ROGERS™ CANTEL®

1997 ANNUAL REPORT

# MESSAGE WAITING

→

ROGERS™
Communication
Entertainment
Information

SEND CDMA SPOTTED DOGS BLOOMING FLOWERS TDMA CELLULAR DIGITA
PCS WIRELESS DATA FIBRE OPTICS BAND WIDTH HAND HELD HANDS FRE
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HOME WEEKEND RATES COSTLY MINUTES DEREGULATION NATIONAL NETWORK
CONFERENCE CALLING SALES SOLUTIONS 2 GHZ SWITCH AND SAVE LATES
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CONFERENCE CALLING SALES SOLUTIONS 2 GHZ SWITCH AND SAVE SEN
CDMA SPOTTED DOGS BLOOMING FLOWERS TDMA CELLULAR DIGITAL PC

NEW MESSAGE

## NO MORE BUSINESS AS USUAL.

More competition. New technology. More choice. So much choice that many business and individual customers are unsure of which way to turn, or whether to turn at all. The wireless communications industry is evolving – rapidly. Where some see this as risk, we see it as opportunity. Benefiting from change is a Rogers Cantel tradition. The introduction of our break-through consumer wireless communications product, Amigo,™ is a case in point. We have the experience and the resources to respond with agility to this volatile market. And we are. No other company can provide as much value to Canadians as Rogers Cantel can – a combination of service, Digital PCS coverage, technology and reasonable cost. As Canada's largest national wireless communications service provider, we're poised to gain market share as wireless communications pene-tration continues to increase.

NEXT MESSAGE →

NEW MESSAGE

## IT'S AN ADVERTISING BLIZZARD OUT THERE. DON'T GET SNOWED IN.

For investors and consumers alike, the intense level of advertising and promotion of wireless communications services can make it difficult to discriminate between advertising hyperbole and business reality. The fact is that when the blizzard passes (and it will) Rogers Cantel's key fundamental strengths will prove to be the critical ingredients for profitable growth. These include: the coverage level of our Digital PCS service, the strength of our distribution network and our commitment to superior service.

NEXT MESSAGE →

NEW MESSAGE

## NO OTHER WIRELESS SERVICE PROVIDER HAS OUR LEVEL OF DIGITAL PCS COVERAGE.

Rogers Cantel has been building digital coverage since 1992. That's a lifetime in this business. Only Rogers Cantel customers benefit from this experience through unsurpassed Digital PCS coverage. Our Digital PCS service covers over 80% of the Canadian population. During the next three years we will increase that staggering figure toward our analog coverage level of 93% of the Canadian population. Coverage also extends throughout the United States to over 90% of the U.S. population through our strategic alliance with AT&T and other Rogers Cantel roaming partners. No other company comes close to our level of Digital PCS coverage. To our customers, this means that the benefits of our Digital PCS service – such as extended battery life, more secure calling and enhanced features – are available to them in more places than any other. Getting what you paid for. That's value. That's Rogers Cantel.

NEXT MESSAGE →


phones

NEW MESSAGE

## OUR DISTRIBUTORS DON'T SELL TELEPHONES. THEY SELL OUR SERVICE.

We rely on the people who distribute Cantel† AT&T‡ products, and who represent Rogers Cantel. They are experienced, expert professionals who sell our service, not just wireless telephones. They understand what customers need, and they also understand state-of-the-art wireless communications technology.

Their measure of success is not just how many customers subscribe to our service, but how well every customer is treated after subscribing. To our customers, this means that when you sign on with Rogers Cantel, you will be dealing with people who are motivated by – and rewarded for – taking care of you.

NEXT MESSAGE →

NEW MESSAGE

## WE'RE COMMITTED TO DELIVERING SUPERIOR SERVICE TO OUR CUSTOMERS.

We have 1.8 million reasons to get this one right. That's how many customers we have today, and we intend to keep them. That's motivation. If we treat them right, our existing customers become our greatest asset. Our pearl. Last year we had millions of customer contacts. Every one of them is an opportunity to polish our reputation. We intend to ensure that this is the case. Our customers will benefit, and so will Rogers Cantel.

MORE MESSAGES TO FOLLOW →

# 1997

## FINANCIAL REVIEW

## 1997 HIGHLIGHTS | KEY STATISTICS | KEY ATTRIBUTES | REVENUE/SUBSCRIBERS

**ROGERS CANTEL MOBILE COMMUNICATIONS INC.** IS CANADA'S LARGEST NATIONAL WIRELESS TELECOMMUNICATIONS COMPANY OFFERING SUBSCRIBERS A BROAD SPECTRUM OF WIRELESS PRODUCTS AND SERVICES. IT IS CURRENTLY THE ONLY COMPANY IN CANADA LICENSED TO PROVIDE CELLULAR, DIGITAL PCS, PAGING AND WIRELESS DATA SERVICES NATIONWIDE. ROGERS CANTEL'S SEAMLESS CELLULAR NETWORK COVERS 93% OF THE CANADIAN POPULATION WITH ANALOG COVERAGE AND OVER 80% OF THE POPULATION WITH DIGITAL COVERAGE. ROGERS CANTEL HAS OVER 1.5 MILLION CELLULAR AND DIGITAL PCS SUBSCRIBERS AND OVER 250,000 PAGING SUBSCRIBERS.

**cellular** service made up 83% of Rogers Cantel's revenue and 98% of operating income in 1997. At the end of the year, 84% of customers were using analog cellular service and 16% had digital (dual-mode service). All services were marketed under the co-brand, Cantel AT&T.

**paging** is one of Canada's largest paging operations with 253,600 subscribers. Rogers Cantel has focused its paging operations on the consumer segment, taking advantage of the AMIGO brand name to create the AMIGO paging product and bundling paging services with other Rogers Cantel wireless products.

**data** operates a packet-switched data network (Mobitex) in eight of Canada's largest metropolitan areas, providing customers with digital wireless connectivity to company e-mail, databases and order entry systems. Circuit-switched services are also provided via the Rogers Cantel analog cellular network, which offers coverage from coast-to-coast.

### 1997 HIGHLIGHTS

- Rogers Cantel added 182,500 new cellular/Digital PCS subscribers and 10,800 paging subscribers.
- Revenue increased 12.6% and operating income* increased 12.9%. Operating cost per subscriber (before sales and marketing costs) reduced to $19 in 1997 from $21 in 1996.
- Rogers Cantel was first to market with Digital PCS coast-to-coast. At year-end, Rogers Cantel had over 240,000 Digital PCS subscribers.
- Rogers Cantel signed a roaming agreement with Clearnet Communications to provide analog roaming services.
- Significant improvements were made to both the analog and digital network with 329 cell sites added, and the enhanced software (TDMA IS-136) loaded which enabled improved voice quality, coverage and call completion.
- The digital cellular network was expanded to cover over 80% of the Canadian population.
- Rogers Cantel extended its coverage to over 90% of the U.S. population through the AT&T partnership and other Rogers Cantel roaming partners.
- Customer retention activities resulted in strong customer renewals and a reduction in churn to 1.63% in 1997 from 1.69% in 1996.

### KEY STATISTICS

| ($ in millions of dollars) | | 1997 | | 1996 |
|---|---|---|---|---|
| Revenue | $ | 1,241 | $ | 1,103 |
| Operating Income* | $ | 386 | $ | 342 |
| Operating Income Margin* | | 31.1% | | 31.0% |
| Capital Expenditures | $ | 605 | $ | 554 |

**cellular/digital pcs statistics:**

| | | | | |
|---|---|---|---|---|
| Subscribers | | 1,552,100 | | 1,369,600 |
| Subscribers to population served | | 5.55% | | 4.97% |
| Average monthly revenue per subscriber | $ | 59 | $ | 66 |
| Average monthly usage per subscriber (minutes) | | 213 | | 208 |
| % Average monthly churn | | 1.63% | | 1.69% |
| Switches | | 19 | | 18 |
| Cell Sites | | 1,462 | | 1,133 |
| Radio Channels | | 41,064 | | 28,561 |
| Analog coverage to population served | | 93% | | 92% |
| Digital coverage to population served | | 81% | | 73% |

**paging statistics:**

| | | |
|---|---|---|
| Paging Subscribers | 253,600 | 242,800 |

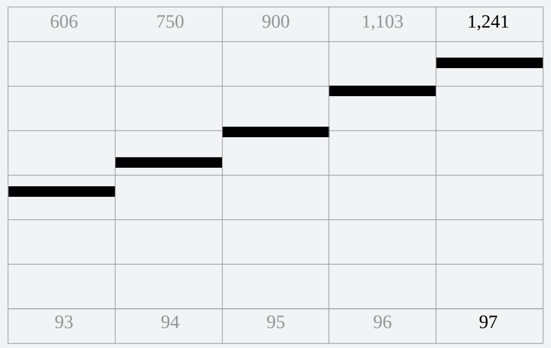
**Before provision for restructuring and asset writedowns and depreciation and amortization.*

### KEY ATTRIBUTES

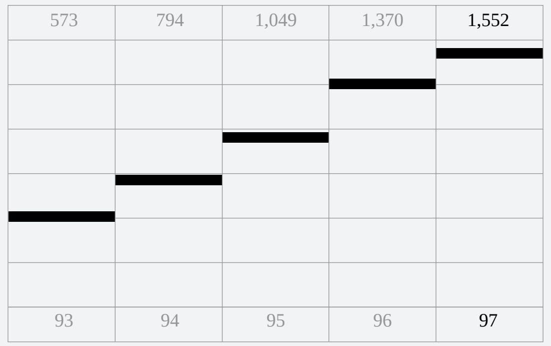
- **canada's largest wireless company and only national provider** serving over 1.5 million cellular and Digital PCS customers, yielding a penetration rate of 5.6%. Rogers Cantel has the unique ability to offer wireless services nationwide using its own facilities.
- **national seamless integrated network** allows subscribers to make or receive calls or activate network services anywhere in the coverage area as easily as in their home area.
- **national digital pcs network** provides the largest nationwide footprint for Digital PCS services, such as Caller ID, short messaging, per second billing and extended battery life.
- **strong brands** with two of the most highly recognized wireless service brands: Cantel AT&T and AMIGO.
- **extensive distribution** is provided by a national network of approximately 4,000 dealer and retail locations, the majority of which provide exclusive distribution for Rogers Cantel.
- **strategic alliances and strong partnerships** with AT&T and RadioShack Canada, Inc., as well as direct association with Rogers Communications Inc., further enhance Rogers Cantel's product development, bundling, roaming opportunities and distribution strength.

### REVENUE/SUBSCRIBERS

**TOTAL REVENUE** *($ thousands)*




**CELLULAR/DIGITAL PCS SUBSCRIBERS** *(thousands)*

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**ROGERS COMMUNICATIONS INC.** IS A DIVERSIFIED PUBLIC CANADIAN COMMUNICATIONS COMPANY ENGAGED IN CELLULAR AND OTHER FORMS OF WIRELESS COMMUNICATIONS; CABLE TELEVISION AND OTHER CABLE DISTRIBUTION SERVICES; LOCAL TELECOMMUNICATIONS; AND PUBLISHING AND RADIO AND TELEVISION BROADCASTING.

**rogers cablesystems limited** is Canada's largest cable television service provider with over 2.2 million customers in Toronto, Ottawa, Vancouver, and Southwestern Ontario. Cablesystems also provides high-speed Internet access, operates 195 video stores and a home security business primarily in markets where it offers cable service.

**rogers cantel mobile communications inc.** is Canada's largest national wireless telecommunications company offering cellular, Digital PCS, paging and data services.

**rogers media inc.** comprises 20 radio stations, a televised home shopping channel, a multi-cultural television station in Toronto, ownership interest in three cable programming services, nine consumer magazines, 40 business periodicals and a new media division.

**rogers telecom inc.** provides telecom services such as local high-speed data transmission, private line voice, image, broadcast video and audio communications.

- **cable** reduced costs and introduced a successful price increase, which resulted in the core cable operating margin improving to 42.6% in 1997 from 36.8% in 1996.
- **cable** continued the aggressive plant rebuild, which resulted in 1.5 million homes passed becoming two-way ready with a minimum of 550 MHz capacity.
- **rogers@home** was created with the @Home Corporation, to deliver high-speed Internet services over @Home's network and Cablesystems local broadband network.
- **media** improved its operations and exploited favourable market conditions resulting in increased revenue of 16.8% and increased operating income of 54.2% over 1996.
- **media's the shopping channel** had a strong year with an increase of 34.5% in items shipped.
- **media's** publishing division acquired seven professional titles in the health care sector, including *Family Practice*™ and *Patient Care*.™
- **new media** division successfully launched CNET Briefs Canada, and Quicken Financial Network Canada.
- **rogers telecom** was established as a separate wholly-owned subsidiary of Rogers Communications Inc. on December 31, 1997, to exploit opportunities in the Canadian telecommunications industry.
- **rogers telecom** added connections to 372 new buildings and added 44,400 fibre kilometers in the year.

| ($ in millions of dollars) | | 1997 | | 1996 |
|---|---|---|---|---|
| Revenue | $ | 2,695 | $ | 2,483 |
| Operating Income* | $ | 814 | $ | 704 |
| Operating Income Margin* | | 30.2% | | 28.4% |
| Capital Expenditures | $ | 980 | $ | 945 |

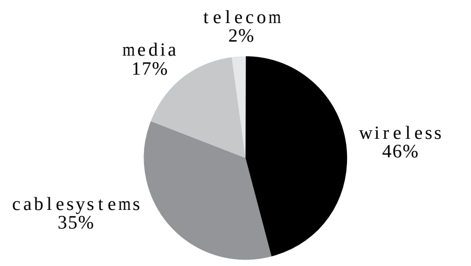
| | | |
|---|---|---|
| Basic cable subscribers | 2,243,700 | 2,229,600 |
| Basic Cable to Homes passed | 81.1% | 81.6% |
| Cable Pay TV Households | 197,100 | 226,900 |
| Cable Tier penetration | 88.8% | 88.1% |
| Internet access subscribers | 11,200 | 1,100 |
| Video Stores | 195 | 173 |
| Publishing Advertising Pages | 19,400 | 15,100 |
| Home Shopping – Items Shipped | 1,550,800 | 1,152,600 |
| Telecom: Network Buildings | 1,080 | 708 |
| Telecom: Fibre route kilometers | 3,519 | 2,430 |
| Telecom: Fibre kilometers | 140,900 | 96,500 |
| Telecom: Network availibility | 99.995% | 99.997% |

**Before provision for restructuring and asset writedowns and depreciation and amortization.*

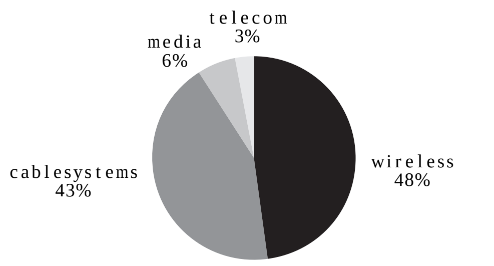
**ROGERS COMMUNICATIONS INC.**
Revenue $2.7 billion
Operating Income $814 million*

| CABLESYSTEMS | WIRELESS | MEDIA | TELECOM |
|---|---|---|---|
| Revenue $945 million | Revenue $1,241 million | Revenue $453 million | Revenue $56 million |
| Operating Income $361 million* | Operating Income $396 million* | Operating Income $54 million* | Operating Income $25 million* |

**1997 REVENUE BY SEGMENT**




**1997 OPERATING INCOME BY SEGMENT***




**Before provision for restructuring and asset writedowns and depreciation and amortization, excluding management fees.*


## THE WORLD OF ROGERS

rogers cantel is part of the world of rogers communications, a company with an unparalleled collective of communications expertise and resources. this endorsement mark, introduced on advertising and promotional materials in 1997, symbolizes the depth of technology and financial resources that rogers cantel has access to through rogers communications.

# rogers cantel

## AT A GLANCE

## TO OUR SHAREHOLDERS

Having worked in the wireless communications industry in the United States and Mexico for many years, I am no stranger to the difficulties wireless communications companies face, particularly as they confront increased competition. I joined Rogers Cantel confident that the fundamentals of this company were not only sound but, in many instances, exceptional. While we have work to do to realize the benefits of these strong fundamentals, I believe we have the foundation for a highly competitive, highly successful company.

Rogers Cantel has over 1.8 million customers. This is one of our most important strengths and is a solid base on which to build for the future. Our customers will stay with us if they believe that we offer them the best value – the best combination of products, service and price. We will never take our customers for granted. Our priority is to provide every one of them with the very best in customer service. Satisfied customers are a company's best asset because they will tell others about their experiences.

For instance, while Rogers Cantel is a company that utilizes the latest technology, it must be first and foremost a customer-focused business. The more responsive we are to customers' needs, and the more aware they are that we are striving to meet them, the more our business will grow. This customer-focused spirit is at the heart of a company that will compete successfully in a crowded marketplace.

Rogers Cantel, of course, does have exceptional technological strengths that are the result of significant investment over many years, including a superb national network and capabilities in all aspects of wireless communications. I think this communication platform has few equals in North America.

Succeeding in a competitive environment also means forming strong alliances. Two key alliances for Rogers Cantel are with our dealers and with our employees. We have enjoyed strong support from our distribution network. Dealers are vital to our understanding what our customers want and how we can best serve them. We want to forge even closer ties with our dealers to ensure that we are working together to deliver innovative products and services. The entrepreneurial spirit of our dealers is a model for the entrepreneurial spirit we encourage in our employees. I am very impressed by the calibre of Rogers Cantel people, their level of professionalism and the quality of their ideas. With a clear strategy in place to harness these ideas, within the context of a customer-focused mandate, we will make tremendous strides in 1998.

