AGREEMENT BETWEEN THE UNITED STATES ACTING BY AND THROUGH THE UNITED STATES DEPARTMENT OF STATE, AND THE UNITED STATES DEPARTMENT OF ENERGY AND THE UNITED STATES ENRICHMENT CORPORATION, FOR USE TO SERVE AS THE UNITED STATES GOVERNMENT'S EXECUTIVE AGENT UNDER THE AGREEMENT BETWEEN THE UNITED STATES AND THE RUSSIAN FEDERATION CONCERNING THE DISPOSITION OF HIGHLY ENRICHED URANIUM EXTRACTED FROM NUCLEAR WEAPONS, dated April 18, 1997 (the "Executive Agent MOA"). The commitments made by DOE and USEC in the DOE-USEC Agreement of June 17, 2002, including Article 1, are between DOE and USEC only and are confined to the terms and conditions expressly provided therein.

2. ***Use of Information and Confidentiality of Trade Secret/Proprietary Information***

(a) USEC understands and acknowledges that information provided by USEC under the DOE-USEC Agreement of June 17, 2002 will be made available by DOE to agencies of the United States and, subject to an appropriate agreement prohibiting any further disclosure not authorized by the DOE-USEC Agreement of June 17, 2002, to DOE contractors designated by DOE to evaluate such information for the purpose of ensuring that the objectives of the DOE-USEC Agreement of June 17, 2002 are met.

(b) USEC may designate information provided under the DOE-USEC Agreement of June 17,

2002 as Trade Secret/Proprietary Information so long as the information was developed at private expense outside of any CRADA or other Government contract, and such information embodies trade secrets or is information that is commercial or financial and is confidential or privileged, by affixing to each page containing such information the legend "Contains USEC Trade Secret/Proprietary Information, For Contract Implementation or Administrative Purposes Only – Not for Public Disclosure or Further Distribution" or similar legend authorized under the CRADA referenced in Article 4 or by another DOE-USEC agreement to pages containing Trade Secret/Proprietary Information. If Trade Secret/Proprietary Information is orally disclosed by USEC to DOE or its representatives, USEC shall identify any Trade Secret/Proprietary information as such orally at the time of the disclosure and confirm the Trade Secret/Proprietary nature of the information in a written summary thereof, appropriately marking such information as provided for above, within 30 days of the original oral disclosure. Orally disclosed Trade Secret/Proprietary Information confirmed in writing in accordance with the preceding sentence shall be treated as Trade Secret/Proprietary Information in accordance with this Article. In addition, USEC shall identify any Trade Secret/Propriety Information copies of which are provided pursuant to the access provided under Section 3 of this Modification 1 in accordance with the procedures set out in this paragraph.

(c) DOE may disclose an item of Trade Secret/Proprietary Information under the DOE-USEC Agreement of June 17, 2002 without the consent of USEC and the restriction under this provision on use or disclosure of such information shall not apply if: (i) such item is or becomes publically available other than as a result of a disclosure by DOE; (ii) such item has been made available by USEC to others without obligation concerning its confidentiality; (iii) such item is already available to the Government without obligation concerning its confidentiality; (iv) disclosure of such item of Trade Secret/Proprietary Information is required by a law applicable
to DOE, provided however that DOE shall disclose such item of Trade Secret/Proprietary Information only to the extent required by such law; or (v) DOE determines that such item of Trade Secret/Proprietary Information may provide evidence of a violation of a law by USEC or any other person or a violation of a contractual obligation of USEC, and DOE further determines that disclosure of such item of Trade Secret/Proprietary Information is necessary in order to allow the United States to take action with respect to such violation, which action shall include without limitation, investigating, prosecuting, enjoining, or restraining such violation, provided however that the DOE shall disclose such item of Proprietary Information only to the extent necessary to take such action with respect to such violation.

(d) Subject to subsections (a), (b) and (c) above, DOE agrees that (i) it shall use any USEC Trade Secret/Proprietary Information provided by USEC under the DOE-USEC Agreement of June 17, 2002 only for the purpose of implementing or administering the DOE-USEC Agreement of June 17, 2002; (ii) it shall not disclose properly marked USEC Trade Secret/Proprietary Information except to U.S. Government employees and representatives authorized by DOE for purposes of implementing or administering the Agreement of June 17, 2002 and who are advised of the Trade Secret/Proprietary nature of the information, and as is required by applicable law,

including the Freedom of Information Act; (iii) all USEC Trade Secret/Proprietary Information provided by USEC under the DOE-USEC Agreement of June 17, 2002 which was developed at private expense outside of any CRADA or other Government contract is the property of USEC and it will be returned to USEC upon its request four years after the completion of the DOE-USEC Agreement of June 17, 2002, or if specifically used in any agreement with DOE, will be subject to use, disclosure and disposition provisions set forth in any such agreement.

(e) Unless otherwise agreed to by the parties, 1 year after USEC's achieving of the milestone for beginning of a commercial plant operation of the advanced enrichment facility provided for under Article 3 of the DOE-USEC Agreement of June 17, 2002 or 1 year after completion of that Agreement, whichever occurs first, the restrictions in this provision with respect to further use and disclosure of information marked as USEC Trade Secret/Proprietary Information shall not apply with respect to any USEC Trade Secret/Proprietary Information which USEC at that time does not specifically identify. Upon the achievement of any given milestone established pursuant to Article 3 of the Agreement, restrictions regarding the disclosure or use of USEC Trade Secret/Proprietary Information shall no longer apply to the disclosure or use of the fact of the achievement of any milestone.

(f) The Parties acknowledge that USEC may provide information or data to DOE pursuant to other agreements between the Parties, and agree that the terms of the agreement under which information or data is provided govern the use and disclosure of such information.

3. ***DOE access to USEC Data and Facilities***

USEC agrees to provide reasonable access to data, facilities and USEC employees and contractors for DOE's authorized representatives to monitor USEC's implementation of the DOE-USEC Agreement of June 17, 2002, including the Deployment Working Group Plan. DOE access to data, facilities and USEC employees and contractors shall be at reasonable times and at the locations of the data, facilities, employees and contractors unless otherwise agreed to by DOE and USEC, or unless required to be submitted to DOE by the DOE-USEC Agreement of June 17, 2002 or other DOE-USEC agreement. DOE shall coordinate with USEC in advance to help ensure that DOE's access t data, facilities, employees and contractors under this Section does not interfere with on-going operations and complies with all safety, health and regulatory requirements. Any plans and information provided to DOE by USEC under the DOE-USEC Agreement of June 17, 2002 which contain USEC Trade Secret/Proprietary Information shall be marked with the restrictive legend set forth in, and in accordance with, the ***Use of Information and Confidentiality to Trade Secret/Proprietary Information*** clause of the Agreement, and such data shall be handled in accordance with the terms of that clause.

B. The Parties substitute the attachment found at Attachment 1 of this Modification for Attachment 1 to the Agreement.

C. Footnote 2 on page 13 of the DOE-USEC Agreement of June 17, 2002 is relocated to the end of the first sentence under Article 4.B.(a) on page 12.

D. To implement Article 4.B., ***Out of Specification Uranium Inventory***, of the DOE-USEC Agreement of June 17, 2002, USEC will make a good faith effort to implement the procedures set forth in the its letter, dated July 15, 2002, to select cylinders for priority processing at the S/T facility (Attachment 2).

This Modification 1 is effective this 20th day of August, 2002.

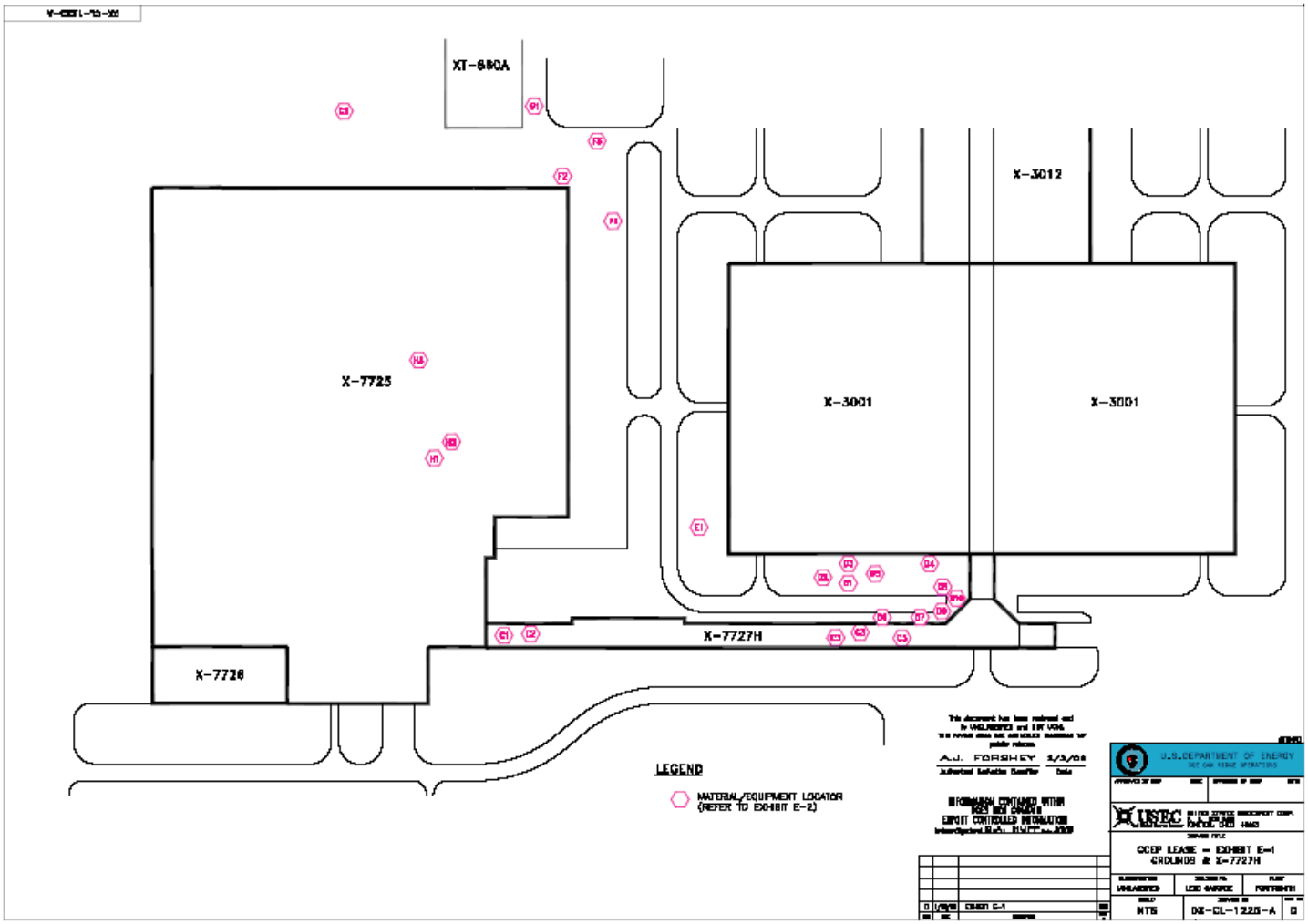
/s/ Lee Liberman Otis	/s/ William H. Timbers
Lee Liberman Otis	William H. Timbers
General Counsel	President and Chief Executive Officer
U.S. Department of Energy	USEC Inc.

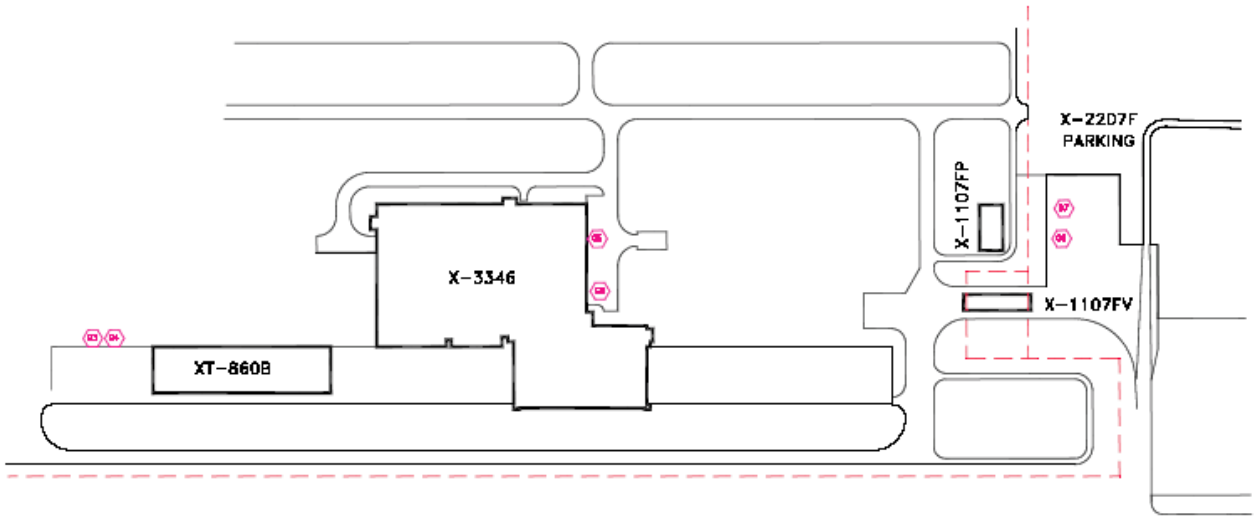
Table 1. Bounding concentrations of dispersed transuranic and ^{99}TC contamination in the DUF_6 tails cylinders

Contaminant	ppb_u
^{238}PU	0.00012
^{239}PU	0.043
^{237}Np	5.2
^{99}Tc	15.9
^{241}Am	0.0013

EXHIBIT D
NONEXCLUSIVE EASEMENTS AND RIGHTS-OF-WAY
[RESERVED]

EXHIBIT E-1
MAP OF DEPARTMENT'S PERSONAL PROPERTY


X-7725
X-7726
X-7727H
X-3001
X-3001
X-3012
XT-880A
LEGEND
MATERIAL/EQUIPMENT LOCATOR
(REFER TO EXHIBIT E-2)
U.S. DEPARTMENT OF ENERGY
USEC
DOE-CL-1225-A



LEGEND

⬡ MATERIAL/EQUIPMENT LOCATOR (REFER TO EXHIBIT E-2)

A.J. FORSHEY 5/15/08

U.S. DEPARTMENT OF ENERGY

DEEP LEASE - EXHIBIT E-1
GROUNDS @ X-3346

NTS

DK-CL-1225-B

0

EXHIBIT E-2
LISTING OF DEPARTMENT'S PERSONAL PROPERTY

The following exhibit contains export controlled or official use only information and has been omitted pursuant to a request for confidential treatment.

EXHIBIT F

RELEASED FACILITIES AND EQUIPMENT LIST

[RESERVED]

EXHIBIT G
NOTICE OF HAZARDOUS SUBSTANCES

Exhibit G

Notice of Hazardous Substances
For Buildings to be Leased to USEC
In Support of the American Centrifuge Program

The following information, current as of February 11, 2005, provides notice of hazardous substances known to have been stored for one year or more, known to have been released, or disposed of, for Buildings X-2230T2, X-3000, X-3001, X-3002, X-3012, X-3346, X-6002, X-6002A, X-7725, X-7725A, X-7726, X-7727H, X-7745R, X-7745S, and Contractor and DOE Laydown Areas (hereinafter referred to as the Buildings). This notice is provided in accordance under the authority of regulations promulgated under section 120(h) of the Comprehensive Environmental Response, Liability, and Compensation Act (CERCLA or "Superfund") 42 U.S.C. 9620(h).

The Buildings are located at the Department of Energy (DOE) Portsmouth Gaseous Diffusion Plant (PORTS). A review of the property and government records was performed to identify any areas on the property being leased where hazardous substances and petroleum products were stored for one year or more, know to have been released, or disposed of. Visual and physical inspections of the property to be leased were performed and in addition, limited interviews were conducted with some of the current and former employees involved in the operations of the buildings.

The following is a summary of the evaluation performed:

1. Since the Buildings were constructed in the early 1980s, limited hazardous substances have been used or were present in or around the Buildings. In addition, limited radioactive material including source, special nuclear, and by-product material have been used or were present in or around the Buildings.

2. The Buildings are located at PORTS, which is subject to an ongoing remediation effort by DOE. DOE, U.S. Environmental Protection Agency (EPA), and the Ohio Environmental Protection Agency (OEPA) have entered into agreements for the clean-up of the PORTS reservation. An extensive RCRA Facility Investigation (RFI) has been conducted for the entire PORTS reservation. A Cleanup Alternatives Study/Corrective Measures Study (CAS/CMS) was developed for the area of the reservation where the Buildings are located (Quadrants I and Quadrant III CAS/CMS). The RFI determined that no hazardous contamination existed around the Buildings and adjacent lands, due to past building operations, that would require corrective measures or

cleanup. (See Quadrant I Decision Document and Quadrant III Decision Document, dated March 2001 and March 1999, respectively.

3. There have been limited radiological activities in Buildings X-3001 North Half, X-7725, and X-7726, and radiological contamination exists within systems/equipment in these three buildings. Access to the contaminated areas in Buildings X-7725 and X-7726 is currently maintained by DOE in accordance with 10 C.F.R. Part 835, “Occupational Radiation Protection.” Access to the contaminated area in Building X-3001 North Half is maintained by the United States Enrichment Corporation (USEC).

4. There has been storage of various hazardous substances in some of the Buildings for more than one year including the following:

a. Areas of Building X-7725 are being utilized as the OEPA permitted DOE RCRA Part B storage facility. These permitted areas contained mixed waste (hazardous and radiological or PCB, hazardous and radiological), and are being clean closed in accordance with the OEPA approved closure plan for Building X-7725. In addition, this facility is being used for the storage of low level radiological waste.

b. Building X-7725A is being used for storage of DOE PCB/radiological waste storage.

c. Buildings X-3001, X-3002, and X-7745R have been or are being used for the storage of DOE low level radiological waste and PCB/radiological waste.

d. Building X-3012 was used as a satellite accumulation area storage facility for RCRA and mixed waste.

e. Building X-3346 contained petroleum products due to activities conducted during the years it was occupied by the Ohio National Guard. The facility also contains radiological contaminated gaseous diffusion plant equipment.

