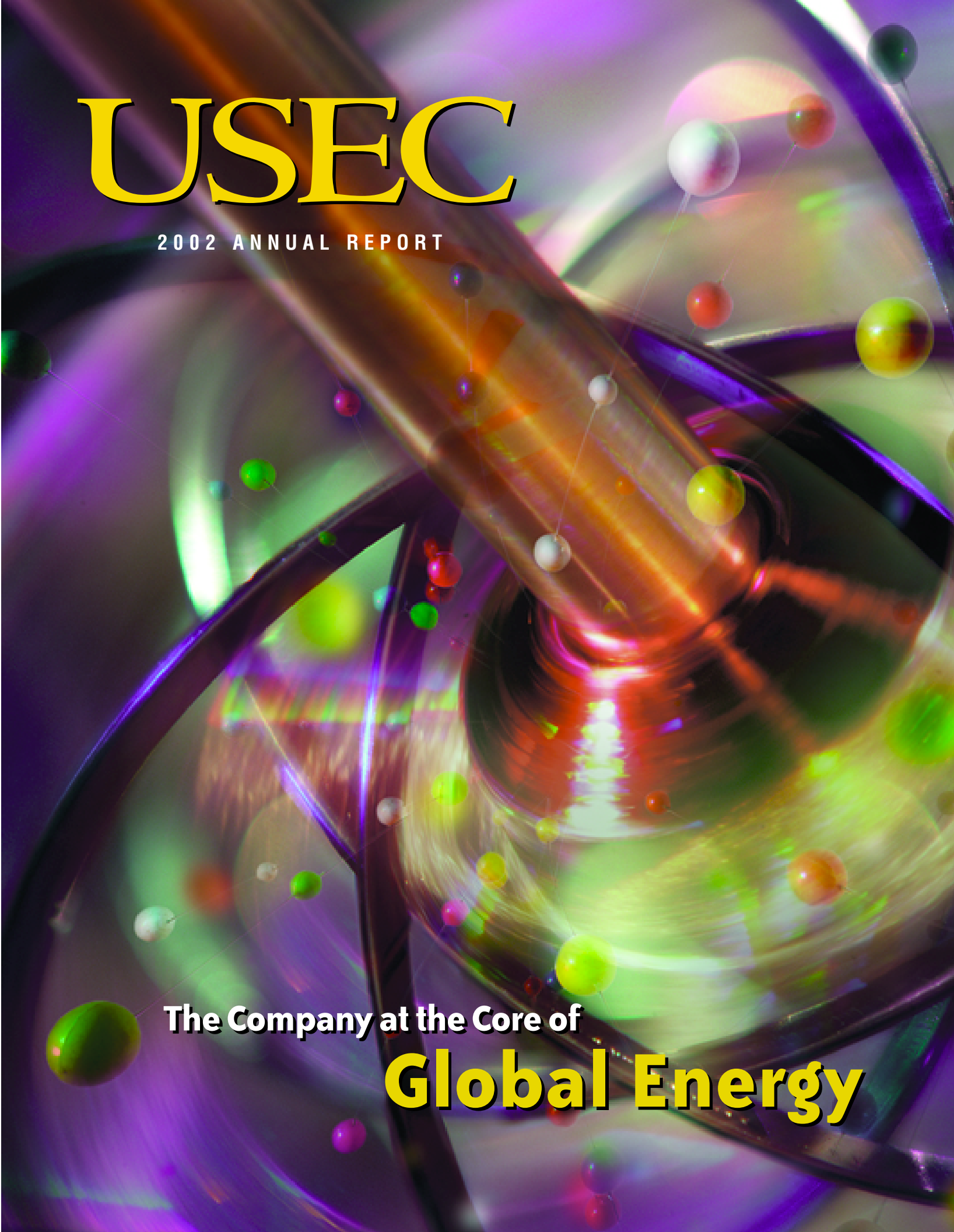

USEC

2002 ANNUAL REPORT

The Company at the Core of Global Energy

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2002 USEC ANNUAL REPORT

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ABOUT USEC

USEC Inc. (NYSE:USU), a global energy company, is the world's leading supplier of enriched uranium fuel for commercial nuclear power plants. The Company serves as the United States' executive agent for the national security agreement with Russia to convert nuclear warheads into low-enriched uranium fuel. USEC is headquartered in Bethesda, Maryland, operates a production facility in Paducah, Kentucky and employs approximately 3,000 people.

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USEC Chairman James Mellor and President and CEO William Timbers report on USEC's actions and perspective on the future. USEC achieved important milestones that will positively impact revenue and costs and set a clear path for deploying advanced enrichment technology.

On The Cover:
Artist's conception of USEC's advanced gas centrifuge uranium enrichment technology.

FINANCIAL HIGHLIGHTS

	Fiscal Years Ended June 30		
	2002	2001	2000
Revenue (in millions)	**$1,426.2**	$1,143.9	$1,489.4
Net income, excluding special items (in millions)	**$ 12.0**	$ 41.1	$ 109.1
Net income (in millions)	**$ 16.2**	$ 78.4	$ 8.9
Net cash provided by operating activities (in millions)	**$ 262.4**	$ 207.6	$ 262.8
Debt to total capitalization	**34%**	34%	37%
Earnings per share, excluding special items	**$ .15**	$ .51	$ 1.20
Earnings per share	**$ .20**	$ .97	$ .10
Dividends per share	**$ .55**	$ .55	$ .825
Dividend yield as of June 30	**6.25%**	6.5%	11.9%

LETTER TO SHAREHOLDERS

We are pleased to report on USEC's performance during the past year, a year characterized by progress and success in enhancing shareholder value. We achieved significant milestones that will positively impact our revenue, reduce our costs and set a clear path for deploying the best available uranium enrichment technology by the end of the decade.

William H. Timbers
President and Chief Executive Officer

James R. Mellor
Chairman of the Board

Wall Street took note of our accomplishments and investors were rewarded with a total return on USEC stock of 12.5 percent, compared to double-digit negative returns for the major indices. Because this is a company whose performance should be measured over a longer time period, we note that total return over the two-year period was 125 percent.

