SHAW COMMUNICATIONS INC
Form 6-K
November 12, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of November, 2003

Commission File Number 001-14684

Shaw Communications Inc.

(Translation of registrant s name into English)

Suite 900, 630 3rd Avenue S.W., Calgary, Alberta T2P 4L4 (403) 750-4500

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F o Form 40-F x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Documents Included as Part of this Report:

1. Management s Discussion and Analysis for the year ended August 31, 2003.

2. Audited consolidated financial statements, including consolidated balance sheets as at August 31, 2003 and 2002 and consolidated statements of loss and retained earnings (deficit) and cash flows for each of the years in the three year period ended August 31, 2003 (including U.S. GAAP reconciliation).

This Report on Form 6-K is incorporated by reference into the Registration Statement on Form F-9 of the Registrant which was originally filed with the Securities and Exchange Commission on November 20, 2001 (File No. 333-14114).

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FORWARD
Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Included herein is a Caution Concerning Forward-Looking Statements section which should be read in conjunction with this report.

Tabular dollars are in thousands of Canadian dollars, except per share amounts or unless otherwise indicated. All per share amounts reflect common per share amounts, and are based on unrounded amounts. Percentage changes are based on rounded amounts.

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I. INTRODUCTION TO OUR BUSINESS

A. Company overview core business and strategies

i) Shaw Communications Inc.

Shaw Communications Inc. (Shaw or the Company) is a diversified Canadian communications company whose core business is providing broadband cable television, Internet and satellite direct-to-home (DTH) services to over 2.9 million customers. Shaw s mission is to provide its customers with high-quality entertainment, information and communications services, utilizing a variety of distribution technologies.

Shaw s strategy is to maximize shareholder value by focusing on growing free cash flow. Shaw delivers this strategy on several fronts: delivering products and services to our customers in a cost effective manner; increasing customer penetration; delivering quality customer service; implementing of strategic price increases; leveraging our network infrastructure and generating operating efficiencies through innovative practices.

Shaw is organized into three major divisions. The representation of each of the divisions as a percentage of consolidated revenue in fiscal 2003 is as follows: Cable 71.5%; DTH 23.7%; and Satellite Services 4.8%.

ii) Cable

The Cable division is comprised of Shaw s cable television, Internet and Big Pipe operations. Shaw is the largest cable television provider in Western Canada with approximately 2.1 million cable television customers in five provinces (British Columbia, Alberta, Saskatchewan, Manitoba and Ontario), representing approximately 28% of the Canadian cable television market. Through its technologically advanced broadband network, Shaw also had 886,220 Internet customers and 473,870 digital cable customers as at August 31, 2003. In addition, the Cable division established Big Pipe in 2000 to develop and operate the fibre network that serves as the primary Internet backbone for Shaw s broadband Internet customers and provides Internet and data connectivity services to large businesses and other organizations.

In past years, Shaw has enhanced the quality, depth and capacity of its plant and network infrastructure through significant capital investment. The plant and network is now essentially fully digital and two-way capable. Shaw s strategy is to leverage its network by providing additional services beyond traditional cable such as Video-on-Demand (VOD) and High-Definition TV (HDTV). The VOD service enables customers to select programming from a library of titles through an online ordering system and view the programming on their television at a time of their choosing with full VCR/DVD functionality including pause, rewind and fast forward using their remote control. This is a value-added service that Shaw anticipates will provide it with a competitive advantage over satellite, which does not have two-way network capability. VOD is viewed by the Company as an effective retention tool and is expected to provide further revenue opportunities. In addition, it is expected to support growth in Internet and digital as customers must have these services to access VOD. Shaw also leverages its network through increased penetration rates of digital cable, residential High-Speed, High-Speed Lite Internet and Business Internet (SOHO). Shaw has the highest digital penetration rate as a percentage of basic cable in Canada (23%) and the highest penetration of Internet in North America with 43%.

Shaw also has a customer-centric strategy designed to deliver service, simplicity and savings to its customers via unique bundled service offerings. Creating value for our customers equals value for Shaw through reduced churn, incremental penetration and operational efficiencies. Approximately 38% of Shaw cable customers subscribe to bundled services compared to 28% last year.

Shaw creates value through its clustering strategy, which involves geographical consolidation and re-alignment of its cable systems to take advantage of potential administrative, operating and marketing synergies that arise from larger, focused operations. Over a number of years, Shaw has acquired and divested various cable systems to complement its cable clusters. As a result, Shaw has consolidated its position as the dominant provider of cable television services in Western Canada. This year, Shaw completed the sale of its US cable systems and announced the pending acquisition of certain cable systems in Alberta and southern British Columbia from Monarch Cablesystem Ltd.

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Finally, Shaw senior management and employees constantly re-evaluate operations to ensure that Shaw continues to be one of the best run cable companies in North America. In the last 18 months, Shaw underwent a series of restructurings and implemented a number of cost-saving initiatives.

iii) DTH (Star Choice)

DTH (Star Choice) distributes digital video and audio programming services via DTH satellite to Canadian residences and commercial establishments. It is one of two active DTH satellite operators licensed by the Canadian Radio-television and Telecommunications (CRTC) to deliver digital subscription video and audio programming services via satellite directly to subscribers homes and businesses. Star Choice began the national roll-out of its digital DTH services in October, 1997 and, at August 31, 2003 had 808,526 subscribers across Canada.

Star Choice s customer acquisition strategy has migrated from households not served by cable or underserved by cable (*i.e.* served by cable systems that offer fewer than 80 channels) to households that receive full service cable. As its customer acquisition focus has shifted, Star Choice has concentrated on differentiating itself from alternative video services through unique product offerings such as time-shifting of programming.

Star Choice and Satellite Services share a strategy to leverage a common satellite infrastructure. The two divisions distribute largely the same digital video and audio signals to different markets (residential and business), thereby allowing Shaw to derive distinct revenue streams from different customers using a common platform. Similar operational, revenue and cost synergies exist between the businesses. In addition, in 2002 the CRTC modified certain structural separation licence conditions so as to allow DTH and Cable to integrate accounting and other administrative functions subject to the establishment of procedures to protect confidential information. Therefore over the last 18 months Star Choice has and is continuing to restructure its operations to take advantage of shared facilities with Cable where possible. For example, in July 2002, Star Choice converted to the same billing system as Cable.

iv) Satellite Services

Satellite Services has three principal lines of business: (a) redistributing television and radio signals via satellite to cable operators and other multi-channel system operators in Canada and the US, referred to as satellite relay distribution undertaking (SRDU) services; (b) providing uplink and network management services for conventional and specialty broadcasters on a contract basis and c) through Cancom Tracking Solutions, providing mobile tracking and messaging services to approximately 450 companies making it the largest provider of such services in the long-haul trucking industry in Canada, with approximately 26,000 vehicles using its services. The Business Television business which built and maintained satellite interactive distance learning (SIDL) networks was sold in March 2003.

B. Key performance drivers

Shaw measures the success of its strategies using a number of key performance drivers. We have outlined these below, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions.

(i) Revenue

Revenue is a measurement defined by Canadian and US generally accepted accounting principles (GAAP). It is the inflow of cash, receivables or other consideration arising from the sale of product and services. Revenue is net of items such as trade or volume discounts and certain excise and sales taxes. It is the base on which free cash flow, a key performance indicator, is determined; therefore, it measures the potential to deliver free cash flow as well as indicating our growth in a competitive market place.

The following key performance indicators are not measurements in according with Canadian or US GAAP and should not be considered as an alternative to net income or any other measure of performance by Canadian or US GAAP.

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(ii) Operating income before amortization and operating margin

Operating income before amortization is calculated as revenue less operating, general and administrative expenses. In the case of the analysis of our business segments, it excludes one-time income and expense items such as restructuring, recovery of cable litigation accrual and inventory write-downs. It is intended to indicate the Company s ability to service and/or incur debt, and therefore it is calculated before amortization, (a non-cash expense) and interest. Operating income before amortization is also one of the measures used by the investing community to value the business. Operating margin is calculated by dividing operating income before amortization by revenue.

Relative increases period over period in operating income before amortization and in operating margin are indicative of the Company s success in delivering valued products and services to our customers in a cost effective manner.

(iii) Free cash flow

Free cash flow is calculated as operating income before amortization (as defined above), less interest, entitlements on equity instruments net of current taxes, cash taxes on net income, equipment subsidies and capital expenditures (excluding capital expenditures in respect of the Burrard Landing Lot 2 Partnership (the Partnership), which the Company is required to proportionately consolidate). As the Partnership is financed by its own credit facility, this is a non-cash item for the Company. We focus on free cash flow as it measures our ability to repay debt, finance the business and pay dividends.