5. DOE had an active program in the 1990s to close out all of the regulated underground storage tanks associated with the Buildings listed above. All regulated tanks were removed, except for one tank that was closed in place (filled with sand/grout). The soil surrounding each tank was analyzed for hazardous constituents, and clean closure regulations were met.

The notice required by 40 C.F.R. 373.1 applies only when hazardous substances are or have been stored in quantities greater than or equal to 1000

kilograms or the hazardous substance's CERCLA reportable quantity found at 40 C.F.R. 302.4, whichever is greater. In the case of acutely hazardous waste, the notice requirement applies when stored in quantities greater than or equal to one kilogram. The above stored hazardous substances identified do not constitute acutely hazardous wastes.

The notice required by 40 C.F.R. 373.1 for the known release of hazardous substances also applies when hazardous substances are or have been released in quantities greater than or equal to the substance's CERCLA reportable quantity found at 40 C.F.R. 302.4. A review of past operations at the Buildings did not identify any releases within the meaning of this requirement. It should be noted, however, that given the scope of the review undertaken, it is possible that additional hazardous substances may have been stored in the Buildings, or spills or other releases of hazardous substances may have occurred that were not apparent based upon the review undertaken for this Notice. Please see Portsmouth EPCRA 312 and 313 reports as required by Section 313, Title III of the Superfund Amendments and Reauthorization Act of 1986, the Pollution Prevention Act of 1990, and Executive Order 13148.

EXHIBIT H

GCEP LEASED FACILITIES

Revision 0

PORTSMOUTH FACILITIES LEASED TO USEC

FACILITY	DESCRIPTION
X-3000	Office Building
X-3000T1	IAEA Trailer
X-3001	Process Building
X-3002	Process Building
X-3012	Process Support Building
X-3346	Feed and Customer Services Building
X-6000	Pump house and Air Plant
X-6001	Cooling Tower
X-6001A	Valve House
X-6002A	Oil Storage Facility
X-7721	Maintenance, Stores and Training Building
X-7725	Recycle/Assembly Facility
X-7725A	Waste Accountability Facility
X-7726	Centrifuge Training and Test Facility
X-7727H	Interplant Transfer Corridor
XT-860A	Rubb Bldg at X-7725
XT-860B	Rubb Blda at X-3346

EXHIBIT I

CONDITION REPORTS

[CD ROM — CONTAINS OFFICIAL USE ONLY INFORMATION]

The following exhibit contains export controlled or official use only information and has been omitted pursuant to a request for confidential treatment.

EXHIBIT J

ESTIMATE OF COSTS TO DECONTAMINATE AND DECOMMISSION

COMMERCIAL PLANT

[RESERVED]

EXHIBIT K
CAPITAL IMPROVEMENTS

Exhibit K

USEC Proposed Capital Improvements for the American Centrifuge Plant (NOTE: Unless otherwise directed by DOE, USEC will remove all Capital Improvements, including personal property and equipment, made to the Commercial Plant facilities prior to returning the facilities to DOE.)

Process Buildings X-3001 and X-3002

- Installation of Gas Centrifuge Machines including, but not limited to Centrifuge Rotors, Casings, Upper Suspensions, Lower Suspension and Drive Assemblies, Diffusion Pumps, Centrifuge Columns and support structures, Centrifuge Machine Drive and Control Systems (classified), Portable Carts, and Centrifuge Process Control and Data Acquisition System (classified).
- Refurbishment and/or installation of service modules, piping, valves and support equipment for the operation of the cascades
- Installation of vacuum pumps, chemical traps, cooling water pumps, heat exchangers, chiller systems and control systems to support the operation of the cascades
- Installation of generators and Uninterruptible Power Supplies
- Refurbishment and installation of electrical switchgear and heating/ventilation/pressurization control equipment
- Restoration of elevators, restrooms and utility areas and instrumentation upgrade for building cranes
- Installation of analytical instruments for measuring performance
- Installation of carts for feed and emergency inventory withdrawal
- Removal of concrete from floor supports for installation of centrifuge machines
- Installation/refurbishment of raw cooling and sanitary water systems and facilities/equipment which utilize these systems.

Process Building X-3012

- Installation of control room and computer equipment
- Installation of maintenance equipment
- Restoration of offices, locker rooms, doors and lighting.

Transfer Corridor X-7727H

- Restoration of doors and lighting
- Restoration of Heating/Ventilation/Air Condition systems
- Restoration of traffic control systems.

CTTF, X-7726

- Restoration of restrooms, office areas, lighting, cranes and elevators
- Restoration of receiving dock area
- Restoration of column assembly stands
- Restoration of machine assembly stands
- Restoration of building utilities and HVAC equipment.

R/A Facility, X-7725

- Installation of storage stations for the staging of centrifuge machines subassemblies, rotor, tube, subassemblies, components, and drum shipping container
- Installation of storage stations for the staging of assembled centrifuge machines.
- Refurbishment and installation of electrical switchgear, lighting, and heating/ventilation/pressurization control equipment
- Restoration of cranes, elevators, restrooms and utility areas.
- Restoration of the battery storage rooms and the transporter storage room
- Restoration of the battery storage rooms and the transporter storage room
- Restoration of cranes
- Restoration of building lighting
- Removal of dikes
- Restoration of restrooms, locker rooms, lunchrooms and office areas
- Restoration of building utilities: electrical substations, HVAC systems, Diesel generators, power backup systems and battery charging equipment
- Restore elevators
- Mobile equipment and portable carts
- Restore maintenance shop and IPT maintenance shop
- Install a building security access control system
- Refurbishment/installation of equipment for centrifuge subassembly, component receipt, handling and storage

- Restore Gas Test stands (4)
- Restore Gas Test stand utilities: vacuum, electrical, instrumentation, chemical traps, cooling water pumps, heat exchangers, chillers and process vent systems
- Restore\ Install Rotor Balance stands (24)

- Restore needed Rotor Balance stand utilities: vacuum, electrical, instrumentation, chemical traps, cooling water pumps, heat exchangers, and chillers
- Restore Static Assembly stands (6)
- Restore long parts insertion equipment for static stands (6)
- Restore a Select repair stand (1)
- Procure Centrifuge Transporters
- Install Column Assembly stands (6)
- Install computer equipment
- Install process area security access control systems as required
- Installation of cassette supports and related equipment systems

Warehouse, X-7725A

- Restore the facility for waste processing
- Restore the building utilities
- Restore the building sprinklers

Feed Building, X-3346

- Demo and remove all original equipment and piping not needed for the commercial plant.
- Construct a new addition to the building for UF6 sampling and transfer operations.
- Install electric autoclaves, UF6 piping, and utilities to support UF6 sampling and transfer operations in the addition.
- Install a refrigeration system to support the cooling of autoclave cylinders in the UF6 sampling and transfer area.
- Install crane rails for 20 ton cranes to support cylinder handling in the sampling and transfer area.
- Install electric ovens, UF6 piping, and utilities in the west high bay area to supply UF6 feed to the centrifuge cascades.
- Install a feed purification system to assure the purity of feed material that is fed to the centrifuge machines.
- Install a UF6 evacuation system and a vent monitoring system to support the feed and UF6 sampling and transfer operations.
- Install crane rails for 20 ton cranes to support cylinder handling in the feed area. These rails will also interface with the X-3346A Building.
- Install electrical generators and Uninterruptible Power Supplies
- Install or refurbish electrical switchgear and HVAC control equipment.
- Restore offices, locker rooms, control rooms, and utility areas.
- Install analytical instruments for measuring performance.
- Construct 4 new cylinder storage yards, *X-7746N, X-7746S, X-7746E, and X-7746W*, adjacent to the building for UF6 cylinder storage
- Replace the Interconnecting Process Pipeway (IPP) between X-3346 and X-3001.

Customer Building, X-3346A

- Construct the new X-3346A Feed and Product Shipping and Receiving Building to provide for the shipping and receiving of UF6 cylinders to and from the Commercial Plant.
- Install crane rails for 20 ton cranes to support cylinder handling in the X-3346A. These rails will also interface with the X-3346 Building
- Install offices, restrooms and utility areas.

Withdrawal Building, X-3356

- Construct the new X-3356 Product and Tails Withdrawal Building to provide for the withdrawal of UF6 product and tails material from the Commercial Plant.
- Install product cold traps, UF6 piping, and utilities to support the withdrawal of product UF6 from the centrifuge cascades.
- Install compressors, UF6 piping, and utilities to support the withdrawal of tails UF6 from the centrifuge cascades.
- Install support utilities for the compressors — lubrication system, coolant system.
- Install cold boxes to house receiving cylinders for product and tails withdrawal.
- Install a refrigeration system to support the product cold trap and cylinder cold box operations.
- Install a UF6 evacuation system and a vent monitoring system to support the product and tails withdrawal operations.
- Install crane rails for 20 ton cranes to support cylinder handling in the product and tails withdrawal areas.
- Install electrical generators and Uninterruptible Power Supplies
- Install electrical switchgear and HVAC control equipment.
- Install offices, locker rooms, control rooms, and utility areas.
- Install analytical instruments for measuring performance.
- Construct cylinder storage yards adjacent to the building for UF6 cylinder storage.

Cylinder Storage Yard, X-745G

- Refurbish as necessary to support commercial plant.

DUF6 Cylinder Storage Yard, X-745H

- Construct new cylinder storage yard, X-745H, to store tails cylinders in support of commercial plant.

X-5000 Switch House, X-5001 Substation, X-5001 A Valve House and X-5001B Oil Pumping Station

- Upgrade or replace the electrical switchgear and support equipment as necessary.

Security Access Control and Alarm System, X-2220N

- Upgrade the security system for the commercial plant including fencing, portals, and electronic personnel access monitoring and control.

Cooling Tower Pump House & Air Plant, X-6000

- Upgrade or replace the recirculating cooling water equipment, refurbish air plant compressors, and refurbish or replace RCW and Air Distributions systems as necessary.

Cooling Tower, X-6001 and Valve House, X-6001A

- Refurbish the existing cooling tower cells and equipment and install new cooling tower cells if required.

Material Stores and Training Building, X-7721

- Refurbish office and training areas as necessary.
- Refurbish maintenance areas as necessary.
- Refurbish the Automatic Stores and Retrieval Systems and place in service.

EXHIBIT L

SHARED SITE AGREEMENT

(USEC AND DOE RESOLUTION OF SHARED SITE ISSUES
AT THE GASEOUS DIFFUSION PLANTS)

Revision 1

ENCLOSURE TO GDP 95-0018

USEC AND DOE RESOLUTION OF

SHARED SITE ISSUES

AT THE

GASEOUS DIFFUSION PLANTS

(Revision 1)

USEC AND DOE RESOLUTION OF

SHARED SITE ISSUES

AT THE

GASEOUS DIFFUSION PLANTS

(Revision 1)

- **Background**

  Once the NRC assumes nuclear regulatory oversight for USEC activities at the GDPs, there will be a need to coordinate DOE and USEC activities at the GDPs to ensure that:

  1. USEC and DOE activities at the GDPs do not adversely affect the operations of the other party in terms of health and safety, environmental protection, safeguards and security, and nuclear regulatory compliance.

  2. Situations with the potential to affect both DOE and USEC operations and personnel, such as emergencies and threats directed toward site activities, are managed in a coordinated manner that protects the safety and health of DOE and USEC personnel, including their respective contractors/subcontractors, and the public.

- **Premises**

  The following premises support the proposed resolution of shared site issues:

  1. This joint USEC and DOE approach to shared site issues does not modify, amend, or. alter in any way the lease[1] between USEC and DOE for the GDPs, or any memoranda of agreement, or any other agreements between USEC and DOE.

  2. The site can be divided into three types of areas: 1) DOE areas (generally non-leased) in which DOE managed or overseen activities, which are exempt from NRC regulation under Section 110.a of the Atomic Energy Act of 1954, as amended, are conducted; 2) USEC leased areas in which USEC activities subject to NRC regulation are conducted; and 3) common areas (e.g., site roads) which are used for USEC and DOE activities.

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[1] The term “lease” refers to the Lease Agreement between the United States Department of Energy and the United States Enrichment Corporation dated as of July 1, 1993.

3. DOE will self-regulate DOE activities conducted in DOE areas and common areas in accordance with applicable DOE requirements. This includes DOE personnel and their contractors/subcontractors. DOE assumes full responsibility for the safety, safeguards, and security of DOE activities.

4. USEC activities conducted in USEC areas and common areas are subject to NRC regulation under terms of the certification application. This includes USEC personnel, their contractors, and subcontractors. USEC assumes full responsibility for the safety, safeguards, and security of USEC activities.

- **Shared Site Issues**

1. **Shared Systems and Continuity of Essential Services**

   USEC provides certain services and utilities (e.g., lighting, heat) to DOE that are necessary for the safety, safeguards, or conduct of DOE activities. Similarly, USEC and DOE activities are protected or supported by shared systems (e.g., nuclear criticality and security alarm systems, fire protection sprinklers) that are important to the safety and safeguards of USEC and DOE activities.

   USEC and DOE will work together to ensure that interruptions to services necessary for the safety, safeguards and security of the GDPs are minimized and that shared systems remain operable. Additionally, USEC will apply configuration management controls to these systems, in a manner commensurate with that applied to equivalent USEC systems, to ensure that the safety, safeguards and security systems, and conduct of USEC and DOE activities are not adversely affected. Similarly, USEC and DOE will work together to establish a process for controlling the scheduling of interruptions to essential services to ensure that the safety, safeguards, and security of the GDPs are not adversely affected.

2. **Control of Work Activities**

   DOE and USEC agree that activities in leased spaces must be conducted in accordance with USEC commitments to NRC. Accordingly, DOE (including their contractors/subcontractors) will obtain USEC's approval prior to conducting work in leased spaces. Similarly, prior to conducting work in non-leased spaces, USEC (including their contractors/subcontractors) will obtain DOE's approval. Both parties will strive to ensure that such approvals do not impede the schedule for the work activities of either party. Additionally, both parties will ensure that work activities that affect either party are conducted in accordance with the appropriate procedures.

3. **Plant Changes**

DOE and USEC agree to establish procedural controls to ensure that each party is promptly notified, and appropriate approvals obtained, prior to conducting activities that affect the design, construction, operation or maintenance of facilities and systems on their respective portions of the GDP sites. This process will allow the other party to evaluate the potential safety impact of such a change on its own facilities, systems, and activities at the site.

USEC will provide DOE with a copy of each approved written Safety Analysis issued in accordance with 10 CFR § 76.68 with respect to any changes to the leased premises or the operation of the leased premises at either GDP site. Similarly, DOE will provide USEC with a copy of each Unreviewed Safety Question Determination (USQD) or Safety Analysis prepared by or for DOE with respect to any changes to DOE's facilities, systems, or operations at either GDP site. Each party will provide the other with pertinent information concerning any Unreviewed Safety Question (USQ) identified in connection with its operations and activities at either GDP site, including any Justification for Continued Operation (JCO) or similar document prepared in connection with such USQ. In the event that either party has a concern about the potential impact of any plant changes by the other party on the safety of its own operations and activities at either GDP site, the appropriate USEC and DOE representatives for that site shall jointly review the change and take appropriate action to resolve the concern (including any required plant modifications) in a prompt manner.

4. **Emergency Management Coordination**

In accordance with Exhibit F of the lease, USEC will provide emergency response training to DOE personnel, DOE contractors, and personnel of third party tenants of DOE at each of the GDPs. In accordance with the lease, DOE will reimburse USEC for the cost of this service. DOE will make the necessary arrangements to assure that these personnel attend such training and be responsible for tracking their participation to assure they receive the required initial and periodic training.

The Emergency Plan for both GDPs describes the roles and responsibilities of USEC and DOE in the event of an emergency. For a declared emergency, USEC has the lead in responding to the emergency and DOE serves as an onsite member of the Emergency Operations Center. This relationship will continue to be maintained when NRC assumes regulatory oversight of the GDPs.

In the event of an emergency, in coordination with the USEC emergency management team, DOE will take the appropriate actions to control activities in the reservation area surrounding each of the GDP sites, as defined in the current Emergency Plan for each GDP. This includes

the exclusion or evacuation of personnel from such area during an emergency. Additionally, USEC has ample authority to restrict access to the controlled area of the GDPs[2] for the purposes of plant protection, security, emergency preparedness, and radiation protection.[3]

5. **Third Party Activities on GDP Sites**

DOE and USEC agree to promptly provide each other with pertinent information concerning any operations or activities being conducted on their respective portions of each of the GDP sites, and the surrounding DOE-owned reservation on which that site is located, by or on behalf of third parties (e.g., the National Guard and other DOE tenants or lessees) that could have a potential impact on the operations or activities of the other party at that site. Specifically, DOE will provide USEC (and vice versa) with a written description of each existing third party lease agreement for each GDP site, including a detailed description of (a) any hazardous materials used or stored on site in connection with such lease, (b) any operations or activities being conducted under such lease that could pose a hazard to USEC's operations on the leased premises or act as an initiating event for an accident on the leased premises, and (c) any transportation or other access requirements on the leased premises or common areas of the site associated with such lease, particularly with respect to the transportation or storage of hazardous materials or equipment. Such descriptions shall be updated promptly to reflect changes in third party activities. In the event that either party has a concern about the potential impact that third party activities could have on the safe operation of either GDP site, the appropriate USEC and DOE representatives for that site shall jointly review the issue and take appropriate action to resolve the concern in a prompt and cost-effective manner.

6. **Physical Protection Coordination**

Effective access control and response to threats against site activities and facilities requires integrated access control for USEC and DOE activities and coordinated command and control in responding to threats against site facilities and activities. USEC will continue to maintain a physical security protection plan for the GDPs which defines the roles and responsibilities of the site security organizations. In the event of a security threat at the GDPs (including both leased and non-leased areas), USEC's security force has the responsibility to initially respond to the threat and determine the appropriate course of action. Depending on the significance of the security threat, the Emergency Operations Center at the affected site will be activated and, as discussed in Item 4 of this enclosure, USEC and DOE will respond accordingly. This relationship will continue to be maintained when NRC assumes regulatory oversight of the GDPs.

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2 The controlled area is defined as an area outside the restricted area but inside the site (reservation) boundary.

