

“Competitiveness in Canada’s Nuclear Industry”

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Our theme this morning is “competitiveness in Canada’s nuclear industry”. I am going to take a very specific focus on this subject, looking at an area where Cameco has had some experience — and one which may be of increasing interest to others within Canada’s changing nuclear industry.

My focus will be on competing for the investment dollar as a publicly-traded Canadian nuclear company. I am going to take a particular look at how Cameco has had to adjust to meet the competitive demands of the investment marketplace.

Cameco has gone through a classic transformation from a government-owned entity to a publicly traded company . . . and in the process, we have changed profoundly. As part of that, today we undergo much closer public scrutiny than ever before and, as a result, we have become more open, more candid and provide much higher levels of disclosure.

Furthermore, as a publicly-traded company, we are compared to, and compete with, a broad range of other public companies — both in Canada and internationally -- and both within and outside of the nuclear industry. We are much more conscious of being competitive in how we present ourselves and in how we are perceived. We look at ourselves and how we do things very differently than we did as a state-owned enterprise.

The privatization process involved about three years of preparation prior to the actual sale and public listing of shares — and some years of adjustment afterward. But I believe that Cameco is a much better company today because of the journey we’ve taken — a better investment, a better employer and a more socially responsible corporate citizen. While Cameco’s story is necessarily unique and our own, I hope that there may be elements of it which you might find useful in looking at your own situations whether you are currently publicly traded or anticipate that you might be.

One more thing . . . I am in a good position to tell this story as my career with Cameco extends through the “before” period and the “after” period . . . and I had a front line role to play, on the communications side, during the privatization process. I joined one of Cameco’s predecessor companies in 1981 when it was a Crown corporation and ten years later I was managing the investor relations function which I did for about two years following our IPO. The function continues to report to me and Cameco is fortunate to have a very effective manager in place, Alice Wong, who previously had worked at Cameco as a market analyst.

I am a survivor of the privatization process and one who has been able to grow and benefit from it -- in fact, there are a lot of us like that at Cameco. This is a good news story.

But let me start at the beginning.

Cameco was formed in 1988 by the merger of two uranium companies — the provincially-owned Saskatchewan Mining Development Corporation and the federally-owned Eldorado Nuclear Limited. The intent of the two governments was to create a large, dynamic uranium organization with an obvious competitive edge. The idea was that this company would be seen as an attractive investment and the two governments would have an opportunity to divest their ownership.

Let me explain a little about Cameco's business. Essentially we are uranium miners and processors. We operate and own two-thirds of the world's two largest high-grade uranium mines, located in northern Saskatchewan. Through wholly-owned American subsidiaries, we also produce uranium from operations in Wyoming and Nebraska.

In addition, we are one of the four commercial suppliers in the western world which refine and convert uranium into UF_6 , which is ultimately processed into the fuel used in light water reactors. We are the only commercial converter of uranium for fuel for the Canadian-built Candu reactor.

In 1996, Cameco increased its market share of sales to about 15% of the western world's U_3O_8 consumption and more than 20% of conversion requirements. In other words we are a major supplier of fuel for many of the world's reactors.

I have stressed the company's role in the uranium business but Cameco also mines gold and has just recently developed a large gold deposit in Kyrgyzstan in central Asia. We also conduct exploration for gold and uranium internationally and have offices and projects in most of the gold and uranium prospective regions of the world.

However, we are and will remain primarily a uranium company - and our future is secured by the company's substantial ownership position in Cigar Lake and McArthur River, the richest uranium deposits in the world, both located in northern Saskatchewan and both soon to become the world's leading uranium production centres with Cameco as the operator.

It is interesting to take a quick look at Cameco's financial condition pre and post privatization. In 1990, the year before privatization, our sales were \$316 million. Earnings, excluding a one-time gain, were \$34 million. In 1988, when the company had been formed, our debt totalled \$650 million but we were able to reduce that to \$348 million by the end of 1990. We also reduced our workforce from 1,650 to 1,200 people in the two years prior to privatization.

By 1990, we were still carrying a pretty heavy debt load, but we were a profitable company, in a business where the potential for price increases for our commodity was strong -- our two government owners considered us a good candidate for privatization which did occur in July, 1991.

Today, six years later, Cameco sales have almost doubled, to \$591 million in 1996. Our net earnings last year were \$137.5 million -- a fourfold increase over six years earlier -- and long-term debt was down to \$200 million. Cameco shares, which were originally issued at \$12.50 in July, 1991, rose as high as \$75 last year and yesterday closed at \$xxxx.