(iv) Subscriber counts, including penetration

We measure the count of our customers in Cable and DTH (Star Choice). In Cable, we include service categories such as basic, tier, digital terminals, digital customers, Internet and stand-alone Internet. Cable includes in its count only those customers who are on billing and are paying a fee for service. The customer count for Internet also includes scheduled installations due to the high-growth nature of this product. Cable measures penetration for basic services as a percentage of homes passed and in the case of all other services, as a percentage of basic customers.

The count of Star Choice customers includes those who are on billing and are paying a fee for service and also includes seasonal customers who have indicated their intention to reconnect within the next six months.

Subscriber counts and penetration statistics measure market share and our potential customer base and also indicate the success of our bundling and pricing strategies.

(v) Equipment and customer churn

Customer churn is calculated as the number of new customer activations less the net gain of customers during the period divided by the average of the opening and closing customers for the applicable period of calculation. Equipment churn is calculated on the same basis except that the number of units of equipment is used in the calculation instead of the number of customers. Churn provides some measure of customer satisfaction and preferences in addition to physical movement of the customer.

C. Critical accounting policies

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. Refer to Note 1 to the Consolidated Financial Statements for additional information on our accounting policies and to Note 21 to the Consolidated Financial Statements for additional information on Canadian-US GAAP differences. We prepared our Consolidated Financial Statements according to Canadian GAAP. This section discusses key estimates and assumptions that management has made under these principles and how they affect the amounts reported in the Consolidated Financial Statements and notes. It also describes significant accounting policies where alternatives exist. We focus your attention to the following critical accounting policies:

i) Revenue recognition

Revenue is considered earned as services are performed, provided that at the time of performance, ultimate collection is reasonably assured. Such performance is regarded as having been achieved when reasonable

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assurance exists regarding the measurement of the consideration that will be derived from rendering the service. Revenue from cable, Internet and DTH customers includes subscriber service revenue when earned. The revenue is considered earned as the period of service relating to the customer billing elapses. Revenue includes subscriber connection fees which is considered appropriate, as the performance of the installation is completed and is measurable. In addition, it provides appropriate matching of the subscriber connection fees to the initial selling expenses and related administrative and general office expenses incurred in respect of the installation. Subscriber connection and installation costs are capitalized as part of the Company s distribution system as the service potential of our distribution system is enhanced by the ability to generate future subscriber revenue. Costs of disconnections are expensed as incurred as the activity does not generate future revenue. The sale of modems, digital cable terminals (DCT) and DTH receiving equipment and the subscription for the related service are considered one transaction to generate future revenue. Therefore, the sale of modems, DCT and DTH receiving equipment is recognized only when subscriber service is activated. Satellite service and telecommunications revenue is recognized in the period in which the services are rendered to customers. The sale of satellite service equipment is recognized when goods are shipped.

ii) Allowance for doubtful accounts

The majority of the Company s revenues are earned from selling on credit to individual subscribers. Because there are some customers who do not pay their debts, selling on credit necessarily involves credit losses. The Company is required to make an estimate of an appropriate allowance for doubtful accounts on its receivables. The Company considers factors such as the number of days the subscriber account is past due, the status of a subscriber s account with respect to whether or not they are continuing to receive service, the Company s past collection history and changes in business circumstances. The estimated allowance required is a matter of judgement and the actual loss eventually sustained may be more or less than the estimate, depending on events which have yet to occur and which cannot be foretold, such as future business, personal and economic conditions. Conditions causing deterioration or improvement in the aging of subscriber accounts and collections will increase or decrease bad debt expense.

iii) Property, plant and equipment capitalization of direct labour and overhead

As outlined in the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to property, plant and equipment, capitalization of costs include the consideration expended to acquire, construct, develop or better an item of property, plant and equipment and includes all costs directly attributable to the acquisition, construction, development or betterment of the assets including installation at the location and in the condition necessary for its intended use. Costs include installation costs such as architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges. The cost of an item of property, plant and equipment includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The cost to enhance the service potential of an item of property, plant and equipment is considered a betterment. Service potential may be enhanced where there is an increase of the previously assessed physical output or service capacity, associated operation costs are lowered, the life or useful life is extended, or the quality of output is improved. Costs incurred in the maintenance of the service potential of an item of property, plant and equipment are expensed as incurred.

We capitalize direct labour and direct overhead incurred to construct new assets, upgrade existing assets and connect new subscribers. These costs are capitalized as they include the construction costs directly attributable to the acquisition, construction, development or betterment of our plant through either increased service capacity or lowered associated operating costs. Repairs and maintenance expenditures are charged to operating expenses as incurred. Although interest costs may be capitalized during construction, it is Shaw s policy not to capitalize interest. In addition, Shaw does not capitalize the internal direct labour and direct overhead costs incurred on the construction of buildings, as it is not a major portion of our business activity.

We capitalize costs in three principal areas:

1. Corporate engineering, which is primarily involved in overall planning and development of the cable/Internet infrastructure. Labour and overhead costs directly related to this activity are capitalized as the activities directly relate to the planning and design of the construction of our distribution system.

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2. Cable regional construction departments, which are principally involved in constructing, rebuilding and upgrading the cable/Internet infrastructure. Labour and overhead costs directly related to the construction activity are capitalized as the activities directly relate to the construction or upgrade of our distribution system. Capital projects include, but are not limited to, projects such as new subdivision builds, decrease of node sizes, and upgrades of the plant to 750 MHz capacity.

3. Subscriber related activities such as installation of new drops, satellite dishes and Internet services. The labour and overhead directly related to the installation of new services are capitalized as the activity involves the installation of capital assets (e.g. wiring, dishes, filters, software, etc.) which enhance the service potential of our distribution system through the ability to earn future service revenues. Costs associated with service calls, collection, disconnects and reconnects that do not involve the installation of a capital asset are expensed.

Amounts of direct labour and direct overhead capitalized fluctuate from year to year depending on the level of customer growth and plant upgrades for new services. In addition, the level of capitalization fluctuates depending on the proportion of internal labour versus external contractors used in construction projects. For example, beginning in fiscal 2002, we directly employed unit-based employees (UBEs) that were previously involved in customer installations, ongoing plant upgrades and a portion of new builds as contractors of Shaw.

The percentage of direct labour capitalized in many cases is determined by the nature of employment in a specific department. For example, all labour and direct overhead of the cable regional construction departments is capitalized as a result of the nature of the activity performed by those departments. Capitalization is also based on reference to piece rate work performed by UBEs which is tracked directly. In some cases, the amount of capitalization depends on the level of maintenance versus capital activity that a department performs. In these cases, an analysis of work activity is applied to determine this percentage split; however, such analysis is subject to overall reasonability checks on the percentage capitalization based on known capital projects and customer growth.

iv) Deferred charges deferred marketing costs and equipment subsidies

Under Canadian generally accepted accounting principles (GAAP), expenses that are linked to revenue generating activities in a cause and effect relationship are normally matched with the revenue in the accounting period in which the revenue is recognized.

DEFERRED MARKETING COSTS:

Shaw defers costs to launch new services and to position itself in new markets that have been acquired. These costs are amortized over two years, the period during which these costs are estimated to provide benefit. Shaw incurs significant marketing costs during the first few months of the launch of new services, such as new digital tier launches. These costs are often incurred during our free trial periods. We therefore benefit from this initial cost in future periods as customers subscribe to the new services after the trial periods. Our experience indicates that it takes approximately two years for the new services to reach maturity level in terms of customer acceptance. Therefore, we match the costs of the launch of the new services to the period in which the revenues from the new services will be recognized.

EQUIPMENT SUBSIDIES:

We subsidize the cost of equipment sold to subscribers to access subscription cable and DTH services. The subsidy creates an asset in the form of a customer which generates future revenues. Since both the customer and the Company make an investment, a relationship is created that provides future value for both. This relationship has resulted in a lower rate of turnover which also adds value. The sale of the equipment and subscription for service is considered as one transaction. Accordingly, our policy of amortizing the subsidies over a future period matches the cost of the subsidy with the anticipated future revenues generated from the customer subscription. As the term is not specified for which the customer will receive the services, we have considered our customer churn rate in determining that the amortization period of two years is reasonable. Our actual churn rate could justify a longer amortization period but we have selected a more conservative period to account for uncertainty related to potential changes in our competitive environment.

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The amortization of equipment subsidies and deferred marketing costs is included in the amortization line of the Consolidated Statement of Loss and is disclosed in Note 7 to the Consolidated Financial Statements. The cost of the subsidies is also highlighted in our segmented results in Note 15 to the Consolidated Financial Statements.