While cost reduction is a priority, we must still grow to be competitive. Growth. Change. An entrepreneurial spirit. This is what makes Rogers Cantel such an exciting place to be. It is these qualities that will drive us to be the most competitive wireless communications company in Canada and to earn a strong return for our shareholders.

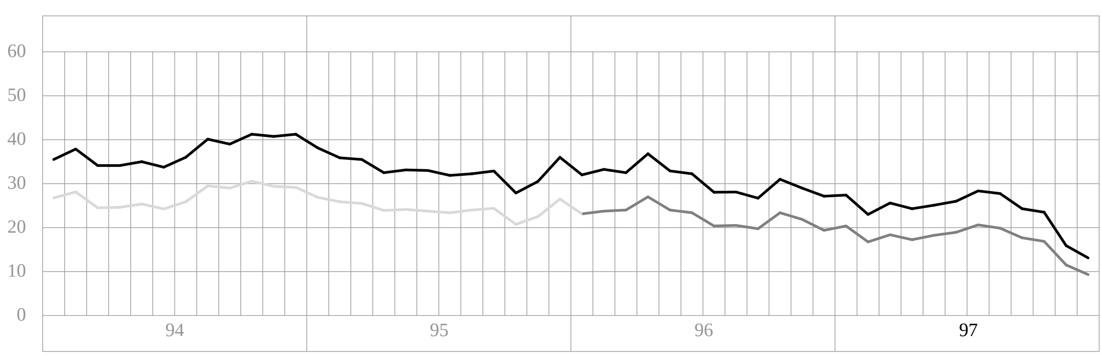
charles e. hoffman
*President and Chief Executive Officer*
*Rogers Cantel Mobile Communications Inc.*

## rogers cantel mobile communications inc.

| years ended december 31 (in thousands of dollars, except per share data) | 1997 | 1996 |
|---|---|---|
| **income statement** | | |
| Revenue | $ 1,241,329 | $ 1,102,854 |
| Operating income(1) | 386,458 | 342,262 |
| Loss for the year | (378,434) | (67,611) |
| – Under US GAAP | (412,487) | (55,014) |
| **per share data** | | |
| Loss for the year | $ (4.05) | $ (0.72) |
| – Under US GAAP | (4.42) | (0.59) |
| Cash flow(2) | 2.62 | 2.39 |
| – Under US GAAP(2) | 2.62 | 2.39 |
| **changes in financial position** | | |
| Cash flow from operations(2) | $ 244,568 | $ 224,333 |
| – Under US GAAP(2) | 244,568 | 224,333 |
| Capital expenditures | 604,675 | 553,826 |
| **balance sheet** | | |
| Total assets | $ 1,956,126 | $ 1,763,917 |
| Fixed assets (net) | 1,601,461 | 1,320,588 |
| Long-term debt | 2,089,140 | 1,589,343 |
| Shareholders' deficiency | (544,374) | (141,207) |

*(1)Before provision for restructuring and asset writedowns and depreciation and amortization.*
*(2)Cash flow from operations before changes in working capital amounts.*

### MONTHLY SHARE PRICES




*Effective January 11, 1996, Rogers Cantel Mobile Communications Inc. delisted from the NASDAQ Stock Market and began trading on the New York Stock Exchange under the symbol RCN.*

For purposes of this discussion, financial figures have been segmented into "Cellular Services" and "Other." The results of Cellular Services include revenue and operating expenses associated with the cellular business which includes analog and Digital PCS services. Cellular Services revenue includes airtime usage, monthly basic service fees, long-distance charges, optional service charges, system access fees, and roaming charges. "Other" operating income before depreciation and amortization includes Paging Services, Wireless Data Services, and Equipment Sales. Equipment Sales includes the sale of hardware, both to Rogers Cantel's independent dealers and agents and to customers via direct channels.

The following discussion contains forward-looking statements regarding the future performance of the Company. All forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information. Please refer to "Cautionary Statement Regarding Forward-looking Information" on page 32 of this report for a further discussion.

## A. OPERATIONS AND FINANCIAL REVIEW

| Years ended December 31<br>(In thousands of dollars) | 1997 | 1996 | % Change |
|---|---|---|---|
| **financial overview** | | | |
| **revenue** | | | |
| Cellular Services | $ 1,030,254 | $ 935,925 | 10.1% |
| Equipment Sales | 160,510 | 113,677 | 41.2% |
| Paging and Data Services | 50,565 | 53,543 | (5.6)% |
| Interdivisional eliminations | – | (291) | |
| Total | $ 1,241,329 | $ 1,102,854 | 12.6% |
| **operating profit[1]** | | | |
| Cellular Services | $ 379,354 | $ 339,456 | 11.8% |
| Other | 7,104 | 2,806 | 153.2% |
| Total | $ 386,458 | $ 342,262 | 12.9% |
| **operating profit[1] as a % of revenue** | | | |
| Cellular Services | 36.8% | 36.3% | |
| Other | 3.4% | 1.7% | |
| Total | 31.1% | 31.0% | |
| Provision for restructuring and asset writedowns | $ 335,315 | $ 20,323 | |
| Loss for the Year | $ 378,434 | $ 67,611 | |
| Capital Expenditures | $ 604,675 | $ 553,826 | 9.2% |

[1] *Operating income before provision for restructuring and asset writedowns and depreciation and amortization.*

## summary

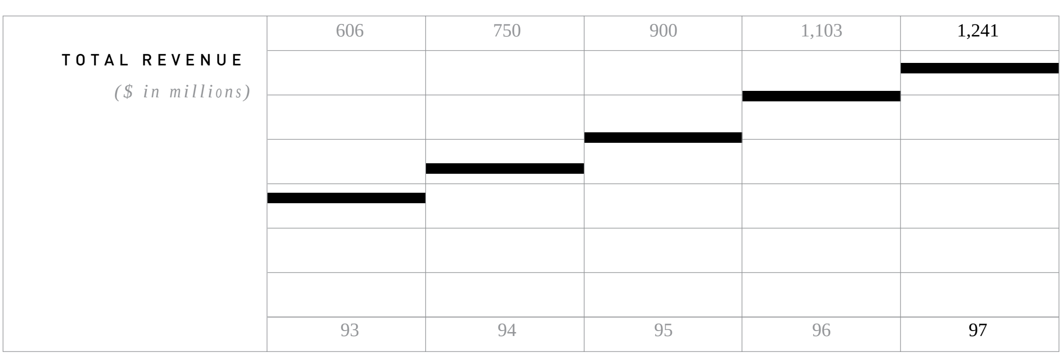
Total revenue increased $138.4 million or 12.6% to reach $1,241.3 million in 1997 compared to $1,102.9 million in 1996. Operating income before provision for restructuring and asset writedowns, depreciation and amortization ("operating profit") was $386.5 million in 1997, an increase of $44.2 million or 12.9% from $342.3 million in 1996. However, operating profit as a percentage of revenue ("operating profit margin") remained flat in 1997 compared to 1996.

Rogers Cantel's operating and financial performance in 1997 was below management and market expectations, as reflected by the significant share price decline in 1997. Major factors affecting Rogers Cantel's 1997 results were:

- Increased competition in the Canadian wireless market with the entry of two new PCS companies, faster than expected decline in overall pricing, and substantial increases in sales and marketing costs as a result;
- The entry of new competitors resulted in a significant increase in the number of offers available and the need for consumers to choose between different brands, price plans, technology platforms, handsets and contractual terms. Management believes that consumers were confused by the diversity of competing offers;
- No appreciable increase in net subscriber sales in the Canadian wireless market as compared to 1996;
- Consumer confusion created by Rogers Cantel with respect to its position in the market. The Company changed its brand support in late 1996 from "Cantel" to the "Cantel AT&T" co-brand, and then later in the year, changed the positioning of its Digital PCS product from a premium offer to a lower-cost offer with broader appeal; and
- Distribution difficulties as a result of closing our Company-owned corporate stores and national account sales channel in late 1996 and throughout 1997, and transferring these responsibilities to the independent dealer distribution channel.

Management has initiated a number of plans to address these areas and improve performance in 1998. Some of the key areas Rogers Cantel will focus on in 1998 include:

- The implementation of a cost reduction programme to reduce operating costs through the simplification of current business processes;
- Improving the relationship with the dealer distribution channel;
- A continued focus on improving customer satisfaction with the objective of maintaining the current "churn rate" or disconnect rate in the short term and lowering it in the longer term;
- An increased focus on more profitable market segments;
- Marketing of Digital PCS products, leveraging our national digital network and the Cantel AT&T relationship.



## unusual charges

*a. Loss on Early Repayment of Long-Term Debt*

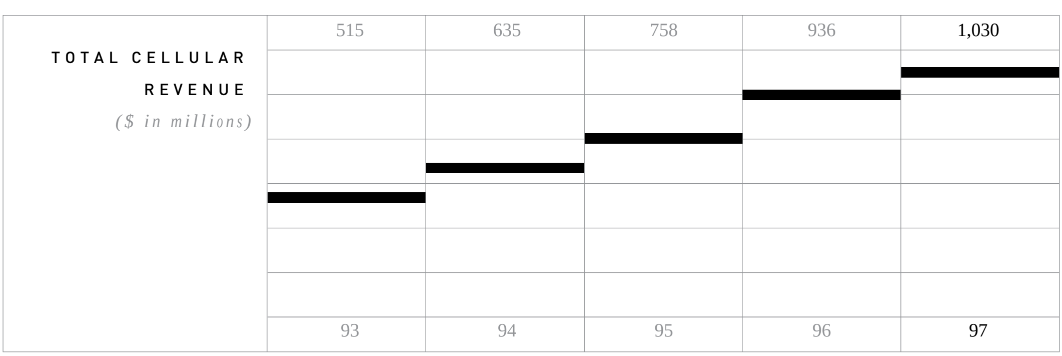
Rogers Cantel completed the sale of US$490 million of senior secured debt and senior subordinated debt consisting of two tranches as follows: US$275 million of 8.30% Senior Secured Notes due 2007 and US$215 million of 8.80% Senior Subordinated Notes due 2007. The Secured Notes and the Subordinated Notes were each sold at a slight discount to par to yield 8.34% and 8.84% respectively. Proceeds from the securities were used to repay all outstanding bank indebtedness and to redeem Rogers Cantel's existing US$200 million 11⅛% Senior Subordinated Guaranteed Notes due 2002 on October 31, 1997, as well as for general corporate purposes. In association with the redemption of the US$200 million Senior Subordinated Guaranteed Notes, a charge of $30.2 million was recognized in the third quarter for deferred foreign exchange losses, deferred financing costs and the premium and commissions on redemption. Approximately $21.2 million of this charge was a non-cash amount.

*b. Provision for Restructuring and Asset Writedowns*

Rogers Cantel has developed a restructuring plan to reduce its operating costs and has recorded a restructuring provision of $101.5 million which includes amounts principally for severance and lease cancellation costs and fixed asset write-offs related to facilities closings. It is anticipated that this restructuring process and re-engineering will be completed in 1998 and will involve a reduction in employment levels at Rogers Cantel of approximately 800 persons. At December 31, 1997, Rogers Cantel employed approximately 3,200 people.

As a result of increased competition in the wireless industry and reduced technological life of certain assets, Rogers Cantel believes the recoverability of the carrying value of certain assets from future cash flows is less certain than was previously the case. As a result, Rogers Cantel has written down the carrying value of certain components of its wireless network by $64.0 million and the goodwill related to the paging operations by $21.1 million.

Rogers Cantel had been deferring certain subscriber telephone costs and amortizing these costs over the term of the subscriber contracts. Recent trends in the industry indicate that a combination of short-term and no-term subscriber contracts will become the prevalent arrangements with subscribers. As a result, Rogers Cantel has determined that it is more appropriate to expense subscriber telephone costs in the period in which they are incurred. Accordingly, the balance of deferred subscriber telephone costs as at December 31, 1997 in the amount of $148.7 million was written off. Effective January 1, 1998, the costs of subscriber telephones will be expensed as incurred.



## cost reduction strategy

Rogers Cantel has recognized that it must reduce costs in order to offset the trend of declining operating profit margins. In 1997, operating profit margins remained essentially flat with 1996, however, with the rapid decline in prices for wireless services, cost reductions must come at a much faster rate if the overall operating profit margin is to increase.

To achieve the objective of increased operating profit margins, management has initiated a programme of business redesign and simplification. Management is being assisted in this initiative by external consultants who specialize in these areas. This initiative started in 1997 with an initial assessment that identified a number of opportunities for significant operating cost reductions that can be achieved in 1998.

## distribution

Rogers Cantel recognizes the importance of distribution in achieving subscriber growth and customer retention. The following changes were made to Rogers Cantel's distribution:

- In late 1996, the Company closed or transferred ownership of substantially all company-owned corporate stores to the independent dealer distribution channel;
- The national account sales channel was restructured with direct selling responsibilities being transferred to the dealer channel, and a reduced number of Rogers Cantel national account employees being maintained to provide sales support; and
- The roll-out of the mall retail store programme was completed with 81 stand-alone mall retail stores in place. The majority of these locations are operated by RadioShack Canada Inc. ("RadioShack"), with the remainder operated by independent dealers; and
- The direct fulfilment channel was expanded and produced a larger percentage of total sales than the prior year.

These changes resulted in a major shift of sales and distribution responsibilities to the independent dealers over a relatively short period of time. This transition was a difficult one. In addition, a group of dealers launched a lawsuit against Rogers Cantel in early 1997 related to certain business issues arising from their relationship with Rogers Cantel. This lawsuit was settled at a very early stage in the proceedings in late 1997. Rogers Cantel has begun a number of initiatives to improve the relationship with dealers and to increase sales productivity, particularly by assisting the dealers in hiring direct sales people to service small and medium-size businesses. In 1998, Rogers Cantel will continue to strengthen its distribution channels and to make greater effort to align its distribution with customer segment requirements.

## revenue and usage

Cellular Services revenue in 1997 totalled $1,030.3 million, up $94.4 million or 10.1% from the prior year's total of $935.9 million. This increase was due to the growth in cellular subscribers year-over-year, offset by a continued decline in monthly average revenue per user ("ARPU"). The subscriber growth resulted in an aggregate increase in monthly fees, local airtime, and long-distance revenue of $69.8 million. The balance of the increase in Cellular Services revenue came from increases in roaming revenue, optional services revenue, activation fees and system access fees.

Although Cellular Service revenue increased during the year, the trend towards lower monthly ARPU continued. Monthly ARPU in 1997 was $59, down 10.6% from $66 in 1996. This was the result of continued growth in the lower revenue consumer segment as well as the impact of lower pricing in the business and corporate segments driven by increased competition. Average monthly airtime usage per subscriber increased to 213 minutes in 1997 from 208 minutes in 1996. In 1997 Rogers Cantel discontinued offering plans with unlimited evening and weekend packages to new customers.

In 1998, Rogers Cantel will take a number of steps to reduce the decline in monthly ARPU. Sales efforts will be aimed at increasing the number of higher revenue business subscribers. Rogers Cantel will also offer additional services and options to its existing customers.

## customer satisfaction and retention

With a customer base that now exceeds 1.8 million cellular, Digital PCS, paging and data subscribers, management has recognized the need to balance the traditional industry focus on acquiring new customers with a greater emphasis on and attention to retaining existing customers by ensuring their satisfaction and their loyalty. In 1997, Rogers Cantel rebalanced resources between acquisition and retention by introducing programmes structured to improve customer satisfaction. These programmes included:

*i.* ongoing customer satisfaction surveys;
*ii.* linking internal compensation with customer satisfaction; and
*iii.* marketing information systems that support efforts to customize and promote new and existing services to existing customers to better meet their needs.

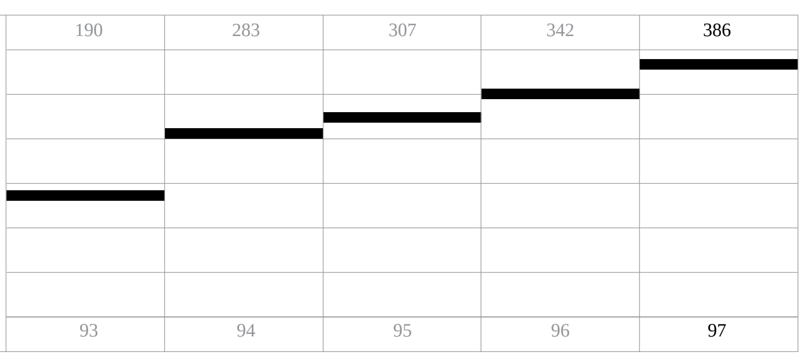
A continued area of focus for Rogers Cantel in 1997 was to manage the percentage of its subscriber base that churns. Churn improved modestly in 1997, averaging 1.63% per month in 1997 compared to 1.69% per month in 1996. In the fourth quarter of 1997, voluntary churn increased compared to previous quarters in 1997, primarily in the consumer segment, as a large number of two-year contracts entered into during the high volume 1995 fourth quarter expired.

In 1997, Rogers Cantel continued to use term contracts as an effective method for managing churn. To recognize consumer hesitation in entering into extended contracts, Rogers Cantel passed on more value to the customer in exchange for a longer term contract commitment. All customers due for contract renewal are contacted through direct mail. Outbound telemarketing campaigns are also initiated to renew existing traditional business customers and to win back subscribers who had recently deactivated. At year-end, Rogers Cantel had over 80% of its customers on term contracts with an average of just over 21 months to expiration. In late 1997, the Company began to feature no term plans more prominently.

