## *Pre-Meeting Materials Package:*

# 1. Financial Status

- Bank of America Fuels Summary
- Fuel Financing Schedule
- NPV Calculations Summary – Financial Models
    - 1a: Base with minimum financing
    - 1b: Base with no financing
    - 1c: Structured financing plan
    - 2a: USEC 4-month failure with financing
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    - 3a: CGS Burn with financing
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- Committed Costs vs. Value Received
- 10-Year Historical Yields – Interest Rate Sensitivity

# Bank of America Fuels Summary

# Energy Northwest and The Bonneville Power Administration

## Fuel Financing Presentation

April 30, 2012

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# Presentation to Energy Northwest and The Bonneville Power Fuel Financing Presentation

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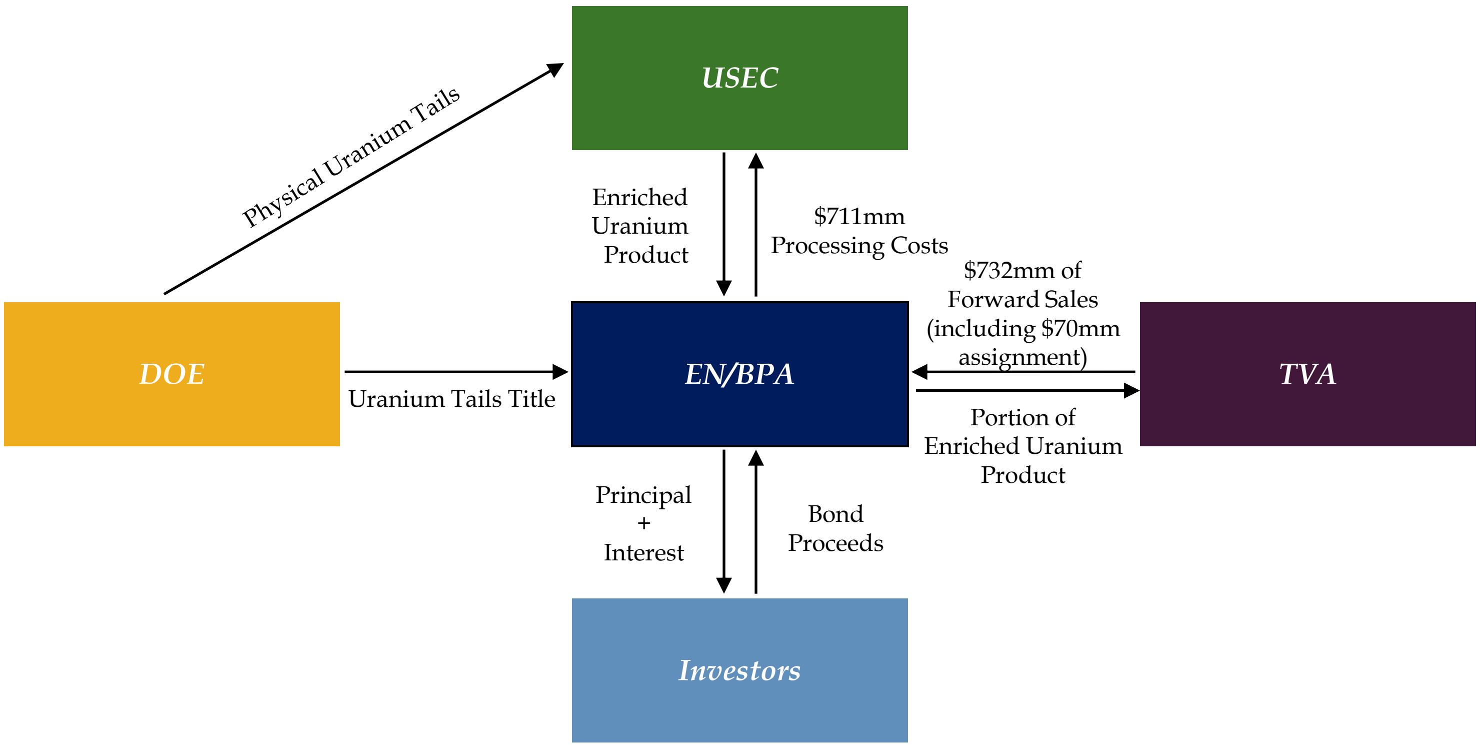
# Transaction Overview

# Energy Northwest / BPA is contemplating a fuel financing similar to the 2005C transaction.

## The new fuel financing would include additional parties and risks

- The transaction was brought to EN/BPA by the DOE which has a vested interest in the offering being completed
- EN/BPA seems to represent the DOE's best option to make this transaction a reality

## Transaction Structure



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# Each participant stands to benefit should the transaction be completed.

## Without a new capital source (such as this transaction), USEC will likely file for bankruptcy

| Entity | Benefits |
|---|---|
| USEC | ▪ Provides enough enrichment work to keep Paducah Plant operational for an additional year<br>▪ Provides interim liquidity to aid in the continuing development of the American Centrifuge Project |
| DOE | ▪ Keeps Paducah Plant operational, delaying decommissioning costs that are not currently in DOE's approved budget<br>▪ Extracts value from existing uranium tales<br>▪ Retains high paying jobs in Kentucky during an election year |
| TVA | ▪ TVA retains USEC as a power purchaser for at least one more year. (USEC currently accounts for 6% of TVA revenues)<br>▪ Receives uranium at attractive pricing under the forward sales agreement with EN/BPA |
| EN/BPA | ▪ Lock in uranium supply at below market rates creating significant savings vs. current fuel plan<br>    ▪ Potential present value savings in excess of $150 million |

*Given the potential benefits, this is a transaction that should happen if risks can be shared in an appropriate manner.*

# In financing this transaction, there are a number of risks EN / BPA are being asked to take.

## Risk is a clear concern of the Energy Northwest Board

- In last week's Board meeting, concern was raised that EN/BPA is being asked to take on too much of the risk associated with the transaction
- By serving as a purchaser/financier and intermediary, EN/BPA will allow the DOE and TVA to achieve their goals and as such should result in a significant economic benefit for Energy Northwest and Bonneville

## EN/BPA faces both counterparty and financing risks

| | |
|---|---|
| USEC Counterparty Risk | ▪ The failure of USEC to deliver the enriched uranium in the pre-determined amount could leave EN/BPA with bonds it needs to retire. |
| TVA Counterparty Risk | ▪ The failure of TVA to purchase the enriched uranium from EN could have an adverse impact on the Bonneville Fund if fuel isn't sold |
| Uranium Price Risk | ▪ The risk that future prices of enriched uranium will be lower than what EN/BPA is locking in through this transaction |
| Financing Risks | ▪ ***Interest Rate Risk:*** Risk that interest rates rise during an interim financing period and EN/BPA's savings are diminished<br>▪ ***Market Access Risk:*** Risk that the size and scope of the transaction will not be accepted by investors<br>▪ ***Ratings Downgrade Risk:*** Risk that the transaction causes one or more of the ratings agencies to take a negative ratings action |



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# Through our work with EN / BPA we are aware of a number of goals for this transaction.

## These goals vary in importance

- Critical goals (i.e., "deal breakers"):
  - $40mm savings in both the 14/15 & 16/17 BPA rate cases
  - At least $50mm overall NPV savings (assuming 12% discount rate)
  - No negative cash flow impact in 2012 and 2013
- Additional goals:
  - Maintain current ratings
  - Minimize interest rate risk
  - Minimize borrowing costs
  - Minimize the use of capitalized interest
  - Mitigate risk related to USEC performance
  - Limit exposure to TVA via the purchase agreement
  - Maintain flexibility to sell/lease fuel not sold to TVA



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# Underlying Assumptions

## Before discussing how to structure the financing, below we lay out the major underlying assumptions.

### Assumptions

- Total cost of $795mm consisting of:
  - $770mm processing cost @ $154/SWU (payment to USEC)
  - $25mm contingency
- USEC "participation" of $84mm reduces the total payment for processing costs to $711mm
  - Largely consisting of the assignment of a $70 million payment due from TVA in 2015
- Energy Northwest's current fuel plan purchases and revised fuel plan purchases reflecting the procurement of the enriched uranium product from USEC as provided by EN:

| Fuel Plans | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Current Fuel Plan ($mm) | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 |
| Revised Fuel Plan ($mm) | 27 | 43 | 26 | - | 30 | 18 | 28 | - | - | 42 | - | 38 | - | 38 | - | 67 |

- TVA contract for fuel purchases totaling $662 mm 2016 – 2022 as highlighted below:

| Sales to TVA | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Forward Sales ($mm) | 24 | 25 | 110 | 281 | 26 | 129 | 66 |

- Equal monthly payments to USEC due upon satisfactory delivery of enriched uranium product
  - First payment due approximately June 15, 2012

# These assumptions provide us with the cash flows needed to calculate available revenues.

## Revenue available to pay debt service

- The forward sales to TVA, plus current planned fuel expenditures, less the revised fuel plan expenditures equal the amount available in any given year to pay debt service on the Series 2012 fuel bonds

| | Revenue Available For Debt Service ($mm) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** |
| Forward Sales | - | - | 70 | 24 | 25 | 110 | 281 | 26 | 129 | 66 | - | - | - | - | - | - |
| Current Fuel Plan | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 |
| Revised Fuel Plan | 27 | 43 | 26 | - | 30 | 18 | 28 | - | - | 42 | - | 38 | - | 38 | - | 67 |
| **Revenue Available for D/S** | **-** | **3** | **73** | **78** | **18** | **148** | **282** | **94** | **161** | **95** | **33** | **34** | **35** | **36** | **36** | **8** |

## Observations based on available revenues

- Due to the fact that there is no available revenue in 2013 and only $3 million in 2014, in order to meet BPA’s goal of no cash flow impact in 2013 or 2014 the final structure will need to utilize capitalized interest, zero coupon bonds, or a similar product that “rolls” interest payments
- The available revenues are largely driven by the payments from TVA which suggests that principal should be amortized in accordance of receipt of those payments
- TVA not making a scheduled payment could have a material impact on Bonneville
  - If enough notice was given, BPA would likely look to extend the maturity rather than pay it off as to better match the life of the debt with when the fuel would be placed in CGS

# Structuring to Meet Savings Goals

# In coming to a recommended structure, we begin by establishing a base case.

## A logical place to start which unfortunately does not meet EN/BPA's goals

- For our base case we thought it made sense to start with a scenario that matches the principal amortization of the new bonds to the revenue of the forward sales to TVA
- While this scenario creates present value savings well in excess of the goal, the payment of interest creates negative cash flows in 2013 & 2014
- The savings goal of $40 million in each of the first two rate cases is also not met

## Cash Flows: Base Case

| | Base Case - Principal Amortization to Match Forward Sales ($mm) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **Total** |
| Forward Sales | - | - | - | 70 | 24 | 25 | 110 | 281 | 26 | 129 | 66 | - | - | - | - | - | - | 732 |
| Current Fuel Plan | 27 | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 | 787 |
| Revised Fuel Plan | 27 | 27 | 43 | 26 | - | 30 | 18 | 28 | - | - | 42 | - | 38 | - | 38 | - | 67 | 385 |
| Revenue Available for D/S | - | - | 3 | 73 | 78 | 18 | 148 | 282 | 94 | 161 | 95 | 33 | 34 | 35 | 36 | 36 | 8 | 1,134 |
| Principal | | - | - | (70) | (24) | (25) | (110) | (281) | (26) | (129) | (49) | - | - | - | - | - | - | (715) |
| Interest | | (14) | (16) | (16) | (15) | (15) | (14) | (12) | (6) | (5) | (1) | - | - | - | - | - | - | (114) |
| Total Net Debt Service | - | (14) | (16) | (86) | (39) | (39) | (125) | (293) | (32) | (134) | (50) | - | - | - | - | - | - | (829) |
| EN Budget Savings | - | (14) | (12) | (12) | 38 | (21) | 23 | (12) | 62 | 26 | 45 | 33 | 34 | 35 | 36 | 36 | 8 | 306 |
| BPA Budget Savings | (4) | (14) | (12) | 0 | 24 | (10) | 15 | 7 | 53 | 31 | 42 | 33 | 34 | 35 | 36 | 29 | 6 | 306 |
| Rate Period Benefit | | | (30) | | 13 | | 21 | | 84 | | 75 | | 70 | | 65 | | 6 | 306 |

| | Resulting Savings By Discount Rate | | | | |
|---|---|---|---|---|---|
| | **1%** | **3%** | **6%** | **9%** | **12%** |
| Net Present Value ($mm) | 272 | 215 | 153 | 109 | 78 |



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# There are a number of ways the base case structure can be altered to meet EN/BPA's savings targets.

## Tools available to generate the required savings

- *Principal deferment*
  - The largest impact on savings will be generated by deferring the repayment of principal to 2018 an beyond (in place of matching the payments due from TVA).
    - doing so will generate a total of $88 million in cash flow savings during the 2014/15 & 16/17 rate cases
    - however, savings generated during the 2014/15 rate case are below the required $40 million
    - additionally, cash flow dissavings remain in 2013 (and BPA's 2012)
- ***Moving uranium sales forward or deferring planned purchases***
  - While the sale of enriched uranium obtained through this transaction in the near term will not be allowed by the DOE, Energy Northwest could look to sell a portion of the fuel it already owns
    - Through our discussions with Energy Northwest and Bonneville we are aware of discussions around potential sales to Exelon which would help provide the cash flow needed to meet the savings goals
  - Alternatively, Energy Northwest could free up cash by deferring the payment due for fuel in the coming two years under existing purchase contracts
    - Again, through our discussions with EN/BPA we are aware of the possibility of deferring payments under a contract with Nufcor
    - Yet for a number of reasons (including cost) we do not believe this to be an attractive solution to EN/BPA

# There are a number of ways the base case structure can be altered to meet EN/BPA's savings targets. (continued)

## Additional tools

- *Short dated bond ("note") issuance strategy*
  - Issuing a short dated (one to three year) fixed rate bond would dramatically reduce the interest cost when compared to issuing long dated bonds
  - In conjunction with the deferral of principal this strategy will produce the $40 million of savings in the next two rate cases, but will still result in dissavings in 2012/13
  - Employing this strategy also leaves EN/BPA open to interest rate risk which could threaten the savings targets as well as the attractiveness of the entire transaction

- *Zero Coupon Bonds*
  - By deferring principal and selling a certain amount of zero coupon bonds, the $80 million of total rate case benefit can be achieved
  - However, unless the entire offering is sold as zero coupon bonds (which would be difficult and costly), there will still be dissavings in the early years

- *Capitalized Interest*
  - Capitalizing a portion of the interest is likely the most effective and cost efficient way of meeting all of EN/BPA's stated savings goals
  - The use of capitalized interest is common and investors will not question this aspect of the transaction (especially given the rather limited amount of interest that needs to be capitalized)

# The deferral of principal alone gets very close to meeting your goals.

## Building on the base case…

- Below we build on the base case and alter the amortization of the new bonds such that principal begins being repaid in 2018
- This structure generates gross savings that are $46 million less than the base case, however produces $105 million of additional savings in the 2014 through 2018 period
- Unfortunately it still produces dissavings in 2012 and 2013, and savings in the 2014/15 rate case that are just below the goal of $40mm

## Cash Flows: Principal Deferral Case

| | Principal Deferral Case - Principal Deffered until 2018, Level Savings 2023 - 2027 ($mm) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
| Forward Sales | - | - | - | 70 | 24 | 25 | 110 | 281 | 26 | 129 | 66 | - | - | - | - | - | - | 732 |
| Current Fuel Plan | 27 | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 | 787 |
| Revised Fuel Plan | 27 | 27 | 43 | 26 | - | 30 | 18 | 28 | - | - | 42 | - | 38 | - | 38 | - | 67 | 385 |
| Revenue Available for D/S | - | - | 3 | 73 | 78 | 18 | 148 | 282 | 94 | 161 | 95 | 33 | 34 | 35 | 36 | 36 | 8 | 1,134 |
| Principal | | - | - | - | - | - | (110) | (281) | (26) | (129) | (66) | (17) | (19) | (21) | (22) | (22) | - | (715) |
| Interest | | (17) | (18) | (18) | (18) | (18) | (18) | (16) | (10) | (9) | (5) | (3) | (3) | (2) | (2) | (1) | - | (159) |
| Total Net Debt Service | - | (17) | (18) | (18) | (18) | (18) | (129) | (297) | (36) | (138) | (72) | (21) | (22) | (23) | (24) | (23) | - | (874) |
| EN Budget Savings | - | (17) | (15) | 55 | 60 | 0 | 19 | (16) | 58 | 22 | 23 | 12 | 12 | 12 | 12 | 13 | 8 | 260 |
| BPA Budget Savings | (4) | (16) | 3 | 56 | 45 | 5 | 11 | 3 | 49 | 23 | 21 | 12 | 12 | 12 | 12 | 12 | 6 | 260 |
| Rate Period Benefit | | | 38 | | 50 | | 13 | | 72 | | 33 | | 24 | | 24 | | 6 | 260 |

| | Resulting Savings By Discount Rate | | | | |
|---|---|---|---|---|---|
| | 1% | 3% | 6% | 9% | 12% |
| Net Present Value ($mm) | 240 | 204 | 163 | 131 | 108 |

# With the addition of a modest amount of capitalized interest, the structure becomes compliant.

## An efficient solution that meets all critical goals

- To address the shortcomings of the previous case (2012/13 dissavings and shortfall in 2014/15 rate case savings), in the case below we incorporated $32 million of capitalized interest into the structure
- We also optimize the structure by deferring $39 million less principal such that the rate case savings equal exactly $40 million in both the 2014/15 and 2016/17 rate cases
  - This optimization shortens the average life, reduces borrowing cost, and slightly increases overall savings

## Cash Flows: Principal Deferral & Capitalized Interest

| | Principal Deferral & Capitalized Interest Case - $40mm 2014 & 2016 Savings, Level Savings 2023 - 2027 ($mm) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
| Forward Sales | - | - | - | 70 | 24 | 25 | 110 | 281 | 26 | 129 | 66 | - | - | - | - | - | - | 732 |
| Current Fuel Plan | 27 | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 | 787 |
| Revised Fuel Plan | 27 | 27 | 43 | 26 | - | 30 | 18 | 28 | - | - | 42 | - | 38 | - | 38 | - | 67 | 385 |
| Revenue Available for D/S | - | - | 3 | 73 | 78 | 18 | 148 | 282 | 94 | 161 | 95 | 33 | 34 | 35 | 36 | 36 | 8 | 1,134 |
| Principal | | - | - | (30) | - | (9) | (112) | (248) | (66) | (134) | (72) | (13) | (14) | (16) | (17) | (15) | - | (747) |
| Interest | | (17) | (18) | (18) | (18) | (18) | (18) | (16) | (10) | (8) | (5) | (3) | (2) | (2) | (1) | (1) | - | (156) |
| Capitalized Interest | | 17 | 15 | | | | | | | | | | | | | | | 32 |
| Total Net Debt Service | - | - | (3) | (48) | (18) | (27) | (130) | (264) | (76) | (143) | (77) | (15) | (16) | (17) | (18) | (16) | - | (871) |
| EN Budget Savings | - | - | 0 | 25 | 60 | (9) | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 20 | 8 | 264 |
| BPA Budget Savings | - | 0 | 6 | 34 | 42 | (2) | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 17 | 6 | 264 |
| Rate Period Benefit | | | 40 | | 40 | | 36 | | 36 | | 36 | | 36 | | 36 | | 6 | 264 |

| | Resulting Savings By Discount | | | | |
|---|---|---|---|---|---|
| | 1% | 3% | 6% | 9% | 12% |
| Net Present Value ($mm) | 242 | 206 | 164 | 133 | 110 |



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# Risk Mitigation Discussion

# Exposure to USEC is the largest risk that EN/BPA would face in the proposed transaction.

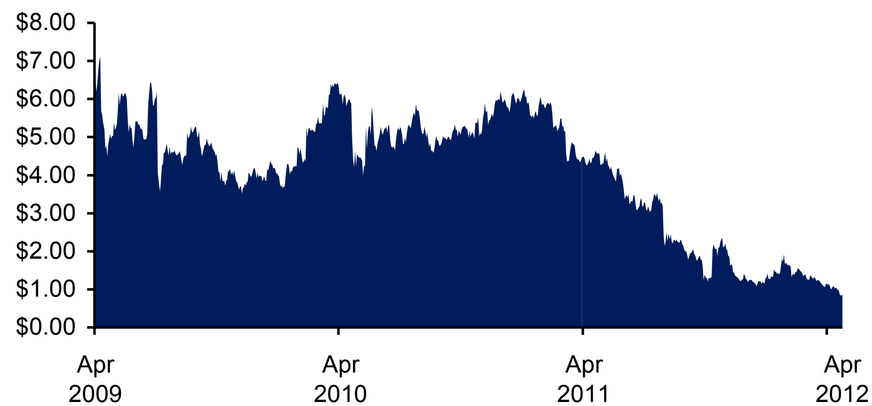
## Understanding the risk

- USEC has publicly disclosed its financial troubles and the possibility it could file for bankruptcy this spring
  - USEC is currently rated Caa1/CCC+ by Moody's and S&P, respectively, and its stock is trading below $1.00 per share
- Given that Energy Northwest will not be required to pay USEC until the SWU is delivered, the true economic risk is that the transaction is funded with long-term debt and USEC subsequently fails to perform on the contract
  - If that were to occur and EN/BPA was forced to call the debt one month after issuance, we estimate the cost to EN/BPA would be ~$35 million assuming the use of a standard make-whole call and interest rates remain constant

## Summary: USEC Income Statement

| | 2011 | 2010 |
|---|---|---|
| Total Revenue | 1,671.8 | 2,035.4 |
| Total Cost of Sales | 1,587.6 | 1,877.0 |
| **Gross Profit** | **84.2** | **158.4** |
| Advanced Technology Costs | 273.2 | 110.2 |
| Selling, general and administrative | 62.1 | 58.9 |
| Other Income | (3.7) | (44.4) |
| **Operating Income (loss)** | **(245.4)** | **33.7** |
| **Net Income (Loss) After Taxes and Interest** | **(540.7)** | **7.5** |

## USEC Stock Price



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# Consideration should be given to all possible ways of addressing the USEC exposure.

## Potential methods of mitigating the USEC risk include:

- ***Short-Term Funding of Payments Via a Taxable Credit Facility, Variable Rate Debt, or One-Year Bond***
  - The currently contemplated structure has Energy Northwest drawing on a taxable credit facility to fund the June and July payments to USEC
    - BofAML has put forth a 6-month, $200 million facility with pricing of Libor + 45 basis points
    - BofAML could syndicate a larger facility to cover additional (or all) draws during the enrichment period, though likely at a higher cost
      - May impact the availability of credit for Bonneville's third-party leasing program
  - As an alternative, Energy Northwest could issue taxable variable rate demand bonds
    - VRDO's are callable at anytime (subject to notice and/or lock-out periods in the credit document)
    - Would also require a syndication of liquidity banks which may prove more difficult than syndicating a funded taxable facility as discussed above
  - A final method of short-term financing to consider is the issuance of a one-year bond (or "note") that would be refinanced with the proceeds of a long-term financing sold once the enrichment period was complete
    - We would expect demand for this bond from the taxable money market funds to be very strong and that this option would produce the most attractive pricing of the short-term alternatives

*As a negative, all short-term funding options will leave EN/BPA exposed to interest rate risk.*

# Consideration should be given all possible ways of addressing the USEC exposure. (continued)

## Additional methods of mitigating the USEC risk:

- *Call Options*
  - Extraordinary Call: The taxable market is familiar with this option when related to unspent proceeds for new build projects. Given that an extraordinary call option in this instance would be tied to a USEC non-performance event we feel that pricing penalty would be economically prohibitive (assuming the entire transaction could even be sold with such an option)
  - Par Call: While prevalent in the tax-exempt market, par call options are not customary in the taxable market (however a fair number of BABs were sold with 10-year par calls). Calls shorter than 10-years, which EN/BPA would need in this instance, are even more rare and we believe would also be economically prohibitive
- *DOE or TVA Backstop / Risk Share*
  - Another way to address this risk is to share it among the other parties who stand to benefit from the transaction being completed, namely the DOE and TVA.
    - In its negotiations, EN/BPA could ask the DOE and TVA to provide guarantees to cover a portion (or all) of any make-whole premium that has to be made to redeem bonds in the event of non-performance on its contract by USEC
- *Alternative Uses for Unspent Proceeds*
  - As has been well publicized in the region, Bonneville is looking for sources of new capital to fund improvements to both its transmission and hydro systems
    - Should there be unspent proceeds related to this fuel transaction, the money could be used to capitalize a variety of expenses at Energy Northwest and by doing so free up capital for Bonneville to spend elsewhere

# In considering short-term funding alternatives, EN/BPA must quantify the potential impact of interest rate risk.

## An increase in interest rates could have a material impact on savings

- By utilizing a one-year note or other interim financing product during the enrichment period EN/BPA is mitigating USEC non-performance risk however it is taking on interest rate risk
- Below we provide a sensitivity analysis that shows how changes in interest rates at the time of the take-out financing affect present value savings
  - Our analysis assumes that EN utilizes a one-year note, but the results would be similar for the other short-term funding methods discussed earlier
- In addition to the decreased overall savings, it is important to note that an increase in rates would also require the use of additional capitalized interest to meet BPA's $40 million rate case savings goals

## Interest rate risk sensitivity analysis (1)

| Present Value Savings ($mm) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Discount Rate | +0bps | +25bps | +50bps | +75bps | +100bps | +150bps | +200bps |
| 1% | 254 | 241 | 229 | 216 | 203 | 177 | 152 |
| 3% | 215 | 204 | 193 | 181 | 170 | 147 | 124 |
| 6% | 170 | 161 | 151 | 142 | 132 | 113 | 94 |
| 9% | 138 | 130 | 121 | 113 | 105 | 89 | 72 |
| 12% | 113 | 106 | 99 | 92 | 85 | 71 | 56 |

(1) *Assumes a parallel shift in the yield curve.*

# Due to timing constraints, the financing will need to be completed in either two or three phases.

## Mechanics: Two Phase Financing

- Draw on the BofAML line of credit for approximately two months
- Take out the line of credit with a long-term fixed rate financing in July or August of 2012

## Mechanics: Three Phase Financing

- Draw on the BofAML line of credit for approximately two months
- Issue an interim bond with a one-year (or slightly longer) maturity
- Take out the interim bond upon its maturity with a long-term fixed rate offering

## Advantages & Disadvantages of the Two or Three Phase Approach

- By undertaking a two phase financing:
  - interest rate risk is eliminated
  - EN/BPA remains subject to USEC non-performance risk
  - ~$32 mm of interest is capitalized to meet savings goals
- In a three phase financing:
  - USEC non-performance risk is largely mitigated or eliminated
  - savings provided by the short-term financing vehicle likely leads to a need for less capitalized interest
  - EN/BPA remains exposed to interest rate risk while the short-term financing vehicle is outstanding

# Observations on other risks (real or perceived) EN/BPA will face if completing this transaction.

## TVA Exposure

- TVA is one of the most respected credits in the capital markets and benefits from its status as a Federal Agency
  - Current ratings of Aaa/AA+/AA
- Across all governments and industries there are few counterparties globally with better ratings than TVA

## Uranium Price Risk

- The enriched uranium will be obtained by Energy Northwest at a very attractive price
- Should TVA not honor its contract, the market price of uranium will in part dictate what EN/BPA does with the "excess" uranium
- EN is insulated from price risk by the fact that, if need be, all the fuel can be used at CGS

## Financing Risks

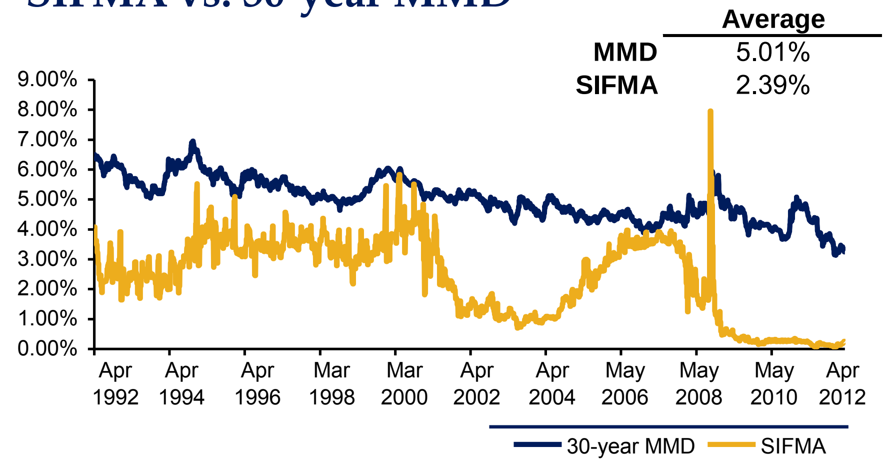
- Market Access Risk: Bonneville has raised concerns about entering the taxable markets with a deal of this size on the heels of the recent taxable financing which seemed to struggle. BofAML does not see this as a risk:
  - Deals of this size are common in the taxable markets and larger deals are often better received
  - The EN/BPA credit is strong and will provide diversification to taxable investors' portfolios
  - To ensure strong demand BofAML suggests both an internet and physical roadshow be completed
- Rating Agency Risk: The risk that one (or more) of the rating agencies takes negative action on the Bonneville credit due to this transaction is a valid concern, and will hinge in part on the provisions of the contracts with TVA, DOE and USEC. To address this risk we recommend:
  - In person meetings with the Agencies (which have already been scheduled for 5/31 and 6/1)
  - Analysis of the "worst case" scenario in terms of impact on Bonneville, as well as the more likely benefits to the upcoming rate cases (and beyond)

# The Energy Northwest debt portfolio could benefit from the addition of variable rate debt.

## Debt Diversification

- Bonneville's non-federal debt totals approximately $6 billion and is comprised entirely of fixed rate obligations
- Adding unhedged variable rate debt would help better match BPA's assets and liabilities, and likely bring down BPA's borrowing cost
- The rating agencies have given soft guidance that it is prudent for public power entities to have up to 20% of their debt in a variable rate mode
    - This suggests that BPA could have in excess of $1.3 billion of variable rate debt
- If issuing fuel bonds in a variable mode, we would recommend the use of LIBOR based floating rate notes which do not require bank support
    - The entire $800 million could easily be sold in the market and we believe would price very aggressively

## SIFMA vs. 30-year MMD




## Indicative Pricing

- The following table shows indicative pricing for a $800 million LIBOR based FRN issued by Energy Northwest in the current market

| Tenor | Pricing |
|---|---|
| 1 Year | L + 5bps |
| 2 Year | L + 20bps |
| 3 Year | L + 35bps |



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# Fuel Financing Schedule

# Energy Northwest
# Bonneville Power Administration
# 2012 Fuel Financing

## As of April 30, 2012

| April 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **8** | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | | | | | |

| May 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | 1 | 2 | 3 | 4 | 5 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | **28** | 29 | 30 | 31 | | |

| June 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |

| July 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | **4** | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | | | | |

| Date | Event | Parties |
|---|---|---|
| Week of April 30 | • Brief rating agencies on transaction (via phone)<br>• EN Board vote (5/4)<br>  ◦ Approve TVA, DOE & USEC agreements<br>  ◦ Approve taxable facility<br>• First draft rating agency presentation distributed | |
| Week of May 7 | • Agreements with TVA, DOE & USEC distributed to working group for review<br>• Conference call to discuss the agreements, how each needs to be disclosed<br>• First draft of bond documents distributed<br>• Call to review rating agency presentation<br>• Second draft of ratings presentation distributed | |
| Week of May 14 | • Call to review bond documents<br>• Call to review rating agency presentation<br>• Second draft of bond documents distributed<br>• Third draft of ratings presentation distributed | |
| Week of May 21 | • Call to review bond documents<br>• Rating agency presentation finalized<br>• Third draft of bond documents distributed<br>• Documents sent to rating agencies | |
| Week of May 28 | • Memorial Day Holiday (Monday)<br>• Meet with rating agencies (May 30–31 in NYC) | |
| Week of June 4 | • Follow-up with rating agencies (as necessary) | |

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# Energy Northwest
# Bonneville Power Administration
# 2012 Fuel Financing

## As of April 30, 2012

| April 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **8** | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | | | | | |

| May 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | 1 | 2 | 3 | 4 | 5 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | **28** | 29 | 30 | 31 | | |

| June 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |

| July 2012 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | **4** | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | | | | |

| Date | Event | Parties |
|---|---|---|
| | • EN Board Meeting (23rd & 24th) | |
| Week of June 11 | • June payment made to USEC (via draw on taxable line)<br>• Follow-up with rating agencies (as necessary)<br>• First draft of roadshow presentation distributed<br>• Due diligence meeting/call<br>• Revised documents & Appendix A circulated | |
| Week of June 18 | • Call to discuss and review roadshow presentation<br>• Second draft of roadshow presentation distributed<br>• Call to review documents & Appendix A<br>• POS sent to PWC | |
| Week of June 25 | • Call to discuss and review roadshow presentation<br>• Third draft of roadshow presentation distributed<br>• EN Board Meeting (27th & 28th) | |
| Week of July 2 | • 4th of July Holiday (Wednesday)<br>• Receive ratings and ratings reports<br>• Near-final documents distributed to working group | |
| Week of July 9 | • Obtain sign-off from Auditors<br>• Finalize and post POS<br>• Finalize and record internet roadshow<br>• Post internet roadshow<br>• Teach-in with BofAML sales force | |

# Energy Northwest
# Bonneville Power Administration
# 2012 Fuel Financing

## As of April 30, 2012

**April 2012**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | | | | | |

**May 2012**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | 28 | 29 | 30 | 31 | | |

**June 2012**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |

**July 2012**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | | | | |

| Date | Event | Parties |
|---|---|---|
| | • Develop roadshow schedule | |
| Week of July 16 | • Physical roadshow<br>○ Boston (Monday)<br>○ NY / NJ (Tuesday / Wednesday)<br>○ Los Angeles (Thursday)<br>• July payment made to USEC (via draw on taxable line) | |
| Week of July 23 | • Additional investor calls (if necessary)<br>• Launch offering<br>• Bond Pricing<br>• Finalize Official Statement<br>• EN Board Meeting (25th & 26th) | |
| Week of July 30 | • Closing | |