Under US GAAP, marketing costs and equipment subsidies are expensed as incurred. We recognize the Canadian-US GAAP difference on deferred equipment subsidies and marketing costs in Note 21 to the Consolidated Financial Statements.

v) Asset impairment
The valuations of all long-lived assets, including broadcast licenses and goodwill, investments in unconsolidated entities and capital assets are subject to annual review for impairment. We compare the carrying value of broadcast licenses and goodwill and capital assets to valuations using unlevered discounted cash flow analysis. A two-step process determines impairment of capital assets. The first step determines when impairment is recognized and compares the carrying value of a capital asset to the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If the carrying value exceeds this sum, a second step is performed which measures the amount of the impairment as the difference between the carrying value of the capital asset and its fair value calculated using quoted market price or discounted cash flows. Investments are compared to quoted market values (where available) or estimated net realizable value, and are reviewed to determine whether such impairment is other than temporary. An impaired asset is written down to its estimated fair market value based on the information available at that time. Considerable management judgment is necessary to estimate discounted cash flows. Assumptions used in these cash flows are consistent with internal forecasts and are compared for reasonability to forecasts prepared by external analysts. Significant changes in assumptions with respect to the competitive environment could result in impairment of these assets.

vi) Employment benefit plans
This year, Shaw implemented a defined benefit pension plan for key senior executives. The amounts reported in the financial statements relating to the defined benefit pension plan are determined using actuarial valuations that are based on several assumptions. We performed a valuation of the plan on August 31, 2002 and August 31, 2003. The valuation uses management s assumptions for the discount rate, rate of compensation increase, and expected average remaining years of service of employees. While we believe these assumptions are reasonable, differences in actual results or changes in assumptions could affect employee benefit obligations and related income statement impact. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plan. The most significant assumption used to calculate the net employee benefit plan expense is the discount rate. The discount rate is the interest rate used to determine the present value of the future cash flows that we expect will be needed to settle employee benefit obligations. It is usually based on the yield on long-term high-quality corporate fixed income investments. We determine the appropriate discount rate at the end of every year. Our discount rate was 6.50% at August 31, 2003 and 6.75% at August 31, 2002. Changes in the discount rate do not have a significant effect on our earnings. They do, however, have a significant effect on the projected benefit obligation. A lower discount rate results in a higher obligation.

vii) Future income taxes
We have recognized future income tax assets in respect of losses of certain of Shaw s subsidiaries. Realization of future income tax assets is dependent upon generating sufficient taxable income during the period in which the temporary differences are deductible. We have evaluated the likelihood of realization of future income tax assets based on forecasts of taxable income of future years and based on our ability to reorganize our corporate structure to accommodate use of taxable losses in future years. Assumptions used in these taxable income forecasts are consistent with internal forecasts and are compared for reasonability to forecasts prepared by external analysts. Significant changes in assumptions with respect to internal forecasts or the inability to implement tax-planning strategies could result in future impairment of these assets.

viii) Commitments and contingencies
We are subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments

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when a loss is probable and capable of being estimated. Our contractual and other commercial obligations primarily relate to network fees and operating lease agreements for use of transmission facilities, including maintenance of satellite transponders and lease of premises in the normal course of business. Significant changes in our assumptions as to the likelihood and estimates of the amount of a loss could result in recognition of an additional liability.

ix) Equity instruments

We have the ability to satisfy interest and redemption obligations on various financial instruments through the issuance of Class B Non-Voting Shares. As the satisfaction of the obligations by cash versus equity is at our discretion, we have included these instruments in shareholders equity and any payments thereon, net of taxes, are recorded as dividends. Under US GAAP, these instruments would be classified as debt and interest thereon would be recorded as interest expense. We recognize the Canadian-US GAAP difference on equity instruments in Note 21 to the Consolidated Financial Statements.

D. Related party transactions

All related party transactions are reviewed and approved by Shaw s Corporate Governance Committee. Refer to Note 18 to the Consolidated Financial Statements for information on related party transactions.

E. New accounting standards

We adopted the following policies in fiscal 2003:

(i) Foreign currency translation

Shaw retroactively adopted the amended Canadian standard for foreign currency translation which is consistent with U.S. standards and eliminates the deferral and amortization method of accounting for unrealized translation gains and losses on non-current monetary assets and liabilities that are not hedged. Exchange gains and losses are now included in net income in the period they are incurred.

(ii) Stock-based compensation and other stock-based payments

Shaw adopted the new Canadian standard for stock-based compensation and other stock-based payments which requires that all stock-based awards granted to non-employees be accounted for at fair value. With limited exceptions relating to direct awards of stock, awards required or expected to be settled in cash and stock appreciation rights, the new standard permits the Company to continue its current policy of not recording any compensation cost on the grant of stock options to employees.

(iii) Impairment of long-lived assets

Shaw prospectively adopted the new accounting pronouncement, Impairment of Long-lived Assets which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use and harmonizes Canadian requirements with US GAAP impairment provisions. Previously, under Canadian GAAP, the impairment of long-lived assets was measured as the difference between the carrying value of the asset and the future undiscounted net cash flows expected to be generated by the asset. Under the new pronouncement, this measurement is used to determine if impairment has occurred, and the amount of impairment is measured as the difference between the carrying value of the asset and its fair value, calculated using quoted market price or discounted cash flows.

The following polices will be adopted in future fiscal periods:

(i) Hedging relationships

In fiscal 2004, Shaw will adopt Accounting Guideline (AcG) 13, Hedging Relationships. This guideline requires that hedging relationships be adequately documented to qualify for hedge accounting. There will be no impact as a result of adopting this policy as Shaw has already documented the effectiveness of its hedging relationships.

(ii) Asset retirement obligations

In 2005, the Company will retroactively adopt the new Canadian standard, Asset Retirement Obligations, which establishes standards for the recognition, measurement and disclosure of asset retirement obligations and the

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related asset retirement costs. This new standard applies to obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The standard requires the recognition of all legal obligations associated with the retirement, whether by sale, abandonment, recycling or other disposal of an asset. The Company is currently assessing the impact of the adoption of this new accounting policy.

F) Known events, trends, risks and uncertainties
Below is an analysis of known events, trends, risks and uncertainties that could cause reported financial information to not necessarily be indicative of future operating results or of future financial position.

The principal risks to which we are exposed are:

Competition and technological change, including change in regulatory risks
Interest rate, foreign exchange and market value risks
Contingencies
Uninsured risks of loss

i) Competition and technological change
Shaw s businesses currently face competition from entities utilizing other existing communications technologies and may face competition in the future from other technologies being developed or to be developed. Recent regulatory and public policy trends also generally favour the emergence of a more competitive environment in Canada.

CABLE TELEVISION

Shaw s cable television systems compete with the direct reception by antenna of unencrypted over-the-air local and regional broadcast television signals. Shaw also either currently competes or may in the future compete with other distributors of television signals, including DTH satellite services, satellite master antenna systems (SMATV), multichannel, multipoint distribution systems (MMDS), other competitive cable television undertakings and telephone companies offering video service using Digital Subscriber Line technology (DSL), all of which offer services to subscribers for a fee.

DTH delivers programming via signals sent directly to receiving dishes from medium and high-powered satellites, as opposed to via broadcast, cable delivery or lower powered transmissions. DTH services presently provide more channels than some of Shaw s cable systems and are fully digital. Two licensed operators, Star Choice and Bell ExpressVu, are currently providing DTH services in Canada. These DTH operators have achieved rapid subscriber growth and together provide service to approximately 2.1 million Canadian households. In addition, grey and black market DTH providers (i.e. providers of US-based digital DTH programming services available in Canada without authorization from the CRTC or from the US DTH providers) also provide competitive services. The Supreme Court of Canada recently held that grey and black market DTH providers are violating the *Radiocommunication Act* (Canada), and are therefore providing an illegal service.

MMDS delivers television programming by unobstructed line-of-sight microwave transmission to subscribers equipped with special antennae. Since 1995, the CRTC has approved MMDS applications to compete with cable television service in given service areas. In particular, the CRTC has granted licenses to Skycable Inc. and Image Wireless Communications to provide MMDS in certain cable service areas in Manitoba, Saskatchewan and British Columbia. The CRTC has also issued licenses to Look TV and Look Télé to operate MMDS undertakings in southern Ontario and in Quebec and eastern Ontario, respectively. Look TV recently emerged from protection from its creditors under the *Companies Creditors Arrangement Act*.

In recent years, the CRTC has also licensed a number of competitive cable television undertakings to operate within the authorized service areas of incumbent cable licensees. One of these competitive undertakings, Novus Entertainment, operates within one of Shaw s licensed service areas in Vancouver.

Since 1998, telephone companies have been eligible to hold full scale broadcasting distribution licenses from the CRTC. A number of telephone companies have been granted broadcasting distribution licenses by the

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CRTC including Telus Corporation, in Alberta and British Columbia; SaskTel in Saskatchewan; Manitoba Tel in Manitoba.

To date, none of these competitors has had a material impact on Shaw s cable television operations. However, there can be no assurance that increased competition will not have a material adverse effect on Shaw s results of operations. Most of Shaw s cable systems are concentrated in major urban markets, with the remainder in smaller clusters, linked via fiber optic distribution systems either to each other or to larger markets. Through this clustering strategy, Shaw maximizes the benefits of operating efficiencies, enabling it to be a low-cost service provider, which is a necessary component in strengthening its competitive position. In addition, Shaw plans to continue to deploy new technologies to increase channel capacity, to take advantage of its existing infrastructure to expand the range and quality of its services and to expand its programming and communication service offerings.