Two years ago in our letter to shareholders, we reported on a difficult and challenging market. In that letter, we laid out the issues facing USEC and our vision of how to move the Company forward. We established concrete strategic initiatives so that you could monitor our progress. We set priorities and systematically tackled each initiative. We worked through the operational, technical, financial and political landscapes to achieve these accomplishments.

At USEC, we have developed a corporate culture where we do what we say we'll do—and our employees have delivered. The accomplishments of the past two years are therefore doubly satisfying.

A YEAR OF ACCOMPLISHMENTS

Building on the 2001 accomplishments of plant consolidation, staff reductions and a new electric power contract, we laid out three priorities for fiscal 2002. We needed to reach a long-term pricing agreement with Russia, determine our path for advanced enrichment technology, and re-establish fair and equitable market pricing through a trade case brought before the U.S. Department of Commerce.

HEU AGREEMENT

As the U.S. executive agent for the Russian HEU agreement, we needed to establish a new framework for setting purchase prices over the next 12 years. In February, we reached an agreement that will mutually benefit each side, and in June the Russian and U.S. governments approved the arrangement. This capped a two-year negotiating effort with Tenex, the Russian executive agent for the Megatons to Megawatts program. This agreement is good news for shareholders because it contributes to a stable business platform from which we can grow and diversify the Company while deploying advanced technology to lower our future production costs.

DEVELOPING ADVANCED ENRICHMENT TECHNOLOGY

In conjunction with the U.S. government review of the agreement with Russia, we concluded negotiations with the government regarding several issues of mutual interest. Of specific note, our new agreement with the U.S. Department of Energy provides USEC access to advanced centrifuge technology that we intend to deploy by the end of the decade.

USEC employees spent more than a year evaluating the U.S. government's advanced gas centrifuge technology. We are confident that the design we are working on will be the most efficient and cost-effective centrifuge in the industry and will secure USEC's position as the reliable, low-cost producer of enriched uranium. The new facility will be built at either the Paducah, Kentucky or Portsmouth, Ohio plant site and officials from both states are competing to be selected. At 3.5 million SWU, the commercial plant is estimated to cost between $1 billion and $1.5 billion.

Even as we move forward with building a centrifuge facility, we are continuing research on SILEX, a third-generation laser enrichment process that shows promise. We are currently evaluating direct measurement tests on SILEX in Australia and plan to continue developing the technology at a pace consistent with its stage of development.

SUCCESSFUL TRADE ACTION

Our third area of concentration was the successful conclusion of a trade action we asked the U.S. government to initiate against two European competitors. We took this step to re-establish fair and equitable pricing in the uranium enrichment marketplace. Specifically, we petitioned the U.S. government to put a stop to the dumping of enriched uranium in the United States and improper foreign subsidies. The U.S. Department of Commerce and U.S. International Trade Commission ruled unanimously in support of the Company's position. As a result, tariffs were placed on imports of enriched uranium from four European countries. Fair and equitable prices were re-established for our product as a result of the trade action, combined with our action to cease enrichment at the Portsmouth plant in 2001.

OUR NEXT STEPS

As we go forward, we've established a new set of three strategic initiatives. The first leg of our strategy will be building and improving the value of our customer relationships. We'll do this by signing long-term contracts, exploring joint venture opportunities and strengthening our presence in our principal markets of the United States and Asia, while maintaining close relationships with nuclear energy companies worldwide.

The second leg is the successful demonstration and deployment of advanced gas centrifuges. This enrichment technology has great potential to substantially reduce our operating costs. Centrifuges won't be operating until the end of the decade, however, and we won't wait for this advanced enrichment technology to improve our bottom line. Therefore, the third leg of our strategy is to grow and diversify the business.

USEC has a unique role in the nuclear fuel business and we are exploring how to further leverage our expertise within the nuclear industry, energy and governmental services arenas. We will evaluate each opportunity carefully to determine its fit with other strategic interests, its return on investment and its ability to be accretive to earnings. Our goal is to increase our revenue, grow net income and improve return on equity over the next five years through this diversification strategy.

AHEAD OF THE CURVE ON CORPORATE GOVERNANCE

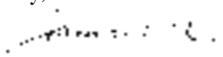
Our genesis as a government corporation gave us a unique viewpoint. Prior to privatization, USEC and its management were under the scrutiny of numerous federal agencies and a dozen congressional committees. One result of that accountability has been financial reporting that is careful, conservative and consistent. That beginning also provided an opportunity to create a corporate governance structure from a clean slate. We were able to put in place the best practices, set an example of the highest ethics and values, and make accountability the expected norm for our employees.

We carried those same practices into the private sector and today we are accountable to our shareholders—we never forget who owns this Company. We are always aware that we are obligated to do the right things, the right way and for the right reasons.

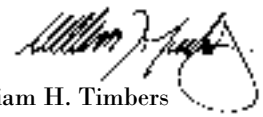
Our employees are also very proud of our role in converting dismantled nuclear weapons into the fuel used in the nuclear power plants that provide 20 percent of the electricity in the United States—clean power that is meeting our nation's growing demand for electricity. In today's environment of heightened concern over terrorism, this Company is implementing one of the most valuable national security programs, and has already eliminated weapons grade material capable of making 6,000 nuclear weapons.

On behalf of the nearly 3,000 USEC employees, we are dedicated to increasing the value of your investment and committed to maintaining the highest standards of business ethics and accountability. ■

Sincerely,



James R. Mellor



William H. Timbers

September 19, 2002

ADVANCED TECHNOLOGY

2002 was a year of progress in USEC's development of a new enrichment technology. We are squarely focused on deploying what will be the most advanced centrifuge plant in the world. This new technology will demonstrate our commitment to supporting the nuclear industry's growth while ensuring USEC remains the world's leading supplier of enriched uranium fuel.

In June 2002, USEC signed a comprehensive agreement with the U.S. Department of Energy (DOE) that provides a cooperative foundation for deploying a centrifuge enrichment plant by the end of the decade. USEC will showcase state-of-the-art updates to the DOE-proven technology that should deliver greater efficiency and cost savings in manufacturing centrifuges, providing a more attractive economic return.