**TOTAL OPERATING PROFIT***

*($ in millions)*

**Operating income before provision for restructuring and asset writedowns and depreciation and amortization.*



## subscriber acquisition

Rogers Cantel added 182,500 new cellular and Digital PCS subscribers in 1997, net of disconnects, ending the year with 1,552,100 subscribers, a 13.3% increase from 1,369,600 at December 31, 1996. Despite the low pricing levels in Canada, market growth in Canada has been slow relative to other countries. Growth in the Canadian wireless communications industry has not yet begun to accelerate in response to new competition and lower prices. Rogers Cantel estimates that 1997 Canadian industry growth was just over 20%, significantly lower than the 31% growth experienced in 1996. Rogers Cantel's subscriber acquisition results were well below expectations as new subscribers (net of disconnects) were 43% fewer in 1997 than the prior year as a result of a 16.9% decline in gross additions and a 17.7% increase in deactivations.

The year-over-year decline in gross activations can be largely attributed to two factors:

*i.* Sales in the national account and corporate segments were lower than the prior year as a result of the transfer of sales, distribution, and service responsibilities for major and national account customers from Rogers Cantel's own direct sales force to the independent dealer distribution network. This transfer of responsibilities represented a major transition and as such, sales and marketing momentum was lost.

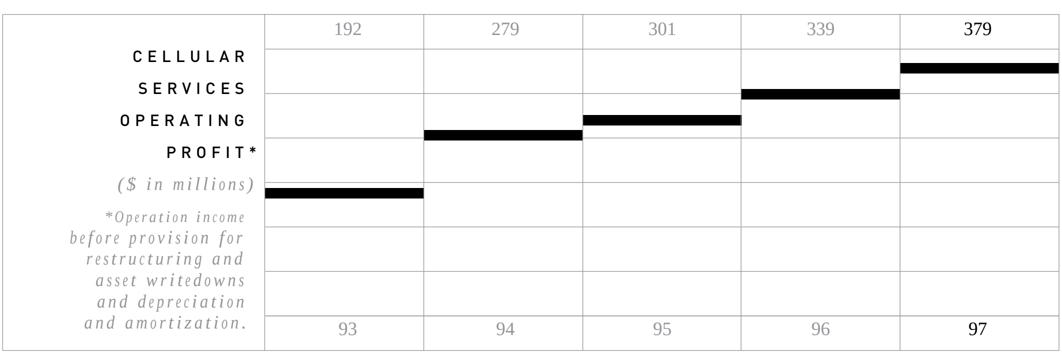
*ii.* Sales in the consumer segment were lower than planned, particularly in the fourth quarter, due to the arrival of new competitors who offered low-cost packages, in some cases with no contract required. Rogers Cantel responded with similar low-cost packages and with a no-contract option.

The chart on page 34 of this report provides a breakdown of the cumulative subscriber base for the past five years by segment. Rogers Cantel estimates that its cellular and Digital PCS penetration of the population served in Canada reached 5.6% at December 31, 1997 as compared to 5.0% at the end of the prior year.

## digital pcs

Rogers Cantel launched Digital PCS across Canada in May 1997, following the Montreal launch in November of 1996. Benefits of Digital PCS include longer battery life and greater call security than analog cellular, as well as per second billing. New enhanced features such as Caller ID, Text and Numeric Messaging, Visual Call Waiting, and E-Mail Messaging were also introduced.

Choosing the digital standard IS-136 Time Division Multiple Access ("TDMA") enabled Rogers Cantel to be the first to market and supply dual mode phones (digital and analog mode). Rogers Cantel's Digital PCS dual mode phones provide coverage for over 80% of Canada's population in "digital mode" and 93% of Canada's population in "analog mode." This coverage also extends throughout the United States to include coverage of over 90% of the U.S. population through the AT&T strategic alliance and other Rogers Cantel roaming partners.



In September 1997, Rogers Cantel expanded its Digital PCS offer with the launch of Digital AMIGO. This broad-based campaign was aimed at bringing the benefits of Digital PCS to consumers in simple, easy-to-understand price plans. Customers could choose between a no-contract plan or a bundled offer which included a Digital PCS phone at no extra cost, but also required a three-year term commitment.

The focus of Digital PCS was not limited to new subscribers. Rogers Cantel also embarked on an upgrade programme designed to migrate the early adopters within its customer base from analog to Digital PCS. At year-end, approximately 120,000 customers had migrated from an analog to a Digital PCS plan. In total, Rogers Cantel finished 1997 with more than 240,000 Digital PCS subscribers.

## paging services

Paging Services revenue decreased to $49.9 million in 1997, down $ 3.1 million or 5.9%, from $53.0 million in 1996. Subscriber growth of 4.4% brought the total number of paging subscribers to 253,600 at December 31, 1997, an increase from 242,800 at December 31, 1996. The decline in revenue growth is attributed to modest subscriber growth being more than offset by declining paging service prices. Monthly paging ARPU declined to $15, down $3 or 15.5% in 1997, from $18 in 1996. During 1997, Rogers Cantel Paging focused on reducing operating costs in order to maintain operating profit margins as monthly ARPU declined in the competitive market. Average monthly paging cost per subscriber was $9, down $2 or 13.6%, from $11 in 1996. Average monthly paging churn increased to 3.21% per month in 1997 from 2.98% per month in 1996. Operating profit from Paging Services declined by 6.4% in 1997 from 1996 levels.

## other revenue

Revenue from equipment sales reached $160.5 million, up $46.8 million or 41.2% from $113.7 million in the prior year. Equipment sales are generally provided to Rogers Cantel's independent dealers and agents at cost. The increase is due primarily to the growth of higher priced digital versus analog phones sold. In 1997, digital phones accounted for 45% of hardware sales, an increase from 4% in 1996. On average the cost of a digital phone in 1997 was approximately 85% higher than an analog phone.

## operating costs

Total cellular operating expenses (including cost of sales) of $650.9 million increased by $54.4 million or 9.1% over the prior year's expenses of $596.5 million. This increase was driven largely by year-over-year increases in sales and marketing costs, customer service costs and network-related costs. Sales and marketing cost per gross addition was $676 in 1997, 28.3% higher than the 1996 level of $527. On a cash basis (after giving effect to the new accounting treatment of expensing the costs of subscriber telephones as incurred), the sales and marketing cost per gross subscriber addition would have been $752, an increase of $103 or 15.9% from $649 in the prior year. The increase in sales and marketing expenses per gross subscriber addition was primarily due to a 16.9% decline in gross activations, increased advertising costs to support the launch of Digital PCS, and the launch of the "Cantel AT&T" co-brand.

In 1998, Rogers Cantel will manage sales and marketing costs per gross addition by reducing fixed overhead or non-sales-producing activities in the sales and marketing departments. A portion of these savings will be channeled to sales-producing activities such as advertising, commissions, and phone subsidies.

Cellular operating expenses before sales and marketing costs were $335.7 million, an increase of $35.0 million or 11.7% from $300.7 million in 1996. These increased costs are attributed to a larger average customer base in 1997 over 1996, additional customer service expenses focused on improving customer service levels, higher than planned bad debt expense, and increased technical service costs related to the Digital PCS roll-out. Cellular operating expenses per average subscriber, excluding sales and marketing costs, decreased $2 or 9.0% to $19 per month in 1997, compared to $21 in 1996.

In 1998, Rogers Cantel will focus more aggressively on reducing costs in all areas of operations to ensure Rogers Cantel is a lower cost provider. A full cost review is currently underway with the objective of significantly reducing the Company's cost structure. The Company believes that while market prices remain low and growth levels remain uncertain being a low-cost provider is essential.

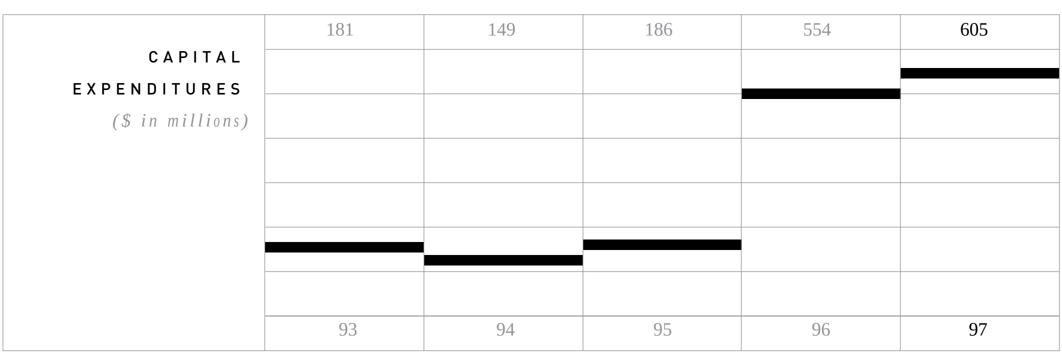
## operating profit

Operating profit from Cellular Services ("cellular operating profit") was $379.4 million in 1997, an increase of $39.9 million or 11.8% from $339.5 million in the prior year. Cellular operating profit, as a percentage of revenue ("cellular operating profit margin"), was 36.8% compared to 36.3% in the prior year. Cellular operating profit, after giving effect to the new accounting treatment of subscriber telephones, would have been $344.3 million in 1997, an increase of $72.9 million or 26.9% from $271.4 million in the prior year.
Operating profit from Other operations was $7.1 million in 1997, an increase of $4.3 million or 153.2% from $2.8 million in 1996. The increase is attributable to a significant decline in losses from equipment sales that were partially offset by a 6.4% reduction in operating profit from Paging Services.

## fixed charges

Depreciation and amortization totalled $256.0 million in 1997, an increase of $48.9 million or 23.6% from $207.1 million in the prior year, due to the significant overall increase in the capital base. The writedown of the carrying value of certain switch equipment and other assets and a write-off of paging goodwill in 1997 will have the effect of reducing depreciation and amortization going forward. This will be offset by a reduction in the useful life for depreciation purposes of the switch equipment from 15 years straight line to 10 years for hardware and 5 years for software using the straight line method.

Interest expense was $138.3 million in 1997, an increase of $23.4 million or 20.3% from $114.9 million in the prior year, due primarily to a higher average long-term debt balance in 1997. (See Sections C and D of this discussion for details on Liquidity and Financial Instruments.)



## loss

Rogers Cantel's loss for the year, excluding $335.3 million for the provision for restructuring and asset write-downs and $30.2 million for the loss on early repayment of long-term debt, was $12.9 million in 1997 compared to net income excluding unusual charges of $17.3 million in 1996. Including the unusual charges in both periods, Rogers Cantel's loss was $378.4 million in 1997, and $67.6 million in 1996.

## staffing

At December 31, 1997, staff levels of 3,227 full- and part-time employees represented a decrease of 52 from 3,279 at December 31, 1996, due primarily to cost-cutting measures implemented in the latter part of the year. Total remuneration increased to $145.2 million in 1997 from $133.2 million in 1996 primarily as a result of maintaining a higher average number of employees throughout 1997.

## capital expenditures

Capital expenditures totalled $604.7 million in 1997, up $50.9 million or 9.2% from $553.8 million in 1996. Of this total, 83% was for increased network capacity, new coverage, and increased signal strength in existing coverage areas. The remaining 17% was for general capital expenditures including information technology projects, new call centres, and the Company's office location in Toronto.

The 1997 increase in capital expenditures is primarily the result of network development, as Rogers Cantel increased coverage and capacity of both digital and analog services. Approximately 70% of the network capital spending in 1997 was for network capacity expansion which included an increase of approximately 200 cell sites needed to provide infrastructure for greater urban capacity. This new site construction represented 58% of total network capacity spending. New site acquisition and construction is the most costly and time-consuming activity in the addition of capacity to the network. With these additional sites, Rogers Cantel will have constructed the infrastructure to allow for rapid and lower cost increases in capacity, for the most part by only adding additional channels. The new sites have the secondary benefit of improving both digital and analog call quality. Rogers Cantel will have the necessary buffer capacity to accommodate greater than planned subscriber growth and/or higher network usage that may arise in this competitive marketplace.

By year end 1997, Rogers Cantel increased its digital coverage to over 80% of the Canadian population from approximately 73% at the end of 1996. Rogers Cantel believes this extensive digital coverage will become increasingly important, particularly to business users who require enhanced digital features to be available over a broad geographic area.

Rogers Cantel expects capital spending in 1998 to be reduced from the 1997 level of $604.7 million. As a result of the aggressive build in 1997, lower than planned gross and net subscriber additions, and significant migration of customers from analog to digital service in 1997, Rogers Cantel's capital spending level is currently budgeted to be approximately $300 million in 1998.

Approximately 67% of this spending will be directed to network-related projects. Of this amount, 40% is for network capacity expansion, a key component of which is the construction of our 1.9 GHz infrastructure, which will yield a substantial increase in capacity, primarily in Toronto. The remaining 60% of the network component is for quality improvement, coverage expansion, and other network-related expenditures.

The remaining 33% non-network capital spending will be used primarily for numerous information technology initiatives including support for Digital PCS selling strategies, customer retention programmes, the continued development of a marketing information system, and the Year 2000 project.

## B. OPERATING RISKS AND UNCERTAINTIES

In December 1995, Industry Canada awarded PCS licences to Rogers Cantel, the Mobility Canada companies, and two companies that did not provide cellular service, Clearnet PCS Inc. ("Clearnet") and Microcell Connexions Inc. ("Microcell"). Microcell launched its initial PCS offering in Montreal in 1996 and in Quebec City, Ottawa-Hull, Toronto, Oshawa, Hamilton, and Vancouver in 1997. On October 1, 1997, Clearnet launched its PCS service in Vancouver, Montreal and Toronto and (through a roaming agreement with Rogers Cantel) analog service available nationally. Bell Mobility launched its service in Toronto, Ottawa, Montreal and Quebec City on October 7, 1997. BCTel Mobility also offers a Digital PCS service. Certain other Mobility Canada companies have indicated that they intend to launch their PCS offerings at 1.9 GHz later in 1998. Aggressive pricing by both new PCS competitors and large price reductions by Rogers Cantel and Mobility Canada have reduced Canadian pricing to among the lowest in the world. Rogers Cantel cannot predict whether further price reductions will continue in 1998. The Company anticipates some re-pricing of its existing base as new lower pricing is offered to customers when their term contracts come to an end.

Rogers Cantel cannot anticipate what impact the new PCS services and lower prices will have on overall market growth. Rogers Cantel will compete vigorously for all customer segments and in all markets based on the strengths of its analog and digital networks, strong brands, and broad distribution.

In May 1996, the Canadian Radio-television and Telecommunications Commission ("CRTC") initiated a public notice seeking comments on the issues of equal access, co-location and unbundling. Under equal access, Rogers Cantel may be required to offer its subscribers access to competitive long-distance networks on an "equal access" or "one plus" dialing basis (where all calls are automatically routed to an alternative long-distance network without having to dial an access number). Under present conditions, the customer must dial an access number to use another long-distance service provider. Rogers Cantel monitors its long-distance revenue regularly, and to date, has experienced only minor erosion of its long-distance business to other carriers. A portion of Rogers Cantel's long-distance revenue, which totalled $79.5 million in 1997, could be at risk if the CRTC rules in favour of equal access. The CRTC is also considering whether wireless companies should be required to unbundle the wireless access from the wireline network. This would permit the lease of portions of the wireless network to other service providers. The same parties that have requested unbundling are also requesting co-location of their equipment on Rogers Cantel sites. The timing of a CRTC decision on these issues is uncertain at this time.

The CRTC has initiated a proceeding to deal with local number portability in the wireline network. Certain wireless carriers have proposed that local number portability also be extended to the wireless industry as soon as possible. However, in October 1996, the CRTC ruled that participation by wireless carriers would not be mandated during an interim period that runs until approximately 1999. The CRTC will likely re-examine the issue in relation to the wireless industry after the interim period. In the U.S. the Federal Communications Commission has ruled that wireless carriers should provide number portability by approximately 2000. Canadian cellular companies have indicated that they intend to provide number portability when it is technically feasible and approved by the CRTC. Therefore, Rogers Cantel may provide number portability before 2000. The introduction of mandatory wireless local number portability could increase the Company's subscriber churn, which would adversely impact revenue.

Rogers Cantel may elect to become a Competitive Local Exchange Carrier ("CLEC") nationally or on an exchange by exchange basis. While entering this business could have a positive revenue impact, certain requirements would have to be met which could create additional costs. The financial impact includes the capital outlay required to provide equal access and local number portability, and the risk of long-distance revenue loss and increased subscriber churn.

In June 1997, the CRTC initiated a proceeding to review bundling and joint marketing restrictions that are currently in place. Under present rules, Stentor member companies and independent telephone companies are restricted from either joint marketing or bundling wireless and wireline services. Given the telephone companies' monopoly position in wireline services, lifting restrictions on joint marketing and bundling could impact competition in the wireless sector.

Since 1996, with the addition of new U.S. entrants such as Paging Network Inc. and Pagemart Wireless Inc., Rogers Cantel's paging division has experienced increased competition and price decreases. Rogers Cantel believes it is well positioned to benefit from the market expansion that increased competition will bring due to its extensive national network and broad distribution. However, there will continue to be downward pressure on prices and margins.

## risks and uncertainties – year 2000 readiness

Rogers Cantel is heavily reliant upon its own proprietary and vendor-supplied technology and recognizes the potential business risk to its assets and systems associated with the arrival of the year 2000.