**Parties:**

| | |
|---|---|
| ENW/BPA | Energy Northwest |
| BPA | Bonneville Power Administration |
| BofAML | Bank of America Merrill Lynch |
| BC | Foster Pepper – Bond Counsel |
| Orrick | Orrick Herrington - Special Counsel to Bonneville |
| UC | Fulbright & Jawarski – Underwriter's Counsel |
| PFM | Public Financial Management – Financial Advisor |



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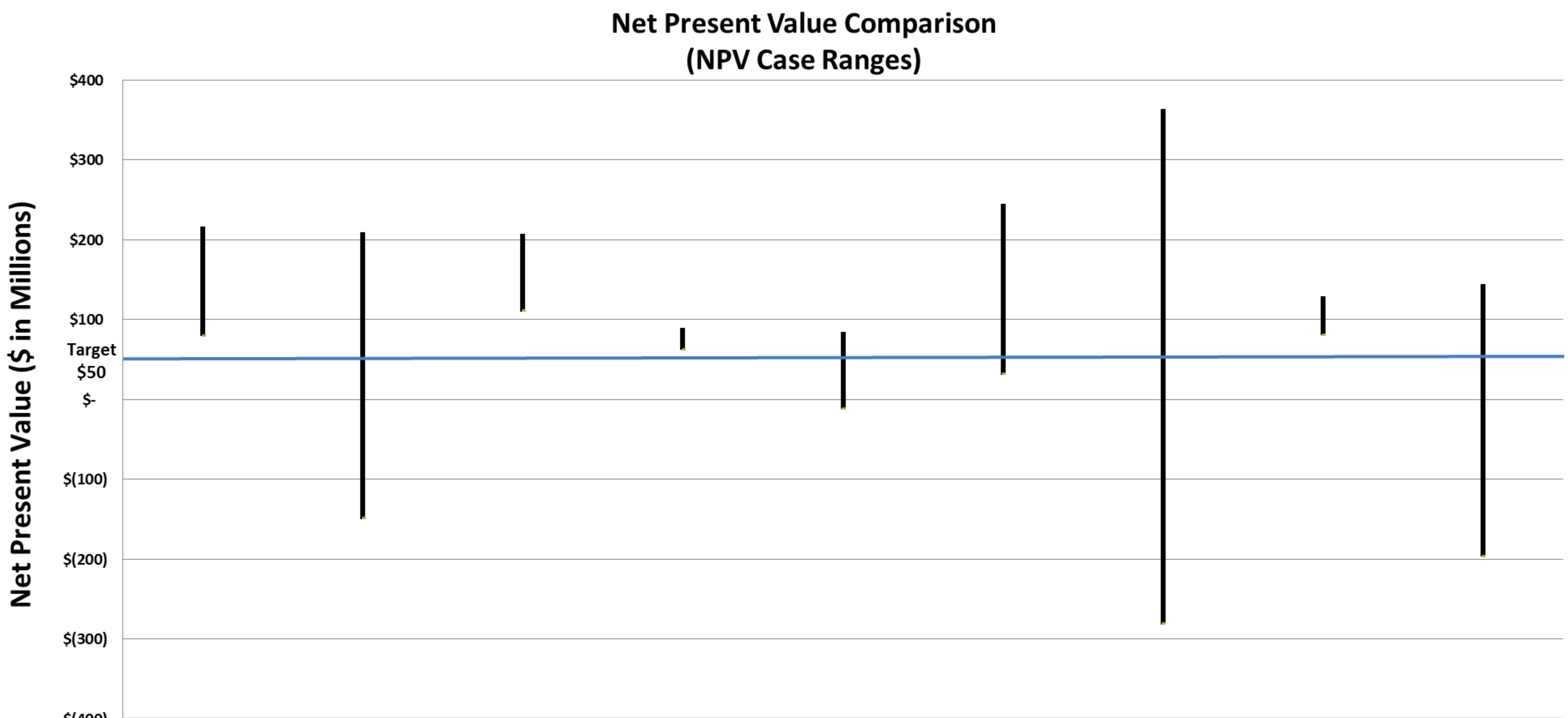
# NPV Calculations Summary – Financial Models

- 1a: Base with minimum financing
- 1b: Base with no financing
- 1c: Structured financing plan
- 2a: USEC 4-month failure with financing
- 2b: USEC 4-month failure no financing
- 3a: CGS Burn with financing
- 3b: CGS Burn with no financing
- 4a: Market sales financing
- 4b: Market sales no financing




| Discount % | 1a. Base Min. Financing | 1b. Base No Financing | 1c. Structured Financing Plan | 2a. USEC 4-Month Failure | 2b. USEC 4-Mo Failure No-Fin | 3a. CGS Burn Fin. | 3b. CGS Burn No-Fin. | 4a. Market Sales Fin. | 4b. Market Sales No-Fin. |
|---|---|---|---|---|---|---|---|---|---|
| 3% | $217 | $210 | $207 | $90 | $85 | $245 | $364 | $129 | $144 |
| 6% | $154 | $53 | $165 | $79 | $45 | $124 | $27 | $108 | $(7) |
| 12% | $79 | $(150) | $110 | $62 | $(12) | $31 | $(282) | $80 | $(197) |

# 1a. Decision Model (Includes Financing)

## Uranium Purchase - Economic Value

**Cash Flow Table**

| | Subtotal | 0<br>2012 | 1<br>2013 | 2<br>2014 | 3<br>2015 | 4<br>2016 | 5<br>2017 | 6<br>2018 | 7<br>2019 | 8<br>2020 | 9<br>2021 | 10<br>2022 | 11<br>2023 | 12<br>2024 | 13<br>2025 | 14<br>2026 | 15<br>2027 | 16<br>2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Processing Costs | (795) | | (795) | | | | | | | | | | | | | | | |
| USEC Participation | 84 | | 84 | | | | | | | | | | | | | | | |
| Bond Proceeds | 711 | | 711 | | | | | | | | | | | | | | | |
| Interest Payments | (111) | | (14) | (16) | (16) | (15) | (14) | (14) | (11) | (6) | (4) | (2) | | | | | | |
| Principal Payments | (715) | | - | - | (70) | (24) | (25) | (161) | (224) | (67) | (86) | (57) | | | | | | |
| Forward Sales | 731 | | | - | 70 | 24 | 25 | 161 | 224 | 67 | 86 | 73 | - | | | | | |
| 10yr Fuel Plan Purchases - Project | (912) | | (27) | (43) | (26) | - | (30) | (18) | (28) | - | - | (42) | - | (38) | - | (38) | - | (67) |
| 10yr Fuel Plan Purchases - No Project | 1,314 | | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 |
| EN Budget | 307 | | (14) | (12) | (12) | 39 | (21) | 23 | (10) | 62 | 27 | 43 | 33 | 34 | 35 | 36 | 36 | 8 |
| BPA Budget | 307 | (4) | (14) | (12) | 1 | 24 | (10) | 15 | 8 | 53 | 31 | 40 | 33 | 34 | 35 | 36 | 29 | 6 |
| Rate Period Benefit | 307 | | | (29) | | 14 | | 23 | | 85 | | 74 | | 70 | | 65 | | 6 |

**NPV Table**

| Discount Rate | NPV |
|---|---|
| 1% | $273m |
| 3% | $217m |
| 6% | $154m |
| 9% | $110m |
| 12% | $79m |

| Rate Period Benefit | |
|---|---|
| 14/15 | (29) |
| 16/17 | 14 |
| 18/19 | 23 |
| 20/21 | 85 |
| 22/+ | 215 |

| Assumptions | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| Optimized Principal and Interest Repayment | |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |

**Observation / Conclusions**

1) NPV of $70m @ 12% discount exceeds targeted goal of $50m.

2) This assumes a letter of credit for the initial funding requirements.

3) July 2012 long term financing take out letter of credit.
4) Contingency Analysis is described in the Management Decision

**Pros/Cons**

**1A – Base Case**

Pros:

1) Amortizes debt in approximate lockstep to TVA sales

2) Likely the most prudent way to minimize risk and retire debt
3) Eliminates interest rate risk

Cons:
1) Does not meet BPA goal of $40 mm savings in 14/15 & 16/17 rate cases

2) Creates a $36 mm loss in the 14/15 rate case

3) EN/BPA remain subject to the risk that USEC does not perform on its contract and a premium penalty needs to be

# 1b. Decision Model (Excludes Financing)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Processing Costs | (795.0) | (795.0) | | | | | | | | | | | | | | | |
| USEC Participation | 84.0 | 84.0 | | | | | | | | | | | | | | | |
| Bond Proceeds | - | | | | | | | | | | | | | | | | |
| Capitalized Interest | - | | | | | | | | | | | | | | | | |
| Interest Payments | - | | | | | | | | | | | | | | | | |
| Principal Payments | - | | | | | | | | | | | | | | | | |
| Total Net Debt Service | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | |
| TVA sales | 732.3 | | - | 70.0 | 24.4 | 24.8 | 110.3 | 281.1 | 26.4 | 129.1 | 66.2 | - | | | | | |
| Uranium sales | - | | | | | | | | | | | - | | | | | |
| Required Purchases | (911.8) | (27.4) | (43.4) | (25.8) | - | (29.9) | (17.8) | (27.5) | - | - | (42.0) | - | (38.4) | - | (38.4) | - | (66.9) |
| 10 Yr Fuel Plan Cash | 1,314.0 | 27.4 | 46.6 | 29.3 | 53.5 | 23.4 | 55.2 | 28.0 | 67.7 | 31.5 | 70.7 | 33.1 | 72.5 | 35.2 | 74.6 | 36.3 | 74.6 |
| Net | 423.5 | (711.0) | 3.2 | 73.5 | 77.8 | 18.3 | 147.8 | 281.5 | 94.1 | 160.6 | 94.9 | 33.1 | 34.2 | 35.2 | 36.3 | 36.3 | 7.8 |
| BPA Budget | 601.3 | (532.4) | 20.8 | 74.6 | 62.9 | 50.7 | 181.2 | 234.7 | 110.7 | 144.2 | 79.5 | 33.4 | 34.4 | 35.5 | 36.3 | 29.1 | 5.8 |
| Rate Period Benefit | 601.3 | | (437.1) | | 113.6 | | 415.9 | | 254.9 | | 112.8 | | 69.9 | | 65.4 | | 5.8 |

**NPV Table**

| Discount | Uranium Inflation |
|---|---|
| Rate | 0.0% |
| 1% | 345 |
| 3% | 210 |
| 6% | 53 |
| 9% | (63) |
| 12% | (150) |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |

# 1c. Structured Financing Plan (Includes Financing)

## Uranium Purchase - Economic Value

**Cash Flow Table**

| | Subtotal | 0<br>2012 | 1<br>2013 | 2<br>2014 | 3<br>2015 | 4<br>2016 | 5<br>2017 | 6<br>2018 | 7<br>2019 | 8<br>2020 | 9<br>2021 | 10<br>2022 | 11<br>2023 | 12<br>2024 | 13<br>2025 | 14<br>2026 | 15<br>2027 | 16<br>2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Processing Costs | (795) | | (795) | | | | | | | | | | | | | | | |
| USEC Participation | 84 | | 84 | | | | | | | | | | | | | | | |
| Project Fund Deposit | 711 | | 711 | | | | | | | | | | | | | | | |
| Interest on Line of Credit | (0) | | (0) | | | | | | | | | | | | | | | |
| Cost of Issuance | 4 | | | | | | | | | | | | | | | | | |
| Capitalized Interest | 32 | | 17 | 15 | | | | | | | | | | | | | | |
| Interest Payments | (152) | | (17) | (18) | (18) | (18) | (18) | (18) | (15) | (10) | (7) | (5) | (3) | (2) | (2) | (1) | (1) | - |
| Principal Payments | (747) | | - | - | (30) | - | (10) | (163) | (192) | (106) | (92) | (79) | (13) | (14) | (16) | (17) | (15) | - |
| Forward Sales | 731 | | | - | 70 | 24 | 25 | 161 | 224 | 67 | 86 | 73 | - | | | | | |
| 10yr Fuel Plan Purchases - Project | (912) | | (27) | (43) | (26) | - | (30) | (18) | (28) | - | - | (42) | - | (38) | - | (38) | - | (67) |
| 10yr Fuel Plan Purchases - No Project | 1,314 | | 27 | 47 | 29 | 53 | 23 | 55 | 28 | 68 | 32 | 71 | 33 | 73 | 35 | 75 | 36 | 75 |
| EN Budget | 266 | - | - | 0 | 25 | 60 | (9) | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 21 | 8 |
| BPA Budget | 266 | - | 0 | 6 | 34 | 42 | (3) | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 19 | 18 | 6 |
| Rate Period Benefit | 266 | | | 40 | | 40 | | 36 | | 36 | | 36 | | 36 | | 36 | | 6 |

**NPV Table**

| Discount Rate | NPV |
|---|---|
| 1% | $244m |
| 3% | $207m |
| 6% | $165m |
| 9% | $133m |
| 12% | $110m |

| Rate Period Benefit | |
|---|---|
| 14/15 | 40 |
| 16/17 | 40 |
| 18/19 | 36 |
| 20/21 | 36 |
| 22/+ | 114 |

| Assumptions | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| Optimized Principal and Interest Repayment | |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |
| $36m Capitalized Interest | |
| Delayed principal payments | |

Pros:
1) Creates $80m savings in 14/15 & 16/17 rate cases in total
2) Interest rate lock after ~2months

Cons:
1) Capitalizing Interest
2) EN/BPA remain subject to the risk that USEC does not perform on its contract and a premium penalty needs to be paid to redeem the outstanding bonds

# 2a. USEC Failure to Perform 4 Months Productions (Includes Financing)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Processing Costs | (264.7) | (264.7) | | | | | | | | | | | | | | |
| USEC Participation | 27.7 | 27.7 | | | | | | | | | | | | | | |
| Bond Proceeds | 237.0 | 237.0 | | | | | | | | | | | | | | |
| Capitalized Interest | 4.1 | 4.1 | | | | | | | | | | | | | | |
| Interest Payments | (30.9) | (4.1) | (4.9) | (4.9) | (4.6) | (4.6) | (4.6) | (3.0) | | | | | | | | |
| Principal Payments | (242.3) | - | - | (25.1) | - | - | (83.2) | (134.0) | | | | | | | | |
| Total Net Debt Service | | - | (4.9) | (30.0) | (4.6) | (4.6) | (87.9) | (137.0) | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | |
| TVA sales | 371.6 | | | 70.0 | 24.4 | 24.8 | 108.0 | 144.4 | | | | | | | | |
| Uranium sales | - | | | | | | | | | | | - | | | | |
| Required Purchases | - | | | | | | | | | | | | | | | |
| 10 Yr Fuel Plan Cash | - | | | | | | | | | | | | | | | |
| Net | 102.5 | (0.0) | (4.9) | 40.0 | 19.8 | 20.2 | 20.1 | 7.4 | - | - | - | - | - | - | - | - |
| BPA Budget | 102.5 | (1.2) | 6.3 | 34.9 | 19.9 | 20.1 | 17.0 | 5.6 | - | - | - | - | - | - | - | - |
| Rate Period Benefit | 102.5 | | 40.0 | | 40.0 | | 22.5 | | - | | - | | - | | - | |

**NPV Table**

| Discount | Uranium Inflation |
|---|---|
| Rate | 0.0% |
| 1% | 98 |
| 3% | 90 |
| 6% | 79 |
| 9% | 70 |
| 12% | 62 |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 228.7 |
| Contingency $8.3m | $ 8.3 |
| Total Project Funding Requirements | $ 237.0 |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $27.7m. (1.0m SWU participation) | |
| CGS sells off SWU and Uranium as available | |

# 2b. USEC Failure to Perform 4 Months Productions (Excludes Financing)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Processing Costs | (264.7) | (264.7) | | | | | | | | | | | | | | |
| USEC Participation | 27.7 | 27.7 | | | | | | | | | | | | | | |
| Bond Proceeds | - | | | | | | | | | | | | | | | |
| Capitalized Interest | - | | | | | | | | | | | | | | | |
| Interest Payments | - | | | | | | | | | | | | | | | |
| Principal Payments | - | | | | | | | | | | | | | | | |
| Total Net Debt Service | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| TVA sales | 371.6 | | | 70.0 | 24.4 | 24.8 | 108.0 | 144.4 | | | | | | | | |
| Uranium sales | - | | | | | | | | | | | - | | | | |
| Required Purchases | - | | | | | | | | | | | | | | | |
| 10 Yr Fuel Plan Cash | - | | | | | | | | | | | | | | | |
| Net | 134.6 | (237.0) | - | 70.0 | 24.4 | 24.8 | 108.0 | 144.4 | - | - | - | - | - | - | - | - |
| BPA Budget | 193.8 | (177.8) | 17.5 | 58.6 | 24.5 | 45.6 | 117.1 | 108.3 | - | - | - | - | - | - | - | - |
| Rate Period Benefit | 193.8 | | (101.7) | | 70.1 | | 225.4 | | - | | - | | - | | - | |

**NPV Table**

| Discount Rate | Uranium Inflation 0.0% |
|---|---|
| 1% | 117 |
| 3% | 85 |
| 6% | 45 |
| 9% | 13 |
| 12% | (12) |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 228.7 |
| Contingency $8.3m | $ 8.3 |
| Total Project Funding Requirements | $ 237.0 |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $27.7m. (1.0m SWU participation) | |
| CGS sells off SWU and Uranium as available | |

# 3a. CGS Consumes All Fuel (Includes Financing)

**Cash Flow Table**

| | Subtotal | 0<br>2012 | 1<br>2013 | 2<br>2014 | 3<br>2015 | 4<br>2016 | 5<br>2017 | 6<br>2018 | 7<br>2019 | 8<br>2020 | 9<br>2021 | 10<br>2022 | 11<br>2023 | 12<br>2024 | 13<br>2025 | 14<br>2026 | 15<br>2027 | 16<br>2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Processing Costs | (795) | | (795) | | | | | | | | | | | | | | | |
| USEC Participation | 84 | | 84 | | | | | | | | | | | | | | | |
| Bond Proceeds | 711 | | 711 | | | | | | | | | | | | | | | |
| CAPI | - | | | | | | | | | | | | | | | | | |
| Interest Payments | (470) | | (28) | (28) | (28) | (28) | (28) | (28) | (28) | (28) | (28) | (28) | (26) | (26) | (23) | (22) | (20) | (19) |
| Principal Payments | (715) | | - | - | - | - | - | - | - | - | (11) | (62) | (15) | (68) | (20) | (76) | (26) | (85) |
| Forward Sales | 70 | | | | 70 | | | | | | | | | | | | | |
| 10yr Fuel Plan Purchases - Project | (172) | | (27) | (43) | (26) | - | (30) | (18) | (28) | - | - | | | | | | | |
| 10yr Fuel Plan Purchases - No Project | 1,779 | | 27 | 47 | 29 | 53 | 23 | 55 | 34 | 84 | 39 | 91 | 41 | 94 | 43 | 99 | 46 | 104 |
| EN Budget | 492 | | (28) | (25) | 45 | 25 | (35) | 9 | (22) | 56 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| BPA Budget | 492 | (7) | (28) | (8) | 40 | 10 | (24) | 1 | (2) | 42 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rate Period Benefit | 492 | | | (2) | | (14) | | (1) | | 42 | | 0 | | 0 | | 0 | | 0 |

**NPV Table**

| Discount Rate | NPV |
|---|---|
| 1% | $389m |
| 3% | $245m |
| 6% | $124m |
| 9% | $63m |
| 12% | $31m |

**Rate Period Benefit**

| | |
|---|---|
| 14/15 | (2) |
| 16/17 | (14) |
| 18/19 | (1) |
| 20/21 | 42 |
| 22/+ | 467 |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| Optimized Principal and Interest Repayment | |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |
| Fuel plan is escalate at 2.5% for all uncommitted purchases | |

**Contingency Analysis**

**Pros/Cons**

**3a – Level D/S From 2023 - 2038 Representing full CGS Burn with Escalation**

Commentary:

Meant to be same as case 5A, but with escalation built into the 10yr fuel plan. To complete this case we need Energy Northwest to provide the escalation

Pros: Shows benefits to CGS without TVA sales

Cons:

EN/BPA remain subject to the risk that USEC does not perform on its contract and a premium / penalty needs to be paid to redeem the outstanding bonds

# 3b. CGS Consumes All Fuel (Excludes Financing)

**Cash Flow Table**

| | Subtotal | 0<br>2012 | 1<br>2013 | 2<br>2014 | 3<br>2015 | 4<br>2016 | 5<br>2017 | 6<br>2018 | 7<br>2019 | 8<br>2020 | 9<br>2021 | 10<br>2022 | 11<br>2023 | 12<br>2024 | 13<br>2025 | 14<br>2026 | 15<br>2027 | 16<br>2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Processing Costs | (795) | | (795) | | | | | | | | | | | | | | | |
| USEC Participation | 84 | | 84 | | | | | | | | | | | | | | | |
| Bond Proceeds | - | | | | | | | | | | | | | | | | | |
| CAPI | - | | | | | | | | | | | | | | | | | |
| Interest Payments | - | | | | | | | | | | | | | | | | | |
| Principal Payments | - | | | | | | | | | | | | | | | | | |
| Forward Sales | 70 | | | | 70 | | | | | | | | | | | | | |
| 10yr Fuel Plan Purchases - Project | (172) | | (27) | (43) | (26) | - | (30) | (18) | (28) | - | - | | | | | | | |
| 10yr Fuel Plan Purchases - No Project | 1,779 | | 27 | 47 | 29 | 53 | 23 | 55 | 34 | 84 | 39 | 91 | 41 | 94 | 43 | 99 | 46 | 104 |
| EN Budget | 966 | | (711) | 3 | 73 | 53 | (7) | 37 | 7 | 84 | 39 | 91 | 41 | 94 | 43 | 99 | 46 | 104 |
| BPA Budget | 966 | (178) | (532) | 21 | 68 | 38 | 4 | 30 | 26 | 73 | 52 | 78 | 54 | 81 | 57 | 86 | 60 | 90 |
| Rate Period Benefit | 966 | | | (621) | | 43 | | 56 | | 125 | | 133 | | 139 | | 146 | | 153 |

| NPV Table | |
|---|---|
| Discount Rate | NPV |
| 1% | $724m |
| 3% | $364m |
| 6% | $27m |
| 9% | -$167m |
| 12% | -$282m |

| Rate Period Benefit | |
|---|---|
| 14/15 | (621) |
| 16/17 | 43 |
| 18/19 | 56 |
| 20/21 | 125 |
| 22/+ | 1,363 |

| Assumptions | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| | |
| USEC SWU cost @ $154 | |
| USEC assignment of TVA SWU sales $70.0M | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |
| Fuel plan is escalate at 2.5% for all uncommitted purchases | |

| Contingency Analysis | Pros/Cons |
|---|---|
| | **3b – Level D/S From 2023 - 2038 Representing full CGS Burn with Escalation** |

Commentary:

Meant to be same as case 5A, but with escalation built into the 10yr fuel plan. To complete this case we need Energy Northwest to provide the escalation

Pros: Shows benefits to CGS without TVA sales
Cons:

EN/BPA remain subject to the risk that USEC does not perform on its contract and a premium / penalty needs to be paid to redeem the outstanding bonds

# 4a. Market Sales (Includes Financing)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Processing Costs | (795.0) | (795.0) | | | | | | | | | | | | | | | |
| USEC Participation | 84.0 | 84.0 | | | | | | | | | | | | | | | |
| Bond Proceeds | 711.0 | 711.0 | | | | | | | | | | | | | | | |
| Interest Payments | (192.7) | (18.6) | (20.2) | (20.2) | (20.2) | (20.2) | (20.2) | (17.8) | (15.8) | (10.9) | (9.3) | (7.5) | (5.5) | (3.2) | (2.0) | (1.0) | |
| Principal Payments | (741.6) | - | - | - | - | - | (123.7) | (90.4) | (183.9) | (58.4) | (58.6) | (66.1) | (70.6) | (34.9) | (27.0) | (28.0) | |
| Total Net Debt Service | | (18.6) | (20.2) | (20.2) | (20.2) | (20.2) | (143.9) | (108.2) | (199.7) | (69.3) | (67.8) | (73.6) | (76.1) | (38.1) | (29.0) | (29.0) | - |
| Capitalized Interest | 26.8 | 18.6 | 8.3 | | | | | | | | | | | | | | |
| Market sales | **423.0** | | 57.2 | | | 40.0 | 41.2 | 42.4 | 43.7 | 45.0 | 46.4 | 47.8 | 49.2 | 10.1 | | | |
| Uranium sales | **240.5** | | | | | | 72.5 | 72.5 | 95.5 | | | - | | | | | |
| Required Purchases | (911.8) | (27.4) | (43.4) | (25.8) | - | (29.9) | (17.8) | (27.5) | - | - | (42.0) | - | (38.4) | - | (38.4) | - | (66.9) |
| 10 Yr Fuel Plan Cash | 1,314.0 | 27.4 | 46.6 | 29.3 | 53.5 | 23.4 | 55.2 | 28.0 | 67.7 | 31.5 | 70.7 | 33.1 | 72.5 | 35.2 | 74.6 | 36.3 | 74.6 |
| Net | 158.3 | - | 48.5 | (16.8) | 33.2 | 13.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.8 |
| BPA Budget | 158.3 | 12.1 | 32.2 | (4.3) | 28.2 | 11.7 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.4 | 5.8 |
| Rate Period Benefit | 158.3 | | **40.0** | | **40.0** | | **14.5** | | 14.5 | | 14.5 | | 14.5 | | 14.6 | | 5.8 |

**NPV Table**

| Discount Rate | Uranium Inflation 0.0% |
|---|---|
| 1% | 148 |
| 3% | 129 |
| 6% | 108 |
| 9% | 92 |
| 12% | 80 |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |
| Bond proceeds | $ 711.0 |
| USEC SWU cost @ $154 | |
| 440,000 SWU assigned from USEC-Exelon Agreement at $130/SWU: $57.2m | |
| USEC participation $84m. (1.0m SWU participation) | |
| CGS consumes balance of unsold inventory | |

2017-2024 SWU sales are assumed to be 300,000 SWU per year at $115/SWU escalated at 3% per year until delivery, 60,000 SWU in 2025 to get same total as TVA SWU Sales

Adjusted delivery from Urenco

# 4b. Market Sales (Excludes Financing)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Processing Costs | (795.0) | (795.0) | | | | | | | | | | | | | | | |
| USEC Participation | 84.0 | 84.0 | | | | | | | | | | | | | | | |
| Bond Proceeds | - | | | | | | | | | | | | | | | | |
| Interest Payments | - | | | | | | | | | | | | | | | | |
| Principal Payments | - | | | | | | | | | | | | | | | | |
| Total Net Debt Service | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capitalized Interest | - | | | | | | | | | | | | | | | | |
| Market sales | **423.0** | | 57.2 | | | 40.0 | 41.2 | 42.4 | 43.7 | 45.0 | 46.4 | 47.8 | 49.2 | 10.1 | | | |
| Uranium sales | **240.5** | | | | | | 72.5 | 72.5 | 95.5 | | | - | | | | | |
| Required Purchases | (911.8) | (27.4) | (43.4) | (25.8) | - | (29.9) | (17.8) | (27.5) | - | - | (42.0) | - | (38.4) | - | (38.4) | - | (66.9) |
| 10 Yr Fuel Plan Cash | 1,314.0 | 27.4 | 46.6 | 29.3 | 53.5 | 23.4 | 55.2 | 28.0 | 67.7 | 31.5 | 70.7 | 33.1 | 72.5 | 35.2 | 74.6 | 36.3 | 74.6 |
| Net | 354.7 | (711.0) | 60.4 | 3.4 | 53.5 | 33.5 | 151.2 | 115.4 | 206.9 | 76.5 | 75.1 | 80.9 | 83.3 | 45.3 | 36.3 | 36.3 | 7.8 |
| BPA Budget | 354.7 | (695.9) | 46.2 | 15.9 | 48.5 | 62.9 | 142.2 | 138.3 | 174.3 | 76.2 | 76.5 | 81.5 | 73.8 | 43.1 | 36.3 | 29.1 | 5.8 |
| Rate Period Benefit | 354.7 | | **(633.7)** | | **111.4** | | **280.5** | | 250.5 | | 158.0 | | 116.9 | | 65.4 | | 5.8 |

**NPV Table**

| Discount | Uranium Inflation |
|---|---|
| Rate | 0.0% |
| 1% | 277 |
| 3% | 144 |
| 6% | (7) |
| 9% | (117) |
| 12% | (197) |

**Assumptions**

| | |
|---|---|
| Processing Cost @ $154/SWU | $ 770.0 |
| Contingency $25m | $ 25.0 |
| Total Project Funding Requirements | $ 795.0 |

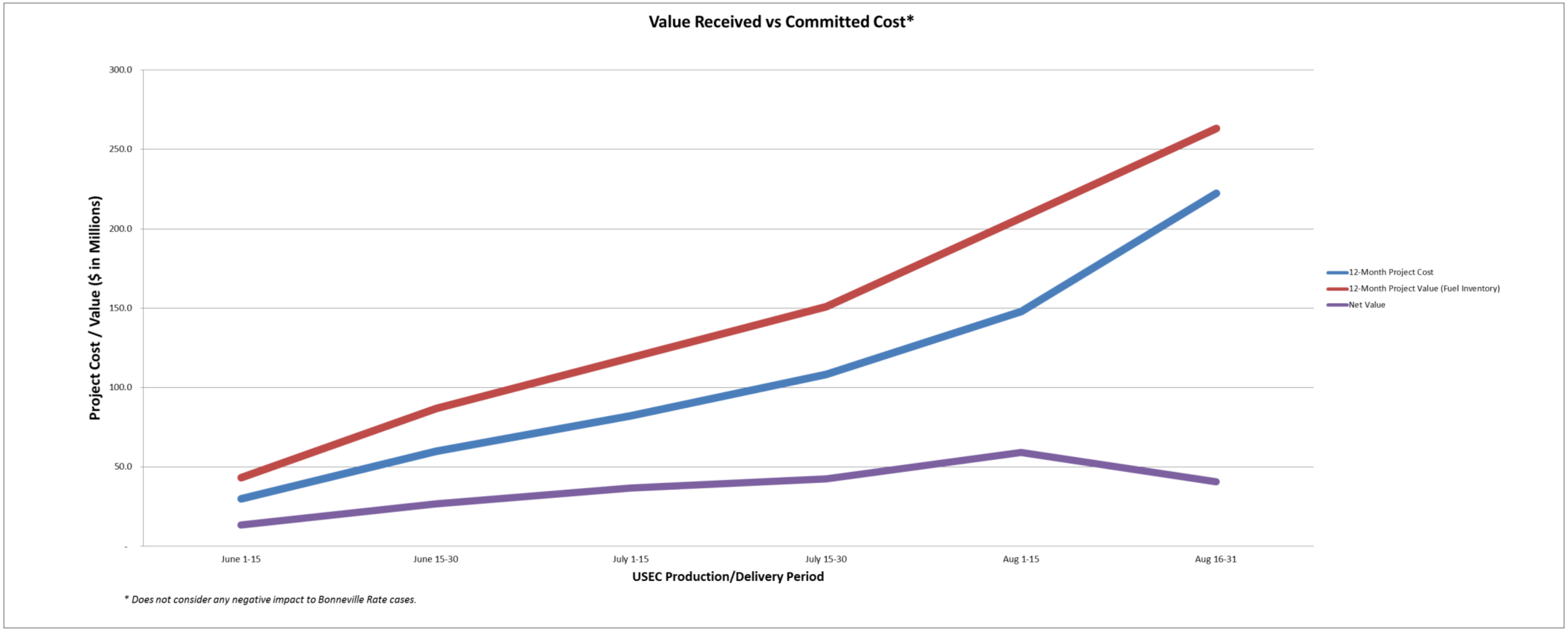
USEC SWU cost @ $154
440,000 SWU assigned from USEC-Exelon Agreement at $130/SWU: $57.2m
USEC participation $84m. (1.0m SWU participation)
CGS consumes balance of unsold inventory

2017-2024 SWU sales are assumed to be 300,000 SWU per year at $115/SWU escalated at 3% per year until delivery, 60,000 SWU in 2025 to get same total as TVA SWU Sales
Adjusted delivery from Urenco

