

2003 Annual Report



Profile

Cogeco Cable is a cable television company with shares listed on the Toronto Stock Exchange.

Cogeco Cable is evolving into one of Canada's major telecommunications companies, by building on its cable distribution base with the offering of analog, digital and high-speed Internet services.

Cogeco Cable provides 1,188,369 revenue generating units to the 1,397,486 households passed by its cable network in the territories it serves. It is the second largest cable system operator in both Ontario and Québec and the fourth largest in Canada.

Cogeco Cable focuses its attention on the satisfaction of customers' varied electronic communication needs by investing in state-of-the-art broadband network facilities, delivering a wide range of services over these facilities with great speed and reliability at attractive prices, and striving to provide both superior customer care and growing profitability.

Glossary

Digital services: digital video services.

HSI: high-speed Internet services.

HSI Lite: high-speed Internet product with download speed of up to 150 Kbps.

HSI Pro: high-speed Internet product with download speed of up to 5 Mbps.

HSI Standard: high-speed Internet product with download speed of up to 3 Mbps.

RGU (revenue generating units): includes basic service, HSI service and digital service customers.

VOD: video-on-demand services.

Contents

- 1** Financial Highlights
- 2** Message to Shareholders
- 6** Management's Discussion and Analysis
- 23** Consolidated Financial Statements
- 40** Ten-Year Financial Highlights
- 42** Investor Information
- 43** Customer Statistics
- 44** Board of Directors and Corporate Management
- 45** Operations and Corporate Information

(in thousands of dollars, except rates of return and ratios, customers and terminals, ARPU and per share data)

Financial Highlights

	2003	2002	Change
Operations			
Revenue	\$ 479,293	\$ 447,984	7%
Operating Income ⁽¹⁾	183,344	168,346	9
Net income from recurring operations	7,879	7,200	9
Net income	7,879	3,788	108
Cash Flow ⁽¹⁾	120,260	111,173	8
Free Cash Flow ⁽¹⁾	3,251	(38,961)	—
ARPU ⁽¹⁾	48.00	43.57	10
Financial Condition			
Total assets	\$ 1,830,517	\$ 1,830,282	—%
Indebtedness ⁽¹⁾	806,429	828,570	(3)
Shareholders' equity	724,692	716,797	1
Rates of Return and Ratios			
Operating Income margin ⁽¹⁾	38.3%	37.6%	
Return on average shareholders' equity	1.1	0.5	
Indebtedness on Operating Income	4.4	4.9	
Interest coverage	3.0	2.8	
Customers and Terminals			
RGU	1,188,369	1,124,358	6%
Basic service customers	820,657	836,368	(2)
Percent of penetration	58.7%	60.8%	
Discretionary service customers	639,820	644,031	(1)
Pay-TV service customers	113,614	116,484	(2)
High-speed Internet service customers	205,179	158,192	30
Digital terminals	183,087	144,950	26
Per Share (basic)			
Net income from recurring operations	\$ 0.20	\$ 0.18	11%
Net income	0.20	0.10	100
Cash Flow ⁽¹⁾	3.02	2.79	8
Shareholders' equity	18.17	17.98	1
Weighted average number of outstanding shares (in thousands)	39,882	39,872	—

⁽¹⁾ The indicated terms are not defined under Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to other measures presented by other companies. Refer to page 20 of this Annual Report for a detailed description of non-GAAP measures.

Message to Shareholders

During fiscal 2002-2003, the Cogeco Cable team achieved many of its key strategic objectives. Operating Income was increased by 9% to reach \$183 million, earnings per share were increased and positive Free Cash Flow of \$3 million was achieved for the first time in many years. Basic customer losses were greatly reduced and high-speed Internet and digital service subscriptions have grown substantially compared to last year.

Revenue has grown by 7% to reach \$479 million. We were able to increase our Operating Income margin by 0.7% to reach 38.3% as a result of increased revenue, while both programming and operating expenditures were kept in check, increasing by only 6% in the aggregate to \$296 million, thanks to strong controls and a continued thorough review of all classes of expenses.

High-speed Internet connections have continued to blossom, growing 30% during the year, despite the \$5 rate increase introduced in the second half of fiscal 2002. Thus, we added 46,987 new customers, to reach 205,179. In most of our service areas, the Cogeco high-speed Internet service is operated at downstream speeds that beat the digital subscriber line (DSL) competition by a factor of up to 2:1, an advantage we intend to continue to market aggressively. We also started offering our HSI Lite and Pro services at \$29.95/month and \$69.95/month respectively, in Ontario, in early Fall 2002, and in Québec, in May 2003, thus satisfying various consumer segments. We continue to offer our HSI Lite product as a retention tool only and are monitoring this sales

approach very closely. New product enhancements will be announced in the Winter of 2004 as we pursue adding value to this customer favourite. As at August 31, 2003, close to 32% in Ontario and 20% in Québec of our basic customers in areas served, used one of our high-speed Internet services.

Our high-speed Internet service continues to receive favourable reviews from customers as evidenced by the independent comparative ranking of world providers posted on the www.broadbandreports.com site where Cogeco Cable's high-speed Internet service has been steadily given high overall marks among all Canadian providers! According to the same source, we also rank consistently among the 20 fastest providers in the world week after week! The window on the world that is high-speed Internet is still, in our opinion, very favourably priced for consumers and Forrester Research sees this service continuing to grow well into 2008.

With regards to our digital service, during the first half of the fiscal year, we virtually completed our extension of Cogeco Cable's digital footprint in Québec to reach 95%, (Ontario was already close to 100%), thus greatly enhancing the appeal of our service to customers in these regions. In fact, with a total of 183,087 digital terminals now in service, 26% more than last year, penetration of digital terminals stands at 27% in Québec as compared to 21% in Ontario, where the black market has had somewhat of a dampening effect on digital penetration.

Building on the strength of our digital platform, we deployed our Cogeco Cable VOD service in the October 2002 to March 2003 period, when the service became available, to 85% of our homes passed, one of the largest deployments, on a percentage basis, in North America! Customers may now order a movie or program of their choice from our inventory of about 200 titles, conveniently through the remote control of their existing digital terminals, at the exact moment of their choosing, with the ability to pause, rewind and fast forward, with a 24-hour viewing window, at competitive prices! Customers love this service. We plan to progressively add more titles to the current inventory as we sign additional VOD license agreements with program suppliers, a lengthy process which has now been concluded with, among the largest, Alliance Atlantis and MGM.

The video-on-demand platform is a key competitive advantage of cable over satellite, which we intend to build on, as consumers begin an inexorable long-term migration from on-schedule viewing to on-demand viewing. During



MAURICE MYRAND
Chairman of the Board

LOUIS AUDET
President and
Chief Executive Officer

fiscal 2004, we will be making our Personal Video Recorder (PVR) solution available to customers for the first time, using DCT-6208 units supplied by Motorola. These units also include High Definition Television (HDTV) tuning capability, a new service we also plan to introduce during fiscal 2004. This development further empowers customers in their search for the ultimate entertainment experience which we are determined to provide.

Dialogue with our customers has improved tremendously through heightened research, better communications and tangible service improvements. In particular, our decision to centralize the marketing function under one corporate Vice-President, with one corporate advertising agency, Ogilvy & Mather, has allowed us to better understand our customers and communicate more effectively using strategies better aligned with the realities of the marketplace. This effort has been supported by much improved service delivery capabilities at all levels of Cogeco Cable, in particular, in dealing more effectively with customer requests at our call centers and delivering the service in a fast, reliable way in the field.

In an effort to better communicate with customers, simplify their interactions with us and create a friendly transactional environment, we have reconstructed our *www.cogeco.com* site effective on August 25, 2003 which is much improved compared to its earlier version.

From a retention standpoint, our strategies and efforts have made a difference this year, as progressively smaller numbers of customers have chosen to leave us for the competition, either legal or illegal. In 2001-2002, we

had lost 42,398 customers or 4.8% of our base. This fiscal 2002-2003, customer losses have been reduced substantially to 15,711, or 1.9% of this base. Of course, we will not be satisfied until basic customer growth resumes, but reducing losses by 63% this year is a very encouraging change, considering that the black market continues to exist and that competing satellite services finally realigned their prices closer to their costs only late in our fiscal year, during the month of April 2003.

This has afforded us the opportunity to increase our video service on average by about 5% or \$1.75 for all basic customers in Ontario and \$2.20 for digital customers in Québec. We continue to believe that competitive video services in Canada are still very reasonably priced and that substantial value remains untapped. Unlocking that value will, however, require a continuing resolve by licensed broadcasting distributors to focus on cost recovery and profitability, and on further progress in developing a national strategy to deal with the black and blue markets.

Our dialogue with our customers has improved tremendously through heightened research, better communications and tangible service improvements.

The black market is the larger issue in Canada with some consumers illegally buying equipment to receive and decrypt unauthorised US satellite services free of charge. Through programs such as the Coalition Against Satellite Signal Theft (CASST) and other collective and individual anti-piracy initiatives, we hope to see: stricter, well publicized enforcement of the law by law enforcement officers; recognition by the courts that theft of satellite signals is indeed theft; tougher penalties through amendments to Canadian legislation currently under review by Parliament; and, more effective cooperation between Canadian and American authorities. These measures will likely converge to progressively rein in this illicit market segment which is still currently growing, albeit at a reduced pace. With regards to the blue market, better controls and enforcement by Bell ExpressVu, the satellite provider who has acknowledged the need to address



this problem, will be the defining factor in dealing effectively with this illicit market segment. Decisive and sustained action is required as black and blue markets are harmful to the Canadian programming and distribution industries. In the interim, we must plan while keeping in mind that major progress on this front may require yet more time. Cogeco Cable actively enforces the security of its network on an ongoing basis.

We continue to examine all aspects of our operations to increase our efficiency in delivering our services at the lowest possible cost. Since the year 1998, all our services have been billed on a single invoice in most of the areas we serve. We continue to seek more balanced affiliation terms with all program suppliers. A number of Canadian program services, licensed during the first rounds of specialty service licensing in Canada, which are now very successful, well entrenched in the Canadian market and

We continue to examine all aspects of our operations to increase our efficiency in delivering our services at the lowest possible cost.

controlled by large integrated broadcasting groups, continue to benefit from protective regulatory measures that are no longer justified. This has created a major imbalance between programming services and broadcasting distribution services. Whereas the distribution sector is extremely competitive and exposed to market risk and consequently yields suboptimal returns on investment, the Canadian programming sector is protected by regulation from competition and market risk, and enjoys superior returns on investment. This imbalance must be addressed by the regulator, and we will continue to press for prompt corrective action in this regard.

As the Telephone and Cable industries, including their respective direct-to-home satellite services, compete, Canadian consumers have a unique opportunity to enjoy advanced video and Internet services of the highest quality and fast-paced innovation unparalleled anywhere in the world. As competitors, it is our duty to build the quality of life of our customers first and foremost.

From an investment standpoint, we have been on a plan to gradually reduce the sum of capital expenditures and deferred charges as our network approaches its optimal state of being 87% two-way and broadband, in line with market potential, with broadband being defined as 550 MHz and higher. The sum of capital expenditures and deferred charges has come down from a peak of \$195 million in fiscal 2000 to \$117 million this year, slightly under generated Cash Flow of \$120 million, thus explaining the first occurrence of positive Free Cash Flow, since fiscal 1996, of \$3 million.

This pattern is attributable to two fundamental trends. First, the sophistication of digital compression and multiplexing techniques provides for greater carrying capacity in our existing networks. This, in turn, reduces the need for further rebuild activity, thus limiting capital expenditures. Second, with the advent of the low cost Motorola DCT-700 all digital terminal (around \$100 CDN), more people will have access to our digital services including VOD with lower terminal costs and much reduced terminal-related deferred charges on Cogeco Cable's balance sheet! As a result, more people will be in a position to use VOD and consume sophisticated digital services. Management is currently analyzing a scenario to reap bandwidth in an all-digital conversion scenario. This avenue, while complex, appears promising.

As we continue to work on improving our Operating Income margins and reducing our capital expenditures and deferred charges, net earnings and Free Cash Flow should continue to increase nicely. Our balance sheet continues to improve as our ratio of Indebtedness to Operating Income has been reduced from 4.9 to 4.4 at August 31, 2003.

We continue on our mission to tap a greater share of the discretionary spending of the customers we serve, on home information, entertainment and communications, adding more services on top of basic video, such as digital services, including VOD, and high-speed Internet. As regards telephony, we are still on the lookout for an appropriate low capital cost solution on the market with sufficient customer appeal. However, we have no specific plans to launch cable telephony at this point in time, as this solution and more workable regulatory interconnection rules have not been forthcoming. The strength and sophistication of the cable platform make it unparalleled in its ability to offer the full bundle of complex services, interactive in real time, such as VOD and eventually video telephony at attractive consumer prices, on a single bill and, of course, a single wire. On our journey to quadruple revenue in the medium term, the ARPU has risen 10.2% due to sales of high-speed Internet and digital services, to reach \$48 for fiscal year 2003. Cogeco Cable continues to

seek acquiring attractively priced cable systems that fit its geographical coverage pattern.

Cogeco Cable is determined to rebuild its Return on Equity⁽¹⁾ (ROE) to levels it enjoyed prior to the destructive, lower than necessary price competition that prevailed in the 2000 to 2002 period. Indeed, prior to that period, Cogeco Cable generated meaningful ROE year after year, paid a dividend, and was generally a welcome exception in the North American landscape. Our efforts are directed at reestablishing this performance. The results achieved in 2002-2003 bode well for the accomplishment of these aspirations in future years.

Corporate governance is evolving rapidly. The Corporation believes in strong governance and follows closely all new standards and regulations. Several new disclosure features are included in the annual shareholder proxy circular and this annual report.

The Corporation is continuously looking for ways to improve its governance practices. On April 4, 2003, the Audit Committee of the Board of Directors revised its charter after careful consideration of the *Sarbanes-Oxley Act*, the Toronto Stock Exchange guidelines and the proposed changes thereto of November 28, 2002 and the various courses of action available to it. The result in our view is a progressive charter, exacting in every respect, inspired by high standards, one that we can look at to protect the interests of all shareholders in the hands of this independent Audit Committee, and we are grateful for the Committee's work in this respect. The Audit Committee will review and reassess annually the adequacy of the charter and due consideration will be given to the new rules on audit committees proposed by the Canadian securities regulators when adopted in their final form.