Rogers Cantel, in conjunction with Rogers Communications Inc., has introduced a six-step programme to address all known risks associated with year 2000 readiness in recognition of the potential impact on its ability to conduct business. This programme ultimately reports to the Chief Information Officer of Rogers Communications Inc. ("RCI"). These six steps are inventory, assessment, triage, remediation, testing, and implementation. The Company has allocated internal and external resources as required by the readiness programme plan.

As of December 31, 1997, the inventory, assessment and triage steps were substantially completed and the remediation of critical systems had commenced. Testing of some critical system components has also commenced, while the majority of testing is scheduled to begin in June 1998.

Rogers Cantel is implementing a process to identify potential year 2000 readiness issues associated with its vendors' products, services, systems and operations, and is scheduled to complete this process for vendors of its critical systems in June 1998. For vendors of non-critical assets and systems, this process is scheduled to be completed by the end of 1998.

Rogers Cantel's year 2000 readiness methodology includes the development of contingency plans to be implemented in the event that the implementation of a solution for critical systems is delayed. The contingency planning process is under development and is targeted to be complete by the second quarter of 1998.

Expenditures for the year 2000 readiness programme totalled approximately $5 million at December 31, 1997. Rogers Cantel will spend approximately $30 million over the next two years, with the majority of this expenditure being made in 1998. These expenditures will be capitalized to the extent that they enhance the capabilities and useful life of the underlying systems. Rogers Cantel is currently on budget and on schedule to substantially complete year 2000 readiness by year-end 1998. Notwithstanding that the Company's activities are on target with plan, the nature of this programme is such that unforeseen difficulties may arise that need to be addressed. The Company's audit committee receives a quarterly update from the Chief Information Officer on the progress of Rogers Cantel's year 2000 readiness.

## C. FINANCIAL POSITION – LIQUIDITY AND CAPITAL RESOURCES

Rogers Cantel reported a loss before provision for restructuring and asset writedowns and the loss on early repayment of long-term debt in 1997 of $12.9 million compared to net income of $17.3 million in 1996, excluding unusual charges. During 1997, Rogers Cantel's cash deficiency (defined as cash flow from operations after working capital less capital expenditures and investments) decreased to $405.9 million, from $448.0 million in 1996. Rogers Cantel funded this shortfall during the year through the issuance of third party and intercompany debt.

In 1998, Rogers Cantel anticipates growth in operating income before depreciation and amortization over 1997, decreases in capital expenditures and an increase in interest expense. Rogers Cantel does not anticipate it will generate free cash flow in 1998. Rogers Cantel anticipates that cash from operations, together with additional borrowings available under its bank credit facility will satisfy the Company's cash funding requirements through the year 2000, including the anticipated repayment during 1998 of $224.5 million of intercompany debt owing to RCI. (See Note 6 to the Consolidated Financial Statements for details on Rogers Cantel's long-term debt, including the bank credit facility.)

Rogers Cantel's cash flow from operations before working capital (defined as the net loss, offset by adding back all special provisions and other non-cash items such as depreciation and amortization) increased to $244.6 million in 1997 from $224.3 million in the prior year. After funding the $45.8 million of working capital deficiency during the year, funds from operations totalled $198.8 million. This, combined with the $291.8 million net issuance of third party debt and an increase of $155.5 million of intercompany debt owing to RCI, resulted in funds available for use of $646.1 million. In general, these funds were used to purchase net fixed assets of $604.7 million and to purchase for cancellation 1,000,000 Class B Restricted Voting Shares ("Class B Shares") for an aggregate cost of $25.7 million.

In September 1997, Rogers Cantel completed the issuance of: US$275 million (CDN$380.1 million) of 8.30% Senior Secured Notes due 2007 and US$215 million (CDN$297.1 million) of 8.80% Senior Subordinated Notes due 2007. (The Secured Notes and the Subordinated Notes were each sold at a slight discount to par to yield 8.34% and 8.84% respectively.) Net proceeds from the Securities were used to repay all outstanding bank indebtedness and to redeem Rogers Cantel's existing US$200 million 11 1/8% Senior Subordinated Notes due 2002, and for general corporate purposes.

Rogers Cantel's total debt, including amounts owing to RCI, increased by $499.8 million during 1997 to $2,089.1 million, comprised of $291.8 million net issuance of third party debt, $155.5 million increase of intercompany debt and $43.4 million increase from foreign exchange and $9.1 million premium paid on redemption of long-term debt. For details regarding the $2,089.1 million of long-term and intercompany debt outstanding at December 31, 1997, see Notes 6 and 7 of the Notes to the Consolidated Financial Statements. Of the $2,089.1 million of debt outstanding at the fiscal year end, $1,864.6 million was long-term debt owed to third parties and $224.5 million was intercompany debt owed to RCI.

Rogers Cantel's required repayment of third party debt is minimal, totalling $10.6 million over the five- year period from 1998 to 2002 inclusive.

On March 10, 1997, Rogers Cantel initiated a normal course issuer bid to purchase up to 1,000,000 Class B Shares. On September 29, 1997, Rogers Cantel completed its normal course issuer bid, having purchased for cancellation 1,000,000 Class B Shares at an average cost of $25.66, and a total cost of $25.7 million.

## bank agreement

During 1997, Rogers Cantel amended and increased its long-term secured revolving/reducing bank credit facility to $800 million. The amended facility extended the term by 3.5 years and increased the authorized amount by $300.0 million. As well, Rogers Cantel has a $10.0 million secured operating line of credit with a Canadian chartered bank. At December 31, 1997, $75.0 million was outstanding under Rogers Cantel's long-term bank credit facility, a decrease of $97.0 million from the December 31, 1996 balance of $172.0 million. Access to Rogers Cantel's credit facility is based on certain debt to operating cash flow ratios. Based on Rogers Cantel's most restrictive covenants under its bank credit facility and public indentures, at December 31, 1997, Rogers Cantel could have borrowed $238.6 million of additional debt, all of which could have been borrowed under the bank credit facility. Of all the Company's debt instruments, the terms of the bank loan agreement generally impose the most restrictive covenants, maintenance tests and restrictions on sales of assets and distributions to shareholders. (See Note 6 of the Notes to the Consolidated Financial Statements for additional details.)

## D. FINANCIAL INSTRUMENTS

Rogers Cantel's exposure to U.S. dollar foreign exchange fluctuations and interest rate fluctuations is closely managed. Currently, the risk of foreign exchange exposure is managed through the use of cross-currency exchange agreements or "swaps." In addition, during 1997, Rogers Cantel started to use short-term foreign exchange options to augment its hedged position with respect to foreign exchange fluctuations. (See Note 6 of the Notes to the Consolidated Financial Statements for additional details on foreign exchange exposure.) Rogers Cantel's exposure to interest rate fluctuations is largely protected by an agreement with an affiliate discussed below. In order to minimize the risk of counterparty default under its swap agreements, Rogers Cantel assesses the creditworthiness of its swap counterparties. Currently all of the swap counterparties are financial institutions with a Standard & Poor's rating (or the equivalent) of AA. Rogers Cantel's general objective is to hedge approximately 50% of its foreign exchange exposure through the use of cross-currency swaps and to maintain fixed interest rates on a minimum of 80% of its outstanding third party debt.

As a result of U.S. dollar financings completed in 1996 and 1997 and the corresponding redemptions of U.S. dollar denominated debt aggregating US$660.0 million, Rogers Cantel had U.S. dollar borrowings of US$1,175.0 million at December 31, 1997. Rogers Cantel's revenues and assets are almost exclusively denominated in Canadian dollars. Accordingly, Rogers Cantel is exposed to foreign exchange risk on its US dollar denominated debt.

During 1992, 1993 and 1996, Rogers Cantel entered into cross-currency interest rate exchange agreements that serve to hedge exposure to additional changes in the exchange rate of the U.S. dollar as compared to the Canadian dollar on US$385.0 million or approximately 33% of its total U.S. dollar denominated debt at December 31, 1997. Including an additional US$100.0 million hedged on a short-term basis with foreign exchange options, an aggregate US$485.0 million or approximately 41% of the Rogers Cantel's U.S. dollar denominated debt was hedged with respect to foreign exchange fluctuations at year-end. Currently management is comfortable with its hedged position since there are no material scheduled U.S. dollar denominated unhedged principle repayments due until 2007. Management has also taken into consideration the prevailing economic forecasts which predict a strengthening of the Canadian dollar versus the U.S. dollar. Management continually re-evaluates its hedging strategies. Additionally, these cross-currency interest rate exchange agreements have the effect of converting the interest rate on US$385.0 million of long-term debt from a fixed rate of 9.375% per annum to floating rates of bankers acceptances rates plus 2.357% per annum, which totalled 6.635% at December 31, 1997, on CDN$466.3 million of long-term debt.

After giving effect to the cross-currency interest rate exchange agreements noted above, approximately 71% of Rogers Cantel's third party long-term debt was fixed at a weighted average interest rate of 9.121% for a weighted average term of 11.4 years. Including floating rate intercompany debt payable to RCI at December 31, 1997, 63% of Rogers Cantel's debt was fixed.

However, Rogers Cantel has entered into an agreement with an affiliated party that has the effect of capping interest rates on up to $310.0 million of floating rate debt based upon reference interest rates varying from 10.5% to 12.39% per annum. (See note 6(i) of the Notes to the Consolidated Financial Statements for details on these agreements). After giving effect to this agreement, 88% of Rogers Cantel's third party long-term debt was fixed/capped at December 31, 1997. Including floating rate intercompany debt payable to RCI at December 31, 1997, 78% of Rogers Cantel's debt was fixed/capped.

The effect of these agreements is to convert the obligation to service U.S. dollar denominated debt in the amount of US$385.0 million into Canadian dollar denominated debt at an average exchange rate of 1.2113 Canadian dollars to US$1.00. The following table presents a summary of the effect of changes in the foreign exchange rate on the unhedged portion of Rogers Cantel's U.S. dollar denominated debt and the resulting change on its debt principal, interest expense and earnings per share.

| change in cdn$ versus us$[1] | change in principal amounts ($mm) | change in interest expense ($mm) | earnings per share[2] |
|---|---|---|---|
| 1¢ | $ 7.90 | $ 0.7 | 1¢ |
| 3¢ | 23.70 | 2.1 | 4¢ |
| 5¢ | 39.50 | 3.5 | 7¢ |
| 10¢ | 79.00 | 7.1 | 15¢ |

(1) *Canadian equivalent of unhedged U.S. debt if U.S. dollar costs an additional Canadian cent.*
(2) *Assumes no taxes. Includes the interest impact and the change in principal amounts, which would be amortized over the remaining life of unhedged debt estimated at approximately 11.8 years.*

The Company continually monitors its hedged position and hedging policies. It is possible that the Company will enter into additional hedging contracts during 1998. See Note 6(i) of the Notes to the Consolidated Financial Statements for further details on the hedging terms and interest exchange agreements.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The preceding Management's Discussion and Analysis contains forward-looking statements that involve risk and uncertainties. The statements under, but not limited to, the following headings contain such information: "Distribution," which describes plans and objectives for the Company's distribution channels, "Customer Satisfaction and Retention," which describes programs aimed at customer satisfaction, "Operating Costs," which describes cost reduction plans, "Capital Expenditure," which describes projected capital spending for 1998, "Risk and Uncertainties – Year 2000 Readiness," which describes the plans and objectives related to the Company's technological readiness for year 2000, and "Financing" which describes certain anticipated results and liquidity for 1998 and beyond. The Company cautions that the actual future performance will be affected by a number of factors, including without limitations, technological change which may impact the Company's capital expenditures and results of operations, regulatory change which may affect the Company's competitive strategy, and competitive factors which may alter the timing and amount of the Company's capital expenditures, all of which could adversely affect the Company's revenue expectations and results of operations. Many of these factors are beyond the Company's control, therefore, future events may vary substantially from what the Company currently foresees. The Company wishes to caution readers not to place undue reliance on such forward-looking statements which speak only as of the date made.

## share price and trading volume – the toronto stock exchange (rcm.b restricted voting shares) cdn$

| years ended | | first quarter | second quarter | third quarter | fourth quarter | total year |
|---|---|---|---|---|---|---|
| December 1994 | High | $ 39.75 | $ 35.50 | $ 41.50 | $ 43.50 | $ 43.50 |
| | Low | $ 34.00 | $ 30.88 | $ 34.00 | $ 37.38 | $ 30.88 |
| | Close | $ 34.13 | $ 33.75 | $ 39.00 | $ 41.25 | $ 41.25 |
| | Volume (000s) | 1,464 | 1,543 | 2,503 | 2,026 | 7,536 |
| December 1995 | High | $ 41.50 | $ 35.88 | $ 35.50 | $ 36.13 | $ 41.50 |
| | Low | $ 35.13 | $ 30.50 | $ 31.13 | $ 27.38 | $ 27.38 |
| | Close | $ 35.50 | $ 33.00 | $ 32.88 | $ 36.00 | $ 36.00 |
| | Volume (000s) | 2,710 | 3,882 | 1,481 | 3,696 | 11,769 |
| December 1996 | High | $ 37.75 | $ 36.80 | $ 32.50 | $ 33.00 | $ 37.75 |
| | Low | $ 30.75 | $ 31.35 | $ 26.70 | $ 26.05 | $ 26.05 |
| | Close | $ 32.50 | $ 32.25 | $ 26.70 | $ 27.15 | $ 27.15 |
| | Volume (000s) | 1,869 | 5,088 | 2,036 | 2,747 | 11,740 |
| December 1997 | High | $ 30.00 | $ 27.80 | $ 30.00 | $ 25.25 | $ 30.00 |
| | Low | $ 22.50 | $ 23.10 | $ 24.15 | $ 12.70 | $ 12.70 |
| | Close | $ 25.60 | $ 26.00 | $ 24.30 | $ 13.10 | $ 13.10 |
| | Volume (000s) | 2,477 | 3,931 | 1,961 | 3,300 | 11,669 |

## nasdaq (rcmif – restricted voting shares) us$

| years ended | | first quarter | second quarter | third quarter | fourth quarter | total year |
|---|---|---|---|---|---|---|
| December 1994 | High | $ 29.63 | $ 25.75 | $ 30.69 | $ 31.88 | $ 31.88 |
| | Low | $ 24.38 | $ 22.25 | $ 24.25 | $ 27.00 | $ 22.25 |
| | Close | $ 24.50 | $ 24.25 | $ 29.00 | $ 29.16 | $ 29.16 |
| | Volume (000s) | 2,516 | 3,220 | 5,463 | 4,205 | 15,404 |
| December 1995* | High | $ 29.38 | $ 25.63 | $ 26.38 | $ 26.50 | $ 29.38 |
| | Low | $ 24.75 | $ 22.25 | $ 23.00 | $ 20.44 | $ 20.44 |
| | Close | $ 25.50 | $ 23.75 | $ 24.38 | $ 26.50 | $ 26.50 |
| | Volume (000s) | 4,314 | 4,068 | 2,538 | 4,094 | 15,014 |

## the new york stock exchange (rcn restricted voting shares) us$

| years ended | | first quarter | second quarter | third quarter | fourth quarter | total year |
|---|---|---|---|---|---|---|
| December 1996** | High | $ 27.75 | $ 27.00 | $ 23.25 | $ 24.25 | $ 27.75 |
| | Low | $ 22.38 | $ 23.00 | $ 19.63 | $ 19.00 | $ 19.00 |
| | Close | $ 24.00 | $ 23.38 | $ 19.75 | $ 19.38 | $ 19.38 |
| | Volume (000s) | 2,163 | 1,019 | 1,159 | 622 | 4,963 |
| December 1997 | High | $ 22.25 | $ 20.00 | $ 21.75 | $ 18.25 | $ 22.25 |
| | Low | $ 16.50 | $ 16.37 | $ 17.31 | $ 9.00 | $ 9.00 |
| | Close | $ 18.37 | $ 18.93 | $ 17.68 | $ 9.31 | $ 9.31 |
| | Volume (000s) | 3,401 | 915 | 208 | 1,174 | 5,698 |

**Last day of trading on the NASDAQ Stock Market was January 10, 1996.*

***First day of trading on the New York Stock Exchange was January 11, 1996. Volume declines in 1996 over prior years are primarily due to different calculation methods used at the New York Stock Exchange compared to the NASDAQ Stock Market.*

## key wireless statistics

| years ended december 31 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **cellular statistics** | | | | | |
| Subscribers | 1,552,100 | 1,369,600 | 1,049,400 | 793,900 | 573,400 |
| Subscribers to population served | 5.55% | 4.97% | 4.00% | 3.09% | 2.26% |
| Average monthly revenue per subscriber(1) | $ 59 | $ 66 | $ 73 | $ 79 | $ 84 |
| Sales and marketing expense per gross addition | $ 676 | $ 527 | $ 474 | $ 384 | $ 581 |
| Sales and marketing expense per gross addition (cash basis) | $ 752 | $ 649 | $ 587 | $ 392 | $ 581 |
| Average monthly operating expense per subscriber(1)(2) | $ 19 | $ 21 | $ 22 | $ 27 | $ 32 |
| Average monthly usage per subscriber (in minutes) | 213 | 208 | 168 | 158 | 153 |
| % average monthly churn(1) | 1.63% | 1.69% | 2.12% | 1.85% | 1.67% |
| Switches | 19 | 18 | 17 | 17 | 17 |
| Cell sites | 1,462 | 1,133 | 862 | 785 | 746 |
| % of cell sites with digital capacity | 81% | 63% | 64% | 65% | 64% |
| Radio channels | 41,064 | 28,561 | 19,225 | 16,700 | 15,208 |
| **paging statistics** | | | | | |
| Subscribers(3) | 253,600 | 242,800 | 201,800 | 191,800 | 115,400 |
| Average monthly revenue per subscriber(1) | $ 15 | $ 18 | $ 21 | $ 25 | $ 25 |
| Subscribers to population served | 1.05% | 0.98% | 1.04% | 1.00% | 0.61% |