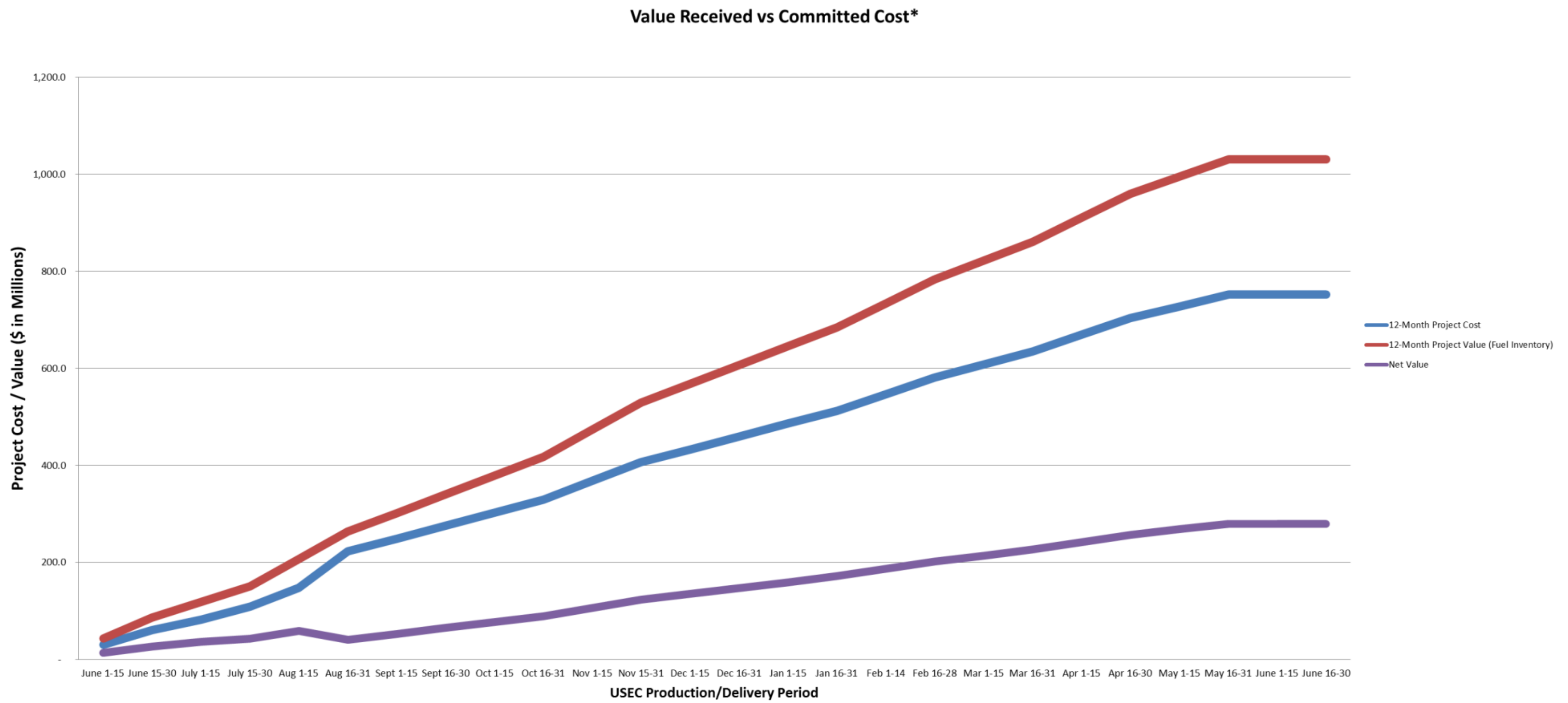
# Committed Costs vs. Value Received

# 3-Month - Value Received vs. Committed Cost





# 1 Year - Value Received vs. Committed Cost

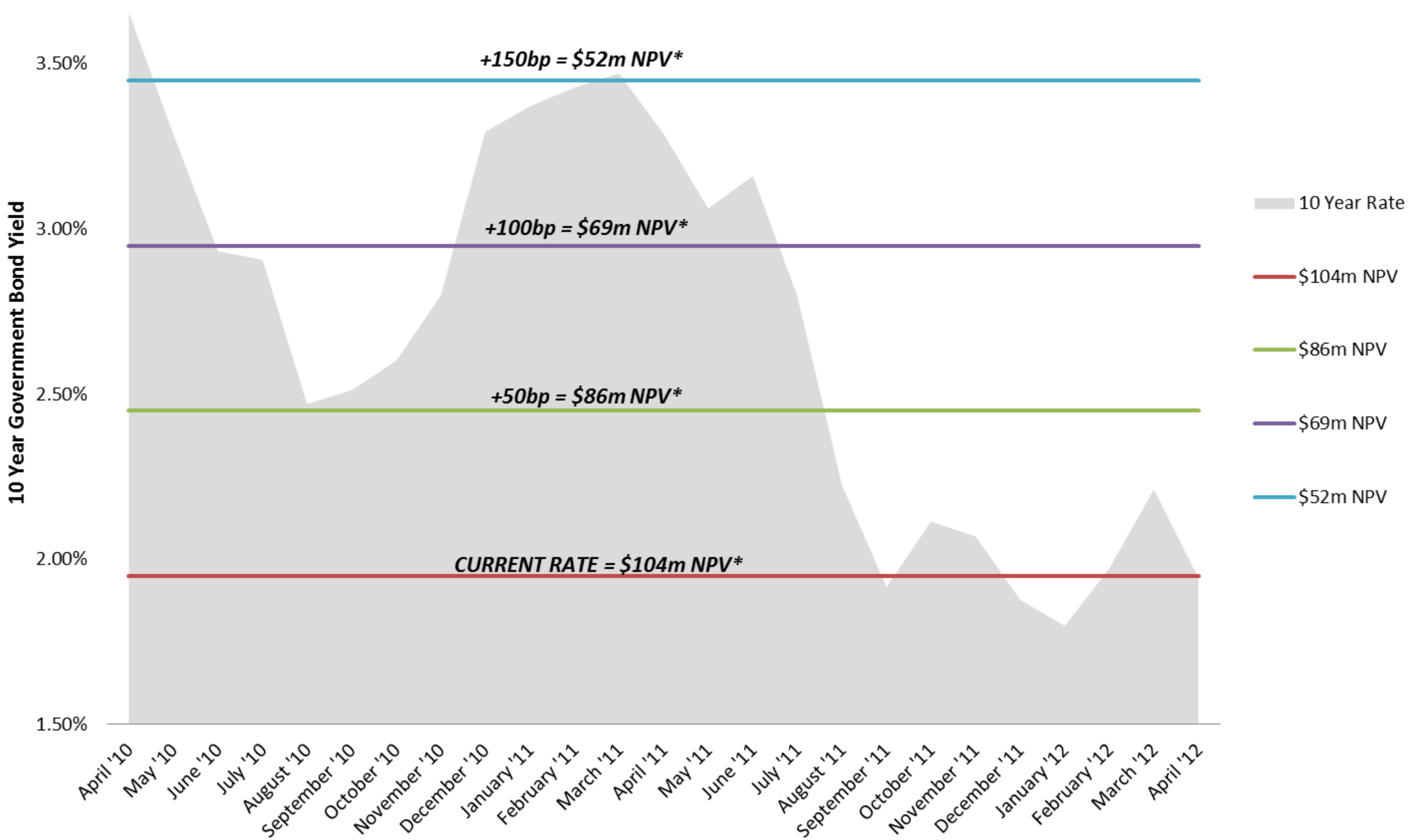



* *Does not consider any negative impact to Bonneville Rate cases.*

# 10-Year Historical Yields – Interest Rate Sensitivity

# 10 Year Historical Yield: NPV Expectations*






* NPV expectations based on assumption rate increases in 10-Year yields will be equivalent to increase in ENW fixed rate bonds.

# 2. USEC

- Company Description
- Financial Stability
    - Liquidity Forecast
    - PWC Disclosure
    - EN Board Questions on USEC
- 10Q – Quarterly Financial Report through May 2, 2012

# Company Description

## USEC, Inc.

USEC Inc., a global energy company, is a leading supplier of enriched uranium fuel and nuclear industry related services for commercial nuclear power plants.

- Began operation as a private-sector corporation July 28, 1998
- Listed on the New York Stock Exchange under the symbol "USU"
- Bond Rating: CCC+
- 2011 revenues: More than $1.67 billion
- Nearly 1,900 employees currently work at our five U.S. locations

### Uranium Enrichment

Through its subsidiary, the United States Enrichment Corporation, USEC operates the only U.S.-owned uranium enrichment facility in the United States: a gaseous diffusion plant in Paducah, Kentucky.

### The American Centrifuge Program

American Centrifuge is USEC's next-generation uranium enrichment technology. It is a disciplined evolution of classified U.S. centrifuge technology originally developed by DOE and successfully demonstrated during the 1980s.

USEC's facility in Piketon, Ohio, is hosting the Company's American Centrifuge Demonstration Facility and will ultimately house the American Centrifuge Plant. USEC is operating the Demonstration Facility for the purposes of demonstrating and evaluating the Company's enhancements to U.S. centrifuge technology and centrifuge performance in a cascade configuration. The Lead Cascade test program began operating in the Demonstration Facility in August 2007.

USEC employees in Oak Ridge, Tennessee, are involved in the design, development, manufacturing and testing of centrifuge machines.

### Megatons to Megawatts

USEC is the U.S. government's exclusive executive agent for the Megatons to Megawatts program, a 20-year, $8 billion, commercially funded nuclear nonproliferation initiative of the U.S. and Russian governments. This unique program is recycling 500 metric tons of weapons-grade uranium taken from dismantled Russian nuclear warheads (the equivalent of 20,000 warheads) into low enriched uranium used by USEC's customers to generate electricity. The program is scheduled to be completed in 2013.

**Used Fuel Solutions**

USEC's subsidiary NAC International is a leading provider of transportation and storage systems for used nuclear fuel and energy consulting services. NAC is headquartered outside Atlanta, GA, with offices in the United Kingdom, Russia and Japan.

**A History of Reliability**

Uranium enrichment for commercial nuclear reactors began in the 1960s, when the U.S. government shifted some of its enrichment capacity from military to civilian use.

In the early 1990s, USEC was created as a government corporation in order to restructure the government's uranium enrichment operation and prepare it for sale to the private sector. USEC's privatization was completed on July 28, 1998.

As an investor-owned company, USEC continues a 50-year tradition of reliability: all customer shipments have been made on time and within specification.

# Financial Stability

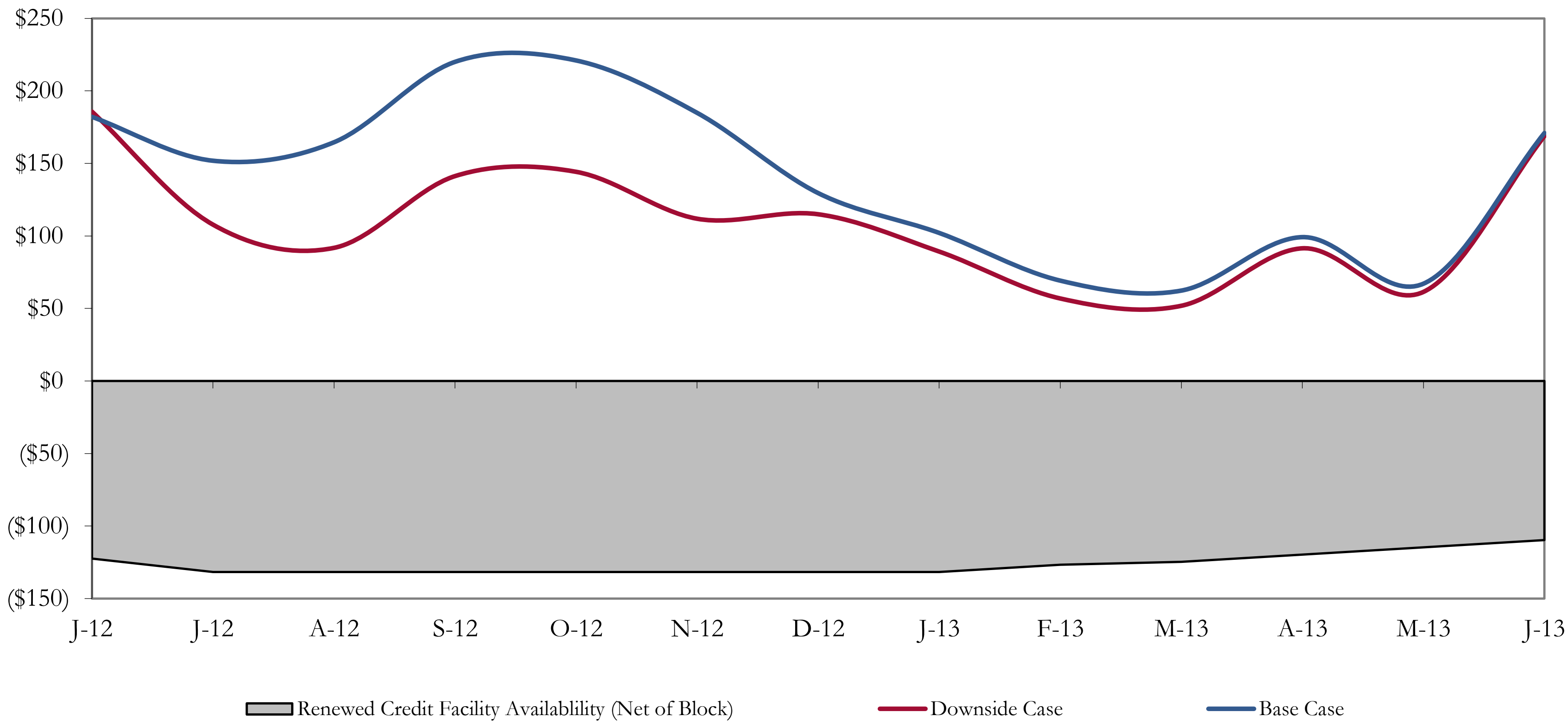
- Liquidity Forecast
- PWC Disclosure
- EN Board Questions on USEC

# USEC Liquidity Forecast – Our Observations

**($ in millions)**

**We have spent considerable time over the last several weeks reviewing USEC's liquidity forecast and concur with Management's assessment that the Company will likely have robust liquidity over the term of the tails enrichment program**

- **We believe Management's liquidity forecasts are well-constructed and generally conservative to provide comfort regarding liquidity over the next twelve months**



**Report of Independent Registered Public Accounting Firm**

To Board of Directors and Stockholders of USEC Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of cash flows, and consolidated statements of stockholders' equity present fairly, in all material respects, the financial position of USEC Inc. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
March 14, 2012

# Fuel Procurement Board Assignments

Assignment: # 5.1 Clarification and understanding of financial relationship they have with their banker. Contact JP Morgan to get their opinion.

---

(1) JP Morgan believes USEC will be around for the next 2-3 years but probably has a different risk profile for them in a longer term.

- Renewed a new $235 million term loan at a very steep rate.
  - $85 million term loan
  - $150 million in a revolver
    - $75 million is a LOC for working capital
  - The new term loan was funded as of March 13, 2012 and will bear interest, at JP's election, at either:
    - the sum of (1) the greater of (a) the JPMorgan Chase Bank prime rate, (b) the federal funds rate plus ½ of 1%, or (c) an adjusted 1-month LIBO Rate (with a floor of 2.0%) plus 1% plus (2) a margin of 7.25%; or
    - the adjusted LIBO Rate (with a floor of 2.0%) plus a margin of 9.0%

  - The interest rate on outstanding borrowings under the new revolving credit facility is, at JP's election, either
    - the sum of (1) the greater of (a) the JPMorgan Chase Bank prime rate, (b) the federal funds rate plus ½ of 1%, or (c) an adjusted 1-month LIBO Rate (with a floor of 2.0%) plus 1% plus (2) a margin of 2.75%, or
    - the sum of the adjusted LIBO Rate (with a floor of 2.0%) plus a margin of 4.5%

(2) JP believes the USEC is credit worthy in the short-term because

- Inventory and contracts
- Existing contracts with the
- JP Morgan has a senior lean on *all* assets
  - It does not appear that EN fuel would be a USEC asset
- JP Morgan believes that USEC does not have technology risk but only financing risk
  - Has 15-20 centrifuge projects under way with proven technology

(3) JP Morgan is also serving them as a Strategic Advisor on the next phase of their technology

- USEC requested a government loan guarantee but received a cash grant for 1/16th of the centrifuge project cost instead.
- USEC argued that there three main competitors were government subsidized

  - French – 50% subsidized
  - German- 50% subsidized
  - Russian – 100% subsidized

- USEC's centrifuge project is will make them more competitive

  - Gas diffusion, their old technology, sometimes has negative margins.
  - If USEC has not terminated operations at the Paducah GDP by June 30, 2012, and USEC's gross profit for any three consecutive months thereafter is a loss, then commencing on the first date of such quarter and continuing for the remaining term of the credit facility, the margin on the JP term loan will increase by 2.0% and the margin on the revolving loans will increase by 1.5%

# 10Q – Quarterly Financial Report through May 2, 2012

# USEC INC (USU)

## 10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/02/2012
Filed Period 03/31/2012

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

# FORM 10-Q

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

**For the quarterly period ended March 31, 2012**

OR

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

Commission file number 1-14287

# USEC Inc.

*(Exact name of registrant as specified in its charter)*

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |

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

As of April 30, 2012, there were 121,934,915 shares of the registrant’s Common Stock issued and outstanding.

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This quarterly report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 – that is, statements related to future events. In this context, forward-looking statements may address our expected future business and financial performance, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "will" and other words of similar meaning. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For USEC, particular risks and uncertainties that could cause our actual future results to differ materially from those expressed in our forward-looking statements include, but are not limited to: risks related to the ongoing transition of our business, including uncertainty regarding the transition of the Paducah gaseous diffusion plant and uncertainty regarding continued funding for the American Centrifuge project and the impact of decisions we may make in the near term on our business and prospects; our success in reaching a multi-party agreement for the enrichment of depleted uranium tails to support continued Paducah enrichment operations through May 2013; the terms of any multi-party agreement we may reach and our dependency on such an agreement; the impact of the March 2011 earthquake and tsunami in Japan on the nuclear industry and on our business, results of operations and prospects; the impact of excess supply in the market and the lack of uncommitted demand for low enriched uranium over the next two to four years; the potential impacts of a decision to cease enrichment operations at Paducah; the outcome of ongoing discussions with the U.S. Department of Energy ("DOE") regarding the research, development and demonstration ("RD&D") program, including uncertainty regarding the timing, amount and availability of funding for such RD&D program and the dependency of government funding on Congressional appropriations;

restrictions in our credit facility on our spending on the American Centrifuge project after May 31, 2012 and the potential for us to demobilize the project; the impact of any conditions that are placed on us or on the American Centrifuge project in connection with or as a condition to the RD&D program or other funding, including a restructuring of our role and investment in the project; limitations on our ability to provide any required cost sharing under the RD&D program; the ultimate success of efforts to obtain a DOE loan guarantee for the American Centrifuge project, including the ability through the RD&D program or otherwise to address the concerns raised by DOE with respect to the financial and project execution depth of the project, and the timing and terms thereof; the impact of actions we have taken or may take to reduce spending on the American Centrifuge project, including the potential loss of key suppliers and employees, and impacts to cost and schedule; the impact of delays in the American Centrifuge project and uncertainty regarding our ability to remobilize the project; the potential for DOE to seek to exercise its remedies under the June 2002 DOE-USEC agreement; risks related to the completion of the remaining two phases of the three-phased strategic investment by Toshiba Corporation ("Toshiba") and Babcock & Wilcox Investment Company ("B&W"), including uncertainty regarding the potential participation of Toshiba and B&W in any potential project structure that may be required under the RD&D program, and the potential for immediate termination of the securities purchase agreement governing their investments; our ability to extend, renew or replace our credit facility that matures on May 31, 2013 and the impact of a failure to timely renew on our ability to continue as a going concern; restrictions in our credit facility that may impact our operating and financial flexibility and spending on the American Centrifuge project; our ability to actively manage and enhance our liquidity and working capital and the potential adverse consequences of any actions taken on the long term value of our ongoing operations; uncertainty regarding the cost of electric power used at our gaseous diffusion plant; our dependence on deliveries of LEU from Russia under a commercial agreement (the "Russian Contract") with a Russian government entity known as Techsnabexport ("TENEX") and on a single production facility and the potential for us to cease commercial enrichment of uranium in the event of a decision to shut down Paducah enrichment operations; limitations on our ability to import the Russian LEU we buy under the new supply agreement into the United States and other countries; our inability under many existing long-term contracts to directly pass on to customers increases in our costs; the decrease or elimination of duties charged on imports of foreign-produced low enriched uranium; pricing trends and demand in the uranium and enrichment markets and their impact on our profitability; movement and timing of customer orders; changes to, or termination of, our contracts with the U.S. government, risks related to delays in payment for our contract services work performed for DOE; changes in U.S. government priorities and the availability of government funding, including loan guarantees; our subsidiary NAC may not perform as expected; the impact of government regulation by DOE and the U.S. Nuclear Regulatory Commission; the outcome of legal proceedings and other contingencies (including lawsuits and government investigations or audits); the competitive environment for our products and services; changes in the nuclear energy industry; the impact of volatile financial market conditions on our business, liquidity, prospects, pension assets and credit and insurance facilities; risks related to the underfunding of our defined benefit pension plans and the impact of the potential requirement to accelerate the funding of these obligations on our liquidity; uncertainty regarding the continued capitalization of certain assets related to the American Centrifuge Plant and the impact of a potential impairment of these assets on our results of operations; the impact of a potential de-listing of our common stock on the NYSE if we are unable to maintain the minimum share price and other listing requirements; the impact of potential changes in the ownership of our stock on our ability to realize the value of our deferred tax benefits; the timing of recognition of previously deferred revenue; and other risks and uncertainties discussed in this and our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2011 ("10-K"). Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. For a discussion of these risks and uncertainties and other factors that may affect our future results, please see Item 1A entitled "Risk Factors" and the other sections of this report and our 10-K, which are available on our website at www.usec.com. Readers are urged to carefully review and consider the various disclosures made in this report and in our other filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business. We do not undertake to update our forward-looking statements to reflect events or circumstances that may arise after the date of this quarterly report on Form 10-Q except as required by law.

**USEC Inc.**
**CONSOLIDATED CONDENSED BALANCE SHEETS**
**(Unaudited)**
**(millions)**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 72.3 | $ 37.6 |
| Accounts receivable, net | 198.0 | 162.0 |
| Inventories | 1,941.4 | 1,752.0 |
| Deferred costs associated with deferred revenue | 139.7 | 175.5 |
| Other current assets | 68.3 | 64.8 |
| Total Current Assets | 2,419.7 | 2,191.9 |
| Property, Plant and Equipment, net | 1,181.9 | 1,187.1 |
| Other Long-Term Assets | | |
| Deposits for surety bonds | 151.3 | 151.3 |
| Deferred financing costs, net | 11.6 | 12.2 |
| Goodwill | 6.8 | 6.8 |
| Total Other Long-Term Assets | 169.7 | 170.3 |
| Total Assets | **$ 3,771.3** | **$ 3,549.3** |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 110.7 | $ 120.1 |
| Payables under Russian Contract | - | 206.9 |
| Inventories owed to customers and suppliers | 1,407.3 | 870.1 |
| Deferred revenue and advances from customers | 169.1 | 205.2 |
| Credit facility term loan | 85.0 | 85.0 |
| Convertible preferred stock | 91.5 | 88.6 |
| Total Current Liabilities | 1,863.6 | 1,575.9 |
| Long-Term Debt | 530.0 | 530.0 |
| Other Long-Term Liabilities | | |
| Depleted uranium disposition | 100.0 | 145.2 |
| Postretirement health and life benefit obligations | 210.2 | 207.8 |
| Pension benefit liabilities | 260.3 | 258.3 |
| Other liabilities | 78.3 | 79.7 |
| Total Other Long-Term Liabilities | 648.8 | 691.0 |
| Commitments and Contingencies (Note 12) | | |
| Stockholders' Equity | 728.9 | 752.4 |
| Total Liabilities and Stockholders' Equity | **$ 3,771.3** | **$ 3,549.3** |

See notes to consolidated condensed financial statements.

**USEC Inc.**
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**
**(Unaudited)**
**(millions, except per share data)**

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Revenue: | | |
| Separative work units | $ 537.9 | $ 308.5 |
| Uranium | - | 14.0 |
| Contract services | 23.6 | 58.0 |
| Total Revenue | 561.5 | 380.5 |
| Cost of Sales: | | |
| Separative work units and uranium | 501.2 | 307.2 |
| Contract services | 21.5 | 59.4 |
| Total Cost of Sales | 522.7 | 366.6 |
| Gross profit | 38.8 | 13.9 |
| Advanced technology costs | 36.8 | 26.7 |
| Selling, general and administrative | 14.9 | 15.5 |
| Special charge for workforce reductions and advisory costs | 6.4 | - |
| Other (income) | - | (3.7) |
| Operating (loss) | (19.3) | (24.6) |
| Interest expense | 12.7 | - |
| Interest (income) | (0.1) | (0.2) |
| (Loss) before income taxes | (31.9) | (24.4) |
| Provision (benefit) for income taxes | (3.1) | (7.8) |
| Net (loss) | **$ (28.8)** | **$ (16.6)** |
| Net (loss) per share – basic | $ (.24) | $ (.14) |
| Net (loss) per share – diluted | $ (.24) | $ (.14) |
| Weighted-average number of shares outstanding: | | |
| Basic | 122.3 | 119.6 |
| Diluted | 122.3 | 119.6 |

See notes to consolidated condensed financial statements.

**USEC Inc.**
**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**
**(millions)**

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Net (loss) | $ (28.8) | $ (16.6) |
| Other comprehensive income, before tax: | | |
| Amortization of prior service costs (credit) (Note 8) | 0.4 | 0.4 |
| Amortization of actuarial losses (Note 8) | 6.0 | 3.2 |
| Other comprehensive income, before tax | 6.4 | 3.6 |
| Income tax (expense) benefit related to items of other comprehensive income | (2.3) | (1.3) |
| Other comprehensive income, net of tax | 4.1 | 2.3 |
| Comprehensive (loss) | **$ (24.7)** | **$ (14.3)** |

See notes to consolidated condensed financial statements.

**USEC Inc.**
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**
**(Unaudited)**
**(millions)**

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net (loss) | $ (28.8) | $ (16.6) |
| Adjustments to reconcile net (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 10.2 | 15.0 |
| Deferred income taxes | (2.3) | (1.9) |
| Other non-cash income on release of disposal obligation | - | (0.6) |
| Capitalized convertible preferred stock dividends paid-in-kind | 2.9 | 2.5 |
| Gain on extinguishment of convertible senior notes | - | (3.1) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable – (increase) decrease | (36.0) | 63.8 |
| Inventories, net – decrease | 347.8 | 147.4 |
| Payables under Russian Contract – (decrease) | (206.9) | (201.2) |
| Deferred revenue, net of deferred costs – increase (decrease) | (1.6) | 62.3 |
| Accrued depleted uranium disposition – increase (decrease) | (45.2) | 5.0 |
| Accounts payable and other liabilities – increase (decrease) | 2.3 | (18.2) |
| Other, net | 5.3 | (3.1) |
| Net Cash Provided by Operating Activities | 47.7 | 51.3 |
| | | |
| **Cash Flows Used in Investing Activities** | | |
| Capital expenditures | (2.9) | (50.7) |
| Net Cash (Used in) Investing Activities | (2.9) | (50.7) |
| | | |
| **Cash Flows Used in Financing Activities** | | |
| Borrowings under revolving credit facility | 96.5 | - |
| Repayments under revolving credit facility | (96.5) | - |
| Payments for deferred financing costs | (9.7) | - |
| Common stock issued (purchased), net | (0.4) | (1.8) |
| Net Cash (Used in) Financing Activities | (10.1) | (1.8) |
| Net Increase (Decrease) | 34.7 | (1.2) |
| Cash and Cash Equivalents at Beginning of Period | 37.6 | 151.0 |
| Cash and Cash Equivalents at End of Period | $ 72.3 | $ 149.8 |
| Supplemental Cash Flow Information: | | |
| Interest paid, net of amount capitalized | $ 3.0 | $ - |
| Income taxes paid, net of refunds | 0.3 | 1.2 |

See notes to consolidated condensed financial statements.

**USEC Inc.**
**CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**
**(millions)**

| | Common Stock, Par Value $.10 per Share | Excess of Capital over Par Value | Retained Earnings (Deficit) | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2011** | | | | | | |
| **Balance at December 31, 2010** | $ 12.3 | $ 1,172.8 | $ 329.9 | $ (57.1) | $ (144.1) | $1,313.8 |
| Amortization of actuarial losses and prior service costs (credits), net of tax | - | - | - | - | 2.3 | 2.3 |
| Common stock issued in exchange for convertible senior notes | 0.7 | 40.5 | - | - | - | 41.2 |
| Restricted and other common stock issued, net of amortization | - | (2.9) | - | 4.0 | - | 1.1 |
| Net (loss) | - | - | (16.6) | - | - | (16.6) |
| **Balance at March 31, 2011** | **$ 13.0** | **$ 1,210.4** | **$ 313.3** | **$ (53.1)** | **$ (141.8)** | **$1,341.8** |
| **Three Months Ended March 31, 2012** | | | | | | |
| **Balance at December 31, 2011** | $ 13.0 | $ 1,212.5 | $ (210.8) | $ (49.4) | $ (212.9) | $ 752.4 |
| Amortization of actuarial losses and prior service costs (credits), net of tax | - | - | - | - | 4.1 | 4.1 |
| Restricted and other common stock issued, net of amortization | - | 1.6 | - | (0.4) | - | 1.2 |
| Net (loss) | - | - | (28.8) | - | - | (28.8) |
| **Balance at March 31, 2012** | **$ 13.0** | **$ 1,214.1** | **$ (239.6)** | **$ (49.8)** | **$ (208.8)** | **$ 728.9** |

See notes to consolidated condensed financial statements.

**USEC Inc.**
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**
**(Unaudited)**

## 1. BASIS OF PRESENTATION

The unaudited consolidated condensed financial statements as of and for the three months ended March 31, 2012 and 2011 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited consolidated condensed financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial results for the interim period. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been omitted pursuant to such rules and regulations. Certain amounts in the consolidated condensed financial statements have been reclassified to conform with the current presentation.

Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in the annual report on Form 10-K for the year ended December 31, 2011.

*New Accounting Standards*

In May 2011, the Financial Accounting Standards Board ("FASB") amended its guidance on fair value measurements and related disclosures. The amendments represent the converged guidance of the FASB and the International Accounting Standards Board and provide a consistent definition of fair value and common requirements for measurement and disclosure of fair value between GAAP and International Financial Reporting Standards ("IFRS"). The new amendments also change some fair value measurement principles and enhance disclosure requirements related to activities in Level 3 of the fair value hierarchy. The new provisions are effective for fiscal years and interim periods beginning after December 15, 2011 and are applied prospectively. The implementation of the amended guidance in the first quarter of 2012 did not have an effect on USEC's results of operations, cash flows or financial position.

In June and December 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance requires companies to present the components of net income and other comprehensive income either in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. The provisions of this new guidance are effective for fiscal years and interim periods beginning after December 15, 2011 and are applied retrospectively for all periods presented. The implementation of the new guidance in the first quarter of 2012 is reflected in USEC's consolidated condensed financial statements and did not have an effect on USEC's results of operations, cash flows or financial position.

In September 2011, the FASB amended its guidance on testing goodwill for impairment. Under the revised guidance, companies testing goodwill for impairment have the option of first performing a qualitative assessment to determine whether further quantitative assessments are warranted. In assessing qualitative factors, companies are to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test prescribed in the existing guidance. The provisions of this new guidance are effective for fiscal years and interim periods beginning after December 15, 2011. USEC evaluates the carrying value of goodwill by performing an impairment test on an annual basis in the fourth quarter or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. USEC expects the adoption of the new guidance will not have a material effect on its results of operations, cash flows or financial position.

**2. ACCOUNTS RECEIVABLE**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (millions) | |
| Accounts receivable (1): | | |
| Utility customers: | | |
| Trade receivables | $ 108.0 | $ 124.2 |
| Uranium loaned to customer (2) | 53.6 | - |
| | 161.6 | 124.2 |
| Contract services, primarily Department of Energy (3): | | |
| Billed revenue | 34.6 | 18.8 |
| Unbilled revenue | 1.8 | 19.0 |
| | 36.4 | 37.8 |
| | **$ 198.0** | **$ 162.0** |

(1) Accounts receivable are net of valuation allowances and allowances for doubtful accounts totaling $13.7 million at March 31, 2012 and December 31, 2011.

(2) The loan period ends in the third quarter of 2012 under the agreement with the investment grade-rated utility customer.

(3) Billings for contract services related to the U.S. Department of Energy ("DOE") are generally invoiced based on provisional billing rates approved by DOE. Unbilled revenue represents the difference between actual costs incurred, prior to incurred cost audit and notice by DOE authorizing final billing, and provisional billing rate invoiced amounts. USEC expects to invoice and collect the unbilled amounts as billing rates are revised, submitted to and approved by DOE. USEC has also invoiced certain amounts and subsequently submitted certified claims under the Contract Disputes Act for breach-of-contract amounts equaling unreimbursed costs. USEC believes DOE has breached its agreement by failing to establish appropriate provisional billing and final indirect cost rates on a timely basis.

**3. INVENTORIES**

USEC is a supplier of low enriched uranium ("LEU") for nuclear power plants. LEU consists of two components: separative work units ("SWU") and uranium. SWU is a standard unit of measurement that represents the effort required to transform a given amount of natural uranium into two components: enriched uranium having a higher percentage of $U_{235}$ and depleted uranium having a lower percentage of $U_{235}$. The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment. The amount of enrichment deemed to be contained in LEU under this formula is commonly referred to as its SWU component and the quantity of natural uranium used in the production of LEU under this formula is referred to as its uranium component.

USEC holds uranium, principally at the Paducah gaseous diffusion plant ("GDP"), in the form of natural uranium and as the uranium component of LEU. USEC holds SWU as the SWU component of LEU. USEC may also hold title to the uranium and SWU components of LEU at fabricators to meet book transfer requests by customers. Fabricators process LEU into fuel for use in nuclear reactors.

Components of inventories follow (in millions):

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Current assets: | | |
| Separative work units | $ 956.5 | $ 1,048.6 |
| Uranium | 973.4 | 690.0 |
| Materials and supplies | 11.5 | 13.4 |
| | 1,941.4 | 1,752.0 |
| Current liabilities: | | |
| Inventories owed to customers and suppliers | (1,407.3) | (870.1) |
| Inventories, net | **$ 534.1** | **$ 881.9** |

The decrease in net inventories in the three months ended March 31, 2012, reflects the high volume of SWU sales during the quarter, including orders that USEC and customers have advanced from later in 2012 and from 2013. As a result of the USEC and DOE agreement entered into on March 13, 2012, DOE acquired from USEC U.S. origin LEU in exchange for the transfer of quantities of USEC's depleted uranium ("tails") to DOE. This also had the effect of reducing inventory levels. In addition and consistent with normal delivery schedules, Russian SWU purchases under the Russian Contract are delayed until after the winter months.

*Inventories Owed to Customers and Suppliers*

Inventories owed to customers and suppliers relate primarily to SWU and uranium inventories owed to fabricators. Fabricators process LEU into fuel for use in nuclear reactors. Under inventory optimization arrangements between USEC and domestic fabricators, fabricators order bulk quantities of LEU from USEC based on scheduled or anticipated orders from utility customers for deliveries in future periods. As delivery obligations under actual customer orders arise, USEC satisfies these obligations by arranging for the transfer to the customer of title to the specified quantity of LEU at the fabricator. USEC's balances of SWU and uranium vary over time based on the timing and size of the fabricator's LEU orders from USEC. Balances can be positive or negative at the discretion of the fabricator. Fabricators have other inventory supplies and, where a fabricator has elected to order less material from USEC than USEC is required to deliver to its customers at the fabricator, the fabricator will use these other inventories to satisfy USEC's customer order obligations on USEC's behalf. In such cases, the transfer of title of LEU from USEC to the customer results in quantities of SWU and uranium owed by USEC to the fabricator. The amounts of SWU and uranium owed to fabricators are satisfied as future bulk deliveries of LEU are made.

