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USEC Reports FY 2002 Financial Results

***– FY '02 Net Income Totals \$16.2 Million; Net Income Before Special Credit \$12 Million –
– Free Cash Flow Before Dividends Totals \$198.6 Million –***

Bethesda, MD – USEC Inc. (NYSE: USU) today announced results at the high end of its earlier earnings guidance, reporting net income of \$16.2 million or \$.20 per share for its fiscal year ended June 30, 2002, after a special credit of \$4.2 million or \$.05 per share (after tax) from a change in costs for consolidating plant operations.

For the fiscal year, net income before the special credit was \$12 million or \$.15 per share. In comparison, the Company reported net income in the prior fiscal year of \$41.1 million or \$.51 per share before a special income tax credit. Due to government delay in approving new pricing terms for USEC purchases of Russian enriched uranium, USEC's fiscal 2002 costs were substantially higher than originally anticipated. However, government approval in June 2002 of new market-based pricing terms will increase the profitability of USEC's Russian purchases through the remaining 12 years of the contract.

For the quarter ended June 30, 2002, the Company reported net income of \$7.1 million or \$.09 per share, compared to \$7.5 million or \$.09 per share in the fourth quarter of fiscal 2001.

USEC ended the year with \$279.2 million in cash and no short-term debt reflecting a \$236.7 million permanent reduction in SWU and natural uranium inventories.

Revenue and Cost of Sales

Revenue was substantially higher in fiscal 2002 than in the previous year. Gross margins were lower due to significantly fewer than planned Russian SWU purchases and high average inventory costs. Russian SWU purchases were lower in the second half of fiscal 2002 because of the delay in governmental approval of new pricing terms. Inventory costs remain high as previous higher unit costs work their way through USEC's inventory.

Revenue for fiscal 2002 was \$1,426.2 million, an increase of 25 percent over the previous fiscal year due to higher domestic SWU sales resulting primarily from the timing and movement

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of customer nuclear reactor refueling orders. SWU sales represented \$1,309.3 million of revenue, an increase of 24 percent over fiscal 2001 despite a 3 percent decline in the average price billed to customers. Revenue in the fourth quarter was \$316.2 million, compared to \$286.9 million in the same period last year. The term "SWU" represents a standard unit of uranium enrichment contained in enriched uranium.

Natural uranium sales totaled \$116.9 million, an increase of \$30.3 million or 35 percent over the previous fiscal year. The improvement is due to higher volumes and prices. The average invoiced price for uranium improved by 7 percent, year-over-year.

Cost of sales was 33 percent higher than in fiscal year 2001 due to higher SWU sales volume and fewer purchases from Russia under the HEU agreement. Annual production cost per unit stabilized as workforce reductions and plant consolidation initiatives implemented in previous periods began to take effect. In addition, unit costs benefited from a lower tails accrual resulting from the USEC-Department of Energy (DOE) agreement discussed below. The Company uses a monthly moving average inventory method to calculate cost of sales, and high inventory costs will continue to adversely affect cost of sales in future periods. The gross profit margin for the fiscal year was 7.4 percent but showed improvement in the fourth quarter.

Other income in the fourth quarter includes accrued income resulting from a change in provisional billing rates for cold standby and other contract services provided to DOE at the Portsmouth, Ohio plant since July 2001. USEC expects to recover actual costs incurred on DOE contract work done in fiscal 2002.

USEC ended the year with \$279.2 million in cash. Free cash flow before dividends (cash flow from operations after capital expenditures and an insurance deposit) was \$198.6 million, compared to \$154.5 million in fiscal 2001. The increase was due to a permanent \$236.7 million reduction in inventories, fewer Russian deliveries, and payments in fiscal 2002 for deliveries made late in fiscal 2001.

Update on Strategic Priorities

During the past year, USEC completed several key strategic initiatives laid out in 2000, building a strong foundation for the future. Highlights include:

- A new market-based pricing amendment with Russia for the remaining 12 years of the Megatons to Megawatts agreement.
- An agreement with DOE on a plan to develop and deploy highly efficient gas centrifuge technology.
- An agreement by DOE to take responsibility for remediating potentially contaminated uranium that the U.S. government transferred to USEC prior to privatization.
- Successful completion of a U.S. government trade investigation that restored equitable and stable prices in the U.S. enriched uranium market without restricting foreign imports.

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- Further cost savings through the acceleration of transfer and shipping consolidation at Paducah.

“During 2002, we accomplished the strategic initiatives we outlined two years ago,” said William H. Timbers, USEC president and chief executive officer. “Once again this company has demonstrated that it delivers results and we do the things we say we will.

“A major area of focus during the past year was working with our Russian partner to develop appropriate terms for the next 12 years to meet each party’s interests – the U.S. and Russian governments’ important non-proliferation objectives and maintaining the program’s commercial basis,” Timbers said.

