Message from the CEO

Dear Shareholder,

Cameco is well positioned to catch the value in the market as we double annual production by 2018.

In 2010, we began to see the growth we’ve been anticipating become reality, as the demand for nuclear power and uranium fuel continued to build around the world.

We acknowledge the tragic events in Japan and the short-term challenges that the nuclear industry will face, but the long-term fundamentals remain the same. In emerging markets, China is the leader by far, with over a third of all reactors under construction in the world today. India, Brazil and the United Arab Emirates are also growing. Turkey has chosen two sites for new plants, and Vietnam and Jordan are interested in building their first facilities. Russia and South Korea, among others, are continuing to expand their nuclear programs. And the United States, our largest customer, is returning to nuclear power after a 30-year absence from new reactor construction. It’s planning to build between four and eight new reactors over the next decade. Overall, we’re expecting about 100 (net) new nuclear reactors to be built by 2020. You can read more about this on page 11.

2010 also saw these nuclear growth programs impact the market. For example, China began to secure longer-term uranium supplies, and we signed two key agreements for a total of 52 million pounds. These agreements are laying the groundwork for long-term uranium supply arrangements, with considerable potential for us to expand our relationships in this important region.

But as demand grows, uranium supply is not being replenished at a sufficient pace. That pushed prices up in 2010, and increased the need for new sources. It’s also presenting an excellent opportunity for uranium suppliers who are poised to benefit.

Already one of the largest suppliers of uranium and fuel services in the world, Cameco has a geologically and geographically diverse reserve and resource base, low-cost mines, a strategy to double our production and the financial flexibility to get us there. These factors, combined with an experienced and dedicated team, means we’re well positioned to take full advantage of the growth in nuclear energy.

2010: another great year

This year, we met all of our major targets, and our revenue was in line with the guidance we provided throughout the year. Our cash from operations remained strong at $507 million and we ended the year with $1.3 billion in cash on hand. We increased production by 2 million pounds – exceeding our goal for this year and our results in 2009 – and reduced our unit costs for the second consecutive year. Cigar Lake is back on track, and production at Inkai and McArthur River/Key Lake are well above last year. Our US operations continue to perform well and at Rabbit Lake we added another two years of reserves, extending the estimated mine life to 2017.

This was also our first full year up and running at Port Hope since 2007, and although there were a few operational issues, we made great progress in revitalizing and eventually returning harbour access to the community.

On track to double production

Our strategy is to double our uranium production to 40 million pounds by 2018 – all from existing assets. Approximately half of this production is from mines that are already operating. The other half is from projects that are under development or in the feasibility stage.

Our planning process is disciplined and well defined. We have a clear development plan for each project, and measurable milestones designed to move us toward our goal. We’re constantly evaluating each project’s feasibility in the context of changing business conditions, which gives us the ability to respond to both positive and negative developments in the industry. You can read about our pipeline of projects on page 16.
Financial flexibility
Achieving our goal of doubling production will require sustained investment and we expect to meet this requirement without the need for significant additional funding. Our reported earnings and cash flows will be impacted as many costs associated with our growth initiatives will be expensed as we go. This is an inevitable consequence of growth.

 Cameco is in a very strong financial position, which gives us considerable financial flexibility. The uranium contract portfolio we’ve built over the past 23 years, and our discipline and expertise in managing our operations efficiently and cost-effectively, gives us a steady revenue stream that we can rely on as we grow.

At the same time, we’re providing healthy dividends to shareholders. We’ve increased our annual dividend seven times in the last nine years, including a planned 43% increase from $0.28 to $0.40 per share in 2011.

Growing responsibly
All of our success is built on a record of increasing operational excellence.

Companies are under growing scrutiny for the way they conduct their businesses, and there has been a significant increase in stakeholder expectations for environmentally and socially responsible business practices. Rather than viewing sustainable development as an ‘add-on’ to traditional business activity, we see it as integral to the way we do business, and have made it a strategic priority, integrating it into our values, objectives and compensation.

Since 2002, we’ve been using four categories to define what we are committed to deliver, and how we measure our results: outstanding financial performance, a safe, healthy and rewarding workplace, a clean environment and supportive communities. Every year we’re making strides in each of these areas – all of which build shareholder value.

Take some time to review our sustainability report on our website for more information about our progress in these areas.

Developing our leadership
It’s important for every company to have a succession strategy, and this year we made some important changes to position our leadership team for the long term:

• Tim Gitzel was appointed president. Tim joined Cameco in 2007 as senior vice-president and chief operating officer, and it’s under his guidance that we’ve become as operationally strong as we are today.
• Bob Steane, a 30-year Cameco veteran, moved into Tim’s role, bringing years of invaluable expertise to this position.
• Ken Seitz, who has been with Cameco since 2004, was promoted to senior vice-president, marketing and business development, replacing George Assie, who retired on December 31. George will continue to share his knowledge and expertise with Cameco by serving on some of our subsidiary boards.

Supporting this team is a strong and dedicated group of employees working together to achieve our goals. In addition to being among the top 100 employers in Canada again this year, we were recognized as one of Canada’s Best Diversity Employers.

Gerald W. Grandey
CEO
This is particularly significant, given our goal to reach 67% northern (or RSN) employment at our northern Saskatchewan operations, and something that speaks well for us as we move ahead at Kintyre in Australia.

On February 22, 2011, the board and I announced my retirement at the end of June 2011 with Tim Gitzel being our new CEO effective July 1, following our succession plan. Cameco will be in good hands with very strong and capable leadership going forward. I would like to extend my gratitude to our many friends and stakeholders. Without their long-term support, Cameco would not be the success it is today.

The long term is now
The nuclear business is a long-term story: there’s no predicting the ups and downs of the commodity cycle. But nuclear energy is in demand, and that demand is growing. Cameco is uniquely positioned to grow and be successful, and to build value for our shareholders.

We’re very excited about the years ahead.

Gerald W. Grandey  
CEO  
March 14, 2011