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

OR

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

For the six-month period ended December 31, 2002

Commission file number 1-14287

USEC Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities and Exchange Act of 1934.) Yes X No __

As of December 31, 2002, there were 81,773,000 shares of Common Stock, par value $.10 per share, issued and outstanding. As of December 31, 2002, the market value of the Common Stock held by non-affiliates of the registrant calculated by reference to the closing price of the registrant's Common Stock as reported on the New York Stock Exchange was $492.3 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities and Exchange Act of 1934 for the annual meeting of shareholders scheduled to be held April 28, 2003, are incorporated by reference into Part III.

TABLE OF CONTENTS

USEC Inc.

Transition Report on Form 10-K

Six-Month Period Ended December 31, 2002

TABLE OF CONTENTS

This Transition Report on Form 10-K contains forward-looking information (within the meaning of the Private Securities Litigation Reform Act of 1995) that involves risks and uncertainty, including certain assumptions regarding the future performance of USEC. Actual results and trends may differ materially depending upon a variety of factors, including, without limitation, market demand for USEC's products, pricing trends in the uranium and enrichment markets, deliveries under the Russian Contract, the availability and cost of electric power, implementing agreements with the Department of Energy ("DOE") regarding uranium inventory remediation and the use of advanced technology and facilities, satisfactory performance of the centrifuge technology at various stages of demonstration, USEC's ability to successfully execute its internal performance plans, the refueling cycles of USEC's customers, final determinations of environmental and other costs, the outcome of litigation, and the impact of any government regulation. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year.

PART I

Items 1 and 2. *Business and Properties*

Overview

USEC Inc. ("USEC"), a global energy company, is the world's leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for nuclear reactors to produce electricity. USEC's customers are domestic and international utilities that operate nuclear power plants. USEC is the exclusive executive agent for the U.S. Government to purchase LEU derived from highly enriched uranium contained in decommissioned nuclear warheads in Russia (the "Russian Contract").

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

In November 2002, the Board of Directors approved a change in fiscal year end from June 30 to December 31, effective December 31, 2002. Changing the fiscal year to a calendar year enables USEC to better align financial reporting with the way it manages and operates the business. The Russian Contract represents about half of the supply mix and is managed and priced on a calendar year basis, and most of USEC's contracts with customers are based on a calendar year. This transition report on Form 10-K is for the period July 1 to December 31, 2002.

USEC is continuing to implement plans for reducing its cost structure, moving forward to deploy the American Centrifuge technology, and exploring ways to leverage its unique expertise within the energy, nuclear power and government services fields. Highlights of these actions include:

- Lower, market-based prices negotiated under the Russian Contract took effect January 2003. The pricing agreement remains in effect until 2013 and is expected to lower USEC's purchase costs.
- Further lowering production costs at the Paducah plant through workforce reductions involving 200 employees scheduled in 2003.
- Establishing a clear path for deploying the American Centrifuge technology intended to ensure USEC's long-term competitive position. In February 2003, USEC submitted a license application for its lead cascade with the U.S. Nuclear Regulatory Commission ("NRC"), and USEC has met the first three centrifuge milestones ahead of schedule.
- Evaluating opportunities to leverage USEC's unique role in the nuclear fuel business that could diversify and increase revenue and be accretive to earnings.

