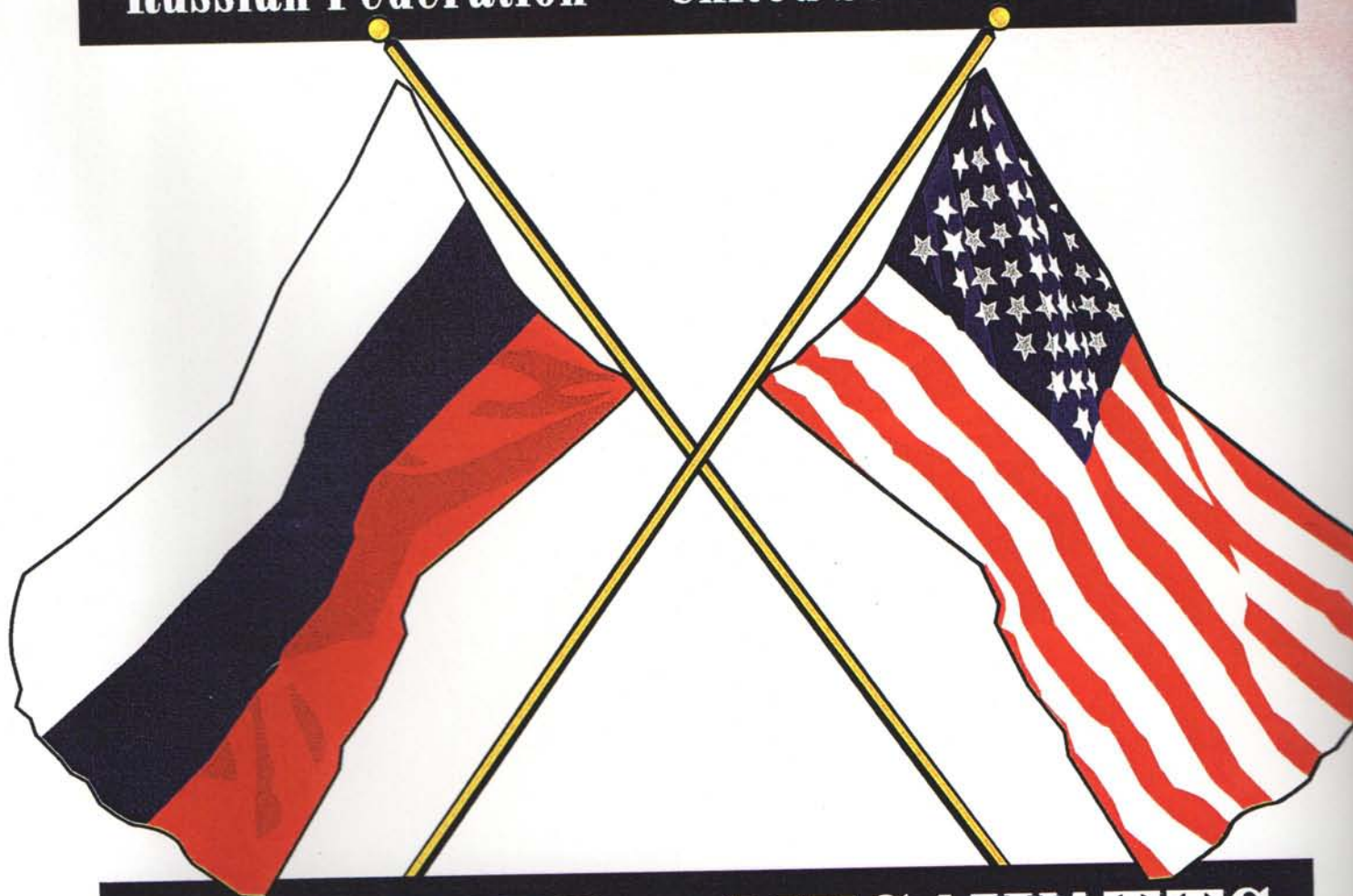


Russian Federation ★ United States of America



MEGATONS to MEGAWATTS

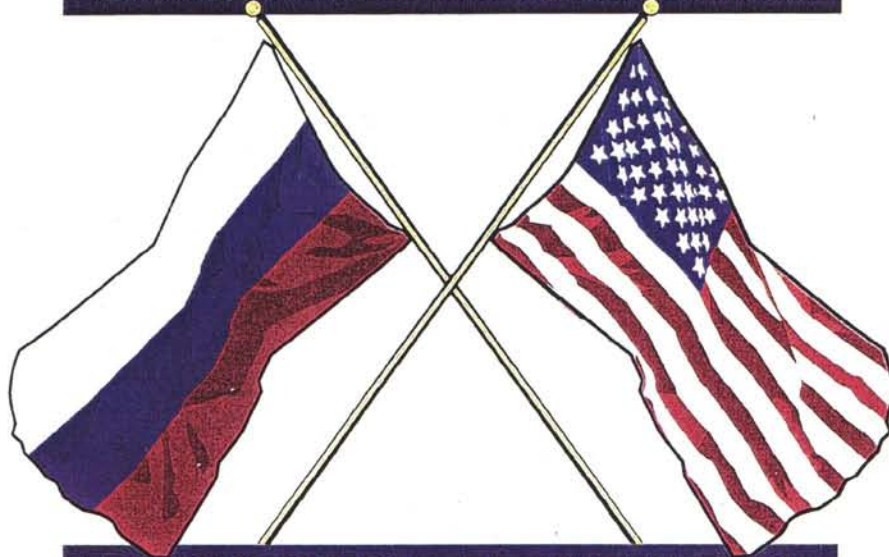
Commemorating the historic 1993 United States and Russian agreement and the 1994 Implementing Contract for conversion of Russian nuclear warheads into fuel for commercial power plants generating electricity for cities, industry, businesses, schools and homes.

МЕГАТОННЫ В МЕГАВАТТЫ

The first shipment of Megatons-to-Megawatts fuel from Krasnoyarsk, Russia, arrived at USEC's Portsmouth, Ohio, facility on June 23, 1995.

TENEX ★ ★ ★ USEC

Russian Federation ★ United States of America



MEGATONS to MEGAWATTS

USEC, EXECUTIVE AGENT FOR THE UNITED STATES GOVERNMENT
TENEX, EXECUTIVE AGENT FOR THE RUSSIAN FEDERATION AND
GNSS, U.S. AGENT FOR TENEX

**TAKE PLEASURE IN INVITING YOU TO A RECEPTION
CELEBRATING THE THIRD ANNIVERSARY OF THE IMPLEMENTATION OF THE**

RUSSIAN HEU TO LEU CONTRACT

TUESDAY, JANUARY 28, 1997, FROM 4:30 TILL 6:30 PM
AFTER THE NEI NUCLEAR FUEL SUPPLY FORUM MEETING

IN THE CITY CENTRE ROOMS ONE AND TWO
SHERATON CITY CENTRE HOTEL, 1143 NEW HAMPSHIRE AVE., NW
(BETWEEN 21ST AND 22ND STREETS)
WASHINGTON, DC



Viktor N. Mikhailov

William H. Timbers, Jr.

(Photo by Ann Burrola)

CONTACT:

USEC Corporate Communications
(301) 564-3391

FOR RELEASE UPON REQUEST:

MEGATONS TO MEGAWATTS CEREMONY MARKS SUCCESS OF PROGRAM

United States Enrichment Corporation (USEC) President and CEO William H. Timbers, Jr. (right) and Minister Viktor N. Mikhailov (left) from the Ministry of Atomic Energy of the Russian Federation (MINATOM) autograph mementos at a ceremony held in Washington, D.C., on January 31, 1996, marking the second year of shipments to USEC of Russian low enriched uranium (LEU) fuel derived from highly enriched uranium (HEU) from former Soviet-era nuclear warheads.

Through this history-making endeavor, nuclear weapons from the former Soviet Union are being transformed into fuel for use in commercial electric power plants. The warheads are being converted as part of a 1994 multibillion dollar, 20-year contract between USEC and Techna-bexport (TENEX), Executive Agent for the Russian Federation. This contract implements a 1993 government-to-government agreement between the United States and the Russian Federation.