3 See USEC letter to NRC dated December 13, 1995, in response to Question 2.0Q5 of the application for PGDP and PORTS.

7. **Event Notification**

USEC will promptly notify DOE of any reportable events required by 10 CFR 16 or other applicable NRC regulations. This notification will normally be made by the Plant Shift Superintendent's (PSS) office. However, this notification will not take precedence over the prompt notification of the NRC as required by NRC regulations. Similarly DOE will promptly inform USEC of any reportable events, under DOE's occurrence reporting system, for which DOE is responsible. Such notification will normally be made to the PSS's office.

8. **Helipad**

USEC will establish written controls for helicopter access to the GDP sites, and the air space over the sites for use by USEC, DOE, or other DOE tenant organizations at the sites and to assist state or local law enforcement or emergency response personnel. Once established, DOE. agrees to abide by these controls. As part of these controls, DOE will obtain USEC's concurrence from the PSS prior to utilizing the site helipad.

9. **Communication of Incident Information and Media Coordination**

DOE and USEC will coordinate information releases to the media in the following manner:

a. DOE has the lead role in providing information relating to DOE activities and USEC will refer the media to DOE in such cases; and

b. USEC has the lead role in providing information relating to USEC activities and DOE will refer the media to USEC in such cases unless there is a need for DOE to provide information in its role as site landlord.

c. DOE and USEC will promptly provide each other with information copies of news releases of events that occur at the GDPs.

10. **Radiation Protection**

Radiation Protection (e.g., exposure monitoring) of employees is the responsibility of the employer (USEC or DOE) and is independent of the activities upon which they are working. That is, radiation protection for DOE personnel and their contractors/subcontractors is performed under the DOE radiation protection program. Similarly, radiation protection for USEC personnel and their contractors/subcontractors is performed under the USEC radiation program. In addition:

a. Radiation exposure information for individuals who work on both DOE and USEC activities will be shared to permit DOE and USEC to satisfy their radiation exposure reporting requirements; and

b. DOE will provide NRC with the radiation exposure information for DOE employees and their contractors/subcontractors, as requested, in order to meet NRC's reporting requirements.

In accordance with Exhibit F of the lease, USEC will provide radiation protection training to DOE personnel, DOE contractors, and personnel of third party tenants of DOE at each of the GDPs. In accordance with the lease, DOE will reimburse USEC for the cost of this service. DOE will make the necessary arrangements to assure that these personnel attend such training and be responsible for tracking their participation to assure they receive the required initial and periodic training.

11. **International Atomic Energy Agency (IAEA) Safeguards Agreement Implementation**

DOE and USEC will cooperate with the NRC in the development, review, and revision of Subsidiary Arrangements and Facility Attachments for DOE and USEC activities at the sites which are applicable to the safeguards requirements of the IAEA.

12. **Unclassified Controlled Nuclear Information (UCNI)**

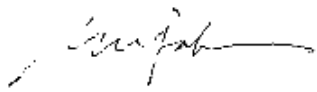
DOE is developing guidelines with consultation and technical support from USEC for the identification of UCNI at the GDPs and will provide these guidelines to NRC.

13. **Access to Deleased Outside Areas**

All activities in non-leased areas will be executed consistent with DOE requirements. USEC procedures which comply with NRC requirements may be utilized provided they meet or exceed equivalent DOE requirements. Subject to DOE approval, USEC may be permitted to run additional or new utilities over and/or under these outside areas to serve additional needs of USEC and DOE. USEC will contact DOE prior to work in these areas and will not violate any requirements imposed on the DOE by other regulatory agencies (e.g. EPA, OSHA). In cases where prior notification would deter USEC's ability to respond to an exigent situation (e.g., emergency response situations, water main breaks, etc.), notification will occur as soon as practical.

CONCURRED BY:

Joe W. Parks Date 3/30/98
Department of Energy
Asst. Manager for Enrichment Facilities



George P. Rifakes Date
United States Enrichment Corporation
Executive Vice President

EXHIBIT M

REGULATORY OVERSIGHT AGREEMENT

Revision 0

REGULATORY OVERSIGHT AGREEMENT

between

UNITED STATES DEPARTMENT OF ENERGY

and

UNITED STATES ENRICHMENT CORPORATION

for the

GAS CENTRIFUGE ENRICHMENT PLANT LEASED PREMISES

THIS AGREEMENT, entered into as of this ___ day of ___ 2006, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), represented by the SECRETARY OF ENERGY (hereinafter referred to as the "Secretary"), the statutory head of the DEPARTMENT OF ENERGY (hereinafter referred to as "DOE"), and the UNITED STATES ENRICHMENT CORPORATION (hereinafter referred to as "USEC");

WITNESSETH THAT:

WHEREAS, USEC leases portions of the Portsmouth Gaseous Diffusion Plant ("PORTS") located at Piketon, Ohio and portions of the Paducah Gaseous Diffusion Plant ("PAD") located in Paducah, Kentucky from DOE pursuant to the Lease Agreement dated July 1, 1993 (the "GDP Lease");

WHEREAS, DOE and USEC Inc. have entered into a Agreement dated July 17, 2002, ("the DOE-USEC Agreement") to, inter alia, "[f]acilitate the deployment of new, cost-effective advanced enrichment technology in the U.S. on a rapid schedule;"

WHEREAS, the DOE-USEC Agreement establishes agreed upon milestones for the demonstration and deployment of advanced enrichment technology by USEC Inc.;

WHEREAS, in order to meet the DOE-USEC Agreement milestones, USEC has requested that the leasehold under the GDP Lease be expanded;

WHEREAS, DOE and USEC have entered into a modification of the GDP Lease for USEC's lease of the Gas Centrifuge Enrichment Plant ("GCEP Lease"), whereby USEC is leasing certain GCEP real property ("GCEP Leased Premises") at the PORTS site; and

WHEREAS, DOE is required to promote and protect the radiological health and safety of the public and workers and to provide for the common defense and security at DOE-owned facilities by exercising nuclear safety and safeguards and security oversight authority at the GCEP Leased Premises as defined in the GCEP Lease, unless the Nuclear Regulatory Commission ("NRC") has assumed regulatory responsibility such nuclear safety and safeguards and security requirements at the GCEP Leased Premises;

NOW, THEREFORE, DOE and USEC agree as follows:

ARTICLE I —DEFINITIONS

As used throughout this Agreement, including the appendices hereto, the following terms shall mean:

1. The term "As Found" means a condition where the as-built configuration of the plant or the as-implemented program, policy, or procedure does not agree with the Authorization Basis.

2. The term "Authorization Basis" means the documentation of programs, processes, and facility configuration upon which the Department of Energy (DOE) authorizes the safe and secure operation of an activity or facility in its facilities subject to DOE's regulatory oversight. The Authorization Basis is described in documents such as the facility Safety Analysis Report, Hazard Classification Documents, Technical Requirements, DOE-issued Safety Evaluation Reports, Security Plans, and the facility specific written commitments made in order to comply with DOE requirements under the GCEP Leased Premises Regulatory Oversight Agreement (GCEP ROA).

3. The term "CI" or "Classified Information" means Restricted Data and Formerly Restricted Data protected against unauthorized disclosure pursuant to the Act and National Security Information that has been determined pursuant to Executive Order 12958, as amended March 25, 2003, or any predecessor or successor executive order to require protection against unauthorized disclosure and that is marked to indicate its classified status when in documentary form.

4. The term "CI Civil Penalty" means a monetary penalty that may be imposed for a violation or violations relating to the security or safeguarding of Classified Information as established in 10 CFR Part 824.

5. The term “CI Notice of Violation” means a document setting forth the determination that one or more violations relating to the security or safeguarding of Classified Information have occurred.

6. The term “CI Violation” means a failure of the Corporation to meet any of the DOE requirements relating to the security or safeguarding of Classified Information incorporated into this Agreement. Each failure may be considered a separate occurrence of a violation, in addition the failure may be considered as a new violation each day that the same violation persists.

7. The term “Clear and Present Danger” means a condition or hazard that could be expected to cause: (a) either death or serious harm to plant workers or the public, or (b) serious damage to the common defense and security, immediately or before such condition or hazard could be eliminated through the normal enforcement mechanisms discussed in this Agreement.

8. The term “Corporation” means the United States Enrichment Corporation, its sublessee(s), its agents and representatives and its successors and assigns.

9. The term “Decreased Effectiveness Evaluation” means an evaluation to ensure that the proposed change does not decrease the effectiveness of the safeguards and security plans. The evaluation is conducted as prescribed in 10 CFR Part 70.32 or 10 CFR Part 76.68 as appropriate.

10. The term “DOE Functional Area Implementation Requirements” means the implementation requirements with respect to the nuclear safety, safeguards and security objectives as set forth in of Appendix A to this Agreement.

11. The term “DOE Inspector” means a DOE safety and health or safeguards and security professional supporting DOE Functional Areas Implementation Requirements oversight activities.

12. The term “DOE ORO Manager” means the Manager of DOE Oak Ridge Office or one or more DOE employee(s) whom that Manager has designated, in writing, to act for him in all, or a portion, of the matters addressed herein.

13. The term “DOE Regulatory Oversight Manager” means the DOE representative, or his designee, responsible for implementation of all facets of DOE regulatory oversight of the GCEP Leased Premises.

14. The term “GCEP Leased Premises” means the definition ascribed in the GCEP Lease.

15. The term “OPAE” means the Office of Price-Anderson Enforcement in DOE Headquarters.

16. The term “OPAE Civil Penalty” means a monetary penalty that may be imposed for a violation or violations for violation of 10 CFR Parts 830 and 835 requirements.

17. The term “OPAE Notice of Violation” means a document setting forth the determination of the DOE Office of Price-Anderson Enforcement that one or more violations of the 10 CFR Part 830 and 10 CFR Part 835 exemption requirements have occurred.

18. The term “OPAE Violation” means a failure of the Corporation to meet any of the 10 CFR Part 830 exemption requirements or the 10 CFR Part 835 exemption requirements incorporated into this Agreement. Each failure may be considered a separate occurrence of a violation, in addition the failure may be considered as a new violation each day that the same violation persists.

19. The term “ROA” means the Regulatory Oversight Agreement between the Department of Energy and the United States Enrichment Corporation for the GCEP Leased Premises.

20. The term “ROA Civil Penalty” means a monetary penalty that may be imposed for violation of DOE Functional Area Implementation Requirements.

21. The term “ROA Notice of Violation” means a document setting forth the determination DOE Regulatory Oversight Manager that one or more violations of the DOE ROA Functional Area Implementation Requirements have occurred.

22. The term “ROA Violation” means a failure of the Corporation to meet any of the Functional Area Implementation Requirements incorporated into this Agreement. Each failure may be considered a separate occurrence of a violation, in addition the failure may be considered as a new violation each day that the same violation persists.

23. The term “Safety Analysis” means a systematic analysis that identifies facility and external hazards and their potential for initiating accident sequences, the potential accident sequences, their likelihood and consequences, and any accident preventing or consequence mitigating features.

24. The term “Safety System” means those structures, systems, and components (SSCs) that are relied upon to prevent, control, or mitigate unacceptable consequences resulting from the hazards identified for a facility. SSCs are designated as “Safety Class” if they are necessary to keep hazardous exposures to the public below the offsite Evaluation Guidelines. SSCs are designated as “Safety Significant” if their functions are major contributors to defense in depth and/or worker safety, as determined from the Safety Analysis.

25. The term “Technical Requirements” means the technical specifications, operational requirements, and maintenance requirements for an item identified as “Safety Significant” are referred to in this GCEP ROA as Technical Requirements. Changes to Technical Requirements must be accomplished through a formal Change Control Process established by the lessee.

26. The term “Unreviewed Safety Question” means the determination that a proposed change is outside the bounds of previously DOE-approved Authorization Basis.

27. The term “Unreviewed Safety Question Evaluation” means the process by which changes to the facility, equipment within the facility, or processes within the facility must be reviewed to determine if there is an impact on safety for the activities subject to DOE regulatory oversight. Changes will undergo a formal Change Control Process, but if a change could have a negative impact on safety to activities subject to DOE regulatory oversight, an Unreviewed Safety Question (USQ) Evaluation will be conducted and documented to determine whether the change is within the approved Authorization Basis or outside of the Authorization Basis. Changes that do not affect the safety of activities undertaken under DOE regulatory oversight are not subject to review under the GCEP ROA. Such changes will be subject to the applicable NRC requirements.

    All other capitalized terms shall have the meaning ascribed to them elsewhere in this Agreement or the appendices hereto, or the GCEP Lease.

ARTICLE II – STATEMENT AND PURPOSE

The general purpose of this Regulatory Oversight Agreement ("Agreement" or "ROA") is to reflect the DOE determinations and requirements and the mutual commitments, understandings, and arrangements between the DOE and the Corporation concerning the regulatory oversight of the GCEP Leased Premises by DOE with respect to DOE Functional Area Implementation Requirements.

ARTICLE III – TERM OF AGREEMENT

The term of this Agreement shall commence on ___, and shall terminate upon termination, expiration, or relinquishment of the GCEP Lease Agreement, unless otherwise agreed to by the parties. It is acknowledged that certain facilities and activities may be regulated by the NRC at some point in the future. In the event the NRC assumes regulatory authority for some or all of the DOE Functional Area Implementation Requirements, a transition effort will be mutually agreed to among DOE and the NRC.

ARTICLE IV – DOE OVERSIGHT/ENFORCEMENT AUTHORITY

1. DOE has determined that the DOE Functional Area Implementation Requirements set forth in Appendix A are reasonable and appropriate, and shall constitute the Nuclear Safety and Safeguards and Security Requirements applicable to the GCEP Leased Premises, and that compliance with these DOE Functional Area Implementation Requirements will enable the GCEP Leased Premises to continue to operate safely and protect the public health and safety and provide for the common defense and security.

2. DOE has determined that the program of Corporation self-assessments and DOE inspections, reviews, and other activities is reasonable and appropriate. DOE and the Corporation further agree that this Regulatory Oversight Program will constitute the mechanism by which DOE will exercise regulatory oversight and control over the GCEP Leased Premises with respect to nuclear safety, safeguards and security.

3. The Corporation agrees to ensure that the Corporation activities continue to comply with the Functional Area Implementation Requirements in Appendix A. The Corporation agrees to impose these commitments on any subcontractor/vendor/partner while performing activities in support of the

American Centrifuge Plant performed pursuant to the Functional Area Implementation Requirements identified in Appendix A of this Agreement. The Corporation further agrees, as part of the Regulatory Oversight Program, to undertake the self-assessment activities delineated in the Functional Area Implementation Requirements, to cooperate with DOE in the inspections, reviews, and other activities conducted by DOE in accordance with the Regulatory Oversight Program; and to implement corrective or preventive actions as a result of these assessments, inspections, reviews, and other activities.

4. A. DOE has determined that DOE's Regulatory Oversight Program of the GCEP Leased Premises, including all of the self-assessments, inspections, reviews, and other activities described in the Regulatory Oversight Program, will be coordinated by the DOE Regulatory Oversight Manager. The DOE Regulatory Oversight Manager will have the authority to modify the Functional Area Implementation Requirements, including the authority to make additions or deletions to these requirements, if the DOE Regulatory Oversight Manager determines that the additional requirement is necessary to protect the public health and safety or to provide for the common defense and security, or the deleted requirement is no longer necessary to protect the public health and safety or to provide for the common defense and security in connection with the operation of the GCEP Leased Premises.

   B. The Corporation is authorized to add to, modify, or delete ("Change") any of the policies, procedures, practices and other implementation measures utilized to meet the Functional Area Implementation Requirements, provided (1) there will be no material diminution in the level of protection of the public health and safety or common defense and security as a result of such Change; (2) the Change does not involve an Unreviewed Safety Question or a Change in the Authorization Basis or an Operational Safety Requirement; (3) auditable records containing a summary of the Changes performed and retrievable evaluation packages required by the DOE requirements specified in the Functional Area Implementation Requirements are maintained; and (4) a summary of the Changes is provided to DOE annually for review.

   C. For proposed Changes which involve an Unreviewed Safety Question or a Change in the Authorization Basis or a Technical Requirement, the Corporation shall obtain DOE review and approval before implementing the proposed Change.

D. In reviewing the proposed modification of any specific Functional Area Implementation Requirements, the DOE Regulatory Oversight Manager will, whenever possible, attempt to facilitate the transition to compliance with the regulatory standards and requirements likely to be imposed on the GCEP Leased Premises by the NRC, if applicable.

5. The enforcement procedures available to DOE in the event that the Corporation fails to comply with the Functional Area Implementation Requirements are attached hereto, and incorporated by reference herein as Appendix B.

ARTICLE V – NOTICES

With the exception of Shutdown authority (as described in Appendix B of this Agreement) invoked by the DOE Regulatory Oversight Manager pursuant to Appendix B, no notice, Notice of Violation, answer, order, determination, requirement, consent, or approval under this Agreement shall be of any effect unless in writing. All notices and communications pursuant to this agreement required or desired to be given by DOE or the Corporation to either party shall be addressed to the Corporation or to the DOE and sent to the following addresses:

To DOE: Larry W. Clark
Assistant Manager for Nuclear Fuel Supply
U. S. Department of Energy
Oak Ridge Operations
P. O. Box 2001
Oak Ridge, Tennessee 37831

To USEC: Victor N. Lopiano
United States Enrichment Corporation
Two Democracy Center
6903 Rockledge Drive
Bethesda, Maryland 20817

Either party may, by notice given as aforesaid, change its address for notices and communications to be given thereafter.

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

DEPARTMENT OF ENERGY

AND

UNITED STATES ENRICHMENT CORPORATION

Appendix A to Exhibit M

Regulatory Oversight Agreement

for the GCEP Leased Premises

_____, 2006

TABLE OF CONTENTS

I. INTRODUCTION

The U. S. Department of Energy (DOE) will exercise regulatory oversight and enforcement pursuant to 10 CFR Part 820, 10 CFR Part 824, and this Regulatory Oversight Agreement (ROA) for activities undertaken by the Corporation in removing material and equipment from the Gas Centrifuge Enrichment Plant (GCEP) Leased Premises at the Portsmouth Gaseous Diffusion Plant (Portsmouth GDP) site in Piketon, Ohio. In addition, DOE will exercise regulatory oversight for the gas centrifuge activities of the Corporation not regulated by the U. S. Nuclear Regulatory Commission (NRC). The transition of regulatory responsibility from the DOE to NRC will be documented in a Memorandum of Understanding (MOU).