Uranium and Enrichment

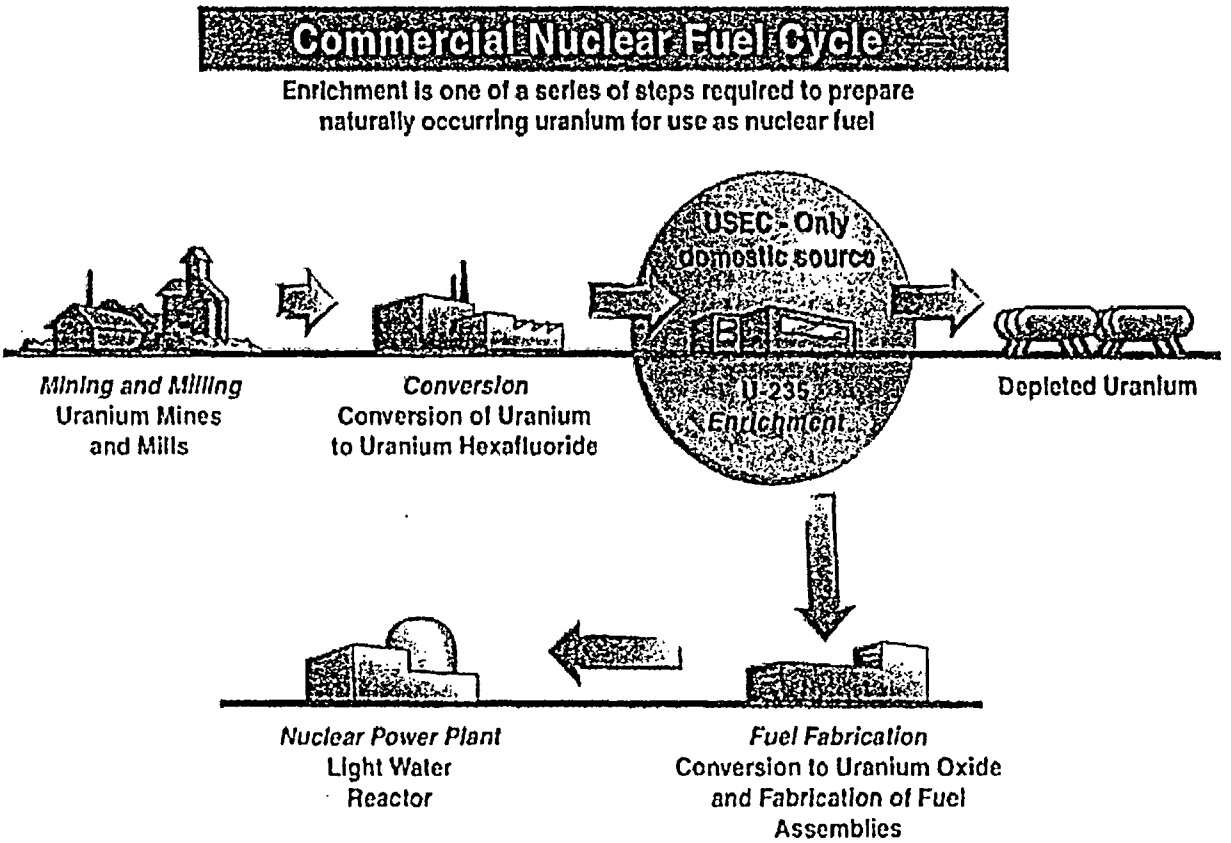
The uranium fuel cycle consists of the following process:

- *Mining and Milling* – Uranium is removed from the earth in the form of ore and then crushed and concentrated.
- *Conversion* – Uranium is combined with fluorine gas to produce uranium hexafluoride, a powder at room temperature and a gas when heated. Uranium hexafluoride is shipped to an enrichment plant.
- *Enrichment* – Uranium hexafluoride is enriched in a process that increases the concentration of U^{235} 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 has the only enrichment operation in the United States.

- *Fuel Fabrication* – Enriched uranium is converted to uranium oxide and formed into small ceramic pellets. The pellets are loaded into metal tubes that form fuel assemblies, which are shipped to nuclear power plants.

- *Nuclear Power Plant* – The fuel assemblies are loaded into nuclear reactors to create energy from a controlled chain reaction. Nuclear power plants generate about 16% of the world's electricity.

- *Consumers* – Business and homeowners rely on the steady, base load electricity supplied by nuclear power and value its clean air qualities.



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

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

USEC supplies LEU to electric utilities for use in about 160 nuclear reactors worldwide. Revenue is derived from sales of the SWU component of LEU, from sales of the SWU and uranium components of LEU, and from sales of uranium. USEC maintains significant inventories of SWU and uranium for use in such sales.

Generally, contracts with customers to provide LEU are long-term requirements contracts under which the customer is obligated to purchase from USEC a specified percentage of the SWU component of

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

Revenue from one domestic customer, Exelon Corporation, represented more than 10%, but less than 15%, of revenue in the six-month period ended December 31, 2002, and in fiscal 2002; no customer exceeded 10% in fiscal years 2001 and 2000. Revenue attributed to domestic and international customers follows:

	Six-Month Periods Ended December 31,		Fiscal Years Ended June 30,		
	2002	2001	2002	2001	2000
Domestic	55%	70%	67%	49%	62%
Asia	33	24	29	46	32
Europe and other	12	6	4	5	6
	100%	100%	100%	100%	100%

USEC's long-term or long-lived assets include property, plant and equipment and other assets reported on the balance sheet at December 31, 2002, all of which were located in the United States.

SWU and Uranium Backlog

Backlog is the aggregate dollar amount of SWU and uranium that USEC expects to sell pursuant to long-term requirements contracts with utilities. Based on customers' estimates of their requirements and certain other assumptions, including estimates of inflation rates, at December 31, 2002, USEC had long-term requirements contracts with utilities aggregating $4.1 billion through 2010 (including $2.4 billion through 2005), compared with $4.5 billion at June 30, 2002, and $5.4 billion at June 30, 2001.

Variability of Revenue and Operating Results

Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer requirements are determined by refueling schedules for nuclear reactors, which are affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the lower electricity demand periods of spring and fall. Thus, some reactors are scheduled for annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons. The percentage of revenue attributable to any customer or group of customers from a particular geographic region can vary significantly quarter to quarter or year to year. Customer orders for the SWU component of LEU are large in amount, typically averaging $12.0 million per order. Customer requirements and orders are more predictable over the longer term, and USEC believes its performance is best measured on an annual, or even longer, business cycle.

Gaseous Diffusion Plants

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

containing uranium to separate the fissionable U^{235} isotope from the non-fissionable U^{238} and is significantly less power intensive. USEC is moving forward to demonstrate and deploy the American Centrifuge technology by the end of the decade.