The Board of Directors and three of its four standing committees now have formal charters setting out their duties and responsibilities. A new Board of Directors charter and Human Resources Committee charter were adopted at the last Board meeting. All these charters, along with the Governance Committee charter, are available on our website. A particularly thorough Corporate Code of Ethics, for all members of the COGECO family of companies, is now also in place, which deals with such matters as respect for individuals, customers, society, the environment, business standards, corporate policies and the law and applies to the companies, management and staff.

The Board of Directors has been particularly diligent in carrying out its many duties, in particular charting an appropriate course of action through ongoing strategic planning. We wish to thank the Board for its insight and dedication in providing much appreciated guidance.

We also wish to thank all members of management and personnel who are contributing so meaningfully to the transformation of Cogeco Cable into a more customer-focussed company. This is increasingly apparent as we successfully meet ongoing competitive challenges. Evidence of this dedication to customers becomes even more clear in trying times such as the major power outage that paralyzed 50 million people in the North East of our continent in mid-August of this year. Our personnel worked beyond the call of duty. As a result, all our services were quickly reestablished to customers once power was restored. Heartfelt thanks to all our dedicated Cogeco Cable team members!

Signed Maurice Myrand

Maurice Myrand
Chairman of the Board

Signed Louis Audet

Louis Audet
President and Chief Executive Officer

October 24, 2003

⁽¹⁾ Return on Equity is defined as net income divided by average shareholders equity.

Management's Discussion and Analysis

The following analysis discusses our operations, financial condition and outlook. This analysis should be read in conjunction with the Corporation's consolidated financial statements, which start on page 23. Management's Discussion and Analysis ("MD&A") is presented in the following sections:

- (1) **Overview of Our Business** describes our strategy and objectives, the status of our cable network and the uncertainties and main risk factors faced by our Corporation.
- (2) **Performance Highlights** reviews significant developments of fiscal 2003 and compares actual results to the financial objectives set out in last year's MD&A.
- (3) **Operating and Financial Results** provides a detailed analysis of how fiscal 2003 results compare with those of fiscal 2002.
- (4) **Cash Flow Analysis** describes the sources and uses of funds in fiscal 2003 compared to fiscal 2002.
- (5) **Financial Position** describes the changes in the balance sheet as of August 31, 2003 compared to a year earlier.
- (6) **Capital Resources and Liquidity** addresses how capital resources and the risks related to foreign exchange fluctuations are managed.
- (7) **Fiscal 2004 Financial Guidelines** highlight key financial objectives for fiscal 2004.
- (8) **Accounting Policies** discusses measures that are commonly used in the telecommunications industry but are not defined terms under Generally Accepted Accounting Principles (GAAP). This section also describes changes in accounting standards that our Corporation has adopted in fiscal 2003 and will implement in fiscal 2004, and the related impact on our financial statements.

Fiscal 2003 has been a turnaround year where Cogeco Cable benefited from renewed marketing approaches and improved processes and cost control measures.

- (9) **Quarterly Information** provides tables on selected quarterly data for fiscal 2003 and 2002.

Certain statements in this annual report may constitute forward-looking statements that involve risks and uncertainties. Future results will be affected by a number of factors pertaining to technology, markets, competition and regulation, including those described in the "Uncertainties and Main Risk Factors" section of this MD&A. Therefore, actual results may be materially different from those expressed or implied by such forward-looking statements.

(1) Overview of Our Business

Cogeco Cable is the second largest cable operator in each of Ontario and Québec and the fourth largest in Canada based on the number of basic service customers it serves. Cogeco Cable provides video, digital cable and HSI services to approximately 821,000, 163,000 and 205,000 customers, respectively.

Fiscal 2003 has been a turnaround year where Cogeco Cable benefited from past system upgrades as well as renewed marketing approaches, improved processes and cost control measures initiated since fiscal 2002. Effective marketing coupled with improved customer service have resulted in better basic service customer retention, as well as better penetration of digital and HSI bundles. Basic service customer loss was 1.9% in fiscal 2003, compared to 4.8% in the previous fiscal year. Customer additions to digital and HSI services have grown by 25% and 30% respectively in fiscal 2003. Also, revenue growth was achieved by implementing rate increases insofar as the competitive environment permitted.

Business Strategy and Objectives

Cogeco Cable is dedicated to increasing shareholder value. Consequently, employee incentive plans are based on performance criteria tied to value creation. A corporate bonus is paid on the basis of annual Operating Income growth, the evolution of Indebtedness and their theoretical impact on share price. Since most investors value the stock price of cable distribution companies according to these financial benchmarks, Cogeco Cable focuses on maximizing profitability while efficiently managing its use of capital without jeopardizing future growth. The following strategic imperatives have been identified as critical to shareholder value creation:

Customer retention and increased penetration of higher margin digital and HSI services

Minimizing customer churn⁽¹⁾ reduces installation and acquisition costs to win back customers. Our market research reveals that customers are overwhelmed by the product offerings available in the market place and that comparison between competing services is difficult. Customers change service providers primarily based on their value perceptions of competing services. Therefore, efforts planned for fiscal 2004 to improve our brand credentials include: more targeted and simplified advertising campaigns, an enhanced customer retention strategy, a heightened focus on superior execution at all customer contact points and a continued investment in consumer research and segmentation activities.

Improving our brand credentials should lead to greater customer retention and increased penetration of digital and HSI services. Increasing average revenue per customer results in greater profitability since a portion of operating costs per customer is fixed. To further maximize this profitability, Cogeco Cable focuses on selling higher margin services. The strategy for basic cable services is to defend the customer base and grow penetration opportunistically. The plan of action for digital services is to grow the digital base through customer acquisitions and migration from the basic customer base. As well, we focus on increasing the value per digital customer by upselling services such as VOD. The strategy for HSI is to focus on the more profitable HSI Standard and Pro segments of the market. Currently, HSI Lite is only offered on a retention basis.

New and value added bundles

In line with its objective of offering customers more choices at affordable prices, Cogeco Cable is in the process of launching new services including:

- Smaller and more affordable digital theme packs in Québec to better respond to the French language market demand.
- Increased flexibility in combining digital pick packs with theme packs in Ontario. This change provides increased choice as the customer selects his preferred channels when ordering a pick pack.
- Additional enhancements to residential and commercial HSI services.
- Digital terminals with PVR functionality and HDTV tuning capability. The transmission of HDTV programming is also planned for the Fall.

Retail rate increases

While broadcasting distribution and HSI services remain fiercely competitive, management anticipates that the trend towards rising and more consistent retail pricing will continue in years to come as distribution undertakings are usually focusing on fully recovering costs and improving balance sheets as opposed to buying market share. Management believes this will provide further opportunities for rate increases while keeping service pricing competitive and reasonably affordable to customers.

Greater productivity through continued process improvement and cost control measures

Cogeco Cable intends to pursue process improvement initiatives and tight expense control. We are continuously striving to negotiate new sub-contractor, network affiliation, Internet Protocol (IP) transport and other supplier agreements at lower prices. We are constantly reviewing our processes to deliver a higher quality service while achieving cost savings. The sections "Operating Costs and Management Fees" and "Fiscal 2004 Financial Guidelines" discuss key initiatives implemented by Cogeco Cable.

Targeted reductions in capital and operating expenditures based on market and consumer segment priorities

A capital committee, which includes the President and CEO as well as certain Vice-Presidents, was established to review investment strategy and capital allocation. Projects aligned with our strategy and providing acceptable return on investment are generally prioritized. Return on investment is assessed giving consideration to expected incremental costs and revenue as well as cost savings. Those analyses are completed on a case by case basis and per system where applicable.

External growth through attractively priced acquisitions

Cogeco Cable continues to seek out attractively priced acquisitions of cable systems adjacent to its current geographical coverage.

Successful implementation of the above strategic imperatives will lead to improved profitability and reduced Indebtedness as measured by the following financial metrics. These metrics are discussed in more detail in the "Fiscal 2004 Financial Guidelines" section:

⁽¹⁾ Customer churn is defined as basic service disconnects during a period divided by basic service customers at the beginning of the period.

The Corporation believes it will generate Free Cash Flow of \$15 million to \$20 million in fiscal 2004, compared to \$3.3 million in fiscal 2003.

- Cogeco Cable expects to pursue Operating Income growth of 8% to 10% in fiscal 2004 compared to 9% in fiscal 2003.
- The Corporation believes it will generate Free Cash Flow of \$15 million to \$20 million in fiscal 2004, compared to \$3.3 million in fiscal 2003. This increase will essentially come from Operating Income growth. Generated Free Cash Flow will be applied to reduce Indebtedness.

Cable Network

Notwithstanding a few exceptions in remote areas, Cogeco Cable's network is now fully digital, with 87% of households passed served by two-way cable plant. VOD service is now available to 85% of households. The Corporation is studying the possible introduction of low-cost digital terminals as a strategy to accelerate the migration to a fully digital platform to offer, among other things, to a majority of its clientele the VOD service.

Cogeco Cable's fiber optic network extends over 7,800 kilometres and includes 78,900 kilometres of optical fiber. Cogeco Cable initially deployed optical fiber to nodes serving clusters of typically 2,000 homes, with many fibers per node, which now allows the Corporation to further extend the fiber to smaller clusters of approximately 500 to 1,000 homes rapidly and relatively easily. On average, fiber nodes currently serve about 1,500 homes. Node splitting leads to further improvement in the quality and reliability of services offered and allows for increasing traffic of two-way services such as HSI and VOD.

Cogeco Cable is completing the conversion of its IP platform to the DOCSIS 1.1 standard (Data Over Cable Service Interface Specifications). DOCSIS 1.1 allows the prioritization of the signal packets that must be transmitted in real time, so as to ensure a continuous transmission flow. Furthermore, DOCSIS 1.1 enables encryption in the local loop and eases doubling of upstream throughput.

Uncertainties and Main Risk Factors

The following is a statement of the main risks and uncertainties that are considered likely to significantly affect, or have the potential to significantly affect, the financial condition, operating results or business of the Corporation and its subsidiaries. This statement is not intended to cover all possible material contingencies, nor is there any assurance that the risks and uncertainties discussed in this statement will actually unfold as expected, or have the anticipated consequences.

Market Conditions and Competition

Cogeco Cable's activities are conducted essentially in the field of the distribution of video and audio programming services, non-programming services and telecommunication services through wireline broadband systems. These broadband services are marketed to residential and business customers. The market for these broadband services continues to be very competitive in Canada. There are several wireline and wireless competitors vying for more customer connections, a greater share of the available budget of residential customers, and long-term arrangements with property owners or managers and business customers. All competitors have high exit costs.

Rivalry between broadband service competitors, although intense, has recently shifted to some extent from retail price cutting to value propositions in the form of bundles of discrete services for a single price, incentives on terminal equipment required to receive the services, and time-limited introductory offers for new customers. Largely as a result of this shift in competitive pricing strategies, retail prices have tended to be more stable and have actually moved upward for the distribution of programming services over the last fiscal year. This has had a positive impact on the Corporation's operating margins. There is, however, no assurance that this trend will continue.

One of the main competitors of Cogeco Cable, Bell Canada, has decided to offer service bundles that include video and audio programming, HSI and telephony services with single integrated billing. Cogeco Cable has not rolled out telephony services or concluded joint marketing arrangements with alternative telephone service providers, and may face a new competitive challenge as a result. The bundling of telephone services with video and Internet services by Bell Canada and other incumbent local exchange carriers (ILECs) is currently under review by the CRTC.

The market for analog programming services is generally considered mature, while the market for digital services and HSI services is more recent and is generally considered to have significant potential for additional growth. HSI services are a main contributor to the Corporation's revenue growth and Operating Income. The growth in HSI service subscriptions has lagged in Québec compared to Ontario in the past, and it may abate more

quickly than expected. Third party suppliers have been given the right to market HSI services offered through the broadband facilities of cable and telephone networks. Internet access service providers such as AOL Canada have decided to offer HSI services in competition with telephone and cable companies. While third party access or resale has not had a significant impact to date, there is no assurance that it will not affect the Corporation's future growth or market share for HSI services.

The new digital programming services launched in September 2001 as part of the digital cable service have in most cases been unable to meet their subscriber penetration, audience and advertising revenue projections. A few of these upstart programming services have already ceased operations, and more may do the same in the near term. Also, it remains unclear whether the four new French-language digital programming services licensed in 2000 will meet their final deadline and launch before September 2004. The lift on digital service revenue anticipated from the deployment of the VOD platform will depend, in good measure, on the Corporation's ability to conclude suitable VOD exhibition license agreements with program suppliers, including several major Hollywood movie studios.

The market for video service distribution in Canada continues to be negatively affected by the theft of satellite signals, both from unlicensed US direct broadcast satellite (DBS) services (often referred to as the "black" market) and from licensed Canadian direct-to-home (DTH) satellite services (often referred to as the "blue" market). While a combination of public awareness campaigns, public and private enforcement actions and seizures have hit some of the key distributors of satellite signal pirating devices and software in Canada, the technical opportunity and the economic incentive for widespread theft of satellite signals both remain unabated. Efforts to repatriate an estimated one million unauthorised residential users in Canada have not been successful to date. While the federal government has announced plans to amend the *Radiocommunication Act* (Canada) with a view to providing stiffer penalties and improved means for controlling the importation and use of pirating devices and software, the timetable for enactment of the amending legislation and its coming into force remains uncertain.

Technology

The rate of innovation and improvements in both wireline and wireless broadband technology remains very quick-paced. The hybrid fiber-coaxial (HFC) platform used by the Corporation for its cable systems remains an effective and reliable means of delivering a wide range of broadband services to the home, but there is no assurance that the competitive balance between wireline systems, or between wireline and wireless systems, will not shift in the future. The open standards and equipment

certification process developed by the North American cable industry through CableLabs has contributed to the success of the HFC platform in the era of digital IP-based transmission. However, Cogeco Cable's digital services still require the use of a separate proprietary technology provided by Motorola that is not IP-based. Recent breakthroughs in low-cost digital terminals for video services achieved by Motorola provide an opportunity to push digital services much more effectively. However, the full conversion of different local cable systems to complete digital transmission capability, with the resulting efficiencies in the use of available bandwidth, still faces unresolved operational, marketing and regulatory challenges. In the meantime, funds available for system capacity upgrades required to distribute high-definition and other additional video services to the same extent as satellite distributors may be constrained. Work on improvements to back-up and redundancy capabilities for Cogeco Cable's plant, head end and server facilities, particularly in connection with HSI services, will extend over the next fiscal year.

Nonwithstanding a few exceptions in remote areas, Cogeco Cable's network is now fully digital, with 87% of households passed served by two-way cable plant.