For more than 50 years, the U.S. enrichment industry has relied on gaseous diffusion, a workhorse technology that capably served the United States' defense needs and, since the 1960s, much of the fuel needs of the commercial nuclear industry. USEC will now move to deploy the most advanced second-generation enrichment technology in the world. The Company also continues to invest in SILEX, a third-generation laser enrichment technology.

PROVEN TECHNOLOGY

DOE spent more than two decades and $3 billion developing gas centrifuge technology that achieved performance levels superior to any centrifuge plant operating in the world today. Centrifuges enrich uranium

Test stands house gas centrifuges in Oak Ridge, Tennessee, where USEC is demonstrating U.S. enrichment technology. Pictured (from left): Charles Holley, USEC Facilities Manager, Carol Pollard, Oak Ridge National Laboratory and Tony Angelelli, USEC Regulatory Manager.

by spinning at high speed to separate the uranium isotopes. Thousands of machines were built and tested in limited runs before DOE ended the program in 1985 due to budget constraints and reduced energy demand.

Today, the market looks different. The U.S. Energy Information Administration projects that in 2020, world energy demand will be 60 percent greater than in 1999. Nuclear power will help meet that demand.

After a comprehensive review of all new enrichment technology options, USEC chose to modernize and deploy the U.S. centrifuge technology. Two years ago, the Company entered into a Cooperative Research and Development Agreement (CRADA) with UT-Battelle LLC, operator of DOE's Oak Ridge National Laboratory in Tennessee.

DOE-USEC AGREEMENT BOOSTS CENTRIFUGE

In June 2002, USEC and DOE signed a comprehensive agreement that facilitates our centrifuge demonstration efforts in Oak Ridge, where original centrifuge test facilities already exist. It also authorized renewal of the CRADA, which the parties recently extended through June 2007.

The USEC centrifuge team has nearly tripled in size over the past year, and the Company expects to triple it again this fiscal year. USEC has leased additional facilities in Oak Ridge where Boeing manufactured centrifuges for DOE in the 1980s.

LEAD CASCADE PROJECT

USEC reached another milestone in September 2002 when the Company received initial proposals from the states of Kentucky and Ohio seeking to host the Lead Cascade centrifuge facility. The Lead Cascade will provide the performance data on the design, cost, operation and reliability of the centrifuge technology. The Company will spend approximately $150 million over the next five years for the Lead Cascade.

In late 2002, USEC expects to select Paducah, Kentucky or Portsmouth, Ohio as the site for the Lead Cascade facility. Construction of the Lead Cascade, containing up to 240 improved full-scale centrifuge machines, will begin in 2004. Operations are scheduled to begin in the latter part of 2005 and construction of a commercial 3.5 million SWU plant is slated to begin in 2007.

USEC worked closely with the U.S. Nuclear Regulatory Commission (NRC) this year on preparations for the Lead Cascade license application that the Company will submit to the NRC before April 2003.

SILEX

USEC has secured exclusive worldwide rights to the commercial use of the SILEX laser-based technology for enriching uranium. USEC is developing the technology in partnership with Silex Systems Ltd. in Australia. If successfully deployed, SILEX would reduce the cost of enriching uranium primarily because it would use less electric power compared with gaseous diffusion and would have lower capital costs compared with gas centrifuge. USEC continues to develop SILEX at a pace consistent with its stage of development.

FUELING THE NUCLEAR RENAISSANCE

USEC is confident that nuclear power will play an increasing role as an energy source in the future. We are doing our part in the fuel cycle to support the growth of the nuclear industry. In developing the world's most efficient enrichment technology, USEC will be uniquely positioned to meet the needs of customers deploying new nuclear power facilities. ■

MEGATONS TO MEGAWATTS

New USEC-Tenex Agreement Will Deliver Shareholder Value, Supports U.S. National Security

In June 2002, USEC received approval from the U.S. and Russian governments on new, flexible market-based pricing terms for the remaining 12 years of the historic Megatons to Megawatts national security program. USEC is the U.S. government's exclusive executive agent on the agreement, which provides for the conversion of Russian warhead-derived highly enriched uranium (HEU) into nuclear power plant fuel.

(Above) Shipments of Russian warhead-derived nuclear fuel arrive regularly in the United States. A typical shipment contains enough fuel to power a large city for two years.

The new commercial terms, which go into effect in January 2003, will deliver value to USEC shareholders in the long term with the Company paying a fair, market-based price for this important supply of enriched uranium fuel. The Megatons to Megawatts fuel represents about half of our product supply.

At the same time, the Russian government secures a steady revenue stream from selling this nuclear material over the program's remaining term. This helps fund their nuclear safety, cleanup and weapons material security programs and keeps many of their nuclear workers employed. USEC's fuel purchases from Russia also support the U.S. government's national security goals at no expense to taxpayers.

In approving the new terms, the U.S. State Department commented, "The new market-based pricing mechanism will provide a stable and predictable procedure of implementing the HEU agreement on a commercial basis."

ELIMINATING 'LOOSE NUKES'

The Megatons to Megawatts contribution to U.S. national security efforts has never been more essential. Worldwide concern has steadily increased about "loose nukes"—inadequately safeguarded bomb-grade nuclear materials in Russia and elsewhere that could get into the hands of terrorists or rogue governments. The tragic events of September 11 have placed this concern on the very highest agendas of nations fighting the war on terrorism.

In October 2002, USEC and our Russian partner, Tenex, will celebrate the elimination of 150 metric tons of Russian bomb-grade material—enough to make 6,000 nuclear warheads. Nuclear warheads that were once aimed at American cities have been transformed into fuel now being used to light and power America from coast to coast.

When the Megatons to Megawatts program is completed in 2013, 500 metric tons of Soviet-era warhead-derived HEU—equivalent to 20,000 nuclear warheads—will have been converted to electricity.

Megatons to Megawatts makes a vital contribution to a key U.S. government national security objective—what President Bush described as helping to "keep the world's most dangerous technologies out of the hands of the world's most dangerous people." ■

USEC received approval from the U.S. and Russian governments earlier this year on new commercial terms for the Megatons to Megawatts program. CEO William H. Timbers (left) and Senior Vice President Philip G. Sewell were in Moscow to sign the new contract.