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

USEC produces LEU at the Paducah gaseous diffusion plant located in Paducah, Kentucky. The Paducah plant consists of four process buildings and is one of the largest industrial facilities in the world. Process buildings have a total floor area of 150 acres, and the site covers 750 acres. The Paducah plant has been certified by the NRC to produce LEU up to an assay of 5.5% U^{235}. USEC estimates that the maximum capacity of the existing equipment is about 8 million SWU per year. USEC produces about 5 million SWU per year consistent with power purchase economics and purchases under the Russian Contract.

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

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

Under the lease, DOE is required to indemnify USEC for costs and expenses related to claims asserted against or incurred by USEC arising out of DOE's operation, occupation, or use of the plants. DOE activities at the plants are focused primarily on environmental restoration and waste management and management of depleted uranium. DOE is required to indemnify USEC against claims for public

liability (a) arising out of or in connection with activities under the lease, including domestic transportation, and (b) arising out of, or resulting from, a nuclear incident or precautionary evacuation. DOE's financial obligations are capped at the $9.4 billion statutory limit calculated pursuant to the Price–Anderson Act for each nuclear incident or precautionary evacuation occurring inside the United States, as these terms are defined in the U.S. Atomic Energy Act of 1954, as amended. The DOE indemnification against public liability provided in the USEC lease was not affected by the expiration or the renewal of the Price–Anderson Act and continues in effect.

Electric Power

The gaseous diffusion process requires significant amounts of electric power. USEC purchases a substantial portion of the electric power for the Paducah plant at fixed rates pursuant to a power purchase agreement with Tennessee Valley Authority ("TVA"). TVA provides electric power at fixed contract prices with capacity varying monthly from 300 to 1,780 megawatts. Prices are fixed until May 2006. Subject to prior notice, TVA may interrupt power to the Paducah plant, except a minimum load of 300 megawatts can only be interrupted under limited circumstances.

USEC purchases a portion of the electric power for the Paducah plant from Electric Energy, Inc. ("EEI") under a power purchase contract between DOE and EEI. DOE transferred the benefits of the EEI power purchase contract to USEC. Costs for electric power purchased from EEI are based on actual costs incurred by EEI to generate or to purchase electric power on the open market for USEC.

USEC generally reduces production and the related power load at the Paducah plant by a significant amount in the summer months when the cost of power is generally high. However, USEC secured additional megawatts of power at favorable prices for the summer of 2002 and increased production to levels substantially above the summer of 2001. USEC plans to maintain production in the summer of 2003 at the 2002 level.

The quantity of uranium used in the production of LEU is to a certain extent interchangeable with the SWU required to enrich the uranium. Underfeeding is a mode of operation that uses or feeds less uranium but requires more electric power or SWU in the enrichment process. Overfeeding uses more uranium but less electric power or SWU to produce LEU. USEC can vary its production process to underfeed or overfeed uranium based on the relative economics of the cost of electric power versus the cost of uranium. Underfeeding increases the inventory of uranium which can be sold in a subsequent period.

In fiscal 2001 and prior years, USEC purchased electric power for the Portsmouth plant from DOE under a contract that USEC concluded with DOE in July 1993. DOE acquired the power that it sold to USEC from the Ohio Valley Electric Corporation ("OVEC") under a power purchase agreement signed in 1952. In September 2000, at USEC's request, DOE notified OVEC that it would terminate the power purchase agreement effective April 30, 2003, and that it would cease taking power after August 2001.

Upon termination of the agreement, DOE will be responsible for a portion of the costs incurred by OVEC for postretirement health and life insurance benefits and for the eventual decommissioning, demolition and shut–down of the coal–burning power generating facilities owned and operated by OVEC. Under its July 1993 contract with DOE, USEC will, in turn, be responsible for a portion of DOE's costs. USEC has accrued its estimate of its share of DOE's costs. Final determinations of USEC's costs will depend on (a) resolution of differences between OVEC and DOE over the portion of termination obligations as determined by independent actuaries and engineering consultants that would be allocated to and paid by DOE, and (b) resolution of differences between DOE and USEC over the portion of DOE's costs that would be reimbursed by USEC. Accordingly, the amount ultimately due from USEC may differ from the amount it has accrued. Any determination of such costs at levels above the estimated amounts accrued by USEC would have an adverse effect on USEC's results of operations.

Labor Matter

On February 4, 2003, members of the Paper, Allied-Industrial, Chemical and Energy Workers ("PACE") International Union Local 5-550, representing 633 employees — about half of the workforce at the Paducah plant — went on strike. PACE workers rejected USEC's contract proposal that resulted from negotiations leading up to the expiration of the labor contract on January 31, 2003. The significant issues involve the workers' share of health insurance premiums, the union's request for increased pension benefits, and wage increases. USEC and PACE have agreed to continue negotiations with a federal mediator.