Regulation

The activities of Cogeco Cable are regulated mainly under the authority of the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada). The CRTC, which is responsible for exercising regulatory supervision and control under both statutes, has developed extensive regulatory frameworks for broadcasting distribution and for telecommunications. Changes in the rules comprising these respective frameworks, their timing and their implementation can have a significant impact on the financial condition, operating results or business of the Corporation and its subsidiaries.

The Corporation is also subject to Canadian ownership and control requirements that limit the extent to which equity can be issued to non-Canadian residents and preclude control by non-residents. While these requirements have been under governmental and parliamentary review during the last year, there is no assurance that these requirements will be changed or removed, or on the timing of such change or removal.

Costs

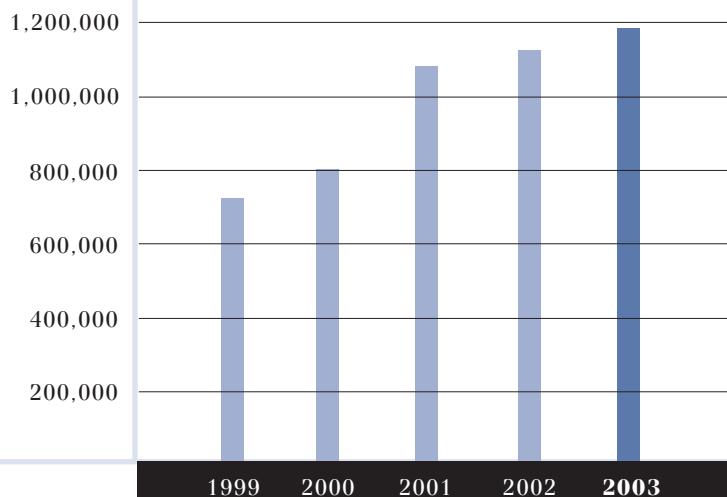
Cost of sales is mainly comprised of network fees for programming services, copyright fees and IP transport fees for HSI. Cable distributors throughout North America have been faced with rising network fees over the last few years, with resulting downward pressure on their operating margins. A key objective of the Corporation is to stop the trend toward contracted increases in network fees and to lower the cost of sales as a ratio of revenue derived from programming services. While the Corporation has used every possible opportunity to reduce network fees and has made some progress in the last fiscal year, it faces difficult hurdles on the road to further improvements. First, specialty and pay television programming services, whether Canadian or foreign, are controlled by a small number of large integrated communications groups. Second, Canadian specialty and pay television programming services are protected by the regulatory framework in effect through mandatory carriage or access rules, legacy analog distribution rules, tiering and linkage rules, specialty service carriage status rules, regulated wholesale fees and the requisite CRTC dispute resolution mechanism. Third, the illegal satellite reception market, which continues to thrive in Canada, contributes nothing towards the costs of programming for these programming services while fragmenting the cable distribution market.

The Corporation pays retransmission fees for distant television and radio signals under tariffs approved under the authority of the *Copyright Act* (Canada). Rights collectives have filed new tariffs proposing substantial increases in retransmission fees. Rights collectives have also filed proposed tariffs respectively for pay audio services distributed to residential customers, and for background music services distributed to commercial establishments. These tariffs are currently under review by the Copyright Board.

The Corporation has benefited for its HSI transmission and connectivity requirements from the large capacity of installed fiber transmission facilities available from carriers in Canada and the intense price rivalry in that sector. As the sector further consolidates and excess capacity is absorbed by the market, cost efficiencies may be more difficult to achieve in the future for IP transport facilities.

The Supreme Court of Canada has recently confirmed the jurisdiction of the CRTC under the authority of the *Telecommunications Act* (Canada) to set terms for access to municipal street allowances and property for cable and other telecommunications carrier facilities in case of a dispute between the parties. In an earlier decision however, the Supreme Court of Canada ruled that the CRTC cannot set terms for the use of support structures owned by electric power utilities under the authority of the *Telecommunications Act* (Canada), in its present form. Provincial utility regulators may eventually take over this responsibility, or the *Telecommunications Act* (Canada) may eventually be modified to assert clearly the authority of the CRTC in also settling such disputes. Terms for the use of support structures owned by telecommunications carriers such as Bell Canada remain subject to CRTC approved tariffs. Contract renewals with electric power utilities are pending for approximately two thirds of the poles used by the Corporation in Ontario. The two largest electric power utility suppliers of support structures for the Corporation's cable plant are Hydro One in Ontario and Hydro-Québec in Québec. The Hydro One contract is due to expire on December 31, 2004 and the Hydro-Québec contract is due to expire on December 31, 2005. The Corporation expects that its average cost per pole will likely rise in the next few years but cannot determine the extent of the increase at this time. Relations with suppliers of support structures are

Revenue Generating Units
Average annual growth: 10.2%



considered satisfactory and contract negotiations are proceeding in the normal course of business.

Information Systems

The Corporation has concluded a new agreement commencing on September 1, 2003 for the continued use and maintenance of the customer management system used in Ontario and supplied by DST Innovis. The Corporation will continue to use a different customer management platform in Québec and has implemented substantial changes separately to that platform rather than taking an integrated systems approach. These developments bring more certainty and predictability of costs to the customer management function in the medium term.

The current IT environment, combined with the extensive reliance of the Corporation on its information systems for the conduct of its activities and operation of its business, involves significant risks of data loss and business interruption in the event of major disasters, terrorist action, unauthorised access, or malicious tampering. Insurance undertakers no longer provide coverage for these risks under the existing insurance programs, which are managed through internal controls, security and disaster recovery plans and procedures. There is no assurance that these plans and procedures will effectively prevent or limit loss of data or business interruption in a particular event, or that data or business recovery will take place as planned.

Labour Relations

The collective agreements in the Québec Division expired on December 31, 2002, and negotiations for renewal terms are under way. Approximately 27% of the Corporation's aggregate workforce is covered by these collective agreements. While labour relations are considered satisfactory and negotiations are progressing in the normal course, the impact of renewal terms will not be known until negotiations are concluded. Management does not expect any labour disruptions at this time. There are no collective agreements in the Ontario Division.

Cogeco Cable exceeded most of its financial and customer additions objectives.

(2) Performance Highlights

In fiscal 2003, Cogeco Cable exceeded most of its financial and customer additions objectives.

Customer Statistics

Basic service customer loss was 1.9% during fiscal 2003 compared to an initial target of 2.3% and the 4.8% loss during fiscal 2002. Despite rate increases discussed further in the "Revenue" section, these losses were lower than anticipated owing to effective marketing and customer service, combined with the continued success of service bundling. The installed digital terminal base expanded by 26% with 183,087 digital terminals in service as of August 31, 2003, exceeding the original target of 170,000.

Subscriptions to the HSI service rose by 30%. HSI customer additions were lower than anticipated due, in part, to a slowing demand for HSI as the penetration rate increases. Additionally, Cogeco Cable's current strategy is to maximize profitability per HSI customer by focusing its acquisition efforts on the HSI Standard and Pro segments of the market. Unlike its competitors, HSI Lite is only offered on a retention basis.

Net additions (losses) % of Penetration⁽¹⁾

	August 31, 2003	2003			2002		August 31,	
		Actual	Guidance	Actual	Actual	2003	2002	
Customer Statistics								
Revenue generating units	1,188,369	64,011	58,000	41,405		NA		NA
Basic service customers	820,657	(15,711)	(19,000)	(42,398)		NA		NA
HSI customers ⁽²⁾	205,179	46,987	55,000	50,254		28.5		22.1
Digital terminals ⁽³⁾	183,087	38,137	25,000	39,658		22.8		18.4
Bundled service customers ⁽⁴⁾	288,080	46,394	NA	53,760		35.1		28.9

(1) As a percentage of basic service customers in areas served.

(2) 5,652 HSI Lite and 577 HSI Pro customers are included. Taking into account pending orders, the number would amount to 210,974 compared to 164,318 a year earlier.

(3) 77% of terminals were purchased compared to 62% a year earlier.

(4) 48% of bundled service customers had the digital service compared to 44% last year.

(in thousands of dollars except percentages)

Years ended August 31,	2003	2002	% Change
Operating Results			
Revenue	\$ 479,293	\$ 447,984	7.0
Operating costs	288,080	271,928	5.9
Management fees – COGECO Inc.	7,869	7,710	2.1
Operating Income	\$ 183,344	\$ 168,346	8.9
Operating Income margin	38.3%	37.6%	

Financial Results and Cash Flow

Cogeco Cable achieved 7% revenue growth, exceeding its initial 5% target. The target was surpassed because basic service customer losses were lower than anticipated and unbudgeted rate increases were implemented last January, June and July. Cogeco Cable's Operating Income margin increased from 37.6% in fiscal 2002 to 38.3% in fiscal 2003, slightly better than the goal of 37.9%. This improvement is due to cost reduction initiatives, ongoing process improvements as well as rate increases.

Financial expense went up by 2.5%, lower than the target of 6% because short-term interest rates as well as capital expenditures were lesser than anticipated. Depreciation of fixed assets and amortization of deferred charges rose by 12.7%, higher than the target of 10%. Deferred charges relating to customer subsidies were greater than anticipated since Cogeco Cable sold more digital terminals than expected. These deferred charges are amortized over 4 years, more rapidly than most categories of fixed assets. Capital expenditures and increase in deferred charges amounted to \$117.0 million, \$2.0 million lower than planned, and were entirely financed by Cash Flow.

Free Cash Flow of \$3.3 million was generated, a first since fiscal 1996. The break-even target was surpassed as a result of greater Operating Income and lower capital expenditures than planned.

Cogeco Cable achieved 7% revenue growth, exceeding its initial 5% target.

Launch of VOD Services

Cogeco Cable launched its VOD service in October 2002 and the rollout was completed last March. The service offers about 200 titles to 85% of homes passed. VOD provides a competitive edge to Cogeco Cable's product offering as satellite distributors do not have the two-way capabilities to offer this service. VOD should contribute to greater customer retention and additional sources of revenue.

(3) Operating and Financial Results

Operating Results

Revenue

Revenue rose by \$31.3 million, or 7.0%, mainly from HSI services penetration improvement and various rate increases as discussed below:

- HSI customer additions during fiscal 2002 and 2003 generated incremental revenue of approximately \$26.2 million over fiscal 2002. The addition of about 47,000 new HSI customers during fiscal 2003 contributed approximately \$12.7 million to this growth. The balance resulted from the full-year impact of the net gain of over 50,000 HSI customers during fiscal 2002.
- Various rate increases during fiscal 2002 and 2003 created incremental revenue of \$16.3 million. A \$5 monthly rate increase for HSI customers in Ontario and Québec was introduced during the second half of fiscal 2002. Subsequent to the basic rate deregulation authorised by the CRTC, average monthly rate increases of about \$2.50 in Québec and \$2.75 in Ontario were implemented in August 2002 and January 2003, respectively, for customers subscribing to basic service only. Cogeco Cable introduced further rate adjustments effective in June for the Ontario customer base and in July for the Québec digital customer base. These adjustments resulted in incremental average monthly rates of approximately \$1.75 per basic service customer in Ontario and approximately \$2.20 per digital customer in Québec.

Various sources, including installation, new digital services and VOD, contributed an additional \$4.9 million to revenue growth.

The organic growth, detailed above, was offset by internal revenue loss of \$16.1 million associated mostly with basic and extended tier customer losses and with aggressive promotions:

- The loss of basic and extended tier customers in fiscal 2002 and 2003 had a negative impact of \$12.1 million on revenue. The loss of about 16,000 customers taking basic or basic and extended tiers, during fiscal 2003, led to a \$2.7 million decline in revenue. The balance resulted from the full-year impact of a net loss of over 42,000 customers taking basic or basic and extended tiers during fiscal 2002.
- Revenue lost from promotions or discounts amounted to \$10.3 million in fiscal 2003 compared to \$6.6 million in fiscal 2002. To maintain its competitive position, the Corporation continued to offer monthly promotional rebates to its new HSI customers. These rebates ranged from a total of \$60 to \$105 per new customer during the various promotional periods compared to \$40 to \$120 per new customer in the prior fiscal year. In addition, the Corporation offered programming credits of up to \$100 per new digital customer buying a digital terminal.

Average monthly revenue per basic service customer (ARPU) increased from \$43.57 in fiscal 2002 to \$48.00 in fiscal 2003, a 10.2% increase. Most of this increase resulted from improved penetration of HSI service and rate increases.

Operating Costs and Management Fees

Operating costs increased by \$16.2 million, or 5.9%, mainly as a result of the factors discussed below:

- Network fees rose because of increased penetration of bundled services and program supplier fee increases. However, network fees as a percentage of revenue have decreased in fiscal 2003. A large part of this decline is related to lower bandwidth costs incurred to service HSI customers. IP transport costs have decreased by \$0.9 million or 9% despite the 30% increase in HSI customers during fiscal 2003. Further savings of \$0.8 million were achieved from relocating the TSN channel to the basic service in Ontario in January 2003. In addition, contributions to the Canadian production fund declined by \$0.5 million as a result of changes to the CRTC's regulation.

Average monthly revenue per basic service customer increased from \$43.57 in fiscal 2002 to \$48.00 in fiscal 2003.

- The rise in other operating costs is largely attributable to marketing acquisition costs incurred to increase revenue generating units, pole attachment fee increases and costs incurred to improve customer support services. Since financial results have improved in fiscal 2003, employees earned their corporate bonus amounting to \$3.0 million; no corporate performance bonuses were earned in fiscal 2002.

Management fees to COGECO Inc., the parent company, represented approximately 1.6% of revenue in fiscal 2003, a marginally smaller proportion of revenue compared to fiscal 2002. For fiscal 2004, these fees will be increased by 2.0% (indexed to the Consumer Price Index).

Operating Income

Operating Income improved by \$15.0 million or 8.9% as a result of revenue growth outpacing cost increases. Cogeco Cable's focus on improving its Operating Income margin has resulted in the margin going up from 37.6% in fiscal 2002 to 38.3% in fiscal 2003.

Fixed Charges

Depreciation and amortization rose as a result of the cable system modernization program, capital expenditures linked to HSI and digital services and higher deferred charges. Amortization of deferred charges mainly includes subsidies associated to sales of home terminal devices and a portion of advertising expenses related to net additions of digital and HSI customers. Amortization also includes new services launch costs and up-front financing costs related to recent debt financings.