## subscribers by segment(4)

| (% of total subscribers) as at december 31 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Consumer and Safety | 47% | 47% | 40% | 30% | 20% |
| Small Business | 33% | 31% | 35% | 47% | 56% |
| Corporate and Large Business | 20% | 22% | 25% | 23% | 24% |
| | 100% | 100% | 100% | 100% | 100% |

(1) *Based upon a 13 point average.*
(2) *Before sales and marketing expenses.*
(3) *Includes Maclean Hunter Paging subscribers acquired April 1, 1994.*
(4) *Estimate based on telemarketing surveys.*

| years ended december 31 (in thousands of dollars, except per share amounts) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **income statement** | | | | | |
| Total revenue | $ 1,241,329 | $ 1,102,854 | $ 899,521 | $ 750,420 | $ 605,614 |
| Cellular revenue | 1,030,254 | 935,925 | 757,993 | 635,321 | 515,015 |
| Operating income [1] | 386,458 | 342,262 | 306,934 | 282,632 | 190,017 |
| Loss | (378,434) | (67,611) | (42,913) | (1,972) | (151,170) |
| Loss under US GAAP | (412,487) | (55,014) | (43,522) | (31,217) | (179,262) |
| **cash flow** | | | | | |
| Cash flow from operations [2] | $ 244,568 | $ 224,333 | $ 191,870 | $ 178,875 | $ 89,961 |
| – Under US GAAP | 244,568 | 224,333 | 190,940 | 178,875 | 88,982 |
| Capital expenditures | 604,675 | 553,826 | 185,550 | 149,056 | 181,395 |
| **per share** | | | | | |
| Weighted average outstanding number of shares (000s) | 93,404 | 93,897 | 93,894 | 93,894 | 93,894 |
| Loss per share | $ (4.05) | $ (0.72) | $ (0.46) | $ (0.02) | $ (1.61) |
| Loss per share under US GAAP | (4.42) | (0.59) | (0.46) | (0.33) | (1.91) |
| Cash flow per share | 2.62 | 2.39 | 2.04 | 1.91 | 0.96 |
| Cash flow per share under US GAAP | 2.62 | 2.39 | 2.03 | 1.91 | 0.95 |

| as at december 31 (in thousands of dollars) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **balance sheet** | | | | | |
| Total assets | $ 1,956,126 | $ 1,763,917 | $ 1,290,710 | $ 1,219,467 | $ 1,173,028 |
| Fixed assets – net | 1,601,461 | 1,320,588 | 963,171 | 964,212 | 969,895 |
| Goodwill | – | 22,451 | 23,842 | 25,212 | 2,288 |
| Long-term debt | 2,089,140 | 1,589,343 | 1,109,836 | 1,088,048 | 1,033,087 |
| Shareholders' deficiency | (544,374) | (141,207) | (106,152) | (63,305) | (61,333) |

*(1) Before provision for restructuring and asset writedowns and depreciation and amortization.*
*(2) Cash flow from operations before changes in working capital amounts.*

| (in thousands of dollars, except per share amounts) | 1997 quarters dec 31 | sept 30 | june 30 | mar 31 |
|---|---|---|---|---|
| **income statement** | | | | |
| Revenue | | | | |
| Cellular Services | $ 261,702 | $ 269,161 | $ 264,507 | $ 234,884 |
| Equipment Sales | 71,650 | 38,683 | 30,946 | 19,231 |
| Paging and Data Services | 12,387 | 13,034 | 12,745 | 12,399 |
| Interdivisional eliminations | – | – | – | – |
| Total | $ 345,739 | $ 320,878 | $ 308,198 | $ 266,514 |
| Operating income before depreciation and amortization and unusual items: | | | | |
| Cellular Services | $ 83,441 | $ 99,641 | $ 108,489 | $ 87,783 |
| Equipment Sales, Paging Services and Other | 2,278 | 1,867 | 1,128 | 1,831 |
| Total | 85,719 | 101,508 | 109,617 | 89,614 |
| Depreciation and amortization | 68,310 | 61,735 | 61,732 | 64,181 |
| Provision for restructuring and asset writedowns | 335,315 | – | – | – |
| Operating income | (317,906) | 39,773 | 47,885 | 25,433 |
| Interest expense | 42,662 | 33,453 | 31,773 | 30,367 |
| Other expense (income) | 1,417 | (282) | 147 | (279) |
| Loss on early repayment of long-term debt | – | 30,245 | – | – |
| Income taxes | 1,029 | 1,029 | 1,029 | 1,029 |
| Net income (loss) | $ (363,014) | $ (24,672) | $ 14,936 | $ (5,684) |
| Earnings (loss) per share | $ (3.89) | $ (0.27) | $ 0.16 | $ (0.06) |
| Net income (loss) – US GAAP | $ (400,891) | $ (7,418) | $ 12,766 | $ (16,944) |
| Earnings (loss) per share – US GAAP | $ (4.29) | $ (0.08) | $ 0.14 | $ (0.18) |
| Operating income before depreciation and amortization and unusual items, margin %: | | | | |
| Cellular Services | 31.9% | 37.0% | 41.0% | 37.4% |
| Equipment Sales, Paging Services and Other | 2.7% | 3.6% | 2.6% | 5.8% |
| Total | 24.8% | 31.6% | 35.6% | 33.6% |
| Cash flow from operations [1] | $ 42,095 | $ 67,308 | $ 76,668 | $ 58,497 |
| Capital expenditures | 139,255 | 181,648 | 172,566 | 111,206 |
| Long-term debt | 2,089,140 | 2,254,266 | 1,772,655 | 1,644,645 |
| Cellular subscribers | 1,552,127 | 1,489,008 | 1,459,785 | 1,415,779 |
| Paging subscribers | 253,588 | 252,305 | 249,379 | 241,936 |

[1] *Cash flow from operations before changes in working capital amounts.*

| (in thousands of dollars, except per share amounts) | 1996 quarters dec 31 | sept 30 | june 30 | mar 31 |
|---|---|---|---|---|
| **income statement** | | | | |
| Revenue | | | | |
| Cellular Services | $ 248,727 | $ 245,020 | $ 236,999 | $ 205,179 |
| Equipment Sales | 42,140 | 27,673 | 23,260 | 20,604 |
| Paging and Data Services | 13,329 | 13,536 | 13,364 | 13,314 |
| Interdivisional eliminations | (18) | (99) | (87) | (87) |
| Total | $ 304,178 | $ 286,130 | $ 273,536 | $ 239,010 |
| Operating income before depreciation and amortization and unusual items: | | | | |
| Cellular Services | $ 85,860 | $ 88,793 | $ 91,709 | $ 73,094 |
| Equipment Sales, Paging Services and Other | 1,790 | 1,368 | (1,282) | 930 |
| Total | $ 87,650 | $ 90,161 | $ 90,427 | $ 74,024 |
| Depreciation and amortization | 56,172 | 57,662 | 49,693 | 43,530 |
| Provision for restructuring and asset writedowns | – | 20,323 | – | – |
| Operating income | 31,478 | 12,176 | 40,734 | 30,494 |
| Interest expense | 31,607 | 30,161 | 27,608 | 25,519 |
| Other expense (income) | 648 | (355) | (210) | (114) |
| Loss on early repayment of long-term debt | (785) | – | 65,349 | – |
| Income taxes | 750 | 815 | 750 | 750 |
| Net income (loss) | $ (742) | $ (18,445) | $ (52,763) | $ 4,339 |
| Earnings (loss) per share | $ (0.01) | $ (0.20) | $ (0.56) | $ 0.05 |
| Net income (loss) – US GAAP | $ (9,389) | $ (45,624) | $ (2,398) | $ 2,397 |
| Earnings (loss) per share – US GAAP | $ (0.10) | $ (0.49) | $ (0.03) | $ 0.03 |
| Operating income before depreciation and amortization and unusual items, margin %: | | | | |
| Cellular Services | 34.5% | 36.2% | 38.7% | 35.6% |
| Equipment Sales, Paging Services and Other | 3.2% | 3.3% | (3.5)% | 2.7% |
| Total | 28.8% | 31.5% | 33.1% | 31.0% |
| Cash flow from operations[1] | $ 54,646 | $ 59,540 | $ 62,279 | $ 47,868 |
| Capital expenditures | 163,428 | 133,044 | 167,204 | 90,150 |
| Long-term debt | 1,589,343 | 1,434,422 | 1,406,889 | 1,200,172 |
| Cellular subscribers | 1,369,616 | 1,249,760 | 1,186,719 | 1,124,625 |
| Paging subscribers | 242,787 | 229,688 | 219,827 | 207,160 |

[1] *Cash flow from operations before changes in working capital amounts.*

| (in thousands of dollars) | year ended december 31, 1997 | year ended december 31, 1996 |
|---|---|---|
| Revenue (note 10) | $ 1,241,329 | $ 1,102,854 |
| Operating, general and administrative expenses | 845,667 | 751,710 |
| Management fees (note 13(b)) | 9,204 | 8,882 |
| Operating income before the following items: | 386,458 | 342,262 |
| Provision for restructuring and asset writedowns (note 9) | 335,315 | 20,323 |
| Depreciation and amortization | 255,958 | 207,057 |
| Operating income (loss) | (204,815) | 114,882 |
| Interest expense | | |
| Long-term debt | 130,446 | 109,722 |
| Notes payable to Rogers Communications Inc. | 7,750 | 4,881 |
| Other | 59 | 292 |
| Loss on early repayment of long-term debt (notes 6(g) and (h)) | 30,245 | 64,564 |
| Other expense (income) | 1,003 | (31) |
| | 169,503 | 179,428 |
| Loss before income taxes | (374,318) | (64,546) |
| Income taxes (note 11) | 4,116 | 3,065 |
| Loss for the year | $ (378,434) | $ (67,611) |
| Loss per share | $ (4.05) | $ (0.72) |
| Weighted average number of Class A Multiple Voting and Class B Restricted Voting Shares (in thousands) | 93,404 | 93,897 |

Fully diluted earnings per share are not disclosed as they are anti-dilutive.

*See accompanying notes to consolidated financial statements.*

| (in thousands of dollars) | year ended december 31, 1997 | year ended december 31, 1996 |
|---|---|---|
| Funds provided by (used for): | | |
| Operations: | | |
| Loss for the year | $ (378,434) | $ (67,611) |
| Items not affecting funds: | | |
| Depreciation and amortization | 255,958 | 207,057 |
| Provision for restructuring and asset writedowns | 335,315 | 20,323 |
| Loss on early repayment of long-term debt | 30,245 | 64,564 |
| Other | 1,484 | – |
| | 244,568 | 224,333 |
| Changes in: | | |
| Accounts receivable | (42,492) | (48,202) |
| Other assets and deferred charges | (12,777) | (95,812) |
| Accounts payable and accrued liabilities and unearned revenue | 8,944 | 35,779 |
| Amounts due to/from parent and affiliated companies, net | 534 | (10,283) |
| | 198,777 | 105,815 |
| Financing: | | |
| Issue (repayment) of notes payable to Rogers Communications Inc. | 155,500 | (33,000) |
| Issue of long-term debt | 677,180 | 1,082,867 |
| Repayment of long-term debt | (385,361) | (600,889) |
| Financing costs incurred | (18,088) | (28,483) |
| Issue of capital stock and warrants | 929 | 32,556 |
| Purchase of capital stock | (25,662) | – |
| | 404,498 | 453,051 |
| Investments: | | |
| Additions to fixed assets | (604,675) | (553,826) |
| Increase (decrease) in funds | (1,400) | 5,040 |
| Funds deficiency, beginning of year | (13,181) | (18,221) |
| Funds deficiency, end of year | $ (14,581) | $ (13,181) |

Funds are defined as cash and short-term deposits less bank advances.

*See accompanying notes to consolidated financial statements.*

| (in thousands of dollars) | as at december 31, 1997 | as at december 31, 1996 |
|---|---|---|
| **assets** | | |
| Fixed assets (note 3) | $ 1,601,461 | $ 1,320,588 |
| Goodwill (note 9(b)) | – | 22,451 |
| Accounts receivable, net of allowance for doubtful accounts of $49,148 (1996 – $43,061) | 209,978 | 180,134 |
| Deferred charges (note 4) | 82,555 | 156,518 |
| Other assets (note 5) | 62,132 | 83,927 |
| Due from parent and affiliated companies (note 13(a)) | – | 299 |
| | $ 1,956,126 | $ 1,763,917 |
| **liabilities and shareholdersÕ deficiency** | | |
| Liabilities: | | |
| Bank advances, arising from outstanding cheques | $ 14,581 | $ 13,181 |
| Long-term debt (note 6) | 1,864,640 | 1,520,343 |
| Notes payable to Rogers Communications Inc. (note 7) | 224,500 | 69,000 |
| Accounts payable and accrued liabilities | 348,305 | 262,020 |
| Due to parent and affiliated companies (note 13(a)) | 235 | – |
| Unearned revenue | 48,239 | 40,580 |
| | 2,500,500 | 1,905,124 |
| Shareholders' deficiency: | | |
| Capital stock (note 8) | 449,158 | 449,082 |
| Warrants (note 8(c)) | 32,500 | 32,500 |
| Deficit | (1,026,032) | (622,789) |
| | (544,374) | (141,207) |
| | $ 1,956,126 | $ 1,763,917 |

Commitments (note 15)

Contingent liabilities (note 16).

Canadian and United States accounting policy differences (note 17)

*See accompanying notes to consolidated financial statements.*

On behalf of the Board:

EDWARD S. ROGERS
Director

CHARLES E. HOFFMAN
Director

## CONSOLIDATED STATEMENTS OF DEFICIT

| (in thousands of dollars) | year ended december 31, 1997 | year ended december 31, 1996 |
|---|---|---|
| Deficit, beginning of year | $ 622,789 | $ 555,178 |
| Adjustment arising on purchase of Class B Restricted Voting Shares (note 8(b)) | 24,809 | – |
| Loss for the year | 378,434 | 67,611 |
| Deficit, end of year | $ 1,026,032 | $ 622,789 |

*See accompanying notes to consolidated financial statements.*

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Rogers Cantel Mobile Communications Inc. as at December 31, 1997 and 1996 and the consolidated statements of income, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles in Canada.

Generally accepted accounting principles in Canada differ in some respects from those applicable in the United States (note 17).

KPMG

KPMG

Toronto, Canada
January 29, 1998

Chartered Accountants

## 1. NATURE OF BUSINESS

Rogers Cantel Mobile Communications Inc. (the "Company") is a public company 81% owned directly and indirectly by Rogers Communications Inc. ("RCI").

The Company currently offers analog and Digital PCS cellular, paging and wireless data communications services nationwide and operates under cellular licences and a Personal Communication Services ("PCS") licence issued by Industry Canada. The cellular and PCS licences are renewable in 2001.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### `. consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

### b. capitalization policy

Fixed assets are recorded at purchase cost. Repairs and maintenance expenditures are charged to operations. During construction of the cellular telephone network, direct costs plus a portion of overhead costs are capitalized.

### c. depreciation

Fixed assets are depreciated annually over their estimated useful lives as follows:

| asset | basis | rate |
|---|---|---|
| Buildings | Diminishing balance | 5% |
| Network equipment | Straight line | 6⅔% to 20% |
| Network radio channels | Straight line | 12½% |
| Computer equipment and software | Straight line | 25% to 33⅓% |
| Furniture, fixtures and office equipment | Diminishing balance | 20% |
| Leasehold improvements | Straight line over the term of the lease | |
| Other equipment | Mainly straight line | 20% to 33⅓% |

Effective January 1, 1998 the Company revised the estimated useful lives of switch equipment and will depreciate switch hardware over ten years and switch software over five years on a straight line basis (note 9).

### d. foreign exchange

Long-term debt denominated in United States dollars is translated into Canadian dollars at the year-end rate of exchange, or at the hedge rate of exchange when cross-currency interest exchange agreements are in effect. Exchange gains or losses on translating this long-term debt are deferred and amortized on a straight line basis over the remaining life of the debt. All other exchange gains or losses are included in income.

### e. financial instruments

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. These instruments include cross-currency interest rate exchange agreements, interest exchange agreements and foreign exchange option agreements. All such instruments are only used for risk management purposes and are designated as hedges of specific debt instruments. The Company accounts for these financial instruments as hedges and as a result the carrying values of the financial instruments are not adjusted to reflect their current market values. The net receipts or payments arising from financial instruments relating to interest are recognized in interest expense on an accrual basis. Gains or losses arising from the translation of U.S. dollar denominated debt under the cross-currency interest rate exchange agreements are deferred and amortized on a straight line basis over the remaining life of the cross-currency interest rate exchange agreements.

### f. deferred charges

The costs of obtaining bank and other debt financing are deferred and amortized on a straight line basis over the effective life of the debt to which they relate.

### g. goodwill

Goodwill is amortized on a straight line basis over its estimated useful life of twenty years. Amortization of goodwill for 1997 amounted to $1,305,000 (1996 – $1,305,000). The Company annually reviews the carrying value of goodwill to determine if an impairment has occurred. The Company measures the potential impairment of goodwill by comparing the carrying value to the undiscounted value of expected future operating cash flows.