USEC is continuing to operate the Paducah plant under a production continuity plan that maintains safe operations using trained employees. USEC does not expect an interruption of LEU deliveries to customers. An extended strike could have an adverse effect on USEC's program to reduce production costs at the Paducah plant, including workforce reductions, and completing planned maintenance activities and other production process improvements.

Coolant

The Paducah plant uses Freon as the primary process coolant. The production of Freon in the United States was terminated in 1995. Leaks from pipe joints, sight glasses, valves, coolers and condensers resulted in leakage of approximately 435,000 pounds in calendar 2002, a leak rate that is within the level allowed under regulations of the U.S. Environmental Protection Agency ("EPA"). USEC expects that its inventory of Freon should be adequate through at least calendar 2004. USEC purchases and recycles Freon recovered from industrial sources and continues to evaluate an alternative coolant to replace Freon.

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 may no longer be produced, and spare parts may not be readily available. In these situations, replacement components or systems are identified, tested, and procured from existing commercial sources, or the plants' technical and fabrication capabilities are utilized to design and build replacements.

Equipment utilization at the Paducah plant was 86% in the six-month period ended December 31, 2002, compared with 64% in the corresponding period in calendar 2001. The utilization of equipment is primarily dependent on power availability and costs. USEC substantially reduced equipment utilization and the related power load in the summer of 2001 when the cost of electric power was high. USEC secured additional megawatts of power at favorable prices in the summer of 2002 and increased production to levels substantially above the summer of 2001. Equipment utilization is also affected by repairs and maintenance activities.

Russian Contract

USEC has been designated by the U.S. Government to act as its exclusive Executive Agent in connection with a government-to-government agreement between the United States and the Russian Federation under which USEC purchases the SWU component of LEU derived from dismantled Soviet nuclear weapons. In January 1994, USEC, on behalf of the U.S. Government, signed an agreement ("Russian Contract") with AO Techsnabexport (now known as OAO "Techsnabexport" or "Tenex"), Executive Agent for the Ministry of Atomic Energy of the Russian Federation.

In June 2002, the U.S. and Russian governments approved implementation of new, market-based pricing terms for the remaining term of the Russian Contract through 2013. An amendment to the Russian Contract created a market-based mechanism to determine prices beginning in calendar year 2003 and continuing through 2013. In consideration for this stable and economic structure for the future, USEC agreed to extend the calendar year 2001 price of $90.42 per SWU through calendar year 2002. Beginning in calendar year 2003, prices will be determined using a discount from an index of international and U.S.

price points, including both long-term and spot prices. A multi-year retrospective of this index will be used to minimize the disruptive effect of any short-term market price swings. The amendment also provides that, after the end of calendar year 2007, USEC and Tenex may agree on appropriate adjustments, if necessary, to ensure that Tenex receives at least $7,565 million for the SWU component over the 20-year term of the Russian Contract through 2013. From inception of the Russian Contract to December 31, 2002, USEC has purchased the SWU component of LEU at an aggregate cost of $2,744 million, the equivalent of 6,900 nuclear warheads.

Under the amended contract, USEC agreed to continue to purchase 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013, including such amount in calendar year 2013 as may be required to ensure that over the life of the Russian Contract USEC purchases SWU contained in 500 metric tons of highly enriched uranium. USEC also agreed to purchase over two or more years after 2002 a total of 1.6 million SWU that USEC had ordered in 1999 but Tenex had not been able to deliver. Over the life of the 20-year Russian Contract, USEC expects to purchase 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. USEC has committed to purchase 5.5 million SWU ordered under the Russian Contract for calendar 2003. USEC expects purchases under the Russian Contract will approximate 48% of its supply mix in calendar 2003. A significant delay in purchasing, shipping or receiving LEU from Russia would have an adverse effect on USEC's results of operations.

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

DOE-USEC Agreement

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

The following is a summary and update of activities under the DOE-USEC Agreement:

Russian Contract

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

Replacing Out-of-Specification Natural Uranium Inventory

USEC has previously reported that certain natural uranium transferred to USEC from DOE prior to privatization contains elevated levels of technetium that would put the uranium out of specification for commercial use. At December 31, 2002, the amount of uranium inventory that may be impacted is approximately 9,200 metric tons with a cost of $230.9 million reported as part of long-term assets.

Under the DOE–USEC Agreement signed in June 2002, DOE agreed to replace any natural uranium that is determined to be out–of–specification, subject to the following. USEC agreed to operate facilities at the Portsmouth plant at its own expense (other than site infrastructure expenses which are being paid by DOE) for 15 months in order to remove contaminants from a portion of the out–of–specification uranium. USEC expects costs to operate the facilities will total $21.0 million, of which $7.2 million was incurred in the six–month period ended December 31, 2002, and remaining costs of $13.8 million are expected over the nine–month period ending September 30, 2003. To compensate USEC for these clean–up costs, DOE will take title to depleted uranium generated by USEC at the Paducah plant over a four–year period up to a maximum of 23.3 million kilograms of uranium contained in depleted uranium. The transfer of depleted uranium to DOE reduces USEC's costs for the disposition of depleted uranium. USEC will release the United States from liability with respect to any out–of–specification uranium that is processed or replaced, and in any event in September 2003, USEC will release the United States for liability with respect to at least 2,800 metric tons of natural uranium.