The advancement of orders described above may increase SWU and uranium inventories owed to fabricators to the extent that fabricators do not accelerate their bulk delivery orders from USEC to a corresponding degree, thereby using their other inventories to satisfy USEC's customer order obligations until future bulk deliveries of LEU from USEC to the fabricators are made.

*Uranium Provided by Customers and Suppliers*

USEC held uranium with estimated values of approximately $2.2 billion at March 31, 2012, and $2.9 billion at December 31, 2011, to which title was held by customers and suppliers and for which no assets or liabilities were recorded on the balance sheet. The reduction reflects a 23% decline in quantities and a 4% decline in the uranium spot price indicator. Utility customers provide uranium to USEC as part of their enrichment contracts. Title to uranium provided by customers generally remains with the customer until delivery of LEU at which time title to LEU is transferred to the customer, and title to uranium is transferred to USEC.

**4. PROPERTY, PLANT AND EQUIPMENT**

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

| | December 31, 2011 | Capital Expenditures (Depreciation) | Transfers and Retirements | March 31, 2012 |
|---|---|---|---|---|
| Construction work in progress | $ 1,111.2 | $ 1.0 | $ (2.0) | $ 1,110.2 |
| Leasehold improvements | 182.9 | - | 0.6 | 183.5 |
| Machinery and equipment | 251.2 | 0.7 | 1.3 | 253.2 |
| | 1,545.3 | 1.7 | (0.1) | 1,546.9 |
| Accumulated depreciation and amortization | (358.2) | (6.9) | 0.1 | (365.0) |
| | **$ 1,187.1** | **$ (5.2)** | **$ -** | **$ 1,181.9** |

Capital expenditures include items in accounts payable and accrued liabilities at March 31, 2012 for which cash is paid in subsequent periods.

USEC is working to deploy the American Centrifuge technology at the American Centrifuge Plant ("ACP") in Piketon, Ohio. Capital expenditures related to the ACP, which are primarily included in the construction work in progress balance, totaled $1.1 billion at March 31, 2012 and December 31, 2011. Capitalized asset retirement obligations included in construction work in progress totaled $19.3 million at March 31, 2012 and December 31, 2011.

Beginning in the fourth quarter of 2011, USEC has been spending on the ACP at reduced levels that relate primarily to development and maintenance activities rather than capital asset creation. Additional details are provided in Note 12 under "American Centrifuge Plant – Project Funding." Beginning with the fourth quarter of 2011, all project costs incurred have been expensed, including interest expense that previously would have been capitalized. Capitalization of expenditures related to the ACP has ceased until commercial plant deployment resumes.

USEC believes that future cash flows from the ACP will exceed its capital investment. Since USEC believes its capital investment is fully recoverable, no impairment of the balance of capitalized costs is anticipated at this time. USEC will continue to evaluate this assessment as conditions change, including as a result of activities conducted as part of the research, development and demonstration ("RD&D") program.

**5. DEFERRED REVENUE AND ADVANCES FROM CUSTOMERS**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (millions) | |
| Deferred revenue | $ 146.8 | $ 181.5 |
| Advances from customers | 22.3 | 23.7 |
| | **$ 169.1** | **$ 205.2** |
| | | |
| Deferred costs associated with deferred revenue | **$ 139.7** | **$ 175.5** |

Advances from customers included $21.2 million as of March 31, 2012 and $22.3 million as of December 31, 2011 for services to be provided to DOE or to be applied to existing receivables balances due from DOE in USEC's contract services segment. DOE funded this work through an arrangement whereby DOE transferred uranium to USEC which USEC immediately sold in the market.

**6. DEBT**

*Credit Facility*

On March 13, 2012, USEC amended and restated its existing $310.0 million credit facility, scheduled to mature on May 31, 2012, to a $235.0 million credit facility that matures on May 31, 2013. The amended and restated credit facility includes a revolving credit facility of $150.0 million (including up to $75.0 million in letters of credit) and a term loan of $85.0 million. Under the amended and restated credit facility, commencing December 3, 2012, the aggregate revolving commitments and term loan principal will be reduced by $5.0 million per month through the expiration of the credit facility.

Utilization of the current credit facility at March 31, 2012 and the former credit facility at December 31, 2011 follows:

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (millions) | |
| Borrowings under the revolving credit facility | $ - | $ - |
| Term loan due May 31, 2013 | 85.0 | - |
| Term loan due May 31, 2012 | - | 85.0 |
| Letters of credit | 19.7 | 19.6 |
| Available credit | 75.6 | 205.4 |

As with the former facility, the credit facility is secured by assets of USEC Inc. and its subsidiaries, excluding equity in, and assets of, subsidiaries created to carry out future commercial American Centrifuge activities. Borrowings under the credit facility are subject to limitations based on established percentages of eligible accounts receivable and USEC-owned inventory pledged as collateral to the lenders. Available credit reflects the levels of qualifying assets at the end of the previous month less any borrowings or letters of credit. The interest rate on the term loan as of March 31, 2012 was 10.5%.

The amended and restated credit facility includes various operating and financial covenants that restricts USEC's ability and the ability of its subsidiaries, to, among other things, incur or prepay other indebtedness, grant liens, sell assets, make investments and acquisitions, consummate certain mergers and other fundamental changes, make certain capital expenditures and declare or pay dividends or other distributions. A number of these covenants are more restrictive than the corresponding covenants under the former facility. Under the terms of the amended and restated credit facility, USEC is subject to significant restrictions on its ability to spend on the American Centrifuge project. During March, April and May 2012, the credit facility restricts USEC's spending on the American Centrifuge project to $15 million per month. Unless USEC enters into an agreement with DOE for the research, development and demonstration ("RD&D") program, the credit facility restricts USEC's spending on the American Centrifuge project beyond May 2012 to $1 million per month (except for spending needed to carry out a project demobilization or to maintain compliance with legal and regulatory requirements under certain circumstances).

*Convertible Senior Notes due 2014*

Convertible senior notes amounted to $530.0 million as of March 31, 2012 and December 31, 2011. The convertible senior notes are due October 1, 2014. Interest of 3.0% is payable semi-annually in arrears on April 1 and October 1 of each year. The notes were not eligible for conversion to common stock as of March 31, 2012 or December 31, 2011.

**7. FAIR VALUE MEASUREMENTS**

Pursuant to the accounting guidance for fair value measurements, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, consideration is given to the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

*Fair Value Hierarchy*

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 – unobservable inputs in which little or no market data exists.

*Financial Instruments Recorded at Fair Value*

**Fair Value Measurements**
**(in millions)**

| | March 31, 2012 | | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | | | | |
| Cash equivalents (a) | - | $ 72.0 | - | $72.0 | - | $ 37.4 | - | $37.4 |
| Deferred compensation asset (b) | - | 2.7 | - | 2.7 | - | 2.3 | - | 2.3 |
| **Liabilities:** | | | | | | | | |
| Deferred compensation obligation (b) | - | 2.9 | - | 2.9 | - | 2.6 | - | 2.6 |

(a) Cash equivalents consist of funds invested in institutional money market funds. These investments are classified within Level 2 of the valuation hierarchy because unit prices of institutional funds are not quoted in active markets.

(b) The deferred compensation obligation represents the balance of deferred compensation plus net investment earnings. The deferred compensation plan is informally funded through a rabbi trust using variable universal life insurance. The cash surrender value of the life insurance policies is designed to track the deemed investments of the plan participants. Investment crediting options consist of institutional and retail investment funds. The deemed investments are classified within Level 2 of the valuation hierarchy because (i) of the indirect method of investing and (ii) unit prices of institutional funds are not quoted in active markets.

*Other Financial Instruments*

As of March 31, 2012 and December 31, 2011, the balance sheet carrying amounts for accounts receivable and accounts payable and accrued liabilities (excluding the deferred compensation obligation described above), and payables under the commercial agreement (the “Russian Contract”) with a Russian government entity known as Techsnabexport (“TENEX”) approximate fair value because of the short-term nature of the instruments.

The balance sheet carrying amounts and estimated fair values of USEC’s debt follow (in millions):

| | March 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Credit facility term loan due May 31, 2013 | $ 85.0 | $ 86.2 | - | - |
| Credit facility term loan due May 31, 2012 | - | - | $ 85.0 | $ 72.8 |
| Convertible preferred stock | 91.5 | 91.5 | 88.6 | 88.6 |
| 3.0% convertible senior notes, due October 1, 2014 | 530.0 | 265.0 | 530.0 | 246.1 |

The estimated fair values of the term loans are based on the change in market value of an index of loans of similar credit quality based on published credit ratings, and are classified as using Level 2 inputs in the fair value measurement.

The convertible preferred stock can be converted or sold at the holder’s option and is classified as a current liability at the redemption value. The estimated fair value of the convertible preferred stock is based on a market approach using a discount rate of 12.75%, which is unobservable (Level 3) since the instruments do not trade. Dividends on the convertible preferred stock are paid (or accrued and are added to the liquidation preference of the convertible preferred stock) as additional shares of convertible preferred stock on a quarterly basis at an annual rate of 12.75%, which is consistent with current market prices and other market benchmarks. The estimated fair value equals the redemption value of $1,000 per share. If a share issuance limitation were to exist at the time of share conversion or sale, any preferred stock shares subject to the share issuance limitation would be subject to optional or mandatory redemption for, at USEC's option, cash or SWU consideration. However, USEC’s ability to redeem may be limited by Delaware law, and if not limited may result in mandatory prepayment of USEC’s credit facility.

The estimated fair value of the convertible notes is based on the trading price as of the balance sheet date, and is classified as using Level 1 inputs in the fair value measurement.

**8. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS**

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

| | Defined Benefit Pension Plans | | Postretirement Health and Life Benefit Plans | |
|---|---|---|---|---|
| | Three Months Ended March 31, | | Three Months Ended March 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Service costs | $ 3.6 | $ 4.8 | $ 0.9 | $ 1.3 |
| Interest costs | 12.1 | 12.6 | 2.8 | 3.0 |
| Expected returns on plan assets (gains) | (13.0) | (13.4) | (0.7) | (0.9) |
| Amortization of prior service costs (credit) | 0.4 | 0.4 | - | - |
| Amortization of actuarial losses | 4.9 | 2.5 | 1.1 | 0.7 |
| Curtailment loss | - | 3.2 | - | - |
| Net benefit costs | **$ 8.0** | **$ 10.1** | **$ 4.1** | **$ 4.1** |

USEC expects to fund the defined benefit pension plans in 2012 with the required contribution under the Employee Retirement Income Security Act ("ERISA") of $36.1 million, and $0.7 million was contributed in the three months ended March 31, 2012. There is no required contribution for the postretirement health and life benefit plans under ERISA and USEC does not expect to make a contribution in 2012. Certain contributions to the plans are recoverable under USEC's contracts with DOE. USEC receives federal subsidy payments for sponsoring prescription drug benefits that are at least actuarially equivalent to Medicare Part D.

**9. STOCK-BASED COMPENSATION**

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| | (millions) | |
| Total stock-based compensation costs: | | |
| Restricted stock and restricted stock units | $ 1.2 | $ 2.3 |
| Stock options, performance awards and other | 0.3 | 0.5 |
| Less: costs capitalized as part of inventory | - | (0.3) |
| Expense included in selling, general and administrative and advanced technology costs | **$ 1.5** | **$ 2.5** |
| Total recognized tax benefit | **$ -** | **$ 0.9** |

The total recognized tax benefit is reported at the federal statutory rate net of the tax valuation allowance in 2012.

There were no restricted stock or restricted stock units granted in the three months ended March 31, 2012. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized over the requisite service period, which is either immediate recognition if the employee is eligible to retire, or on a straight-line basis until the earlier of either the date of retirement eligibility or the end of the vesting period.

There were no stock options granted or exercised in the three months ended March 31, 2012 or 2011.

As of March 31, 2012, there was $4.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted, of which $3.6 million relates to restricted shares and restricted stock units, and $0.5 million relates to stock options. That cost is expected to be recognized over a weighted-average period of 1.4 years.

On February 15, 2012, USEC's Board of Directors voted to discontinue USEC's employee stock purchase plan effective immediately. Given the recent volatility of USEC stock and the holding requirement for all shares purchased through the plan, the Board determined that it was prudent to discontinue the Program and refund all amounts credited to participants' accounts to date for the offering period January 1, 2012 through June 30, 2012.

**10. NET INCOME PER SHARE**

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period, excluding any unvested restricted stock. In calculating diluted net income per share, the numerator is increased by interest expense on the convertible notes, net of amount capitalized and net of tax, and the denominator is increased by the weighted average number of shares resulting from potentially dilutive securities, assuming full conversion, consisting of stock compensation awards, convertible notes, convertible preferred stock and warrants. No dilutive effect is recognized in a period in which a net loss has occurred.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| | (millions) | |
| Numerator: | | |
| Net income (loss) | $ (28.8) | $ (16.6) |
| Net interest expense on convertible notes and convertible preferred stock dividends (a) | (b) | (b) |
| Net income (loss) if-converted | **$ (28.8)** | **$ (16.6)** |
| Denominator: | | |
| Weighted average common shares | 123.1 | 121.4 |
| Less: Weighted average unvested restricted stock | 0.8 | 1.8 |
| Denominator for basic calculation | **122.3** | **119.6** |
| Weighted average effect of dilutive securities: | | |
| Stock compensation awards | - | 6.2 |
| Convertible notes | 44.3 | 44.9 |
| Convertible preferred stock: | | |
| Equivalent common shares (c) | 75.6 | 13.6 |
| Less: share issuance limitation (d) | 52.8 | - |
| Net allowable common shares | 22.8 | 13.6 |
| Subtotal | 67.1 | 64.7 |
| Less: shares excluded in a period of a net loss | 67.1 | 64.7 |
| Weighted average effect of dilutive securities | - | - |
| Denominator for diluted calculation | **122.3** | **119.6** |
| Net income (loss) per share – basic | **$ (.24)** | **$ (.14)** |
| Net income (loss) per share – diluted | **$ (.24)** | **$ (.14)** |

(a) Interest expense on convertible notes and convertible preferred stock dividends net of amount capitalized and net of tax. The total recognized tax benefit is reported at the federal statutory rate net of the tax valuation allowance in 2012. See note (b) below.

(b) No dilutive effect is recognized in a period in which a net loss has occurred. Net interest expense on convertible notes and convertible preferred stock dividends was $7.3 million in the three months ended March 31, 2012. There was no net interest expense in the three months ended March 31, 2011.

(c) The number of equivalent common shares for the convertible preferred stock is based on the arithmetic average of the daily volume weighted average prices per share of common stock for each of the last 20 trading days, and is determined as of the beginning of the period for purposes of calculating diluted earnings per share.

(d) Prior to obtaining shareholder approval, the preferred stock may not be converted into an aggregate number of shares of common stock in excess of 19.99% of the shares of our common stock outstanding on May 25, 2010 (approximately 22.8 million shares), in compliance with the rules of the New York Stock Exchange. If a share issuance limitation were to exist at the time of share conversion or sale, any preferred stock shares subject to the share issuance limitation would be subject to optional or mandatory redemption for, at USEC's option, cash or SWU consideration. However, USEC’s ability to redeem may be limited by Delaware law, and if not limited may result in mandatory prepayment of USEC’s credit facility.

Options and warrants to purchase shares of common stock having an exercise price greater than the average share market price are excluded from the calculation of diluted earnings per share (options and warrants in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Options excluded from diluted earnings per share | 2.9 | 1.5 |
| Warrants excluded from diluted earnings per share | 6.3 | 6.3 |
| Exercise price of excluded options | $3.72 to $14.28 | $5.52 to $14.28 |
| Exercise price of excluded warrants | $7.50 | $7.50 |

**11. WORKFORCE REDUCTIONS AND ADVISORY COSTS**

USEC's business is in a state of significant transition. In early 2012, USEC initiated an internal review of its organizational structure and engaged a management consulting firm to support this review. Costs for the management consulting firm and other advisors totaled $4.5 million in the three months ended March 31, 2012.

Initial actions taken related to USEC's organizational structure resulted in workforce reductions at the American Centrifuge design and engineering operations in Oak Ridge, Tennessee, and at the headquarters operations located in Bethesda, Maryland. The reductions involved 25 employees including two senior corporate officers. A charge of $1.9 million was incurred in the first quarter of 2012 for one-time termination benefits consisting of severance payments and short-term health care coverage. Related cash expenditures of $0.7 million were incurred in the first quarter of 2012 and most of the remainder is expected to be incurred in the second quarter of 2012.

In April 2012, 21 positions were eliminated at headquarters in Bethesda and the central services operations located in Piketon, Ohio. A charge of $1.1 million for one-time termination benefits and the related cash expenditures are expected in the second quarter of 2012. Additional actions affecting employees to align the organization with our evolving business environment are expected.

**12. COMMITMENTS AND CONTINGENCIES**

**American Centrifuge Plant**

*Project Funding*

USEC needs significant additional financing in order to complete the American Centrifuge Plant ("ACP"). USEC believes a loan guarantee under the DOE Loan Guarantee Program, which was established by the Energy Policy Act of 2005, is essential to obtaining the funding needed to complete the ACP. In July 2008, USEC applied under the DOE Loan Guarantee Program for $2 billion in U.S. government guaranteed debt financing for the ACP. Instead of moving forward with a conditional commitment for a loan guarantee, in the fall of 2011, DOE proposed a two-year cost share research, development and demonstration ("RD&D") program for the project to enhance the technical and financial readiness of the centrifuge technology for commercialization. Under the cost-sharing arrangement, DOE's total contribution would be capped at $300 million. DOE indicated that USEC's application for a DOE loan guarantee would remain pending during the RD&D program. In the first quarter of 2012, USEC's American Centrifuge project efforts focused on the planning and implementation of the RD&D program and efforts that are currently underway in Piketon, Ohio and Oak Ridge, Tennessee are based upon the proposed program scope. USEC is currently building machines and parts that would be part of the complete demonstration cascade that would be built and operated as part of the RD&D program. In parallel, USEC has been working with DOE and Congress to secure funding for the RD&D program. However, DOE's share of funding for the program has not yet been provided and the source for such funding is uncertain. Due to constraints on USEC's ability to continue to spend on the project, on March 13, 2012, USEC and DOE entered into an agreement that enables USEC to provide interim funding of $44 million. This funding was provided by DOE acquiring from USEC U.S. origin LEU in exchange for the transfer of quantities of USEC's depleted uranium ("tails") to DOE. This enables USEC to release encumbered funds of approximately $44 million that were previously provided as financial assurance for the disposition of such depleted uranium. In consideration for accepting title to USEC's tails, USEC transferred to DOE title to LEU containing SWU of equal value. This LEU acquired by DOE could be returned to USEC as part of DOE's cost share under the RD&D program if government funding is provided for the RD&D program in government fiscal year 2012.

USEC expects to continue funding project activities that support the RD&D program through May 31, 2012 as it continues to work with DOE and Congress on securing the government cost-share for the RD&D program. Due to restrictions in USEC's credit facility, funding can only continue beyond May 31, 2012 if government funding for the RD&D program is secured. USEC continues to pursue both legislative and non-legislative paths to the federal cost share of the funding for the RD&D program for the balance of government fiscal year 2012. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations. USEC has no assurance that it will be able to reach agreement with DOE regarding the RD&D program or that any funding will be provided or that the LEU will be returned. USEC also has no assurance that it will ultimately be able to obtain a loan guarantee and the timing thereof. Any agreement for the RD&D program would likely require restructuring of the project and of USEC's investment. In light of USEC's inability to obtain a conditional commitment for a DOE loan guarantee to date, and given the significant uncertainty surrounding USEC's prospects for finalizing an agreement and obtaining funding from DOE for the RD&D program and the timing thereof, USEC continues to evaluate its options concerning the American Centrifuge project. If USEC is unable to secure funding for the RD&D program beyond May 31, 2012, USEC would expect to begin demobilizing the project.

If conditions change and deployment becomes no longer probable or becomes delayed significantly from USEC's current expectations, USEC could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.1 billion as early as the second quarter of 2012. Events that could impact USEC's views as to the probability of deployment or USEC's projections include a failure to successfully enter into an agreement with DOE for the RD&D program by May 31, 2012, or an unfavorable determination in any phase of the RD&D program regarding the restructuring of the project.

*Milestones under the 2002 DOE-USEC Agreement*

In 2002, USEC and DOE signed an agreement (such agreement, as amended, the "2002 DOE-USEC Agreement") in which USEC and DOE made long-term commitments directed at resolving issues related to the stability and security of the domestic uranium enrichment industry. The 2002 DOE-USEC Agreement contains specific project milestones relating to the ACP. Four milestones remain relating to the financing and operation of the ACP, including a November 2011 financing milestone that required that USEC secure firm financing commitment(s) for the construction of the commercial American Centrifuge Plant with an annual capacity of approximately 3.5 million SWU per year. Following the completion of the November 2011 financing milestone, USEC was to have submitted a revised deployment plan to DOE by January 30, 2012 as the basis for discussion of adjustment of the remaining three milestones. Due to DOE's deferral of a decision on the loan guarantee until after completion of the RD&D program, USEC did not meet the November 2011 financing milestone or submit a revised deployment plan to DOE. In connection with discussions regarding the RD&D program described above, USEC has engaged in discussions with DOE regarding modification of the remaining milestones and other provisions of the 2002 DOE-USEC Agreement. DOE has acknowledged that since DOE and USEC are working in good faith toward the RD&D program and the adjustment of the milestones in the 2002 DOE-USEC Agreement is currently a part of the proposed terms of the RD&D program, it does not see the need at the present time for USEC to present its position on the missed November 2011 milestone to DOE or to provide a revised deployment plan by the specified time. However, USEC has no assurances that the RD&D program will move forward and/or that DOE will agree to an adjustment of the milestones or other provisions of the 2002 DOE-USEC Agreement.

The 2002 DOE-USEC Agreement provides DOE with specific remedies if USEC fails to meet a milestone that would materially impact USEC's ability to begin commercial operations of the American Centrifuge Plant on schedule and such delay was within USEC's control or was due to USEC's fault or negligence. These remedies could include terminating the 2002 DOE-USEC Agreement, revoking USEC's access to DOE's U.S. centrifuge technology that USEC requires for the success of the American Centrifuge project and requiring USEC to transfer certain of its rights in the American Centrifuge technology and facilities to DOE, and to reimburse DOE for certain costs associated with the American Centrifuge project. DOE could also recommend that USEC be removed as the sole U.S. Executive Agent under the nonproliferation program between the United States and the Russian Federation known as "Megatons to Megawatts, " which could affect USEC's access to Russian LEU under the Megatons to Megawatts program in 2013. Any of these remedies under the 2002 DOE-USEC Agreement could have a material adverse impact on USEC's business.

The 2002 DOE-USEC Agreement provides that if a delaying event beyond the control and without the fault or negligence of USEC occurs which would affect USEC's ability to meet an ACP milestone, DOE and USEC will jointly meet to discuss in good faith possible adjustments to the milestones as appropriate to accommodate the delaying event.

USEC's right to continue operating the Paducah GDP under its lease with DOE is not subject to meeting the ACP milestones. In addition, the new 10-year commercial supply agreement entered into on March 23, 2011 with TENEX is not subject to any of the remedies related to the ACP under the 2002 DOE-USEC Agreement.

**Legal Matters**

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

On June 27, 2011, a complaint was filed in the United States District Court for the Southern District of Ohio, Eastern Division, against USEC by a former Portsmouth GDP employee claiming that USEC owes severance benefits to him and other similarly situated employees that have transitioned or will transition to the DOE decontamination and decommissioning ("D&D") contractor. The plaintiff amended its complaint on August 31, 2011 and February 10, 2012, among other things, to limit the purported class of similarly situated employees to salaried employees at the Portsmouth site who transitioned to the D&D contractor and are allegedly eligible for or owed benefits. USEC believes it has meritorious defenses against the suit and has not accrued any amounts for this matter. An estimate of the possible loss or range of loss from the litigation is difficult to make because, among other things, (i) the plaintiff has failed to state the amount of damages sought, (ii) the plaintiff purports to represent a class of claimants the size and composition of which remains unknown and (iii) the certification of the class is uncertain. However, USEC estimates that the total severance liability for the approximately 400 salaried employees at the Portsmouth site that transitioned to the DOE D&D contractor would have been approximately $14 million if severance was required to be paid to all of these employees. In such an event, DOE would have owed a portion of this amount, estimated at approximately $9 million, assuming DOE was responsible for periods both during which it operated the facility and under which USEC was a direct contractor to DOE.

**13. SEGMENT INFORMATION**

USEC has two reportable segments: the LEU segment with two components, SWU and uranium, and the contract services segment. The LEU segment is USEC's primary business focus and includes sales of the SWU component of LEU, sales of both the SWU and uranium components of LEU, and sales of uranium. The contract services segment includes nuclear energy services and technologies provided by NAC International Inc. as well as work performed for DOE and DOE contractors at the Portsmouth site and the Paducah GDP. Gross profit is USEC's measure for segment reporting. Intersegment sales were less than $0.1 million in each period presented below and have been eliminated in consolidation.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| | **(millions)** | |
| **Revenue** | | |
| LEU segment: | | |
| Separative work units | $ 537.9 | $ 308.5 |
| Uranium | - | 14.0 |
| | 537.9 | 322.5 |
| Contract services segment | 23.6 | 58.0 |
| | **$ 561.5** | **$ 380.5** |
| | | |
| **Segment Gross Profit** | | |
| LEU segment | $ 36.7 | $ 15.3 |
| Contract services segment | 2.1 | (1.4) |
| Gross profit | 38.8 | 13.9 |
| Advanced technology costs | 36.8 | 26.7 |
| Selling, general and administrative | 14.9 | 15.5 |
| Special charge for workforce reductions and advisory costs | 6.4 | - |
| Other (income) | - | (3.7) |
| Operating (loss) | (19.3) | (24.6) |
| Interest expense (income), net | 12.6 | (0.2) |
| (Loss) before income taxes | **$ (31.9)** | **$ (24.4)** |

**Item 2.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated condensed financial statements and related notes set forth in Part I, Item 1 of this report as well as the risks and uncertainties presented in Part II, Item 1A of this report and Part I, Item IA of the annual report on Form 10-K for the year ended December 31, 2011.*

**Overview**

USEC, a global energy company, is a leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. We:

- supply LEU to both domestic and international utilities for use in about 150 nuclear reactors worldwide;
- enrich uranium at the Paducah gaseous diffusion plant ("GDP") that we lease from the U.S. Department of Energy ("DOE");
- are the exclusive executive agent for the U.S. government under a nuclear nonproliferation program with Russia, known as Megatons to Megawatts;
- are working to deploy what we believe is the world's most advanced uranium enrichment technology, known as the American Centrifuge;
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services; and
- perform limited contract work for DOE and its contractors at the Paducah and Portsmouth sites.

LEU consists of two components: separative work units ("SWU") and uranium. SWU is a standard unit of measurement that represents the effort required to transform a given amount of natural uranium into two components: enriched uranium having a higher percentage of $U_{235}$ and depleted uranium having a lower percentage of $U_{235}$. The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment. The amount of enrichment deemed to be contained in LEU under this formula is commonly referred to as its SWU component and the quantity of natural uranium used in the production of LEU under this formula is referred to as its uranium component.

We produce or acquire LEU from two principal sources. We produce about half of our supply of LEU at the Paducah GDP in Paducah, Kentucky, and we acquire the other portion under a contract with Russia (the "Russian Contract") under the Megatons to Megawatts program. Under the Russian Contract, we purchase the SWU component of LEU derived from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants.

**Our View of the Business Today**

The aftermath of the March 2011 earthquake and tsunami in Japan that irreparably damaged four nuclear reactors at Fukushima continues to affect our business a year later. Although long-term forecasts continue to suggest growth in uranium enrichment demand, the impact of Fukushima has resulted in excess supply. In the first quarter of 2012, more than 50 reactors were off-line in Japan and Germany. The shutdown of these reactors has affected supply and demand for LEU, and this impact could grow more significant over time depending on the length and severity of delays or cancellations of deliveries. Based on current market conditions, we do not see any significant uncommitted commercial demand for LEU for the next two to four years. These conditions make the continuation of enrichment operations at the Paducah GDP challenging. In response, we are in discussions with DOE and others regarding a multi-party arrangement that if finalized will benefit taxpayers, U.S. national security interests and electricity ratepayers in the Northwest, and will extend Paducah plant operations by one year. We hope to finalize these arrangements in the near term. However, we have no assurance that we will reach an agreement and if we are not successful we expect to be ramping down enrichment operations at Paducah in May. Additional details are provided below under "Paducah Gaseous Diffusion Plant Transition."

We continue to believe that nuclear power is an essential component of the world's electricity generation mix. There is a global fleet of approximately 430 nuclear reactors that provide about 14% of the world's electricity. The United States has the largest number of reactors with 104 operating units that provide approximately 20% of the nation's electricity. The World Nuclear Association reports that more than 60 reactors are currently under construction and another 500 are ordered, planned or proposed to be in operation by 2030. In China alone, two dozen new units are being built and another 50 reactors are in the planning stage.

We have been working to deploy a highly efficient centrifuge plant in Piketon, Ohio to meet the global need for nuclear fuel, provide a path to long-term profitability for our shareholders and assure that the United States has a domestically owned and operated source of uranium enrichment. We are working with DOE on its proposed research, development and demonstration ("RD&D") program for our American Centrifuge technology. We have been funding the RD&D program since January but federal financing must be in place by May 31, 2012 or the covenants of our revolving credit facility will further limit our spending on the ACP and we would expect to demobilize the project.

*Aftermath of Japanese Earthquake and Tsunami*

The Fukushima Daiichi plant's six reactors are shut down and at least four of the six are not expected to reopen. Approximately 50 reactors in Japan were not damaged by the earthquake but were shut down including for periodic maintenance and refueling. They have remained off line as part of extended governmental inspections and local government reviews. As of March 31, 2012, only one of Japan's nuclear reactors was in service. These prolonged outages have resulted in excess SWU supply in the market. Japan has significantly increased its purchases of fossil fuels, primarily oil and liquefied natural gas, to offset a portion of its unavailable nuclear power capacity, but concerns about a severe power shortage during the summer remain. In April, the Japanese government approved initial steps to restart the first two idled reactors.

Following the events at Fukushima, Germany shut down eight of its reactors and announced that it will be phasing out all 17 nuclear reactors by 2022. Although we do not serve any of the German reactors, our European competitors that serve the German reactors now have excess nuclear fuel available to sell, further adding to the excess supply in the market. The events at Fukushima and its aftermath have negatively affected the balance of supply and demand of LEU for the next two to four years, as reflected in lower uranium and nuclear fuel prices in recent months.

We see continued growth in the number of nuclear power reactors internationally, but that growth may be at a slower pace than previously anticipated or may be concentrated more in emerging markets that may be more difficult for us to enter. According to the World Nuclear Association, six new reactors went on line in 2011 and more than 60 reactors are currently under construction, including 14 that are expected to be operational in 2012. Completing 60 new reactors would add about 6 million SWU of annual demand, or a 12% increase to the current annual demand for enrichment.

*Paducah Gaseous Diffusion Plant Transition*

We have recently been in discussions regarding a potential one-year extension of Paducah enrichment operations through a multi-party arrangement involving the participation of Energy Northwest, a West Coast power supplier, the Bonneville Power Administration ("BPA"), a federal agency within the DOE, the Tennessee Valley Authority ("TVA"), a federally owned corporation and supplier of power to the Paducah plant, and the DOE. The proposed arrangement would involve the enrichment of depleted uranium tails currently owned by DOE to produce U.S. origin LEU. As part of this arrangement, we would enter into an amendment to our existing power contract with TVA to purchase the power needed to operate the Paducah plant through the term of this arrangement. We hope to finalize the agreements among the parties in the near term. However, we have no assurance that we will reach an agreement and if we are not successful we expect to be ramping down enrichment operations at Paducah in May. A decision to cease enrichment operations at the Paducah GDP could have a material adverse effect on our business and prospects. For a discussion of the potential implications of a decision to shut down Paducah enrichment operations and the risks of continued Paducah operations, see Item 1A, "Risk Factors" of this report and our 2011 Annual Report on Form 10-K.

Even if we are successful in a one-year extension of Paducah enrichment operations as described above, we have no assurance that we will continue enrichment operations at the Paducah GDP beyond the one-year term of this arrangement. Even if market demand improves in the next year, market demand and plant economics may not support continued enrichment operations at the Paducah GDP. Although the plant continues to operate at a very high level of efficiency, the technology uses significant amounts of electric power and is not cost-competitive with gas centrifuge plants operated by our competitors. During 2012, we would expect to engage in continuing discussions with DOE regarding the future of the Paducah GDP and the transition of Paducah operations. Under our lease, DOE has the obligation for decontamination and decommissioning of the Paducah plant. If enrichment operations cannot be extended, we will be working with DOE to achieve an orderly termination of enrichment operations and phased de-lease of the facilities to minimize transition costs. However, we may not be successful in managing these costs. We have already made some regulatory submittals to the NRC to support the de-lease of a portion of the Paducah GDP and return of facilities to DOE and expect to be taking additional actions throughout 2012 as our planning continues.

*Russian Supply Transition*

Our purchases under the 20-year Megatons to Megawatts program are expected to be completed in 2013. After that time, the limited quotas imposed under terms of a treaty and law will increase so that Russia will be able to sell LEU directly into the United States equal to approximately 20% of the U.S. demand from 2014 through 2020, with additional quantities eligible to be imported for use in the initial fueling of new U.S. reactors.