DOE will exercise its oversight authority both by contract (lease) and by DOE regulations. Under the requirements of this GCEP ROA, DOE will provide contractual requirements for health and safety and common defense and security. The enforcement process identified in Appendix B of this exhibit will apply to any ROA violations of the GCEP ROA contract (lease) requirements.

DOE regulations for nuclear safety management, including quality assurance, are found in 10 CFR Part 830 and "DOE Nuclear Safety Requirements" for worker radiation protection in 10 CFR Part 835. USEC requested and has been granted an exemption to the requirements of 10 CFR Parts 830 and 835. As such, the Corporation shall perform the gas centrifuge activities related to quality assurance and worker radiation protection, not under the regulation of NRC, in accordance with the conditions specified in the 10 CFR Part 830 and 10 CFR Part 835 Exemption Decisions dated February 2, 2004, as amended, and February 3, 2004, as amended, respectively and as established in this ROA. The enforcement procedures of 10 CFR Part 820, Appendix A and relevant OPAE Enforcement Guidance Supplements will apply to any potential violations related to the requirements of the 10 CFR Parts 830 and 835 exemptions. The enforcement process of 10 CFR Part 824 will apply to any potential violations related to Classified Information.

USEC has the responsibility for protection of health and safety and provision of adequate safeguards and security for all activities performed by USEC or its contractors in connection with the removal of equipment and material from the GCEP Leased Premises. NRC programs reviewed and approved in accordance with 10 CFR Part 76, contained in the Certification Application, satisfy the requirements of the GCEP ROA for protection of health and safety. USEC Inc. has responsibility for protection of health and safety and provision of adequate safeguards and security for all activities performed by USEC Inc., or its contractors in connection with any refurbishment/construction for the Lead Cascade and pre-construction activities in the subleased GCEP facilities and the installation of equipment for the American Centrifuge Plant ("ACP"). DOE will have regulatory oversight of health, safety and safeguards and security at the GCEP Leased Premises and/or activity, unless the NRC assumes regulation. DOE regulatory oversight of the GCEP includes serving as the cognizant security agency for USEC Inc.'s subcontractor/vendor/partner facilities performing work related to the American Centrifuge Program.

Unless NRC assumes regulation of the GCEP Leased Premises and/or activity, the DOE Regulatory Oversight Manager will oversee regulation of the gas centrifuge facilities for those applicable requirements of this ROA. The DOE OPAE will conduct any

investigations of potential regulatory violations of the 10 CFR Parts 830 and 835 exemption requirements. OPAE will, if applicable, issue enforcement actions in accordance with OPAE's statutory authority, policies, and processes. The DOE Regulatory Oversight Manager will work with and provide support in the implementation of OPAE's enforcement program.

USEC Inc. will be developing programs and documentation as required by the License Application during the time that the equipment removal, refurbishment/construction of the Lead Cascade, and any pre-construction activities are occurring in preparation for the construction and operation of the ACP. These will be used by USEC Inc., to meet the requirements of 10 CFR Part 70 and the License Application. These satisfy the requirements of the GCEP ROA for protection of health and safety, with the exception of safeguards and safety. A transition from DOE to NRC regulation will occur prior to the commencement of construction of the ACP, unless specific activities in specific facilities warrant remaining under DOE regulatory oversight for an additional period of time. In this case, the facility would transition to NRC regulation on a mutually agreed to schedule.

In preparing the GCEP Leased Premises for deployment of the gas centrifuge technology prior to NRC regulation, DOE will regulate these activities pursuant to this GCEP ROA. This document defines the set of safety and safeguards and security requirements which will protect public and worker health and safety and assure adequate safeguards and security for the activities to be undertaken by the Corporation that are subject to DOE regulatory oversight at the GCEP Premises leased by DOE to the Corporation in support of deployment of the centrifuge technology at the GCEP Leased Premises. These requirements and the implementation of these requirements form the basis of DOE regulatory oversight and will result in safe activities in the GCEP Leased Premises. As appropriate, the source document for the objective and/or the implementation requirement has been provided. Only the objective and/or the implementation requirement included from the source document is a requirement of the GCEP ROA.

II. FUNCTIONAL AREAS

This section describes the envelope of operating requirements that are required and considered necessary to protect the health and safety of the public and facility workers and safeguards and security. Reviews by DOE subject matter experts have confirmed that implementation of these requirements will contribute to the safety of activities in support of the GCEP Leased Premises. The safety and safeguards and security requirements have been defined for eighteen topical areas. The objective of each of the eighteen topical areas is provided followed by a set of Implementation Requirements defining actions necessary to satisfy the objective.

1.0 ORGANIZATION PLAN

1.1 Objective

Activities conducted in the GCEP Leased Premises shall be organized in a manner to ensure that responsibility and authority for safe operations are clearly defined, and that requisite safety functions are independent of equipment removal and installation activities.

1.2 Implementation Requirements

1.2.1 Activities conducted in the GCEP Leased Premises shall have current plans, procedures or other appropriate documentation, which clearly define authority, responsibility, and accountability for safe operations. The current plans, procedures, or appropriate documentation shall contain the following elements:

1.2.1.1 Authority for safety clearly defined for each position of responsibility.

1.2.1.2 Responsibility for safety clearly delineated in each position description and in each “roles and responsibility” document.

1.2.1.3 Programs and procedures will be established for the following functions (if applicable to the activities subject to DOE regulatory oversight):

1.2.1.3.1 nuclear safety design

1.2.1.3.2 nuclear criticality safety

1.2.1.3.3 fire protection

1.2.1.3.4 natural phenomena hazards mitigation

1.2.1.3.5 safeguards and security

1.2.1.3.6 personnel selection and training program

1.2.1.3.7 quality assurance

1.2.1.3.8 radiation protection

1.2.1.3.9 preparation of safety documentation

1.2.2 Quality assurance, radiation protection, and preparation of safety documentation (e.g., safety evaluations) activities shall be independent of equipment removal, installation, and refurbishment activities.

1.2.3 All personnel shall have the authority to halt unsafe activities.

2.0 MANAGEMENT CONTROLS AND OVERSIGHT

2.1 Objective

Management Controls and Oversight of activities subject to DOE regulatory oversight which could have a negative impact on nuclear safety, occupational safety, or safeguards and security shall be conducted in an appropriately controlled manner that ensures the protection of the workers, the public, the environment, and national security interests.

2.2 Implementation Requirements

2.2.1 Procedures and documents important to Safety and Health and Safeguards and Security shall be developed, revised, reviewed, approved, distributed, and implemented in accordance with identified, written requirements and authorizations.

2.2.2 An internal and independent safety review process shall be established and maintained.

2.2.3 Occurrences shall be reported and investigations conducted on events that could affect the health and safety of the public or endanger the health and safety of workers.

2.2.4 A commitment tracking system shall be maintained to monitor the status of formal commitments to improve safety and safeguards and security.

2.2.5 Administrative controls shall provide standard methods and requirements for creating, collecting, maintaining, and disposing of records related to nuclear safety and safeguards and security.

2.2.6 Management shall develop and implement a formal, organized process whereby people plan, perform, assess, and improve the safe conduct of work.

3.0 OPERATIONS

3.1 Objective

Management shall ensure that activities in the GCEP Leased Premises are performed within the controls developed through the use of hazard analysis and safety reviews.

3.2 Implementation Requirements

3.2.1 Material possession limits and operating bounds for safety systems as established by the Authorization Basis documents shall be observed.

3.2.2 Surveillance requirements, as established in the Authorization Basis, shall be conducted as specified. Additional tests to verify proper operation of systems and integrity of confinement structures shall be conducted after significant maintenance/modifications as specified in any post-maintenance/modification testing procedures.

3.2.3 Procedures or work instructions shall be prepared to facilitate initial and periodic tests of safety features and/or systems to ensure it operates and meets design objectives.

3.2.4 Prior to or during any type of activity, management shall assess equipment and personnel performance through a program of monitoring and facility walk downs.

3.2.5 Turnovers conducted for selected shift stations shall ensure the effective and accurate transfer of information between shift personnel.

3.2.6 Management shall ensure that proposed changes to facilities and activities subject to DOE regulatory oversight outside the approved Authorization Basis are not implemented without the prior approval of DOE. Proposed changes which may affect the operation of the Lead Cascade or ACP will be subject to NRC requirements.

3.2.7 Management shall ensure that “As Found” conditions outside the approved Authorization Basis are reported to DOE. Appropriate engineering reviews and safety assessments will be performed and submitted to DOE for review and approval. “As Found” conditions outside of the Authorization Basis for operation of the GCEP Leased Premises under the NRC license will be addressed in accordance with NRC requirements.

4.0 ENGINEERING/CONSTRUCTION

4.1 Objective

There shall be a documented, graded approach to the review process to ensure that: all facility and procedure changes are reviewed to confirm that adequate safety and safeguards and security are maintained; unreviewed safety questions are identified; appropriate performance requirements are included in procurement specifications for safety system components; and that appropriate personnel safety measures are in place for the equipment removal or installation activities subject to DOE regulatory oversight.

4.2 Implementation Requirements

4.2.1 Procedures and controls shall be established under a graded approach to ensure appropriate reviews of the following:

4.2.1.1 Each change to procedures or equipment design impacting safety systems to ensure the adequacy of configuration control, radiation protection, criticality systems, safety and health, and safeguards and security considerations and to maintain appropriate limits.

4.2.1.2 Each procurement document for safety systems to ensure that it contains appropriate information on established radiological safety requirements and to ensure that vendors shall supply equipment that will perform under expected service conditions.

4.2.1.3 Reviews will be done for those activities, which have the potential to impact worker safety.

4.2.1.4 Listings of all changes to facility and equipment safety systems evaluated using engineering reviews and safety assessments and the configuration change control process shall be maintained for each calendar year. Appropriate documentation shall be made available for DOE regulatory review in a timely manner, if requested

4.2.2 Controls for radiation protection shall implement physical design features to minimize radiological exposure to As Low As Reasonably Achievable (ALARA).

4.2.3 Engineering reviews of proposed changes to activities subject to DOE regulatory oversight which involve an unreviewed safety question are submitted to DOE in a timely manner for review and approval prior to implementation.

5.0 TRAINING AND QUALIFICATION

5.1 Objective

Personnel must be aware of and trained to recognize and address safety and health hazards and safeguards and security requirements that they will encounter in their jobs, and they must be appropriately trained and qualified for the functions they perform.

5.2 Implementing Requirements

5.2.1 Each Corporation manager shall define the required training needs and assure completion of training of their subordinates consistent with their job.

5.2.2 Corporation personnel and visitors or contractors shall successfully complete General Employee Training (GET) and any specific training in the areas listed below before they are granted unescorted access to controlled areas.

5.2.2.1 Radiological, criticality, chemical and industrial safety hazards and rules;

5.2.2.2 Emergency Preparedness; and

5.2.2.3 Safeguards and security.

5.2.3 Corporation personnel shall successfully complete radiation protection training before they are granted unescorted access to radiological areas.

5.2.4 Corporation personnel shall successfully complete applicable training for the safety aspects associated with the activities to be performed.

5.2.5 Corporation personnel shall successfully complete safeguards and security training, retraining and re-qualification at established intervals.

5.2.6 Training requirements shall be defined and listed on the applicable Training Requirements Matrices (TRMs). Training shall be provided to supervisors and managers with respect to their responsibilities in the areas of safety, health and safeguards and security.

5.2.7 Selection and qualification of quality assurance personnel involved in inspection, tests, independent assessments, and audits shall meet the requirements specified in the Quality Assurance Program (QAP).

6.0 QUALITY ASSURANCE

6.1 Objective

A Quality Assurance Program (QAP) shall be established to ensure that planned and systematic actions subject to DOE regulatory oversight will provide adequate confidence that safety and health and safeguards and security related structures, systems, and components meet requirements and will perform satisfactorily in service.

The Corporation shall perform activities within the GCEP Leased Premises in accordance with the conditions specified in the 10 CFR Part 830 Exemption Decision dated February 2, 2004, as amended, for activities covered by the GCEP ROA. Failure to comply with the conditions specified in the Exemption Decision would be an OPAE violation of DOE Nuclear Safety Requirements enforceable under 10 CFR Part 820.

Enforcement of 10 CFR Part 820 enforcement actions is the responsibility of OPAE and may include OPAE civil penalties.

7.0 MAINTENANCE

7.1 Objective

Maintenance shall include effective programs for preventive maintenance, corrective maintenance, and calibration of instruments.

7.2 Implementation Requirements

7.2.1 A graded corrective and preventive maintenance program shall be implemented to ensure that timely maintenance is performed on safety systems and safeguards and security equipment.

7.2.2 A graded instrument calibration program, employing standards traceable to the national standards system or to nationally accepted standards, shall be implemented for the calibration of equipment and monitoring devices necessary for the proper maintenance and operation of safety systems and safeguards equipment.

8.0 RADIATION PROTECTION

8.1 Objective

The radiation exposure of employees, contractors, and visitors and the release of radioactive effluents to unrestricted areas shall be maintained ALARA with economic and societal factors being taken into account.

The Corporation shall perform activities within the GCEP Leased Premises in accordance with the conditions specified in the 10 CFR Part 835 Exemption Decision dated February 3, 2004, as modified by letter dated August 13, 2004, for activities covered by the GCEP ROA. Failure to comply with the conditions specified in the Exemption Decision would be an OPAE violation of DOE Nuclear Safety Requirements enforceable under 10 CFR Part 820. Enforcement of 10 CFR Part 820 enforcement actions is the responsibility of OPAE and may include OPAE civil penalties.

This GCEP ROA also provides for contract enforcement by various actions and penalties, including contractual requirements for health and safety and common defense and security. In addition to operating in accordance with the conditions in the 10 CFR Part 835 exemptions, the following requirements are included as part of this GCEP ROA:

8.2 Implementation Requirements

8.2.1 A radiation control program that defines steps to be taken to limit exposure of workers and the public shall be established.

8.2.2 Line management shall ensure that radiological activities are conducted in accordance with radiation protection instructions and procedures.

8.2.3 Radiation protection personnel, independent of organizations responsible for equipment removal or installation, shall be provided to guide and assist line managers in fulfilling their radiation protection responsibilities.

8.2.4 A radiation protection manager shall be provided to advise and consult with line managers and to guide the radiation protection activities.

8.2.5 Instructions concerning all the activities of radiation protection technicians shall be provided. Radiation protection procedures for the control and use of radioactive materials and radiation- generating devices shall provide for safe operations.

8.2.6 A formally structured, auditable ALARA program with established milestones to ensure that exposures are maintained at ALARA levels shall be in place.

8.2.7 A respiratory protection program to limit the intake of airborne radioactive materials and to protect employees from potentially hazardous atmospheres shall be established.

8.2.8 A bioassay system shall be established that will evaluate Committed Effective Dose Equivalents (CEDE) to personnel who are occupationally exposed to radiation with the likelihood to receive an exposure of 100 mrem or greater.

8.2.9 Engineering and administrative controls and personal protective equipment shall be used to control the exposure of employees to internal radiation sources; occupational exposures shall be evaluated and recorded when the potential exposure could exceed 2% of the regulatory limit in a year.

8.2.10 Employee exposure to external radiation sources shall be controlled using postings, interlock systems, monitoring, shielding, and surveys. Occupational exposures shall be evaluated and recorded when the

potential exposure could exceed 2% of the annual limit for effective dose equivalent in a year. Exposure of extremities and the skin shall be evaluated as appropriate.

8.2.11 Radiation areas, high radiation areas, very high radiation areas, contamination areas, high contamination areas, airborne radioactivity areas, and radioactive materials (storage) areas shall be prominently and distinctly marked to preclude inadvertent or unknowing entry by employees, visitors, and contractors.

8.2.12 Plant alarms to alert personnel in and around facilities of emergency conditions or impending hazards shall be provided.

8.2.13 The radiation monitoring and contamination control program shall ensure worker protection from radiation exposures. Sources of radioactive contamination shall be controlled at the source and steps shall be taken to limit the extent of contamination. The extent of contaminated areas shall be limited by vigorous decontamination efforts.

8.2.14 Airborne radioactive materials, surface contamination, and external radiation exposures shall be monitored and surveyed to assure that employee internal accumulations of radioactive materials can be routinely estimated and to ensure that exposures are at ALARA levels.

8.2.15 Personnel dosimetry shall be used and maintained so that results will be accurately determined.

8.2.16 A formal inventory program to account for nonexempt by-product material sources and to provide for their control, movement, and leak testing shall be maintained.

8.2.17 Provisions shall be made to provide for oversight of radiation protection programs. The audit program for both routine operations and unusual radiological occurrences shall provide for adequate assessment of performance.

8.2.18 A Radiation Work Permit (RWP) system to ensure that radiation exposure and contamination controls are applied to all activities involving entry into radiation, airborne radioactivity, and contamination areas and to other work areas with radioactive materials, shall be established.

8.2.19 Radiation protection instructions to workers such as RWPs shall be

available for review at the entry of the work area to which they apply.

8.2.20 Radiation measuring instruments used to evaluate hazards or define employee exposure shall be subject to periodically scheduled maintenance and calibration in accordance with approved procedures; the sources of radiation used to calibrate these instruments will be National Institute of Standards and Technology (NIST) traceable.

8.2.21 Employees shall be provided with an annual report of their occupational exposure history and visitors shall be provided with information with respect to their exposure. Summary exposure information shall be reported annually.

8.2.22 Records related to occupational radiation exposure shall be maintained in a manner that permits easy recovery of the data, allows for trend analysis, and aids in the protection of the individual and the control of radiation exposure.

8.2.23 In addition to radiological protection, an occupational health program shall be established to oversee, promote, and protect the radiological and non-radiological health of plant personnel.

9.0 NUCLEAR CRITICALITY SAFETY

9.1 Objective

The GCEP facilities while under DOE regulation will be categorized as a Radiological Facility. As such 10 CFR 830 Subpart B will not apply. However, should the categorization of the GCEP facilities change to Category 3 or higher then the requirements of 10 CFR 830 Subpart B and DOE O 420.1A, “Facility Safety”, Section 4.3 (except 4.3.2.j) will be applicable and the following requirements for Nuclear Criticality Safety will apply. The regulatory oversight for the design and operational integrity of the GCEP NCS system to be used upon transition of GCEP regulation to NRC is the responsibility of the NRC.