STRATEGIC ADVISORY COUNCIL

USEC's Strategic Advisory Council is an independent panel of private U.S. citizens with a wealth of diverse expertise. USEC established the Council in 1999 to advise the Company on issues pertaining to the nuclear and electric power industries, national security and the development of an advanced enrichment technology.

The Council (see inside back cover) provides advice to both the board of directors and management on a regular basis on global developments in nuclear programs and business matters.

With USEC focused on deploying an advanced centrifuge enrichment technology by the end of the decade, the Council will be invaluable. As some of the world's foremost authorities on energy technologies, the Council's experience and advice will be integral as USEC develops and builds centrifuges.

REINVENTING PADUCAH

USEC has taken a series of actions to streamline production operations and increase our competitiveness in the global nuclear fuel market. We ceased enrichment at the Portsmouth, Ohio plant and revamped the way we do business at our production facility in Paducah, Kentucky. To meet production targets, USEC set straightforward goals: Reduce operating costs and improve flexibility without sacrificing the safety, reliability and efficiency that are cornerstones of USEC's operating philosophy.

SINGLE PLANT PRODUCTION

USEC began preparing Paducah as a stand-alone facility in 2000, following the announcement that enrichment operations at Portsmouth would end the following year. This strategy has resulted in significant cost savings for USEC—more than $50 million during fiscal 2002, its first full year of single-plant operations.

In 2000, the Company completed necessary seismic upgrades to the Paducah plant and negotiated a favorable power-purchase agreement that improved our production flexibility. The following spring, USEC received NRC approval to enrich uranium to the highest level required by our utility customers—twice the level that the plant was previously certified to enrich. Today, all of USEC's domestic production is at the Paducah plant.

(Left) Enriched uranium is sampled and tested before shipment to customers. Operator Harvey Mitchell withdraws a sample to ensure it meets specifications.

Maintenance mechanics Luther Johnson (foreground) and Ralph Mitchell keep plant equipment operating efficiently.

TRANSFER AND SHIPPING CONSOLIDATION

In fiscal 2002, USEC consolidated its transfer and shipping operation, shifting the process from the Portsmouth plant to Paducah. At the transfer and shipping facility, enriched uranium is put into 2.5 ton cylinders, placed into protective transportation overpacks, and shipped to fabricators for final preparation as nuclear power plant fuel.

Uranium enriched at Paducah isn't the only material that USEC handles at the transfer and shipping facility. The Company also purchases low-enriched uranium from Russia, which is derived from Soviet-era nuclear warheads. That material also began being transferred through Paducah to customers during fiscal 2002.

The Paducah transfer and shipping facility will prepare and deliver 100 percent of the enriched uranium we provide for customers all around the world, shaving time off the shipping process and saving money. The move to Paducah will result in annual savings of about $40 million, beginning in fiscal year 2003. The full effect of the savings will be reflected gradually in USEC's earnings.