(in thousands of dollars except percentages)

Years ended August 31,	2003	2002	% Change
Fixed Charges			
Depreciation and amortization			
Fixed assets	\$ 92,279	\$ 84,685	9.0
Deferred charges	14,879	10,388	43.2
Total	\$ 107,158	\$ 95,073	12.7
Financial expense	\$ 61,113	\$ 59,645	2.5

(in thousands of dollars)

Years ended August 31,

2003

2002

Cash Flow Analysis

Operating Activities

Cash Flow

\$ 120,260

\$ 111,173

Net changes in non-cash working capital items

18,787

16,362

Unusual item

—

(4,925)

\$ 139,047

\$ 122,610

Investing Activities

\$ (116,234)

\$ (149,311)

Financing Activities

\$ (22,813)

\$ 23,324

Financial expense went up because of the issuance in November 2001 of Senior Secured Notes bearing a higher average interest rate than the Term Facility and higher short-term interest rates in fiscal 2003 on the Term Facility. The average interest rate was 7.3% in fiscal 2003 compared to 7.1% in fiscal 2002.

Unusual Item

During fiscal 2003, the Corporation recorded no unusual items. In fiscal 2002, Cogeco Cable incurred an expense of \$4.9 million before income taxes as a result of staff reductions.

Cash Flow is greater than last year by \$9.1 million or 8.2% due to the growth in Operating Income.

Income Taxes

Income taxes for fiscal 2003 amounted to \$7.2 million compared to \$4.9 million for fiscal 2002. Current income taxes of \$3.5 million in fiscal 2003 mainly relate to the large corporation tax, which is computed on the basis of the Corporation's capital base. Since the Corporation has accumulated non-capital income tax losses of about \$171.5 million as at August 31, 2003, most of the income taxes arising from earnings are deferred.

Net Income

In fiscal 2003, net income from recurring operations amounted to \$7.9 million or \$0.20 per share, compared to \$7.2 million or \$0.18 per share in fiscal 2002. In fiscal 2003, net income amounted to \$7.9 million or \$0.20 per share, compared to \$3.8 million or \$0.10 per share in fiscal 2002.

During fiscal 2003 and 2002, 141,020 and 161,909 stock options were granted, respectively. As discussed in

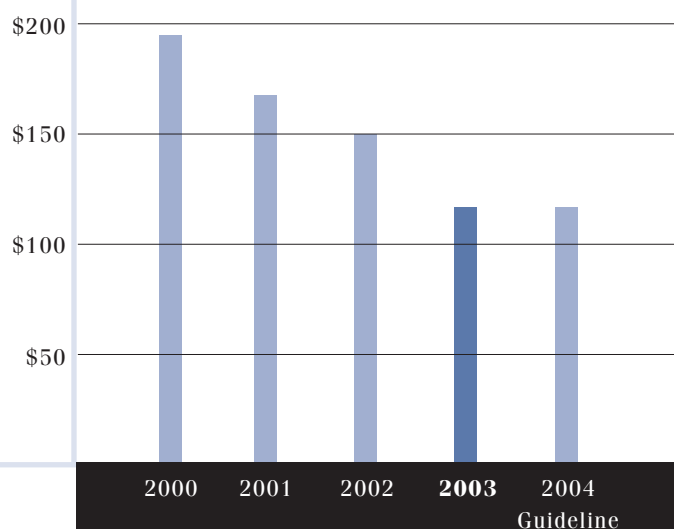
Note 11 on page 35, Cogeco Cable has valued the granted options since September 1, 2001 to provide the impact as if the value of these options had been expensed. Accordingly, expensing the options granted would have reduced net income by \$389,000 in fiscal 2003 compared to \$314,000 in fiscal 2002.

(4) Cash Flow Analysis**Operating Activities**

Cash flow from operating activities includes Cash Flow, net changes in non-cash working capital items and unusual items. Cash Flow is greater than last year by \$9.1 million or 8.2% due to the growth in Operating Income. The impact of changes in non-cash working capital items amounted to a cash inflow of \$18.8 million in fiscal 2003, compared to a cash inflow of \$16.4 million in fiscal 2002. The increased cash inflow from working capital items is mainly related to accounts payable and accrued liabilities rising by \$11.7 million and income tax receivable declining by \$7.0 million in fiscal 2003. Unusual items required a cash outflow of \$4.9 million in fiscal 2002. On a per

Declining Capital Expenditures & Deferred Charges

(in millions of dollars)



(in thousands of dollars)

Years ended August 31,	2004 Guidelines ⁽²⁾	2003	2002
Capital Expenditures ⁽¹⁾			
Customer premise equipment	\$ 34,900	\$ 33,251	\$ 33,868
Scalable infrastructure	19,700	25,158	26,165
Line extensions	10,800	9,660	8,353
Upgrade / rebuild	34,600	27,121	38,709
Support capital	7,000	5,883	15,010
Total Capital Expenditures ⁽³⁾	\$ 107,000	\$ 101,073	\$ 122,105

(1) Segmented according to the National Cable Television Association (NCTA) standard reporting categories.

(2) See "Fiscal 2004 Financial Guidelines" section for further discussion.

(3) Includes capital leases that are excluded in the statements of cash flow.

share basis, Cash Flow increased from \$2.79 in fiscal 2002 to \$3.02 in fiscal 2003 as a result of improved Operating Income.

Investing Activities

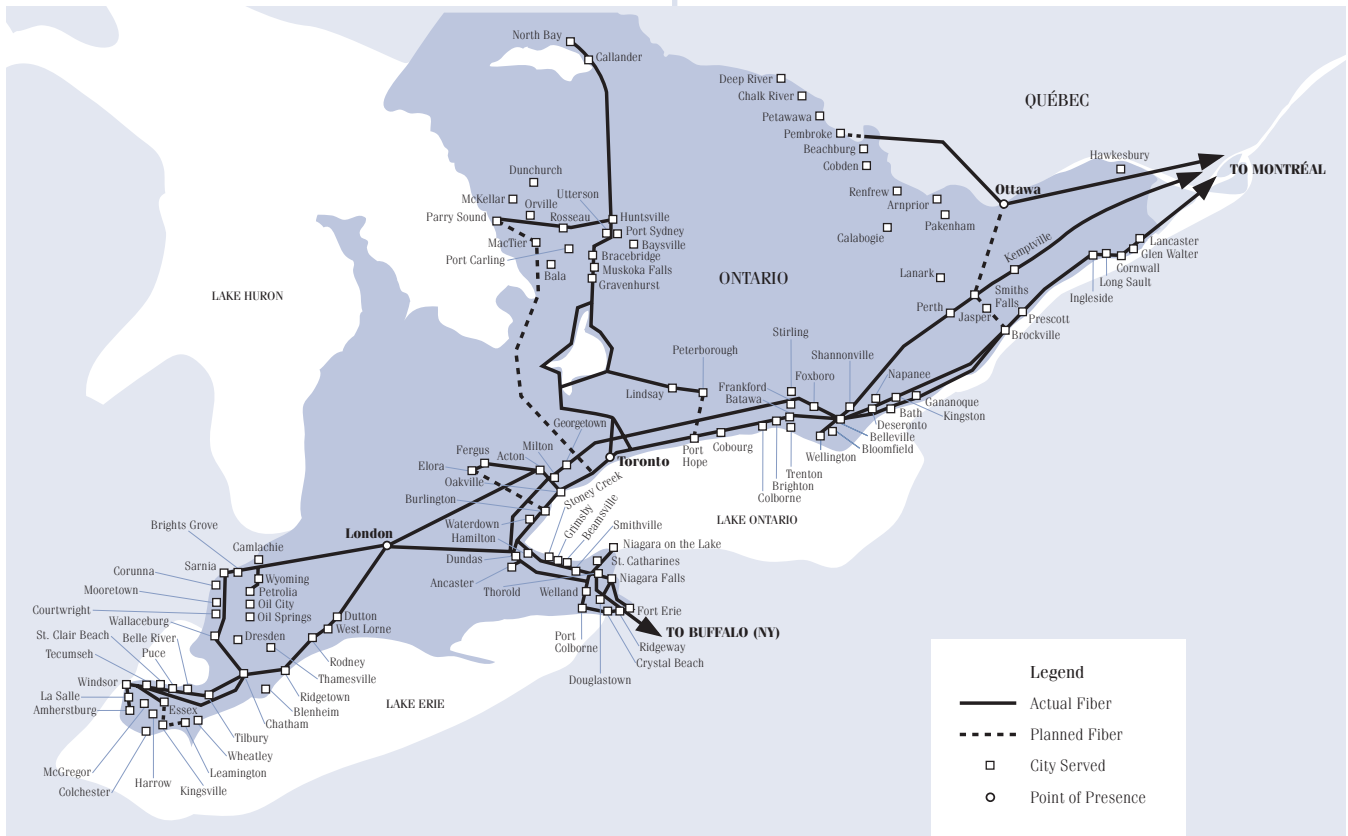
Investing activities related to capital expenditures and deferred charges decreased from \$149.3 million in fiscal 2002 to \$116.3 million in fiscal 2003.

In fiscal 2003, capital expenditures related to upgrades decreased by \$11.6 million given that 87% of households are currently served by two-way cable plant and digital services are offered to almost all households. Furthermore, capital

expenditures related to support capital declined by \$9.1 million due, in part, to fewer information technology projects having been initiated in fiscal 2003. In fiscal 2004, capital expenditures related to scalable infrastructure should decrease by \$5.5 million as \$7.7 million was incurred in this category during fiscal 2003 to introduce VOD. However, capital expenditures associated with upgrades should increase by \$7.5 million partly because of additional node splitting to further enhance reliability and quality, and to accommodate an increasing traffic of Internet and VOD services. The 2004 capital expenditure guidelines could be revised downward as the capital committee will closely review all projects.

Ontario Inter-City Fiber Deployment

Optic Cable Network: 4,200 km
Optic Fiber: 35,000 km



(in thousands of dollars)

Years ended August 31,	2004 Guidelines ⁽¹⁾	2003	2002
Increase in Deferred Charges			
Equipment subsidies and advertising costs	\$ 10,000	\$ 14,491	\$ 20,292
Financing costs	—	—	4,688
New services launch costs and others	—	1,445	3,049
Total Increase in Deferred Charges	\$ 10,000	\$ 15,936	\$ 28,029

⁽¹⁾ See "Fiscal 2004 Financial Guidelines" section for further discussion.

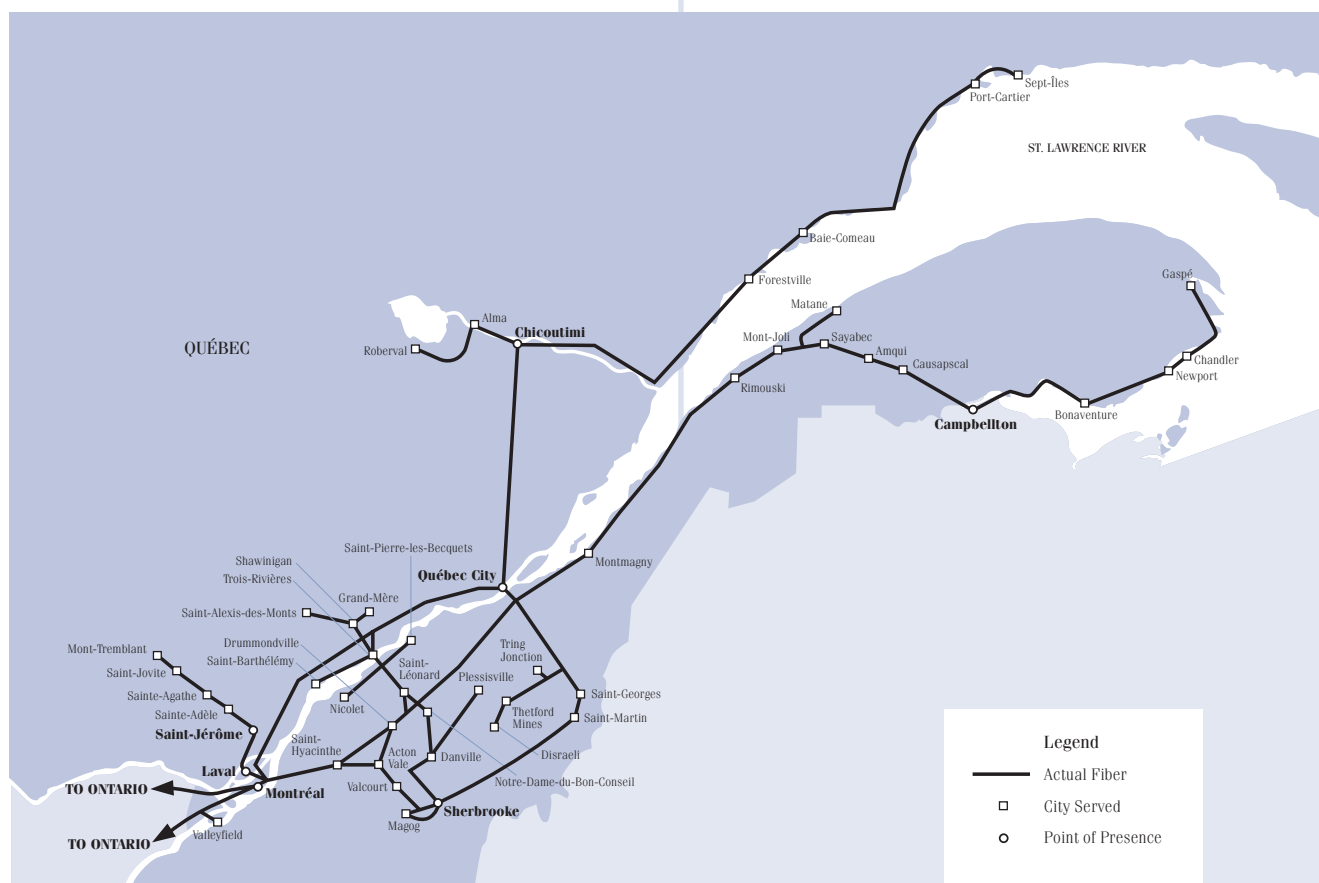
In coming years, capital expenditures and subsidies related to customer premise equipment are expected to decrease as unit prices should continue to decline and as such devices will be increasingly integrated in Consumer Electronics products like PCs, television sets and DVDs. Numerous technology changes and improvements will also contribute to reduce capital expenditures in general and systems rebuilds in particular. Improvements in compression and multiplexing techniques will allow for more and more video signals to be transmitted in a given bandwidth with no signal degradation. Increased bandwidth needs generated by growth in narrowcast digital services such as Internet and VOD will be accommodated through further cost efficient node splitting.