A Nuclear Criticality Safety (NCS) Program shall provide the necessary elements to protect personnel from potentially dangerous effects of a nuclear criticality accident. This goal shall be accomplished by Nuclear Criticality Safety Evaluations/Analyses (NCSEs/As) and implementation of any administrative and engineered process controls identified in accordance with the NCS Program.

9.2 Implementation Requirements

9.2.1 The GCEP Leased Facilities have been previously used for enrichment processing with centrifuge machines. Residual contamination of process equipment is present that could have NCS Implications, where enrichment exceeded 1 percent U^{235}. Therefore, a two-part approach is required to be implemented. First, NCSEs/As and controls (if any) must be maintained during the equipment removal phase to ensure that possible criticality contingencies are controlled. Second, the activities subject to DOE regulatory oversight must be evaluated through an NCS program to provide engineering and administrative controls to demonstrate the safety of the proposed activities. The requirements are:

9.2.1.1 Develop an NCS Program that ensures activities with fissionable material remain sub-critical under all normal and credible abnormal conditions.

9.2.1.2 NCSEs/As shall be performed and/or maintained consistent with the requirements of the NCS Program.

9.2.1.3 Nuclear Critical Accident Alarm System meeting the requirements of ANS 8.3 shall be provided if required by the NCS Program for coverage of areas involving credible criticality accidents.

9.2.1.4 Technical Requirements or equivalent (if required) shall specify actions to be taken in the event of an inoperable Nuclear Criticality Accident Alarm System.

10.0 FIRE PROTECTION

10.1 Basic Objective

The Fire Protection Program shall ensure that no undue threats to the public or employees will result from fire and resultant perils.

The fire protection program will comply with the following standards for modifications to the GCEP Leased Premises that affects the fire protection system: DOE O 420.1A, Section 4.2, Fire Protection, NFPA 10-1990, Portable Fire Extinguishers, NFPA 13-1989, Standard for the Installation of Sprinkler Systems; NFPA 15-1990, Water Spray Systems; NFPA 24-1992, Private Fire Service Mains; and NFPA 30-1990, Flammable Liquids. Any deviations found during future modifications will be documented and justified by the Authority Having Jurisdiction (AHJ) or corrective action will be taken.

10.1.1 The fire protection program shall have the following features:

10.1.1.1 A policy statement that incorporates the requirements of this section, related DOE directives, and other applicable

Federal, state, and local fire protection requirements. The statement shall affirm management's commitment to support a level of fire protection and fire suppression capability sufficient to minimize losses from fire and related hazards consistent with the best class of protected property in private industry.

10.1.1.2 Comprehensive, written fire protection criteria that reflect additional site-specific aspects of the fire protection program, including the organization, training, and responsibilities of the fire protection staff, administrative aspects of the fire protection program, and requirements for the design, installation, operability, inspection, maintenance, and testing of fire protection systems.

10.1.1.3 Written fire safety procedures governing the use and storage of combustible, flammable, radioactive, and hazardous materials so as to minimize the risk from fire. Such procedures shall also exist for fire protection system impairments and for activities such as smoking, hot work, safe operation of process equipment, and other fire prevention measures which contribute to the decrease in fire risk.

10.1.1.4 A system to ensure that the requirements of the DOE fire protection program are documented and incorporated in the plans and specifications for all new facilities and for significant modifications of existing facilities. This includes a documented review by a qualified fire protection engineer of plans, specifications, procedures, and acceptance test.

10.1.1.5 Fire hazard analyses (FHAs) or equivalent[1] shall be developed for all nuclear facilities, significant new facilities, and facilities that represent unique or significant fire safety risks. The FHA shall be developed using a graded approach. The conclusions of the FHA shall be incorporated in the Facility Accident Analysis and shall be integrated into design basis and beyond design basis accident conditions.

10.1.1.6 Access to a qualified and trained fire protection staff, including a fire protection engineer(s), technicians, and fire fighting personnel to implement the fire protection requirements.

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1 "or equivalent" will require a submittal of documentation of equivalency by USEC and approval by DOE.

10.1.1.7 A “baseline” needs assessment or equivalent [2] that establishes the minimum required capabilities of site fire fighting forces. This includes minimum staffing, apparatus, facilities, equipment, training, fire pre-plans, off-site assistance requirements, and procedures. Information from this assessment shall be incorporated into the site Emergency Plan.

10.1.1.8 Written pre-fire strategies, plans, and standard operating procedures to enhance the effectiveness of site fire fighting forces, where provided. Such procedures shall include those governing the use of fire fighting water or other neutron moderating materials to suppress fire within or adjacent to moderation controlled areas. Restrictions on the use of water shall be fully justified on the basis of criticality safety.

10.1.1.9 A comprehensive, documented fire protection self-assessment program, which includes all aspects (program and facility) of the fire protection program. Assessments shall be performed on a regular basis at an established frequency.

10.1.1.10 A program to identify, prioritize, and monitor the status of fire protection-related appraisal findings/recommendations until final resolution is achieved. When final resolution will be significantly delayed, appropriate interim compensatory measures shall be implemented to minimize the fire risk.

10.1.1.11 A process for reviewing and recommending approval of fire safety “equivalencies” and “exemptions” to the AHJ for fire safety.

10.2 Implementation Requirements

10.2.1 The Fire Protection Program shall be under the direction of an individual who has been assigned as AHJ commensurate with the responsibilities of the position.

10.2.2 Fixed fire suppression systems, where provided, shall be tested and maintained such that fires in those areas are controlled promptly.

10.2.3 Automatic fire suppression systems shall be provided for areas containing

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[2] “or equivalent” will require a submittal of documentation of equivalency by USEC and approval by DOE

safety systems and for all areas subject to significant life safety hazards.

10.2.4 A reliable water supply, with sectional isolation valves shall be maintained.

10.2.5 Closing of valves supplying fire suppression systems shall be controlled by a written permit system.

10.2.6 A fire department shall be maintained as an acceptable means of redundant fire protection.

10.2.7 Fire Department personnel shall be available at all times and shall be trained and equipped to handle anticipated types of fires and other emergencies.

10.2.8 Mobile fire apparatus that is required to support fire-fighting operations shall be provided and maintained.

10.2.9 Breathing air used in fire fighting shall meet a minimum quality of Grade D.

10.2.10 On-site fire protection support shall be available to evaluate the fire hazards of changes to maintenance and process systems.

10.2.11 A fire protection review of design documents for new facilities and for modifications to existing facilities shall be made to insure that fire protection issues have been properly addressed.

10.2.12 Fire protection appraisals of important buildings shall be conducted periodically to identify changes that adversely impact existing fire protection levels. Means of emergency egress shall be regularly inspected for all areas that are normally occupied. Personnel who are trained and knowledgeable in detecting fire hazards shall conduct periodic inspections of all important buildings and other structures.

10.2.13 All fires shall be investigated and root causes determined.

10.2.14 Portable fire extinguishers shall be available throughout the plant commensurate with the hazard.

10.2.15 A fire alarm system that reports to a continuously manned location shall monitor fire alarms in all important buildings and structures.

10.2.16 Welding/burning/hot work shall be controlled by a written permit system to minimize the fire hazards of open flame equipment.

10.2.17 Emergency medical services shall be provided to assure proper emergency care of injured employees.

10.2.18 Noncombustible or fire-resistive construction shall be utilized, where appropriate. Also, complete fire-rated barriers that are commensurate with the fire hazard to isolate hazardous occupancies and to minimize spread shall be utilized, as required.

10.2.19 A means to notify and evacuate building occupants in the event of a fire, such as a fire detection or fire alarm system and illuminated, protected egress paths shall be provided.

10.2.20 Physical access and appropriate equipment to facilitate effective intervention by the fire department, such as an interior standpipe system(s) in multi-story or large facilities with complex configurations, shall be provided.

10.2.21 A means to prevent the accidental release of significant quantities of contaminated products of combustion and fire fighting water to the environment, such as ventilation control and filter systems and curbs and dikes, or equivalent [3] shall be provided. Such features would only be necessary if required by the FHA or safety analysis in conjunction with other facility or site environmental protection measures.

10.2.22 Fire and related hazards that are unique to GCEP and are not addressed by industry codes and standards shall be protected by isolation, segregation, or use of special fire control systems, such as inert gas or explosion suppression, as determined by the FHA, shall be provided.

10.2.23 Fire protection systems shall be designed such that their inadvertent operation, inactivation, or failure of structural stability will not result in the loss of vital safety functions or inoperability of safety class systems as determined by the safety analysis.

11.0 ENVIRONMENTAL PROTECTION

11.1 Objective

The Corporation will perform activities in the GCEP Leased Premises in a manner such that the release of potential environmental hazards to the air, ground and water comply with applicable regulatory and permit requirements and is consistent with the radiation protection program objective of limiting radioactive releases to the environment, as low as reasonably achievable (ALARA).

11.2 Implementation Requirements

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3 "or equivalent" will require a submittal of documentation of equivalency by USEC and approval by DOE.

Provisions shall be implemented as follows to prevent, monitor, mitigate and report environmental releases impacting the public and the environment.

11.2.1 A mitigation/spill prevention, control and countermeasures program shall be maintained to prevent releases to the environment.

11.2.2 Environmental monitoring shall be implemented if required by applicable regulations or permits. The monitoring will determine the effects, weather impacts, and personnel exposure and collect required sampling and analysis data relative to releases to the environment of hazardous effluents.

11.2.3 Monitoring data, including data, for emergency reporting where regulatory limits are exceeded will be collected and reported as required under applicable regulations and permits.

12.0 NUCLEAR MATERIAL SAFEGUARDS

12.1 Objective

A documented program shall be implemented to protect nuclear material (NM) from unauthorized removal; to prevent unlicensed enrichment of nuclear material to special nuclear material; to control and account for NM using standard methods; and to protect NM facilities against radiological sabotage. This program shall provide the level of protection mandated by DOE Orders. The Orders shall apply only to the extent of the security interest present at the facility. Hazards and hazard mitigation are not covered by Nuclear Materials Safeguards.

12.2 Implementation Requirements

12.2.1 Written plans and procedures that identify the strategies, mechanisms, and commitments to protect NM from unauthorized removal, to account for NM, to prevent unlicensed enrichment of nuclear material to special nuclear material; and to protect NM facilities against radiological sabotage.

12.2.2 A system for tracking, accounting for, and reporting to the Nuclear Materials Management System and Safeguards (NMMSS), all reportable quantities of nuclear material.

12.2.3 A measurement control program, providing for the degree of measurement control for ensuring that equipment used to measure nuclear materials is properly calibrated using standards traceable to national standards and for supporting the estimation of the contribution of measurement certainty to inventory difference.

12.2.4 If applicable, physical barriers, vaults, intrusion detection systems, and

access controls designed to protect NM from access by unauthorized personnel or from unauthorized removal.

12.2.5 A system of independent audits and assessments to verify the effectiveness of the elements of the Nuclear Material Control & Accountability (NMC&A) program, including measurement controls, material controls, and accounting systems.

12.2.6 A system of performance testing to verify the effectiveness of the nuclear materials protection program, as required.

12.2.7 Written Plans and procedures to ensure implementation of Voluntary agreements and the Additional Protocol between the United States of America and the International Atomic Energy Agency while protecting site safeguards and security interests.

13.0 EMERGENCY PREPAREDNESS

13.1 Objective

In order to ensure the protection of the workers, public, and the environment, in the event of an emergency involving activities in these facilities, the lessee must develop, implement, and maintain their Emergency Management Program commensurate with their identified hazards.

13.2 Implementation Requirements

13.2.1 An individual shall be designated responsibility for implementation of the Emergency Management Program at PORTS as it pertains to the Corporation Lead Cascade/ACP and clean-up activities. Responsibilities of any project individuals supporting the PORTS Emergency Preparedness Program shall be clearly defined.

13.2.2 A hazards assessment shall be developed and maintained for use in emergency planning. This assessment shall consider the broad spectrum of events that could affect the facilities and be used in the development of the Emergency Management Plan.

13.2.3 An Emergency Management Plan shall be developed and maintained as a controlled document. The Emergency Management Plan and its associated support documents shall be reviewed annually and updated as necessary.

13.2.4 In coordination with the DOE site personnel, provisions shall be made for recovery from an emergency in the GCEP Leased Premises and re-entry into the buildings. These provisions shall include specific procedures for

termination of an emergency, dissemination of information, establishment of a recovery team, and criteria for resumption of activities in support of the Lead Cascade/ACP.

13.2.5 In coordination with the DOE site personnel, training for any project emergency response individuals on their duties in the emergency response plan shall be identified and maintained on an established schedule.

13.2.6 Project emergency response individuals shall participate in site emergency response exercises, as requested.

14.0 WASTE MANAGEMENT

14.1 Objective

Management of waste shall be conducted in accordance with applicable Federal, state, and local laws and regulations. The management of hazardous, radioactive, and mixed waste shall be conducted in manner to ensure that the radioactive releases, should they occur, are below regulatory limits and ALARA.

14.2 Implementation Requirements

The regulatory requirements for mixed wastes (i.e., hazardous/radioactive) are addressed in environmental law as well as under the Atomic Energy Act of 1954, as amended. The requirements under environmental law are codified in the Code of Federal Regulations of Title 40 Parts 260 through 273 in accordance with Subtitle C of the Resource Conservation and Recovery Act (RCRA) and in Ohio hazardous waste regulations. The radioactive components for these and for all low-level radioactive wastes as well as hazardous and mixed waste are subject to the following implementing requirements:

14.2.1 The safety and health of the public shall be protected by managing activities in support of the Lead Cascade/ACP, clean-up, and related operations in a manner that provides for the safe handling, transportation, and storage of hazardous, radioactive, or mixed wastes generated. This is accomplished by managing hazardous, radioactive, or mixed wastes according to the requirements of the Atomic Energy Act (AEA) and applicable state requirements.

14.2.2 A Waste Minimization Program shall be implemented to segregate, substitute, and minimize the amount of waste requiring disposal.

14.2.3 All hazardous, radioactive, and mixed wastes shall be characterized with sufficient accuracy to permit segregation, handling, and transfer to

treatment, storage, or disposal facilities (TSD). Additional characterization needed to ensure the actual physical and radiological characteristics meet the waste acceptance criteria (WAC) of an off-site TSD facility shall be performed prior to shipment to an offsite TSD facility.

14.2.4 An operating record-keeping system shall be developed and maintained to document the following: (1) a historical record of waste generated, treated, stored, shipped, and/or disposed of; (2) data necessary to show that the waste was properly classified, treated, stored, shipped, and/or disposed of; and (3) waste manifests.

14.2.5 A program will be in place to inspect off-site treatment storage and disposal facilities and practices.

15.0 SAFETY ANALYSIS

15.1 Objective

A thorough safety analysis of all activities subject to DOE regulatory oversight shall be conducted to assure that hazards have been identified and that appropriate limits and controls are identified to provide for safe activities under potential accident conditions providing assurance of no undue risk to the public, protecting the environment, and providing a safe work place for personnel.

15.2 Implementation Requirements

15.2.1 Determine the facility preliminary classification by maximum quantity of nuclear material included in the design.

15.2.2 Perform hazards evaluation, accident analysis, and determine controls and document. The design must provide for adequate protection against natural phenomena with consideration of the most severe documented historical events for the site. (10 CFR 70.64)

15.2.3 Establish an unreviewed safety question evaluation process or equivalent to prevent inadvertent change to documented safety analysis or any of its basis or conclusions.

15.2.4 Document controls from the safety analysis in technical safety requirements or equivalent.

15.2.5 Conduct activities consistent with procedures and /or work instructions, as required by the Quality Assurance Program.

16.0 SECURITY

16.1 Objective

Security plans shall be developed and implemented to protect national security interests other than nuclear material (NM), including classified information and material and sensitive unclassified information and material (e.g., Export Controlled Information) at the Corporation facilities covered by this agreement. The DOE Orders, Manuals and Guides shall apply only to the extent of the security interest present at the facility. Hazards and hazard mitigation are not covered by Security. Specific safeguards and security measures are documented in approved plans as appropriate.

16.2 Implementation Requirements

16.2.1 Measures to ensure effective management and implementation of the security plans shall be developed and implemented. These include:

16.2.1.1 Documented security plans: DOE O 470.4, and DOE M470.4-2, Chg 1.

16.2.1.2 Utilization of a protective force as appropriate, the armed, uniformed members of which are trained and qualified under a DOE certified program: DOE/USEC Arming and Arrest Authority Security Plan, as amended.

16.2.1.3 Conformance to measures to control the issuance and use of security badges, credentials, and shields: DOE O 470.4-2, Chg 1.

16.2.1.4 Program of security systems performance testing: DOE O 470.4 and DOE O 473.2. Program for the inquiry and reporting to DOE of incidents of security concern: DOE O 470.4.

16.2.1.5 Changes to the GCEP leased premises/equipment that could directly/indirectly affect Safeguards and Security shall require a Decreased Effectiveness Evaluation (DEE) of the affected security plan(s). Safeguards and security plan changes shall be evaluated to ensure that the personnel safety is unaffected.

16.2.2 Documented measures to protect classified information and materials from loss or unauthorized disclosure shall be developed and implemented. These include:

16.2.2.1 Programs for facility clearances and registration of safeguards and security activities. (DOE O 470.4)

16.2.2.2 Program ensuring timely submittal of information for Foreign Ownership, Control or Influence (FOCI) determinations. (DOE O 470.4)

16.2.2.3 Measures to identify classified information: DOE O 200.1, DOE M 475.1-1A.

16.2.2.4 Controls of classified documents and information: DOE M 470.4-4.

16.2.2.5 Physical protection measures for classified information and material: DOE M 470.4-4.

16.2.2.6 Controls for hand carrying of classified matter on air carriers: DOE M 470.4-4.

16.2.2.7 Personnel security program to limit access to classified information and materials to appropriately cleared individuals with a need to know: DOE M 470.4-5, DOE M 472.1-1B.