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

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

In July 2002, USEC began operating facilities at the Portsmouth plant to remove contaminants from a portion of the out–of–specification uranium. Operational difficulties encountered during the start–up phase have not been resolved, and processing has not met targeted levels. USEC can provide no assurances that it will be able to remove contaminants from all 2,800 metric tons of natural uranium by September 2003. In the event that USEC is not able to remove contaminants from all 2,800 metric tons prior to its obligation to release the United States from liability with respect to such uranium, an impairment in the valuation of the portion of uranium inventory not processed could result. In addition, an impairment in the valuation of up to 9,200 metric tons of uranium inventory would result if DOE fails to exchange, replace, clean up or reimburse USEC for some or all of the out–of–specification uranium for which DOE has assumed responsibility. Depending on the amount of uranium, an impairment could have an adverse effect on USEC's financial condition and results of operations.

Domestic Enrichment Facilities

Under the DOE–USEC Agreement, USEC agreed to operate the Paducah plant at a production rate at or above 3.5 million SWU per year. Historically, USEC has operated at production rates significantly above this level, and in calendar 2003, USEC expects to produce about 5 million SWU at the Paducah plant.

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

If USEC does not maintain the requisite level of operations and has not cured the deficiency, USEC is required to waive its exclusive rights to lease the Paducah and Portsmouth plants. If USEC ceases

operations at the Paducah plant or loses its certification from the NRC, DOE may take such actions as it deems necessary to transition operation of the plant from USEC to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts. In either such event, DOE may be released from its obligations under the DOE–USEC Agreement. USEC will be deemed to have "ceased operations" at the Paducah plant if it (a) produces less than 1 million SWU or (b) fails to meet specific maintenance and operational procedures established in the DOE–USEC Agreement.

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

Advanced Enrichment Technology

The DOE–USEC Agreement provides that USEC will begin operations of an enrichment facility at Paducah or Portsmouth using advanced technology with annual capacity of 1 million SWU (expandable to 3.5 million SWU) in accordance with certain milestones. The milestone schedule contains dates for various steps culminating in deployment of an advanced enrichment technology facility, including testing, NRC licensing, financing and construction. Following are the centrifuge project milestones over the near term, the first three of which have been achieved:

Milestone	Milestone Date	Date Achieved
USEC begins refurbishment of K–1600 centrifuge testing facility in Oak Ridge, Tennessee	December 2002	December 2002
USEC builds and begins 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	
First rotor tube manufactured	November 2003	
Centrifuge testing begins	January 2005	
Submit license application for commercial plant to NRC	March 2005	
NRC dockets commercial plant application	May 2005	
Begin lead cascade centrifuge manufacturing	June 2005	

Longer–term milestones include, among other things, that a centrifuge facility (a) begin commercial operations in Portsmouth by January 2009 and achieve an annual capacity of 1 million SWU by March 2010 or (b) begin commercial operations in Paducah by January 2010 and achieve an annual capacity of 1 million SWU by March 2011. If, for reasons within USEC's control, USEC does not meet a milestone and the resulting delay will materially impact its ability to begin commercial operations on schedule, DOE may take any of the following actions:

- terminate the DOE–USEC Agreement and be relieved of its obligations thereunder,
- require USEC to reimburse DOE any costs caused by DOE expediting decontamination and decommissioning of facilities to be used by USEC for advanced technology,
- require USEC to transfer to DOE royalty free exclusive rights to the centrifuge technology and data in the field of uranium enrichment,

- require USEC to return any leased facilities upon which the advanced technology project was being or was intended to be constructed, and

- except for plant facilities being operated, require USEC to waive its exclusive rights to lease the Paducah and Portsmouth plants.

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

The successful demonstration and deployment of the American Centrifuge technology is dependent upon a number of DOE actions, including clean up of the Gas Centrifuge Enrichment Plant or GCEP facilities at the Portsmouth plant. In the event DOE fails to take appropriate and timely action, it could delay or disrupt USEC's ability to meet the milestones scheduled in the DOE-USEC Agreement. According to the DOE-USEC Agreement, if USEC fails to meet a milestone and the failure is not due to negligence or is due to circumstances beyond its control, DOE and USEC will jointly agree to adjust the milestones to accommodate the delay. However, a delay could have an adverse effect on USEC's schedule to demonstrate and deploy the American Centrifuge technology.

General

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

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

Highly Enriched Uranium from DOE

Since 1998, DOE has been in the process of transferring 50 metric tons of highly enriched uranium to USEC. USEC expects to recover LEU containing an aggregate of 3.1 million SWU and 5,400 metric tons of uranium from downblending the highly enriched uranium. At December 31, 2002, 21 metric tons of highly enriched uranium had been transferred from DOE to USEC, 27% of the total expected LEU had been recovered, and 15% was in the process of downblending. USEC expects costs to complete downblending activities over the next four years will be less than the production costs that would be required to produce an equivalent amount of LEU. Factors affecting recoverability include the costs and risks of completing the transfers, processing and downblending required to convert the highly enriched uranium metal and oxide into LEU suitable for sale to utility customers.