The migration to DOCSIS 1.1 and eventually to DOCSIS 2.0 will allow for the use of more efficient modulation techniques. Most importantly, the gradual migration of cable systems to all-digital networks will significantly increase the capacity of systems. Therefore, systems upgrades will consume relatively less capital and will increasingly be undertaken to further improve reliability and quality of services offered rather than for capacity expansion.

Increase in deferred charges declined to \$15.9 million in fiscal 2003 compared to \$28.0 million in fiscal 2002. The breakdown of the increase is presented in the table above.

Québec Inter-City Fiber Deployment

Optic Cable Network: 3,600 km
Optic Fiber: 43,900 km



Costs associated with the launch of new services mainly relate to the introduction of 50 new digital channels in fiscal 2002 and the rollout of VOD service in fiscal 2003. Equipment subsidies and advertising relate to subsidies on sales of 50,946 and 71,233 digital terminals in fiscal 2003 and 2002 respectively, and a portion of the advertising expense incurred to expand the digital and HSI customer base. Financing costs relate to the issuance of two Senior Secured Notes and the amendment to the Term Facility in fiscal 2002. In fiscal 2004, a reduction in the increase in deferred charges is planned as demand for digital terminals is expected to slow down and the terminal unit cost should continue to decline.

Free Cash Flow and Financing Activities

Free Cash Flow of \$3.3 million was generated during fiscal 2003, a first since fiscal 1996. Free Cash Flow was generated despite an initial investment of \$8.5 million incurred to introduce the VOD service. Considering the quality of the existing cable infrastructure, Cogeco Cable believes it can pursue growth while maintaining its investing activities at or below the current level.

In fiscal 2003, repayment of long-term debt amounted to \$21.6 million as a result of Free Cash Flow generation and a rise in non-cash working capital items. In fiscal 2002, the net increase in long-term debt, excluding the impact of foreign exchange fluctuations, totaled \$20.1 million as a Free Cash Flow deficit was incurred. See the "Financial Position" section below for a discussion on the non-cash impact of foreign exchange fluctuations.

(5) Financial Position

Since August 31, 2002, significant changes in the balance sheet include fixed assets, income tax receivable, Indebtedness, accounts payable and accrued liabilities and shareholders' equity.

Fixed assets increased by \$7.8 million as capital expenditures exceeded depreciation. Income tax payable of \$0.7 million was recorded as of August 31, 2003, compared to income tax receivable of \$7.0 million a year earlier. This

receivable mainly related to income taxes paid in prior years and recovered in fiscal 2003. At August 31, 2003, the Corporation performed an impairment test of the customer base and concluded that no decline in value existed.

Indebtedness decreased by \$22.1 million as \$3.3 million of Free Cash Flow was generated and non-cash working capital items increased by \$18.8 million. The US\$150 million Senior Secured Notes Series A translated into Canadian dollars declined by \$26.0 million as the Canadian dollar appreciated. Since the Senior Secured Notes Series A are fully hedged, the decline was fully offset by an increase in the deferred credit. The deferred credit represents the difference between the fiscal year-end exchange rate and the exchange rate on the cross-currency swap agreements which fix the liability for interest and principal payments on the Senior Secured Notes Series A. Accounts payable and accrued liabilities increased by \$11.7 million as use of working capital was managed tightly. Finally, shareholders' equity rose by \$7.9 million because of net income generated in fiscal 2003.

(6) Capital Resources and Liquidity

Capital Structure

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2004 guidelines.

The average cost of Indebtedness has risen because of the issuance in November 2001 of Senior Secured Notes bearing a higher average interest rate than the Term Facility. Also, average short-term interest rates on the Term Facility have increased from 4.2% in fiscal 2002 to 4.6% in fiscal 2003. In fiscal 2004, the fixed-rate portion of Indebtedness is expected to increase as the amount drawn from the Term Facility should decline. The average tenure of long-term debt will decline by about one year as no new refinancings are planned for fiscal 2004.

Years ended August 31,	2004 Guidelines ⁽¹⁾	2003	2002
Capital Structure			
Average cost of Indebtedness	7.3%	7.3%	7.1%
Fixed rate Indebtedness	88%	86%	84%
Average tenure: long-term debt ⁽²⁾	4.4 years	5.5 years	6.4 years
Indebtedness / Shareholders' equity	1.1	1.1	1.2
Indebtedness / Operating Income ⁽³⁾	4.0	4.4	4.9
Operating Income / Financial expense	3.3	3.0	2.8

(1) See "Fiscal 2004 Financial Guidelines" section for further discussion.

(2) Includes the deferred credit related to the amount payable under cross-currency swaps entered into by Cogeco Cable to hedge US dollars denominated long-term debt.

(3) Operating Income is a decisive indicator of the Corporation's capacity to finance its ongoing operations on the one hand, and service its debt on the other.

Fiscal 2003 leverage and interest coverage ratios improvement should continue in fiscal 2004 as management expects further Operating Income growth and debt reductions. See "Fiscal 2004 Financial Guidelines" for further details.

Financing

The Corporation benefits from a \$400 million Term Facility and a \$25 million operating line of credit with a group of financial institutions. These bank facilities are not guaranteed by the parent company COGECO Inc. As at August 31, 2003, the Corporation utilized \$110 million of its Term Facility. Cogeco Cable is on schedule with financial expense payments, principal repayments on its borrowing, and continues to satisfy the various conditions stipulated in its financing agreements.

Fiscal 2003 leverage and interest coverage ratios improvement should continue in fiscal 2004 as management expects further Operating Income growth and debt reductions.

Of all Cogeco Cable's debt instruments, the bank facilities set the most restrictive limitations on the Corporation's activities and operations. The most important restrictions cover maintaining certain financial ratios, authorised investments, disposal of assets, reimbursement of long-term debt and distributions to shareholders.

During the next five years, Cogeco Cable's required principal repayments on its long-term debt, excluding those under capital leases, amount to \$239 million. \$15 million and \$95 million are for the repayment of the Term Facility in fiscal 2006 and 2007, respectively. The \$125 million Second Secured Debentures will mature in fiscal 2007.

In November 2002, Dominion Bond Rating Service revised its rating on the Senior Secured Debentures and the Second Secured Debentures downward from BBB(low) and BB(high) to BB(high) and BB, respectively. In February 2003, Standard & Poor's Ratings Services also revised

its rating on the Senior Secured Debentures and Notes and the Second Secured Debentures downward from BBB and BBB-negative outlook to BBB- and BB+ stable outlook, respectively. The revised ratings should not have an impact on financial expense. With anticipated strong growth in Free Cash Flow, Cogeco Cable is well positioned to reduce its financial leverage, which should improve its debt ratings. Based on anticipated Free Cash Flow for fiscal 2004, refinancings to fund internal growth are not expected before fiscal 2007. The revised ratings could lead to increased borrowing costs, only if Cogeco Cable had to access the debt markets to finance an unexpected large acquisition or contingency.

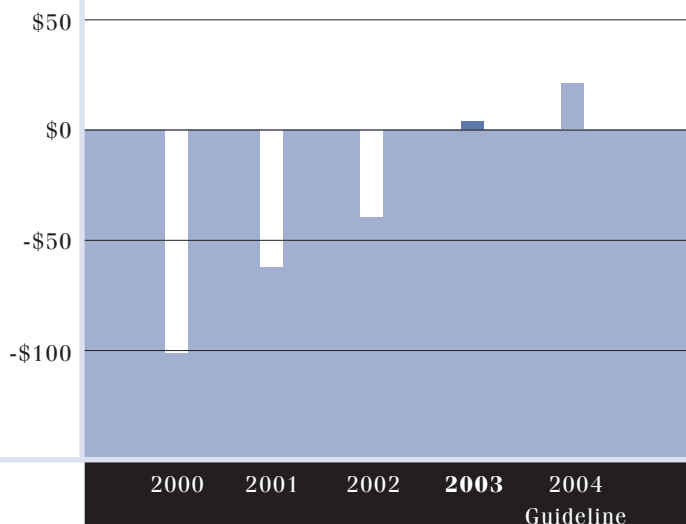
Foreign Exchange Management

The Corporation has established guidelines whereby currency swap agreements and foreign exchange forward contracts are used to manage risks associated with fluctuations in exchange rates related to its US dollars denominated long-term debt and its purchases of programming content and home terminal equipment denominated in US dollars. All such agreements and contracts are exclusively used for hedging purposes. In order to minimize the risk of counter-party default, Cogeco Cable completes transactions with financial institutions that carry a credit rating equal or superior to A+.

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US\$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN\$1.5910.

Increasing Free Cash Flow

(in millions of dollars)



(in thousands of dollars)

Years ended August 31,	2004	2005	2006	2007	2008	Thereafter	Total
Commitments							
Long-term debt ⁽¹⁾	\$ 1,400	\$ 1,400	\$ 16,520	\$ 220,000	\$ —	\$ 563,650	\$ 802,970
Capital leases ⁽²⁾	789	533	301	109	—	—	1,732
Operating leases and others	18,830	16,196	15,684	13,472	12,640	15,381	92,203

⁽¹⁾ Includes principal repayments and the impact of cross-currency swap agreements but excludes capital leases.

⁽²⁾ Includes principal repayments and financial expense.

Cogeco Cable has entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars. At August 31, 2003, the forward contracts had a nominal value of US\$13.3 million and mature at different dates until August 16, 2004.

Commitments

Cogeco Cable's contractual obligations as of August 31, 2003, are shown in the table above.

(7) Fiscal 2004 Financial Guidelines

Effective marketing and customer service combined with the continued success of bundling services should further improve customer retention and make cable services a more competitive offering as a whole. However, the strength of the competition in the regions served by Cogeco Cable could partly compromise the attainment of this objective. Based on the current competitive environment, the Corporation anticipates basic service customer losses of 11,000 to 13,000; this is less than the 15,711 loss in fiscal 2003. Based on current demand, the Corporation forecasts that it will add 35,000 to 40,000 HSI customers and 33,000 to 38,000 digital terminals by August 31, 2004.

The Corporation expects to achieve revenue growth between 5% and 6%. About half of the growth should stem from rate increases implemented last January and during the fourth quarter of fiscal 2003. Increased penetration of HSI services and other services should contribute to the balance of the rise in revenue. Operating costs, including management fees, are expected to increase by a moderate 3% to 4% as tight cost controls and improvements in processes will continue. For example, IP transport costs are expected to remain flat despite an anticipated 18% expansion of the HSI customer base. Cogeco Cable should further benefit from savings achieved through various contract renegotiations. Operating Income should grow by 8% to 10% as a result of the above forecasts resulting in a margin between 39% and 40%.

Cogeco Cable forecasts that depreciation of fixed assets and amortization of deferred charges will increase by 8%. The rate of growth in depreciation and amortization is foreseen to decline, as the level of capital expenditures and deferred charges continues to remain stable or be reduced. Expected Cash Flow of \$132 million to \$137 million should finance the capital expenditures and deferred charges program of \$117 million. See section on "Investing Activities" for a detailed discussion on these guidelines. As a result, the Corporation plans to generate Free Cash Flow of \$15 million to \$20 million arising essentially from Operating Income growth. Generated Free Cash Flow should be applied to reduce Indebtedness while improving Cogeco Cable's leverage ratios. Based on the expected decrease in Indebtedness, financial expense should decline by 1%. See section on "Capital Structure" for leverage ratios guidelines. Net income of about \$11 million should be realized given Operating Income growth outpacing fixed charges increases.

(8) Accounting Policies

Non-GAAP Measures

The following measures are commonly used in the telecommunications industry for comparison purposes and to assess the financial performance of the ongoing business. These measures are not defined terms under GAAP.

Measure	Definition
ARPU	Average monthly revenue per basic service customer is computed on the basis of annual revenue divided by average basic service customers during the year divided by twelve.
Operating Income	Operating income before depreciation and amortization and unusual item.
Cash Flow	Cash flow from operating activities before changes in non-cash working capital items and unusual item.
Free Cash Flow	Free Cash Flow is defined as Cash Flow less capital expenditures (including assets acquired under capital leases) and increase in deferred charges.
Indebtedness	The sum of bank indebtedness, long-term debt and deferred credit net of cash and cash equivalents. The deferred credit represents the amount payable under cross-currency swaps entered into by Cogeco Cable to hedge US dollars denominated long-term debt.

Adoption of New Accounting Standards in Fiscal 2003

Disclosure of guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14 ("AcG-14"), *Disclosure of Guarantees*, which requires a guarantor to disclose the significant details of guarantees that have been given. Information required under AcG-14 is presented in note 16 on page 39.

Adoption of New Accounting Standards in Fiscal 2004

Hedging relationships

In December 2001, the CICA issued AcG-13, *Hedging relationships*, which establishes the criteria for identification, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Emerging Issues Committee also issued in June 2002 EIC-28, *Accounting for trading speculative or non-hedging derivative financial instruments*. This EIC establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet at fair value, with changes in fair value recognized in net income. These new recommendations apply to financial instruments in effect in fiscal years beginning on or after July 1, 2003. Since the Corporation plans to comply with the requirements of AcG-13, the adoption of these new recommendations is not expected to have a material impact on the consolidated financial statements.

Impairment of long-lived assets

In December 2002, the CICA issued Handbook Section 3063, *Impairment of long-lived assets*, which modifies existing guidance on long-lived assets impairment measurements and establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new standards require that an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected from this asset. These new recommendations are effective for fiscal years beginning on or after April 1, 2003. The Corporation expects that the adoption of these new recommendations will not have a material impact on the Corporation's consolidated financial statements.