INTERNET

There are a number of different types of Internet service providers (ISPs) offering residential and business Internet access services that compete with the Shaw High-Speed Internet service. These include on-line service and content providers (such as AOL Canada), independent basic access service providers (both national and regional), incumbent telephone companies and wireless communications companies.

Many ISPs provide telephone dial-up Internet access services that are limited to access speeds of up to 56 kbps. Such services are provided by incumbent telephone companies and independent ISPs (mainly through the use of the telephone companies facilities and services).

High-speed Internet access services are principally provided through cable modem and DSL technology. High-speed services enable users to transmit and receive print, video, voice and data in digital form at significantly faster access speeds than dial-up access through a regular telephone line. Internet access services through cable modem technology is primarily provided by cable companies. The CRTC has authorized third-party ISPs to access cable companies facilities to deliver high-speed Internet services. DSL services are principally offered by incumbent telephone companies such as BCE Inc. and its affiliates and Telus Corporation.

The ISPs have requested access to cable companies facilities to use the network to deliver their services. In November 2000, the CRTC approved a monthly rate for ISP access of $21.25 per end-user for Shaw. Other connection and installation charges will also apply, the rates for which are being reviewed by the CRTC. Until competing ISPs have access to high-speed access services pursuant to this third-party Internet access tariff, cable operators have been directed by the CRTC to provide access to their distribution systems to ISPs for resale at a 25% discount off the lowest retail rate charged by the cable operator for these services. To date, there has not been a great deal of interest by ISPs for either third-party Internet access or resale access services; however, in June 2003 Cybersurf Corp filed an application with the CRTC requesting remedies from the CRTC respecting the terms and conditions of resale of Shaw s retail Internet access service. The matter is currently before the CRTC.

In September 2003, Shaw filed an application with the CRTC asking the Commission to order Telus to stop its anti-competitive pricing of DSL Internet services and to ensure fair and sustainable competition in the high-speed Internet access market. The application cited examples over a period of five months, where Telus offered at least 18 different promotions for Internet access service to customers in Alberta and British Columbia. Shaw believes these promotions are priced well below Telus cost of service and extend beyond reasonably accepted periods of time for promotions. Shaw is in favour of fair and sustainable competition because it is in the best interests of the consumer, however, if anti-competitive pricing practices are permitted to continue it could significantly reduce competition in the Internet access market in Western Canada, which is not in the best interests of serving Internet customers. Shaw has specifically asked in its application that the CRTC forbid Telus from offering Internet promotional pricing at below-cost rates for periods in excess of three months. It also asks that the CRTC prevent Telus from offering competitive service bundles that include local telephone service in contravention of CRTC regulations.

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Although operating in a competitive environment, Shaw expects that consumer desire for Internet access services, generally, and for bandwidth-intensive applications on the Internet (including streaming video, digital downloading and interactive gaming), in particular, will lead to continued, growth for high-speed Internet services such as Shaw High-Speed Internet.

DTH

The Star Choice DTH business faces much the same competitive environment as cable television companies. Competitors include Bell ExpressVu (the only other licensed DTH satellite service currently operating in Canada), cable television companies, grey and black market satellite service providers and other competitors such as wireless operators, telephone companies and off-air television broadcasters.

SATELLITE SERVICES

In its Canadian SRDU business, Cancom faces competition principally from Bell ExpressVu, which received an SRDU license from the CRTC in 1999. At present, Cancom and Bell ExpressVu are the only licensed SRDU operators in Canada. Cancom also faces competition from the expansion of fiber distribution systems into territories previously only served by SRDU operators. This expansion permits delivery of distant US and Canadian conventional television stations to more remote locations without the use of satellite transmission.

TELECOMMUNICATIONS

Through its Big Pipe subsidiaries, Shaw competes with other telecommunications carriers in providing high-speed broadband communications services (data and video transport and Internet connectivity services) to businesses, ISPs and other telecommunications providers. The telecommunications services industry in Canada is highly competitive, rapidly evolving and subject to constant change. Big Pipe s competitors include incumbent local exchange carriers (such as Telus and Bell Canada), competitive access providers, competitive local exchange carriers, ISPs, private networks built by large end users and other telecommunications companies. In addition, the development and implementation of new technologies by others could give rise to significant new competitors.

ii) Interest rate, foreign exchange and market value risks
Shaw manages its exposure to floating interest rates and US dollar foreign exchange fluctuation through the use of interest rate and cross-currency exchange agreements or swaps . In order to minimize the risk of counterparty default under its swap agreements, Shaw assesses the creditworthiness of its swap counterparties. Currently 100% of our total swap portfolio is held by financial institutions with Standard & Poor s ratings (or the equivalent) ranging from AA- to A-1.

Shaw has the following financial exposures to risk in its day-to-day operations:

(a) Interest rates: Due to the capital-intensive nature of Shaw s operations, the Company utilizes long-term financing extensively in its capital structure. The primary components of this structure are:

1. Banking facilities of Shaw as more fully described in Note 9 to the Consolidated Financial Statements.

2. Various Canadian and US denominated senior notes and debentures with terms of varying maturities issued in the public and private markets as more fully described in Note 9 to the Consolidated Financial Statements.

3. Equity instruments issued in Canadian and US dollars with original terms of 5 99 years as more fully described in Note 11 to the Consolidated Financial Statements.

Interest on bank indebtedness is based on floating rates, while the debentures and COPrS are fixed-rate obligations. Shaw utilizes its credit facility to finance day-to-day operations and, depending on market conditions, periodically converts the bank loans to fixed-rate

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instruments through public market debt issues. Shaw also uses interest rate swap transactions to fix the interest rates on a portion of its bank debt. At August 31, 2003 Shaw had swapped out $527.0 million of its $606.8 million Canadian floating-rate bank indebtedness by means of two Canadian interest rate swap transactions entered into with a major Canadian chartered bank. The first swap fixes interest on a notional amount of bank debt of $177 million at a rate of between 9.49% to 11.64% depending on debt to cash flow ratios. The effective rate at August 31, 2003 was 9.74%. The termination of the interest rate swap matches the maturity of the underlying principal of the hedged bank debt, such that one-third of it terminates each year commencing April 30, 2004 until fully terminated April 30, 2007. The second swap fixes interest on $350 million of the term loan to maturity at a rate between 4.9525% and 7.0775% depending on debt to cash flow ratios. At August 31, 2003, the effective rate was 5.9525%.

As at August 31, 2003, approximately 97% of Shaw s consolidated long-term debt was fixed with respect to interest rates. The equity instruments are also fixed with respect to interest rates, but are subject to the foreign exchange fluctuations described below.

(b) Foreign exchange: As the Company has grown to become Canada s largest video broadband service provider, it has accessed the US capital markets for a portion of its financings. Since Shaw s revenues and assets are primarily denominated in Canadian dollars, it faces significant potential foreign exchange risks in respect of the servicing of the interest and principal components of its US $ denominated debt. In view of this, the Company s policy with respect to US debt is that at least 70% of the amounts maturing within the next ten years be hedged to protect against exchange fluctuations, and at August 31, 2003 approximately 94% of the maturities were hedged. The Company utilizes cross-currency interest rate transactions, where appropriate, to hedge its exposures on US $ denominated bank and debenture indebtedness.

There is also an exchange risk present with respect to the US $ denominated COPrS included in equity instruments which require quarterly interest payments and potential redemption in US dollars. However, because of the long period of time until mandatory redemption (43 and 93 years), it is not practical to hedge these requirements. In respect of the quarterly interest payments, Shaw has entered into a five-year extendible forward US $ purchase contract with a major Canadian bank whereby it buys US dollars at a fixed rate on the quarterly interest payment dates to make these payments. The current agreement enables Shaw to purchase US dollars at an exchange rate of $1.4078 Cdn. until March 31, 2005. The counterparty to this agreement has the option to extend this agreement for a further five years at this rate.

(c) Market value: Shaw s most significant investment is in Motorola, Inc. which represents 27% and 56% respectively of the carrying value and market value of the Company s publicly traded investments. The value of this investment is subject to market risk. To protect against future stock market volatility, Shaw monetized this investment through the issuance of a zero coupon loan which resulted in proceeds to Shaw based upon the then current trading values of Motorola. Upon maturity, the Zero Coupon Loan is repayable by tendering the underlying security of the Motorola shares or by issuing of Shaw Class B Non-Voting Shares or paying cash. Since we have the option of settling the Zero Coupon Loan by delivery of the Motorola shares, the respective foreign exchange risk and market risk on the Zero Coupon Loan and the Motorola investment are eliminated.

The following tables summarize the impact of changes in the Cdn/US dollar exchange rate on the unhedged portion of Shaw s US denominated debt and equity instruments.