Advanced Uranium Enrichment Technologies

American Centrifuge

USEC has selected U.S. centrifuge technology to replace its gaseous diffusion process and is working on the demonstration and deployment of a new centrifuge enrichment facility. From July 2002, USEC expects to spend approximately $150 million over a five-year period in preparation for construction of a 1 million SWU centrifuge plant under milestones set out in the DOE-USEC Agreement. A significant amount of centrifuge development costs are expected to be charged to expense until commercial plant

costs begin to be capitalized. In calendar 2003, USEC expects advanced technology development costs will be in the range of $35–40 million. A commercial centrifuge plant is expected to cost approximately $1 to $1.5 billion.

U.S. centrifuge technology, which was developed from 1960 through the mid–1980s by DOE, is a proven, workable technology. Centrifuge machines enrich uranium by spinning uranium hexafluoride at very high speeds, separating the lighter U^{235} from the heavier U^{238}. The amount of separation performed by a centrifuge is dependent on the height or length and spinning speed of the centrifuge rotors. Work on this technology was terminated by DOE because of changing demand forecasts and DOE budget constraints. DOE spent more than $3 billion on research and development and construction of centrifuge facilities and operated full–scale centrifuge machines that achieved performance levels superior to today's best operational centrifuges.

In September 2002, USEC announced that it had finalized a $121 million Cooperative Research and Development Agreement ("CRADA") with UT–Battelle LLC, the management and operating contractor for DOE's Oak Ridge National Laboratory ("ORNL"). The CRADA, approved by DOE, extends through June 2007 and is being funded entirely by USEC.

USEC leases two facilities in Oak Ridge, Tennessee for testing and fabrication of its centrifuge technology and has begun refurbishing the buildings, which contain centrifuge test equipment and related infrastructure. USEC has fabricated a key component of the new centrifuge machines and has begun testing it, which marks completion of the second in a series of milestones. In December 2002, USEC announced that it will site the American Centrifuge Demonstration Facility lead cascade at the Portsmouth plant in Piketon, Ohio. Operation of this advanced technology facility will demonstrate USEC enhancements to DOE's centrifuge uranium enrichment technology. In February 2003, USEC submitted a license application for the lead cascade to NRC. Construction of a lead cascade containing up to 240 improved full–scale centrifuge machines will begin in 2004. The lead cascade is expected to begin operations in 2005 and will be used to gather data to reduce cost, schedule and technology performance uncertainties prior to initiating construction of a commercial plant in 2007.

SILEX

USEC has secured exclusive worldwide rights to the commercial use of the SILEX laser–based technology for enriching uranium hexafluoride, which USEC is developing in partnership with Silex Systems Limited in Australia. SILEX or Separation of Isotopes by Laser Excitation uses lasers to selectively excite the U^{235} isotopes, and not the U^{238} isotopes, enabling separation through a gas dynamic effect. In October 2002, the partnership agreement was amended to expand the project milestones and payment schedule, formalize a previously conditional royalty to USEC from commercialization of non–uranium isotope enrichment, and introduce a plan to seek a partner to commit new development funding. In the period October to December 2002, a series of SILEX experiments were completed, and, for the first time, small samples of uranium isotopes were separated, collected, and analyzed. SILEX shows potential as a third–generation enrichment technology. USEC continues to develop SILEX at a pace consistent with its stage of development.

Nuclear Regulatory Commission – Regulation

The gaseous diffusion plants are certified and regulated by the NRC. The NRC issued Certificates of Compliance to USEC for the operation of the plants in November 1996 and began regulatory oversight in March 1997. In 1998, USEC applied for and NRC granted a renewal of the certifications for the five–year period ending December 2003. In March 2001, following completion of the assay upgrade project, the Paducah plant was certified by the NRC to produce enriched uranium up to an assay of 5.5% U^{235}. In April 2003, USEC plans to apply for a renewal of the NRC certifications for an additional five–year period.

The Paducah plant is located near the New Madrid fault line. NRC required seismic upgrading of two main process buildings at the Paducah plant to reduce the risk of release of radioactive and hazardous material in the event of an earthquake. USEC completed the seismic modifications in July 2000.

In response to the heightened security concerns following the events of September 11, 2001, NRC issued interim compensatory measures to USEC in June 2002 requiring additional security measures at the plants. USEC expects to incur costs of $11.7 million, including $4.1 million in capital costs, in calendar 2003 for the security measures. There may be additional measures based on NRC development of "design basis threat," the cost of which, or cost sharing with DOE, is not known.

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

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

Environmental Matters

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

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

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

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

Reference is made to information regarding an environmental matter involving Starmet CMI, EPA, the South Carolina Department of Health and Environmental Control, DOE, USEC and others, reported in the Notes to Consolidated Financial Statements.