At December 31, 1997, the Company wrote off the unamortized balance of goodwill related to the paging business, amounting to $21,100,000 (note 9(b)).

### h. unearned revenue

Unearned revenue includes subscriber deposits and amounts received from subscribers related to services to be provided in future periods

### i. pensions

Pension expense consists of the aggregate of (a) the actuarially computed costs of pension benefits provided in respect of the current year's service, (b) imputed interest on any funding excess and (c) the amortization over the expected average remaining service life of the employees of (i) the funding excess existing as at the beginning of the year and (ii) any experience gain or loss during the year.

### j. segmented information

The Company considers its cellular services operations, which includes analog and Digital PCS services, to be one industry segment. The paging and other operations are not significant enough to be considered separately reportable industry segments. All of the Company's principal businesses are carried out in Canada.

### k. use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## 3. FIXED ASSETS

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Land and buildings | $ 97,323 | $ 66,059 |
| Network equipment | 1,374,659 | 1,146,999 |
| Network radio channels | 904,795 | 726,510 |
| Computer equipment and software | 225,130 | 189,269 |
| Furniture, fixtures and office equipment | 52,230 | 49,946 |
| Leasehold improvements | 25,728 | 24,644 |
| Other equipment | 17,354 | 47,251 |
| | 2,697,219 | 2,250,678 |
| Less accumulated depreciation and amortization | 1,095,758 | 930,090 |
| | $ 1,601,461 | $ 1,320,588 |

The Company has a significant ongoing capital expenditure program for the expansion and improvement of its networks. The Company estimates that its capital expenditure program for 1998 will amount to approximately $300,000,000.

## 4. DEFERRED CHARGES

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Foreign exchange loss, less accumulated amortization of $2,163 (1996 – $13,906) | $ 40,501 | $ 22,038 |
| Financing costs, less accumulated amortization of $3,675 (1996 – $10,773) | 41,984 | 33,257 |
| Subscriber telephone costs (1996 – at cost less accumulated amortization of $94,664) (note 9) | – | 97,058 |
| Other | 70 | 4,165 |
| | $ 82,555 | $ 156,518 |

In connection with the early repayment of certain long-term debt the Company recorded losses of $30,245,000 in 1997 (1996 – $64,564,000), including the write-off of deferred foreign exchange of $18,424,000 (1996 – $27,141,000) and deferred financing costs of $2,754,000 (1996 – $6,894,000).

Amortization of deferred charges for 1997 amounted to $97,156,000 (1996 – $74,156,000). Of this amount, $86,434,000 (1996 – $63,718,000) relates to amortization of the subscriber telephone costs which has been recorded in operating, general and administrative expenses.

In 1997 the Company wrote off subscriber telephone and other deferred costs of $148,700,000 (note 9).

## 5. OTHER ASSETS

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Brand licence costs, less accumulated amortization of $2,730 (1996 – $210) | $ 35,070 | $ 37,590 |
| Amounts receivable from employees under RCI share purchase plans including $879 from officers of the Company (1996 – $1,142) | 1,723 | 2,487 |
| Inventories | 5,038 | 23,544 |
| Prepaid expenses | 15,651 | 14,797 |
| Miscellaneous notes and loans receivable from employees | 3,831 | 3,206 |
| Other | 819 | 2,303 |
| | $ 62,132 | $ 83,927 |

During 1997, the Company wrote down investments in the amount of $1,484,000 in foreign wireless companies that are not publicly traded, to a nominal amount.

In 1996, the Company entered into a brand licence agreement with AT&T Canada Enterprises Inc. ("AT&T") providing the Company with, among other things, the right to the use of the AT&T brand names. As consideration for entering into this agreement, the Company issued warrants to AT&T at a value of $32,500,000 (note 8(c)). The consideration given to AT&T together with the incremental costs of entering into the brand licence agreement amounted to $37,800,000 and are being deferred and amortized on a straight line basis to income over the fifteen year term of the brand licence agreement. In 1997, the amortization of the brand licence cost was $2,520,000 (1996 – $210,000). Accumulated amortization as at December 31, 1997 amounted to $2,730,000 (1996 – $210,000). The brand licence agreement also requires the Company to make certain annual royalty payments over the term of the agreement (note 15(b)).

## 6. LONG-TERM DEBT

| (in thousands of dollars) | interest rate | 1997 | 1996 |
|---|---|---|---|
| Bank loan | Floating | $ 75,000 | $ 172,000 |
| Senior Secured Notes due 2006 | 10½% | 160,000 | 160,000 |
| Senior Secured Notes due 2007 | 8.30% | 393,003 | – |
| Senior Secured Debentures due 2008 | 9⅜% | 644,975 | 637,538 |
| Senior Secured Debentures due 2016 | 9¾% | 250,093 | 239,680 |
| Senior Subordinated Notes due 2007 | 8.80% | 307,257 | – |
| Senior Subordinated Guaranteed Notes | 11⅛% | – | 273,920 |
| Obligations under mortgages, capital leases and other | Various | 34,312 | 37,205 |
| | | $ 1,864,640 | $ 1,520,343 |

Further details of long-term debt are as follows:

### a. bank loan

During 1997, the Company amended and increased its credit facility to $800,000,000 of which $75,000,000 was outstanding at December 31, 1997 (1996 – $172,000,000).

Under the credit facility, the Company may borrow at various rates including the bank prime rate to the bank prime rate plus ¾% per annum, the bankers' acceptance rate plus ¾% to 1½% per annum and the London Inter Bank Offered Rate ("LIBOR") plus ¾% to 1½% per annum. Access to the credit facility is based on certain maintenance tests, the most restrictive of which relates to a debt to operating cash flow ratio.

This credit facility is available on a fully revolving basis until the first date specified below, at which time the facility becomes a revolving/reducing facility and the aggregate amount of credit available under the facility will be reduced as follows:

| date of reduction | reduction at each date (in thousands of dollars) |
|---|---|
| On January 2: | |
| 2001 | $ 120,000 |
| 2002 | 160,000 |
| 2003 | 160,000 |
| 2004 | 160,000 |
| 2005 | 200,000 |

The credit facility requires that any additional senior debt (other than the bank loan described above) that is denominated in a foreign currency be hedged against foreign exchange fluctuations on a minimum of 50% of such additional senior borrowings in excess of the Canadian equivalent of US$25,000,000.

Borrowings under the credit facility are secured by the pledge of a senior bond issued under a deed of trust which is secured by substantially all the assets of the Company and certain of its subsidiaries, subject to certain exceptions and prior liens.

### b. senior secured notes due 2006

The Company's $160,000,000 Senior Secured Notes mature on June 1, 2006. These notes are redeemable in whole or in part, at the option of the Company, at any time subject to a prepayment premium.

### c. senior secured notes due 2007

The Company's US$275,000,000 Senior Secured Notes mature on October 1, 2007. These notes are redeemable in whole or in part, at the option of the Company, on or after October 1, 2002 at 104.15% of the principal amount, declining ratably to 100% of the principal amount on or after October 1, 2005 plus, in each case, interest accrued to the redemption date.

### d. senior secured debentures due 2008

The Company's US$510,000,000 Senior Secured Debentures mature on June 1, 2008. These debentures are redeemable at the option of the Company, in whole or in part, at any time on or after June 1, 2003, at 104.688% of the principal amount, declining ratably to 100% of the principal amount on or after June 1, 2006 plus, in each case, interest accrued to the redemption date.

### e. senior secured debentures due 2016

The Company's US$175,000,000 Senior Secured Debentures mature on June 1, 2016. These debentures are redeemable in whole or in part, at the option of the Company, at any time, subject to a prepayment premium.

Each of the Company's senior secured notes and debentures described above are secured by the pledge of a senior bond which is secured by the same security as the security for the bank credit facility described in (a) above and ranks equally with the bank credit facility.

### f. senior subordinated notes due 2007

The Company's US$215,000,000 Senior Subordinated Notes mature on October 1, 2007. These notes are redeemable in whole or in part, at the option of the Company, on or after October 1, 2002 at 104.40% of the principal amount declining ratably to 100% of the principal amount on or after October 1, 2005 plus, in each case, interest accrued to the redemption date. The subordinated notes are subordinated to all existing and future senior secured obligations of the Company (including the bank loan, the senior notes and senior debentures). The subordinated notes are not secured by the pledge of a senior bond.

### g. senior subordinated guaranteed notes

The Company's US$200,000,000 Senior Subordinated Guaranteed Notes were repaid during 1997. As a result, the Company paid a premium on redemption of $9,067,000 and wrote-off deferred financing costs of $2,754,000 and deferred foreign exchange costs of $18,424,000 resulting in a net loss on repayment of $30,245,000.

## h. senior secured guaranteed notes

During 1996, the Company's US$460,000,000 Senior Secured Guaranteed Notes were repaid. As a result, the Company paid a premium on redemption of $30,529,000 and wrote off deferred financing costs of $6,894,000 and deferred foreign exchange costs of $27,141,000 resulting in a net loss on repayment of $64,564,000.

Interest is payable semi-annually on all of the senior secured notes and debentures and senior subordinated notes.

## i. interest exchange agreements

*i.* The Company has entered into a number of cross-currency interest rate exchange agreements in order to reduce the Company's exposure to changes in the exchange rate of the U.S. dollar as compared to the Canadian dollar. Total U.S. dollar denominated long-term debt at December 31, 1997, amounted to US$1,175,000,000 of which US$385,000,000 or 33% is hedged through cross-currency interest rate exchange agreements. The effect of these agreements is to convert the obligation of the Company to service U.S. dollar denominated debt in the amount of US$385,000,000 into Canadian dollar denominated debt at an average exchange rate of 1.2113 Canadian dollars to US$1.00. The obligation of the Company to the counterparties under these cross-currency interest exchange agreements is secured by senior bonds ranking equally with other senior bonds issued.

In addition, during 1997 the Company began to utilize short-term foreign exchange options to augment its hedged position with respect to foreign exchange fluctuations. At December 31, 1997, the Company has hedged US$100,000,000 by selling a call option at an exchange rate of CDN$1.3750 to US$1.00 and simultaneously purchasing a put option at an exchange rate of CDN$1.4800 to US$1.00. These foreign exchange options expire March 31, 1998.

*ii.* The cross-currency interest rate exchange agreements have the effect of converting the interest rate on US$385,000,000 of long-term debt from a fixed interest rate of 9⅜% per annum to a weighted average floating interest rate equal to the bankers' acceptance rate plus 2.357% per annum, which totalled 6.635% at December 31, 1997. While this has the effect of converting $466,338,000 of fixed rate debt to floating rate debt, the Company has entered into an agreement with RCI, under which the Company will obtain the benefit of certain of RCI's interest exchange agreements. These interest exchange agreements have the effect of limiting the interest rates on up to $310,000,000 of floating rate debt of the Company based upon reference interest rates varying from 10.5% to 12.39%. These interest exchange agreements will be transferred to the Company at such time as fixed interest rates available to the Company equal or exceed the fixed interest rates under RCI's interest exchange agreements. The Company guarantees RCI's obligations under the interest exchange agreements. The obligations of the Company under the guarantee are secured by the pledge of senior bonds ranking equally with other senior bonds issued under a deed of trust.

Total long-term debt at fixed interest rates as at December 31, 1997, was $1,323,300,000 (1996 – $882,005,000) or 71% (1996 – 58%) of long-term debt. The effective weighted average interest rate on all long-term debt as at December 31, 1997, including the effect of the cross-currency interest rate exchange agreements, was 8.34% (1996 – 7.98%).

As at December 31, 1997 principal repayments due within each of the next five years on all long-term debt are as follows:

| (in thousands of dollars) | |
|---|---|
| Year ending December 31: | |
| 1998 | $ 4,002 |
| 1999 | 4,161 |
| 2000 | 793 |
| 2001 | 994 |
| 2002 | 629 |
| | 10,579 |
| Thereafter | 1,854,061 |
| | $ 1,864,640 |

The long-term debt agreements entered into by the Company contain certain provisions which restrict the operations and activities of the Company, the most restrictive of which pertain to debt incurrence and maintenance tests, additional investments, sale of assets, payment of dividends and the payment of principal or interest on certain subordinated debt. In addition, the repayment dates of certain debt agreements accelerate if there is a change in control of the Company.

## 7. NOTES PAYABLE TO ROGERS COMMUNICATIONS INC.

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Subordinated, unsecured promissory notes, payable on demand, bearing interest at the bank prime rate | $ 224,500 | $ 69,000 |

## 8. CAPITAL STOCK

### authorized

There are an unlimited number of authorized preferred shares without par value, issuable in series, with rights and terms of each series to be fixed by the Board of Directors prior to the issue of the series.

There are two classes of common shares, all of which have an unlimited number of authorized shares and are without par value.

The Class A Multiple Voting Shares are entitled to ten votes per share and are convertible on a one-for-one basis into Class B Restricted Voting Shares.

The Class B Restricted Voting Shares are entitled to one vote per share.

### issued and outstanding

| (in thousands of dollars, except number of shares) | 1997 | 1996 |
|---|---|---|
| 75,133,806 Class A Multiple Voting Shares | $ 433,997 | $ 433,997 |
| 17,823,665 Class B Restricted Voting Shares (1996 – 18,791,920 shares) | 15,745 | 16,014 |
| | 449,742 | 450,011 |
| Deduct amounts receivable from employees under certain share purchase plans | (584) | (929) |
| | $ 449,158 | $ 449,082 |

a. At December 31, 1997, there were options outstanding to purchase 1,139,790 Class B Restricted Voting Shares at exercise prices ranging from $15.61 to $40.22 per share. These options expire at various dates between 1998 and 2007.

At the Company's annual and special meeting of shareholders held May 1, 1997, the shareholders approved a resolution changing the designation of the Company's Class B Subordinate Voting Shares to Class B Restricted Voting Shares.

b. During 1997, the Company completed the following capital stock transactions:
*i.* Purchased for cancellation in the open market 1,000,000 Class B Restricted Voting Shares at a total cost of $25,662,000. The difference between the carrying value of the Class B Restricted Voting Shares and the purchase price, amounting to $24,809,000 has been recorded as an adjustment to the deficit account.

*ii.* 31,745 Class B Restricted Voting Shares were issued to the trustee of the Company's employee share purchase plan at a value of $584,000.

c. During 1996 the Company issued 1,043,171 warrants at a value of $32,500,000 as consideration for entering into a brand licence agreement (note 5). Each warrant entitles the holder, when exercised, to one Class B Restricted Voting share of the Company. The warrants are exercisable at certain times during the term of the brand licence agreement and expire if not exercised by 2006.

d. RCI owns 100% of the Class A Multiple Voting Shares; the Class B Restricted Voting Shares are publicly held.

e. The articles of incorporation of the Company impose restrictions on the issuance or transfer of any shares of the Company where such issuance or transfer would, in the opinion of the Board of Directors of the Company, jeopardize the ability of the Company to obtain, renew or maintain licences relating to its business.

## 9. PROVISION FOR RESTRUCTURING AND ASSET WRITEDOWNS

During the fourth quarter of 1997, the Company completed its annual review of the carrying value of certain assets and undertook a review of its cost structure which resulted in a provision for restructuring and asset writedowns comprised of the following:

(in thousands of dollars)

| | |
|---|---|
| (a) Provision for restructuring | $ 101,500 |
| (b) Writedown of carrying value of fixed assets and goodwill | 85,115 |
| (c) Write-off of deferred subscriber telephone and other costs | 148,700 |
| | $ 335,315 |

a. The Company has developed a restructuring plan to reduce operating costs and has recorded a provision totalling $101,500,000 which includes amounts principally for severance and lease cancellation costs and fixed asset write-offs related to facilities closings. It is anticipated that this restructuring will be completed in 1998.

b. As a result of the effect of increased competition in the wireless communications industry and the reduced technological life of certain fixed assets, the recoverability of the carrying value of certain cellular fixed assets and goodwill relating to the paging business from future cash flows is less certain than was previously the case. Therefore, the Company has written down the carrying value of these fixed assets by $64,015,000 and has written off the carrying value of goodwill in the amount of $21,100,000.

In addition, to respond to these changed conditions, the Company has reduced the estimated useful life for depreciation purposes of the switch equipment from 15 years straight line to 10 years for hardware and 5 years for software using the straight line method. This change in estimated useful life will be applied prospectively commencing January 1, 1998.

c. The Company has been deferring certain subscriber telephone costs and amortizing these costs over the term of the subscriber contracts. Recent trends in the wireless communications industry indicate that a combination of shorter term and no term subscriber contracts will become the prevalent arrangements with subscribers. This trend is expected to continue. As a result, the Company has determined that the recovery of these deferred subscriber telephone costs in future periods is less certain and therefore it is more appropriate to expense subscriber telephone costs in the period in which they are incurred. Accordingly, the Company has written off the balance of deferred subscriber telephone costs as at December 31, 1997, in the amount of $148,700,000. The Company will expense the costs of subscriber telephones as incurred, effective January 1, 1998. This accounting is consistent with that generally followed in the wireless industry.

d. During 1996, the Company wrote down to net realizable value certain first generation digital telephones. This writedown amounted to $16,723,000. In addition, the Company recorded a provision for store closures amounting to $3,600,000 related to the closing of several corporate-owned retail outlets.

## 10. DIVISIONAL OPERATIONS

The Company provides cellular and paging services to subscribers in Canada. Revenue is also derived from the sale of paging and cellular equipment.