“I’m extremely pleased that we signed an agreement with DOE addressing a number of domestic issues. This agreement achieves an equitable balance of interests for maintaining domestic production, developing U.S. centrifuge technology and resolving any USEC inventory that may be contaminated,” Timbers said.

“We are moving ahead with the demonstration and deployment of an advanced centrifuge technology to substantially lower our future production costs. It is essential that we make the investments in advanced technology not only to modernize our operations and improve our competitive position, but ultimately to make us the low-cost producer,” Timbers added.

USEC is applying state-of-the-art advances and updated manufacturing techniques to the centrifuge design originally developed by the U.S. government. USEC has agreed to a timetable for building a centrifuge plant to be producing 1 million SWU in the 2010-2011 timeframe. During the current fiscal year, USEC will engineer the updated centrifuge design, decide whether to site the lead cascade at Portsmouth or Paducah and submit a license application to the U.S. Nuclear Regulatory Commission.

The Company expects to spend approximately \$150 million over the next five years in preparation for construction of a centrifuge plant under milestones set out in the agreement with DOE. A significant amount of these development costs are expected to be expensed until 2006 when commercial plant costs would begin to be capitalized. During the current fiscal year, USEC expects to more than double spending on advanced technology, which includes a significant increase in project staffing. A commercial centrifuge plant is expected to cost approximately \$1 billion to \$1.5 billion.

Also under the USEC-DOE agreement, DOE takes responsibility for replacing any contaminated inventory that it transferred to USEC prior to privatization. Several methods will be used to remediate the affected inventory:

- Over the next 15 months, USEC will clean up a portion of this inventory. The Company will use its Portsmouth plant to remove technetium from a portion of the potentially affected material, extending employment for about 115 USEC workers previously scheduled to be laid off.

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- The estimated \$21 million expense of this cleanup will be offset by DOE taking title to the equivalent of three years of depleted uranium tails over a four-year period. Liability for the tails, a byproduct of our production process, would have required that USEC accrue up to \$70 million (\$45 million net of income tax) for this liability.
- For any remaining contaminated inventory, DOE will replace the material or endeavor to engage third parties to determine whether any of the material can be replaced, remedied or exchanged.

The Company announced in February that it would accelerate consolidation of transfer and shipping activities at the Paducah, Kentucky plant this summer. This is being accomplished as planned as the Portsmouth facility has ceased those activities and approximately 140 positions involved in this function will be eliminated, beginning this summer.

In January 2002, the International Trade Commission voted unanimously that USEC had been materially injured by unfair trade actions by its foreign competitors. In December 2001, the Commerce Department ruled that foreign competitors had received subsidies contrary to U.S. trade law, and in the case of one competitor, dumped low-enriched uranium in the U.S. market. This final ruling followed a year of investigation and resulted in tariffs being placed on imports from four European countries.

As a result of USEC's plant consolidation and success in the trade case, SWU market prices have increased by approximately 30 percent since January 2000. SWU prices remained firm during the year and are currently reported to be \$105 to \$107 per SWU. Because most SWU sales are under long-term contracts, the positive impact of higher SWU prices today will be realized in future periods and will help to offset lower-priced contracts signed in recent years and the expiration of older, higher-priced contracts.

Exceptional Additions to Board in 2002

The Board of Directors added two independent members during the past year:

- Joseph Paquette, former chairman and chief executive officer of PECO Energy Co., joined the board in September 2001. He had served on the Company's Strategic Advisory Council for two years prior to joining the board.
- Michael H. Armacost joined the board in July 2002 upon his retirement as president of the Brookings Institution. He served in a number of U.S. government foreign affairs posts for over 20 years, including two appointments as ambassador. Mr. Armacost is a Walter H. Shorenstein distinguished fellow and visiting professor in the Asia/Pacific Research Center at Stanford University.

"Joe Paquette and Mike Armacost are outstanding additions to an already strong and independent board that is focused on the long-term interests of shareholders," said Chairman James R. Mellor.

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Fiscal 2003 Outlook

Looking forward, the positive impact on earnings for the new pricing agreement with Russia will begin to be seen in the latter half of fiscal 2003 and continue through 2013. Contracts signed at today's higher market prices will gradually affect average invoiced prices two to five years from signing. The long-term nature of USEC's business and the average monthly inventory methodology it uses creates a lag between these types of actions and the resulting financial benefits.

The Company is providing earnings guidance for fiscal 2003 in a range between \$9 and \$12 million. The forecast reflects increased spending on advanced technology and narrow gross margins that will put pressure on earnings. USEC expects to spend an incremental \$15 to \$20 million on advanced technology to begin to position the Company in the long term as the industry's low-cost producer. Thus, earnings (after tax) in fiscal 2003 would be \$10 to \$13 million higher without this developmental spending. Separately, as a result of the agreement between USEC and DOE, accruals for tails disposition will be lower over the next several years, resulting in a positive impact of \$13.7 million (after tax) to earnings in fiscal 2003.