Occupational Safety and Health

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

Certain Arrangements Involving the U.S. Government

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

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

Competition and Foreign Trade

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

- USEC,
- Urenco, a consortium of companies owned or controlled by the British and Dutch governments and by private German utilities,
- Eurodif, a multinational consortium controlled by Cogema, a subsidiary of Areva, a company principally owned by the French government, and
- the Russian Ministry of Atomic Energy, which sells LEU through Tenex, a Russian government-owned entity.

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

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

While there are only a few primary suppliers, USEC estimates that the operating capacity of the suppliers is greater than world demand, and there is an additional supply of LEU available for commercial use from the dismantlement of nuclear weapons in the former Soviet Union and the United States. Limitations on imports of Russian LEU and other uranium products into the United States and other markets help mitigate the adverse effect of excess supply in those markets. Any additional increase in operating capacity of the suppliers or increased availability of Russian LEU would cause a further imbalance between global supply and demand.

Urenco, Tenex, and producers in Japan and China use centrifuge technology to produce LEU, a more advanced technology than the gaseous diffusion process currently used by USEC and Eurodif. Urenco has reported the capacity of its facilities was 5.3 million SWU at the end of calendar 2001, and has an ongoing expansion program under which it has been increasing its capacity. Cogema, Eurodif's parent company, and Urenco have announced plans to work together in the field of centrifuge technology to replace Eurodif's gaseous diffusion plant with Urenco centrifuge technology by 2012 or thereafter.

Louisiana Energy Services ("LES"), a group controlled by Urenco, a company owned by the British and Dutch governments and by certain German utilities, has announced plans to construct a uranium enrichment plant based on Urenco's foreign centrifuge technology, near Hartsville, Tennessee. The proposed plant production is targeted for 1 million SWU by 2008 and 3 million SWU several years later. LES further announced that it is in the process of obtaining LEU commitments from U.S. nuclear utilities. LES is in the preliminary stages of applying for an NRC license and recently announced a further delay in its filing date for the formal submission of its NRC license application. The siting of LES's proposed plant near Hartsville, Tennessee is subject to numerous proceedings to obtain local approval in the communities around Hartsville; however, final local approvals have not yet occurred.

All of USEC's current competitors are owned or controlled, in whole or in part, by foreign governments and may make business decisions influenced by political and economic policy considerations rather than exclusively commercial profit–maximizing considerations. Significant portions of the East and West European markets are closed to USEC as purchasers in these markets favor local producers as a result of government influence or political or legal considerations.

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

Russian Suspension Agreement

Imports of LEU produced in the Russian Federation are subject to a 1992 agreement suspending a U.S. Commerce Department ("DOC") antidumping investigation (the "Russian SA") that with limited exceptions, prohibits imports of LEU from Russia other than LEU derived from highly enriched uranium imported under the Russian Contract.

Absent the restrictions imposed by the Russian SA or duties imposed under an antidumping order against imports of uranium products from the Russian Federation, USEC would face substantially increased competition, and market prices for SWU and LEU could be depressed adversely impacting USEC's revenue or results of operations. By its terms, the Russian SA can be terminated by either the Russian or U.S. governments upon 90 days advance notice. In such a case, however, the 1992 antidumping investigation suspended by the Russian SA, including the high preliminary duties calculated at that time on imports of Russian uranium products, would be renewed. Alternatively, the Russian Federation could

invoke procedures under the Russian SA, which provide for termination of both the suspended antidumping investigation and the Russian SA if the DOC makes certain specified determinations under a formal process specified in DOC regulations. Even if DOC, upon request by the Russian Federation, makes such determinations, the terms of the Russian SA indicate that the earliest that the Russian SA and the underlying investigation could be terminated under these procedures is March 31, 2004.

In June 2002, DOC determined that the Russian Federation had evolved from non-market economy status to a "market economy." USEC does not believe that this "market economy" decision will have an immediate impact on the Russian SA. How these changes would apply to any resumed antidumping investigation, or future antidumping or countervailing duty investigations, of LEU from the Russian Federation is uncertain.

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

In February 2002, DOC issued orders imposing antidumping and countervailing duties on imports of LEU from France, and countervailing duties on imports of LEU from Germany, the Netherlands and the United Kingdom. LEU is produced in France by Eurodif, a company controlled by Cogema, and is produced in Germany, the Netherlands, and the United Kingdom by Urenco. The orders require the posting of cash deposits of 32.1% on the value of LEU imports from France, and 2.23% on the value of LEU imports from Germany, the Netherlands and the United Kingdom. The orders were the culmination of investigations by DOC and ITC into allegations filed by USEC (joined by the Paper, Allied-Industrial, Chemical & Energy Workers International Union) that LEU imported from these countries was being subsidized and, in the case of LEU imports from France, sold at unfair prices, and was materially injuring or threatening to materially injure USEC.