	Change in Cdn $ vs. US $	**Change in principal amount**	**Change in interest expense**	**Impact on loss per share[1]**
		($millions Cdn)		
Debt	$0.01	0.6	-	$0.001
	$0.03	1.7	0.1	$0.008
	$0.05	2.9	0.2	$0.013

Equity Instruments	**Change in Cdn $ vs. US $**	**Change in principal amount[2]**	**Change in entitlement payments**	**Impact on loss per share**
		($millions Cdn)		
COPrS	$0.01	3.2	N/A	N/A
	$0.03	9.5	N/A	N/A
	$0.05	15.8	N/A	N/A
Zero Coupon Loan	$0.01	0.2	0.02	-
	$0.03	0.7	0.05	-
	$0.05	1.1	0.09	-

(1) Assumes income tax recovery of 36% and includes the impact of foreign exchange gain or loss, interest and dividend entitlements.

(2) Under Canadian GAAP, equity instruments are classified as equity and are measured using historical values, therefore the principal amount stated in the financial statements does not change with foreign exchange rate fluctuations. Under US GAAP, equity instruments are classified as debt and are translated at the year-end rate of exchange; therefore the principal amount is affected by foreign exchange rate fluctuations as outlined in the table above.

iii) Contingencies

The Company and its subsidiaries are involved in litigation arising in the ordinary course and conduct of its business. As per the discussion above of our critical accounting policies, we recognize liabilities for contingencies when a loss is probable and capable of being estimated. As at August 31, 2003, there were no actions, suits or proceedings pending by or against the Company or its subsidiaries which would, in management s estimation, likely be determined in such a manner as to have a material adverse effect on the business of the Company.

iv) Uninsured risks of loss

Last year, Telesat Canada (Telesat), the sole provider of satellite facilities in Canada, first disclosed that it observed power degradation of the Anik F1 satellite. Shaw uses Anik F1 in its DTH and Satellite Services operations. Telesat has since provided the following update in its press release of February 4, 2003:

Telesat announced today that it has signed a contract with Astrium, Europe s largest space company, for a new satellite targeted for launch in 2005 to replace the Anik F1 satellite and ensure continuity of service for its customers. The new satellite, Anik F1R, will carry telecommunications, broadcasting and Internet services.

Based on the foregoing, we do not anticipate any incremental cost to the Company or disruption to our DTH and Satellite Services customers.

Last year we disclosed that a plan put forward by Satmex (a Mexican satellite operator) to launch and operate a new satellite adjacent to the satellites used by Star Choice, might cause significant interference to Star Choice. We have since learned that the governments of Canada and Mexico intend to conclude a new Satellite Coordination Agreement to accommodate the operation of a new Mexican satellite network according to the

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terms and parameters included in the 2000 Coordination Agreement. This would ensure that the operation of a new Mexican satellite will not interfere with the Anik satellites used by Star Choice. As a result, Shaw no longer considers this issue as a significant potential risk to Star Choice s DTH operations.

We are unable to obtain business interruption insurance covering damage or loss to one or more of the satellites that we use in our DTH and Satellite Services business. In respect of purchased transponders, we have rights to certain limited insurance proceeds which may be received by Telesat during the first five years following launch. Telesat has also made certain commitments to us for access to spare transponders on Anik F1 in the case of interruption. There is no assurance such transponders would be available. In respect of leased transponders, we currently lease satellite capacity from Telesat on Anik E2 and Anik F1 on an unprotected preemptible service level basis (the same level as all of Telesat s broadcast customers). Therefore, in the event of satellite failure, our service will only be restored as additional capacity becomes available, unless backup stand-by systems can be arranged. Restoration of our satellite service on a U.S. satellite may require repositioning or re-pointing of consumers receiving dishes. In such event, consumers level of service may be diminished or they may require a larger dish. There have been two in-orbit failures of the Anik E satellite series. One or more failures of satellites used by us could cause customers to deactivate their DTH subscriptions or otherwise have a material adverse effect on our business and results of operations.

We self-insure our plant in our cable and Internet distribution system as the cost of insurance is generally prohibitive. The risk of loss is however mitigated as most of our cable plant is located underground. In addition, it is likely that damages caused by any one incident would be limited to a localised geographic area and therefore resulting business interruption and financial damages would be limited. Further, we have back-up disaster recovery plans in the event of plant failure and we have redundant capacity with respect to certain portions of our system. In the past, we have successfully recovered from damages caused by natural disasters, without significant cost or disruption of service.

II. RESULTS OF OPERATIONS

OVERVIEW OF FISCAL 2003 CONSOLIDATED RESULTS

	2003	2002	2001
($000 s Cdn except per share amounts)			
Operations:			
Revenue	**2,076,740**	1,914,284	1,552,776
Operating income before amortization[1]	**820,600**	632,673	460,340
Operating margin	**39.5%**	33.1%	29.6%
Cash flow from operations	**534,766**	332,109	210,514
Net loss	**(47,828)**	(286,324)	(157,273)
Per share data[2]:			
Cash flow per share[3] basic	**$2.13**	$1.25	$0.77
Loss per share basic and diluted	**($0.38)**	($1.42)	($0.89)
Weighted average number of participating shares outstanding during period (000 s)	**231,848**	231,820	221,079

(1) See Key performance drivers on page 8.

(2) After deducting after-tax entitlements on equity instruments of $40,193 or $0.17 per share [2002 $42,331 or $0.18 per share; 2001 $40,123 or $0.18 per share] for the year.

(3) Cash flow per share is presented because it is an indicator of the maximum potential distribution to shareholders on a per share basis. It is calculated by dividing cash flow from operations as presented in the Consolidated Statement of Cash Flows adjusted for (2) above divided by the weighted average number of participating shares outstanding during the period. Cash flow per share is not a measurement in accordance with Canadian or US GAAP and should not be considered an alternative to earnings per share or any other measure of performance as required by Canadian or US GAAP.

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Highlights

- Consolidated net free cash flow was $96.8 million or $22.1 million better than our latest revised guidance of $74.7 million. This compares to a negative amount of $563.4 million last year. This improvement demonstrates Shaw s dedication and focus in the past 18 months to achieve free cash flow.
- Cable division free cash flow was $205.2 million compared to negative $349.4 million last year.
- Satellite division negative cash flow improved to $108.4 million compared to negative $214.0 million last year.
- Digital and Internet subscriber base growth, excluding the US cable systems sold effective June 30, 2003, was 39,813 and 125,933 respectively. Canadian basic cable subscriber growth was 18,935 compared to a loss of 32,556 last year. DTH subscribers grew by 48,502.
- Shaw sold its US cable systems effective June 30, 2003 for gross proceeds of US $188.5 million and used a portion of the proceeds to redeem the US $150 million Senior secured notes of Star Choice, resulting in savings in interest of US $19.5 million. The US cable systems generated operating income before amortization of US $17 million based on annualized results to the date of sale.

Revenue and operating expenses

				Change	
	2003	**2002**	**2001**	**2003 %**	**2002 %**
(In $000s Cdn)					
Revenue	**2,076,740**	1,914,284	1,552,776	8.5	23.3
Operating income before amortization	**820,600**	632,673	460,340	29.7	37.4
Operating margin	**39.5%**	33.1%	29.6%	6.4	3.5

2003 vs 2002

Consolidated revenue increased 8.5% over last year. Excluding the US cable systems sold effective June 30, 2003, consolidated revenue improved by 9.1%. The increase was due to growth in the customer base, rate increases and sale of additional digital services, the launch of HDTV and increased VOD offerings.

Operating income before amortization exceeded revenue growth with an increase of 29.7%. Excluding the US cable systems, the increase was 31.3%. The increase resulted from revenue growth combined with the positive impact of cost saving initiatives and restructuring in all divisions plus the elimination of the Excite@Home fee in December 2001. These improvements do not reflect the impact of increased restructuring charges of $4.3 million over last year, a one-time $4.4 million write-down of DTH inventory in 2003 and the recovery of a Cable litigation accrual of $12.0 million.

In April 2002 the CRTC modified certain structural separation license requirements to allow DTH and Cable to integrate accounting and other administrative functions subject to the establishment of procedures to protect confidential information. In light of this, the Satellite division developed a restructuring plan to streamline its operations. In respect of the restructuring plan, a $4.8 million provision was taken in the first quarter of this year to cover severance costs of approximately $4 million in respect of 400 employees and $0.8 million of exit costs to centralize certain operational functions in Calgary. The restructuring is expected to result in approximate annual savings of $6 million. As of August 2003, approximately $3.5 million of severance costs have been incurred in respect of the restructuring.