Under the terms of our 2011 supply agreement with TENEX, we will purchase Russian LEU over a 10-year period commencing in 2013. Unlike the Megatons to Megawatts program, the quantities supplied under the 2011 supply agreement will come from Russia's commercial enrichment activities rather than from down blending of excess Russian weapons material. Under the terms of the supply agreement, the supply of LEU to USEC will increase until it reaches a level in 2015 that includes a quantity of SWU equal to approximately one-half the level currently supplied by TENEX to USEC under the Megatons to Megawatts program. Beginning in 2015, TENEX and USEC also may mutually agree to increase the purchases and sales of SWU by certain additional optional quantities of SWU up to an amount equal to the amount USEC now purchases each year under the Megatons to Megawatts program. The LEU that USEC obtains from TENEX under the 2011 supply agreement will be subject to quotas and other restrictions applicable to commercial Russian LEU that do not apply to LEU supplied to USEC under the Megatons to Megawatts program, which could adversely affect our ability to sell the commercial Russian LEU that we purchase under the new agreement. Deliveries under the supply agreement are expected to continue through 2022. USEC will purchase the SWU component of the LEU and deliver natural uranium to TENEX for the LEU's uranium component. The pricing terms for SWU under the supply agreement are based on a mix of market-related price points and other factors.

The 2011 supply agreement provides USEC continued access to an important part of its existing supply mix. As we continue to work towards building an American Centrifuge Plant ("ACP"), we continue to review structuring options and strategic alternatives to realize long-term shareholder value. In that context, USEC and TENEX have agreed to conduct a feasibility study to explore the possible deployment of an enrichment plant in the United States employing Russian centrifuge technology. Any decision to proceed with such a project would depend on the results of the feasibility study and would be subject to further agreement between the parties and their respective governments.

*American Centrifuge Plant Transition*

We continue to believe that the best path to maximizing long-term shareholder value is to maintain a viable path to the deployment of the ACP and that a DOE loan guarantee is critical to financing the ACP. We have sought funding for building the plant through the DOE Loan Guarantee Program since 2008 but have not yet successfully satisfied DOE's concerns regarding the financial and project execution depth of the American Centrifuge project. Instead of moving forward with a conditional commitment for a loan guarantee, in the fall of 2011, DOE proposed a two-year cost share research, development and demonstration ("RD&D") program for the project to enhance the technical and financial readiness of the centrifuge technology for commercialization. Under the cost-sharing arrangement, DOE's total contribution would be capped at $300 million. DOE indicated that our application for a DOE loan guarantee would remain pending during the RD&D program but has given us no assurance that a successful RD&D program will result in a loan guarantee.

Despite the lack of a conditional commitment for a loan guarantee, DOE's proposal to share the cost of the RD&D program reflects the importance the U.S. government places on having a source of domestic uranium enrichment. We began work on the RD&D program in early 2012 and expect to fund the RD&D program activities through May 31, 2012. We amended our credit facility in March 2012 and the new, smaller, $235 million credit facility includes terms that allow spending on the American Centrifuge project of up to $15 million per month through May 31, 2012 but significantly limit spending after May 31. Unless we enter into definitive agreements with DOE for federal funding of the RD&D program, our spending on the project will be generally limited to $1 million per month after May 31. This amount will not support continuation of the proposed RD&D program. We have been working with Congress and DOE on legislation to provide federal funding for the RD&D program in government fiscal year 2012, but we have not yet obtained federal funding for the program. The current political environment in Washington has significantly slowed the legislative process and obtaining legislation providing for 2012 funding prior to May 31, 2012 or at all is highly uncertain. We are also pursuing a non-legislative path to funding for 2012 with DOE. However, given the significant uncertainty surrounding our prospects for finalizing an agreement and obtaining funding from DOE for an RD&D program and the timing thereof, we are also in parallel preparing for a demobilization of the project. Our evaluation of these options is ongoing.

*Organizational Structure Review*

During 2011, the company reduced the number of total employees by approximately one-third as we concluded much of the contract services work being performed at the former Portsmouth gaseous diffusion plant and most of these employees transitioned to DOE’s decontamination and decommissioning contractor at the site. In early 2012, we initiated an internal review of our organizational structure and engaged a management consulting firm to support the review. We expect this review will result in actions to reduce significantly the size of our workforce over time. Initial actions taken in the first quarter resulted in workforce reductions at our American Centrifuge design and engineering operations in Oak Ridge, Tennessee, and at our headquarters operations located in Bethesda, Maryland. The reductions involved 25 employees including two senior corporate officers. In April 2012, 21 positions were eliminated at headquarters in Bethesda and the central services operations located in Piketon, Ohio. A charge of $1.1 million for one-time termination benefits and the related cash expenditures are expected in the second quarter of 2012. Additional actions affecting employees to align the organization with our evolving business environment are expected, which will result in additional charges.

*Summary*

2012 is expected to be a challenging year for USEC as we face significant competitive and cost pressures. We are evaluating our corporate organizational structure, and we have begun taking steps to reduce our costs and expect to be a smaller company going forward. We anticipate additional workforce reductions as we align our staff with the work to be accomplished going forward. We are working to reach a multi-party agreement in the near term that will allow us to economically operate the Paducah plant for one more year. We will maintain our positive reputation with customers for meeting their nuclear fuel requirements in-spec, delivered on time, every time. We have begun work on the RD&D program and hope to have government funding in place by the end of May to continue these activities and maintain a path to the deployment of the American Centrifuge project. However, this project and RD&D program funding remain subject to significant uncertainties, as described below under “The American Centrifuge Plant”.

**The American Centrifuge Plant**

We are working to deploy the American Centrifuge technology, a highly efficient uranium enrichment gas centrifuge technology. The American Centrifuge technology requires 95% less electricity to produce low enriched uranium on a per SWU unit basis than our existing gaseous diffusion technology. The deployment of this technology would significantly reduce both our production costs and our exposure to price volatility for electricity, the largest production cost component of our current gaseous diffusion technology. We are working to deploy this technology in the ACP in Piketon, Ohio. This new facility would modernize our production capacity and position us to be competitive in the long term.

As of March 31, 2012, we have invested approximately $2.2 billion in the American Centrifuge program, which includes $1.1 billion charged to expense over several years for technology development and demonstration. We began construction on the ACP in May 2007 after being issued a construction and operating license by the NRC. However, we significantly demobilized construction and machine manufacturing activities in 2009 due to delays in obtaining financing through DOE's loan guarantee program. We have operated centrifuges as part of our lead cascade test program for more than 100 machine years since August 2007. This experience gives us confidence in the performance of our technology, and provides operating data and expertise for future commercial deployment. The American Centrifuge technology is a disciplined evolution of classified U.S. centrifuge technology originally developed by DOE and successfully demonstrated during the 1980s.

We need significant additional financing in order to complete the ACP. We applied for a $2 billion loan guarantee under the DOE Loan Guarantee Program in July 2008. Instead of moving forward with a conditional commitment for a loan guarantee, in the fall of 2011, DOE proposed a two-year cost share RD&D program for the project to enhance the technical and financial readiness of the centrifuge technology for commercialization. Under the cost-sharing arrangement, DOE's total contribution would be capped at $300 million. DOE indicated that our application for a DOE loan guarantee would remain pending during the RD&D program but has given us no assurance that a successful RD&D program will result in a loan guarantee. Additional capital beyond the $2 billion of DOE loan guarantee funding that we have applied for and our internally generated cash flow will be required to complete the project. We have had discussions with Japanese export credit agencies regarding financing up to $1 billion of the cost of completing the ACP. However we have no assurances that we will be successful in obtaining this financing and that the delays we have experienced will not adversely affect these efforts.

*RD&D Program*

The RD&D program involves manufacturing and operating additional production-design machines so that key systems can be tested as they would operate at the scale necessary for full commercialization. The proposed RD&D program scope is to construct and operate at least one complete demonstration cascade of 120 commercial centrifuge machines. We are currently building additional machines and parts for the demonstration cascade. During the quarter we also continued engineering design and planning for the demonstration cascade and restructured our staff in Oak Ridge, Tennessee to support the RD&D program.

The RD&D program is expected to be a two-year program implemented through a cost-sharing arrangement whereby DOE would initially provide up to 80% of the costs of the program. DOE has proposed funding one half of its $300 million contribution in government fiscal year 2012, with the remainder in government fiscal year 2013. We have been working with DOE and Congress to secure DOE funding for the RD&D program. However, DOE's share of funding for the program has not yet been provided and the source for such funding is uncertain. The current political environment in Washington has slowed the legislative process.

On March 13, 2012, we entered into an agreement with DOE that enables us to provide interim funding of $44 million for the ACP. This funding was provided by DOE acquiring from us U.S. origin LEU in exchange for the transfer of quantities of our depleted uranium ("tails") to DOE. This enables us to release encumbered funds of approximately $44 million that were previously provided as financial assurance for the disposition of such depleted uranium. This LEU acquired by DOE could be returned to us as part of DOE's cost share under the RD&D program if government funding is provided for the RD&D program in government fiscal year 2012. This transaction, combined with our expected cash flows from operations and access to funds under our credit facility, have enabled us to continue to fund ACP program activities as we work to obtain government funding for the RD&D program.

However, our spending on the ACP project after May 31, 2012 is significantly restricted by our credit facility and so continuation of the RD&D program beyond the end of May 2012 will require additional funding. As described above, we are working with DOE and Congress to provide funding for government fiscal year 2012. Even if DOE funding were provided for the RD&D program for government fiscal year 2012, funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations. President Obama's fiscal year 2013 budget proposal includes $150 million for the RD&D program. On April 25, 2012, the House Appropriations Committee reported out legislation that would provide $100 million of funding for the RD&D program in government fiscal year 2013. On April 26, 2012, the Senate Appropriations Committee approved a bill that would provide DOE with authority to transfer up to $150 million in funds to the RD&D program in government fiscal year 2013. However, we have no assurance when the final fiscal year 2013 appropriations bill will be enacted or that it will include funding for the RD&D program. We have no assurance that we will be able to reach agreement with DOE regarding any phase of the RD&D program or that any funding will be provided or that the LEU will be returned. We also have no assurance that we will ultimately be able to obtain a loan guarantee and the timing thereof. Any agreement for the RD&D program would likely require restructuring of the project and of our investment. In light of the significant uncertainty surrounding our prospects for finalizing an agreement and obtaining funding from DOE for an RD&D program and the timing thereof, in parallel we are preparing for a demobilization of the project, as described below.

*Potential Project Demobilization*

In light of uncertainty regarding our prospects for funding for the RD&D program, planning is continuing regarding a potential demobilization of the project. The initial actions that could be taken as part of a demobilization include:

- shutdown of the operation of centrifuge machines in the lead cascade in Piketon, Ohio as well as machines operating in test facilities in Oak Ridge, Tennessee;
- preparation for decontamination and decommissioning of lead cascade and Oak Ridge operations;
- development of a transportation, consolidation and storage plan for classified material and information;
- layoffs of American Centrifuge employees not needed to carry out demobilization; and
- continued suspension of work by suppliers under their contracts and discussions with suppliers regarding demobilization planning.

If we demobilize the project, we may need to issue new notices under the Worker Adjustment and Retraining Notification ("WARN") Act. We currently estimate that we could incur total employee related severance costs of approximately $12 million for all American Centrifuge workers in the event of a full demobilization of the project. In addition, we currently estimate ongoing contractual commitments at March 31, 2012 of approximately $38 million. Depending on the length of the demobilization period, we would also incur costs related to the execution of the demobilization of up to approximately $56 million in addition to the severance costs, contractual commitments, contractual termination penalties and other related costs described above. These costs of demobilization do not reflect any offsets for salvage or other recovery value of American Centrifuge project assets.

*Project Spending*

During the first quarter of 2012, our spending on the American Centrifuge project has been approximately $12 million per month. This is a reduction from our average monthly rate of spending during most of 2011 of approximately $17 million per month. During October 2011, we suspended a number of contracts with suppliers and contractors involved in the American Centrifuge and adjusted our activities to reflect the anticipated RD&D program budget and scope.

Although we have been funding the RD&D program on our own, restrictions in our new credit facility will significantly limit our spending on the American Centrifuge project going forward. In particular, without an agreement for the RD&D program, our credit facility restricts our spending on the project beyond May 2012 to $1 million per month (except for spending needed to carry out a project demobilization). In addition, continued spending on the ACP remains subject to our available liquidity, funding under the RD&D program, our willingness to invest further in the project absent funding commitments to complete the project, our ability following the RD&D program to obtain a DOE loan guarantee and additional capital, and other risks related to the deployment of the ACP.

Beginning with the fourth quarter of 2011, all project costs incurred have been expensed, including interest expense that previously would have been capitalized. Our spending at the reduced levels relates primarily to development and maintenance activities rather than capital asset creation. We also expect to expense costs under the RD&D program as incurred. Capitalization of expenditures related to ACP has ceased until commercial plant deployment resumes.

*Lead Cascade Test Program*

The lead cascade test program in Piketon, Ohio began operations in August 2007 and has accumulated over 100 machine years of runtime. Through the lead cascade test program, we demonstrate the performance of centrifuge machines, demonstrate the reliability of machine components, obtain data on machine-to-machine interactions, verify cascade performance models under a variety of operating conditions, and obtain operating experience for our plant operators and technicians. Data from this testing program has provided valuable assembly, operating and maintenance information, as well as operations experience for the American Centrifuge Plant staff.

In June 2011, several lead cascade machines failed during an extended period of off-normal operating conditions. The off-normal conditions occurred as a result of a power interruption caused by an electrical fault in the lead cascade support systems and compounding issues experienced during the efforts to restore power. Following the June event, the centrifuges being operated in the lead cascade facility in Piketon, Ohio were not operated on $UF_6$ gas, and we committed to the NRC not to reintroduce $UF_6$ gas into these machines until the NRC completed its inspection of the event. In April 2012, the NRC completed its inspection and issued five Level IV violations, the least serious of the four levels of NRC violations, regarding the June event. No fines were assessed against the company. Two of these violations require no further response and we are responding to the three violations that require further action by USEC to resolve. We have conducted extensive reviews and taken comprehensive corrective actions that address issues raised by the NRC, including looking broadly at our conduct of operations, human performance, training and procedures and identified areas for improvement. After the NRC had completed its inspection of our response to the event and reviewed in detail our planned and completed corrective actions, USEC notified the NRC and on April 18, 2012 resumed lead cascade operations with $UF_6$ gas.

Beginning in the first quarter of 2012, we have been modifying the current set of AC100 machines in the lead cascade to install a safety enhancement in response to the June 2011 event. The safety enhancement does not impact SWU performance and is not expected to impact centrifuge reliability. Under the expected terms of the RD&D program, we would continue to manufacture and operate additional AC100 machines in 2012 and complete and operate a 120 machine commercial plant cascade configuration in 2013.

Continued lead cascade operations will accomplish two of the primary objectives of the proposed RD&D program. The first objective is to demonstrate sufficient run time on the AC100 centrifuges to establish the high confidence level in cascade reliability required by DOE to support loan guarantee financing for the commercial plant. A second objective is to build out and demonstrate the full level of balance of plant system redundancy designed for the commercial plant, which was not available for lead cascade operations during the June event.

**LEU Segment**

*Revenue from Sales of SWU and Uranium*

Revenue from our LEU segment is derived primarily from:

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

The majority of our customers are domestic and international utilities that operate nuclear power plants, with international sales constituting 23% of revenue from our LEU segment in 2011. Our agreements with electric utilities are primarily long-term, fixed-commitment contracts under which our customers are obligated to purchase a specified quantity of SWU from us or long-term requirements contracts under which our customers are obligated to purchase a percentage of their SWU requirements from us. Under requirements contracts, a customer only makes purchases when its reactor has requirements for additional fuel. Our agreements for uranium sales are generally shorter-term, fixed-commitment contracts.

Our revenues and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Revenue is recognized at the time LEU or uranium is delivered under the terms of contracts with domestic and international electric utility customers. Customer demand is affected by, among other things, reactor operations, maintenance and the timing of refueling outages. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons.

Customer payments for the SWU component of LEU typically average approximately $20 million per order. As a result, a relatively small change in the timing of customer orders for LEU due to a change in a customer's refueling schedule may cause operating results to be substantially above or below expectations. Customer orders that are related to their requirements for enrichment may be delayed due to outages, changes in refueling schedules or delays in the initial startup of a reactor. Customer requirements and orders are more predictable over the longer term, and we believe our performance is best measured on an annual, or even longer, business cycle. Our revenue could be adversely affected by actions of the NRC or nuclear regulators in foreign countries issuing orders to modify, delay, suspend or shut down nuclear reactor operations within their jurisdictions, including in response to the March 2011 events in Japan.

In order to enhance our liquidity and manage our working capital in light of anticipated sales and inventory levels and to respond to customer-driven changes, we have been working with customers regarding the timing of their orders, in particular the advancement of those orders. Rather than selling material into the limited spot market for enrichment, USEC has advanced orders from 2012 into 2011 and orders from 2013 into 2012. If customers agree to advance orders without delivery, a sale is recorded as deferred revenue. Alternatively, if customers agree to advance orders and delivery, revenue is recorded in an earlier than originally anticipated period. The advancement of orders has the effect of accelerating our receipt of cash from such advanced sales, although the amount of cash and profit we receive from such sales may be reduced as a result of the terms mutually agreed with customers in connection with advancement.

As a result of the lack of near-term demand due to the impacts of the events in Japan on the market, we have not been able to replace many of the order advancements that we have done in the past with additional sales, which has the effect of reducing our sales backlog. Delays in decisions with respect to the extension of Paducah plant operations and delays in the deployment of the American Centrifuge project have also had a negative effect on our backlog as our sales are a function of our future supply, including potential supply from Paducah plant operations and from the American Centrifuge Plant. Looking out beyond the next two to four years, we expect an increase in uncommitted demand that could provide the opportunity to make additional sales to supplement our backlog and thus decrease the need to advance orders in the future. However, the amount of any demand and our ability to capture that demand is uncertain.

Our financial performance over time can be significantly affected by changes in prices for SWU and uranium. The long-term SWU price indicator, as published by TradeTech, LLC in *Nuclear Market Review*, is an indication of base-year prices under new long-term enrichment contracts in our primary markets. Since our backlog includes contracts awarded to us in previous years, the average SWU price billed to customers typically lags behind the current price indicators by several years. Following are TradeTech's long-term SWU price indicator, the long-term price for uranium hexafluoride ("$UF_6$"), as calculated by USEC using indicators published in *Nuclear Market Review*, and TradeTech's spot price indicator for $UF_6$:

| | March 31, 2012 | December 31, 2011 | March 31, 2011 |
|---|---|---|---|
| Long-term SWU price indicator ($/SWU) | $ 146.00 | $ 148.00 | $ 158.00 |
| $UF_6$: | | | |
| Long-term price composite ($/KgU) | 173.52 | 176.13 | 193.17 |
| Spot price indicator ($/KgU) | 137.00 | 143.25 | 164.50 |

Uranium can be acquired for sale by underfeeding the production process at the Paducah GDP. We may also purchase uranium from suppliers in connection with specific customer contracts, as we have in the past. Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we may vary our production process to underfeed uranium based on the economics of the cost of electric power relative to the prices of uranium and enrichment, resulting in excess uranium that we can sell.

Most of our inventories of uranium available for sale have been sold in prior years, and we expect uranium sales to have less of an impact on earnings going forward. Our average unit cost for uranium inventory has risen over the past several years as production costs are allocated to uranium from underfeeding based on its net realizable value. If we extend Paducah enrichment operations, we will continue to monitor and optimize the economics of our production based on the cost of power and market conditions for SWU and uranium.

In a number of sales transactions, title to uranium or LEU is transferred to the customer and USEC receives payment under normal credit terms without physically delivering the uranium or LEU to the customer. This may occur because the terms of the agreement require USEC to hold the uranium to which the customer has title, or because the customer encounters brief delays in taking delivery of LEU at USEC's facilities. In such cases, recognition of revenue does not occur at the time title to uranium or LEU transfers to the customer but instead is deferred until LEU to which the customer has title is physically delivered. The proportion of uranium sales to SWU sales comprising the deferred revenue balance has declined as uranium sales are declining.

*Cost of Sales for SWU and Uranium*

Cost of sales for SWU and uranium is based on the amount of SWU and uranium sold and delivered during the period and is determined by a combination of inventory levels and costs, production costs, and purchase costs. Under the monthly moving average inventory cost method that we use, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over current and future periods.

We produce about one-half of our SWU supply at the Paducah GDP. Production costs consist principally of electric power, labor and benefits, long-term depleted uranium disposition cost estimates, materials, depreciation and amortization, and maintenance and repairs. The quantity of uranium that is added to uranium inventory from underfeeding is accounted for as a byproduct of the enrichment process. Production costs are allocated to the uranium added to inventory based on the net realizable value of the uranium, and the remainder of production costs is allocated to SWU inventory costs.

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. Costs for electric power are approximately 70% of production costs at the Paducah GDP. We purchase most of the electric power for the Paducah GDP under a power purchase agreement with TVA. The monthly quantities of power purchased by USEC under the TVA power contract in the three months ended March 31, 2012 and 2011 were fixed at 1,650 megawatts. In addition, we are purchasing some supplemental power during the period February – May 2012 that was deferred from 2011. In 2011, we coordinated with TVA to ramp down power purchases to summer levels earlier than planned as a result of flood conditions near the Paducah plant.

In March 2012, with the expectation that we may cease production at the Paducah GDP following the expiration of the TVA power contract on May 31, 2012, we and TVA agreed to extend the contract to September 2012 and shift a small quantity of power that was to be consumed prior to May 31, 2012 to the summer months of 2012. This would transition the electricity load for the Paducah GDP to a level in the summer months that is 2% to 3% of our current power purchase. We are in discussions on a multi-party arrangement to operate the Paducah plant for another year through May 31, 2013 to enrich DOE depleted uranium. As part of this arrangement, we would enter into an amendment to our existing power contract with TVA to purchase the power needed to operate the Paducah plant through the term of this arrangement. Additional details are provided above under "Our View of the Business Today - Paducah Gaseous Diffusion Plant Transition."

The base price under the existing TVA power contract is subject to a fuel cost adjustment provision to reflect changes in TVA's fuel costs, purchased-power costs, and related costs. The impact of the fuel cost adjustment has imposed an average increase over base contract prices of about 4% in the first three months of 2012, 12% in 2011, 10% in 2010, and 6% in 2009. Fuel cost adjustments in a given period are based in part on TVA's estimates as well as revisions of estimates for electric power delivered in prior periods. The impact of future fuel cost adjustments, which are substantially influenced by coal, gas and purchased-power prices and hydroelectric power availability, is uncertain and our cost of power could fluctuate in the future above or below the agreed increases in the base energy price. We expect the fuel cost adjustment to continue to cause our purchase cost to remain above base contract prices for the remainder of the power contract.

We store depleted uranium generated from our operations at the Paducah GDP and accrue estimated costs for its future disposition. Under federal law, we have the option to send our depleted uranium to DOE for disposition, but are continuing to explore a number of competitive alternatives. DOE has constructed new facilities at Paducah and Portsmouth to process large quantities of depleted uranium owned by DOE. Test operations at these DOE facilities have been completed and preliminary operations have begun. If we were to dispose of our depleted uranium with DOE, we would be required to reimburse DOE for the related costs of disposing of our depleted uranium, including our pro rata share of DOE's capital costs. Processing DOE's depleted uranium is expected to take about 25 years. The method and timing of the disposal of our depleted uranium has not been determined. DOE has taken from USEC the disposal obligation for specific quantities of depleted uranium in past years, most recently through the uranium transfer agreement signed in March 2012. Our long-term liability for depleted uranium disposition is dependent upon the volume of depleted uranium that we generate, projected methods of disposition and estimated disposition costs. Our estimates of processing, transportation and disposal costs are based primarily on estimated cost data obtained from DOE without consideration given to contingencies or reserves. The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance. Our estimate of the unit disposition cost for accrual purposes is approximately 30% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Our estimated cost and accrued liability as well as financial assurance we provide for the disposition of depleted uranium are subject to change as additional information becomes available.

We purchase about one-half of our SWU supply under the Russian Contract. Prices under the contract are determined using a discount from an index of published price points, including both long-term and spot prices, as well as other pricing elements. The pricing methodology, which includes a multi-year retrospective view of market-based price points, is intended to enhance the stability of pricing and minimize the disruptive effect of short-term market price swings. The price per SWU under the Russian Contract for 2012 is expected to be 2% higher compared to 2011.

*Paducah GDP Transition*

As described above under “Our View of the Business Today – Paducah Gaseous Diffusion Plant Transition,” we are facing a near-term decision regarding the continuation of enrichment operations at the Paducah gaseous diffusion plant beyond May 2012. The current lease for the Paducah GDP expires in 2016. However, under the terms of the lease, we can terminate the lease prior to expiration upon two year’s prior notice. We can also de-lease portions of the property under lease to meet our changing requirements upon 60 days prior notice with DOE’s consent, which cannot be unreasonably withheld. If we make a decision to not continue enrichment operations at the plant beyond May 2012 or to continue for only a short period of time, we could accelerate expenses for certain assets such as previously capitalized leasehold improvements and machinery and equipment related to the Paducah GDP. As of March 31, 2012, net book value of property, plant and equipment included in our consolidated balance sheet was $63 million related to Paducah operations. These assets are being depreciated over their estimated life based on the current lease term through 2016. As of March 31, 2012, we have accrued liabilities for lease turnover costs related to the Paducah GDP of $43 million and depleted uranium disposition of $100 million, included in our other long-term liabilities, that could be accelerated and considered as current liabilities if we were to terminate the lease prior to the current expiration date.

We would also expect to incur significant costs in connection with a decision to shut down Paducah enrichment operations, including potential severance costs and curtailment charges related to our defined benefit pension plan and postretirement health and life benefit plans. If a decision is made to shut down Paducah enrichment operations, we would expect to de-lease the Paducah GDP except for certain facilities used for shipping and handling, inventory management and site services that are needed for our ongoing operations, including deliveries to customers of our inventory of LEU and handling of Russian material through 2013 under the Russian Contract, or beyond under the Russian Supply Agreement. However, we have no assurance that DOE would accept facilities that we wish to de-lease in the timeframe desired, which could result in additional costs.

Our inventories of SWU and uranium are valued at the lower of cost or market. Production costs are added to inventory using the monthly moving average cost method. We compare our inventory cost against market prices and if our inventory costs were to exceed market prices, we could be required to record an inventory impairment. A decision to shorten Paducah’s plant life could also adversely increase our cost of sales.

**Contract Services Segment**

*Revenue from Contract Services*

We perform services and earn revenue from contract work through our subsidiary NAC and from contract work for DOE and DOE contractors at the Paducah GDP and the Portsmouth site. USEC ceased uranium enrichment at the Portsmouth GDP, located in Piketon, Ohio, in 2001. Over the past decade, we maintained the Portsmouth site and performed services under contract with DOE. On September 30, 2011, contracts for maintaining the Portsmouth facilities and performing services for DOE at Portsmouth expired and we completed the transition of facilities to the decontamination and decommissioning ("D&D") contractor selected by DOE for the site. Consequently, we ceased providing government contract services at Portsmouth on September 30, 2011. We will continue to provide some limited services to DOE and its contractors at the Paducah site and at the Portsmouth site related to facilities we continue to lease for the American Centrifuge Plant. Revenue from our contract services segment, however, has decreased significantly and is now comprised primarily of revenue generated by NAC.

Revenue from U.S. government contracts is based on allowable costs for work performed in accordance with government cost accounting standards ("CAS"). Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs and are subject to audit by the Defense Contract Audit Agency ("DCAA"), or such other entity that DOE authorizes to conduct the audit. As a part of performing contract work for DOE, certain contractual issues, scope of work uncertainties, and various disputes arise from time to time. Issues unique to USEC can arise as a result of our history of being privatized from the U.S. government and our lease and other contracts with DOE.

DOE funded a portion of the work at Portsmouth through an arrangement whereby DOE transferred uranium to us which we immediately sold. We completed six competitive sales of uranium between the fourth quarter of 2009 and the first quarter of 2011. Our receipt of the uranium was not considered a purchase by us and no revenue or cost of sales was recorded upon its sale. This is because we had no significant risks or rewards of ownership and no potential profit or loss related to the uranium sale. The value of the contract work is based on the cash proceeds from the uranium sales less our selling and handling costs. The net cash proceeds from the uranium sales were recorded as deferred revenue, and revenue was recognized in our contract services segment as services were provided.

*Contract Services Receivables*

Payment for our contract work performed for DOE is subject to DOE funding availability and Congressional appropriations. DOE historically has not approved our provisional billing rates in a timely manner. DOE has approved provisional billing rates for 2004, 2006 and 2010 based on preliminary budgeted estimates even though updated provisional rates had been submitted based on more current information. In addition, we have finalized and submitted to DOE the Incurred Cost Submissions for Portsmouth and Paducah contract work for the six months ended December 31, 2002 and the years ended December 31, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010. DCAA historically has not completed their audits of our Incurred Cost Submissions in a timely manner. DCAA has been periodically working on audits for the six months ended December 31, 2002 and the year ended December 31, 2003 since May 2008. In June 2011, a new DOE contractor began an audit for the year ended December 31, 2004. There is the potential for additional revenue to be recognized based on our final billing rates pending the outcome of audits and DOE reviews. However, because these periods have not been audited, uncertainty exists and we have not yet recognized this additional revenue.

Our consolidated balance sheet includes receivables, net of valuation allowances, from DOE or DOE contractors of $36.4 million as of March 31, 2012. Of the $36.4 million, $1.8 million represents revenue recorded for amounts not yet billed due to the absence of approved billing rates referenced above (referred to as unbilled receivables). Past due receivables from DOE or DOE contractors were $45.9 million at March 31, 2012. On December 2, 2011, we submitted a certified claim for $11.2 million under the Contract Disputes Act ("CDA") for payment of breach-of-contract amounts equaling unreimbursed costs for the periods through December 31, 2009. We believe DOE has breached its agreement by failing to establish appropriate provisional billing and final indirect cost rates on a timely basis. In a letter response dated January 31, 2012, DOE informed us that it will provide a written decision on or before June 2, 2012 related to the claim. In addition, on February 16, 2012, we submitted a second certified claim for $9.0 million under the CDA related to the 2010 historical period. In a letter response dated March 3, 2012, DOE informed us that it will provide a written decision on or before August 15, 2012 related to the second claim.

*Portsmouth Contract Closeout Costs*

Contract closeout related costs, as defined by applicable federal acquisition regulations and government cost accounting standards, are anticipated to be billed to DOE and recorded as revenue when contract closeout occurs and amounts are deemed probable of recovery. Our current estimate for these billable costs is approximately $35 million or more, which includes an estimate to complete outstanding DOE audits within a reasonable period of time. This estimate does not include ongoing cost reimbursable work being performed and amounts already included in our receivable balances. These contract closeout costs to be billed to DOE include DOE's share of costs for our defined benefit pension plan, our postretirement health and life benefit plans, DOE's share of severance, and other miscellaneous costs. The actual amounts are subject to a number of factors and therefore subject to significant uncertainty including uncertainty concerning the amount of such costs and the amount that may be reimbursable under contracts with DOE.

**Advanced Technology Costs**

*American Centrifuge*

USEC is working to deploy the American Centrifuge technology at the ACP in Piketon, Ohio. Costs relating to the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities and estimates and judgments involving the completion of project milestones. As of March 31, 2012, cumulative project costs totaled $2,214.1 million.

Costs relating to the demonstration of American Centrifuge technology are charged to expense as incurred. Demonstration costs historically have included NRC licensing of the American Centrifuge Demonstration Facility in Piketon, Ohio, engineering activities, and assembling and testing of centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility. As of March 31, 2012, cumulative project costs charged to expense totaled $1,075.8 million.

Capitalized costs relating to the American Centrifuge technology include NRC licensing of the American Centrifuge Plant, engineering activities, construction of AC100 centrifuge machines and equipment, process and support equipment, leasehold improvements and other costs directly associated with the commercial plant. As of March 31, 2012, cumulative project costs capitalized totaled $1.1 billion, including capitalized interest of $105.4 million, prepayments to suppliers for services not yet performed of $21.4 million, accrued asset retirement obligations of $19.3 million and $7.1 million of accrued costs.

In addition, we have deferred financing costs of approximately $6.6 million for costs related to the ACP project, such as loan guarantee application fees paid to DOE and third-party costs. Deferred financing costs related to the DOE Loan Guarantee Program will be amortized over the life of the loan or, if USEC does not receive a loan, charged to expense.

Beginning with the fourth quarter of 2011, all project costs incurred have been expensed, including interest expense that previously would have been capitalized. Spending at the reduced levels relates primarily to development and maintenance activities rather than capital asset creation. We also expect to expense costs under the RD&D program as incurred. Capitalization of expenditures related to the ACP has ceased until commercial plant deployment resumes. We continue to believe that future cash flows generated by the ACP will exceed our capital investment and our capital investment is more likely than not to be fully recoverable. We will continue to evaluate this assessment as conditions change, including as a result of activities conducted as part of the RD&D program being pursued. If conditions change, including if the current path to commercial deployment were no longer probable or our anticipated role in the project were changed, we could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.1 billion as early as the second quarter of 2012. Events that could impact our views as to the probability of deployment or our projections include a failure to successfully enter into an agreement with DOE to provide funding for the project as part of the RD&D program or an unfavorable determination in any phase of the RD&D program regarding the restructuring of the project.

Risks and uncertainties related to the financing, construction and deployment of the American Centrifuge Plant and the continued capitalization of the ACP capital investment and potential for a valuation allowance are described in Item 1A, “Risk Factors” of our 2011 Annual Report on Form 10-K.

*MAGNASTOR®*

Advanced technology costs also include research and development efforts undertaken by NAC, relating primarily to its MAGNASTOR dual-purpose spent fuel dry storage and transportation technology. NAC continues to seek license amendments for the expanded use of the storage technology and is pursuing NRC certification of the counterpart transportation cask system, MAGNATRAN.

**Results of Operations – Three Months Ended March 31, 2012 and 2011**

***Segment Information***

We have two reportable segments measured and presented through the gross profit line of our income statement: the LEU segment with two components, SWU and uranium, and the contract services segment. The LEU segment is our primary business focus and includes sales of the SWU component of LEU, sales of both SWU and uranium components of LEU, and sales of uranium. The contract services segment includes nuclear energy services and technologies provided by NAC as well as work performed for DOE and its contractors at Portsmouth and Paducah. Intersegment sales between our reportable segments were less than $0.1 million in each period presented below and have been eliminated in consolidation.