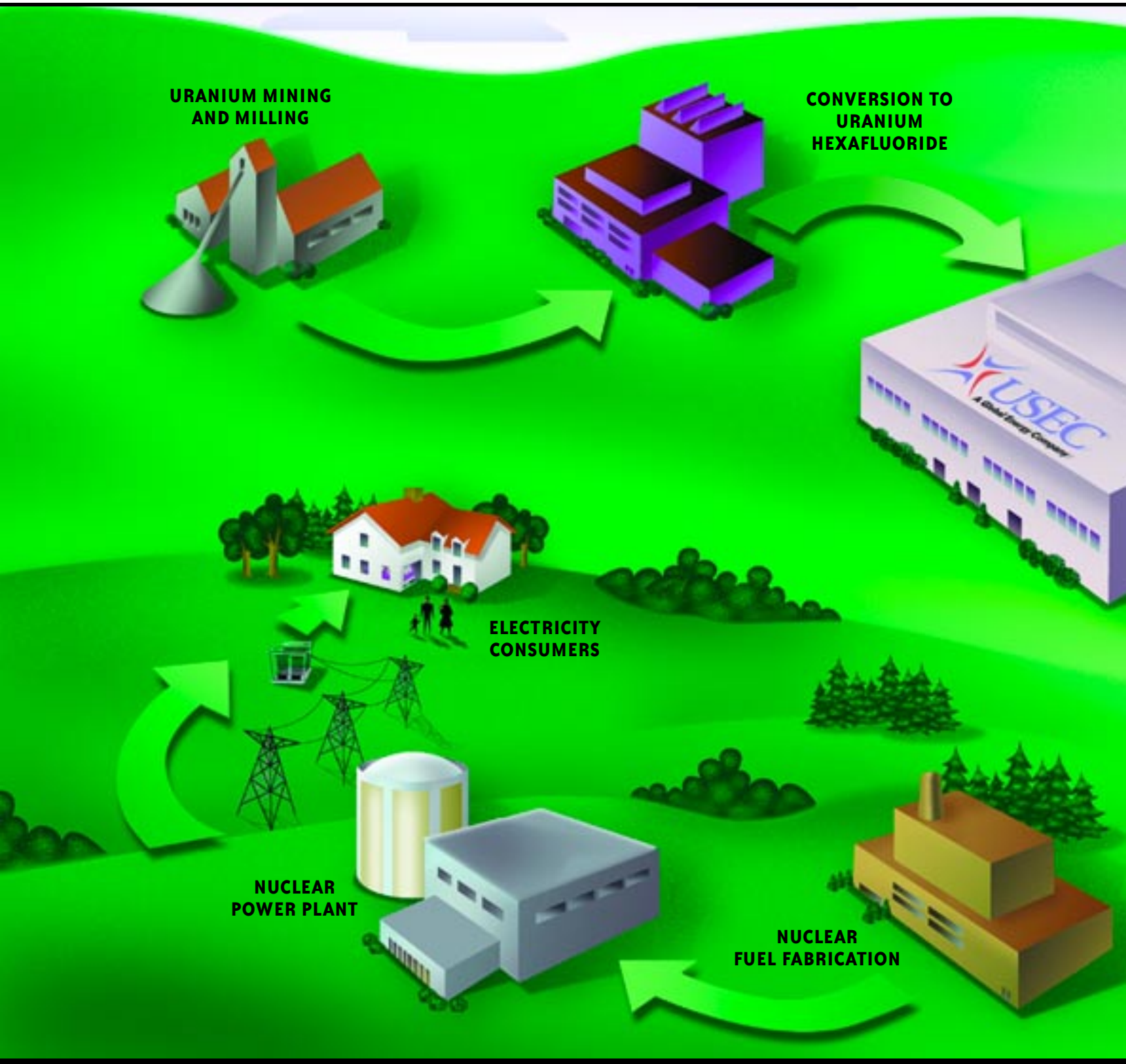
SUMMER PRODUCTION ENHANCES FLEXIBILITY

In 2002, USEC sought to further improve operational efficiency and better manage inventory levels by increasing summer production substantially above previous years. Historically, USEC has limited production during the summer months due to high electricity costs.

Electric power represents over 50 percent of USEC's production costs, and the Company carefully manages production schedules to maximize the efficient use of power. By forward-pricing moderate cost electricity, USEC boosted production during the summer of 2002 above the levels seen in previous summers while managing its power costs. Because this production level is easier on the plant's equipment, USEC expects to reach full production sooner and spend less on repairs and maintenance this fall. This has increased efficiency and resulted in a better alignment of sales and production, thus permitting a $200 million reduction in SWU inventory in fiscal 2002.

Taken together, all of these events have increased Paducah's effectiveness, flexibility and operations, while generating significant cost savings for USEC. Essentially, we have "reinvented" Paducah. ■

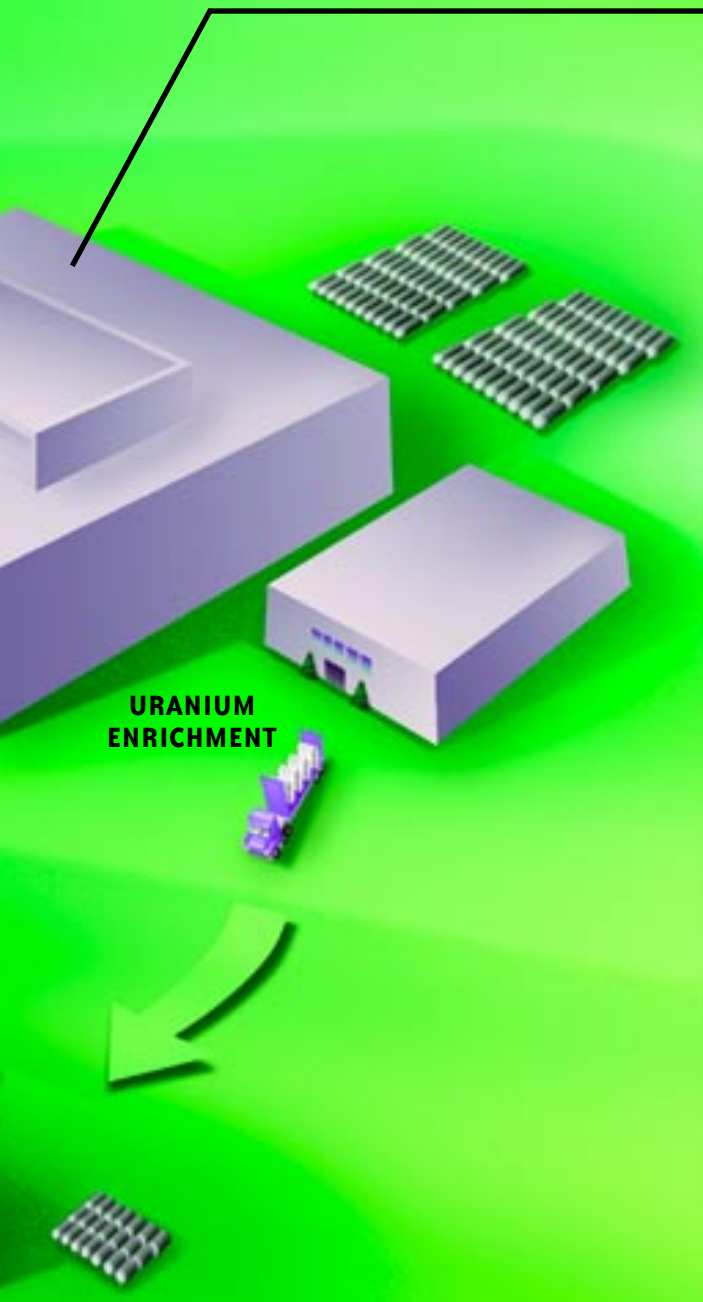
Anthony Weatherspoon checks one of the huge motors that powers the uranium enrichment process.



USEC'S KEY ROLE IN THE NUCLEAR FUEL CYCLE

Nuclear power is a vital part of the world's energy mix, with over 430 reactors operating around the globe. It takes several important steps to make this fuel and deliver the resulting electricity to homes and businesses in 30 countries worldwide.

First, **Uranium Mining and Milling**. Uranium is removed from the earth in the form of ore and then crushed and concentrated. Next is **Conversion to Uranium Hexafluoride** (UF6), where uranium is combined with fluorine gas to produce UF6, a powder at room temperature and a gas when heated.



STEPS IN URANIUM ENRICHMENT

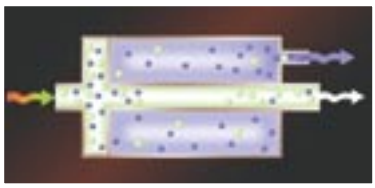
1

Cylinders (14 ton) containing natural uranium, in the form of uranium hexafluoride (UF6), arrive at the USEC Paducah enrichment plant's transfer and shipping facilities, where they are inspected and sampled.

2

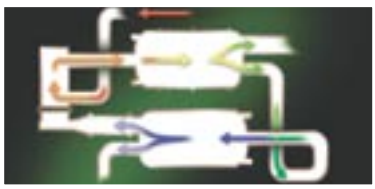
Each cylinder of UF6 is loaded into a huge autoclave where it is heated until the UF6 becomes a gas.