As part of the restructuring process implemented by the Company during the 2002 fiscal year, and consistent with its stated objectives to improve profitability and increase net free cash flow, the Company carried out a further review of its activities and operations at the corporate, cable and satellite locations during 2003. Based upon this review, it developed a restructuring plan which eliminated a further 350 positions. The plan, which was communicated to our employees in June 2003, will entail severance costs of approximately $4 million, and

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should result in annual savings of $15 million. The costs of the restructuring were recognized in the fourth quarter. As of August 2003, approximately $3.5 million of severance costs have been incurred in respect of this restructuring. During the operations review, Star Choice evaluated its inventory and distribution logistics with respect to replacement of customers DTH receivers and as a result, determined its inventory was overstated by $4.4 million. Accordingly, in the third quarter the Company recorded a corresponding one-time charge against operating income before amortization.

Given a recent favourable ruling from the Supreme Court of Canada, the authority of the CRTC to determine conditions upon which a cable company may gain access rights to public streets to construct transmission lines, including reasonable terms of payment, was upheld. As a result, in the fourth quarter the Company reversed a $12 million litigation accrual. In management s view, the Supreme Court of Canada ruling strongly supports Shaw s position in respect of similar litigation commenced against the Company relating to access to a municipality s streets for a period of ten years and therefore the accrual is no longer required.

2002 vs 2001

In 2002, revenue increased 23.3%. The impact of the Moffat acquisition, Rogers exchange and Viewers Choice acquisition, net of the Access systems sale, enhanced revenue by 6%. The remaining increase in revenue, or 17%, was due to organic growth from increased Internet, digital, DTH and Big Pipe customers, price increases and the introduction of a new digital tier. Operating income before amortization increased 37.4% and operating margin improved 3.5%. The increase reflected the favourable margin impact of higher effective net pricing for cable, Internet and DTH and increased volume through organic subscriber growth of Internet, digital and DTH. It also reflected the cost savings arising from the restructuring of the cable and Internet division, the elimination of the fee in December 2001 and the prior year s inclusion of a one-time incentive payment for all staff totaling $9 million. The incentive payment was in recognition of employees achievement in meeting record subscriber growth targets in 2001. These improvements were partially offset by the impact of a $4.6 million restructuring charge in 2002 incurred on severance costs in respect of the reduction of employment of 800 employees and contractors. The Company incurred $4.1 million of severance costs in respect of the reorganization last year and incurred the remaining costs in fiscal 2003.

Fixed charges

				Change	
	2003	**2002**	**2001**	**2003 %**	**2002 %**
(In $000s Cdn)					
Amortization					
Property, plant and equipment	**413,381**	409,335	288,165	1.0	42.0
Deferred charges	**184,808**	175,996	113,875	5.0	54.6
Intangibles	**-**	-	71,081	-	(100.0)
	598,189	585,331	473,121	2.2	23.7
Amortization of deferred IRU revenue	**(11,984)**	(11,517)	(4,902)	4.1	134.9
Interest	**259,702**	267,323	206,935	(2.9)	29.2

In 2003, amortization on property, plant and equipment increased by 1% due to high levels of cable, Internet, Internet back-bone and transponder capital expenditures prior to February 2002. Amortization should decrease in fiscal 2004 due to the sale of the US cable systems.

In 2002, amortization on plant, property and equipment increased by 42% due to the Moffat acquisition effective March 1, 2001, the incremental effect of the Rogers exchange effective November 1, 2000 and the high level of cable, Internet, Internet back-bone and transponder capital expenditures over the past few years.

In 2003, amortization of deferred charges increased by 5.0% primarily due to deferred equipment subsidies, which included a full year amortization of modem subsidies resulting from the purchase program introduced in June 2002 and the amortization of subsidies on DTH satellite dishes commencing January 2003. From September 2001 to January 2003, as part of the Simple Satellite promotional program, Star Choice retained

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ownership of the DTH satellite dishes, and therefore the dishes were previously capitalized as part of plant, property and equipment as opposed to equipment subsidies.

In 2002, comparable amortization of deferred charges increased 54.6% primarily due to the higher amortization of equipment subsidies which resulted from higher growth of digital and DTH subscribers in recent years.

As a result of adopting the new accounting policy for goodwill and intangibles discussed previously, no amortization was recorded on intangibles in 2003 and 2002.

Amortization of deferred IRU revenue resulted from the sale of the FiberLink operation in February 2000. Shaw granted an indefeasible right to use certain specifically identified existing fibers in the Company s fiber optic cable networks for 60 years (Shaw IRU). The prepayment on the Shaw IRU of $525.2 million, in the form of cash plus shares of GT Group Telecom Inc. (GT), is being amortized into income on a straight-line basis over the 60-year period. In addition, the Company also recorded a prepayment on an IRU of $96.8 million in respect of certain specifically identified existing fibers acquired on the Moffat acquisition (Moffat IRU) effective March 1, 2001. The prepayment on the Moffat IRU is being amortized into income on a straight-line basis over 30 years. In 2003, amortization of deferred IRU revenue remained unchanged. In 2002, it increased by 134.9% over 2001 due to the full year inclusion of the Moffat IRU and the first-time amortization of the future build component of the Shaw IRU that was completed in 2002.

In 2003, interest expense decreased by 2.9% due to reduced consolidated debt levels which resulted primarily in the latter portion of 2003 when Shaw began generating positive free cash flow on a consolidated basis and on repayment of debt with the sale of the US assets on June 30, 2003. In addition, Shaw s weighted average borrowing rate decreased from 7.69% as at August 31, 2002 to 7.37% as at August 31, 2003 due to restructuring of its debt including the repayment of the US $150 million Senior secured notes of Star Choice, the Cancom credit facility and the Cancom subordinated credit facility. As a result of continued generation of free cash flow and the reduced effective borrowing rate, interest expense should continue to decrease in 2004.

In 2002, interest expense increased by 29.2% over 2001 due to increased borrowing required to finance the Moffat acquisition, the Rogers exchange and capital expenditures.

Investment activity gains and losses

				Increase (decrease) in income	
	2003	**2002**	**2001**	**2003**	**2002**
(In $000s Cdn)					
Gain (loss) on sale of investments	**1,957**	2,321	(106,716)	(364)	109,037
Write-down of investments	**(15,000)**	(330,466)	(163,454)	315,466	(167,012)
Gain on redemption of SHELS	**119,521**	218,327	-	(98,806)	218,327
Dilution gain (loss) on issuance of stock by equity investee	**-**	(571)	4,525	571	(5,096)

Gain (loss) on sale of investments

In 2003 the gain on sale of investments primarily related to the sale of 1,100,000 Cogeco Cable Inc. (Cogeco) shares and the sale of a minority interest in a small cable company in British Columbia. Last year the gain on sale of investments of $2.3 million primarily related to the sale of approximately 673,000 Terayon Communications Systems (Terayon) shares. In 2001, the loss on sale of $106.7 million was due to a loss on the sale of 360networks shares of $137.6 million less net gains of $30.9 million on the sale of other investments.

Write-down of investments

The comparable write-down of investments is outlined in Note 5 to the Consolidated Financial Statements.

In 2003, Shaw reviewed the carrying value of its privately and publicly held investments and recorded a $15 million write-down. In 2002, the write-down of investments of $330.5 million related to the write-down of GT

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($269.0 million), Cogeco ($33.6 million), Liberty Media Corporation (Liberty) ($4.0 million) and private companies portfolio ($23.9 million). In 2001, the write-down of $163.5 million was in respect of Liberty ($103 million), TippingPoint Technologies Inc. ($21 million), other public companies ($6 million) and private companies ($33 million).

Gain on redemption of SHELS

In the third quarter of 2003, Liberate Technologies shares were surrendered to settle the SHELS III and IV equity linked debentures, which resulted in a gain of $75.3 million ($61.8 million after tax). In the second quarter, Terayon shares were surrendered to settle the SHELS V equity linked debentures, which resulted in a gain of $44.2 million ($36.2 million after tax) for a total gain of $119.5 million. The settlement of the three series of SHELS will improve annual cash flow by approximately $3.5 million (before tax) with the elimination of the annual dividend entitlements. Last year, At Home Corporation shares were surrendered to settle the SHELS I and II equity linked debentures, which resulted in a gain of $218.3 million.

Dilution gain/(loss) on issuance of stock by investee

The dilution gain and loss reported in 2002 and 2001 arose in connection with Shaw s previous investment in GT.

Other non-operating income and expenses

				Increase (decrease) in income	
	2003	**2002**	**2001**	**2003**	**2002**
(In $000s Cdn)					
Gain on sale of cable systems	**-**	-	66,595	-	(66,595)
Loss on sale of satellite assets	**(3,800)**	(1,281)	-	(2,519)	(1,281)
Debt restructuring costs	**(10,634)**	-	(8,590)	(10,634)	8,590
Foreign exchange gain (loss) on unhedged long-term debt	**32,617**	(1,658)	(15,188)	34,275	13,530
Loss on sale and write-down of assets	**(124,674)**	-	-	(124,674)	-
Other revenue (expense)	**9,338**	6,048	(665)	3,290	6,713

On August 31, 2001 the Company sold its interest in its Nova Scotia cable systems for $210 million which resulted in the gain on sale of cable systems of $66.6 million.