The following table presents elements of the accompanying consolidated condensed statements of operations that are categorized by segment (dollar amounts in millions):

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | **2012** | **2011** | **Change** | **%** |
| **LEU segment** | | | | |
| Revenue: | | | | |
| SWU revenue | $ 537.9 | $ 308.5 | $ 229.4 | 74% |
| Uranium revenue | - | 14.0 | (14.0) | (100)% |
| Total | 537.9 | 322.5 | 215.4 | 67% |
| Cost of sales | 501.2 | 307.2 | (194.0) | (63)% |
| Gross profit | $ 36.7 | $ 15.3 | $ 21.4 | 140% |
| **Contract services segment** | | | | |
| Revenue | $ 23.6 | $ 58.0 | $ (34.4) | (59)% |
| Cost of sales | 21.5 | 59.4 | 37.9 | 64% |
| Gross profit (loss) | $ 2.1 | $ (1.4) | $ 3.5 | 250% |
| **Total** | | | | |
| Revenue | $ 561.5 | $ 380.5 | $ 181.0 | 48% |
| Cost of sales | 522.7 | 366.6 | (156.1) | (43)% |
| Gross profit | $ 38.8 | $ 13.9 | $ 24.9 | 179% |

*Revenue*

Revenue from the LEU segment increased $215.4 million in the three months ended March 31, 2012, compared to the corresponding period in 2011. The volume of SWU sales increased 73% in the three-month period reflecting the variability in timing of utility customer orders including orders that USEC and customers have advanced from later in 2012 and from 2013. The average price billed to customers for sales of SWU increased 1%.

Revenue from the contract services segment declined $34.4 million in the three months ended March 31, 2012, compared to the corresponding period in 2011. Contract service revenues at the Portsmouth site declined $44.1 million (or 98%) in the three-month period as this work was transferred to DOE's new D&D contractor over the course of 2011. Revenues by NAC increased $11.9 million (or 157%) in the three-month period primarily as a result of increased sales of dry cask storage systems.

*Cost of Sales*

Cost of sales for the LEU segment increased $194.0 million in the three months ended March 31, 2012, compared to the corresponding period in 2011, primarily due to higher sales volumes, partially offset by lower unit costs.

Cost of sales per SWU was 2% lower in the three months ended March 31, 2012, compared to the corresponding period in 2011. Cost of sales was reduced during the quarter for revisions to prior accrued amounts related to estimated disposal costs for depleted uranium and property taxes related to enrichment operations. These accrued estimated amounts had been previously included in our production costs and included in SWU inventory. The total reduction to cost of sales recognized in the three months ended March 31, 2012 was approximately $14.6 million. Excluding the effects of these items, cost of sales per SWU was approximately 1% higher in the three months ended March 31, 2012 compared to the corresponding period in 2011. Although unit production costs declined 3% in the three months ended March 31, 2012, compared to the corresponding period in 2011 (described below), the SWU unit cost is negatively impacted by the carryforward effect of higher production and purchase costs from prior years.

Under our monthly moving average cost method, new production and acquisition costs are averaged with the cost of inventories at the beginning of the period. An increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over current and future periods. Production costs are also allocated to uranium from underfeeding based on its net realizable value, and the remainder is allocated to SWU inventory costs.

Production costs increased $3.2 million (or 2%) in the three months ended March 31, 2012, compared to the corresponding period in 2011. Production volume increased 4% as we purchased supplemental power from Tennessee Valley Authority (“TVA”) that had been deferred from 2011. We had agreed with TVA to ramp down power purchases in 2011 to summer operation levels earlier than planned due to flood conditions near the Paducah plant and to purchase the deferred power in first quarter of 2012. The unit production cost declined 3% in the three months ended March 31, 2012 compared to the corresponding period in 2011. The average cost per megawatt hour declined 5% reflecting lower TVA fuel cost adjustments partially offset by the fixed, annual increase in the TVA contract price.

We purchase approximately 5.5 million SWU per year under the Russian Contract. However, there were no deliveries in the three-month periods ended March 31, 2012 and March 31, 2011 based on our agreed-upon shipping schedule.

Cost of sales for the contract services segment declined $37.9 million in the three months ended March 31, 2012, compared to the corresponding period in 2011, reflecting reduced contract services work at Portsmouth in connection with the transition of Portsmouth site contract service workers to DOE’s D&D contractor, partially offset by increased sales by NAC.

*Gross Profit*

Gross profit increased $24.9 million in the three months ended March 31, 2012, compared to the corresponding period in 2011. Our gross profit margin was 6.9% in the three months ended March 31, 2012 compared to 3.7% in the corresponding period in 2011. Gross profit for the LEU segment increased $21.4 million in the three-month period due to higher SWU sales volume and lower costs. Gross profit for the contract services segment increased $3.5 million in the three months ended March 31, 2012 reflecting increased gross profit for NAC and a $3.2 million pension curtailment charge in the prior period related to the transition of Portsmouth site contract service workers to DOE’s D&D contractor.

***Non-Segment Information***

The following table presents elements of the accompanying consolidated condensed statements of operations that are not categorized by segment (dollar amounts in millions):

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 | Change | % |
|---|---|---|---|---|
| Gross profit | $ 38.8 | $ 13.9 | $ 24.9 | 179% |
| Advanced technology costs | 36.8 | 26.7 | (10.1) | (38)% |
| Selling, general and administrative | 14.9 | 15.5 | 0.6 | 4% |
| Special charge for workforce reductions and advisory costs | 6.4 | - | (6.4) | (100)% |
| Other (income) | - | (3.7) | (3.7) | (100)% |
| Operating income (loss) | (19.3) | (24.6) | 5.3 | 22% |
| Interest expense | 12.7 | - | (12.7) | (100)% |
| Interest (income) | (0.1) | (0.2) | (0.1) | (50)% |
| Income (loss) before income taxes | (31.9) | (24.4) | (7.5) | (31)% |
| Provision (benefit) for income taxes | (3.1) | (7.8) | (4.7) | (60)% |
| Net income (loss) | **$ (28.8)** | **$ (16.6)** | **$ (12.2)** | (73)% |

*Advanced Technology Costs*

Advanced technology costs increased $10.1 million in the three months ended March 31, 2012, compared to the corresponding period in 2011. Beginning with the start of the fourth quarter of 2011, all American Centrifuge project costs incurred have been expensed. Capitalization of expenditures related to the American Centrifuge project has ceased until commercial plant deployment resumes. Although overall project spending has been reduced, costs charged to expense were greater in the three months ended March 31, 2012, compared to the corresponding period in 2011, due to the focus on development and maintenance activities under the RD&D program rather than capital asset creation.

Advanced technology costs include expenses by NAC of $0.1 million in the three months ended March 31, 2012 and $0.4 million in the corresponding period in 2011 to develop and expand its MAGNASTOR storage technology and its transportation counterpart, MAGNATRAN.

*Selling, General and Administrative*

Selling, general and administrative expenses declined $0.6 million in the three months ended March 31, 2012, compared to the corresponding period in 2011, reflecting slightly lower salary, employee benefit and other compensation costs and other small expense reductions in various categories.

*Special Charge for Workforce Reductions and Advisory Costs*

Our business is in a state of significant transition and we have significant decisions to make in 2012 regarding major aspects of our business. In early 2012, we initiated an internal review of our organizational structure and engaged a management consulting firm to support this review. Costs for the management consulting firm and other advisors totaled $4.5 million in the three months ended March 31, 2012.

Initial actions taken related to our organizational structure resulted in workforce reductions at our American Centrifuge design and engineering operations in Oak Ridge, Tennessee, and at our headquarters operations located in Bethesda, Maryland. The reductions involved 25 employees including two senior corporate officers. A charge of $1.9 million was incurred in the first quarter of 2012 for one-time termination benefits consisting of severance payments and short-term health care coverage. Related cash expenditures of $0.7 million were incurred in the first quarter of 2012 and most of the remainder is expected to be incurred in the second quarter of 2012.

In April 2012, 21 positions were eliminated at headquarters in Bethesda and the central services operations located in Piketon, Ohio. A charge of $1.1 million for one-time termination benefits and the related cash expenditures are expected in the second quarter of 2012. Additional actions affecting employees to align the organization with our evolving business environment are expected, which will result in additional charges.

*Other (Income)*

In January 2011, we executed an exchange with a noteholder whereby USEC received convertible notes with a principal amount of $45 million in exchange for 6,952,500 shares of common stock and cash for accrued but unpaid interest on the convertible notes. In connection with this exchange, we recognized a gain on debt extinguishment of $3.1 million in the first quarter of 2011.

*Interest Expense*

Interest expense increased $12.7 million in the three months ended March 31, 2012, compared to the corresponding period in 2011. Beginning with the fourth quarter of 2011, all ACP related project costs incurred have been expensed, including interest expense that previously would have been capitalized. In the three months ended March 31, 2011, interest costs of $11.0 million were capitalized. Interest expense in the first quarter of 2012 included $1.4 million of previously deferred financing costs related to the former credit facility that were expensed in connection with the amended and restated credit facility obtained in March 2012.

*Provision (Benefit) for Income Taxes*

The income tax benefit was $3.1 million for the three months ended March 31, 2012 and $7.8 million for the corresponding period in 2011. Included in the income tax benefit were reversals of previously accrued amounts associated with liabilities for unrecognized benefits of $0.8 million for the three months ended March 31, 2012 and $0.3 million for the corresponding period in 2011.

There was an overall effective rate of 31% in the first quarter of 2011 based on estimated earnings for 2011. In the fourth quarter of 2011, a full valuation allowance was recorded against deferred tax assets that is expected to continue in 2012. Because there are no tax benefits expected to be recognized on anticipated ordinary losses for 2012, the income tax benefit for the three months ended March 31, 2012 does not include an overall effective rate applied to year-to-date ordinary income (loss) as was done in the first quarter of 2011. Instead, the income tax benefit includes only the tax effect of year-to-date items that are not included in ordinary income.

*Net (Loss)*

The net loss increased $12.2 million ($0.10 per share) in the three months ended March 31, 2012, compared to the corresponding period in 2011, primarily due to the after-tax effects of ACP related project costs that have been expensed, including interest expense that previously would have been capitalized. Partially offsetting the decline is the after-tax effect of increased gross profits. Additional factors include the after-tax effects of the special charge related to organizational structuring in the current period and other income in the prior period.

**2012 Outlook Update**

We will make a number of decisions during 2012 regarding our business that will significantly affect financial results for the year and future years. For example, we are in discussions with Energy Northwest, BPA, TVA and DOE on a multi-party arrangement that involves enriching DOE depleted uranium tails, which would allow us to continue enrichment operations at the Paducah plant for another year. During 2012, we expect to engage in continuing discussions with DOE regarding the future of the Paducah GDP and the transition of Paducah operations. We also continue to work with DOE and Congress regarding funding for the RD&D program. We expect to fund RD&D program activities through May 31, 2012, but our credit facility significantly restricts our spending on the American Centrifuge project beyond that date. As a consequence, the amount of advanced technology expense beyond that date is uncertain and dependent on government funding for the RD&D program. In addition, we are in the midst of an organizational structure review that we anticipate will result in long-term cost reductions, but that will require short-term charges to reflect the costs for outside advisors and the cost of implementing personnel reductions. Given this continued uncertainty regarding key elements of our business, we are not providing guidance at this time for earnings or cash flow from operations, but we are providing guidance on expected revenue.

We expect to deliver significant quantities of LEU to customers in 2012. Revenue from the sale of SWU is expected to be approximately $1.4 to $1.5 billion, but could increase depending on the terms of a potential arrangement to enrich DOE depleted uranium tails. Uranium revenue in 2012 is expected to be lower than in recent years and is dependent on the level of Paducah production in 2012 and our obligations to return uranium to TENEX under the Russian Contract. We anticipate buying 5.5 million SWU from Russia under the Megatons to Megawatts program during 2012. Under the pricing formula, the price we pay Russia will increase 2% compared to deliveries in 2011.

Our contract services work at the former Portsmouth GDP for DOE was largely completed in September 2011, and revenue for that segment is expected to decline significantly in 2012. In prior years, contract work at Portsmouth represented approximately three-quarters of the revenue for the contract services segment. Our subsidiary NAC will represent a majority of revenue for the segment going forward, and we expect annual revenue for contract services in 2012 of approximately $85 million.

**Liquidity and Capital Resources**

We expect our cash balance, internally generated cash from our LEU operations and services provided by our contract services segment, and available borrowings under our revolving credit facility will provide sufficient cash to meet our needs for at least 12 months.

Although the recent renewal of our credit facility significantly improved our liquidity view for 2012, we expect maintenance of adequate liquidity for our operations will be challenging in 2012. Key factors that can affect liquidity requirements for our existing operations include the timing and amount of customer sales, power purchases, and purchases under the Russian Contract. In addition, we expect to make a number of decisions during 2012 that could have significant consequences for our business, including whether to continue enrichment operations at the Paducah plant beyond May 2012 and the potential to demobilize the American Centrifuge project if DOE funding is not obtained for the RD&D program by May 31, 2012. These decisions, as well as actions that may be taken by vendors, customers, creditors and other third parties in response to our actions or based on their view of our financial strengths and future business prospects, could give rise to events that individually, or in the aggregate, are likely to impose significant demands upon our liquidity. In light of these factors and our desire to improve our credit profile, we may pursue discussions with creditors and key stakeholders regarding the restructuring of our business and our capital structure.

We believe our sales backlog in our LEU segment is a source of stability for our liquidity position. Since 2006, we have included in our SWU contracts pricing indices that are intended to correlate with our sources for enrichment supply. Although sales prices under many of our SWU contracts are adjusted in part based on changes in market prices for SWU and electric power, the impact of market volatility in these indices is generally mitigated through the use of market price averages over time. Additionally, changes in the power price component of sales prices are intended to mitigate the effects of changes in our power costs.

In order to enhance our liquidity and manage our working capital in light of anticipated sales and inventory levels and to respond to customer-driven changes, we have been working with customers regarding the timing of their orders, in particular the advancement of those orders. Rather than selling material into the limited spot market for enrichment, USEC advanced orders from 2012 into 2011 and orders from 2013 into 2012. The advancement of orders has the effect of accelerating our receipt of cash from such advanced sales, although the amount of cash and profit we receive from such sales may be reduced as a result of the terms mutually agreed with customers in connection with advancement.

The shutdown of the Japanese reactors and the shutdown of reactors in other countries due to concerns raised by March 2011 events have affected supply and demand for LEU over the next two to four years. This impact could grow more significant over time depending on the length and severity of delays or cancellations of deliveries. As a result, we have not been able to replace many of the order advancements that we have done in the past with additional sales, which has the effect of reducing our sales backlog. Delays in decisions with respect to the extension of Paducah plant operations and delays in the deployment of the American Centrifuge project have also had a negative effect on our backlog as our sales are a function of our future supply, including potential supply from Paducah plant operations and from the American Centrifuge Plant. Looking out beyond the next two to four years, we expect an increase in uncommitted demand that could provide the opportunity to make additional sales to supplement our backlog and thus decrease the need to advance orders in the future. However, the amount of any demand and our ability to capture that demand is uncertain.

We need significant additional financing in order to complete the American Centrifuge Plant. We applied for a $2 billion loan guarantee under the DOE Loan Guarantee Program in July 2008 and we have had discussions with Japanese export credit agencies regarding financing up to $1 billion of the cost of completing the ACP.

Instead of moving forward with a conditional commitment for a loan guarantee, in the fall of 2011, DOE proposed a two-year cost share research, development and demonstration ("RD&D") program for the project to enhance the technical and financial readiness of the centrifuge technology for commercialization. Under the cost-sharing arrangement, DOE's total contribution would be capped at $300 million. DOE indicated that our application for a DOE loan guarantee would remain pending during the RD&D program. During late 2011 and early 2012, our American Centrifuge project efforts shifted to focus on the planning and implementation of the RD&D program and efforts that are currently underway in Piketon, Ohio and Oak Ridge, Tennessee are based upon the proposed program scope. We are currently building machines and parts that would be part of the complete demonstration cascade that would be built and operated as part of the RD&D program. In parallel, we have been working with DOE and Congress to secure funding for the RD&D program. However, DOE's share of funding for the program has not yet been provided and the source for such funding is uncertain. The current political environment in Washington has significantly slowed the legislative process. The two houses of Congress are each held by a different political party and in an election year the necessary bipartisan support will be difficult to achieve.

On March 13, 2012, USEC and DOE entered into an agreement that enables USEC to provide interim funding of $44 million for the ACP. This funding was provided by DOE acquiring from us U.S. origin LEU in exchange for the transfer of quantities of our depleted uranium ("tails") to DOE. This enables us to release encumbered funds of approximately $44 million that were previously provided as financial assurance for the disposition of such depleted uranium. This LEU acquired by DOE could be returned to us as part of DOE's cost share under the RD&D program if government funding is provided for the RD&D program in government fiscal year 2012.

We expect to continue funding project activities that support the RD&D program through May 31, 2012 as we continue to work with DOE and Congress on securing the government cost-share for the RD&D program. Due to restrictions in our credit facility, funding can only continue beyond May 31, 2012 if government funding for the RD&D program is secured. We continue to pursue both legislative and non-legislative paths to the federal cost share of the funding for the RD&D program for the balance of government fiscal year 2012. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations. We have no assurance that we will be able to reach agreement with DOE regarding any phase of the RD&D program or that any funding will be provided or that the LEU will be returned. We also have no assurance that we will ultimately be able to obtain a loan guarantee and the timing thereof. Any agreement for the RD&D program would likely require restructuring of the project and of our investment. In light of our inability to reach a conditional commitment for a DOE loan guarantee to date, and given the significant uncertainty surrounding our prospects for finalizing an agreement and obtaining funding from DOE for an RD&D program and the timing thereof, we continue to evaluate our options concerning the American Centrifuge project. If we are unable to secure funding for the RD&D program beyond May 31, 2012, we would expect to begin demobilizing the project.

The change in cash and cash equivalents from our consolidated condensed statements of cash flows are as follows on a summarized basis (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Net Cash Provided by Operating Activities | $ 47.7 | $ 51.3 |
| Net Cash (Used in) Investing Activities | (2.9) | (50.7) |
| Net Cash (Used in) Financing Activities | (10.1) | (1.8) |
| Net Increase (Decrease) in Cash and Cash Equivalents | **$ 34.7** | **$ (1.2)** |

*Operating Activities*

Our LEU segment provided positive cash flow in the three months ended March 31, 2012 based on the timing of customer orders and deliveries. Inventories declined $347.8 million in the three-month period due to monetization of inventory produced in the prior year. The increase in accounts receivable of $36.0 million reflects the lag in some inventory monetization. Payment of the Russian Contract payables balance of $206.9 million, due to the timing of deliveries, was a significant use of cash flow in the three months ended March 31, 2012. The decrease in accrued depleted uranium disposition in the first quarter associated with the $44.0 million uranium transfer agreement with DOE will not generate cash flow until surety bonds can be modified and cash collateral returned.

*Investing Activities*

Capital expenditures were $2.9 million in the three months ended March 31, 2012, compared with $50.7 million in the corresponding period in 2011. Capital expenditures in the prior period are principally associated with the American Centrifuge Plant. Beginning with the fourth quarter of 2011, all project costs incurred have been expensed. Capitalization of expenditures related to the ACP has ceased until commercial plant deployment resumes. Capital expenditures include prepayments made to suppliers under existing agreements for materials and services not yet provided.

*Financing Activities*

Borrowings and repayments under the revolving credit facility totaled $96.5 million in the three months ended March 31, 2012, and the peak amount outstanding was $32.3 million. Cash payments of $9.7 million were made for financing costs related to the amended and restated credit facility.

There were 122.9 million shares of common stock outstanding at March 31, 2012, compared with 123.2 million at December 31, 2011, a decrease of 0.3 million shares representing common stock surrendered to USEC to pay withholding taxes on shares of restricted stock under the Company’s equity incentive plan.

*Working Capital*

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (millions) | |
| Cash and cash equivalents | $ 72.3 | $ 37.6 |
| Accounts receivable, net | 198.0 | 162.0 |
| Inventories, net | 534.1 | 881.9 |
| Credit facility term loan | (85.0) | (85.0) |
| Convertible preferred stock | (91.5) | (88.6) |
| Other current assets and liabilities, net | (71.8) | (291.9) |
| Working capital | **$ 556.1** | **$ 616.0** |

*Capital Structure and Financial Resources*

At March 31, 2012, our debt consisted of a term loan of $85.0 million due May 31, 2013 under our credit facility and $530.0 million in 3.0% convertible senior notes due October 1, 2014.

The convertible notes are unsecured obligations and rank on a parity with all of our other unsecured and unsubordinated indebtedness. We are restricted under our credit facility from repurchasing the notes for cash.

Our debt to total capitalization ratio was 49% at March 31, 2012 and 48% at December 31, 2011, including convertible preferred stock which is classified as a liability.

On March 13, 2012, USEC amended and restated its existing $310.0 million credit facility, scheduled to mature on May 31, 2012, to a $235.0 million credit facility that matures on May 31, 2013. The amended and restated credit facility includes a revolving credit facility of $150.0 million (including up to $75.0 million in letters of credit) and a term loan of $85.0 million. Under the amended and restated credit facility, commencing December 3, 2012, the aggregate revolving commitments and term loan principal will be reduced by $5.0 million per month through the expiration of the credit facility.

Utilization of the current credit facility at March 31, 2012 and the former credit facility at December 31, 2011 follows:

| | **March 31, 2012** | **December 31, 2011** |
|---|---|---|
| | **(millions)** | |
| Borrowings under the revolving credit facility | $ - | $ - |
| Term loan due May 31, 2013 | 85.0 | - |
| Term loan due May 31, 2012 | - | 85.0 |
| Letters of credit | 19.7 | 19.6 |
| Available credit | 75.6 | 205.4 |

As with the former facility, the credit facility is secured by assets of USEC Inc. and its subsidiaries, excluding equity in, and assets of, subsidiaries created to carry out future commercial American Centrifuge activities. Borrowings under the credit facility are subject to limitations based on established percentages of eligible accounts receivable and USEC-owned inventory pledged as collateral to the lenders. Available credit reflects the levels of qualifying assets at the end of the previous month less any borrowings or letters of credit.

The new term loan was funded as of March 13, 2012 and bears interest, at our election, at either:

- the sum of (1) the greater of (a) the JPMorgan Chase Bank prime rate, (b) the federal funds rate plus ½ of 1%, or (c) an adjusted 1-month LIBO Rate (with a floor of 2.0%) plus 1% plus (2) a margin of 7.25%; or

- the adjusted LIBO Rate (with a floor of 2.0%) plus a margin of 9.0%.

The interest rate for the term loan was 10.5% as of March 31, 2012.

The interest rate on outstanding borrowings under the new revolving credit facility is, at our election, either:

- the sum of (1) the greater of (a) the JPMorgan Chase Bank prime rate, (b) the federal funds rate plus ½ of 1%, or (c) an adjusted 1-month LIBO Rate (with a floor of 2.0%) plus 1% plus (2) a margin of 2.75%, or

- the sum of the adjusted LIBO Rate (with a floor of 2.0%) plus a margin of 4.5%.

If we have not terminated operations at the Paducah GDP by June 30, 2012 and our gross profit for any three consecutive months beginning June 2012 is a loss, then the margin on the term loan will increase by 2.0% and the margin on the revolving loans will increase by 1.5% retroactive to the first day of such three month period, and continuing for the remaining term of the credit facility.

The credit facility is available to finance working capital needs and general corporate purposes. The credit facility imposes limitations and restrictions on our ability to invest in the American Centrifuge project as follows:

| | |
|---|---|
| March, April and May 2012 | Up to $15 million per month |
| June 2012 and beyond | Up to $1 million per month. If we enter into definitive agreements for the RD&D program then, from the later of June 1, 2012 or the date of such agreements, we can invest our 20% share of the costs under the RD&D program (up to $75 million) as long as the amount we have spent that is due to be reimbursed to us under the RD&D program does not exceed $50 million. |
| Exceptions | If we demobilize the American Centrifuge project, we may pay the costs and expenses of such demobilization in accordance with a plan previously submitted to the agent for the lenders.<br><br>If, as part of DOE’s exercise or remedies under the RD&D program, we are required to transfer the American Centrifuge project or the RD&D program assets, in whole or in part, to DOE or its designee, we may spend as needed to maintain compliance with legal and regulatory requirements, but may not spend more than $5 million of proceeds of the revolving loans on such expenses.<br><br>We may not spend any proceeds of revolving loans on American Centrifuge expenses if a default or event of default has occurred. |

The revolving credit facility contains various reserve provisions that reduce available borrowings under the facility periodically including an availability block equal to $45.0 million. The other reserves under the revolving credit facility, such as availability reserves and borrowing base reserves, are customary for credit facilities of this type.

Subject to certain limited exceptions, we will be required at all times to prepay all amounts outstanding under the revolving credit agreement with the net proceeds of (i) any sale or transfer of assets, including in the ordinary course, of USEC Inc. and its subsidiaries; (ii) the sale or transfer of equity of USEC Inc. or its subsidiaries; (iii) the issuance of indebtedness of USEC Inc. or its subsidiaries; or (iv) insurance proceeds from casualty events. In addition, certain proceeds, including from specified debt issuances and asset sales (including sales resulting from cessation of production at the Paducah GDP or a demobilization of the American Centrifuge project), will permanently reduce the revolving loan commitments and prepay the term loan. Both the revolving credit facility and the term loan must be fully prepaid prior to any redemption of the Company’s Series B-1 preferred stock.

With certain exceptions, all funds of USEC Inc. and its subsidiaries will be subject to full cash dominion, meaning that they will be swept on a daily basis into an account with the administrative agent and will be used to pay outstanding loans and to cash collateralize outstanding letters of credit (if required) before they are available to USEC for use in its operations.

With limited allowances, the credit facility includes a requirement to maintain a ratio of 1.75:1.0 of certain eligible collateral (less reserves) to the amount of the credit facility. The credit facility also includes various other customary operating and financial covenants, including restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, and payment of dividends or other distributions. Failure to satisfy the covenants would constitute an event of default under the credit facility.

Default under, or failure to comply with the Russian Contract, the Russian Supply Agreement, the 2002 DOE-USEC Agreement (other than the milestones related to deployment of the American Centrifuge project), the lease of the GDPs or any other material contract or agreement with DOE, or any exercise by DOE of its rights or remedies under the 2002 DOE-USEC Agreement, would also be considered to be an event of default under the credit facility if it would reasonably be expected to result in a material adverse effect on (i) our business, assets, operations or condition (taken as a whole); (ii) our ability to perform any of our obligations under the credit facility; (iii) the assets pledged as collateral under the credit facility; (iv) the rights or remedies under the credit facility of the lenders or J.P. Morgan as administrative agent; or (v) the lien or lien priority with respect to the collateral of J.P. Morgan as administrative agent. Under the credit facility, the orderly shutdown of the Paducah GDP, a demobilization of the American Centrifuge project or the exercise by DOE of certain rights to require USEC to transfer the American Centrifuge project or all or any portion of property related to the American Centrifuge project to DOE or its designee, would not result in a material adverse effect.

*Deferred Financing Costs*

Financing costs are generally deferred and amortized over the life of the instrument. A summary of deferred financing costs for the three months ended March 31, 2012 follows (in millions):

| | December 31, 2011 | Additions | Reductions | March 31, 2012 |
|---|---|---|---|---|
| Other current assets: | | | | |
| Bank credit facilities | **$ 2.4** | **$ 8.9** | **$ (2.8)** | **$ 8.5** |
| | | | | |
| Deferred financing costs (long-term): | | | | |
| Convertible notes | $ 5.5 | $ - | $ (0.5) | $ 5.0 |
| ACP project | 6.7 | - | (0.1) | 6.6 |
| Deferred financing costs | **$ 12.2** | **$ -** | **$ (0.6)** | **$ 11.6 0** |

*Off-Balance Sheet Arrangements*

Other than the letters of credit issued under the credit facility, surety bonds, contractual commitments and the license agreement with DOE relating to the American Centrifuge technology disclosed in our 2011 Annual Report, there were no material off-balance sheet arrangements, obligations, or other relationships at March 31, 2012 or December 31, 2011.

**New Accounting Standards Not Yet Implemented**

Reference is made to "New Accounting Standards" in Note 1 of the notes to the consolidated condensed financial statements for information on new accounting standards.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

At March 31, 2012, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate fair value because of the short-term nature of the instruments.

We have not entered into financial instruments for trading purposes. At March 31, 2012, our debt consisted of the 3.0% convertible senior notes with a balance sheet carrying value of $530.0 million and a credit facility term loan of $85.0 million. The fair value of the convertible notes, based on the trading price as of March 31, 2012, was $265.0 million. The fair value of the term loan as of March 31, 2012, using the change in market value of an index of loans of similar credit quality based on published credit ratings, was $86.2 million.

The estimated fair value of our convertible preferred stock at March 31, 2012, including accrued paid-in-kind dividends payable April 1, 2012, was equal to the redemption value of $1,000 per share or $91.5 million.

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

- commodity price risk for electric power requirements for the Paducah GDP (refer to "Overview – Cost of Sales for SWU and Uranium" and "Results of Operations – Cost of Sales"), and
- interest rate risk relating to the outstanding term loan and any outstanding borrowings at variable interest rates under our credit facility (refer to "Liquidity and Capital Resources – Capital Structure and Financial Resources").

**Item 4. *Controls and Procedures***

*Effectiveness of Our Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective at a reasonable assurance level.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**USEC Inc.**
**PART II. OTHER INFORMATION**

**Item 1.** ***Legal Proceedings***

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

**Item 1A.** ***Risk Factors***

**Investors should carefully consider the updated risk factors below and the other risk factors in Part I, Item 1A of our 2011 Annual Report on Form 10-K, in addition to the other information in our Annual Report and this Quarterly Report on Form 10-Q.**

***If we do not reach agreement on the potential multi-party arrangement being discussed for the enrichment of DOE depleted uranium at the Paducah gaseous diffusion plant ("GDP") in the near term, we expect to be ramping down Paducah enrichment operations in May 2012, which could have a material adverse effect on our business and prospects.***

A decision regarding whether or not to extend enrichment operations at the Paducah GDP beyond May 2012 must be made in the next few weeks. We have recently been in discussions regarding a potential one-year extension of Paducah enrichment operations through a multi-party arrangement involving the participation of Energy Northwest, a West Coast power supplier, the Bonneville Power Administration, a federal agency within the DOE, the Tennessee Valley Authority ("TVA"), a federally owned corporation and supplier of power to the Paducah plant, and the DOE. The proposed arrangement would involve the enrichment of depleted uranium tails currently owned by DOE to produce U.S. origin LEU. As part of this arrangement, we would enter into an amendment to our existing power contract with TVA to purchase the power needed to operate the Paducah plant through the term of this arrangement. We hope to finalize the agreements among the parties in the near term. However, we have no assurance that we will be successful in reaching agreement with the parties on a timely basis, on acceptable terms, or at all. We have exhausted all other alternatives to support continued enrichment operations at the Paducah GDP and therefore, if we are not successful in finalizing this agreement in the near term, we expect to be ramping down Paducah enrichment operations in May 2012.

Delays in financing construction of the American Centrifuge Plant have made continued efficient operation of our current enrichment plant an important element of our business as we transition to centrifuge production. Without enrichment operations at Paducah beyond May 2012, we would cease commercial enrichment of uranium during this transition period. Absent a definitive timeline for ACP deployment, this could adversely affect our efforts to pursue the American Centrifuge project, to implement the commercial agreement we entered into in March 2011 for the supply of commercial Russian LEU (the "Russian Supply Agreement") or to pursue other options, and could threaten our overall viability.

The shutdown of Paducah enrichment operations could also adversely affect our relationships with a variety of stakeholders, including customers. Customers could ask us to provide additional financial or other assurances of our ability to deliver under existing contracts that could adversely affect our business. A decision to shut down Paducah enrichment operations could also adversely affect our ability to enter into new contracts with customers, including our ability to contract for the output of the American Centrifuge Plant and for the material we purchase under the Russian Supply Agreement. We maintain substantial inventories of SWU that we carefully monitor to ensure we can meet our commitments. Our ability to maintain inventories and to monetize these inventories in order to meet our liquidity requirements could be adversely affected if we lost our right to lease the portions of the Paducah GDP where the inventories are held and could not find alternative space where inventories could be kept.

If we make a decision to not continue enrichment operations at the Paducah GDP beyond May 2012 or to continue for only a short period of time, we could accelerate expenses for certain assets such as previously capitalized leasehold improvements and machinery and equipment related to the Paducah GDP. As of March 31, 2012, net book value of property, plant and equipment included in our consolidated balance sheet was $63 million related to Paducah operations. These assets are being depreciated over their estimated life based on the current lease term through 2016. As of March 31, 2012, we have accrued liabilities for lease turnover costs related to the Paducah GDP of $43 million and depleted uranium disposition of $100 million, included in our other long-term liabilities, that could be accelerated from a cash standpoint and considered as current liabilities if we were to terminate the lease prior to the current expiration date.

We would also expect to incur significant costs in connection with a decision to shut down Paducah enrichment operations, including potential severance costs and curtailment charges related to our defined benefit pension plan and postretirement health and life benefit plans. We could also incur potential liability under ERISA Section 4062(e) as described in the risk factor included in our annual report on Form 10-K: "*We could be required to accelerate the funding of our defined benefit pension plans that could adversely affect our liquidity*."

If a decision is made to shut down Paducah enrichment operations, we would expect to de-lease the Paducah GDP except for certain facilities used for shipping and handling, inventory management and site services that are needed for our ongoing operations, including deliveries to customers of our inventory of LEU and handling of Russian material through 2013 under the Russian Contract or beyond under the Russian Supply Agreement. However, we have no assurance that DOE would accept facilities that we wish to de-lease in the timeframe desired, which could result in additional costs.