3



The UF6 gas is fed into the enrichment facilities. In a series of converters, the UF6 gas is forced through minute porous membranes, permitting separation of the lighter U-235 isotopes from the heavier U-238 isotopes.

4



A series of converters is called a cascade. As the UF6 gas progresses through the cascade, the concentration of U-235 is steadily increased until it reaches a level of up to 5 percent.

5

At the product withdrawal facility, enriched UF6 is withdrawn from the cascade into 10 ton cylinders and sampled to ensure it meets specifications. It is later loaded into smaller 2.5 ton product cylinders.

6

The product cylinders, along with identical cylinders of enriched uranium received from Russia, are then loaded into sturdy protective containers for shipment to a nuclear fuel fabricator where the fuel is converted into fuel assemblies for our customers' nuclear power reactors.

UF6 is then transferred to a **Uranium Enrichment** plant. Enrichment is the process that increases the concentration of U-235 isotopes from its natural state of 0.7% to up to 5%. At this level, it is usable as a fuel for commercial nuclear power reactors. USEC has the only enrichment operation in the United States. Above is a detailed description of the enrichment process.

Next is **Fuel Fabrication**. Enriched UF6 is converted to uranium oxide and formed into small ceramic pellets. These pellets are loaded into metal tubes that form fuel assemblies (12-17 feet tall), which are shipped to **Nuclear Power Plants**. Using the energy created from a controlled chain reaction, these facilities generate more than 16 percent of the world's electricity.

Electricity from the nuclear plant is delivered to **Consumers**. Businesses and homeowners have come to rely on the steady, baseload electricity supplied by nuclear power and appreciate that there are no emissions of greenhouse gases.

NUCLEAR'S NEW DAY

NUCLEAR POWER INDUSTRY SETS RECORDS, EXPANDS ON MULTIPLE FRONTS

Worldwide, the nuclear power industry continues to set records for electricity generation and plant productivity. Several countries have ordered new reactors, which will be coming online over the next decade. In the United States, the political climate has taken a pro-nuclear shift, renewing optimism that after a hiatus of more than 25 years, new nuclear plant construction may be on the horizon. As the world's leading supplier of enriched nuclear fuel, USEC is well positioned to serve the expanding fuel needs of our customers.

RECORD NUCLEAR GENERATION

U.S. nuclear power plants set a production record in 2001 for the third straight year, generating 768.8 billion kilowatt hours of electricity. That's a 33 percent increase over production in 1990 and represents a record 20.3 percent of electricity generated nationwide.

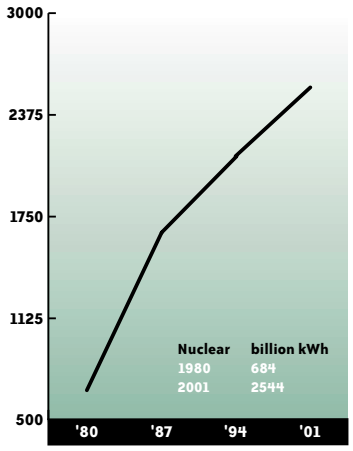
Although the United States is USEC's largest single market, about one-third of fiscal 2002 revenues came from overseas, and the Company follows international nuclear developments closely.

Internationally, new nuclear production records were set in Argentina, Brazil, Bulgaria, Finland, Germany, India, Russia, South Korea, Spain and Switzerland.

Globally, nuclear power plants produced a total of 4 percent more electricity in 2001 than in the preceding year, as new reactors came online and plant efficiency continued to improve. As nuclear plants around the world increase their electricity production, they use more nuclear fuel.

Today, there are over 430 nuclear power reactors in 30 countries, generating more than 16 percent of the world's electricity supply. More than 30 new reactors are under construction, with an equal number either on order or in the planning stages.

World Nuclear Industry Net Generation
(1980-2001)



INCREASED EFFICIENCY, UPRATES BOOST PRODUCTION

One way nuclear plants have boosted their electricity production is by increasing their on-line availability or "capacity factor." Capacity factors for U.S. nuclear plants are at record levels of nearly 90 percent—a 36 percent improvement over 1990 levels. Worldwide, the average capacity factor has improved about 15 percent over the same period—to 84 percent. The electricity generated as a result of this increased operating efficiency for the world's nuclear reactors is equivalent to constructing 33 new 1,000-megawatt nuclear power plants.

In the United States, power plant "uprates" also contributed to the jump in electricity production last year. An uprate is an increase in a plant's generating capacity achieved through the installation of more efficient equipment, more accurate instrumentation, or both.

Over the years, the NRC has approved more than 70 uprates, which collectively equal more than 3,200 megawatts of electric generation. Many of these nuclear plant uprates were by USEC's customers.

In 2001, the pace of approvals for uprates accelerated as the NRC cleared 22 applications, equaling about 1,100 megawatts of new nuclear capacity. That's equivalent to a large nuclear plant coming online.

U.S. utilities have indicated that over the next few years they will ask the NRC to approve another 1,150 megawatts of uprates—the equivalent of yet another new nuclear plant.

LICENSE EXTENSIONS GRANTED

U.S. nuclear plants were originally given 40-year operating licenses. Because many of these licenses will expire within the next decade, utilities have begun approaching the NRC for

ASIA

Asia is USEC's largest growth market. USEC has a substantial market share in Asia, and has long-term contracts with the 10 largest nuclear utilities in Japan, in addition to customers in South Korea and Taiwan.

Japan, South Korea and Taiwan together operate 77 reactors, with another 28 either under construction or planned. One USEC customer, Korea Hydro and Nuclear Power Co., plans to build eight new reactors by 2014 to meet growing demand—providing an additional 9,600 megawatts of electricity.

Asia is host to more than half of the world's reactor construction. By 2020, the region is expected to add 45,000 megawatts of nuclear power, a 13 percent increase in global nuclear capacity.

license extensions, permitting the plants to continue operating for an additional 20 years.