During 2003, Shaw sold its Star Choice Business Television division for $6.5 million which resulted in a $3.8 million loss. The loss of $1.3 million in the prior year relates to the sale of the uplink and SRDU business in the Caribbean.

In August 2003, the Company redeemed US $150 million Senior secured notes of Star Choice with part of the proceeds from the sale of the US cable systems. In connection with the redemption Shaw incurred $10.6 million in costs including early redemption premiums of US $9.8 million and the purchase of outstanding Star Choice warrants for US $2.4 million. These costs were partially offset by the reversal of a mark-to-market credit related to the notes. The Senior secured notes, which were due December 15, 2005 bore interest at 13% or US $19.5 million per annum. In November 2000, the Company incurred $8.6 million of debt restructuring charges in respect of the repayment of the Fundy 11% senior secured second priority notes.

Shaw recorded foreign exchange gains and losses on the translation of its foreign denominated unhedged long-term debt, which included US $57.2 million of bank debt and, until August 2003, the Star Choice US $150 million Senior secured notes. Due to the strengthening of the Cdn $ relative to the US $, the Company recorded a $32.6 million foreign exchange gain. Next year the impact of fluctuations in the US $ relative to the Cdn $ should reduce, as foreign exchange gains or losses should only arise in respect of the Company s translation of

US $57.2 million of bank debt. In prior years, the foreign exchange losses arose due to the weakening Cdn $ relative to the US $.

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Effective June 30, 2003, the US cable systems were sold for net proceeds of $257.4 million. In previous quarters, the Company recorded a loss provision of $80.0 million on the pending sale. Subsequent to the write-down, a slight recovery of the US $ relative to the Cdn $ reduced the final loss on sale to $74.7 million. In addition, the Company performed its annual valuation of intangible assets using discounted cash flow analysis and recorded a downward adjustment of $50 million to the carrying value of goodwill.

In 2003, other income increased by $3.3 million primarily due to foreign exchange gains which arose on the settlement of US denominated accounts payable. In 2002, other income increased by $6.7 million due to one-time interest income on the settlement of final accounts owing by Corus Entertainment Inc. on the sale of the Women s Television Network (WTN) and reduced foreign exchange losses on the translation and settlement of US denominated accounts payable.

Income tax expense (recovery)

The income tax expense (recovery) was calculated using current statutory income tax rates of 38%, 40% and 43% for the years 2003, 2002 and 2001 respectively, and was adjusted for the reconciling items identified in Note 14 to the Consolidated Financial Statements. Of particular note is the income tax provision for 2001 which included a $250.2 million future income tax recovery as a result of income tax rate reductions. In consequence of adopting the tax liability method of accounting in that year, as required by GAAP, future income tax assets and liabilities, previously measured using income tax rates at that time, were re-measured using reduced income tax rates substantially enacted as a result of provincial and federal budget proposals and the release of draft legislation causing a large reduction in the Company s net future tax liability position in 2001.

Equity loss on investees

				Increase in income	
	2003	**2002**	**2001**	**2003**	**2002**
(In $000s Cdn)					
Total	**(1,921)**	**(53,487)**	(71,282)	51,566	17,795

The equity loss on investees in the current year is in respect of Shaw s interest in three specialty channels, The Biography Channel (Canada), TechTV Canada and MSNBC Canada. These networks commenced commercial operations in January 2002, and as a result, effective January 1, 2002, Shaw recorded its first equity losses in respect of its 33.3% programming interests in each of these companies. The equity loss in prior years is primarily in respect of Shaw s previous investment in GT. Pursuant to a reorganization of the company in 2003, Shaw no longer has an ownership interest in GT.

Investment in Burrard Landing Lot 2 Holdings Partnership

As of August 2003, Shaw s investment in the Partnership is $7.5 million. As described in Note 1 to the Consolidated Financial Statements, Shaw proportionately consolidates the assets and liabilities of its 38.3% interest in the Partnership. As the construction of the building being developed by the Partnership is in progress, all costs, including interest, have been capitalized to the cost of the building and no income or loss has been recorded by Shaw in respect of its interest in the Partnership.

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Net loss

	2003	2002	2001	Change 2003 %	Change 2002 %
(In $000s Cdn)					
Net loss	**(47,828)**	(286,324)	(157,273)	83.3	(82.1)
Loss per share basic and diluted(1)	**($0.38)**	($1.42)	($0.89)	73.2	(59.6)
Weighted average number of participating share outstanding during period (000 s)	**231,848**	231,820	221,079	-	4.9

(1) After deducting after-tax entitlements on equity instruments of $40,193 or $0.17 per share [2002 $42,331 or $0.18 per share; 2001 $40,123 or $0.18 per share] for the year.

In 2003, earnings improved by 83.3% due to a number of offsetting items. On an after-tax basis, approximately half or $117 million of the improvement of $238 million was due to increased operating income before interest expense, whereas the remaining increase was in respect of one-time items such as a reduction in write-down of investments. The improvement in the loss per share of 73.2% is less than the 83.3% improvement in the net loss due to the effect of deducting the after-tax entitlements on equity instruments in calculating loss per share.

In 2002, the net loss increased by 82.1% primarily due to an income tax recovery of $250 million recorded the previous year as a result of income tax rate reductions. The increase in loss per share of 59.6% was less than the 82.1% increase in the reported net loss, as the per share calculation reflects the spread of the losses over a larger weighted average number of shares as a result of the Moffat and Cancom acquisitions in 2001. In addition, the loss per share calculation is affected by the deduction of after-tax entitlement on equity instruments.

SEGMENTED OPERATIONS REVIEW

Additional information concerning our operating segments is presented in Note 15 to the Consolidated Financial Statements.

CABLE

FINANCIAL HIGHLIGHTS

	2003	2002	2001	% Change 2003	% Change 2002
($000 s Cdn)					
Revenue (third party)(1)	**1,486,322**	1,393,287	1,136,067	6.7	22.6
Operating income before amortization, corporate restructuring charge and recovery of Cable litigation accrual(2)	**727,458**	608,916	470,700	19.5	29.4
Less:					
Interest	**190,002**	196,120	156,714	(3.1)	25.1
Entitlements on equity instruments, net of current taxes	**40,193**	42,331	40,123	(5.1)	5.5
Cash taxes on net income	**34,809**	36,523	43,354	(4.7)	(15.8)
Cash flow before the following:	**462,454**	333,942	230,509	38.5	44.9

Capital expenditures and equipment subsidies[3]	**257,276**	683,325	751,761	(62.3)	(9.1)
Free cash flow[2]	**205,178**	(349,383)	(521,252)	158.7	33.0
Operating margin(2)	**48.9%**	43.7%	41.4%	5.2	2.3

(1) In order to be consistent with the approach taken for DTH equipment sales, during the current year the Company has retroactively changed the presentation of equipment revenue and cost of sales in respect of the sale of DCT and modem equipment at a subsidized cost. Revenue includes equipment revenue received on the sale of DCT and modem equipment of $26,489 [2002 $25,724; 2001 $15,823] offset by an equal cost of sale. There is no impact on operating income or earnings as a result of this change.

(2) See Key performance drivers on page 8.

(3) Excludes $10,976 of capital expenditures in respect of the Partnership which the Company is required to proportionately consolidate. As the Partnership is financed by its own credit facility, this is a non-cash item for the Company.

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2003 vs. 2002

OPERATING HIGHLIGHTS

- Basic rate deregulation was completed in late October 2002. Effective January 2003, Shaw implemented basic rate price increases ranging from $0.16 to $2 per month per subscriber depending on the level of tiered service the customer received. This affected approximately 1.2 million basic analogue non-bundled subscribers and generated additional revenue of approximately $0.9 million per month.
- During the second quarter, a new bundle of services was created for customers who subscribe to all three specialty service tiers. This change, which was instituted as a means of increasing the competitiveness of Shaw s service bundles, resulted in a reduction of second outlet revenue of approximately $0.6 million per month.
- Effective May 1, 2003 Shaw increased its monthly charge on certain packages affecting approximately 550,000 customers which generated approximately $1 million of additional monthly revenue.
- Effective June 30, 2003, Shaw increased its monthly charge on its unbundled basic and FCS bundled packages. This affected approximately 1.1 million customers and generated additional monthly revenue of approximately $2 million when it was fully implemented by August 31, 2003.
- The US cable systems were sold effective June 30, 2003. These systems generated US $17 million of annual operating income before amortization.
- Digital and Internet subscribers base growth, excluding the US cable systems, was 39,813 and 125,933 respectively. Canadian basic cable subscriber growth was 18,935 compared to a loss of 32,556 last year.
- Shaw launched VOD in Calgary in September 2002; greater Vancouver area in January 2003; Saskatoon and Fort McMurray in April 2003; and Edmonton in May 2003.
- Shaw introduced HDTV services in Calgary, greater Vancouver, Saskatoon and Edmonton during 2003. The line-up continues to grow and contains up to five channels broadcasting in full HDTV.