The "Megatons to Megawatts" contract stipulates that over a 20-year period, USEC will purchase the enrichment component of the LEU equivalent of 500 metric tons of concentrated HEU from dismantled weapons, diluted to 15,000 metric tons of LEU, currently valued at \$8 billion. The contract will facilitate the transformation of 500 metric tons of HEU -- the equivalent of about 20,000 nuclear warheads into fuel -- for electric power plants. A total of 20 shipments of LEU containing 557 metric tons was received by USEC in 1995 and 1996, and is the HEU equivalent of about 825 nuclear warheads.

USEC, a global energy company, produces and markets uranium enrichment services to 64 utilities that own and operate commercial power plants in 14 countries, including the United States. With headquarters in Bethesda, Maryland, USEC manages gaseous diffusion plants in Paducah, Kentucky, and near Portsmouth, Ohio, and conducts AVLIS development and demonstration activities in Livermore, California. USEC operations include approximately 5,000 people. USEC is a government corporation in the process of privatizing.

Statement by
MINATOM / USEC / TENEX

January 28, 1997

U. S. and Russian Partners Celebrate Third Anniversary of the Signing
of Megatons to Megawatts Contract
Speedup in schedule over next 5 years for converting nuclear warheads into power plant fuel

"The Ministry of Atomic Energy of the Russian Federation (MINATOM); Technobexport (TENEX), Executive Agent for MINATOM; and the United States Enrichment Corporation (USEC), Executive Agent for the U.S. Government, are pleased to note the third anniversary of the historic U.S. and Russian Megatons-to-Megawatts contract signing in Moscow in January 1994.

"This contract is facilitating Russia's conversion of nuclear warhead material into nuclear fuel which USEC purchases and introduces globally for use in commercial nuclear electric power plants. The newest amendment to the contract signed in Moscow now provides a long-term foundation that will support the delivery by 2001 of nearly one-third of the 500 metric tons of highly enriched uranium (HEU) to be delivered under the contract.

"These milestones demonstrate that the partners remain vigorously dedicated to working together and to the continuing conversion of nuclear warheads into useful fuel for power plants. The performance achieved and the third anniversary of this contract auger well for the future."

For further information contact: Charles Yulish, USEC (301) 564-3391

#####

Megatons to Megawatts: It Really Works

BY ALICE CLAMP

Low-enriched uranium made from Russian weapons-grade uranium began arriving in the United States in 14-ton cylinders in mid-1995.

How's this for a movie plot? It's the Cold War. Thousands of ballistic missiles in a mighty communist nation are targeted on the United States. The nation collapses. The new leader of the former communist empire reaches a historic agreement with the U.S. president. Under the pact, megatons of missile warheads are converted into fuel for use by power plants to generate megawatts of electricity.

Forget the film. This isn't fiction. U.S. President Clinton and Russian President Yeltsin agreed to the undertaking in 1993. And last year, nuclear power plants generated thousands of megawatt-hours of electricity using fuel derived from former Soviet

missile weapons material.

The biblical prophecy of "swords into plowshares" has become a nuclear-age reality. The nation's security objective—to destroy Soviet nuclear warheads—is being achieved in the framework of a business arrangement, says William "Nick" Timbers. He's president and CEO of the United States Enrichment Corp. (USEC), which is buying the converted weapons material from Russia and selling it to utility customers.

Acting for their respective governments, USEC and Russia's Ministry of Atomic Energy agreed in January 1994 to dispose of 500 metric tons of highly enriched uranium

from warheads by converting it to low-enriched uranium and selling it to USEC.

On paper, the concept sounded pretty straightforward.

Take apart a Soviet missile—such as the SS20—and remove the warhead "trigger" of highly enriched uranium metal.

Chop the metal into little pieces, process the pieces in a series of chemical steps to pro-

Continued on page 6



First Shipment of Uranium Arrives From Russia

Delivery Comes Amid Argument Over Terms of Deal That Threatens to Cancel Agreement

By Thomas W. Lippman
Washington Post Staff Writer

Sixteen giant canisters of uranium that used to be in Soviet nuclear weapons arrived at a processing plant in Ohio last week, destined now for peaceful use as fuel for nuclear power plants.

The shipment was the first under a 20-year, \$12 billion contract between Russia and the United States under which Russia will dilute 500 metric tons of weapons-grade, highly enriched uranium into conventional nuclear fuel and sell it to the United States.