16.2.2.8 Security education and awareness program: DOE O 470.4.

16.2.2.9 Communications security program: DOE O 200.1, DOE M 200.1-1, DOE G 200.1-1.

16.2.2.10 Classified computer security program: DOE M 470.4-4, DOE M 471.2-2.

16.2.2.11 Controls on classified visits: DOE O 470.4.

16.2.2.12 Technical surveillance countermeasures program: DOE M 470.4-4 and DOE TSCM Procedural Manual.

16.2.3 Documented measures to protect unclassified sensitive information and materials from loss or unauthorized disclosure shall be developed and implemented. These include:

16.2.3.1 Operations security program: DOE M 470.4-4.

16.2.3.2 Information security program: DOE M 470.4-4.

16.2.3.3 Counterintelligence program, provided by the Oak Ridge Office of Counterintelligence: DOE O 475.1.

16.2.3.4 Guidelines on Export Control and Nonproliferation, July 1999, U.S. Department of Energy.

16.2.3.5 Measures to identify, control, and protect unclassified controlled nuclear information (UCNI): DOE O 471.1A, DOE M 471.1-1, Chg 1.

16.2.3.6 The Corporation will submit an unclassified computer security plan for DOE's approval. Upon approval, this plan will represent the unclassified computer security standards to which the Corporation will conform (DOE O 205.1, DOE N 205.2, DOE P 205.1, DOE N 205.3, DOE N 205.8, DOE N 205.9, DOE G 205.1-1, DOE M 205.1.1).

16.2.3.7 Program to control unclassified visits and assignments by foreign nationals: DOE O 142.3.

16.2.3.8 Measures to identify, control, and protect Official Use Only (OUO) information, as appropriate: DOE O 471.3, DOE G 471.3-1, DOE M 471.3-1.

16.2.4 A documented program shall be implemented to ensure that those individuals requiring a DOE-issued Weapons Authorization Card have met the necessary requirements for a Security Police Officer.[4] The program for issuance of Weapons Authorization Cards shall include the following elements:

16.2.4.1 A documented program providing the level of information mandated by the Code of Federal Regulations and DOE Orders and Directives for the issuance of Weapons Authorization Cards. (10 CFR 1046, 10 CFR 1047, DOE O 473.2, DOE M 470.4-3, Chg 1)[5]

16.2.4.2 A documented program for medical, physical fitness training, and firearms that certifies each individual for a Weapons Authorization Card. (10 CFR 1046.12, 10 CFR 1046.13, 10 CFR 1046.16, DOE O 473.2, DOE M 470.4-3, Chg 1)

16.2.4.3 Access authorization commensurate with the level of classified matter access. (10 CFR 1046.14, DOE O 473.2, DOE M 470.4-3, Chg 1)

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4 Within 60 days after issuance of any new DOE orders addressing DOE security interest at Portsmouth, the DOE Regulatory Oversight Manager will inform USEC of the issuance of the new order(s). This notification shall be considered to be a modification the Regulatory Oversight Agreement (ROA**)**. USEC shall come into compliance with such modifications to the ROA within the time specified and directed by DOE.

5 The citation of specific DOE orders in Section 16.2.1 is applicable to the date of this revision to the ROA. Compliance with current DOE orders shall be maintained as indicated in Note 4 to Section 16.2.

16.2.4.4 A documented continuing physical fitness training program. (DOE Medical and Fitness Implementation Guide, dated March 1991, 10 CFR Part 1046)

16.2.4.5 A documented program on the use of limited arrest authority and use of force by a Security Police Officer. (10 CFR Part 1047, DOE O 473.2, DOE M 470.4-3, Chg 1)

16.2.4.6 A documented program that prohibits any individual convicted in any court of a misdemeanor crime of domestic violence, or discharged under dishonorable conditions from being issued a Weapons Authorization Card. [Omnibus Consolidated Appropriations Act of 1997, Pub. L. No. 104-208, Paragraph 658, (1996); Gun Control Act of 1968, 18 U. S. C. Paragraphs 922 (g) (6) and (g) (9), (1997); 27 CFR Part 178]

16.2.4.7 A documented program to ensure that safety policies and procedures are in place for firearms safety (DOE O 440.1A, DOE O 473.2, DOE-STD-1091-96)

16.2.4.8 A documented to ensure uniform qualifications and requalification of a Security Police Officer. (DOE O 473.2, DOE M 470.4-3, Chg 1)

16.2.4.9 Measures to control the issuance and use of security badges, credentials, and shields. (DOE M 470.4-2, Chg 1)

17.0 CHEMICAL SAFETY

17.1 Objective

Chemical safety practices in performing the activities subject to DOE regulation shall be such as to prevent or minimize chemical releases and provide for personnel protection.

17.2 Implementation Requirements

Chemical safety programs shall be established and implemented to:

17.2.1 Provide for the adequate storage of chemicals and other hazardous materials.

17.2.2 Provide proper personal protective equipment for personnel handling hazardous materials.

17.2.3 Ensure hazardous chemicals are adequately identified and communicated to personnel.

17.2.4 Ensure that the levels of air contaminants within the GCEP Leased Premises are within the established standards of OSHA.

17.2.5 Provide for chemical related medical emergency response.

18.0 PACKAGING AND TRANSPORTATION

18.1 Objective

The Packaging and Transportation program shall maintain compliance with the various USDOT, EPA, and State of Ohio requirements.

18.1.1 An individual shall be designated to implement a packaging and transportation program.

18.1.2 Coordinate with PORTS site personnel on movements of UF_6.

18.2 Implementation Requirements

18.2.1 Packaging and Transportation procedures shall be established and implemented to:

18.2.1.1 Implement the USDOT and 49 CFR Parts 100-180 requirements for the offsite transportation of hazardous materials (including environmental samples), substances and wastes.

18.2.1.2 Ensure the USDOT and 49 CFR Parts 350-399 requirements for the offsite operation of vehicles with a GVWR of 10,000 lbs or greater.

18.2.1.3 Implement the USDOT, International Civil Aviation Organization (ICAO), International Air Transport Association (IATA) and 49 CFR Parts 100-180 requirements for the off-site transportation of hazardous materials (including environmental samples), substances and wastes via aircraft.

18.2.1.4 Ensure that transfers of hazardous materials (other than UF_6) are to be in USDOT required packaging.

18.2.1.5 Onsite handling procedures and packaging criteria for UF_6 shall be in accordance with USEC-651, *Good Handling Practices for Uranium Hexafluoride*, or ANSI N14.1.

Appendix B to Exhibit M

Enforcement Process

APPENDIX B — ENFORCEMENT PROCESS

GENERAL APPROACH TO ENFORCEMENT PROCESS

The Atomic Energy Act of 1954, as amended, requires DOE to protect the public health and safety, as well as the safety of workers at DOE-owned facilities, and to provide for the common defense and security in conducting its nuclear activities, and grants DOE broad authority to achieve these goals. DOE will exercise its oversight authority both by contract (lease) and by DOE regulations.

DOE provides for nuclear safety management, including quality assurance, under 10 CFR Part 830 and "DOE Nuclear Safety Requirements" for worker radiation protection under 10 CFR Part 835. USEC requested and has been granted an exemption to the requirements of 10 CFR Parts 830 and 835. As such, the Corporation shall perform the gas centrifuge activities related to quality assurance and worker radiation protection, not under the regulation of NRC, in accordance with the conditions specified in the 10 CFR Part 830 and 10 CFR Part 835 Exemption Decisions dated February 2, 2004, as amended, and February 3, 2004, as amended, respectively and the requirements established in this ROA.

The enforcement procedures of 10 CFR Part 820, Appendix A and relevant OPAE Enforcement Guidance Supplements will apply to any potential OPAE violations related to the requirements of the 10 CFR Parts 830 and 835 exemptions decisions. The enforcement process established in this Appendix will apply to any potential ROA violations to the contract (lease) requirements of Appendix A, except any CI violations relating to the security or safeguarding of Classified Information, which will be enforced in accordance with 10 CFR Part 824 "Procedural Rules for the Assessment of Civil Penalties for Classified Information Security Violations".

Consistent with this responsibility, DOE will take prompt and vigorous enforcement actions when dealing with the Corporation when it does not comply with applicable DOE requirements contained in Chapter 3 of the Plan. This Appendix establishes the procedures for (a) investigating the nature and extent of alleged ROA violations of the Nuclear Safety and Safeguards and Security Requirements set forth in Chapter 3 of Appendix A, entitled "Safety Basis and Framework for DOE Oversight of the Gaseous Diffusion Plants;" (b) determining whether a ROA Violation has occurred; and (c) if a ROA violation has occurred, imposing an appropriate remedy, for the contract (lease) requirements of Appendix A.

1. ROA ENFORCEMENT ACTIONS

A. Shutdown Authority

1. Clear and Present Danger

Whenever a DOE Inspector or the DOE Regulatory Oversight Manager in carrying out his or her responsibilities, determines that the nuclear safety or safeguards and security conditions at any GCEP Leased Facility constitute a Clear and Present Danger, he or she shall immediately notify the cognizant operations supervisor. If the supervisor fails to take what

the DOE Inspector/site safety representative believes is appropriate and timely action to curtail or suspend the activity or operation, or to mitigate the identified Clear and Present Danger by other means, the DOE Inspector shall notify the plant shift superintendent. The DOE Inspector shall explain the situation and request that the plant shift superintendent take appropriate action to curtail or suspend the activity or operation, or to mitigate the danger by other means. The Corporation agrees that the plant shift superintendent shall take timely action to curtail or suspend the operation, or to mitigate the danger by other means, when so requested by the DOE Inspector when said DOE representative perceives a Clear and Present Danger to exist. The plant shift superintendent shall inform the DOE Inspector of the actions taken to curtail or suspend the activity or operation, or to mitigate the identified Clear and Present Danger by other means. If the DOE Inspector believes that these actions are not sufficient, he or she shall notify the DOE Regulatory Oversight Manager, informing him or her of the details of the situation. If the DOE Regulatory Oversight Manager agrees that the action taken is not sufficient, he or she shall contact the plant superintendent and direct that he or she take specific actions to curtail or suspend the activity or operation, or to mitigate the danger by other means. When so directed by the DOE Regulatory Oversight Manager, the Corporation agrees to take, or cause the operating contractor to take, these specific actions. DOE and the Corporation agree that no written notice is required for DOE to exercise its shutdown authority pursuant to this paragraph.

2. Unreviewed Safety Questions

The DOE Regulatory Oversight Manager may also order an activity or operation curtailed or suspended, in the absence of a Clear and Present Danger, when he or she concludes that continued operation would involve an Unreviewed Safety Question, as defined in this Agreement.

B. ROA Notice of Violation

In the event of an alleged ROA Violation, the DOE Regulatory Oversight Manager shall provide USEC with a written ROA Notice of Violation. The written ROA Notice of Violation shall concisely describe the alleged failure of the Corporation to meet one or more of the Nuclear Safety and Safeguards and Security Requirements in effect at the time of the alleged ROA Violation. In particular, the ROA Notice of Violation shall specify the date or dates, facts, and the nature of the alleged acts or omissions constituting the ROA Violation, and shall identify specifically the particular provision or provisions of the Nuclear Safety and Safeguards and Security Requirements involved in the alleged ROA Violation. Within 30 days of the date of the notice or other time period specified in the notice, USEC will submit a written reply. USEC may admit or deny the alleged ROA Violation and state the reasons for the ROA Violation, if admitted. In the event the alleged ROA Violation is admitted, this reply shall also contain an explanation or statement including: (1) corrective steps that have been taken by USEC or others and the results that have been achieved; (2) corrective steps that will be taken; (3) the date when full

conformance with the Nuclear Safety and Safeguards and Security Requirements in the identified area will be achieved.

C. ROA Civil Penalties

1. Prior to imposing any ROA Civil Penalty on the Corporation, the DOE Regulatory Oversight Manager shall provide to USEC a written ROA Notice of Violation, as described above, and a Notice of Proposed Imposition of ROA Civil Penalty and shall state that the ROA Civil Penalty may be paid in the amount specified therein or the proposed imposition of the ROA Civil Penalty may be protested in its entirety or in part, by a written answer either denying the ROA Violation or showing extenuating circumstances. The Corporation agrees to either pay the ROA Civil Penalty in the amount proposed or answer the Notice Of Proposed Imposition of ROA Civil Penalty within 30 days of the date of a Notice Of Proposed Imposition of ROA Civil Penalty or other time specified in that notice. The answer to the Notice of Proposed Imposition of ROA Civil Penalty shall state any facts, explanations, and arguments, denying the alleged ROA Violation, or demonstrating any extenuating circumstances, error in the ROA Notice Of Violation or other reason why the Proposed ROA Civil Penalty should not be imposed and may request remission or mitigation of the proposed ROA Civil Penalty. If the Corporation files an answer to the Notice of Proposed Imposition of ROA Civil Penalty, the DOE Regulatory Oversight Manager, upon consideration of the answer, will issue a revised Notice of Proposed Imposition of ROA Civil Penalty imposing, mitigating, or remitting the ROA Civil Penalty. The Corporation agrees to either pay the ROA Civil Penalty in the amount specified or appeal the decision to the DOE ORO Manager within 30 days of the issuance of that revised Notice of Proposed Imposition of ROA Civil Penalty. Any appeal shall be presented in writing, with an opportunity for the Corporation to be heard, if so requested.

2. The amount of the ROA Civil Penalty imposed shall be based upon the severity of the ROA Violation, including the potential for the ROA Violation to affect the public health and safety or the common defense and security and whether it was a repeat ROA Violation, the actions taken to respond to the ROA Violation, and any extenuating circumstances. ROA violations of contract (lease) requirements, except the safeguarding and security of Classified Information, and any ROA civil penalties for these ROA violations shall be assigned by the DOE Regulatory Oversight Manager, in accordance with the severity level guidance provided in Appendix A of 10 CFR Part 820. CI violations and CI civil penalties regarding the safeguarding and security of Classified Information will be assigned in accordance with the requirements of 10 CFR Part 824.

3. ROA Civil Penalties imposed on the Corporation pursuant to this Agreement shall not be subject to reimbursement under Sections 5.3 of ARTICLE V, entitled “Allocation of Liabilities,” or ARTICLE X, entitled “Price-Anderson Indemnification”, of the GCEP Lease.

D. Failure to Take Agreed upon Actions

In the event of the failure of the Corporation to take the actions in accordance with this Agreement, the DOE ORO Manager shall take such actions as he or she deems appropriate, consistent with the terms of this Agreement and the GCEP Lease, including, but not limited to, a recommendation to the DOE Lease Administrator that he or she take steps to initiate an orderly termination of the GCEP Lease, to provide adequate assurance that the Corporation’s operation of the GCEP Leased Premises does not pose undue risk to the public health and safety or result in failure to provide for the common defense and security. Notification of the actions taken under such circumstances will be provided to USEC in the form of directives issued by the DOE ORO Manager.

EXHIBIT N

ACTIVITIES REQUIRED BY THE CORPORATION FOR THE DEPARTMENT
TO ACHIEVE TARGETED TURNOVER DATES IN EXHIBIT A

EXHIBIT N

Activities Required by the Corporation for the Department to Achieve Targeted Turnover Dates in Exhibit A Relocation of X-3000 and X-7725 Personnel

The X-720 has been identified as the area for relocation of the Department's contractor personnel from the X-3000 as well as the X-7725. Based on the actions historically performed at the X-720 facility, Beryllium sampling will be conducted by the Department. In the event that the sampling results identify significant Beryllium concerns in the facility, decontamination will be required or an alternative location will have to be identified. (Either scenario will require a schedule extension.) In order to support the Targeted Lease Dates identified in Exhibit A, the areas identified in attachment A-1 and A-2 within the X-720 will be made available for occupancy by the Department's contractor personnel by March 31, 2006. The Corporation shall consolidate personnel in contiguous areas in the X-720 Mezzanine and avoid intermingling Corporation and Department contractor personnel. This will allow work to be performed in these areas and the actual relocation of personnel to take place to support the desired Targeted Turnover Dates. Areas outlined in attachment A-2 will be returned to the Department by the Corporation to support the Department's contractor activities.

In support of the Targeted Lease Dates contained in Exhibit A, the Corporation will perform and/or pay up to $150,000 (using non-Government funds without reimbursement by the Department under any contract, agreement, etc.) for the relocation of personnel to X-720 and reconnection of equipment/telephone, and the following repairs in the X-720 Mezzanine associated with the movement of the Department's contractor personnel:

Excess Material:

The abandoned files, boxes and material need to be removed so the offices can be occupied. There is approximately 2627 ft3 of excess material.

Carpet:

The carpet in the Mezzanine area which is torn, ripped, or with the backing showing through needs to be replaced. The balance of the carpet needs to be cleaned to remove stains. (Approximately 100 yards needs to be replaced and 300 yards needs to be cleaned.)

Tile:

All floor tiles are in acceptable physical condition and needs only stripped and polished. The area requiring cleaning and polishing is approximately 5040 ft2.

Walls:

The walls exhibit dings, scrapes, holes, and scratches, which should be repaired prior to painting. There are no major repairs (e.g. large holes) required and the majority of the surfaces appear in acceptable condition. This equates to approximately 3500 ft2 of wall space requiring preparation and painting.

Repair/replace and clean light fixtures:

Numerous light fixtures, a total of 158, are not working and need to be re-lamped. It does not appear that any light fixtures need to be replaced.

Cubicle Panels

All of the 24 cubicles need inspected and roughly one third will require painting of inside surfaces. The hallway surfaces appear to be in acceptable condition. None of them need to be replaced.

Ceiling Panels:

Broken or badly stained ceiling panels need to be replaced. There are 188 ceiling panels in this condition. All of the translucent ceiling panels need to be cleaned of accumulated dust.

Vents:

Accumulated heavy dust needs to be cleaned from 58 vents.