The Cable division exceeded its free cash flow target for the year by $28.7 million with the generation of $205.2 million free cash flow in 2003 compared to negative free cash flow of $349.4 million last year. In 2004, Shaw intends to continue driving improvements in free cash flow and anticipates that it will achieve free cash flow of approximately $235 $270 million. This is based on targeted operating income of $775 $800 million through growth of revenue via new service offerings, increased bundling of services, subscriber growth and rate increases plus reduced expenses as a result of continued cost reduction programs. This also anticipates that capital expenditures will be between $290 $300 million.

Cable revenue increased 6.7% over last year. Excluding the US cable systems sold effective June 30, 2003, cable revenue increased by 7.6%. Substantially all of this increase was due to rate increases on Internet, tiers and bundled packages and unbundled services implemented during 2002 and 2003 and customer growth in basic, Internet and digital services.

Operating income before amortization increased 19.5% over last year. Excluding the US cable systems, operating income before amortization increased 20.7%. The improvement materialized from the impact of rate increases, customer growth in Internet and digital services, decreases in bandwidth costs, the elimination of the Excite@Home fee in December 2001 and cost savings resulting from restructuring programs.

During the year, Shaw took a number of steps to strengthen its competitive position with the offering of new services and products to its customers such as the introduction of the next generation of cable modems and increased VOD and PPV content. The product enhancements will enable Shaw to offer unique-to-cable services to our customers and further increases the value and attractiveness of the Shaw Internet bundle.

Shaw intends to deploy an advanced generation of cable modems based on the DOCSIS 2.0 specifications. Initial deployments will take place in Calgary and Vancouver beginning in the fall of 2003. This advanced generation of cable modem technology will enable Shaw to increase the capabilities and reliability of its high-speed data network by increasing the capacity and throughput in both the upstream and downstream portions of

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the cable plant, creating a network that has up to 30 megabit per second (Mbps) capacity in both directions, which represents about 400% increase over the capacity of current cable modem systems.

Shaw reached long-term agreements with two major Hollywood studios, Twentieth Century Fox and Universal Studios, to provide movies and other programming content for Shaw s VOD and PPV services. This represents a significant expansion in the variety and quality of content available to Shaw s VOD customers from two of Hollywood s leading studios.

2002 vs 2001

Negative free cash flow improved from $521.3 million in 2001 to a negative amount of $349.4 in 2002. The improvement began in the last half of 2002, when Shaw focused on achieving strong growth in a sustainable free cash flow environment. As a result in the three months ended August 31, 2002, the Cable division grew operating income before amortization by 24% over the three months ended February, and achieved breakeven cash flow compared to a negative cash flow of $185 million.

Approximately 65% of revenue growth in 2002 was organic growth resulting from rate increases, new customer gains and new services. Rate increases during the year included a $3 per month increase on the Internet, tiers and bundled packages effective May 2002. Including the US cable systems, Internet subscribers increased by 174,303 and digital deployment increased by 132,688. New services introduced during the year included the new digital tiers launched in January 2002 and the Lite-Speed Internet product launched in February 2002. The remaining increase in revenue was attributable to the net effect of the acquisitions of Moffat and Viewers Choice plus the Rogers exchange, net of the sale of Access systems. The Moffat acquisition, which included approximately 383,000 basic subscribers and 46,000 Internet subscribers, occurred on March 1, 2001. Therefore the results for the Moffat systems were included for a full year in 2002 versus six months the previous year. Fiscal 2002 also included three months of results from the June 2002 acquisition of Viewers Choice, which operates a PPV service in Western Canada. The Rogers exchange, which resulted in a net gain of 22,000 subscribers, occurred in November 2000; therefore fiscal 2002 includes a full year of the results of this transaction compared to ten months in 2001. Offsetting these increases was the sale effective August 31, 2001 of the Access systems, which served approximately 71,000 basic subscribers.

As a result of price increases, customer growth and cost reduction measures introduced in the third quarter of fiscal 2002, operating income before amortization improved 29.4% over 2001. During the first half of 2002, Shaw incurred additional costs associated with new marketing campaigns and the cost of converting customers to Shaw s Internet network of approximately $4 million. These increased costs were primarily offset in the latter part of the year with the introduction of cost savings measures including the reduction of employment of approximately 800 employees and contractors. Other cost reduction programs included cutback on travel and cell phone usage, which generated annualized savings of approximately $6 million. Further, effective December 1, 2001, Shaw saved approximately $5 per month per Internet subscriber on the fees previously paid to the Excite@Home email service.

Previously, Shaw s Internet service was provided solely through the rental of cable modems. In June 2002, Shaw began providing Internet services via cable modems purchased by customers at a subsidized price. The subsidy on the modem purchase is accounted for in the same manner as the subsidies on DCTs.

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CAPITAL EXPENDITURES AND EQUIPMENT SUBSIDIES CABLE

	Actual			% Change	
	2003	**2002**	**2001**	**2003**	**2002**
(In $000s Cdn)					
Capital expenditures and equipment subsidies:					
New housing development	**83,009**	106,231	95,155	(21.9)	11.6
Success based	**71,301**	182,760	227,315	(61.0)	(19.6)
Upgrades and enhancement	**62,133**	270,033	342,749	(77.0)	(21.2)
Replacement	**15,016**	28,437	31,492	(47.2)	(9.7)
Buildings/Other	**25,817**	95,864	55,050	(73.1)	74.1
	257,276	683,325	751,761	(62.3)	(9.1)

Capital expenditure categories listed above may be described as follows:

(1) Capital on new housing development includes the build out of mainline cable and the addition of drops in new subdivisions.
(2) Success based includes capital and equipment subsidies related to the acquisition of new customers, including installation of modems, digital cable terminals (DCTs), filters and commercial drops for Big Pipe customers.
(3) Upgrades and enhancement capital includes upgrades to the plant from 550 MHz to 750 MHz, build up of fiber backbone to avoid cost of leased circuit networks and decrease in Internet node size.
(4) Replacement capital includes normal replacement of aged assets such as drops, vehicles and other equipment.

2003 vs. 2002

Capital expenditures (including corporate) and equipment subsidies decreased $426.0 million or 62.3% over last year. Upgrades and enhancements decreased $207.9 million as a result of the completion of the second Internet Data Center (IDC) and major cable plant upgrades last year. Success based spending decreased by $111.5 million as a result of reduced Internet and digital activations compared to last year. Buildings and other decreased by $70.0 million as a result of the completion of major building projects last year. In 2003, Shaw predominantly used internal labour on new housing development compared to the first half of 2002 where higher cost external contractors were used extensively. As a result, and due to more efficient management of resources including selective pre-wiring and coordination of construction with developers, new housing development expenditures decreased by $23.2 million. Replacement expenditures decreased by $13.4 million as a result of a more focused program of managing capital spending. This focused program also caused actual expenditures to be 10% below planned expenditures of $285 million for 2003. The decline in capital expenditures has not impaired customer growth as evidenced by our subscriber gains highlighted below.

2002 vs. 2001

The decrease of $68.4 million in capital expenditures and equipment subsidies reflects the capital expenditure reduction program implemented in the third quarter as most of the cable plant upgrade was completed. In addition, higher expenditures were incurred in 2001 due to the incremental addition of subscribers in 2001, (70,000 in both Internet and digital), the completion of the IDC at a cost of $100 million and the purchase of our southern fiber route from 360networks as described below. These decreases were offset by expenditures in 2002 on the second IDC of $26 million and the accelerated delivery of the northern fiber route under our agreement with 360networks of approximately $45.5 million plus $17 million incurred to activate the fiber. The northern route provides for increased capacity for the future and redundancy for the existing southern route. As part of the northern route, Big Pipe acquired 8 fiber strands between Edmonton and Toronto and 6 fiber strands between Buffalo and Albany and Albany to New York City for $45.5 million. The purchase price was partially satisfied in March 2002 by the application of a $15.8 million deposit from June 2001 plus a further $18.2 million payment. The remaining payment of $11.5 million was satisfied in September 2002.

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SUBSCRIBER STATISTICS

				2003		2002	
	2003	**2002[1]**	**2001[1]**	**Change**	**%**	**Change**	**%**
CABLE:							
Basic service:							
Actual	**2,051,919**	2,032,984	2,065,540	18,935	0.9	(32,556)	(1.6)
Penetration as a % of homes passed	**68.2%**	69.2%	71.3%				
Full Cable Service:							
Tier I	**1,639,187**	1,651,383	1,682,847	(12,196)	(0.7)	(31,464)	(1.9)
Penetration as % of basic	**79.9%**	81.2%	81.5%				
Tier II	**1,565,041**	1,559,678	1,570,017	5,363	0.3	(10,339)	(0.7)
Penetration as % of basic	**76.3%**	76.7%	76.0%				
Tier III							