Its arrival—the first delivery under one of the most ambitious swords-into-plowshares agreements of the post-Cold War era—ought to have been cause for celebration in Washington and Moscow.

Instead, the delivery came almost as a footnote to a furious argument over the terms of the deal that has pitted Americans against Russians in a radioactive bazaar, inspired wrangling and finger-pointing among Clinton administration officials and prompted a senior Russian official to threaten to cancel the agreement.

Stung by accusations in the news media that administration dithering has jeopardized an important national security agreement, senior U.S. officials involved in the bargaining said they doubt that Viktor Mikhailov, Russia's prickly atomic energy minister, seriously intended to pull the plug if his terms were not met, as he threatened to do in a June 7 letter to Undersecretary of State Lynn Davis.

Mikhailov—the same official whose relentless quest for hard currency to shore up his obsolete empire led him to agree to sell nuclear power plants to Iran—is widely perceived here as unlikely to forgo a lucrative sales arrangement that also keeps many of his employees at work and furthers nuclear disarmament objectives.

Senior officials described his threats as a negotiating tactic in the old Cold War brinkmanship style, and noted that last week Russian officials signed a protocol saying they are "eager to see [the transaction] successfully completed."

Mikhailov wants more money faster than provided in the sales contract he signed, under terms that violate principles he agreed to, U.S. officials said. But officials also said they want to accommodate Mikhailov rather than calling his bluff because implementation of the agreement is an important national security concern, and they are seeking ways to give him what he wants without disrupting global uranium markets or violating U.S. trade laws.

It is tempting to take a hard line and insist on enforcing the existing contract, a White House official said, "but what's wrong with that is that from a national security standpoint we want to get it done."

Energy Secretary Hazel R. O'Leary acknowl-

edged that Clinton administration officials have been slow to resolve their differences over whether and how to reengineer the deal to suit the Russians, but she predicted the issue will be resolved this week at a Moscow meeting between Vice President Gore and Russian Prime Minister Viktor Chernomyrdin.

"I believe, when we walk out of Moscow on Friday night, after the last dinner party, we will have reached closure on this issue," she said in an interview.

A second shipment of uranium is already at sea, and the Russians have agreed to prices and delivery schedules through 1996, according to documents made available by U.S. Enrichment Corp. (USEC), the purchasing agent. The terms for deliveries after that are still in dispute, but senior officials said they now have breathing room to complete the negotiations, even if the issue is not settled at the Gore-Chernomyrdin meeting.

Resolution of the issue involves complicated questions of economics, politics and U.S. trade law, in addition to national security. But O'Leary and senior officials at the White House and State Department, as well as at USEC, said they are determined to overcome the hurdles and proceed with full implementation of a purchase agreement, a key component of U.S. nuclear disarmament policy.

In its natural state, uranium contains less than 1 percent of the isotope U-235, the fissionable material used to produce the explosive chain reaction that powers electric power reactors as well as bombs. Uranium for power plant fuel is enriched to about 4 percent U-235. Weapons-grade uranium, used as bomb fuel, is about 90 percent U-235.

As weapons are dismantled, the United States and Russia face the question of what to do with the surplus U-235, which is highly radioactive and subject to theft or diversion by terrorists. One solution is to de-enrich it, or "blend down" the material to reactor grade and use it as commercial reactor fuel.

That is the intended fate of the material USEC is buying from Russia. But there are complicating factors.

One is a separate "suspension agreement" negotiated with Russia by the Commerce Department in an anti-dumping case that limits the amount of commercial Russian uranium that can be delivered into the U.S. market. Another is the peculiar role of USEC.

When the United States and Russia were negotiating the bomb-grade uranium purchase, in 1992 and 1993, the only uranium enrichment plants in this country were owned by the Energy Department. But Congress spun them off in 1993 to the newly created USEC, which is still owned by the federal government but is soon to submit a privatization plan. USEC is the designated U.S. agent for the uranium purchase, but it now has to con-

sider Wall Street as well as Pennsylvania Avenue in its contract negotiations. According to USEC Chairman William H. Timbers Jr. and other company executives, the purchase contract with Russia specifies that Russia be paid upon delivery of the diluted uranium for the work done in processing, or about two-thirds of the value. But Russia is to be paid the value of the material itself, or the remaining one-third, only when the material is sold into the U.S. commercial market—which it cannot be for several years because of the anti-dumping suspension agreement. That means Russia would get about \$8 billion in installments as the material is delivered, but might not get the other \$4 billion until the end of the contract's term, in 2013.