(9) Quarterly Information**Operating Results****2003**

(in thousands of dollars, except per share data)

Q U A R T E R S E N D E D	Nov. 30	Feb. 28	May 31	Aug. 31	Total
Revenue	\$ 115,101	\$ 118,353	\$ 120,918	\$ 124,921	\$ 479,293
Operating Income	42,231	44,706	46,135	50,272	183,344
Income before income taxes	1,061	2,751	3,886	7,375	15,073
Net income from recurring operations	618	1,185	1,812	4,264	7,879
Net income	618	1,185	1,812	4,264	7,879
Cash Flow	26,420	28,900	30,344	34,596	120,260
Per Share Data ⁽¹⁾					
Net income from recurring operations					
– basic	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.11	\$ 0.20
– diluted	0.02	0.03	0.05	0.11	0.20
Net income					
– basic	0.02	0.03	0.05	0.11	0.20
– diluted	0.02	0.03	0.05	0.11	0.20
Cash Flow					
– basic	0.66	0.72	0.76	0.87	3.02
– diluted	0.66	0.72	0.76	0.87	3.01

2002

Q U A R T E R S E N D E D	Nov. 30	Feb. 28	May 31	Aug. 31	Total
Revenue	\$ 113,583	\$ 111,214	\$ 111,009	\$ 112,178	\$ 447,984
Operating Income	41,195	41,505	41,797	43,849	168,346
Income (loss) before income taxes	(208)	2,599	2,993	3,319	8,703
Net income from recurring operations	1,737	982	2,017	2,464	7,200
Net income (loss)	(1,675)	982	2,017	2,464	3,788
Cash Flow	26,850	25,759	27,013	31,551	111,173
Per Share Data ⁽¹⁾					
Net income from recurring operations					
– basic	\$ 0.04	\$ 0.02	\$ 0.05	\$ 0.06	\$ 0.18
– diluted	0.04	0.02	0.05	0.06	0.18
Net income (loss)					
– basic	(0.04)	0.02	0.05	0.06	0.10
– diluted	(0.04)	0.02	0.05	0.06	0.09
Cash Flow					
– basic	0.67	0.65	0.68	0.79	2.79
– diluted	0.67	0.65	0.68	0.79	2.79

⁽¹⁾ The addition of quarterly per share information may not correspond to the total given the fluctuation in the number of shares outstanding.

Trading Statistics**2003**

(in dollars, except subordinate voting share volumes)

Q U A R T E R S E N D E D	Nov. 30	Feb. 28	May 31	Aug. 31	Total
The Toronto Stock Exchange					
High	\$ 13.00	\$ 12.52	\$ 18.35	\$ 20.60	
Low	6.25	9.10	9.40	16.25	
Close	10.90	10.12	17.40	16.50	
Volume (shares)	7,094,607	2,539,706	7,625,980	4,121,531	21,381,824

2002

Q U A R T E R S E N D E D	Nov. 30	Feb. 28	May 31	Aug. 31	Total
The Toronto Stock Exchange					
High	\$ 27.45	\$ 24.35	\$ 22.00	\$ 18.31	
Low	18.30	20.16	16.55	8.01	
Close	22.00	21.70	17.02	11.50	
Volume (shares)	2,782,586	3,370,460	4,234,001	2,608,669	12,995,716

Consolidated Financial Statements

24	Management's Responsibility
24	Auditors' Report
25	Consolidated Statements of Income
25	Consolidated Statements of Retained Earnings
26	Consolidated Balance Sheets
27	Consolidated Statements of Cash Flow
28	Notes to Consolidated Financial Statements



Management's Responsibility

Related to Consolidated Financial Statements

The consolidated financial statements of Cogeco Cable Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of Cogeco Cable Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Corporation and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Deloitte & Touche LLP, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

Signed Louis Audet

Louis Audet
President and Chief Executive Officer

Signed Pierre Gagné

Pierre Gagné
Vice-President,
Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Cogeco Cable Inc.

We have audited the consolidated balance sheets of Cogeco Cable Inc. as at August 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed Deloitte & Touche LLP

Chartered accountants
Montreal, October 1, 2003

YEARS ENDED AUGUST 31,

(in thousands of dollars, except per share data)

Consolidated Statements of Income

	2003	2002
Revenue	\$ 479,293	\$ 447,984
Operating costs	288,080	271,928
Management fees – COGECO Inc. (note 17)	7,869	7,710
Operating income before depreciation and amortization	183,344	168,346
Depreciation and amortization (note 2)	107,158	95,073
Income before undernoted items	76,186	73,273
Unusual item (note 3)	—	4,925
Financial expense	61,113	59,645
Income before income taxes	15,073	8,703
Income taxes (note 4)	7,194	4,915
Net income	\$ 7,879	\$ 3,788
Earnings per share (note 12)		
Basic	\$ 0.20	\$ 0.10
Diluted	0.20	0.09

YEARS ENDED AUGUST 31,

(in thousands of dollars)

Consolidated Statements of Retained Earnings

	2003	2002
Balance at beginning	\$ 87,771	\$ 83,983
Net income	7,879	3,788
Excess of the attributed value of subordinate voting shares purchased over price paid	27	—
Balance at end	\$ 95,677	\$ 87,771

Consolidated Balance Sheets

	2003	2002
Assets		
Fixed assets <i>(note 5)</i>	\$ 765,085	\$ 757,260
Deferred charges <i>(note 6)</i>	39,147	38,548
Customer base <i>(note 7)</i>	989,552	989,552
Accounts receivable	33,800	33,673
Income tax receivable	—	7,025
Prepaid expenses	2,933	4,224
	\$ 1,830,517	\$ 1,830,282
Liabilities and Shareholders' equity		
Liabilities		
Bank indebtedness <i>(note 8)</i>	\$ 1,894	\$ 3,091
Long-term debt <i>(note 9)</i>	773,740	820,649
Deferred credit <i>(note 10)</i>	30,795	4,830
Pension plan liabilities and accrued employees benefits	1,306	1,147
Accounts payable and accrued liabilities	109,576	97,849
Income tax liabilities	732	—
Deferred and prepaid income	15,194	17,055
Future income tax liabilities <i>(note 4)</i>	172,588	168,864
	1,105,825	1,113,485
Shareholders' equity		
Capital stock <i>(note 11)</i>	629,015	629,026
Retained earnings	95,677	87,771
	724,692	716,797
	\$ 1,830,517	\$ 1,830,282

On behalf of the Board of Directors,

Signed Maurice Myrand

Maurice Myrand
Director

Signed Pierre Robitaille

Pierre Robitaille
Director

Consolidated Statements of Cash Flow

	2003	2002
Cash flow from operating activities		
Net income	\$ 7,879	\$ 3,788
Unusual item net of related income taxes	—	3,412
Net income from recurring operations	7,879	7,200
Items not affecting cash and cash equivalents		
Depreciation and amortization (note 2)	107,158	95,073
Amortization of long-term financing costs	1,340	1,814
Future income taxes (note 4)	3,724	5,364
Future income taxes related to unusual item	—	1,513
Other	159	209
Cash flow from operating activities before undernoted items	120,260	111,173
Unusual item	—	(4,925)
Changes in non-cash working capital items (note 14a)	18,787	16,362
	139,047	122,610
Cash flow from investing activities		
Acquisition of fixed assets (note 14b))	(100,385)	(121,323)
Increase in deferred charges	(15,936)	(28,029)
Other	87	41
	(116,234)	(149,311)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	(1,197)	3,091
Increase in long-term debt	—	413,650
Repayment of long-term debt	(21,632)	(393,549)
Issue of subordinate voting shares	134	132
Purchase of subordinate voting shares for cancellation	(118)	—
	(22,813)	23,324
Net change in cash and cash equivalents	—	(3,377)
Cash and cash equivalents at beginning	—	3,377
Cash and cash equivalents at end	\$ —	\$ —

See supplemental cash flow information in note 14.

Notes to Consolidated Financial State

1 Significant accounting policies

Nature of operations

Cogeco Cable Inc. (the "Corporation") is a Canadian public company whose shares are listed on the Toronto Stock Exchange. The Corporation's core business is providing cable television services and high-speed Internet access.

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost.

Revenue recognition

Revenue from cable television and related services, and from high-speed Internet access are recognized when services are provided. Revenue generated from sales of equipment with or without programming credits, which are accounted for as a deduction from revenue when allowed, are accounted for as a deduction of equipment subsidies. Amounts received or invoiced that do not comply with this criterion are accounted for as deferred and prepaid income.

Fixed assets

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Depreciation is provided on a straight-line method over the estimated useful lives over the following periods:

Buildings	40 years
Cable systems	5 to 15 years
Equipment, programming equipment, furniture and fixtures	10 years
Decoders, modems and customer's premises devices	7 years
Rolling stock under capital leases	5 years
Other equipment	5 years
Leasehold improvements	Lease term

The Corporation reviews fixed assets for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset.

Deferred charges

Deferred charges include new services launch costs, equipment subsidies and other costs incurred in order to expand customer base and financing costs. New services launch costs and financing costs are amortized using the straight-line method, over a period not exceeding five years. Equipment subsidies and other costs incurred in order to expand the customer base are amortized over a period of four years.

Customer base

The customer base represents the difference between price paid and the fair value attributed to tangible and intangible assets upon acquisition of cable systems. Customer base is considered to have a deemed indefinite life and consequently is not amortized, but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

Income taxes

Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

1 Significant accounting policies (continued)

Stock-based compensation plans

The Corporation accounts for stock-based compensation by measuring compensation cost for employee stock options as the excess, if any, of the quoted market price of the subordinate voting shares at the date of grant over the amount an employee must pay to acquire these shares, and includes in its financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. Any consideration paid by employees on exercise of stock options is credited to capital stock. The supplementary information required is presented in note 11.

Segmented information

The Corporation considers its cable distribution and high-speed Internet access activities as a single operating segment.

Employees future benefits

Pension costs are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method prorated on service. Pension expense is charged to operations and includes:

- the cost of pension benefits provided in exchange for employees' services rendered during the year;
- the amortization of prior service costs and amendments over the expected average remaining service life of the active employee group covered by the plans; and
- the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets over the expected average remaining service life of the active employee group covered by the plans.

Derivative financial instruments

The Corporation uses currency swap agreements and foreign exchange forward contracts as derivative financial instruments to manage risks from fluctuations in exchange rates related to its long-term debt and accounts payable. The Corporation accounts for the financial instruments, under the accrual method, as hedges and, accordingly, the carrying value of the financial instruments are not adjusted to reflect their current market value. The Corporation does not hold or use any derivative instruments for speculative trading purposes. Net receipts or payments arising from currency swap agreements are recognized as financial expense.

Foreign currency translation

Assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Income and expenses are translated at average rates prevailing during the period except for transactions being hedged which are translated using the terms of the hedges. Amounts payable or receivable on currency derivatives, all of which are used to hedge foreign currency debt obligations and anticipated transactions, are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other gains and losses are included in net income. During fiscal year 2003, the Corporation realized a foreign exchange gain amounting to \$643,000 (\$86,000 in 2002).

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments which have an original maturity of three months or less.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenues and expenses during the reporting year. Actual results could differ from these estimates.

1 Significant accounting policies (continued)

Recent accounting pronouncement

Disclosure of guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14 ("AcG-14"), Disclosure of Guarantees, which provides assistance regarding the identification of guarantees and requires a guarantor to disclose the significant details of guarantees that have been given. A guarantee is a contract or an indemnification agreement that contingently requires the Corporation to make payments based on changes in an underlying, related to an asset, a liability or an equity security of the guaranteed party or based on a third party failure to perform under an obligating agreement. It could be also an indirect guarantee of the indebtedness of another party. Disclosure required under AcG-14 is presented in note 16.

2 Depreciation and amortization

	2003	2002
Fixed assets	\$ 92,279	\$ 84,685
Deferred charges	14,879	10,388
	\$ 107,158	\$ 95,073

3 Unusual item

During fiscal year 2002, the Corporation completed a staff reduction program and as a result, a charge of \$4,925,000 has been recorded for the payment of employee severances.

4 Income taxes

	2003	2002
Current (recovery)	\$ 3,470	\$ (449)
Future	3,724	5,364
	\$ 7,194	\$ 4,915

The following table provides the reconciliation between statutory federal and provincial income taxes and the effective consolidated income tax rate:

	2003	2002
Income tax at combined income tax rate of 36.5% (38.8% in 2002)	\$ 5,497	\$ 3,377
Income subject to lower tax rates	(940)	(1,614)
Reduction in income taxes as a result of changes in substantially enacted tax rates	—	(406)
Large corporation tax	4,000	3,500
Other	(1,363)	58
Income taxes at effective income tax rate	\$ 7,194	\$ 4,915

4 Income taxes (continued)

The income tax effect of temporary differences that give rise to a significant portion of future income tax assets and liabilities are as follows:

	2003	2002
Future income tax assets		
Non-capital loss carryforwards	\$ 58,733	\$ 49,156
Other	3,906	4,531
Total future income tax assets	62,639	53,687
Future income tax liabilities		
Fixed assets	78,902	67,931
Deferred charges	11,036	11,719
Customer base	145,289	142,901
Total future income tax liabilities	235,227	222,551
Net future income tax liabilities	\$ 172,588	\$ 168,864

As at August 31, 2003, the Corporation and its subsidiaries had accumulated income tax losses amounting to approximately \$171,500,000, the benefits of which have been recognized in these financial statements. These losses expire as follows:

	2004	2005	2006	2007	2008	2009	2010
	\$ 4,000	\$ 10,300	\$ 39,500	\$ 9,700	\$ 46,800	\$ 40,500	\$ 20,700

5 Fixed assets

	2003	2002
Cost		
Land	\$ 3,788	\$ 3,813
Buildings	31,040	30,788
Cable systems	984,688	913,193
Equipment, programming equipment, furniture and fixtures	39,625	38,354
Decoders, modems and customer's premises devices	79,727	76,849
Rolling stock under capital leases	4,520	4,607
Other equipment	86,976	83,460
Leasehold improvements	4,326	4,230
	1,234,690	1,155,294
Accumulated depreciation		
Buildings	6,287	5,613
Cable systems	355,813	307,282
Equipment, programming equipment, furniture and fixtures	20,878	18,871
Decoders, modems and customer's premises devices	32,860	24,110
Rolling stock under capital leases	3,421	2,584
Other equipment	48,306	37,166
Leasehold improvements	2,040	2,408
	469,605	398,034
	\$ 765,085	\$ 757,260

6 Deferred charges, net of amortization

	2003	2002
New services launch costs	\$ 7,669	\$ 14,263
Equipment subsidies and other costs	26,389	18,530
Financing costs	3,375	4,715
Other	1,714	1,040
	\$ 39,147	\$ 38,548

7 Customer base

	2003	2002
Cost	\$ 1,040,333	\$ 1,040,333
Accumulated amortization	50,781	50,781
	\$ 989,552	\$ 989,552

At August 31, 2003 and 2002, the Corporation tested the value of customer base for impairment and concluded that no impairment existed as at those dates.

8 Bank indebtedness

The operating line of credit available to the Corporation amounts to \$25,000,000, of which \$1,115,000 was used at August 31, 2003 (\$659,000 in 2002). This line of credit is revised periodically, does not require commitment fees and bears interest at bank prime rate plus 0.25%. At August 31, 2003, the interest rate on bank indebtedness is 5.00%. This line of credit is secured on the same basis as the Term Facility (note 9a)).