USEC expects the quarterly earnings pattern this year to be similar to fiscal 2002: small quarterly losses or break even in the first three quarters and a strong fourth quarter. Earnings in fiscal 2003 are driven by business performance and are dependent on the following key factors:

- Meeting fiscal 2003 targets for revenue; at this time over 90 percent of USEC's projected revenue is under contract.
- Continuing to reduce USEC's production costs at the Paducah plant.
- Meeting targets for other income, such as government contract work.

This earnings guidance assumes that production cost reductions, both previous and future, and a half-year benefit from purchasing Russian SWU at lower, market-based pricing under the Russian Contract will offset slightly lower SWU prices billed to customers. USEC will purchase Russian SWU under the new pricing contract for only three to four months in fiscal 2003, and therefore the full annual impact will not be seen until fiscal 2004.

Over the period of fiscal years 2002-2003, USEC will experience an unusually large fluctuation in its cash flow from operations, due to the timing of receipts and disbursements. For example, in fiscal 2002 cash flow was significantly higher than originally projected due to the decision to liquidate \$237.6 million in inventories and the delay in government approval of Russian HEU pricing terms, which had the effect of shifting Russian SWU purchases from fiscal 2002 to fiscal 2003. Consequently, fiscal 2003 cash flow will be correspondingly lower as the Company catches up on Russian SWU purchases in the July to December 2002 period. In addition, cash flow in fiscal 2003 will be impacted by customer payments for deliveries late in the fourth quarter of fiscal 2003 that will not be received until fiscal 2004, and incremental reductions in SWU inventories.

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As a result, fiscal 2003 free cash flow (as previously defined) is projected to be in a range of negative \$130 to \$150 million. During the combined period of fiscal years 2002-2003, free cash flow is anticipated to be positive in a range of \$50 to \$70 million. USEC anticipates a cash balance on June 30, 2003 in a range of \$80 to \$100 million. USEC expects to return to robust positive free cash flow in fiscal 2004.

The Company's cash balance of \$279 million at June 30, 2002 and borrowing capacity are more than sufficient to meet corporate needs, such as dividend payments, capital expenditures and advanced technology development costs.

"Fiscal 2002 was a good year for USEC as we accomplished the strategic initiatives we set for the Company," CEO Timbers said. "We secured a pricing contract with Russia that will deliver great value to shareholders in the long term and also supports the government's national security goals. We have a clear path to advanced enrichment technology. The Company has a strong balance sheet and a firm foundation for future profitability. USEC is well positioned to benefit from the continuing renaissance of nuclear power."

This news release contains forward-looking information that involves risks and uncertainty, including certain assumptions regarding the future performance of the Company. 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 necessary agreements with the Department of Energy regarding use of advanced technology and facilities, satisfactory performance of the technology at various stages of demonstration, USEC's ability to successfully execute its internal performance plans and maintain access to short-term funding, the refueling cycles of USEC's customers, implementing inventory remediation, 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.

USEC Inc., a global energy company, is the world's leading supplier of enriched uranium fuel for commercial nuclear power plants.

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

	Three Months Ended		Fiscal Years Ended	
	June 30,		June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenue:				
Separative work units	\$293.2	\$ 260.7	\$1,309.3	\$1,057.3
Uranium.....	<u>23.0</u>	<u>26.2</u>	<u>116.9</u>	<u>86.6</u>
Total revenue.....	316.2	286.9	1,426.2	1,143.9
Cost of sales	<u>285.5</u>	<u>248.0</u>	<u>1,321.2</u>	<u>991.7</u>
Gross profit.....	30.7	38.9	105.0	152.2
Special charge (credit) for consolidating plant operations	-	-	(6.7) ^(a)	-
Advanced technology development costs	4.5	3.4	12.6	11.4
Selling, general and administrative	<u>14.8</u>	<u>13.5</u>	<u>50.7</u>	<u>48.8</u>
Operating income	11.4	22.0	48.4	92.0
Interest expense	9.0	9.2	36.3	35.2
Other (income) expense, net.....	<u>(7.1)</u>	<u>(1.2)</u>	<u>(10.4)</u>	<u>(8.1)</u>
Income before income taxes.....	9.5	14.0	22.5	64.9
Provision (credit) for income taxes	<u>2.4</u>	<u>6.5</u>	<u>6.3</u>	<u>(13.5)</u> ^(b)
Net income	<u>\$ 7.1</u>	<u>\$ 7.5</u>	<u>\$ 16.2</u>	<u>\$ 78.4</u>
Net income per share – basic and diluted.....	\$.09	\$.09	\$.20	\$.97
Dividends per share.....	\$.1375	\$.1375	\$.55	\$.55
Average number of shares outstanding	81.3	80.5	81.1	80.7