Both the federal and provincial governments have divested their shares over time so that now only the Saskatchewan government owns 10% of Cameco.

Shareholders who bought shares at the issue price in 1991 have earned today a compound rate of return of about xx.x% since then, assuming they reinvested their dividends in Cameco stock. Jointly, the federal and provincial governments have realized \$1.4 billion on their investment in Cameco. The Saskatchewan government's current 10% holding in Cameco is currently worth about \$250-275 million.

This all sounds wonderful but our journey hasn't always been smooth. As a nuclear company we faced a number of special investment challenges along the way. Let me take just a few minutes to describe some of the more important ones to you and how Cameco dealt with them.

1. Public Perception of Nuclear Power

One of the biggest hurdles, of course, was the public's perception of the nuclear industry. By the public, I really mean investors — including both retail investors and sophisticated portfolio analysts or fund managers. But this audience was no more familiar with the nuclear industry than the general public.

However, I should point out that the investor audience is unlike the general public in other significant ways.

One is that they are not afraid of numbers or statistics - in fact, the more the better. They even welcome concepts such as comparative risk which can be a very difficult one to grasp.

Secondly, they are highly motivated to learn because they anticipate a direct economic benefit.

Thirdly, they have a high degree of antipathy toward the media and toward the more sensation-seeking environmental groups.

Fourthly, they also tend to be well-educated and male - all good demographics for a group to be pro-nuclear as has been revealed by so many of the nuclear industry's public opinion polls over the years.

Still, even this audience shared one of the public's most common assumptions which was that nuclear power was a 'sunset' industry - with a very limited present and a declining

future. Despite the relatively high media profile of our industry, the facts about nuclear power are not widely known. Cameco has worked hard to become a source of reliable up-to-date information about the nuclear industry—everything from the number of reactors, to the percentage of electricity generated by nuclear power plants, to reactor construction plans.

These facts became the bread & butter of all Cameco presentations, culminating in the so-called “road show” which launched the sale of Cameco shares in Canada in 1991. However, the groundwork had been laid throughout the previous year as we conducted a pre Initial Public Offering (IPO) information campaign to a targeted audience with the help of the underwriters who had been selected by our government owners.

Other classic misconceptions about nuclear power included, of course, safety and environmental concerns which we tackled head on and made effective use of comparative data to argue the case that nuclear’s record was and is exemplary when measured against the performance of the chief competitors.

We also faced the other familiar nuclear issues - such as our responsibility, moral or otherwise, for nuclear weapons production, for nuclear waste and even for excessive costs due to too much regulation from too many levels of government. Needless to say, it’s only a nuclear company that has to face these kinds of questions from investors . . . the steel companies are not held accountable for weapons production, nor are the oil and gas companies held responsible for the wastes generated by their customers’ power plants.

While misconceptions about nuclear created some early challenges for our privatization efforts, they contributed to the need for Cameco to develop high-quality, clear, lucid presentations because we could not make any assumptions that the audience shared a common information base . . . as they might have done had we been, for example, another copper company.

2. Lack of Peer Group

These were not, of course, the only communications challenges that Cameco faced in the early years as a publicly traded nuclear company. One that took us a little bit by surprise was the degree to which Cameco had to provide information about our competitors in the uranium mining industry in order that our analysts and investors could develop a sense of perspective about the uranium mining industry around the world.

Unfortunately for Cameco, our leading competitors are either state or privately owned, hence with no requirements to meet the levels of disclosure that we must. The result is that information about uranium mining is not readily available . . . certainly not when compared to other base metals . . . and it fell to Cameco to bridge this information gap.

Cameco is just one of many stocks that an analyst or fund manager may be following and they are understandably reluctant to take on the additional cost and time demands to

follow only one player in an industry. Even our industry associations and uranium industry newsletters are relatively obscure and/or very expensive.

This forms a part of the next challenge to investors considering the nuclear industry and that is the problem of disclosure limits.

3. Problems of Disclosure Limits

It is difficult to know where to draw the line in the extent of disclosure we provide to satisfy the investment community—they always want more than they have. We must be careful to not provide information that might give our competitors an advantage. This is particularly true of production costs, sales volumes and realized prices . . . in other words, the very facts that most publicly traded mineral commodity companies readily provide.