9 Long-term debt

	Maturity	Interest rate	2003	2002
Parent company				
Term Facility	2007	4.48% ⁽¹⁾	\$ 110,000	\$ 129,000
Senior Secured Debentures Series 1	2009	6.75	150,000	150,000
Senior – Secured Notes				
Series A – US \$150 million	2008	6.83	207,855	233,820
Series B	2011	7.73	175,000	175,000
Second Secured Debentures Series A	2007	8.44	125,000	125,000
Subsidiaries				
Obligations under capital leases	2007	6.58 – 9.53	1,565	2,109
Preferred shares ⁽²⁾	2006	—	4,320	5,720
			\$ 773,740	\$ 820,649

(1) Average interest rate as of August 31, 2003, including stamping fees.

(2) 4,320,000 preferred shares, 5.5% cumulative dividend, redeemable and retractable to a maximum of \$1,400,000 annually.

Interest on long-term debt amounted to \$56,320,000 (\$54,355,000 in 2002).

a) The Term Facility which has a committed amount of \$400,000,000 is repayable at any time without penalty but no later than January 31, 2007, and will be reduced to \$270,000,000 as at January 31, 2005, and \$95,000,000 as at January 31, 2006. The Term Facility requires commitment fees, and interest rates are based, at the Corporation's option, on bankers' acceptance or bank prime rates.

9 Long-term debt (continued)

The Term Facility and the operating line of credit described in note 8 are secured by a first fixed and floating charge on the assets of the Corporation and certain of its subsidiaries except for permitted encumbrances, including purchase money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of the Corporation. Generally, the most significant restrictions relate to permitted investments, dividends on common shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before depreciation and amortization, financial expense, fixed charges and total indebtedness.

b) The Senior Secured Debentures Series 1 are redeemable at the Corporation's option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. These debentures mature on June 4, 2009 and bears interest at 6.75% per annum, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries.

c) The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These notes are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries. The notes are redeemable at the Corporation's option at any time, in whole or in part, prior to maturity at 100% of the principal amount plus a make-whole premium. The Series A mature on October 31, 2008 and the Series B mature on October 31, 2011. The Senior Secured Notes Series B have an interest coupon rate of 7.73% per annum, payable semi-annually. On November 1, 2001, the Corporation entered into cross-currency swap agreements to fix the liability for interest and principal payments on US \$150,000,000 of its Senior Notes Series A which have an interest coupon rate of 6.83% per annum, payable semi-annually. These agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US debt. The exchange rate applicable to the principal portion of the debt has been fixed at CDN \$1.5910.

d) The Second Secured Debentures Series A are redeemable at the Corporation's option, in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, and bears interest at 8.44% per annum, payable semi-annually. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of the Corporation and certain of its subsidiaries.

e) Principal repayments due on long-term debt for the next five years, excluding those under capital leases, are as follows:

2004	2005	2006	2007	2008
\$ 1,400	\$ 1,400	\$ 16,520	\$ 220,000	\$ —

f) Minimum payments due under capital leases total \$1,732,000 of which \$167,000 represents financials expense and are as follows:

2004	2005	2006	2007	2008
\$ 789	\$ 533	\$ 301	\$ 109	\$ —

10 Deferred credit

The deferred credit represents the amount which would have been payable at August 31, 2003 under cross-currency swaps entered into by the Corporation to hedge Senior Secured Notes Series A denominated in US dollars (See note 9 c)).

11 Capital stock

Authorized

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of \$1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, issuable in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

11 Capital stock (continued)

Issued	2003	2002
15,691,100 multiple voting shares	\$ 98,346	\$ 98,346
24,190,043 subordinate voting shares (24,182,714 in 2002)	530,669	530,680
	\$ 629,015	\$ 629,026

During the year, subordinate voting share transactions were as follows:

	2003		2002	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning	24,182,714	\$ 530,680	24,176,096	\$ 530,548
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	13,929	134	6,618	132
Purchase of shares for cancellation	(6,600)	(145)	—	—
Balance at end	24,190,043	\$ 530,669	24,182,714	\$ 530,680

During 2003, the Corporation issued 12,480 shares (6,618 shares in 2002) pursuant to its Employee Stock Purchase Plan for a cash consideration of \$121,000 (\$132,000 in 2002). Also, the Corporation issued 1,449 shares pursuant to its Employee Stock Option Plan for a cash consideration of \$13,000. Finally, pursuant to a normal course issuer bid, the Corporation purchased for cancellation 6,600 subordinate voting shares for an amount of \$118,000, while the book value of purchased shares amounted to \$145,000. The excess of the book value of purchased shares over the purchase price increased retained earnings by \$27,000.

Stock-based plans

The Corporation established, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available.

Stock Purchase Plan

The Employee Stock Purchase Plan is accessible to all employees up to a maximum of 5% of their annual salary. The subscription date is December 31 and the subscription price is based on the average market price of the shares of the last five business days of November less 10%. A maximum of 167,500 shares are available, up to 40,000 annually, under this plan.

Stock Option Plan

A total of 1,832,500 subordinate voting shares are reserved for the purpose of the Stock Option Plan. The minimum purchase price at which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years.

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding as at August 31:

	2003		2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	254,910	\$ 22.76	154,398	\$ 25.79
Granted	141,020	7.22	161,909	23.27
Exercised	(1,449)	9.35	—	—
Forfeited	(15,599)	23.57	(61,397)	31.73
Outstanding, end of year	378,882	\$ 16.99	254,910	\$ 22.76
Exercisable, end of year	167,555	\$ 19.18	98,425	\$ 20.77

11 Capital stock (continued)

At August 31, 2003, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options are as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 7.05 to \$ 8.95	141,778	8.85	\$ 7.12	34,212	\$ 7.35
12.00 to 14.30	32,080	5.56	13.40	28,080	13.63
20.40 to 25.20	185,118	7.77	23.09	93,019	22.93
36.10 to 40.75	19,906	7.13	36.39	12,244	36.48
	378,882	7.95	\$ 16.99	167,555	\$ 19.18

During fiscal year 2003, the Corporation granted 141,020 stock options (161,909 in 2002) with an exercise price of \$7.05 to \$11.79 (\$20.40 to \$23.45 in 2002). As permitted by CICA Handbook Section 3870, the Corporation does not record any compensation expense for options granted to employees. If compensation cost had been recognized using the fair value-based method at the grant date, the Corporation's net income and earnings per share for the years ended August 31, 2003 and 2002 would have been reduced to the following pro forma amounts:

	2003	2002
Net income		
As reported	\$ 7,879	\$ 3,788
Pro forma	7,490	3,474
Basic earnings per share		
As reported	\$ 0.20	\$ 0.10
Pro forma	0.19	0.09
Diluted earnings per share		
As reported	\$ 0.20	\$ 0.09
Pro forma	0.19	0.09

Since the method of accounting under CICA Handbook section 3870 has not been applied to options granted prior to September 1, 2001, the pro forma compensation cost may not be representative of compensation cost to be expected in future years.

The fair value of each option granted was estimated on the grant date for purposes of the pro forma disclosures using the Binomial option pricing model based on the following assumptions:

	2003	2002
Expected dividend yield	1.27%	1.27%
Expected volatility	39%	35%
Risk-free interest rate	4.18%	4.13%
Expected life in years	3.8	3.8

11 Capital stock (continued)

The fair value of stock options granted for the year ended August 31, 2003 was \$2.42 per option (\$7.40 per option in 2002).

For purpose of pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is four years.

The Binomial option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, in management's opinion, the existing option pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Performance Unit Plan

The Corporation has also adopted a Performance Unit Plan for key employees. The value of a performance unit granted is equal to the closing price of the subordinate voting shares of the Corporation on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units will be redeemed only at the termination of the participant's employment or in case of retirement or death. Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate voting shares of the Corporation. The Dividend Equivalent is converted into additional units. The units do not confer on the participant the right to acquire shares or other securities of the Corporation under any circumstances and the participant shall not, by holding units or otherwise be considered a shareholder of the Corporation nor have any rights to become a shareholder as a result. An amount of \$128,000 (\$118,000 in 2002) has been recorded as a reduction of expenses related to this plan.

12 Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

	2003	2002
Net income	\$ 7,879	\$ 3,788
Weighted average number of multiple voting and subordinate voting shares outstanding	39,881,871	39,871,601
Effect of dilutive stock options	59,001	14,578
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	39,940,872	39,886,179
Earnings per share		
Basic	\$ 0.20	\$ 0.10
Diluted	0.20	0.09

13 Financial instruments

Description of derivative financial instruments

Foreign exchange forward contracts

In June 2003, the Corporation entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars. At August 31, 2003, foreign exchange forward contracts have a nominal value of US \$13,301,000 and expire at different dates until August 16, 2004. The exchange rate of these forward contracts is CDN \$1.3873.

Fair value

The Corporation uses the following methods and assumptions to evaluate fair market value of financial instruments:

Accounts receivable, accounts payable and accrued liabilities

The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

13 Financial instruments (continued)

Long-term debt

- a) Financial expense under the terms of the Corporation's Term Facility is based upon bankers' acceptance or bank prime rates. Therefore, carrying value is considered to represent fair market value for the Term Facility.
- b) The carrying values of obligations under capital leases and other items of the long-term debt approximate fair value of these financial instruments due to their terms.
- c) The fair value of the Senior Secured Debentures Series 1, Senior Secured Notes Series A and B, and Second Secured Debentures Series A, is based upon current trading values for similar financial instruments.
- d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions.

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 773,740	\$ 762,414	\$ 820,649	\$ 786,226
Derivative financial instruments – asset (liability) position	(30,795)	(33,210)	(4,830)	539

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks

The Corporation's credit risk arises from the possibility that counterparts to the foreign exchange forward contracts and the cross-currency swap agreements may default on their obligations. The Corporation reduces risk by completing transactions with financial institutions that carry a credit rating equal or superior to A+. In addition, since the Corporation has a large and diversified clientele, credit risk concentration from customers is minimal.

14 Statements of cash flow

a) Changes in non-cash working capital items

	2003	2002
Accounts receivable	\$ (127)	\$ 1,996
Income tax receivable	7,025	(5,129)
Prepaid expenses	1,291	2,791
Accounts payable and accrued liabilities	11,727	17,062
Income tax liabilities	732	—
Deferred and prepaid income	(1,861)	(358)
	\$ 18,787	\$ 16,362

b) Fixed assets

During the year, fixed assets acquisitions amounted to \$101,073,000 (\$122,105,000 in 2002), \$688,000 (\$782,000 in 2002) of which were acquired through capital leases. Disbursements for the purchase of fixed assets totalled \$100,385,000 (\$121,323,000 in 2002).

c) Other information

	2003	2002
Interest paid	\$ 58,862	\$ 46,767
Income taxes paid (refunded)	(4,287)	4,680

15 Employees future benefits

The Corporation and its subsidiaries offer their employees contributory defined benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plan. With respect to the last two plans, the Corporation and its subsidiaries' obligation is limited to the payment of the monthly employer's portion. Expenses related to these two plans amounted to \$982,000 (\$922,000 in 2002).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Corporation and its subsidiaries offer certain executives a supplementary pension plan.

The following table provides a reconciliation of the change in the plans' benefit obligations and fair value of plan assets and a statement of the funded status as at August 31:

	2003	2002
Change in accrued benefit obligation		
Accrued benefit obligation at beginning of year	\$ 5,453	\$ 4,903
Service cost	286	282
Interest cost	404	364
Actuarial loss on obligation	404	8
Contributions by plan participants	132	121
Benefits paid	(210)	(225)
Accrued benefit obligation at end of year	6,469	5,453
Change in plan assets		
Fair value of plan assets at beginning of year	3,560	3,733
Actual return on plan assets	221	(201)
Contributions by plan participants	132	121
Employer contributions	184	132
Benefits paid	(210)	(225)
Fair value of plan assets at end of year	3,887	3,560
Funded Status		
Plans deficit	2,582	1,893
Net actuarial losses not recognized	(1,635)	(1,262)
Net accrued benefit liability	\$ 947	\$ 631

The net benefit expense includes the following components:

	2003	2002
Current cost	\$ 286	\$ 282
Interest cost	404	364
Expected return on plan assets	(262)	(272)
Amortization of net actuarial loss	72	33
Net periodic benefit cost	\$ 500	\$ 407

The significant weighted average assumptions used in measuring the Corporation's pension and other obligations are as follows:

	2003	2002
Discount rate	6.50 %	7.00 %
Expected rate of return on plan assets	7.25 %	7.25 %
Rate of compensation increase	5.00 %	5.00 %

16 Commitments and contingencies

Commitments

As at August 31, 2003, the Corporation and its subsidiaries are committed under lease agreements and other long term contracts to make annual payment as follows:

2004	2005	2006	2007	2008	2009 and thereafter
\$ 18,830	\$ 16,196	\$ 15,684	\$ 13,472	\$ 12,640	\$ 15,381

Contingencies

The Corporation and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Corporation's exposure to litigation to be material to these financial statements.

Disclosure of guarantees

In the normal course of business, the Corporation enters into agreements containing features that meet the criteria for a guarantee including the following:

Businesses and assets disposal

In connection with the sale of businesses or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation has agreed to indemnify the purchaser against claims related to events which occurred prior to the sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. As at August 31, 2003, no liability has been recorded associated with these indemnifications.

Long-term debt

Under the terms of the Senior Secured Notes and the Second Secured Debentures Series A, the Corporation has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Corporation from estimating the maximum potential liability it could be required to pay. As at August 31, 2003, no liability has been recorded associated with these indemnifications.

17 Related party transactions

Cogeco Cable Inc. is a subsidiary of COGECO Inc., which holds 39.3% of the Corporation's participating shares. COGECO Inc. and the Corporation executed, on September 1, 1992, a management agreement under which the parent company agreed to provide certain management, administrative, financial and strategic planning services. Under this agreement, the Corporation pays management fees equal to 2% of its total revenue subject to a maximum amount. Management fee payments, as at August 31, 2003, are limited to \$7,869,000 (\$7,710,000 in 2002) and are indexed annually based on the Consumer Price Index. This limit could be increased under certain circumstances. During the year, the Corporation paid management fees amounting to \$7,869,000 (\$7,710,000 in 2002) to COGECO Inc.

18 Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2003.