(a) The special credit of \$6.7 million (\$4.2 million or \$.05 per share after tax) in fiscal 2002 represents a change in estimate of costs for consolidating plant operations. The special credit includes a cost reduction of \$19.3 million for workforce reductions, primarily reflecting recovery from DOE of DOE's pro rata share of severance benefits and a cost reduction of \$3.8 million for other exit costs. In June 2001, DOE authorized funding to conduct cold standby services at the Portsmouth plant, and USEC is performing these services under a letter agreement until a definitive contract is concluded between the parties. As a result of DOE's program, the number of workforce reductions at the Portsmouth plant announced in June 2000 was reduced.

The cost reductions were partly offset by charges of \$16.4 million for asset impairments relating to transfer and shipping facilities at the Portsmouth plant. In February 2002, USEC announced plans to consolidate the transfer and shipping operations this summer at the Paducah plant. This consolidation will result in workforce reductions at the Portsmouth plant, the cost of which has been accrued.

(b) The provision for income taxes in fiscal 2001 includes a special income tax credit of \$37.3 million (or \$.46 per share) resulting from changes in the estimated amount of deferred income tax benefits that arose from the transition to taxable status.

USEC Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(millions)

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 279.2	\$ 122.5
Accounts receivable – trade.....	185.1	175.8
Inventories	889.7	1,137.5
Other	<u>26.7</u>	<u>15.6</u>
Total Current Assets	1,380.7	1,451.4
Property, Plant and Equipment, net	191.5	189.8
Other Assets		
Deferred income taxes	51.5	42.1
Prepayments and deposits for depleted uranium	46.0	27.1
Prepaid pension costs.....	82.8	76.9
Inventories	<u>415.5</u>	<u>420.2</u>
Total Other Assets	<u>595.8</u>	<u>566.3</u>
Total Assets.....	<u>\$2,168.0</u>	<u>\$2,207.5</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities.....	\$ 192.8	\$ 160.9
Payables under Russian contract	156.4	100.3
Deferred revenue and advances from customers	74.9	91.0
Liabilities accrued for consolidating plant operations.....	25.6	53.3
Uranium owed to customers	<u>5.8</u>	<u>21.6</u>
Total Current Liabilities.....	455.5	427.1
Long-Term Debt	500.0	500.0
Other Liabilities		
Deferred revenue and advances from customers	23.4	57.5
Depleted uranium disposition.....	58.0	66.2
Postretirement health and life benefit obligations	135.1	124.7
Other liabilities	<u>46.7</u>	<u>59.2</u>
Total Other Liabilities.....	263.2	307.6
Stockholders' Equity.....	<u>949.3</u>	<u>972.8</u>
Total Liabilities and Stockholders' Equity	<u>\$2,168.0</u>	<u>\$2,207.5</u>

USEC Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Fiscal Years Ended June 30,	
	2002	2001
Cash Flows from Operating Activities		
Net income	\$ 16.2	\$ 78.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23.9	22.6
Depleted uranium disposition	(5.7)	25.9
Deferred revenue and advances from customers.....	(50.2)	78.2
Deferred income taxes	(9.4)	(31.4)
Special charges for consolidating operations.....	(11.3)	(22.6)
Changes in operating assets and liabilities:		
Accounts receivable – (increase) decrease.....	(9.3)	247.3
Inventories – (increase) decrease	236.7	(274.0)
Payables under Russian contract – increase.....	56.1	59.8
Accounts payable and other – net increase	<u>15.4</u>	<u>23.4</u>
Net Cash Provided by Operating Activities	<u>262.4</u>	<u>207.6</u>
Cash Flows Used in Investing Activities		
Capital expenditures.....	(42.4)	(53.1)
Insurance deposit.....	<u>(21.4)</u>	<u>-</u>
Net Cash (Used in) Investing Activities.....	<u>(63.8)</u>	<u>(53.1)</u>
Cash Flows from Financing Activities		
Dividends paid to stockholders	(44.6)	(44.3)
Repurchase of common stock.....	-	(13.0)
Repayment of short-term debt.....	-	(50.0)
Common stock issued.....	<u>2.7</u>	<u>2.3</u>
Net Cash (Used in) Financing Activities.....	<u>(41.9)</u>	<u>(105.0)</u>
Net Increase.....	156.7	49.5
Cash and Cash Equivalents at Beginning of Fiscal Year	<u>122.5</u>	<u>73.0</u>
Cash and Cash Equivalents at End of Fiscal Year.....	<u>\$ 279.2</u>	<u>\$122.5</u>
Supplemental Cash Flow Information:		
Interest paid.....	\$ 33.0	\$ 34.4
Income taxes paid.....	18.3	12.7