Mikhailov wrote Davis that the arrangement is unacceptable, contract or not. "It is necessary to ensure that timely payments be made in full by the American side" for the full value of the delivered uranium, he said.

"That's the hangup," Timbers said in an interview. "If the Russians need to get paid and want to get paid and we want to have this deal work a little different from the contract, we have to find some way to allow us to introduce this material into the marketplace so we have the revenue to pay them."

USEC cannot simply give the Russians the money up front, he said, because it would be stuck with uranium for which there is no current market and such a burden on its balance sheet would preclude privatization. O'Leary agreed, saying USEC has an obligation to the taxpayers to make the best deal it can for itself.

Timbers, O'Leary and officials in the State Department and White House said several proposals are under consideration for resolving the issue. One is for USEC to offer the Russians an amended payment schedule in exchange for a lower price after the 1996 deliveries, an offer Timbers said he has already made.

Another is to endorse a legislative fix proposed by Sen. Pete V. Domenici (R-N.M.) under which the uranium could be sold now, producing revenue, for delivery after expiration of the suspension agreement. Another is to modify the suspension agreement, an idea opposed by the Commerce Department and by U.S. and Canadian uranium producers, who are prepared to go to court to block any such move, according to lawyers familiar with their position.

Another possibility, supported by some officials of the State Department and the Office of Management and Budget, is to remove USEC as the exclusive agent for the transaction, opening further installments up to competition by uranium brokers or private competitors in this country and Europe.

"One way or another we're all committed to seeing this worked out," a State Department official said. "Reports of this agreement's demise have been greatly exaggerated."

Gore to lead talks on financing for uranium deal

By Matthew Kaminski
in Moscow

US negotiators led by Vice President Al Gore will begin talks with Russian officials today to try to salvage a landmark 1993 disarmament deal threatened by squabbles over financing terms.

Under the deal, Moscow would sell \$12bn (£7.5bn) worth of highly enriched uranium from dismantled nuclear warheads to Washington over the next 20 years to fuel nuclear reactors. But the two countries are at odds over the financial terms, and the success of the deal may be in jeopardy.

The dispute comes at a difficult time for US-Russian relations and amid international concern over illegal trade in nuclear materials culled from the former Soviet arsenal. Yet it also serves to underscore the coupling of security and economics in the evolving relationship between the erstwhile cold war adversaries.

The issue will top the agenda price for the enriched weapons grade material.

Mr Victor Mikhailov, atomic energy minister, on Monday warned Russia might cancel the deal because of rows over prices: Moscow sought \$800 a kilogram while the US offered

today when Mr Gore starts talks with Mr Victor Chernomyrdin, the Russian prime minister. Ms Hazel O'Leary, US energy secretary, will also be present at the talks, which will cover in addition Russia's plans to build a nuclear power

plant in Iran, a lucrative deal opposed by the US.

The swords-to-ploughshares uranium deal, first conceived by the Bush administration, fell into trouble when the single buyer, the US Enrichment Corporation, sought a lower



Gore: talks with PM

\$600 a kilo. He also wants payments made faster than stipulated in the contract.

"The terms are not in our interests at all," he told Interfax, the Russian news agency. "If the Americans do not change their tune by the end of



O'Leary: on US side

this year we will ask the Russian government to abandon the contract."

"Money is the main issue in finding a way to resolve the uranium problem," said Mr Sandy Specter, a non-proliferation expert at the Washington-based Carnegie Endowment for International Peace.

From the start, administrative delays have characterised progress in the historic disarmament effort. The US Enrichment Corporation has been prevented from guaranteeing Russia future payment for the uranium component included in the weapons grade material by a complex anti-dumping ruling that protects the domestic uranium industry.

The US and western allies see a double boon in reducing Russia's bloated stockpiles and ensuring against theft. But the political climate in Washington has turned against Moscow and a small, but strong, uranium lobby has resisted the entry of the Russian uranium onto the market.



Chernomyrdin: \$12bn deal



Mikhailov: cancellation threat