Turnover of X-3002

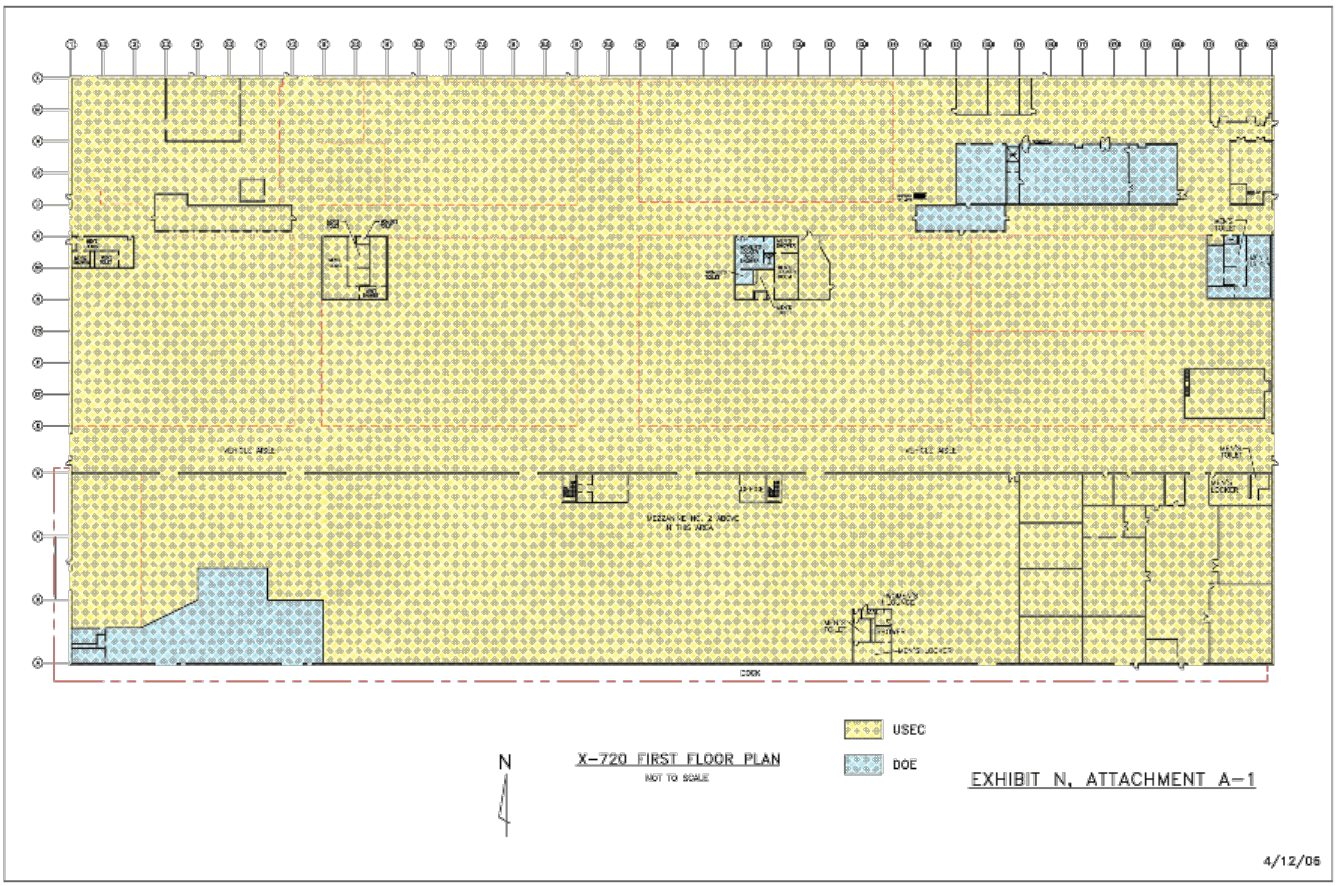
The lease of X-3002 is critical in support of centrifuge deployment and the lease of this facility is subject to the Corporation continuing to provide heating for the X-1000. In order to accommodate the Corporation's needs, the following Targeted Lease Dates of X-3002 have been updated in Exhibit A:

South Half Turnover 09/06
North Half Turnover 03/07

Prior to the leasing of either or both halves of Building X-3002, the Corporation acknowledges that the Department and its contractors have a non-exclusive use of and access to the restrooms and break areas located in the X-3012 and that the central aisle-way in Building X-3002 will remain designated as a Common Area until all of Building X-3002 is leased to the Corporation. In addition, a condition of the lease of the South Half of X-3002 is that the Corporation will comply with the Department's approved security plan in X-3002 while the Department's activities are performed in the X-3002 North Half.

The lease of the Building X-3002 to the Corporation includes all fixtures, including the boilers located in the North Half. The Parties have not reached agreement on any movement of the boilers or who would be responsible for paying the costs associated with any movement of the boilers; however, it is

agreed that any movement or relocation of the boilers will be coordinated through the Shared Site Agreement. The Corporation agrees to furnish heat to Building X-1000 and may bill the Department in accordance with the Services Agreement for it’s pro rata share of reasonable charges associated with providing heat to the X-1000. The Corporation is responsible for providing alternate heat to the Department for Building X-1000 during any movement or replacement of the boilers.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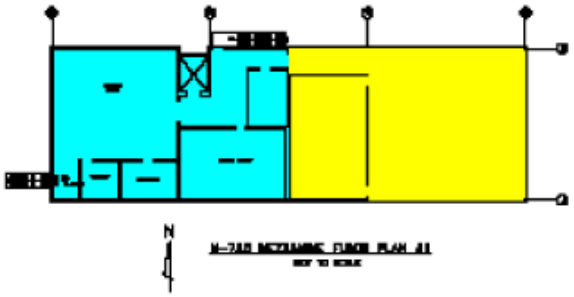


EXHIBIT N, ATTACHMENT A-2

EXHIBIT 10.29

AMENDMENT NO. 5 TO THE DECEMBER 10, 2004
MOA TO PROVIDE FOR THE
CONTINUED DIRECT PAYMENT OF
USEC ALLOWABLE COSTS

This Amendment No. 5 to the December 10, 2004 Memorandum of Agreement between the United States Department of Energy ("DOE") and USEC Inc, a Delaware Corporation headquartered at 6903 Rockledge Drive, Bethesda, MD. 20817 is entered into this 30 th day of November, 2006 (the "Amendment No. 5 Effective Date"). USEC, Inc. and its wholly owned subsidiary, United States Enrichment Corporation, are herein referred to as, " USEC." DOE and USEC are sometimes referred to herein as "Parties."

WHEREAS, on December 10, 2004, the Parties entered into a Memorandum of Agreement for the Continued Operation of the Portsmouth S&T Facilities for the Processing of Affected Inventory in Fiscal Year 2005 and Thereafter (the "MOA"); and

WHEREAS, on May 16, 2005, the Parties entered into Amendment No. 1 to the MOA; and

WHEREAS, on February 9, 2006, the Parties entered into Amendment No. 2 to the MOA; and

WHEREAS, acting pursuant to Amendment No. 2 to the MOA, DOE transferred 200 MTU of Feed Material (" Supplemental Barter Material") to USEC; and

WHEREAS, acting pursuant to Amendment No. 2 to the MOA, USEC sold such Supplemental Barter Material and received in return sales proceeds in the amount of $22.42 million; and

WHEREAS, such sales proceeds were used to compensate USEC for Allowable Costs incurred in performing work under the MOA as amended; and

WHEREAS, on June 23, 2006 the Parties entered into Amendment No. 3 to the MOA and that amendment provided for the direct payment of USEC Allowable Costs during the "Direct Compensation Period" (as that term was defined in Amendment No. 3); and

WHEREAS, Amendment No. 3 provided that USEC could not incur more than $11,918,671 in Allowable Costs during the Direct Compensation Period; and

WHEREAS, on September 18, 2006 the Parties entered into Amendment No. 4 to the MOA, and that amendment increased the forgoing limit on Allowable Costs to $24,150,217; and

WHEREAS, USEC anticipates that by on or about November 30, 2006, USEC Allowable Costs during the Direct Compensation Period will reach $24,150,217; and

WHEREAS, the Parties wish to continue work under the MOA beyond November 30, 2006;

NOW, THEREFORE, the Parties hereby agree that:

1. USEC may incur up to $38,350,217 in Allowable Costs during the term of this MOA, including unbilled costs that are Allowable Costs incurred prior to the Direct Compensation Period.

2. Except as expressly set forth above, all provisions contained in the MOA, as amended by Amendments 1, 2, 3 and 4 are applicable to this Amendment No. 5. In the event there is a conflict between this Amendment No. 5 and the MOA, as amended, this Amendment No. 5 shall be controlling.

IN WITNESS WHEREOF, The Parties, through their duly authorized representatives, have signed this Amendment in two originals as of the Amendment No. 5 Effective Date listed above.

UNITED STATES DEPARTMENT OF ENERGY	USEC INC.
By: /s/ William E. Murphie	By: /s/ Philip G. Sewell
William E. Murphie	Philip G. Sewell
Title: Manager, PPPO	Title: Senior Vice President
Date: November 30, 2006	Date: November 30, 2006

EXHIBIT 10.34

UNITED STATES DEPARTMENT OF ENERGY
WASHINGTON, D.C. 20585

NONEXCLUSIVE PATENT LICENSE

This LICENSE made this 7th day DECEMBER, 2006, by and between the United States of America, as represented by the United States Department of Energy (hereinafter "LICENSOR" or "DOE") and USEC Inc. (hereinafter called "LICENSEE"). (Each of the LICENSOR and the LICENSEE a "Party" and collectively the "Parties".)

ADDRESS OF LICENSEE:	6903 Rockledge Drive Bethesda, MD 20817
LICENSED INVENTIONS:	Inventions owned by DOE or in which DOE has the right to license or otherwise grant the right to use that were made or conceived by DOE employees or by DOE contractor or subcontractor employees under contracts or subcontracts awarded by DOE or by its Oak Ridge, Tennessee facilities contractors, that pertain to the enrichment of uranium using gas centrifuge technology, including the design and fabrication of gas centrifuge machines and related systems. See Exhibit A, List of LICENSED INVENTIONS. If either Party becomes aware of additional inventions owned by DOE that pertain to gas centrifuge technology or systems related thereto that LICENSEE may desire to use for enriching uranium using gas centrifuge technology, DOE agrees to take reasonable steps to add those inventions to this LICENSE, subject to any licenses that may exist for those inventions.
LICENSE TERM:	This LICENSE shall be effective upon the execution of this LICENSE by both Parties and shall terminate upon the (i) termination or expiration of the DOE lease for facilities used by the LICENSEE for its centrifuge plant and return of such facilities to DOE or, if LICENSEE utilizes the LICENSED INVENTIONS on property not leased from DOE, then upon

termination of operations and completion of decontamination and decommissioning of the facility utilizing the LICENSED INVENTIONS; (ii) upon the expiration of all patents on LICENSED INVENTIONS; or (iii) as provided by Paragraph 15 hereto, whichever is earlier. This LICENSE shall be conditioned on LICENSEE's acquiring and maintaining a License from the Nuclear Regulatory Commission for the operation of a gas centrifuge facility. To the extent LICENSEE wants to extend the term of this LICENSE, a grant of an extension will not be withheld unreasonably.

SCOPE OF LICENSE: Nonexclusive license for LICENSEE's use or manufacture (or use or manufacture on the LICENSEE's behalf) of the LICENSED INVENTIONS for the enrichment of uranium in the U.S., or the sale of enriched uranium products, and using the LICENSED INVENTIONS in accordance with the Advanced Technology Demonstration and Deployment milestones contained in Article 3 of the June 17, 2002 Agreement Between DOE and LICENSEE (the "June 17, 2002 Agreement").

WITNESSETH:

WHEREAS: LICENSOR is the owner of or has the right to grant a license in the above-identified LICENSED INVENTIONS.

WHEREAS: LICENSEE desires to obtain a nonexclusive license in the above-identified LICENSED INVENTIONS.

WHEREAS: The licensing of said LICENSED INVENTIONS under the terms provided herein is determined to be in the public interest and is in accordance with the policy of the regulations on licensing of government-owned inventions, 37 C.F.R. Part 404, as promulgated under the authority of Section 208 of Pub. L. 96-517, (35 U.S.C. 208) and 10 C.F.R. Part 781.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants and obligations hereinafter contained, and other good and valuable consideration, the Parties hereto agree as follows:

1. LICENSOR hereby grants to LICENSEE and LICENSEE hereby accepts, subject to the terms and conditions herein recited, a non-exclusive license to the LICENSED INVENTIONS (as specified herein) for the LICENSE TERM (as specified herein) solely for the purposes specified by the SCOPE OF LICENSE.

2. LICENSEE agrees to carry out the plan for development, using and/or marketing of the LICENSED INVENTIONS as provided for in the June 17, 2002 Agreement, and thereafter to continue to make the benefits of the LICENSED INVENTIONS reasonably accessible to the public through the production and/or sales of uranium enrichment or enriched uranium products utilizing the LICENSED INVENTIONS.

3. For the sole purpose of operating facilities within the U.S. and in accordance with the June 17, 2002 Agreement, this LICENSE may extend to subsidiaries that are controlled by the LICENSEE, but it is not assignable or otherwise transferable without approval of LICENSOR in writing, which approval will not be withheld unreasonably. No request will be approved unless, at a minimum, the assignee or transferee is a U.S. company that is a successor of that part of the LICENSEE's business to which the LICENSED INVENTIONS pertain, and the U.S. Company meets applicable FOCI, security clearance, and facility clearance requirements. If LICENSEE extends this LICENSE to a subsidiary, LICENSEE shall promptly notify the LICENSOR in writing. Subject to LICENSOR's approval in writing, LICENSEE may grant sublicenses in the LICENSED INVENTIONS.

4. LICENSEE agrees that any centrifuge machines and major components thereof embodying the LICENSED INVENTIONS or produced through the use of the inventions will be manufactured substantially in the United States and that any enrichment of uranium performed using centrifuge machines embodying the LICENSED INVENTIONS will be performed in the U.S.

5. LICENSEE shall submit periodic written reports, annually within 30 days of the anniversary date of this LICENSE, and such other reports as reasonably requested by the LICENSOR, on its efforts to bring the LICENSED INVENTIONS to a point of practical application, with particular reference to the Milestones set forth in the June 17, 2002 Agreement, and the extent to which the LICENSEE thereafter continues to make the benefits of the inventions reasonably accessible to the public. Subject to compliance with this paragraph, LICENSEE may satisfy these reporting requirements through the reporting requirements in Article 3 of the June 17, 2002 Agreement with a copy to LICENSOR pursuant to Paragraph 18 of this LICENSE.

6. ROYALTY PROVISIONS:

The LICENSEE agrees to pay to the LICENSOR the royalty amount specified in Exhibit B hereto. At the request of the LICENSEE, LICENSOR will consider in good faith a request by LICENSEE to modify the royalty payments due under this LICENSE based

on a substantial change in business or market conditions. Additionally, upon written request by USEC, not later than sixty days before royalty payments become due and payable, DOE may approve a request to adjust the royalties due under the LICENSE in any given year: (1) where third parties assert a claim for patent infringement against USEC, the alleged infringement necessarily arises out of the practice of the DOE-owned licensed inventions and USEC incurs costs in defending against such claim; or (2) where USEC owes royalties to third parties for use of third party-owned patents that are necessary for the practice of the DOE-owned licensed inventions. Except as provided in this Section 6 there shall be no other royalty, fee, or other charge or cost due or payable by LICENSEE for this LICENSE or for the use of the LICENSED INVENTIONS or data provided under this LICENSE.

7. LICENSEE shall pay to LICENSOR, on or before April 1 of each year, any royalty or other payments due and payable under this Agreement for use of the LICENSED INVENTIONS during the preceding calendar year. LICENSEE shall keep true books of account containing an accurate record of all data necessary for the computation of any fees payable under this LICENSE, and shall render to LICENSOR annually, on or before April 1 of each year, an accurate statement of performance under the LICENSE, whether or not royalties, other than the annual fees, are due and payable under the LICENSE. Such a statement shall be in writing, showing in reasonable detail the identification of SWU produced using the LICENSED INVENTIONS and sold during the previous year. The statement shall include the computation of the license fees and royalties due and payable. LICENSEE shall from time to time permit the LICENSOR, by its authorized representative, to examine the books of account of LICENSEE to such an extent as may be reasonably necessary for LICENSOR to determine the accuracy of any such statement.

8. LICENSEE shall promptly report to LICENSOR any change in mailing address, name, or company affiliation during the period of this LICENSE, and LICENSEE shall promptly report any decision to discontinue producing enriched uranium or providing uranium enrichment using centrifuge machines embodying the LICENSED INVENTIONS in the U.S.

9. LICENSOR makes no warranty or representation as to the validity or patentability of any LICENSED INVENTIONS or that the exercise of this LICENSE will not result in the infringement of any patent(s), nor shall LICENSOR assume any liability whatsoever resulting from the exercise of this LICENSE.

10. LICENSOR makes no representations, extends no warranties of any kind, either express or implied, and assumes no responsibilities whatever with respect to manufacture, use, sale, or other disposition by LICENSEE, or its vendees or transferees, of products incorporating or made by use of LICENSED INVENTIONS.

11. LICENSEE will indemnify and hold harmless LICENSOR for any liability arising

from activity under this LICENSE by LICENSEE, its agents, employees or contractors at any tier. In the event of any inconsistency between this indemnification provision and any provision in the lease by the LICENSEE of the DOE facilities used by the LICENSEE for its centrifuge plant using the LICENSED INVENTIONS then the provisions of the lease will govern.

12. The grant of this LICENSE or anything related thereto shall not be construed to confer on any person any immunity from or defenses under the antitrust laws or from a charge of patent misuse, and the acquisition and use of rights pursuant to this LICENSE shall not be immunized from the operation of State or Federal law by reason of the source of the grant.

13. Nothing contained in this LICENSE shall be interpreted to give to LICENSEE any rights with respect to any invention(s) other than the LICENSED INVENTIONS.

14. If the LICENSE involves application(s) for Letters Patent, LICENSOR makes no representation or warranty that Letters Patent will issue on such patent application(s).

15. Subject to the notice and cure provisions in Paragraphs 17 and 20, this LICENSE may be terminated by LICENSOR in whole or in part (a) if DOE determines that LICENSEE is not complying with Article 3 of the June 17, 2002 Agreement, and that, in accordance with the terms of the June 17, 2002 Agreement DOE terminates the June 17, 2002 Agreement, (b) for failure to make any payments or periodic reports required by this LICENSE, (c) for willfully making a false statement or willful omission of a material fact in the LICENSE application which resulted in this LICENSE or in any required report, (d) for substantial breach of any covenant or agreement contained herein, or (e) if DOE determines that such action is necessary to meet requirements for public use as specified by Federal regulations issued after the date of this LICENSE, and such requirements are not reasonably satisfied by the LICENSEE. The Parties agree that the construction and operation of a uranium enrichment facility in accordance with the June 17, 2002 Agreement reasonably satisfy the requirements for public use.