The orders do not prevent the importation of European LEU, but help to offset the European enrichers' subsidies and unfair pricing practices. Appeals of the DOC and ITC determinations in these investigations are now pending before the U.S. Court of International Trade, and, depending upon the impact (if any) of the Court's decisions on the scope or methodology of the investigations, may result in a future increase, decrease or elimination of the duties on some or all of these imports or the revocation of the antidumping and countervailing duty orders. Court-ordered remand proceedings before each agency, and/or subsequent appeals to the U.S. Court of Appeals for the Federal Circuit, are also possible. The European Union may challenge some or all of the DOC or ITC determinations under dispute settlement procedures of the World Trade Organization. Additionally, final duties could be changed or eliminated through annual administrative reviews to be conducted by DOC beginning in March 2003. It is not possible to predict the outcome or timing of these appeals, procedures or reviews.

Stockpile of LEU Located in Kazakhstan

In August 1999, USEC asked DOC to clarify that a stockpile of LEU containing approximately 3 million SWU, which was produced in Russia but located in Kazakhstan at the time of the break-up of the Soviet Union, falls within the scope of the Russian SA. DOC has not yet ruled. Unless DOC rules that the stockpile falls within the scope of the Russian SA, the stockpile could be sold in the United States free of any antidumping restrictions. Depending on the quantity imported, such sales could depress market prices and adversely affect USEC's revenue or results of operations.

Employees

USEC had 2,839 employees at December 31, 2002, compared with 2,913 employees at June 30, 2002. There were 2,664 employees at the plants (1,489 at the Paducah plant engaged principally in uranium enrichment activities and 1,175 at the Portsmouth plant providing contract services for DOE), 110 at headquarters in Bethesda, Maryland, and 65 at various locations developing the American Centrifuge technology.

The Paper, Allied-Industrial, Chemical and Energy Workers International Union ("PACE") and the Security, Police, Fire Professionals of America ("SPFPA") represent 52% of the employees at the plants.

- The contract with PACE Local 5-550 covering 665 employees at the Paducah plant expired January 31, 2003. On February 4, 2003, members of PACE Local 5-550 went on strike after rejecting a contract proposal that resulted from negotiations leading up to the expiration of the current labor contract.

- The contract with SPFPA Local 111 covers 80 employees at the Paducah plant. In August 2002, terms of a new contract with a term until March 2, 2007, were ratified by SPFPA.

- The contract with PACE Local 5-689 covers 554 employees at the Portsmouth plant. In December 1999, the contract was extended to May 2, 2004.

- The contract with SPFPA Local 66 covers 74 employees at the Portsmouth plant. In September 2002, terms of a new contract with a term until August 4, 2007, were ratified by SPFPA.

Available Information

USEC's internet website is www.usec.com. USEC makes available on its website, without charge, access to its 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.

Item 3. ***Legal Proceedings***

Reference is made to information regarding (a) an environmental matter involving Starmet CMI, EPA, the South Carolina Department of Health and Environmental Control, DOE, USEC and others, (b) a federal securities lawsuit filed against USEC in October 2000, and (c) other legal matters, reported in the Notes to Consolidated Financial Statements.

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

USEC held its annual meeting of shareholders on November 6, 2002. As of the record date, September 12, 2002, there were 81.7 million shares of common stock outstanding and entitled to vote. 90% of those shares were represented at the annual meeting.

A board of eight directors (listed below) was elected at the annual meeting. Each director holds office until the next annual meeting of shareholders and until his or her successor is elected and has qualified. The number of votes cast for and withheld is set forth below. There were no abstentions or broker non-votes.

	For	Withheld
James R. Mellor, Chairman	72,588,528	855,909
Michael H. Armacost	72,792,808	651,628
Joyce F. Brown	72,776,458	667,979
John R. Hall	72,399,445	1,044,992
W. Henson Moore	72,816,971	627,466
Joseph F. Paquette, Jr.	72,422,574	1,021,863
William H. Timbers	72,602,591	841,846
James D. Woods	72,408,184	1,036,253

The appointment of PricewaterhouseCoopers LLP as independent auditors was ratified with 72.3 million votes for (98.6% of votes cast) and 1.0 million against (1.4% of votes cast). There were .1 million abstentions.

Executive Officers

Executive officers are elected by and serve at the discretion of the Board of Directors. Executive officers at December 31, 2002, follow:

Name	Age at December 31, 2002	Position
William H. Timbers	53	President and Chief Executive Officer
Dennis R. Spurgeon	59	Executive Vice President and Chief Operating Officer
Sydney M. Ferguson	46	Senior Vice President
Timothy B. Hansen	39	Senior Vice President, General Counsel and Secretary
Philip G. Sewell	56	Senior Vice President
Henry Z Shelton, Jr.	59	Senior Vice President and Chief Financial Officer
J. Morris Brown	62	Vice President, Operations
Gary G. Ellsworth	54	Vice President, Government Relations
Robert Van Namen	41	Vice President, Marketing and Sales
Michael T. Woo	49	Vice President, Strategic Development
Charles B. Yulish	66	Vice President, Corporate Communications

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

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

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

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

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

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

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

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

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

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

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