The following is certain supplementary data for these operations:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Revenue derived from: | | |
| Cellular services | $ 1,030,254 | $ 935,925 |
| Equipment sales | 160,510 | 113,677 |
| Paging and data services | 50,565 | 53,543 |
| Less interdivisional eliminations | – | (291) |
| | $ 1,241,329 | $ 1,102,854 |
| Operating income before provision for restructuring, asset writedowns and depreciation and amortization: | | |
| Cellular services | $ 379,354 | $ 339,456 |
| Equipment sales, paging services and other | 7,104 | 2,806 |
| | $ 386,458 | $ 342,262 |

## 11. INCOME TAXES

Total income taxes vary from the amounts that would be computed by applying the effective income tax rate to the loss before income taxes for the following reasons:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Effective income tax rate | 44% | 44% |
| Income tax on the loss before income taxes | $ (164,700) | $ (28,400) |
| Increase results from: | | |
| Losses, the tax effect of which has not been recorded | 143,590 | 11,375 |
| Non-deductible amortization and write-off of deferred foreign exchange | 10,820 | 15,850 |
| Other | 10,290 | 1,175 |
| Large corporations tax | 4,116 | 3,065 |
| Actual income tax expense | $ 4,116 | $ 3,065 |

As at December 31, 1997 the Company has the following amounts available to reduce future years' income for income tax purposes, the tax effect of which has not been recorded in the accounts:

| (in thousands of dollars) | |
|---|---|
| Year ending December 31: | |
| 1998 | $ 62,300 |
| 1999 | 120,800 |
| 2000 | 78,000 |
| 2001 | 72,500 |
| 2002 | 70,900 |
| 2003 | 6,000 |
| 2004 | 190,000 |
| | 600,500 |
| Add scientific research and development expenditures available on a tax filing basis | 51,100 |
| Add depreciation and other expenditures recorded for accounting purposes in excess of those claimed for income tax purposes | 47,900 |
| | $ 699,500 |

## 12. PENSIONS

The Company participates in a contributory defined benefit pension plan which covers substantially all of its employees. These plans provide pensions based on years of service, years of contribution and average earnings.

Actuarial estimates prepared as at December 31, 1997 and 1996, were based on projections of employees' compensation levels to the time of retirement and indicate that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market, are as follows:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Pension fund assets | $ 20,939 | $ 16,747 |
| Accrued pension benefits | 15,525 | 14,737 |

Pension expense for 1997 amounted to $283,000 (1996 – $360,000).

## 13. RELATED PARTY TRANSACTIONS

a. The amount due to (from) parent and affiliated companies is comprised of the following:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| RCI | $ 440 | $ (36) |
| Rogers Cablesystems Limited ("Cablesystems") | 148 | (9) |
| Rogers Telecom Inc. | (353) | (254) |
| | $ 235 | $ (299) |

The above amounts reflect short-term intercompany charges for capital and operating expenditures.

b. The Company has entered into certain transactions and agreements with RCI and its affiliates, as follows:

*i. Management Fees*

The Company has entered into a management agreement under which RCI provides executive, administrative, financial and various additional services to the Company. Interest is charged by RCI on unpaid management fees. The management agreement is subject to termination by either party at the end of any calendar year on twelve months' notice.

*ii. Cost Sharing Arrangements*

The Company has entered into agreements with Cablesystems to share, on a pro rata basis, the cost of certain microwave and fibre-optic transmission facilities. In addition, long-term service arrangements exist with Cablesystems for transmission services.

*iii. Interest Exchange Agreements*

The Company has entered into an agreement with RCI with respect of certain interest exchange agreements as described in note 6(i).

A summary of all significant related party transactions which have been accounted for at exchange amounts, is as follows:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| RCI: | | |
| Management fees | $ 9,204 | $ 8,882 |
| Interest on notes payable | 7,750 | 4,881 |
| Other charges, net | 190 | 301 |
| | 17,144 | 14,064 |
| Cablesystems: | | |
| Transmission facilities purchased | 328 | 323 |
| Other charges | 4,412 | (307) |
| | 4,740 | 16 |
| | $ 21,884 | $ 14,080 |

## 14. FINANCIAL INSTRUMENTS

### a. fair values

The Company has determined the fair values of its financial instruments as follows:

*i. Accounts receivable, amounts receivable from employees under RCI share purchase plans, miscellaneous notes and loans receivable from employees, due to/from parent and affiliated companies, bank advances, accounts payable and accrued liabilities and notes payable to RCI*

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

*ii. Long-Term Debt*

The fair values of each of the Company's long-term debt instruments are based on the current trading values, where available, or where not available, with reference to similarly traded instruments with similar features.

*iii. Interest Exchange Agreements and Foreign Exchange Options*

The fair values of the Company's interest exchange agreements, cross-currency interest rate exchange agreements and foreign exchange options are based on values quoted by the counterparties to the agreements.

The estimated fair values of the Company's long-term debt and related interest exchange agreements as at December 31, 1997 and 1996, are as follows:

| (in thousands of dollars) | 1997 | | 1996 | |
|---|---|---|---|---|
| | carrying amount | estimated fair value | carrying amount | estimated fair value |
| Long-term debt | $ 1,948,506 | $ 2,024,815 | $ 1,581,301 | $ 1,661,843 |
| Cross-currency interest rate exchange agreements | (83,866) | (129,363) | (60,958) | (82,789) |
| | $ 1,864,640 | $ 1,895,452 | $ 1,520,343 | $ 1,579,054 |

The estimated fair value of the foreign exchange options at December 31, 1997, was $270,000.

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 judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### b. other disclosures

*i.* The credit risk of the interest rate exchange agreements and cross-currency interest rate exchange agreements arises from the possibility that the counterparties to the agreements may default under their obligations in instances where those agreements have a positive fair value to the Company. The Company assesses the credit worthiness of the counterparties in order to minimize the risk of counterparty default under the agreements. Currently, all of the portfolio is held by financial institutions with a Standard & Poor's rating (or the equivalent) of AA.

*ii.* The Company does not require collateral or other security to support the credit risk associated with the interest rate exchange agreements and cross-currency interest rate exchange agreements due to the Company's assessment of the credit worthiness of the counterparties.

*iii.* The Company does not have any significant concentrations of credit risk related to any financial asset.

## 15. COMMITMENTS

a. The Company is committed, under the term of its licensing agreements, to spend 2% of certain revenues earned in each year on research and development activities as defined by Industry Canada.

b. The Company is committed, under the terms of its brand licence agreement with AT&T, to make minimum annual royalty payments based on certain revenues at varying rates, with a minimum of $5,000,000 per year.

c. The future minimum lease payments under operating leases for the rental of premises, distribution facilities, equipment and microwave towers as at December 31, 1997, are as follows:

(in thousands of dollars)

| | |
|---|---|
| Year ending December 31: | |
| 1998 | $ 27,383 |
| 1999 | 23,841 |
| 2000 | 12,756 |
| 2001 | 10,272 |
| 2002 | 9,148 |
| 2003 and subsequent years | 28,035 |
| | $ 111,435 |

Rent expense for 1997 amounted to $33,168,000 (1996 – $27,199,000).

## 16. CONTINGENT LIABILITIES

The Company has been named as a co-defendant in a $62,000,000 lawsuit brought on by a distributor of electronic equipment, alleging the defendants pursued predatory pricing policies in contravention of competition legislation. Management is defending this claim and believes it is without merit.

There exist certain other legal actions against the Company, none of which is expected to have a material adverse effect on the consolidated financial position of the Company.

## 17. CANADIAN AND UNITED STATES ACCOUNTING POLICY DIFFERENCES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In certain respects, GAAP as applied in the United States differs from that applied in Canada.

If United States GAAP were employed, the loss for the year would be adjusted as follows:

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Loss for the year based on Canadian GAAP | $ (378,434) | $ (67,611) |
| Amortization of goodwill (b) | (19,269) | (19,269) |
| Foreign exchange (e) | (36,887) | 5,133 |
| Loss on early repayment of long-term debt (f) | 18,424 | 27,141 |
| Depreciation expense (g) | (408) | (408) |
| Development costs capitalized (d) | 4,087 | – |
| Loss for the year based on United States GAAP | $ (412,487) | $ (55,014) |
| Weighted average number of shares under United States GAAP | 93,404 | 93,897 |
| Weighted average loss per share under United States GAAP: | | |
| Before extraordinary items (f) | $ (4.29) | $ (0.19) |
| After extraordinary items | $ (4.42) | $ (0.59) |

Condensed consolidated balance sheets prepared in accordance with United States GAAP are as follows:

| december 31, 1997 (in thousands of dollars) | canadian gaap | adjustments | united states gaap |
|---|---|---|---|
| Assets: | | | |
| Fixed assets | $ 1,601,461 | $ 6,137 (c) | $ 1,602,782 |
| | | (1,673)(d) | |
| | | (3,143)(g) | |
| Goodwill | | 770,757 (a) | 598,943 |
| | | (171,814)(b) | |
| Other assets | 354,665 | 505 (d) | 314,669 |
| | | (40,501)(e) | |
| | $ 1,956,126 | | $ 2,516,394 |
| Liabilities | $ 2,500,500 | | $ 2,500,500 |
| Shareholders' equity (deficiency) | (544,374) | 770,757 (a) | 15,894 |
| | | (171,814)(b) | |
| | | 6,137 (c) | |
| | | (1,168)(d) | |
| | | (40,501)(e) | |
| | | (3,143)(g) | |
| | $ 1,956,126 | | $ 2,516,394 |

| december 31, 1996 (in thousands of dollars) | canadian gaap | adjustments | united states gaap |
|---|---|---|---|
| Assets: | | | |
| Fixed assets | $ 1,320,588 | $ 6,137 (c) | $ 1,322,317 |
| | | (1,673)(d) | |
| | | (2,735)(g) | |
| Goodwill | 22,451 | 770,757 (a) | 640,662 |
| | | (152,546)(b) | |
| Other assets | 420,878 | (3,582)(d) | 395,258 |
| | | (22,038)(e) | |
| | $ 1,763,917 | | $ 2,358,237 |
| Liabilities | $ 1,905,124 | | $ 1,905,124 |
| Shareholders' equity (deficiency) | (141,207) | 770,757 (a) | 453,113 |
| | | (152,546)(b) | |
| | | 6,137 (c) | |
| | | (5,255)(d) | |
| | | (22,038)(e) | |
| | | (2,735)(g) | |
| | $ 1,763,917 | | $ 2,358,237 |

The areas of material difference between Canadian and United States GAAP and their impact on the consolidated financial statements are described below:

## a. "push-down" accounting

Under United States GAAP, purchase transactions that result in an entity becoming a wholly owned subsidiary establish a new basis of accounting for the entity purchased and its assets and liabilities. As a result of RCI's acquisition of 100% of the Company in 1989, the Company must record as an asset, in its consolidated financial statements, the amount of goodwill that was recorded on the consolidated financial statements of RCI. As this acquisition was financed principally by the parent company with proceeds from other asset sales, the corresponding adjustment for the assets recorded was an increase in shareholders' equity.

At the time of the acquisition by RCI, Canadian GAAP did not permit a subsidiary company to alter the historical costs of its assets or liabilities upon it being acquired.

## b. amortization of goodwill

As a result of the "push-down" accounting described in (a) above, the Company is required under United States GAAP to amortize the amount recorded as goodwill. The Company is amortizing this amount under United States GAAP over 40 years on a straight line basis.

## c. interest capitalization

Prior to 1991, the Company did not capitalize interest as a cost of assets under construction. United States GAAP requires capitalization of interest costs as a part of the historical cost of acquiring certain qualifying assets which require a period of time to prepare for their intended use. Interest is capitalized only during the period the assets are under construction.

## d. development costs

Canadian GAAP permits the capitalization of certain internal costs related to the development of new businesses. Under United States GAAP, such development costs would be charged to expense as incurred.

### e. foreign exchange

United States GAAP requires that gains and losses on foreign exchange resulting from the translation of long-term debt denominated in United States dollars be charged to income and expense when incurred. Canadian GAAP requires the amortization of foreign exchange gains or losses over the remaining life of the long-term debt.

### f. loss on early repayment of long-term debt

Under United States GAAP, the loss on early repayment of long-term debt would be reduced by the write-off of deferred foreign exchange in the amount of $18,424,000 (1996 – $27,141,000). In addition, the loss would be classified as an extraordinary item for United States GAAP purposes.

### g. depreciation expense

As a result of the capitalization of interest to fixed assets required under United States GAAP described in (c) above, under United States GAAP, additional depreciation on the interest capitalized will be recorded in later periods.

### h. operating income before depreciation and amortization

United States GAAP requires that depreciation and amortization and the provision for restructuring and asset writedowns be included in the determination of operating income and does not permit the disclosure of a subtotal of the amount of operating income before these items. Canadian GAAP permits the disclosure of a subtotal of the amount of operating income before the items referred to above.

### i. income taxes

United States GAAP requires that deferred income taxes be accounted for under the liability method, whereas Canadian GAAP requires the use of the deferral method. The difference between these two methods does not have a material effect on the amount of deferred income taxes recorded in the consolidated financial statements.

The Company has net taxable temporary differences, as defined under United States GAAP, of approximately $99,000,000 at December 31, 1997, primarily related to scientific research and development expenditures and the excess of depreciation expense of fixed assets for accounting purposes over depreciation expense claimed for tax purposes. In addition, the Company has incurred losses for income tax purposes in the amount of approximately $699,500,000 at December 31, 1997. United States GAAP requires that in order to record the tax effect of the losses, the realization of the losses must be more likely than not. The Company has recorded a deferred tax asset which has been reduced by a valuation allowance so that the net deferred tax asset is equal to the deferred tax liability arising from the net taxable temporary differences. This results in no amount of deferred income taxes being recorded on the consolidated balance sheet for United States GAAP purposes.

### j. stock based compensation

The Company measures compensation expense relating to employee stock option plans for United States GAAP purposes using the intrinsic value method specified by APB Opinion No. 25 which in the Company's circumstances would not be materially different from compensation expense as determined under Canadian GAAP.

### k. statement of changes in financial position

The following disclosure of cash flows provided by operating activities of the Company for 1997 and 1996 has been prepared in accordance with United States GAAP in conformity with the Financial Accounting Standards Board ("FASB") Statement Number 95, Statement of Cash Flows.

| (in thousands of dollars) | 1997 | 1996 |
|---|---|---|
| Loss before extraordinary items for the year | $ (400,666) | $ (17,591) |
| Adjustments to reconcile the loss for the year to net cash provided by operating activities: | | |
| Depreciation and amortization | 269,421 | 220,271 |
| Provision for restructuring and asset writedowns | 332,115 | 20,323 |
| Foreign exchange loss | 42,214 | 1,330 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (42,492) | (48,202) |
| Increase in other assets | (12,777) | (128,312) |
| Increase in accounts payable and accrued liabilities and unearned revenue | 8,944 | 35,779 |
| Increase (decrease) in amounts due from parent and affiliated companies, net | 534 | (10,283) |
| Other | 1,484 | – |
| Net cash provided by operating activities | $ 198,777 | $ 73,315 |

Additional differences between Canadian and United States GAAP relating to the statement of changes in financial position are as follows:

*i.* Canadian GAAP permits the disclosure in the consolidated statements of changes in financial position of a subtotal of the amount of funds provided by operations before changes in non-cash working capital items. United States GAAP does not permit this subtotal to be included.

*ii.* United States GAAP requires that the amount of interest and taxes paid during each fiscal year be disclosed. There is no requirement to disclose this information under Canadian GAAP. The amounts of interest and taxes paid during 1997 amounted to $136,692,000 and $14,604,000, respectively (1996 – $117,923,000 and $8,239,000, respectively).

*iii.* Canadian GAAP permits operating bank loans and bank advances to be included in the determination of cash and cash equivalents in the consolidated statements of changes in financial position. United States GAAP requires that operating bank loans and bank advances be reported as financing cash flows. As a result, under United States GAAP, the operating bank loans and bank advances at the beginning and at the end of the year as reflected in the consolidated statements of changes in financial position would be reported as cash flows under the heading “Financing” in the statement. Under United States GAAP, the cash provided by financing activities for 1997 would be increased by $1,400,000, and would be decreased by $5,040,000 for 1996.

*iv.* Under United States GAAP, the non-cash issue of warrants in the amount of $32,500,000 in 1996 would not be included in the statement of changes in financial position as a financing or operating activity, resulting in an increase in the amount of net cash provided by operating activities.

## l. recent accounting pronouncements

The Financial Accounting Standards Board in the United States has issued pronouncements entitled “Earnings per share”, “Disclosure of Information About Capital Structure”, “Reporting Comprehensive Income” and “Disclosures About Segments of an Enterprise and Related Information”.

The adoption of the pronouncement "Earnings per share" in 1997 for United States GAAP purposes has not resulted in a significant impact on the reported amount of earnings per share for 1997. The adoption of the pronouncements "Disclosure of Information About Capital Structure", "Reporting Comprehensive Income" and "Disclosures About Segments of an Enterprise and Related Information" in 1998 may impact certain of the disclosures related to these areas.

## m. selected financial data – u.s. dollars

The following is a summary of certain 1997 financial data of the Company prepared in accordance with United States GAAP and expressed in United States dollars and has been translated at CDN$1.00 = US$0.6997.