As of August 2002, 10 reactors at five plant sites had received NRC approval for license extensions. Applications for another 16 reactors at 10 sites were pending. In all, the owners of more than half of the nation's 103 nuclear reactors have expressed their intention to apply for license renewals by 2005. More announcements are expected.

U.S. POLITICAL CLIMATE FAVORS NUCLEAR POWER

The expansion of nuclear power production in the United States was a key recommendation in President Bush's *National Energy Policy*, released in May 2001.

During 2002, the Administration confirmed its support for the industry. In February, Energy Secretary Spencer Abraham announced the Administration's *Nuclear Power 2010* initiative. This program is specifically aimed at encouraging the construction of new nuclear plants in the United States by the end of the decade.

TODAY, THERE ARE OVER 430 NUCLEAR POWER REACTORS IN 30 COUNTRIES, GENERATING MORE THAN 16 PERCENT OF THE WORLD'S ELECTRICITY SUPPLY. MORE THAN 30 NEW REACTORS ARE UNDER CONSTRUCTION, WITH AN EQUAL NUMBER EITHER ON ORDER OR IN THE PLANNING STAGES.

Government/industry cost-sharing for the identification and regulatory certification of new plant sites is an important aspect of the program. Three major utilities (Dominion Resources, Entergy and Exelon) have already identified potential sites and announced plans to submit early site permits to the NRC. The permitting process provides regulatory assurance that a specific site can host a new plant. This boosts the prospects for eventual plant construction by limiting regulatory risk.

In July, Congress and President Bush approved Yucca Mountain, Nevada, as the site for an underground repository for the nation's spent nuclear fuel. This clears the way for the site to proceed through the licensing process. A definitive solution on the spent fuel storage issue will improve the prospects for a "nuclear renaissance" in the United States.

USEC is encouraged by the multiple prospects for industry expansion around the world and stands ready to serve our customers as nuclear's new day continues to dawn. ■

Nuclear - The Clean Air Technology

USEC's business is fueling nuclear power plants, which are the world's largest source of emission-free energy. Unlike coal- and natural gas-fired facilities, nuclear plants don't emit the harmful air pollutants and greenhouse gases that cause smog, acid rain and contribute to global warming.

According to nuclear industry data, each year U.S. nuclear power plants prevent 5.1 million tons of sulfur dioxide and 2.4 million tons of nitrogen oxide from entering the earth's atmosphere. In addition, nuclear plants prevent the emission of 164 million metric tons of carbon, which is equivalent to taking 123 million cars off the road. That's half the cars in the United States.

But USEC doesn't just fuel these nuclear plants. We're a customer as well. Most of the electricity that powers our Paducah production facility comes from the Tennessee Valley Authority, which operates three nuclear plants, generating nearly one-third of TVA's total power production.

Nuclear power—clean-burning electricity for a cleaner, healthier world.

THE ENRICHMENT MARKET

Prices for low-enriched uranium (LEU) in 2002 continued a rebound begun in 2001 when USEC took concrete steps to establish fair trade and optimize its supply sources. At the beginning of the decade, there was substantial overcapacity for uranium enrichment in the global marketplace as one European enricher added capacity and the market attempted to absorb a growing amount of LEU derived from warhead material. This overcapacity created an environment that brought aggressive pricing by USEC's competitors and prices declined to their lowest levels since the early 1990s.

Recognizing these price levels were unsustainable, USEC took several discrete steps to reverse the trend. These included:

- A well-publicized decision to curtail spot sales of LEU and emphasize longer term contractual commitments.
- The closure of the Portsmouth, Ohio enrichment plant, which brought global supply and demand into reasonable balance.
- A request to the U.S. government to investigate dumping of enriched uranium in the United States by foreign competitors.

These actions produced a return to fair and equitable pricing. After a year-long investigation, the U.S. Department of Commerce ruled in December 2001 that there was conclusive evidence of unfair LEU pricing in the United States by foreign competitors. The Commerce Department levied duties on future European LEU imports.

LEU prices have increased about 30 percent over their 2000 levels. There is now healthy competition in the U.S. enrichment market and several utilities have recently entered into long-term contracts with USEC.

USEC took these steps because the return of fair and equitable prices in the enrichment market is in the long-term interests of the entire nuclear industry—and the nation's energy security.

This vibrant market environment enables USEC to be committed to the development of advanced enrichment technology. Stable, profitable prices are necessary to ensure that the cost of new capacity will earn a fair return for shareholders. By the end of the decade, USEC intends to have new enrichment technology deployed that will dramatically reduce production costs and deliver the enriched uranium that will fuel the nuclear renaissance. ■

NORTH AMERICA

USEC has the largest market share for enriched uranium in North America, which includes the United States' 103 operating reactors and Mexico's two reactors.

Nuclear power provides Americans with low-cost electricity. That's why electric utilities dispatch nuclear-generated electricity first, 365 days a year. Nuclear's operating costs are the lowest at under 2 cents per kilowatt hour while the cost of generating with natural gas has climbed to over 5 cents per kilowatt hour.

U.S. nuclear utilities are constantly improving operations, dramatically improving capacity factors over the past decade and reducing the length of refueling outages. One domestic USEC customer set a new record for continuous operations with a run of 707 days.

REINFORCING SAFETY AND SECURITY

USEC is committed to protecting its employees, neighbors and plants through rigorous safety, security and emergency preparedness. Today's heightened security concerns have brought those obligations under intense scrutiny. USEC's excellent track record of meeting security regulations and its ingrained culture of safe operations—along with additional steps being taken to meet new NRC regulations—provide the basis for a safe and secure operation.

On September 11, 2001, terrorist attacks against the United States forced our nation to re-examine its security infrastructure—from law enforcement to transportation to energy. Nuclear facilities have received much attention. The universal question: Are they adequately protected?

The NRC's answer: Yes. "Nuclear power plants and major nuclear fuel cycle facilities have far more robust security than that at other civilian facilities in this country," the NRC said.

Within minutes of the attacks on New York and Washington, USEC tightened already stringent security and screening procedures at its plants. USEC's guards instantly went to a higher alert status to protect employees and the plants. When DOE and NRC issued further advisories for elevated security levels, we had already implemented the necessary measures. USEC continues to work closely with federal agencies to strengthen our security and to implement additional measures to ensure our readiness and effectiveness.