Ten-Year Financial Highlights

	2003	2002	2001	2000
Operations				
Revenue	\$ 479,293	\$ 447,984	\$ 438,768	\$ 371,231
Operating Income	183,344	168,346	160,509	140,051
Financial expense	61,113	59,645	53,794	48,440
Income (loss) before income taxes	15,073	8,703	(15,846)	27,522
Net income from recurring operations	7,879	7,200	26,616	11,326
Net income	7,879	3,788	5,818	11,662
Cash Flow	120,260	111,173	105,369	92,553
Free Cash Flow	3,251	(38,961)	(62,505)	(102,495)
Investments				
Acquisition of fixed assets	\$ 101,073	\$ 122,105	\$ 166,369	\$ 176,633
Business acquisitions	—	—	226,148	155,358
Financial condition				
Fixed assets	\$ 765,085	\$ 757,260	\$ 719,919	\$ 615,273
Net assets employed ⁽¹⁾	1,705,747	1,715,378	1,682,687	1,298,823
Total assets	1,830,517	1,830,282	1,784,264	1,406,027
Indebtedness	806,429	828,570	801,219	743,407
Shareholders' equity	724,692	716,797	712,877	467,164
Other statistics				
Number of shares outstanding at year end	39,881,143	39,873,814	39,867,196	33,566,483
Weighted average number of outstanding shares	39,881,871	39,871,601	38,812,879	33,554,726
Per share data (basic)				
Operating Income	\$ 4.60	\$ 4.22	\$ 4.14	\$ 4.17
Net income from recurring operations	0.20	0.18	0.69	0.34
Net income	0.20	0.10	0.15	0.35
Cash Flow	3.02	2.79	2.71	2.76
Shareholders' equity	18.17	17.98	17.88	13.92
Return ratios				
Operating Income margin ⁽²⁾	38.3%	37.6%	36.6%	37.7%
Return on average net assets employed ⁽³⁾	10.7	9.9	10.8	12.2
Return on average shareholders' equity ⁽⁴⁾	1.1	0.5	1.0	2.5
Financial ratios				
Indebtedness / Operating Income	4.4	4.9	5.0 ⁽⁵⁾	5.3 ⁽⁶⁾
Interest coverage ⁽¹⁰⁾	3.0	2.8	3.0	2.9
Indebtedness / Shareholders' equity	1.1	1.2	1.1	1.6

(1) Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.

(2) Operating Income / Revenue.

(3) Operating Income / Average net assets employed.

(4) Net income applicable to multiple voting shares and subordinate voting shares / Average shareholders' equity.

(5) For the fiscal year ended August 31, 2001, the ratio includes financial results for periods less than twelve months of the acquisitions of Cablevue (Quinte) Limited and related companies, of Harrowby Communications and related companies, of Muskoka Cable Systems Limited and related companies, of Huntsville Cable Services Limited, of MédiaCâble inc. and of Décibel inc.

(6) For the fiscal year ended August 31, 2000, the ratio includes financial results of the acquisition of Cableworks Communications Inc. for an eleven-month period only.

(in thousands of dollars, except other statistics, per share data and ratios)

	1999	1998	1997	1996	1995	1994
	\$ 325,367	\$ 286,858	\$ 237,275	\$ 152,989	\$ 138,194	\$ 125,468
	138,796	126,697	103,120	66,158	56,928	54,106
	43,946	43,688	32,025	18,607	18,057	15,759
	54,597	60,164	34,738	35,866	18,844	23,931
	22,017	19,746	17,900	15,166	14,896	17,494
	28,961	32,545	17,900	20,370	12,813	17,494
	96,734	84,343	66,416	38,351	37,737	34,706
	(52,363)	(6,638)	(11,410)	2,999	(4,901)	6,377
	\$ 136,440	\$ 80,081	\$ 59,533	\$ 34,650	\$ 39,785	\$ 28,731
	13,471	66,061	368,343	14,376	—	—
	\$ 466,172	\$ 377,585	\$ 316,271	\$ 160,009	\$ 138,248	\$ 112,007
	1,004,772	951,649	816,928	396,061	375,826	342,494
	1,097,335	1,020,689	911,279	436,904	410,489	378,219
	460,272	606,497	523,480	190,036	183,271	164,761
	463,614	287,072	260,649	184,535	173,795	165,237
	33,532,475	26,996,972	26,950,921	21,197,318	21,208,892	21,268,093
	30,248,052	27,013,270	21,884,928	21,197,337	21,233,726	21,332,053
	\$ 4.59	\$ 4.69	\$ 4.71	\$ 3.12	\$ 2.68	\$ 2.54
	0.73	0.73	0.82	0.72	0.70	0.82
	0.96	1.20	0.82	0.96	0.60	0.82
	3.20	3.12	3.03	1.81	1.78	1.63
	13.83	10.63	9.67	8.71	8.19	7.77
	42.7%	44.2%	43.5%	43.2%	41.2%	43.1%
	14.2	14.3	17.0	17.1	15.9	16.0
	7.7	11.9	8.0	11.4	7.6	10.6
	3.3 ⁽⁷⁾	4.8 ⁽⁸⁾	5.1 ⁽⁹⁾	2.9	3.2	3.0
	3.2	2.9	3.2	3.6	3.2	3.4
	1.0	2.1	2.0	1.0	1.1	1.0

(7) For the fiscal year ended August 31, 1999, the ratio includes financial results of Weyburn and Estevan cable systems sold on December 17, 1998, for approximately a three-month period only, and financial results of the Chilliwack cable system sold on May 31, 1999 for a nine-month period only.

(8) For the fiscal year ended August 31, 1998, the ratio includes financial results of the acquisition of Câblodistribution Le Rocher inc. for a nine-month period only and financial results of cable system exchange with Shaw Communications Inc. for a two-month period only.

(9) For the fiscal year ended August 31, 1997, the ratio includes financial results of the cable systems acquired from Rogers Cablesystems Limited and certain of its related companies for a nine-month and six-day period only.

(10) Operating Income / Financial expense.

(in thousands of dollars, except share information)

Investor Information

A S A T A U G U S T 3 1 ,	2003	2002	2001	2000	1999
Consolidated Capitalization					
Indebtedness	\$ 806,429	\$ 828,570	\$ 801,219	\$ 743,407	\$ 460,272
Shareholders' equity	724,692	716,797	712,877	467,164	463,614
Total	\$ 1,531,121	\$ 1,545,367	\$ 1,514,096	\$ 1,210,571	\$ 923,886

A S A T A U G U S T 3 1 , 2 0 0 3

Credit Ratings	DBRS	S&P
Senior Secured Debentures, Series 1	BB (High)	BBB-
Second Secured Debentures, Series A	BB	BB+

Cogeco Cable Inc.'s credit ratings have a stable trend.

A S A T A U G U S T 3 1 , 2 0 0 3

Share Information	Registrar / Transfer Agent
Number of multiple voting shares (10 votes per share) outstanding	National Bank Trust 1100 University Street, 9th Floor Montréal (Québec) H3B 2G7 Tel.: (514) 871-7171 Tel.: 1 800 341-1419 Fax: (514) 871-7442
Number of subordinate voting shares (1 vote per share) outstanding	
Stock exchange listing	
Trading symbol	
	The Toronto Stock Exchange CCA

Dividend Policy

Starting from the second quarter of fiscal 2001, the Corporation halted its dividend payments. All available Cash Flow is used to invest in system upgrades and new technologies, and reduce Indebtedness.

Y E A R S E N D E D A U G U S T 3 1 ,

(in dollars, except volume of subordinate voting shares)

	The Toronto Stock Exchange			
Trading Statistics	High	Low	Close	Volume (shares)
2003	\$ 20.60	\$ 6.25	\$ 16.50	21,381,824
2002	27.45	8.01	11.50	12,995,716
2001	45.20	24.25	26.95	14,419,145
2000	49.00	20.00	42.50	21,092,361
1999	31.95	12.70	23.30	11,186,479
1998	17.75	10.75	14.65	11,337,353
1997	12.35	8.00	10.90	937,736
1996	9.38	7.00	8.20	1,449,029
1995	10.88	7.50	8.38	1,797,012
1994	13.13	10.13	10.50	2,394,120

Customer Statistics

	2003	2002	2001	2000	1999
Number of Customers					
Homes passed	1,397,486	1,375,494	1,358,880	1,197,808	1,103,361
Homes connected ⁽¹⁾	830,077	843,598	881,731	806,431	765,806
Revenue Generating Units	1,188,369	1,124,358	1,082,953	948,047	804,941
Basic Service Customers	820,657	836,368	878,766	806,431	765,806
Percent Penetration	58.7%	60.8%	64.7%	67.3%	69.4%
Discretionary Service Customers	639,820	644,031	702,604	662,450	631,690
Penetration as Percentage of Basic ⁽²⁾	78.2%	79.1%	81.3%	79.9%	85.2%
Pay-TV Service Customers	113,614	116,484	108,626	88,320	74,196
Penetration as Percentage of Basic	13.8%	13.9%	12.4%	11.0%	9.7%
High-Speed Internet Service Customers	205,179	158,192	107,938	70,716	39,135
Penetration as Percentage of Basic ⁽²⁾	28.5%	22.1%	16.1%	12.2%	—
Digital Terminals	183,087	144,950	105,292	79,063	—
Penetration as Percentage of Basic ⁽²⁾	22.8%	18.4%	13.3%	11.1%	—
Digital Customers	162,533	129,798	97,216	72,756	—
Bundled Service Customers ⁽³⁾	288,080	241,686	187,926	51,203	—

(1) Internet service customers who do not subscribe to other cable services and basic service customers.

(2) Calculated on the basis of the systems where the service is offered.

(3) Bundles including basic service, discretionary tiers, multiple outlets with the option to include pay television, the advantages of digital service and high-speed Internet service.

	Basic Service		Discretionary Services		Basic service	
	Homes Passed	Customers	% of Penetration ⁽¹⁾	Customers	% of Penetration ⁽²⁾	Distribution by province as a %
Breakdown by province						
Ontario	954,912	584,864	61.2	466,090	79.7	71.3
Québec	442,574	235,793	53.3	173,730	74.6	28.7
Total in Canada	1,397,486	820,657	58.7	639,820	78.2	100.0

(1) As percentage of homes passed.

(2) As percentage of basic service customers where the service is offered.

Board of Directors and Corporate Management

Board of Directors

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> ■ Maurice Myrand, F.C.A.
▲ Outremont (Québec)
◆ Chairman of the Board
Director ■ Henri Audet, Eng., C.M., B.A.,
B.A.Sc., M.Sc., D.Sc.
Outremont (Québec)
Chairman Emeritus
Director ■ Louis Audet, Eng., M.B.A.
Westmount (Québec)
President and Chief Executive Officer
Director ● Jacqueline L. Boutet, C.M.
◆ Montréal (Québec)
President,
Jacqueline L. Boutet Inc.
Director | <ul style="list-style-type: none"> ▲ Daniel Damov
Don Mills (Ontario)
Corporate Director
Director John S. Elder, Q.C.
Toronto (Ontario)
Vice-Chairman and Partner,
Fraser Milner Casgrain LLP
Director ● Harry A. King, B.A., C.A.
Vancouver (British Columbia)
President,
Harking Investments Ltd.
Director ▲ Henri P. Labelle, B. Arch., M.B.A.
Montréal (Québec)
Architect and Certified Arbitrator
Director | <ul style="list-style-type: none"> ◆ David McAusland, B.C.L., LL.B.
Beaconsfield (Québec)
Senior Vice-President,
Mergers & Acquisitions
and Chief Legal Officer,
Alcan Inc.
Director ▲ Jan Peeters
◆ Montréal (Québec)
Chairman of the Board,
President and Chief Executive Officer
Olameter Inc.
Director ● Pierre Robitaille, F.C.A., M.B.A.
Saint-Lambert (Québec)
Corporate Director and
Business Advisor |
|---|---|--|

- Member of the Executive Committee
- Member of the Audit Committee
- ▲ Member of the Human Resources Committee
- ◆ Member of the Governance Committee

Corporate Management

- | | | |
|---|--|--|
| <p>Louis Audet
President and Chief
Executive Officer</p> <p>J. François Audet
Director,
Telecommunications</p> <p>Denis Bélanger
Vice-President,
Engineering and Development</p> | <p>Pierre Gagné
Vice-President,
Finance and Chief Financial Officer</p> <p>Gaston Germain
Vice-President and General Manager,
Cable Ontario</p> <p>Jules Grenier
Vice-President and General Manager,
Cable Québec</p> <p>Christian Jolivet
Chief Legal Officer and Secretary</p> | <p>Yves Mayrand
Vice-President,
Corporate Affairs</p> <p>Ron A. Perrotta
Vice-President,
Marketing and Sales</p> <p>Louise St-Pierre
Vice-President and
Chief Information Officer</p> |
|---|--|--|

Operations and Corporate Information

Operations

Head Office

5 Place Ville Marie, Suite 915
Montréal (Québec)
H3B 2G2
Tel.: (514) 874-2600
Fax: (514) 874-2625
www.cogeco.com

Cable Ontario

950 Syscon Road
P.O. Box 5076 Stn. Main
Burlington (Ontario)
L7R 4S6
Tel.: (905) 333-5343
Fax: (905) 332-8426

Cable Québec

1630 6^e Rue
Suite 200
Trois-Rivières (Québec)
G8Y 5B8
Tel.: (819) 379-2443
Fax: (819) 372-3318

Corporate Information

Annual Meeting

The Annual Shareholders Meeting will be held at 4 p.m. on Thursday, December 4, 2003, at the TSX Broadcast & Conference Center, 130 King Street West, Toronto (Ontario).

Auditors

Deloitte & Touche LLP
1 Place Ville Marie, Suite 3000
Montréal (Québec)
H3B 4T9

Legal Counsel

Fraser Milner Casgrain LLP
1 First Canadian Place
P.O. Box 100
Toronto (Ontario)
M5X 1B2
1 Place Ville Marie, Suite 3900
Montréal (Québec)
H3B 4M7

Transfer Agent

Second Secured Debentures
Computershare Trust Company
of Canada

Transfer Agent

Senior Secured Debentures
and Senior Secured Notes
National Bank Trust

Quarter ends

November, February, May

Year end

August 31

Inquiries

The Annual Information Form and Quarterly Reports are available in the Investor Relations section of the cogeco.com website or upon request by calling (514) 874-2600.

Des versions françaises du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles à la section Relations avec les Investisseurs du site Internet cogeco.com ou sur demande au (514) 874-2600.

Investors and Analysts

For financial information about the Corporation, please contact the Department of Finance.

Shareholders

For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department.

Duplicate Communications

Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise National Bank Trust.



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