Most investors understood why we do not fully disclose, but we do get complaints from some portfolio managers that we do not provide the extent of disclosure they are used to getting from other mining companies. We believe that this extra investment risk is not positive for our stock price but pays other dividends to the company.

4. Competition from Non-Nuclear Investment Alternatives

I have described how Cameco undertakes the task of information provider with respect to not only the uranium mining industry but to some extent, even of the nuclear industry. We are in the business of consistently and comprehensively explaining ourselves to a wide range of constantly changing Canadian, American and international investors. With millions of dollars at stake and no special loyalties to any investment, they can be demanding and fickle.

They force us to compete far beyond our own industry peer group and as a public company, we now are measured against many other major public companies in North America.

We must fight for investor attention and favor in a wide open marketplace where you are judged by everything you say, everything you print and by what is said about you.

We have to know how companies like Rio Tinto Zinc or the Royal Bank, or Bombardier, for instance, present themselves as an investment opportunity, because they will set a standard to which we will be compared. Our presentations, our annual and quarterly reports to shareholders, our policies on corporate governance and executive compensation, are all open to scrutiny. We must be conscious of the best current practices among a wide range of public companies in these areas and measure our own performance against these ever rising standards.

I believe this comparison to a broad range of competing companies is especially difficult for a nuclear company to accept . . . but equally, is also especially beneficial. It is my

observation that the nuclear industry too frequently measures itself only against its peers within the relatively small and tightly-knit nuclear world. Cameco is beginning to benchmark more and more of our operations against non-nuclear peers and we are going to be a stronger company for that exposure.

I should point out that for our investors, we also need to explain our gold strategy and this has not been without its own complications. We expanded quickly into the gold business, and in a major way thanks to our one-third acquisition of a gold property in Central Asia it has come into production in the last few months. Like everything else, we have to justify and explain our gold venture to a wide audience, we have to do it publicly and we have to do it often. In these post BreX days, that commitment cannot be taken lightly.

6. Role of the CEO

My last point about the challenges of going public as a nuclear company is the major impact this decision will have on the time, energy and focus of the company's senior management and in particular, the chief executive officer. Investor relations is a CEO function at Cameco and I believe, that is true in most companies. Concern for shareholder value becomes a primary CEO concern and that concern will permeate the organization.

The most successful CEOs think like shareholders, protecting them from surprises and anticipating their concerns. In addition, the most effective CEOs are great communicators who convey integrity, trust and expertise. Ultimately they are consummate marketers who know how to sell the company, its vision of the future and its unique role in the present.

After all, people are going to entrust them with their money and that is a very onerous responsibility.

Conclusion:

So what is the conclusion of my remarks today?

I believe strongly that nuclear can compete for the investment dollar wherever nuclear makes good economic sense. It will take some work to get an organization into shape for the investment marketplace. And nuclear power has to show it is a competitive source of energy; one that can generate profits. Wherever that is the case, it then becomes a matter of effectively communicating that message.

In many ways, each of us in the nuclear industry is already well prepared for the communications challenge because we have become familiar with — indeed, accustomed to — scrutiny and criticism. We are not, as a rule, thin skinned and this is an advantage when becoming part of the world of publicly traded companies.

Our industry's high profile can be an advantage, too. It assures a certain curiosity level among institutional and other investors — an interest that can be leveraged to attract investors. In some ways, the lack of awareness of the economics of nuclear power makes this industry seem like a

new opportunity to investors. And there is nothing investors like better than getting in at the beginning of an investment opportunity.

Today, Cameco continues to expand its operations and its workforce — at year end we employed about 1,350 people. We have been increasing our market share of world uranium production and expect to be able to continue to do so. We are becoming a significant producer of gold and have plans to increase our gold production.

But at the core we have the same focus as 10 years ago when we were created. I'll close with a look at a few slides that tell the Cameco story succinctly. Using McArthur River as an example, when assessed on the basis of contained value-per-tonne-of-ore, no other mineral deposit in the world compares.

- not in uranium

(Even if Key Lake were beginning its productive life today, rather than moving toward its depletion, its value per tonne—at \$650—would pale beside McArthur and Cigar.)

- not in gold
- not in base metals

These are two very rich deposits and they clearly make the Cameco story much easier to tell.

Privatization is something that some of you in this room may experience over the next few years. Or possibly, deregulation may introduce some aspects of the new competitiveness that I have been describing. The challenge may seem a little daunting, but we at Cameco have made the transition successfully. We would like very much to welcome more nuclear industry players into the world of the publicly traded.

Thank you very much for your time today.

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