In addition to highly trained guards, USEC maintains fully functional fire brigades and medical teams that are ready to respond to incidents at our plant sites. Because every minute counts, our employees can respond within seconds, ready to deal with a wide range of emergencies.

A comprehensive emergency management program enables USEC employees to respond quickly. Whether the situation calls for an innovative approach to resolving security concerns or an effective response by fire services and emergency personnel, USEC's planning and preparedness provide the foundation for a safe, secure environment. ■

Onsite emergency response personnel, like firefighter Shane Cornwell, protect the Paducah plant and its workforce.

EXPLORING NEW OPPORTUNITIES FOR GROWTH

Production Process Operator Carl Lindner monitors the flow of gases through the enrichment cascade at the Portsmouth plant. USEC maintains the plant in cold standby under a contract with DOE.

USEC has focused in recent years on creating long-term value for shareholders by dramatically overhauling our core business—enriching uranium. The actions taken have essentially "fixed the business," and increasingly we are seeking opportunities to grow by expanding and diversifying our revenue base.

USEC regularly evaluates new revenue sources and profit centers outside of our core uranium enrichment business. We are focused on identifying areas that are a good fit with our strengths and abilities and where we can add value.

CONTRACTING/SERVICES

USEC has a strong and diverse government contracting business at its Portsmouth and Paducah plants, supported by more than 1,000 workers. The Company plans to build on its past successes performing contract work for DOE and will continue to look for new opportunities to win work at various DOE locations.

USEC has an established contracting business focused on environmental restoration, waste management and several key initiatives related to maintaining the Portsmouth plant in a "cold standby" condition.

After uranium enrichment activities ceased at Portsmouth in 2001, DOE decided to put the plant in cold standby, which allows for the restart of operations at a later date, if necessary. Included under terms of this contract is work to remove uranium deposits within the plant's cascades and to winterize the plant, which previously was heated by the enrichment process.

USEC also provides a range of specialized support services for DOE and its contractors at Paducah and Portsmouth, including security and fire protection, laboratory services, telecommunications and information technology, environmental monitoring, waste management and emergency response and preparedness.

Payments by DOE and DOE contractors to USEC for contract services are based on actual costs incurred and amounted to $102.6 million in fiscal 2002.

In July 2002, USEC also began processing out-of-specification uranium at the Portsmouth plant under the terms of an agreement the Company reached with DOE in June 2002. To compensate USEC for these clean-up costs, DOE will take title to all depleted uranium generated by USEC at the Paducah plant during fiscal years 2002 and 2003, and half of the depleted uranium generated in fiscal years 2004 and 2005, up to an agreed maximum amount. Depleted uranium is a byproduct of the uranium enrichment process and has costs associated with its disposition. The transfer of depleted uranium to DOE reduces USEC's costs for the disposition of the material.

Randy Blevins, senior chemist, works in laboratory services at USEC's Portsmouth plant.

LABORATORY SERVICES

USEC has a valuable asset at its Portsmouth plant site: the world-class Portsmouth Analytical Laboratory.

With more than 40 years of experience providing technical and analytical support to government and plant operations, the Portsmouth Lab has built a strong reputation in the areas of health physics, industrial safety and environmental/waste management.

When uranium enrichment operations ceased at Portsmouth, the lab expanded its mission and is seeking profitable contract work in additional fields. The lab is actively seeking new business from the government and private sectors.

THE FUTURE

As we continue to strengthen our core enrichment business, we will look to leverage our experience and skills to develop new opportunities within the energy industry—broadening our revenue base in ways that complement our core business. ■

Heather Coffie transfers a cylinder of enriched uranium. The Company will leverage its experience to develop new opportunities in the energy industry that complement its core business.

COMMUNITY RELATIONS

USEC's community relations and charitable giving programs are more than just good corporate citizenship. They are a tangible extension of the spirit and enthusiasm of a 3,000-member workforce that is a neighbor, a friend and a supporter of the communities where we work.

Our employees are in classrooms, sharing technical expertise with future generations of scientists and engineers, or supporting programs that help prepare students for their careers. USEC employees volunteer at their local fire departments, coach children's athletics, and serve as Big Brothers and Big Sisters.

USEC employees donate blood, walk to raise money for cancer research and share the spirit of the holidays with needy children. And they give. Personal contributions by USEC employees totaled more than $130,000 this year to help fund the United Way. They also pulled together to support the victims of September 11.

USEC employees at work on a community project—building a Habitat for Humanity house in Paducah.

In the Washington, DC area, USEC supports the American Cancer Society and promotes the arts through such organizations as the Choral Arts Society of Washington and Ford's Theater. In Paducah, Kentucky, USEC volunteers built a house for Habitat for Humanity, an organization that provides affordable homes to people in need. Near our Portsmouth, Ohio facility, USEC contributions helped bring a new walk-in cooler to the Jackson Food Pantry soup kitchen and funded the purchase of a panoramic X-ray machine, giving low-income residents access to better health care.

ECONOMIC DEVELOPMENT

USEC is working with organizations in Kentucky and Ohio to bring new opportunities to these communities. The Company is helping spur economic growth in Kentucky through its participation on the boards of the Kentucky Chamber of Commerce and the Greater Paducah Economic Development Council. USEC also works closely with the Paducah Area Community Reuse Organization and the Purchase Area Development District.

At Portsmouth, USEC supports reindustrialization and economic expansion by serving on the boards of the Southern Ohio Diversification Initiative and the Southern Ohio Growth Partnership.

Our commitment to our communities is clear and we take pride in being involved. ■

EUROPE

USEC currently serves customers in five European countries—Belgium, the Czech Republic, Slovenia, Spain and Switzerland. The Company has traditionally held a smaller share of the European market due to the presence of two large European competitors.

About one-third of Europe's electricity comes from nuclear energy. Most growth is expected in

Central and Eastern Europe. In Western Europe, France and Finland have made strong commitments to nuclear power.

At the end of 2002, the UK government is expected to release its long-term energy strategy, which some senior officials say must include building new nuclear plants.