16. This LICENSE is contingent on LICENSEE having a valid authorization to have access to Classified Information. It is LICENSEE'S duty to safeguard all Classified Information, special nuclear material (SNM), and Unclassified Controlled Nuclear Information (UCNI) in compliance with applicable laws and regulations. LICENSEE shall, in accordance with applicable DOE or NRC security regulations and requirements, be responsible for safeguarding all Classified Information, UCNI, and for protection against sabotage, espionage, loss and theft, of the classified documents and material in LICENSEE'S possession in connection with the performance of work under this License. Except as otherwise expressly provided, LICENSEE shall, upon termination of the June 17, 2002 Agreement, or upon permanent cessation of the operations of any facility that incorporates the LICENSED INVENTIONS, transmit to DOE or dispose in accordance with applicable DOE or NRC regulations any classified matter or UCNI in the LICENSEE'S possession or in the possession of any person under LICENSEE'S control

in connection with performance under this LICENSE. Failure to comply with applicable laws and regulations governing the safeguard of classified information, SNM, or UCNI may result in termination of this LICENSE.

17. Before terminating this LICENSE, in whole or in part, for any cause, LICENSOR shall furnish LICENSEE a written notice of LICENSOR'S intention to terminate this LICENSE, with reasons therefore, and LICENSEE shall be allowed sixty (60) days from the date of the mailing of such notice to remedy any breach of any term or condition referred to in the notice, or to show cause why the LICENSE should not be so terminated.

18. Notices. In order to be effective, any notice, demand, offer, response, request or other communication made with respect to this LICENSE must be in writing and signed by the Party initiating the communication and must be hand-delivered or sent by registered letter, telefax or by a recognized overnight delivery service that requires evidence of receipt, to the addresses specified herein for the other Party. The effective date of any communication shall be the date of the receipt of such communication by the addressee.

Notices shall be sent to:

For the LICENSOR:

Office of the Assistant General Counsel
for Technology Transfer
and Intellectual Property
U.S. Department of Energy
1000 Independence Ave., S.W.
Washington, DC 20585

Fax: (202) 586-2805

For the LICENSEE:

USEC Inc.
6903 Rockledge Drive
Bethesda, MD 20817

Fax:(301)564-3206

The Parties have the right to change the place to which notices or communications are sent or delivered by similar notice sent or delivered to the other Party.

19. In the event of any judicial or administrative proceeding challenging the validity or patentability of LICENSED INVENTIONS, LICENSOR shall promptly provide notice thereof to LICENSEE. LICENSEE and LICENSOR shall, within thirty (30) days of said notice, mutually agree on an appropriate level of cost-sharing of direct and indirect expenses that may be involved in participating in defending the validity of LICENSED INVENTIONS. If mutual agreement cannot be reached within said thirty day period, LICENSEE, at its option, may undertake any action in defense of the validity of the LICENSED INVENTIONS at its own expense and, at LICENSEE'S request, LICENSOR agrees to cooperate with LICENSEE in such actions, subject to the reimbursement by LICENSEE of all LICENSOR'S costs incurred at the request of LICENSEE. If mutual agreement cannot be reached as to cost sharing and LICENSEE does not take action to defend the validity, then LICENSOR may take any action at its discretion concerning the subject matter thereof, including allowing the LICENSED INVENTIONS to lapse.

20. LICENSEE has a right to appeal, in accordance with procedures specified in 10 CFR 781, any decision concerning the modification or termination, in whole or in part, of this LICENSE.

21. LICENSEE may terminate this LICENSE, after the first or any subsequent anniversary date of this LICENSE, upon not less than sixty (60) days prior written notice to the LICENSOR.

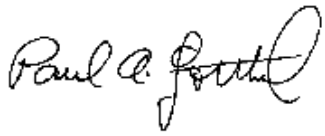
22. LICENSEE is responsible for compliance with all applicable Federal, state and local regulatory requirements, including, without limitation, compliance with U.S. Export Control statutes and regulations.

23. To the extent practicable, LICENSEE shall mark all licensed products in accordance with the statutes of the United States relating to the marking of patented articles (35 U.S.C. 287) as applicable.

24. In addition, to the extent consistent with security and classification requirements and restrictions, and subject to any access permit requirements and compliance with its terms, LICENSOR grants to LICENSEE the right to reproduce, modify and use technical data related to the gas centrifuge technology for uranium enrichment applications owned by DOE or in which DOE has the right to license or otherwise grant the right to use.

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

UNITED STATES DEPARTMENT OF ENERGY

BY: 

Paul A. Gottlieb
Assistant General counsel
for Technology Transfer
and Intellectual Property

WITNESS:

USEC, Inc.:

BY: 

Phillip G. Sewell
Senior Vice President
American Centrifuge and Russian HEU

WITNESS:

Exhibit A

LICENSED INVENTIONS

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
27604	Baffle for Gas Centrifuges
27701	Baffle Rotor Assembly for Gas Centrifuge
30005	Magnetic Suspension of Centrifuge Rotors
30824	Centrifuge Drive System
31130	Supercritical Centrifuge Bearing System
31133	Improved Baffle for Gas Centrifuge
31607	Damping System for Gas Centrifuge
32496	Subcritical and Supercritical Gas Centrifuge Drive System and Method
33393	Damper-suspension System for Centrifuge
34064	Cut-control System for Gas Centrifuge
34622	Suspension System for Supercritical Centrifuge
34623	Damped Suspension System for Centrifuge
35429	Improved End Cap for Centrifuges
36433	Rotor Assembly for Gas Centrifuge
36453	End Cap-baffle Assembly for Gas Centrifuge
38691	Rotor Assembly for Gas Centrifuge
39555	High Speed End Closure for Gas Centrifuge Rotor Tube
39571	Damper Suspension System for High-speed Gas Centrifuge
40315	Gas Removal System for Gas Centrifuge
40321	Damped-suspension System for Gas Centrifuge
42323	Gas Centrifuge
42366	Top Bearing for Gas Centrifuge Rotor
42981	Process Gas Control System for Gas Centrifuge

Exhibit A

LICENSED INVENTIONS

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
43732	Gas Centrifuge Drive System
43775	Cascade Arrangement for Gas Centrifuge
43786	Top Suspension for Gas Centrifuge Rotor
44149	Suspension System for Gas Centrifuge
44199	Damped Suspension System for Centrifuge
45124	Gas Centrifuge
45162	Gas Centrifuge Seal
45188	Centrifuge Malfunction Detection System
45190	Bottom Suspension System for Gas Centrifuge
45191	Method and Apparatus for Producing End Closures for Gas Centrifuge
45192	Tube Fabrication Facility
45194	Gas Centrifuge
45711	Gas Centrifuge End Cap Assembly
45716	Vacuum Seal
45741	Damped Suspension System for Centrifuge
45759	Gas Centrifuge Having Improved Operating Characteristics
46508	Gas Centrifuge Mount
46509	Method of Operating Gas Centrifuges to Provide Improved Separative Capacity
46538	Suspension System for Gas Centrifuge
47104	Centrifuge Malfunction Detection System
47134	Gas Centrifuge Scoop Assembly
47893	End Cap and Baffle Configuration for a Gas Centrifuge
49065	Suspension System for Centrifuge

Exhibit A

LICENSED INVENTIONS

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
52973	Lower Suspension System for Gas Centrifuge
56316	Means for Increasing Separative Capacity of Gas Centrifuge
56557	Rotor Tube/for Gas Centrifuge
57541	Scoop-development Apparatus for Gas Centrifuges
58549	Gas Centrifuge Baffle Structure and Method for Making Same
58551	Method for Increasing the Separative Performance of a Gas Centrifuge
59959	Lower Suspension Vapor Seal for Gas Centrifuge

LICENSOR has related technology, other than LICENSED INVENTIONS, in the form of invention disclosures for which patent protection was not pursued, and in the form of patent applications that were abandoned during prosecution, that are listed below. LICENSEE may utilize that technology within the scope of activity under this LICENSE.

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
23190	Application of the Gas Centrifuge as an Instrument
24899	Ultra Fast Freezing of Centrifuge Particles
25933	Dipolar-seal Centrifuge Rotor
25981	Seal for Centrifuge
27607	Centrifuge Core
27736	Ultracentrifuge for Liquids
30099	Seal for Low-speed Liquid Centrifuges
30805	Centrifuge Instrumentation for Registering
30815	Upper Damped Bearing for High Speed Centrifuges
30827	Damper Mechanism for Gas Centrifuge
30869	Semicontinuous Flow Centrifuge Rotor

Exhibit A

LICENSED INVENTIONS

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
30893	Method for Lining a Centrifuge Rotor
31602	Band-scanner for Liquid Centrifuges
32428	Centrifuge for Saline Water Purification
32466	Interferometer for the Measurement of Sedimentation in an Ultracentrifuge
34602	Multi-shell High Speed Centrifuge
34640	Scoop-positioner for Gas Centrifuge
36446	Centrifuge Rotor Axial
36447	Modal Balancing Supercritical Centrifuge Rotors
37236	High-speed End Closure for Gas Centrifuge Rotor Tube
39519	Centrifuge Rotor and Method Fabrication
45178	Apparatus for Manufacture of Centrifuge Rotors
45179	Gas Centrifuge Rotor
45717	Tube Cutter
46552	Apparatus
46553	Centrifuge Arrangement
46559	Cascade Design for Asymetrically Operating Gas Centrifuge
47814	Centrifuge Balance
47816	Centrifuge/cascade Control System
49057	Sample Collection Ring for a Multisample Centrifuge
52159	Gas Centrifuge Design
52995	Centrifuge Center Support
54055	Dynamic Controller for Centrifuge
54898	Method for Improving Seismic Capability of Centrifuge Machines

56507	Countercurrent Flow Generation in a Gas Centrifuge
56512	Centrifuge Rotor

Exhibit A

LICENSED INVENTIONS

DOE CASE FILE NO. (S-NUMBER)	TITLE OF INVENTION
56542	Proposed Method of Reducing Centrifuge Cap Stress
56545	Proposed Method of Increasing the Separative Power of Gas Centrifuges
56546	Proposed Method for Measuring Centrifuge Motor Cap
58017	Gas Centrifuge Fidler Signal Simulator
59975	Centrifuge Rotor Repair Device
60527	Light Gas Removal System for Operating Gas Centrifuge Machines
60902	Gas Extractor for a Gas Centrifuge (Livermore)
61173	Safety Pressure-relief Device for Centrifuges
61830	Vertical Travel Linkage System for Gas Centrifuges
61856	Design for Centrifuge Rotor End Caps
61876	Direction of Rotating Verification Technique for Gas Centrifuge Machines
62535	Improved Gas Centrifuge Drive Mechanism
63508	Improved Rotor Design for Advanced Gas Centrifuge Machines
63533	Centrifuge Fabrication Method
63602	Circulation Drive for Gas Centrifuge
65929	Process Gas Seal for Centrifuge Machine

Exhibit B

Royalty Payments

1. Definitions

The following terms when capitalized and used in this LICENSE shall have the meanings specified below:

“Gas Centrifuge Annual Gross Revenue” shall mean the gross revenues (excluding any taxes) resulting from sales of Separative Work Units (SWU) production from an American Centrifuge Plant and any other SWU production resulting from LICENSEE‘S use of the LICENSED INVENTIONS during the calendar year. For clarification, the following SWU amounts would not be included (i) SWU produced using the gaseous diffusion process; (ii) SWU purchased by LICENSEE under the Russian HEU agreement or from third parties; (iii) SWU obtained from HEU; (iv) SWU inventory as of January 1, 2009, including any existing Paducah GDP SWU inventory, Russian HEU and US HEU inventory. Further, revenue resulting from the sale of uranium, conversion services or other services or products are not included.

“Separative Work Unit” or “SWU” is a unit of measurement of the effort needed to separate the U-235 and U-238 atoms in natural uranium in order to create a final product that is richer in U-235 atoms.

2. Amount of Annual Royalty

Subject to paragraph 3 below, for each calendar year commencing on or after January 1, 2009 USEC shall pay an annual royalty equal to:

a) $100,000.00 for any Gas Centrifuge Annual Gross Revenue that is equal to or less than $110,000,000.00; plus

b) One percent (1%) of the Gas Centrifuge Annual Gross Revenue for any Gas Centrifuge Annual Gross Revenue that is greater than $110,000,000.00 and less than or equal to $400,000,000.00; plus

c) Two percent (2%) of the Gas Centrifuge Annual Gross Revenue for any Gas Centrifuge Annual Gross Revenue that is greater than $400,000,000.00 and less than or equal to $600,000,000.00; plus

d) One percent (1%) of the Gas Centrifuge Annual Gross Revenue for any Gas Centrifuge Annual Gross Revenue that is greater than $600,000,000.00.

No royalty shall be due or payable for any SWU produced or sold prior to January 1, 2009.

3. Maximum Cumulative Royalty

The maximum cumulative royalty due or payable under this LICENSE shall be $100,000,000.00. When the LICENSEE has paid $100,000,000.00 in royalties under this LICENSE then this LICENSE shall continue royalty-free thereafter.

EXHIBIT 10.56

SUMMARY SHEET FOR 2007 NON-EMPLOYEE DIRECTOR COMPENSATION

The following table sets forth the compensation for USEC's non-employee directors for the term commencing at the 2007 annual meeting of shareholders to be held on April 26, 2007:

Annual Retainer	$65,000 paid at the beginning of the service year. Until a director has satisfied USEC's director stock ownership guidelines (numerical stock ownership target equal to five times the annual retainer), at least 50% of the retainer is paid in the form of restricted stock units, although a director may elect to receive a greater proportion of the retainer in restricted stock units. Once a director has satisfied USEC's director stock ownership guidelines, director is entitled to receive the entire annual retainer in cash, although a director may elect to receive the retainer in restricted stock units in lieu of cash.
Committee Chairman Fees	$12,000 annual fee for Audit, Finance and Corporate Responsibility Committee chairman. $7,500 annual fee for all other committees' chairman. Committee chairman fee paid in cash or restricted stock units, at the director's election, at the time the annual retainer is paid.
Board Meeting Fees	$2,000 for each Board of Directors meeting attended. Meeting fees are paid in cash in the week following the meeting or, at the director's election, in restricted stock units in the month following each meeting.
Committee Meeting Fees	$1,500 for each committee meeting attended. Meeting fees are paid in cash in the week following the meeting or, at the director's election, in restricted stock units in the month following each meeting.
Annual Restricted Stock Unit Grant	Annual grant of restricted stock units valued at $50,000 granted at the time the annual retainer is paid. Restricted stock units vest on the first to occur of: (1) one year from the date of grant, (2) termination of the director's service by reason of Retirement, death or disability, or (3) a change in control.
Incentive Restricted Stock Unit Awards	If a director chooses to receive restricted stock units as payment for the part of the annual retainer, chairman and meeting fees that they are otherwise entitled to receive in cash, he or she will receive an incentive payment of restricted stock units equal to 20% of the portion of the annual retainer, chairman and meeting fees that the director elects to take in restricted stock units in lieu of cash. These incentive restricted stock units will vest on the first to occur of: (1) three years from the date of grant, (2) termination of the director's service by reason of Retirement, death or disability, or (3) a change in control. Incentive restricted stock units are granted at the time the annual retainer is paid.

All restricted stock units are granted pursuant to the USEC Inc. 1999 Equity Incentive Plan, as amended, and are subject to the terms of such plan and the applicable restricted stock unit award agreements approved for issuance of restricted stock units to non-employee directors under the plan. Restricted stock units carry the right to receive dividend equivalent restricted stock units to the extent dividends are paid by the Company.

EXHIBIT 10.61

SUMMARY OF COMPENSATION ARRANGEMENT
FOR JAMES R. MELLOR

Effective February 1, 2007, the Compensation Committee of the Board of Directors of USEC Inc. ("USEC" or the "Company") approved the payment of an annual chairman's fee of $100,000 to James R. Mellor in connection with his duties as Chairman of the Board. This is in addition to the annual compensation and meeting fees payable to all USEC non-employee directors.

At Mr. Mellor's election, this fee (along with other director fees that Mr. Mellor is entitled to receive in cash) may be paid in restricted stock units in lieu of cash and Mr. Mellor would receive an incentive payment of restricted stock units equal to 20% of the portion of the fee that Mr. Mellor elects to take in restricted stock units in lieu of cash. These incentive restricted stock units will vest on the first to occur of: (1) three years from the date of grant, (2) termination of the director's service by reason of Retirement, death or disability, or (3) a change in control.

The prior arrangement with Mr. Mellor described in the letter agreement dated December 1, 2005 by and between USEC Inc. and James R. Mellor, filed as Exhibit 10.91 to the Company's current report on Form 8-K filed on December 6, 2005, ended effective February 1, 2007.

EXHIBIT 21

SUBSIDIARIES OF USEC Inc.

Name of Subsidiary	State of Incorporation
United States Enrichment Corporation	Delaware
USEC Services Corporation	Delaware
USEC Overseas, Inc.	U.S. Virgin Islands
NAC Holding Inc.	Delaware
NAC International Inc. (a subsidiary of NAC Holding Inc.)	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Numbers 333-71635, 333-129410, and 333-117867) of USEC Inc. and on Form S-3 (File Number 333-85641) of USEC Inc. of our report dated February 23, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
McLean, Virginia
February 27, 2007

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John K. Welch, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2007

/s/ John K. Welch

John K. Welch
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John C. Barpoulis, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2007

/s/ John C. Barpoulis

John C. Barpoulis
Senior Vice President and Chief Financial Officer

EXHIBIT 32

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

In connection with the annual report on Form 10-K of USEC Inc. for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, John K. Welch, President and Chief Executive Officer, and John C. Barpoulis, Senior Vice President and Chief Financial Officer, each hereby certifies, that, to the best of his knowledge:

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

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

February 27, 2007

/s/ John K. Welch
John K. Welch
President and Chief Executive Officer

February 27, 2007

/s/ John C. Barpoulis
John C. Barpoulis
Senior Vice President and Chief Financial Officer

EXHIBIT 99.2

Domestic Company
Section 303A
Annual CEO Certification

As the Chief Executive Officer of USEC Inc. (USU), and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

This certification is:

☑ Without qualification

or

☐ With qualification

By /s/ John K. Welch
Print Name: John K. Welch
Title: President and Chief Executive Officer
Date: May 25, 2006

[No Exhibit H accompanied the Annual Written Affirmation.]