We also have no assurance that DOE would allow us to continue to lease portions of the Paducah GDP. Under the 2002 DOE-USEC Agreement, DOE can assume operations of Paducah in the event we cease enrichment operations. There can be no assurance that DOE will not exercise this right. If DOE decides to exercise its right to assume operation of Paducah under the 2002 DOE-USEC Agreement, there is no assurance that their exercise of their rights will not result in additional adverse impacts to us, including interfering with our deliveries to customers, interfering with our ability to sell our inventory and impacting our ability to make sales. All of these factors could have a significant adverse effect on our results of operations and financial condition.

**Our failure to maintain compliance with the listing requirements of the New York Stock Exchange (NYSE) could result in a delisting of our common stock, which could require us to repurchase our convertible notes for cash and trigger a default under our credit facility.**

Our failure to meet any of the following listing standards of the NYSE could result in a delisting of our common stock from the NYSE: (1) our average closing price is less than $1.00 over a consecutive 30 trading-day period; (2) our average market capitalization is less than $50 million over a consecutive 30 trading-day period and, at the same time, our stockholders' equity is less than $50 million; or (3) our average market capitalization is less than $15 million over a consecutive 30 trading-day period. Even if we meet the numerical listing standards above, the NYSE reserves the right to assess the suitability of the continued listing of a company on a case-by-case basis whenever it deems it appropriate and will consider factors such as unsatisfactory financial conditions and/or operating results or inability to meet debt obligations or adequately finance operations. On April 19, 2012, our closing share price fell below a closing price of $1.00 and has remained at that level. If our share price continues at its current trading level, we will fall below the NYSE minimum share price criteria as described above in the near future and the NYSE may take steps to suspend or delist our common stock.

The first step in this process would be that we would likely receive a continued listing standards notice from the NYSE that our average closing share price is less than $1.00 over a consecutive 30 trading-day period. Our receipt of this notice could have a negative effect on the price of our common stock. Under NYSE rules, we would have six months following receipt of this notification to bring our share price and 30 trading-day average closing share price back above $1.00 or be subject to suspension and delisting procedures.

A delisting of our common stock by the NYSE and the failure of our common stock to be listed on another national exchange could have significant adverse consequences. A delisting would likely have a negative effect on the price of our common stock and would impair shareholders' ability to sell or purchase our common stock. As of March 31, 2012, we had $530 million of convertible notes outstanding. A "fundamental change" is triggered under the terms of our convertible notes if our shares of common stock are not listed for trading on any of the NYSE, the American Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market. The receipt of a NYSE continued listing standards notification described above would not trigger a fundamental change. If a fundamental change occurs under the convertible notes, the holders of the notes can require us to repurchase the notes in full for cash. We do not have adequate cash to repurchase the notes. In addition, the occurrence of a fundamental change under the convertible notes that permits the holders of the convertible notes to require a repurchase for cash is an event of default under our credit facility. Accordingly, our inability to maintain the continued listing of our common stock on the NYSE or another national exchange would have a material adverse effect on our liquidity and financial condition and would likely require us to file for bankruptcy protection.

We have not yet determined any specific action or response to take in response to a NYSE notification. If our share price continues to trade below $1.00 per share, subject to shareholder approval, we may consider, among other actions or responses, a reverse stock split of our common stock. However, there can be no assurance that our shares will remain listed on the NYSE or that any reverse stock split that may be completed will increase our share price sufficiently to permit us to continue to satisfy the NYSE's listing standards.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) First Quarter Issuer Purchases of Equity Securities

| **Period** | **(a) Total Number of Shares (or Units) Purchased(1)** | **(b) Average Price Paid Per Share (or Unit)** | **(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs** | **(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs** |
|---|---|---|---|---|
| January 1 – January 31 | - | - | - | - |
| February 1 – February 29 | - | - | - | - |
| March 1 – March 31 | 310,171 | $1.33 | - | - |
| **Total** | **310,171** | **$1.33** | - | - |

(1) These purchases were not made pursuant to a publicly announced repurchase plan or program. Represents 310,171 shares of common stock surrendered to USEC to pay withholding taxes on shares of restricted stock under the Company's equity incentive plan.

**Item 3.** ***Defaults Upon Senior Securities***

As permitted by the certificate of designation of the Series B-1 12.75% convertible preferred stock, par value $1.00 per share, our board of directors has the discretion to declare or not to declare any quarterly dividends for the Series B-1 preferred. Dividends on the Series B-1 preferred are payable quarterly (on January 1, April 1, July 1 and October 1), at the Company's election, in cash or in additional shares of Series B-1 preferred. The Company is currently restricted under its credit facility from paying cash dividends. The Company's board of directors did not declare dividends on the Series B-1 preferred on the regular quarterly dividend payment dates of January 1, 2012 and April 1, 2012 and the aggregate arrearage is $5.6 million. The Company has determined to defer declaring any dividends at this time due to the Company's net loss reported for the year ended December 31, 2011 and for the three months ended March 31, 2012. In accordance with the terms of the certificate of designation for the Series B-1 preferred, dividends not declared are added to the liquidation preference for the Series B-1 preferred. As of March 31, 2012, there were 85,903 shares of Series B-1 preferred outstanding with an aggregate liquidation preference of $88.6 million ($91.5 million as of April 1, 2012 after taking into account the April 1, 2012 accrued dividend).

**Item 6.** ***Exhibits***

| | |
|---|---|
| 3.1 | Amended and Restated Bylaws of USEC Inc., dated March 9, 2012, incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on March 13, 2012. |
| 10.1 | Amendatory Agreement (Supplement No. 8) dated March 21, 2012, to the Power Contract between Tennessee Valley Authority and the United States Enrichment Corporation, dated July 11, 2000, as amended. |
| 10.2 | Fourth Amended and Restated Credit Agreement dated as of March 13, 2012, among USEC Inc., United States Enrichment Corporation, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative and collateral agent, and the revolving joint book managers, revolving joint lead arrangers and other agents parties thereto, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on March 13, 2012. |
| 10.3 | Fourth Amended and Restated Pledge and Security Agreement, dated as of March 13, 2012, by USEC Inc., United States Enrichment Corporation and NAC International, Inc., in favor of JPMorgan Chase Bank, N.A., as administrative and collateral agent for the lenders, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed on March 13, 2012. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1 | Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350. |
| 101 | Consolidated condensed financial statements from the quarterly report on Form 10-Q for the quarter ended March 31, 2012, furnished in interactive data file (XBRL) format. |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**USEC Inc.**

Date: May 2, 2012

By: /s/ John C. Barpoulis
**John C. Barpoulis**
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**EXHIBIT INDEX**

| Exhibit No. | Description |
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**EXHIBIT 3.1**

# AMENDATORY AGREEMENT
# Between
# TENNESSEE VALLEY AUTHORITY
# And
# UNITED STATES ENRICHMENT CORPORATION

Date: 3/21/12 TV-05356W, Supp. No. 8

THIS AGREEMENT, made and entered into by and between TENNESSEE VALLEY AUTHORITY (TVA), a corporation created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended (TVA Act), and UNITED STATES ENRICHMENT CORPORATION (USEC), a corporation created and existing under the laws of the State of Delaware;

**W I T N E S S E T H:**

WHEREAS, USEC has been purchasing power from TVA under Power Contract TV-05356W, dated July 11, 2000, as amended (Power Contract), for the operation of the USEC uranium enrichment facility near Paducah, Kentucky that USEC leases from the United States Department of Energy (DOE); and

WHEREAS, TVA and USEC wish to extend the term of the Power Contract;

NOW, THEREFORE, for and in consideration of the premises and of the mutual agreements hereinafter set forth, and subject to the provisions of the TVA Act, the parties mutually agree as follows:

**SECTION 1 - DEFINITIONS**

Initial capped and underlined terms used in this agreement which are defined in Article I of the Power Contract shall have the meaning there defined.

**SECTION 2 - EXTENSION OF THE POWER CONTRACT**

Effective as of the date stated above (Effective Date), section 2.1 of the Power Contract is hereby replaced with the following:

"This Contract shall become effective as of the date first above written and shall continue in effect through September 30, 2012."

**SECTION 3 - AVAILABILITY OF ELECTRIC SUPPLY FROM TVA**

It is expressly recognized and agreed that nothing in this agreement makes any power or energy available to USEC during the extended term of the Power Contract, or obligates USEC to purchase or take delivery of any power during such extended term. Rather, any such power or energy to be made available by TVA to USEC, and any obligations of USEC to purchase or take delivery, shall be provided for only by a transaction for Additional Energy entered into between USEC and TVA pursuant to section 2.2(e) of the Power Contract.

**SECTION 4 - INTERRUPTIBILITY OF BASELINE ENERGY**

The conditions under which the availability of Interruptible Baseline Energy may be suspended by TVA are defined in Attachment 2 of the Power Contract. From and after the Effective Date of this agreement and subject to the other provisions of the Power Contract, Attachment 2 shall be replaced with Exhibit A, which is attached to and made a part of this agreement and the Power Contract. All references in the Power Contract to Attachment 2 shall be deemed to refer to Exhibit A.

**SECTION 5 - RATIFICATION OF THE POWER CONTRACT**

The Power Contract, as amended hereby, is ratified and confirmed as the continuing obligation of TVA and USEC.

**SECTION 6 – CONFIDENTIALITY**

It is expressly understood and agreed by TVA that USEC shall be permitted to file this amendment as an exhibit to its public filings with the Securities and Exchange Commission and disclose its terms publicly.

IN WITNESS WHEREOF, the parties to this agreement have caused it to be executed by their duly authorized representatives, as of the day and year first above written.

**TENNESSEE VALLEY AUTHORITY**

By /s/ T. D. Kilgore 3/21/2012
Title: President & CEO

**UNITED STATES ENRICHMENT CORPORATION**

By /s/ John M. A. Donelson 3/21/12

**EXHIBIT A**

**INTERRUPTIBILITY OF BASELINE ENERGY**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Total Power Level* | One Hour Notice | Two Hour Notice | Day Ahead Notice | Friday of Prior Week Notice |
| 1,300 and above MW | 20 MW | 200 MW | 400 MW | All Interruptible Baseline Energy |
| 1,000-1,2999 MW | 20 MW | 100 MW | 300 MW | All Interruptible Baseline Energy |
| 800-999 MW | 20 MW | 50 MW | 200 MW | All Interruptible Baseline Energy |
| **0 -799 MW | 0 MW | 25 MW | 50 MW | All Interruptible Baseline Energy |

*Total Power Level is equal to the power USEC receives at the Paducah Facility from all sources prior to TVA's suspension of Interruptible Baseline Energy. If all power is not being supplied by TVA, USEC shall keep TVA informed of the applicable Total Power Level.
**Notwithstanding the amounts set out in column 1 above, the Firm Baseline Energy amount shall not be reduced below 300 MW through May 31, 2012.

When the Total Power Level falls into the various ranges set forth in column 1, TVA may suspend Interruptible Baseline Energy as specified in columns 2, 3, 4, and 5 provided that:

- with respect to the amounts specified in column 2, TVA gives USEC at least one hour's notice of such a suspension and the suspension shall be for no less than four hours and for no more than twenty four hours, and provided further that:
  - (a) when the Total Power Level is 1,300 MW and above, TVA shall call no more than one suspension per day and no more than 10 suspensions per calendar year,
  - (b) when the Total Power Level is less than 1,300 MW, TVA shall call no more than one suspension per week and no more than 3 suspensions per calendar year,
  - (c) when USEC has provided 14-day notice to TVA that an interruption cannot be achieved during a designated 48-hour period, TVA will not call for suspension during the designated time period, however, USEC can only request this special consideration once every 60-days,
  - (d) in the event of extenuating circumstances and upon mutual agreement of USEC and TVA, USEC may provide 48-hour notice that an interruption cannot be achieved within a designated 48-hour period. TVA will not call for a suspension during the designated time period, however, USEC can only request this special consideration twice every 60 days, and,
  - (e) USEC may rescind a previous non-interruption notice provided in accordance with (c) and (d) above by providing notice to TVA of its intent to do so prior to the beginning of the previously designated period. Any notice that is so rescinded by USEC shall still constitute a request for special consideration under (c) and (d) above.
- with respect to the amounts specified in column 3, TVA gives USEC at least two hours' notice of such a suspension and such notice is given only after or at the same time that TVA seeks to suspend other interruptible products for reliability purposes;
- with respect to the amounts specified in column 4, TVA notifies USEC of a suspension for reliability purposes by no later than 8:00 a.m. central prevailing time of the previous day; and
- with respect to the amounts specified in column 5, TVA notifies USEC of a suspension for reliability purposes by no later than 8:00 a.m. central prevailing time on Friday of the previous week.

If TVA makes an intra-day or day ahead Baseline Buyback(s) from USEC, the amounts in columns 2, 3, and 4 respectively, will be reduced by the corresponding amount.

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, John K. Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 2, 2012

/s/ John K. Welch
**John K. Welch**
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, John C. Barpoulis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 2, 2012

/s/ John C. Barpoulis
**John C. Barpoulis**
Senior Vice President and Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION OF CEO AND CFO PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of USEC Inc. for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. § 1350, John K. Welch, President and Chief Executive Officer, and John C. Barpoulis, Senior Vice President and Chief Financial Officer, each hereby certifies, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USEC Inc.

| | |
|---|---|
| May 2, 2012 | /s/ John K. Welch<br>**John K. Welch**<br>President and Chief Executive Officer |
| May 2, 2012 | /s/ John C. Barpoulis<br>**John C. Barpoulis**<br>Senior Vice President and Chief Financial Officer |

# 3. TVA

- Company Description

# Company Description

## Tennessee Valley Authority (TVA)

The Tennessee Valley Authority, a corporation owned by the U.S. government, provides electricity for 9 million people in parts of seven southeastern states at prices below the national average. TVA, which receives no taxpayer money and makes no profits, also provides flood control, navigation and land management for the Tennessee River system and assists utilities and state and local governments with economic development.

**Founded:** 1933

**Yearly Sales Revenues:** $11.7 billion

**Power Sales:** 167 billion kwh

**Financing:** Receives no appropriated tax dollars

**Bond Rating:** AA+

**Employees:** 12,000

**Yearly Taxes:** Paid nearly $530 million in tax equivalent payments

**Customers:**

- 155 local power distributors
- 50 large industrial customers
- 6 federal installations
- Service to 9 million people in 170 counties in Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee and Virginia

**Generation Assets:**

- 11 fossil plants (52 active units, 7 idle)
- 3 nuclear plants (6 units)
- 29 hydro plants (109 units)
- 1 pumped-storage plant (4 units)
- 9 combustion-turbine sites (87 units)
- 4 combined-cycle sites (11 units)
- 2 diesel-generator sites (9 units)
- 14 solar energy sites
- 1 wind-energy site
- 1 digestor-gas site
- 1 biomass-cofiring site

**Generation Output:**

- 37,294 million kilowatts (net summer capability) capacity
- 167 billion kilowatt-hours of electricity sold to communities and businesses across the TVA region.

**Fuel Used:**

- 37 million tons of coal
- 84 billion cubic feet of natural gas
- 1 trillion cubic feet of water through Chickamauga hydroelectric plant just north of Chattanooga, TN.

**Transmission:**

- Nearly 16,000 miles of transmission lines (enough to span the continent six times)
- 100,000 steel, wood and concrete towers
- 62 interconnections with 14 neighboring electric systems
- 99.999 percent reliability for 12 consecutive years

**Environment:**

By continually working to improve its environmental performance and taking a leadership role in clean-energy development, TVA helps safeguard our natural resources for future generations.

- 49 dams (29 generate electricity)
- 11,000 miles of shoreline
- 600,000 acres of water
- 293,000 acres of land
- More than 9,000 archaeological sites
- $5.1 billion invested in equipment to reduce emissions

**Economic Development:**

TVA helps strengthen the Tennessee Valley region's economy by building business and community partnerships that bring jobs to the region and keep them here. TVA's reliable, competitively priced power makes the region an attractive place to start or expand a business.

- Helped attract or retain more than 43,000 jobs
- Leveraged more than $4.9 billion in capital investment

# 4. Risks

- Risk Register
- Fuel Cost Uncertainty Graphs

# Risk Register

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | **Environmental** | | | | | | | | | | | | | | | | 2 |
| R11 | Environmental | EN may be held responsible for re-depleted DUF6 tails after enrichment. (new tails) | Closed | 3.Possible | 3.Medium | M | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - I | Contract | Provision indicating title of new tails reverts to DOE. | Primary | Preventative | AP6<br><br>AP8 | Refer to AP 6 noted above.<br><br>AP 8 / Eric Rocket<br><br>Monitor DOE's determination on DOE authority and NEPA analysis determination. |
| R20 | Environmental | There is a risk that the tails containers are less robust than assumed, and that environmental contamination results from moving them into the Paducah plant. | Closed | 3.Possible | 2.Low | L | 3.Possible | 1.Insignificant | L | Yes | C8 - N | Contract | Assure DOE and/or USEC (transporters) retains responsibility for any environmental issues. Include cylinders must meet established regulatory requirements for transportation. (Shipper has the risk) | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| 3 | **Financial – Access to Capital** | | | | | | | | | | | | | | | | 3 |
| R26 | Financial – Access to Capital | Insufficient demand for the bonds resulting in inability to obtain adequate financing for the transaction. | Active - Monitoring | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 1.Insignificant | L | Yes | C12 | Extend ST Financing | Extend ST bond to address performance delay. | Primary | Preventative | AP10 | AP 10 / Greg Armatrout<br><br>Monitor performance and implement control if performance trigger occurs |
| R26 | Financial – Access to Capital | Insufficient demand for the bonds resulting in inability to obtain adequate financing for the transaction. | Active - Monitoring | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 1.Insignificant | L | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: This is a low risk. Demand for taxable bonds will absorb our financing needs per BPA/EN's Financial Advisor. | Primary | Preventative | None | None |
| R26 | Financial – Access to Capital | Insufficient demand for the bonds resulting in inability to obtain adequate financing for the transaction. | Active - Monitoring | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 1.Insignificant | L | Yes | C8 - V | Contract | Unwinding provision in all contracts should EN not be able to attend long term bond financing. | Primary | Preventative | None | None |
| 3 | **Financial – Credit / Supplier Default/Liquidity** | | | | | | | | | | | | | | | | 3 |
| R17 | Financial – Credit / Supplier Default/Liquidity | Delay in performance may impact short term financing mitigation (control 6 would be impacted) | Active - Monitoring | 3.Possible | 2.Low | L | 3.Possible | 2.Low | L | Yes | C12 | Extend ST Financing | Extend ST bond to address performance delay. | Primary | Preventative | AP10 | AP 10 / Greg Armatrout<br><br>Monitor performance and implement control if performance trigger occurs |
| R17 | Financial – Credit / Supplier Default/Liquidity | Delay in performance may impact short term financing mitigation (control 6 would be impacted) | Active - Monitoring | 3.Possible | 2.Low | L | 3.Possible | 2.Low | L | Yes | C22 | Contract | Monitor USEC performance against contract requirements on a frequent (minimum ever two weeks) basis to pro-actively identify USEC going concern or performance issues. | Primary | Detective | AP18 | AP 18 / Scott Praetorius and Greg Armatrout<br><br>Develop key risk indicators or performance threshold criteria for frequent monitoring and off-ramp decision points. Monitoring report should be distributed to the Senior Management and Risk Committee for review |
| R17 | Financial – Credit / Supplier Default/Liquidity | Delay in performance may impact short term financing mitigation (control 6 would be impacted) | Active - Monitoring | 3.Possible | 2.Low | L | 3.Possible | 2.Low | L | Yes | C8 - S, T, U | Contract | S- Establish minimum (not to exceed) performance (quantity and timing) expectations within the contract – USEC-EN<br>T - Establish USEC status reporting requirements<br>U - Establish off-ramps or decision points which align with Control 20 performance criteria | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| 3 | **Financial – Financial Markets** | | | | | | | | | | | | | | | | 3 |
| R16 | Financial – Financial Markets | Interest rate risk. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 2.Unlikely | 5.Significant | M | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>Acceptance Note - sensitivity analysis indicates significant movement of interest rate could be absorbed in the current financial criteria and the transaction would still be of significant economic value. | Primary | Preventative | AP4 | Refer to AP 4 noted above. |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R35 | Financial – Financial Markets | There is a risk that Columbia's license will not be renewed, and that fuel inventory EN obtained via the deal will not be used in Columbia but sold on the market at a currently unknown price.<br><br>No longer a valid risk. Columbia license renewal should occur by end of may. | Closed | 2.Unlikely | 2.Low | L | 2.Unlikely | 2.Low | L | Yes | N/A | Accept With Out Mitigation | Acceptance Notes: Accept residual risk. A business case has been generated indicating if no material were sold to a 3rd party, the transaction continues to have significant economic value to EN. Columbia can utilize all of the EUP with the expected License extension<br><br>Risk Status Notes: Indication of license renewal approval has been provided to Senior Management. | N/A | N/A | None | None |
| R5 | Financial – Financial Markets | If USEC enters bankruptcy and therefore does not complete delivery, and EN contracts for sale of EUP to TVA, EN could be exposed to purchase price risk for obtaining replacement EUP. | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C8 - M | Contract | Create contingency clause in EN-TVA contract so that EN delivery obligations to TVA are scaled back if DOE does not deliver material of sufficient quality and quantity to complete the planned enrichment at the agreed-upon cost. | Primary | Preventative | AP6 | AP 6 / Bob Dutton<br><br>Ensure mitigation attributes are addressed in each applicable contract before approval. |
| 2 | **Financial – Liquidity/ Bonding Rating** | | | | | | | | | | | | | | | | 2 |
| R3 | Financial – Liquidity/ Bonding Rating | It is possible that increasing the amount of outstanding debt for which BPA is responsible could affect BPA's bond rating. | Active - Monitoring | 2.Unlikely | 4.High | M | 2.Unlikely | 2.Low | L | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: Public Financial Management is EN's financial advisor.<br><br>Inhering risk based on issuing the LT bonds with a premium due to rating down grade.<br><br>Strategy can be to not issue LT bonds. | Primary | Preventative | AP3 | AP 3 / Greg<br><br>Ties to 4.11.12 EN Risk Committee action #17<br><br>Clarify reasons per expert input why the proposal could help or hurt BPA's bond rating. |
| R3 | Financial – Liquidity/ Bonding Rating | It is possible that increasing the amount of outstanding debt for which BPA is responsible could affect BPA's bond rating. | Active - Monitoring | 2.Unlikely | 4.High | M | 2.Unlikely | 2.Low | L | Yes | C8 - W | Contract | Include provision for an exit ramp should there be indication the transaction will downgrade the bond rating, EN and BPA will evaluate options and have the right to terminate the transaction. | Primary | Preventative | AP3 | AP 3 / Greg<br><br>Ties to 4.11.12 EN Risk Committee action #17<br><br>Clarify reasons per expert input why the proposal could help or hurt BPA's bond rating. |
| 3 | **Hazard** | | | | | | | | | | | | | | | | 3 |
| R40 | Hazard | Property Loss: Lack of physical security and control over (including loss, or damage via sabotage or a natural disaster, etc.) enriched uranium material inventory EN holds title to and is stored in an off-site location. NOTE: Stored material is not covered under EN's general liability policy. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 1.Highly Unlikely | 3.Medium | L | Yes | C23 | Insurance | Insurance policy up to 10% the value of the stored martial.<br><br>NOTE: not yet placed. | Primary | Preventative | AP19 | AP 19 / Cristina Reyff<br><br>Place insurance policy. (in process) |
| R40 | Hazard | Property Loss: Lack of physical security and control over (including loss, or damage via sabotage or a natural disaster, etc.) enriched uranium material inventory EN holds title to and is stored in an off-site location. NOTE: Stored material is not covered under EN's general liability policy. | Active - Monitoring | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - P | Contract | Add into storage agreement that DOE retains risk of loss for EN stored material.<br><br>Mitigation determined during negotiations to be unachievable. | N/A | N/A | N/A | N/A |
| R41 | Hazard | An event occurs at EN's nuclear fuel storage location which causes a nuclear energy liability. | Closed | 2.Unlikely | 5.Significant | M | 1.Highly Unlikely | 1.Insignificant | L | Yes | C8 - Q | Contract | Determined to not be EN's risk. However, a provision will be included within the EN/DOE contract that DOE provides EN with nuclear indemnity for stored enriched uranium | Primary | Preventative | AP6<br><br>AP19 | Refer to AP 6 noted above. |
| 9 | **Operational – Errors** | | | | | | | | | | | | | | | | 9 |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R1 | Operational – Errors | This complex proposal is being crafted, modified, analyzed and turned into contracts very rapidly. This heightens the risk of mistakes or overlooking important risks and details. | Active - Monitoring | 4.Probable | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C1 | Verification and Validation | Internal and external verification and validation of the deal structure and financial model (not contractual) to occur prior to approval of contracts. (Note: also included technical validation and review of current fuel plan impact) | Primary | Preventative | AP1 | COMPLETE 4.17.12<br>AP 1 / Cristina Reyff<br><br>Ties to 4.11.12 EN Risk Committee action #6<br><br>Identify internal and external independent reviewer to verify and validate details |
| R1 | Operational – Errors | This complex proposal is being crafted, modified, analyzed and turned into contracts very rapidly. This heightens the risk of mistakes or overlooking important risks and details. | Active - Monitoring | 4.Probable | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C13 | Contingency | A contingency has been established to address uncertainties. $12M uncommitted as of 5.4.12. | Secondary | - | AP11 | AP 11 / Eric Rocket and Greg Armatrout<br><br>Monitor contingency as assumptions are validated, the deal is solidified, and the ongoing transactions are processed in accordance with contract requirements. |
| R1 | Operational – Errors | This complex proposal is being crafted, modified, analyzed and turned into contracts very rapidly. This heightens the risk of mistakes or overlooking important risks and details. | Active - Monitoring | 4.Probable | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions. | Primary | Preventative | None | None. This is actively taking place at the senior and manager level. |
| R1 | Operational – Errors | This complex proposal is being crafted, modified, analyzed and turned into contracts very rapidly. This heightens the risk of mistakes or overlooking important risks and details. | Active - Monitoring | 4.Probable | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C3 | Cross-Functional Team | Utilize a cross-departmental and agency team of knowledgeable individuals to develop the deal structure and ensure important aspects are properly addressed. | Primary | Preventative | None | None. This is actively taking place at all levels. |
| R1 | Operational – Errors | This complex proposal is being crafted, modified, analyzed and turned into contracts very rapidly. This heightens the risk of mistakes or overlooking important risks and details. | Active - Monitoring | 4.Probable | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C4 | Senior Leadership Oversight | Ensure ongoing senior leadership oversight and engagement throughout the development process to ensure alignment with expected outcomes and risk tolerance levels have not been exceeded. | Primary | Preventative | None | None. This is actively taking place. |
| R24 | Operational – Errors | Enrichment costs charged by USEC may be higher than expected. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 1.Insignificant | L | Yes | C8 - A | Contract | Contract provision to lock enrichment production at 5 million SWU. And lock to SWU rate. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R25 | Operational – Errors | LT bond interest rate may be higher than expected per the financial model. | Active - Monitoring | 3.Possible | 5.Significant | H | 2.Unlikely | 2.Low | L | Yes | C13 | Contingency | A contingency has been established to address uncertainties. $12M uncommitted as of 5.4.12. | Secondary | - | AP11 | AP 11 / Eric Rocket and Greg Armatrout<br><br>Monitor contingency as assumptions are validated, the deal is solidified, and the ongoing transactions are processed in accordance with contract requirements. |
| R25 | Operational – Errors | LT bond interest rate may be higher than expected per the financial model. | Active - Monitoring | 3.Possible | 5.Significant | H | 2.Unlikely | 2.Low | L | Yes | C6 | Financing Strategy | Proposed financing option uses multi phase financing approach to minimize interest rate risk as well as the potential impacts should USEC declare bankruptcy or simply not perform. | Primary | Preventative | AP4 | AP 4 – refer to details noted above |
| R27 | Operational – Errors | Revenue from any planned sales of uranium will be lower than expected. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 1.Insignificant | L | Yes | C8 - B | Contract | Include provision to lock or fix the price for planned EN sales of uranium to identified buyer within associated contract(s) | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| 6 | **Operational – People and Process** | | | | | | | | | | | | | | | | 6 |
| R15 | Operational – people and process | Inadequate contract administration | Active - Monitoring | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C11 | Established Fuel Procurement Processes | EN Fuel Procurement Program has defined and formal processes in place to ensure complete and accurate administration over fuel contracts and inventory transactions. | Primary | Preventative | None | None |
| R21 | Operational – People and Process | There is a risk that inadequate tracking of the various steps in the multi-year process of the deal would either make explaining the deal more difficult, or cause concern that the deal or its management was imprudent. | Active - Monitoring | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C11 | Established Fuel Procurement Processes | EN Fuel Procurement Program has defined and formal processes in place to ensure complete and accurate administration over fuel contracts and inventory transactions. | Primary | Preventative | None | None |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R21 | Operational – People and Process | There is a risk that inadequate tracking of the various steps in the multi-year process of the deal would either make explaining the deal more difficult, or cause concern that the deal or its management was imprudent. | Active - Monitoring | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C17 | Schedule & Milestones | Create a schedule and plan for tracking each step of implementing the deal as it is realized and comparing it to the intended outcomes; assign specific milestones, dates, and organizations for each task. | Primary | Preventative | AP16 | AP 16 / Eric Rocket<br><br>Ties to 4.11.12 EN Risk Committee action #5<br><br>Prepare a schedule with milestones of all actions to be taken from today through the remaining life of the program (includes deliveries and payments) Provide schedule to the CFO |
| R32 | Operational – People and Process | May have limited staff resources to administer transaction without impeding other BPA or EN priorities | Active - Monitoring | 3.Possible | 2.Low | L | 2.Unlikely | 2.Low | L | Yes | C24 | Augment Staff | External contractors used to add subject matter expertise as well as augment EN staff to eliminate impact on EN's limit operations. | Primary | Preventative | AP12 | AP 12 / EN and BPA Senior Management<br><br>• Clarify whether any post-decision phases of the deal will require BPA or EN staff time (e.g., work on multiple bond issuances, repurposing bond proceeds, modifying EN's current Fuel Management Plan)<br><br>• Assess whether staff time involvement is worthwhile considering benefits BPA and EN would receive. |
| R34 | Operational – People and Process | There is a risk that the EN Executive Board rejects the acquiring of debt for this program or that the Participants' Review Board's review results in a letter recommending the Executive Board not approve. (After the contract has been signed) | Closed | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 5.Significant | M | Yes | C15 | Executive Board Approval Process | EN Executive Board approval will be obtained in accordance with requirements prior to entering into the contractual obligations. | Primary | Preventative | AP14 | AP 14 / Rochelle Olson<br><br>Ties to 4.11.12 EN Risk Committee action #1<br><br>Schedule of actions needed and paperwork needed for Board and Committee approvals (what and when) |
| R34 | Operational – People and Process | There is a risk that the EN Executive Board rejects the acquiring of debt for this program or that the Participants' Review Board's review results in a letter recommending the Executive Board not approve. (After the contract has been signed) | Closed | 1.Highly Unlikely | 5.Significant | M | 1.Highly Unlikely | 5.Significant | M | Yes | C16 | Pre-Communication and Briefings | Pre-communicate deal structure and requirements to Executive Board Members and other deemed necessary to allow time to address questions and concerns under a short approval timeline. | Primary | Preventative | AP15 | AP 15 / Brent Ridge<br><br>Ties to 4.11.12 EN Risk Committee action #2<br><br>Call Executive Board Members + others you determine to brief them about the fuel deal |
| 1 | **Operational – Unrealistic Budget** | | | | | | | | | | | | | | | | 1 |
| R18 | Operational – Unrealistic Budget | Unidentified costs in the transaction and financial analysis may result in reduced or inadequate benefits. | Active - Monitoring | 3.Possible | 5.Significant | H | 3.Possible | 2.Low | L | Yes | C13 | Contingency | A contingency has been established to address uncertainties. $12M uncommitted as of 5.4.12. | Secondary | - | AP11 | AP 11 / Eric Rocket and Greg Armatrout<br><br>Monitor contingency as assumptions are validated, the deal is solidified, and the ongoing transactions are processed in accordance with contract requirements. |
| 1 | **Regulatory & Legal – Compliance** | | | | | | | | | | | | | | | | 1 |
| R2 | Regulatory & Legal – Compliance | BPA must be able to back EN bonds and repay them. We are unsure of BPA's authority to repay bonds for this proposal under the Net Billing agreement between BPA and EN. Without this authority, it is very unlikely that BPA could enter into the deal. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 5.Significant | M | Yes | C5 | Obtain Legal Opinion | Obtain a formal opinion from both EN and BPA internal and external counsel. (4 aligned opinions) | Primary | Preventative | AP2 | AP 2 / Greg Armatrout and Bob Dutton<br><br>Ties to 4.11.12 EN Risk Committee actions #12 and 16<br><br>4/13/12 Conference call to discuss obtaining required formal opinions.<br><br>Ensure opinions have been obtained before entering into any contracts. |
| 15 | **Regulatory & Legal – Counter Party Performance** | | | | | | | | | | | | | | | | 15 |
| R10 | Regulatory & Legal – Counter Party Performance | The feedstock tails provided may have an assay level lower than .44%, making it impossible to produce the agreed-upon EUP with the agreed-upon amount of SWU. | Active - Monitoring | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | | C20 | NRC 741 Form Requirements | Since this is special nuclear material, USEC is required to sample and verify the material assay and weight for the NRC 741 form prior to delivery. | Primary | Preventative | None | None. |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R10 | Regulatory & Legal – Counter Party Performance | The feedstock tails provided may have an assay level lower than .44%, making it impossible to produce the agreed-upon EUP with the agreed-upon amount of SWU. | Active - Monitoring | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | | C21 | 100% Third Party Verification | 100% third party verification of delivered enriched product within 45 days of delivery to validate average assay is within acceptable limits per contract. | Primary | Preventative | None | None |
| R10 | Regulatory & Legal – Counter Party Performance | The feedstock tails provided may have an assay level lower than .44%, making it impossible to produce the agreed-upon EUP with the agreed-upon amount of SWU. | Active - Monitoring | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - H, V | Contract | H - EN will establish a minimum allowable average feedstock assay.<br>V - 100% third party verification required to validate shipment (quantity and average assay) requirements have been met | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R19 | Regulatory & Legal – Counter Party Performance | There is a risk that the tails are unacceptably contaminated and either cannot be used for enrichment or requires other processing prior to enrichment. (less efficient and/or cannot deliver on designated amount of EUP) | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - L | Contract | Create contingency clauses within DOE contract, requiring DOE to provide substitute tails material and/or pay for any additional processing, with EN authorized to accept or reject cylinders for low assay, contamination, or other causes of unsuitability. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R23 | Regulatory & Legal – Counter Party Performance | USEC general non-performance | Closed | 3.Possible | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C6 | Financing Strategy | Proposed financing option uses multi phase financing approach to minimize interest rate risk as well as the potential impacts should USEC declare bankruptcy or simply not perform. | Primary | Preventative | AP4 | AP 4 – refer to details noted above |
| R23 | Regulatory & Legal – Counter Party Performance | USEC general non-performance | Closed | 3.Possible | 5.Significant | H | 3.Possible | 1.Insignificant | L | Yes | C8 - O, + All Other Attributes | Contract | O - Provision to address USEC nonperformance including minimum timeframe to deliver.<br><br>All Other Attributes - Contract Mitigation. Contract(s) will be structured to provide adequate protection against price increases and potential USEC bankruptcy. Attributes A through W have been identified for mitigation against identified risks. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R31 | Regulatory & Legal – Counter Party Performance | There is a risk that TVA defaults or withdraws from their commitments/contracts. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 2.Unlikely | 3.Medium | M | Yes | C19 | Uniform Commodity Code | Uniform commodity code provides protection to EN to sell unsold product available due to breech of contract. TVA would be legally responsible for any net loss. | Primary | Remedy | None | None |
| R31 | Regulatory & Legal – Counter Party Performance | There is a risk that TVA defaults or withdraws from their commitments/contracts. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 2.Unlikely | 3.Medium | M | Yes | C25 | LOC | TVA to establish a letter of credit (LOC) to mitigate against potential TVA non-performance. | Primary | Preventative | AP5 | AP 5 / Greg Armatrout<br><br>Implement this mitigation activity |
| R31 | Regulatory & Legal – Counter Party Performance | There is a risk that TVA defaults or withdraws from their commitments/contracts. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 2.Unlikely | 3.Medium | M | Yes | C8 - J, K | Contract | J - Provision to state that TVA is not able to terminate for convenience (federal agency)<br>K - Provision to address TVA nonperformance. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R31 | Regulatory & Legal – Counter Party Performance | There is a risk that TVA defaults or withdraws from their commitments/contracts. | Active - Monitoring | 2.Unlikely | 5.Significant | M | 2.Unlikely | 3.Medium | M | Yes | N/A | Accept Residual Risk | Acceptance Notes: Accept residual risk. A business case has been generated indicating if no material were presold to a 3rd party, the transaction continues to have significant economic value to EN. Columbia can utilize all of the EUP with the expected | N/A | N/A | None | None |
| R42 | Regulatory & Legal – Counter Party Performance | USEC liquidity requirements may impact their ability to perform under the EN-USEC contractual agreement for enrichment services. (non-performance + title) | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: Bankruptcy attorney review of pertinent data and concluded USEC can transfer product with a clean title. | Primary | Preventative | None | None |
| R42 | Regulatory & Legal – Counter Party Performance | USEC liquidity requirements may impact their ability to perform under the EN-USEC contractual agreement for enrichment services. (non-performance + title) | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C8 - All Attributes | Contract | Contract Mitigation – Contract(s) will be structured to provide adequate protection against price increases and potential USEC bankruptcy. Attributes A through W have been identified for mitigation against identified risks. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R43 | Regulatory & Legal – Counter Party Performance | USEC may divert capital provided under the EN-USEC contract to Executive bonuses (AIG scenario). | Closed | 3.Possible | 3.Medium | M | 3.Possible | 3.Medium | M | Yes | C8 - R | Contract | ~~r. Provision to mitigation against golden parachute scenario.~~<br><br>NOTE: This mitigation will not be included within the contract. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R43 | Regulatory & Legal – Counter Party Performance | USEC may divert capital provided under the EN-USEC contract to Executive bonuses (AIG scenario). | Closed | 3.Possible | 3.Medium | M | 3.Possible | 3.Medium | M | Yes | N/A | Accept With Out Mitigation | Acceptance Notes: Senior Management trip to the plant to meet with USEC Senior Management and observe the plant condition. | N/A | N/A | None | None |
| R44 | Regulatory & Legal – Counter Party Performance | USEC may not have the ability to pass a clean title to the LEU. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: Legal advisors confirmed clean title can be passed. | Primary | Preventative | None | None |
| 13 | **Regulatory & Legal – Counter Party Performance (Bankruptcy)** | | | | | | | | | | | | | | | | 13 |
| R13 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | Contract language may be affected by federal bankruptcy law (chapter 7) | Active - Monitoring | 2.Unlikely | 5.Significant | M | 1.Highly Unlikely | 3.Medium | L | Yes | C10 | External Review of Contracts | External review of contracts prior to approval to ensure adequate protection to EN should USEC declare bankruptcy | Primary | Preventative | AP9 | AP 9 / Bob Dutton – Pam Bradley<br><br>Implement control |
| R13 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | Contract language may be affected by federal bankruptcy law (chapter 7) | Active - Monitoring | 2.Unlikely | 5.Significant | M | 1.Highly Unlikely | 3.Medium | L | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R14 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | Standard language in a TVA contract could allow them to terminate for convenience since they are a federal agency | Closed | 3.Possible | 4.High | M | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - J | Contract | Provision to state that TVA is not able to terminate for convenience (federal agency) | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R28 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | There is a risk that USEC will fold before finishing the enrichment after the sale of the bonds, and that the bond proceeds cannot be used on enrichment as planned. Unwinding roughly $800M in bonds could cost as much as $100M. | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: confirmed we can issue taxable bonds which will allow EN to repurpose the bonds if needed. | Primary | Preventative | None | None |
| R28 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | There is a risk that USEC will fold before finishing the enrichment after the sale of the bonds, and that the bond proceeds cannot be used on enrichment as planned. Unwinding roughly $800M in bonds could cost as much as $100M. | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C6 | Financing Strategy | Proposed financing option uses multi phase financing approach to minimize interest rate risk as well as the potential impacts should USEC declare bankruptcy or simply not perform. | Primary | Preventative | AP4<br><br>AP17 | AP 4 – refer to details noted above<br><br>AP 17 / Greg Armatrout<br><br>Bond banker (BAML) to research actual cost of early defeasing of the bonds. |
| R4 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | EN may issue bonds for EUP not received and therefore not sold to TVA, resulting in a need to defease the bonds at great expense to EN and BPA. | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C2 | External Advisor Input | Utilize external expert advisors to address bankruptcy, bond, tax, authority, and financial, and fuel technical questions and assumptions.<br><br>NOTE: confirmed we can issue taxable bonds which will allow EN to repurpose the bonds if needed. | Primary | Preventative | None | None |
| R4 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | EN may issue bonds for EUP not received and therefore not sold to TVA, resulting in a need to defease the bonds at great expense to EN and BPA. | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C6 | Financing Strategy | Proposed financing option uses multi phase financing approach to minimize interest rate risk as well as the potential impacts should USEC declare bankruptcy or simply not perform. | Primary | Preventative | AP4 | AP 4 / Greg Armatrout<br><br>Re-evaluate this risk if the proposed financing approach is not selected. |
| R4 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | EN may issue bonds for EUP not received and therefore not sold to TVA, resulting in a need to defease the bonds at great expense to EN and BPA. (we are sitting on the bonds) | Closed | 3.Possible | 5.Significant | H | 2.Unlikely | 5.Significant | M | Yes | C7 | Positive Arbitrage | To address moderate residual risk (impact of $6M in carrying cost) related to R4 and C6 – Establish and utilize BPA / EN positive arbitrage. | Secondary | Remedy | AP5 | AP 5 / Greg Armatrout<br><br>Implement this mitigation activity |
| R6 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | USEC's first deliveries of EUP may be of non-US origin, with the expectation that USEC will later exchange that product for US-origin EUP. This may impact TVA's ability to take all or a portion of this uranium based on communicated restrictions of only U | Closed | 4.Probable | 2.Low | M | 4.Probable | 1.Insignificant | L | Yes | C8 - F | Contract | EN/TVA sales contract provision to allow satisfaction of EN's obligation with non-US-origin EUP, or be contingent on the quantity of US-origin EUP delivered by USEC. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |

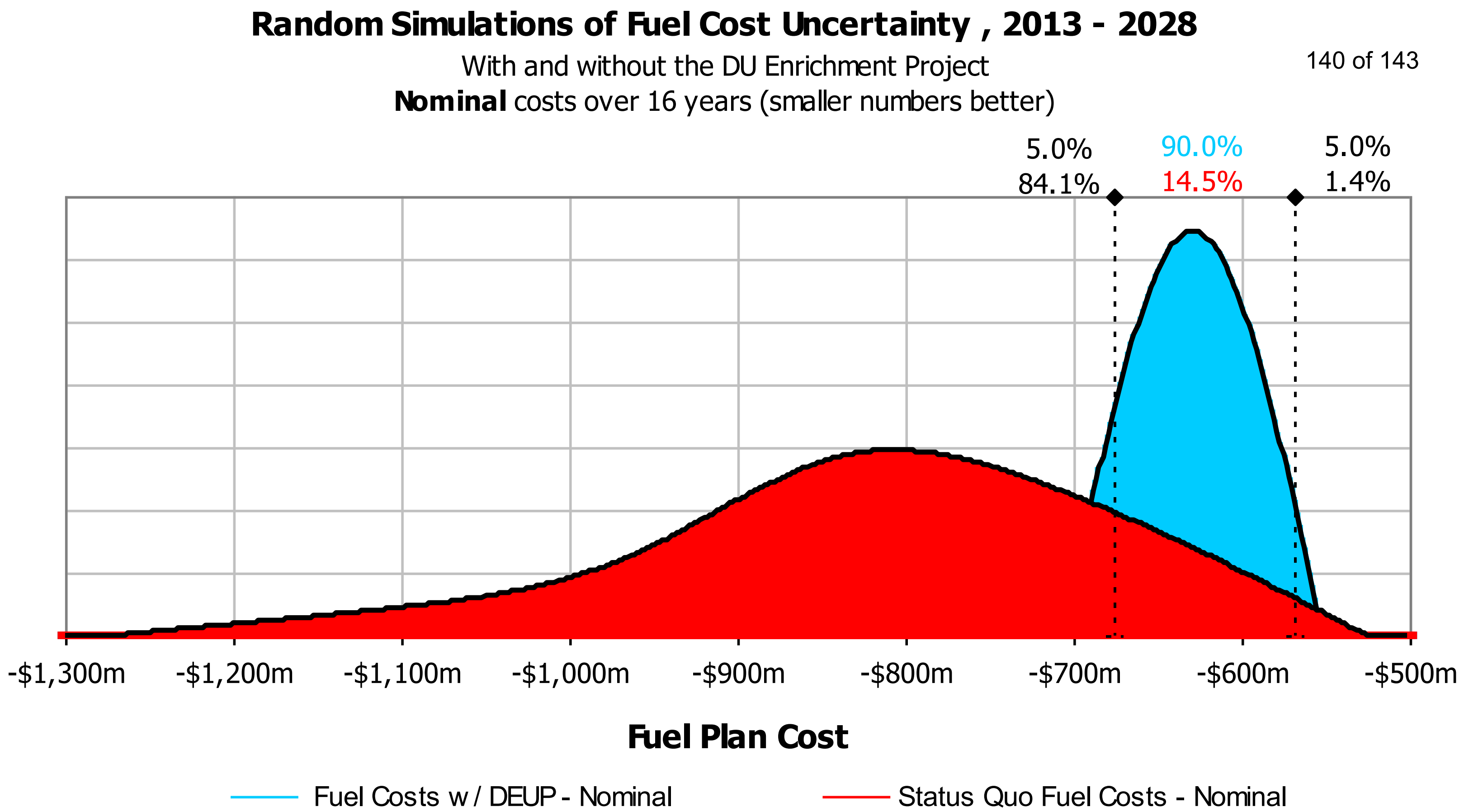
| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R7 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | EN contracts related to this transaction may not properly address partial delivery by USEC and their impact on EN and TVA. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - E, M | Contract | E - Include terms to address the event of partial delivery of EUP from USEC. Specify how partial delivery would impact deliveries or payment specified in the contract between EN and TVA.<br><br>M - Create contingency clause in EN-TVA contract so that EN delivery obligations to TVA are scaled back if DOE does not deliver material of sufficient quality and quantity to complete the planned enrichment at the agreed-upon cost. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R8 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | USEC may enter bankruptcy while in possession of EUP paid for by EN | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - C, D | Contract | C - Ensure the EN-USEC contract calls for payment to USEC only after 3rd party verification of EUP delivery to EN.<br>D - EUP will not be stored on USEC's site. Delivery to DOE and/or another location before EN pays USEC. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R9 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | USEC may enter bankruptcy while in possession of feedstock (initial tails) for which EN has taken title and retains responsibility. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C8 - G | Contract | IF EN to take title of feedstock (initial tails) and/or work in process (WIP) – EN title of feedstock and WIP will automatically revert back to DOE in the event of USEC bankruptcy or other cause of failure to perform. | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R9 | Regulatory & Legal – Counter Party Performance (Bankruptcy) | USEC may enter bankruptcy while in possession of feedstock (initial tails) for which EN has taken title and retains responsibility. | Closed | 3.Possible | 5.Significant | H | 1.Highly Unlikely | 3.Medium | L | Yes | C9 | Take Title of EUP Only<br><br>Determined to be invalid control during transaction negotiations. | ~~Control 9 not required / but desired for improved mitigation~~<br><br>~~EN will only take title of the EUP and not the initial feedstock.~~<br><br>N/A Comment: determined to not be EN's risk. EN has title only. Possession will be by USEC. USEC will adhere to pertinent regulatory requirements. | N/A | N/A | AP7 | AP 7 / Eric Rocket<br><br>Ties to 4.11.12 EN Risk Committee action #10<br><br>Determine whether we can negotiate EN title to EUP only. If no, revert back to C8 contract terms ensure title reverts back to DOE for any un-enriched tails due to USEC bankruptcy;<br><br>Also c |
| 1 | **Regulatory & Legal – Failure to Perform (EN)** | | | | | | | | | | | | | | | | 1 |
| R45 | Regulatory & Legal – Failure to Perform (EN) | Tails Program fuel transaction and concurrent optimization actions may negatively impact EN's ability to perform under existing LT Fuel Contracts. | Closed | 2.Unlikely | 3.Medium | M | 1.Highly Unlikely | 2.Low | L | Yes | C1 | Verification and Validation | Internal and external verification and validation of the deal structure and financial model (not contractual) to occur prior to approval of contracts. (Note: also included technical validation and review of current fuel plan impact) | Primary | Preventative | AP1 | COMPLETE 4.17.12<br>AP 1 / Cristina Reyff<br><br>Ties to 4.11.12 EN Risk Committee action #6<br><br>Identify internal and external independent reviewer to verify and validate details |
| 3 | **Removed Risks** | | | | | | | | | | | | | | | | 3 |
| R12 | Removed Risks | BPA's expectation of title transfer from DOE to EN (and vice-versa) for the initial and new DUF6 does not involve BPA as a party may not be met due to DOE authority and/or NEPA issues. | Closed | N/A | N/A | #N/A | N/A | N/A | #N/A | N/A | N/A | N/A | N/A comment: This is not a valid risk. This is a deal decision point. This will not be evaluated as part of the risk register. | N/A | N/A | N/A | N/A |
| R22 | Removed Risks | There is a risk that EN would be subject to various DOE nuclear regulations if it takes possession of nuclear material | Closed | N/A | N/A | #N/A | N/A | N/A | #N/A | N/A | ~~C9~~ | ~~Take Title of EUP Only~~<br><br>~~Determined to be invalid control during transaction negotiations.~~ | ~~Control 9 not required / but desired for improved mitigation~~<br><br>~~EN will only take title of the EUP and not the initial feedstock.~~<br><br>N/A Comment: determined to not be EN's risk. EN has title only. Possession will be by USEC. USEC will adhere to pertinent regulatory requirements. | N/A | N/A | None | None |
| R30 | Removed Risks | There is a risk USEC will fold after finishing the enrichment but before completing later features of the proposal. | Closed | N/A | N/A | #N/A | N/A | N/A | #N/A | N/A | N/A | N/A | N/A Comment: This is not a valid risk. There are no continued performance actions with USEC upon completion of the enrichment and the deliveries. | N/A | N/A | None | None |
| 9 | **Strategic – Reputation** | | | | | | | | | | | | | | | | 9 |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R29 | Strategic – Reputation | There is a risk that USEC will come under increasing financial stress before completing enrichment and that EN or BPA will be asked to help forestall bankruptcy; for example, by prepaying for some of the enrichment service. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C8 - E | Contract | Include terms to address the event of partial delivery of EUP from USEC. Specify how partial delivery would impact deliveries or payment specified in the contract between EN and TVA.<br><br>NOTE: control 8 is linked here only to demonstrate the relationship and transaction boundaries EN will establish and has determined is acceptable | Primary | Preventative | AP6 | Refer to AP 6 noted above. |
| R29 | Strategic – Reputation | There is a risk that USEC will come under increasing financial stress before completing enrichment and that EN or BPA will be asked to help forestall bankruptcy; for example, by prepaying for some of the enrichment service. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | N/A | Accept | Acceptance Notes: We believe the residual risk of being asked to move outside our agreement is low to moderate. EN and BPA, especially top management, will be alert to this possibility and ready to resist such requests. | N/A | N/A | None | None |
| R33 | Strategic – Reputation | There is a risk that the deal will make BPA's financial relationship with EN more difficult to explain to ratepayers, customers, and other stakeholders. | Active - Monitoring | 2.Unlikely | 2.Low | L | 2.Unlikely | 2.Low | L | Yes | C14 | Public Affairs - Monitoring | EN and BPA Public Affairs to anticipate this and prepare explanatory documents as required. | Primary | Detective | AP13 | AP 13 / EN and BPA Public Affairs<br><br>Monitor for indication of need and implement control. |
| R36 | Strategic – Reputation | Risk of legislators not being supportive or becoming frustrated. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C18 | Public Affairs Communication Process | As part of standard Public Affairs activities, regular and proactive communication throughout this transaction process will occur to ensure they have accurate and timely information that can be used to counter any misinformation they may be receiving from | Primary | Preventative | None | None |
| R37 | Strategic – Reputation | Although this is all uranium material, some anti-nuclear activists may see this as an opportunity to exploit, and generate misinformation for their benefit. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C18 | Public Affairs Communication Process | As part of standard Public Affairs activities, regular and proactive communication throughout this transaction process will occur to ensure they have accurate and timely information that can be used to counter any misinformation they may be receiving from | Primary | Preventative | None | None |
| R38 | Strategic – Reputation | There is a risk that some BPA and/or EN stakeholders object to the Proposal. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C15 | Executive Board Approval Process | EN Executive Board approval will be obtained in accordance with requirements prior to entering into the contractual obligations. | Primary | Preventative | AP14 | Refer to AP 14 above. |
| R38 | Strategic – Reputation | There is a risk that some BPA and/or EN stakeholders object to the Proposal. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C16 | Pre-Communication and Briefings | Pre-communicate deal structure and requirements to Executive Board Members and other deemed necessary to allow time to address questions and concerns under a short approval timeline. | Primary | Preventative | AP15 | Refer to AP 15 above. |
| R39 | Strategic – Reputation | Negative reputation impact at a national level. National pressure. | Active - Monitoring | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | C18 | Public Affairs Communication Process | As part of standard Public Affairs activities, regular and proactive communication throughout this transaction process will occur to ensure they have accurate and timely information that can be used to counter any misinformation they may be receiving from | Primary | Preventative | None | None. |

| Risk Ref. | Risk Category | Risk Description | Risk Status | Inherent Likelihood | Inherent Impact (N1) | Rank | Residual Likelihood | Residual Impact (N1) | Rank | Residual Risk Accepted? N2 | Control Ref. | Control Name | Control Description | Control Type-1 | Control Type-2 | Action Plan Ref. | Action Plan Description |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R39 | Strategic – Reputation | There is a risk that the deal will be viewed after the fact as having worked out poorly. | Closed | 3.Possible | 4.High | M | 3.Possible | 2.Low | L | Yes | N/A | N/A | Acceptance Notes:<br><br>If the risks discussed above have been mitigated adequately, the primary reason for such retrospective judgments relate to uranium prices in 2020 through 2027, in the event the natural uranium EN obtains is used for fuel in Columbia, or prices around 2025 if the natural uranium is sold.<br>1. The first risk is an opportunity risk: it may be that uranium prices in 2020 through 2027 are so low that EN and BPA could have saved money by not agreeing to this deal and waiting to obtain uranium later. This is always a possibility when a commodity is purchased in advance of need. The advance purchase reduces actual cash risk by replacing a planned purchase at unknown price with an actual purchase at a known price.<br>2. The second risk is a two-event cash risk. If (a) Columbia's license is not renewed, and (b) inventory remains from the deal that must be sold at prices below the level assumed in our 2012 analyses, then the proposal will have turned out to deliver less benefit than anticipated.<br>* If the analysis of the deal is | N/A | N/A | None | None. |

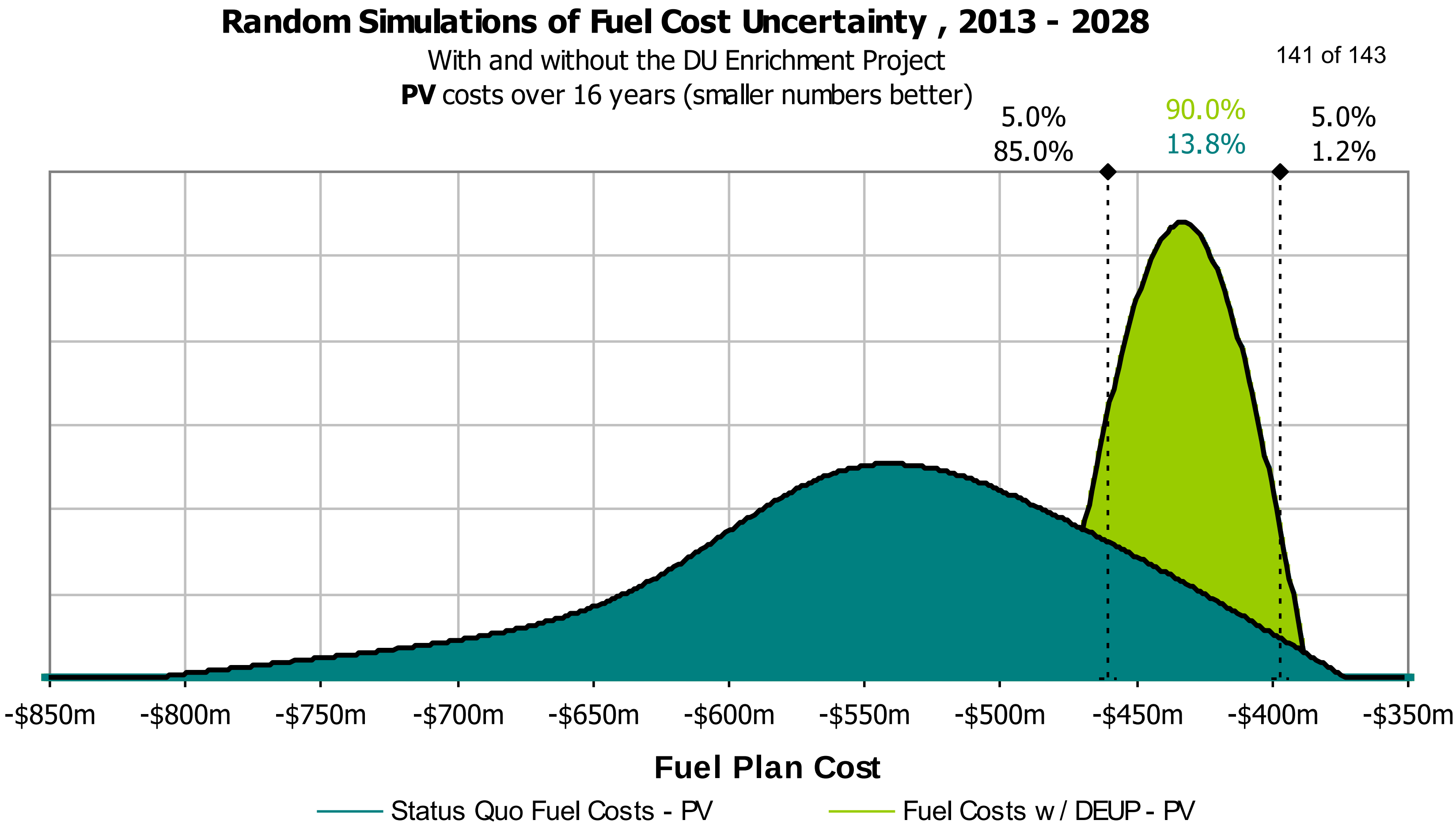
# Fuel Cost Uncertainty Graphs

The graphs display different views of the price uncertainty under the status quo FMP and with the DEUP. Graphs 1 & 2 look at the FMP cost uncertainty associated with the status quo and with the DEUP from a nominal and PV perspective. Graphs 3 & 4 look at the net FMP cost difference between the status quo and with the DEUP on a game by game basis both nominally and in PV terms.



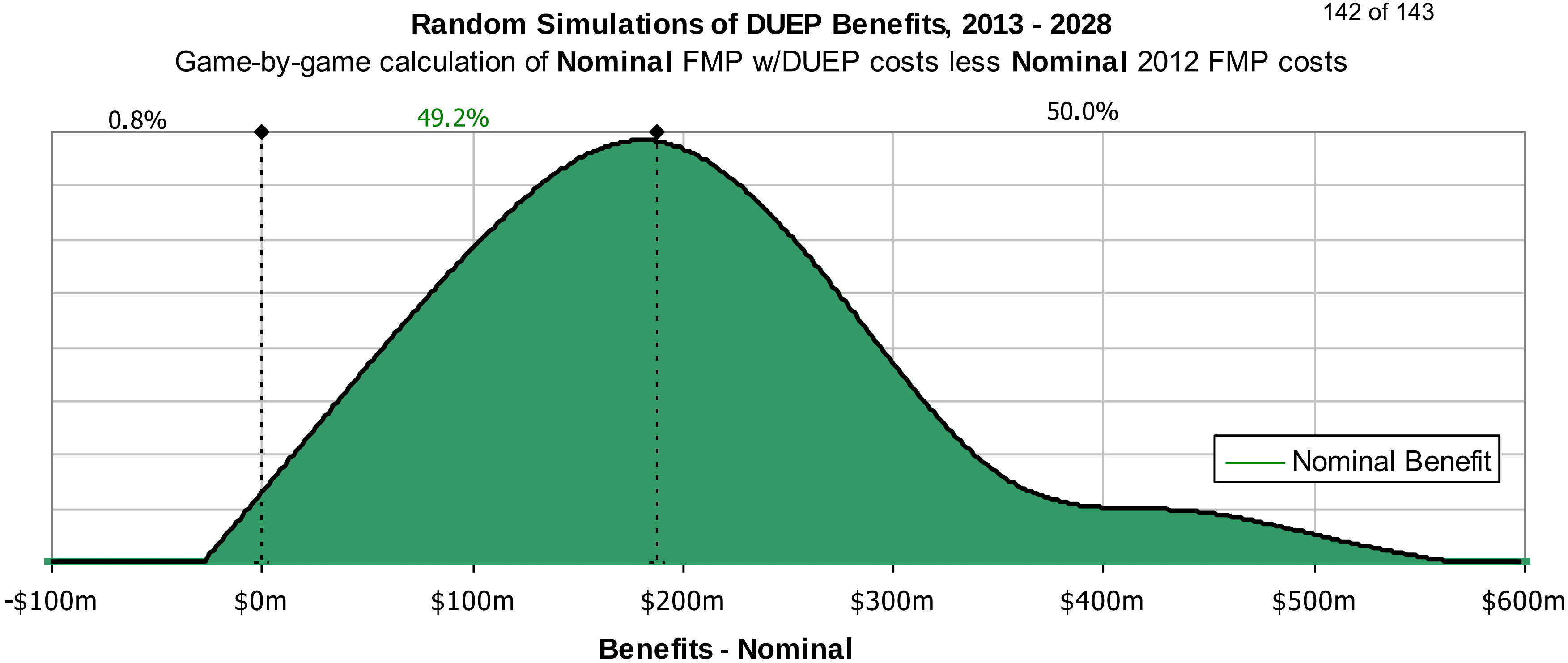

* Randomly-generated price trajectories for U3O8, conversion, and enrichment were generated.
* All fuel and financing costs and sales revenues included.
* Assumes project is completed as planned.

**Conclusion: FMP modified for DUEP has much lower expected value costs, and much less statistical risk (narrower distribution of results ~ smaller Std Dev.)**



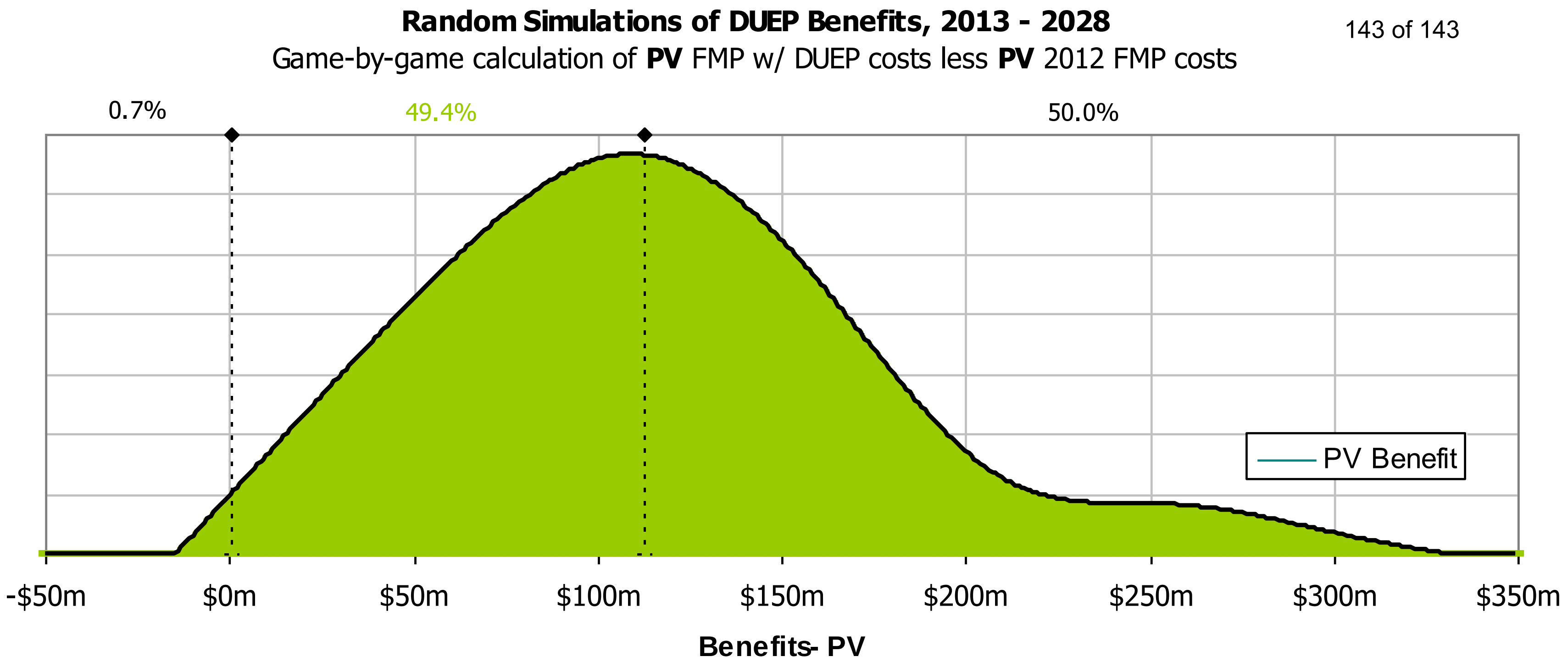

* Randomly-generated price trajectories for U3O8, conversion, and enrichment were generated.
* All fuel and financing costs and sales revenues included.
* Assumes project is completed as planned.
* Because the major uncertainties, fuel costs, were simulated, a high discount rate was not needed to reflect risk, and PVs were calculated at the long-term cost of funds, 4.5%.

**Conclusion: FMP modified for DUEP has much lower expected PV costs, and much less statistical risk (narrower distribution of results ~ smaller Std Dev.)**




* Randomly-generated price trajectories for U3O8, conversion, and enrichment were generated.
* For each data point, the same fuel prices were used in the 2012 FMP and FMP w/DUEP cases.
* A positive value reflects a game in which the PV fuel costs under a FMP w/ DUEP is lower than PV fuel costs under 2012 FMP (FMP w/ DEUP cost minus 2012 FMP cost).
* All fuel and financing costs and sales revenues included.
* Assumes project is completed as planned.

**Conclusion: there are very few simulated price trajectories ( 0.8%) in which the 2012 FMP is cheaper than the DUEP-modified FMP, and those savings are small. In nearly all price trajectories, the DUEP creates savings, and generally quite large.**




* Randomly-generated price trajectories for U3O8, conversion, and enrichment were generated.
* For each data point, the same fuel prices were used in the 2012 FMP and FMP w/DUEP cases.
* A positive value reflects a game in which the PV fuel costs under a FMP w/ DUEP is lower than PV fuel costs under 2012 FMP (FMP w/ DEUP cost minus 2012 FMP cost).
* Because the major uncertainties, fuel costs, were simulated, a high discount rate was not needed to reflect risk, and PV's were calculated at the long-term cost of funds, 4.5%.
* All fuel and financing costs and sales revenues included.
* Assumes project is completed as planned.

**Conclusion: similar to the Nominal view of this same data, there are few simulated price trajectories (0.7%) in which the 2012 FMP is cheaper than the DUEP-modified FMP, and those savings are small.**