*Balance Sheet Data*

(in thousands of u.s. dollars)

| | |
|---|---|
| Fixed assets | $ 1,121,467 |
| Total assets | 1,760,721 |
| Long-term debt | 1,304,689 |
| Shareholders' equity | 11,121 |

*Statement of Income Data*

(in thousands of u.s. dollars)

| | |
|---|---|
| Revenue | $ 868,558 |
| Operating income before the following items: | 270,405 |
| Depreciation and amortization | 188,513 |
| Provision for restructuring and asset write downs | 234,620 |
| Operating loss | (152,728) |
| Loss for the year | (288,617) |

*Other Data*

(in thousands of u.s. dollars)

| | |
|---|---|
| Net cash provided by operating activities | $ 139,084 |

For over 12 years, Rogers Cantel has made significant contributions to our nation's economic and social well-being as Canada's largest nationally-licensed wireless telecommunications company. Canadians depend on Rogers Cantel's efficient, state-of-the-art communications network to bring them together, both quickly and easily.

Our mission is to improve people's lives by providing quality wireless communications services. Rogers Cantel recognizes that a business does not operate in a vacuum; it is an intrinsic part of the larger community it serves. Accordingly, we maintain a strong sense of duty and responsibility to contribute back to our various stakeholders. Whether it is serving its customers, employees, shareholders, or the general public, Rogers Cantel seeks to not only meet, but to exceed community expectations and to maintain its standing as a trusted corporate entity.

*For our customers,* Rogers Cantel is committed to offering excellent customer service, extensive coverage, innovative products and superior support at a price that reflects good value.

*For our employees,* Rogers Cantel is committed to providing rewarding career opportunities, competitive compensation and an open and stimulating work environment that welcomes diversity and fully endorses equity in the workplace

*For our shareholders,* recognizing the importance of their confidence and support, Rogers Cantel is committed to offering gratifying returns and the potential to grow with the Company as the wireless industry in Canada fulfills its promise.

*For our communities across Canada,* Rogers Cantel is committed to being a good corporate citizen by understanding the diverse needs of the communities it serves and to providing ongoing support to those communities. The following outlines a few of the local sponsorship initiatives Rogers Cantel has undertaken in 1997:

- Rogers Cantel's Atlantic region actively supports a number of philanthropic organizations including the *Neptune Theatre; Children's Wish Foundation; Big Brothers* and *Sisters;* the *United Way Campaign* and the *Kids Help Line.*
- In Quebec, Rogers Cantel continued to support the Mira Foundation, an organization which trains dogs for the visually impaired, as well as the *Montreal Film Festival;* the *Quebec Film Festival,* the *Jean Lapointe Foundation,* the *Trois Rivières Grand Prix* and the *Fidéides in Sainte Foy.*
- In December 1997, Rogers Cantel donated Digital PCS phones and airtime packages to *Second Harvest*, which collects and distributes more than 1.3 million pounds of perishable food annually to more than 80 community-based organizations in the Greater Toronto Area. As well, the Ontario offices actively supported the *Hospital for Sick Children* and three other regional children's hospitals.
- In early 1998, Rogers Cantel, working with Ericsson Communications Inc. and the Ontario Government, launched a pilot project to provide up to 300 wireless phones to victims in Ottawa and Barrie who are identified as being at high risk of domestic violence, sexual assault or stalking. The phones, provided with one-button access to 911, are programmed to send out emergency calls only.

- The Ontario offices also implemented *(Star) Lines to assist the *Ontario Association of Chiefs of Police*'s "Highway Help" programme and the *Ontario Provincial Police*'s "Highway Rangers" program.
- Rogers Cantel, in partnership with the other Rogers group of companies, participated in the *Juvenile Diabetes Foundation*'s *'Walk for the Cure,'* raising over $10,000.
- The Mid-west office also supplied phones and airtime to the *RCMP Run for Cancer,* the *1997 Cameco Super Cities Walk for MS,* and *Big Brothers.*
- Rogers Cantel in Alberta provided support to the *Children's Wish Foundation* and the *Banff Television Festival*. In addition, the Alberta office continued to work in cooperation with the *Cross Cancer Institute* in Edmonton, raising $89,000 for cancer research in 1997, which brought the accumulative fundraising total to approximately $500,000 since the programme's inception in 1989.
- The office in British Columbia assisted several local charitable organizations such as *Street Fair, Kids Helpline Foundations,* and *Kelowna Cancer Clinic*. Rogers Cantel also donated 150 teddy bears to the *B.C. Children's Hospital* and the *Sunnyhill Hospital*, as well as a $17,000 donation to the *CKNW Orphans' Fund*, which supports a variety of children's charities.

Aside from participating in these traditional community activities, Rogers Cantel and its employees rallied to the cries of communities which experienced two of Canada's most devastating natural disasters. During the Red River flood in the spring of 1997, Rogers Cantel employees in Winnipeg and rural Manitoba worked tirelessly to ensure its customers and various relief organizations could communicate on the Rogers Cantel wireless service. The Mid-west office donated hundreds of phones, pagers and airtime to numerous flood relief organizations including the Canadian Red Cross, The Salvation Army, The City of Winnipeg, Floodbusters, Operation Knee Deep and the Canadian Armed Forces. Rogers Cantel also set up a temporary Cantel AT&T calling centre at the St. Vital Arena Evacuee Centre, offering free wireless calls throughout Canada and the U.S. for flood victims. As well, employees volunteered inestimable hours of their time sandbagging in local communities and assisting evacuees at relief centres throughout Winnipeg.

Rogers Cantel and its employees responded, once again, to an epic emergency when the disastrous ice storm hit Eastern Canada in January 1998. In Montreal and Ottawa, Rogers Cantel staff worked endlessly – often in unpleasant and dangerous conditions – to keep the network running and to serve the communities in need. Hundreds of phones and pagers were distributed to various shelters, the Red Cross, government offices, Hydro Quebec and Ontario Hydro, and the Canadian military to ensure these groups functioned more effectively in their efforts to revive the affected areas. As well, Rogers Cantel provided free long-distance to storm victims in Montreal and Ottawa so they could contact their concerned relatives.

It is these extraordinary situations which test communities at all levels. We at Rogers Cantel want to assure our stakeholders of our firm commitment to support Canadians to the best of our abilities. We also salute and give special thanks to our employees who by their dauntless efforts help us keep this commitment.

The Board of Directors of the Company (the "Board") believes that sound corporate governance practices ("Corporate Governance Practices") are important to the well-being of the Company and its shareholders and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the Company's Corporate Governance Practices is set out below. This statement of Corporate Governance Practices was prepared by the Nominating and Corporate Governance Committee of the Board and approved by the Board.

The bylaws of The Toronto Stock Exchange and a policy statement of the Montreal Exchange require that this statement of Corporate Governance Practices relates the Corporate Governance Practices of the Board to the "Guidelines for Improved Corporate Governance" contained in the December 1994 report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The headings which appear below address the principal matters relating to the Company's Corporate Governance Practices in the context of the Guidelines in the TSE Report.

In this statement, the term "unrelated director" has the meaning given to it in the TSE Report – a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the Company, other than interests arising from shareholding. The term "related director" means a director who is not an unrelated director.

For the purposes of the TSE Report, a director is classified as "related" or "unrelated" for all purposes, irrespective of the particular matter before the Board and the nature of the relationship of the director to the Company.

### *Mandate of the Board*

The Board has explicitly assumed responsibility for the stewardship of the Company including the matters specifically referred to in the TSE Report. The Board discharges its responsibilities either directly or through its committees. There were eight regularly scheduled Board meetings during 1997. Five meetings of the Board are currently scheduled for 1998. In addition, during two of these meetings, the Board will meet without members of management being present.

Frequency of Board meetings as well as the nature of agenda items change depending on the state of the Company's affairs and in light of opportunities or risks which the Company faces.

### *Composition of the Board*

During 1997, the Board was composed of 17 members, of whom only three were members of the Company's management. The Board believes 14 directors were unrelated directors and the remainder (including the three directors who were members of management) are related directors, within the definitions in the TSE Report. Accordingly, the Board is constituted with a majority of individuals who qualify as unrelated directors, within the meaning of the TSE Report. In deciding whether a particular director is a related director or an unrelated director, the Board examined the factual circumstances of each director's relationship to management and the Company and considered them in the context of many factors, including the broad definitions in the TSE Report.

### *Reflection of Interests of Shareholders in Board Composition*

The Company is controlled by RCI which, directly or indirectly, owns shares representing approximately 97.68% of the votes attached to all voting shares of the Company and approximately 80% of the total outstanding number of equity shares of the Company and is a "significant shareholder" within the meaning of that term in the TSE Report.

The Board believes that seven of the 14 unrelated directors (or 41% of the total number of directors) do not have any interests in or relationships with either the Company or the significant shareholder or any of its affiliates. Three of these unrelated directors are elected by holders of Class B Restricted Voting Shares, voting separately as a class.

The Board believes that the current composition of the Board is appropriate given the structure of the Company's share capital and that the seven directors unrelated to the Company and the significant shareholder ensure that the views of shareholders other than the significant shareholder are brought to the Board. The Board also believes that the composition of the full Board that includes 14 directors who are not part of the management of the Company and the other Corporate Governance Practices that the directors have adopted also serve this purpose. Such practices include the establishment of the Nominating and Corporate Governance Committee and the other committees of the Board and their respective mandates.

The Board also believes that it is not in the best interest of the shareholders of the Company to either increase the size of the Board or, alternatively, reduce the number of the directors who are related to the significant shareholder or its affiliates. The Board believes that all of the directors on the Board act objectively with a view to the best interest of the Company and make a valuable contribution to the Board and the Company for the benefit of all the shareholders including shareholders other than the significant shareholder.

### *Independence from Management*

Mr. Charles E. Hoffman is the Chief Executive Officer of the Company and serves as a director. Mr. Edward S. Rogers, O.C., is the Chairman of the Board and has the responsibility to ensure that the Board discharges its responsibilities. The Chairman oversees the preparation of the agenda for each Board meeting and ensures that an extensive information package is sent to each director in advance of the meeting.

### *Board Committees*

The Board has four committees: the Audit Committee, the Management Compensation Committee, the Executive Committee and the Nominating and Corporate Governance Committee. From time to time ad hoc committees of the Board are appointed to deal with specific matters. In the past, special committees of directors have been appointed to consider material transactions between the Company and affiliates of the Company.

### *Audit Committee*

The Audit Committee is composed of unrelated directors and does not include any member of management. The committee is responsible for reviewing the Company's financial reporting procedures, internal controls and information systems and the performance of the Company's external auditors. The committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board. The Audit Committee met five times in 1997. Its members were Messrs. Morrissette, Emerson, Peterson, Ricketts and Smith.

### *Management Compensation Committee*

The Management Compensation Committee is composed of unrelated directors. The committee approves, amongst other things, the compensation of senior executives and other executives above specified remuneration levels. The committee also reviews the Company's succession plans. The committee met twice in 1997. Its members were Messrs. Roberts, Emerson, Hull (resigned as of May 1, 1997) and Smith.

### *Executive Committee*

The Executive Committee is composed of a majority of related directors. The Executive Committee has delegated to it all of the powers that may be delegated to an Executive Committee under the Company's incorporating statute, being the *Canada Business Corporations Act.* During 1997, its members were Messrs. Emerson, Hull (resigned as of May 1, 1997), Kabala (resigned as of January 5, 1998), and Rogers and its current members are Messrs. Emerson, Hoffman and Rogers. Neither the Company's Executive Committee nor the Executive Committee of its subsidiary, Rogers Cantel Inc., met in 1997.

### *Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee is composed of a majority of unrelated directors. It is responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. The committee is also responsible for reporting to the Board with respect to appropriate candidates for nomination for election to the Board, for providing an orientation programme for new directors and for evaluating the performance of the Board as a whole, its committees and the contribution of each individual director. Its members were Messrs. Emerson, Fierheller (appointed as of May 1, 1997), Hull (resigned as of May 1, 1997) and Rogers. The Committee met four times in 1997.

### *Decisions Requiring Board Approval*

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any unbudgeted expenditure in excess of $5 million. Management is also required to obtain Board approval before entering into any major strategic initiative or any venture which is outside the Company's existing businesses.

### *Board Performance*

As noted earlier, the Nominating and Corporate Governance Committee has the mandate to recommend to the Board nominees for election as Board directors and for evaluating the performance of the Board as a whole, its committees and the contributions of each director.

It is the responsibility of the Chairman of the Board to ensure the effective operation of the Board in fulfilling its mandate including its duties and objectives. At least one Board meeting each year is planned to be held at a site other than the Company's head office, with a view to permitting the directors to better understand the Company's businesses.

### *Shareholder Feedback*

RCI maintains an Investor Relations department and this department provides investor relations services to the Company which the Board believes are important and highly effective. Every shareholder inquiry receives a prompt response from the Investor Relations department or an appropriate officer of the Company.

### *Board's Expectations of Management*

The information which management provides to the Board is critical. Directors must have confidence in the data gathering, analysis and reporting functions of management. The Chairman of the Board and the Nominating and Corporate Governance Committee of the Board monitor the nature of the information requested by and provided to the Board by management so that it is able to determine if the Board can be more effective in identifying problems and opportunities for the Company.

The Board plans to meet without the presence of directors and officers who are members of management of the Company. Two such meetings are scheduled during 1998.

The Chief Executive Officer has provided a detailed job description for the office of the Chief Executive which specifically outlines his responsibilities. This job description has been approved by the Management Compensation Committee. The Chief Executive Officer's written objectives for the current year have been reviewed and approved by the Management Compensation Committee.

### analog
The traditional method of transmitting sound and images, converted into electrical impulses and transmitted in the form of radio waves, which are "analogous" to sound waves or light waves.

### analog radio channel
A radio transceiver (transmitter/receiver) in a cell site, which communicates with a mobile telephone. Each analog radio channel can carry one voice conversation.

### caller id
A digital PCS optional service that allows the customer to know who's calling before they answer the phone either through a number or a name display.

### cell site
A radio transmitter location which provides cellular coverage to a specific geographical area. The area can range from 48 kilometres in diameter for a large rural cell site on 800 Mhz cellular frequencies down to a few hundred meters for urban minicell sites.

### churn rate
The number of subscribers who discontinue a service (mobile telephone, long-distance, magazine, etc.) divided by the average number of total subscribers in any given period. A loss of 1,000 subscribers on an average base of 100,000 over the period of a month would equate to a 1% monthly churn rate.

### code division multiple access ("cdma")
A technique for transmitting multiple conversations on one radio channel through the use of digital codes to identify each conversation. CDMA is usually combined with spread spectrum techniques that distribute the signal over a wide bandwidth channel, typically carrying 40 or more conversations.

### co-location
Co-location permits competing companies to locate on each other's facilities.

### competitive local exchange carrier ("clec")
A company which has entered the local services market to compete with the incumbent local telephone company (ILEC).

### contribution
"Contribution" is the term used in Canada to refer to the surplus revenue generated by toll and other services that are used to cover the revenue shortfall in local/access services.

### digital
A method of recording, storing, and transmitting data (including sounds and images) using binary code (ones and zeros).

### digital radio channel
Similar to analog radio channel but using digital transmission to a digital mobile telephone. In North America TDMA digital, each radio channel can currently carry three simultaneous conversations; in the future, this will increase to six conversations.

### directory assistance call completion

An optional service introduced by Rogers Cantel in 1994 which allows any Cantel customer to merely stay on the line after a directory assistance inquiry and Cantel will automatically complete the call.

### dual mode phone

A cellular mobile telephone that can operate on two different technology standards, i.e. analog and digital cellular.

### e-mail messaging

A digital PCS optional service which enables a customer to receive and read E-mails of up to 150 characters directly to the their digital PCS phone.

### equal access

Access by a long-distance competitor to the telephone company local network (and switches) so that the competitor's customers can use normal 1+ dialing to make a long-distance call.

### global system for mobile ("gsm")

The technology standard for digital cellular used in Europe and parts of the rest of the world outside of North America.

### industry canada

The department of the Canadian government responsible for allocating wireless spectrum, issuing licences and setting the licence conditions.

### interconnection

The technical and financial terms for connecting telco and new entrant networks.

### local number portability

Number portability is required under local telephone competition and refers to allowing the customer to maintain their existing telephone number when they change service providers.

### message waiting indicator™

An optional service launched by Rogers Cantel in 1994 which alerts Mobile Message customers to messages left on their voice mailboxes while they were on another call or their phone was turned off.

### mobile message™

An answering voice mail connected to the wireless phone. It answers calls when the subscriber has the phone turned off, is already on a call, or is outside of the cellular coverage.

### north american cellular network ("nacn")

A network of wireless carriers that provides the subscribers of its member companies with automatic call delivery and feature following throughout their North American service areas. The network also enables wireless carriers to perform pre-call validation to reduce fraudulent use.

### optional services ("smart services")

Value-added services for which Rogers Cantel charges monthly and/or user fees. Optional services include Directory Assistance Call Completion, Message Waiting Indicator™, and Voice Command™.

### personal communications services ("pcs")

Digital mobile wireless communications services with more features than analog.

### pop
The population in a licence area served by a carrier. (An area with one million people is said to have one million pops, i.e. one million potential customers.)

### roaming
Roaming occurs when wireless subscribers make or receive calls while outside their wireless company's coverage territory through cooperation with other wireless carriers. Rogers Cantel subscribers can roam on the NACN, as well as on networks of those carriers with whom administrative agreements exist.

### system access fees
Fees paid by cellular operators to Industry Canada for the use of radio spectrum. These fees are calculated on a per channel basis.

### text and numeric messaging
Digital PCS optional services that allow text or numeric messages to be sent directly to a customers on their digital PCS phone screen. This allows the customer to receive precise information without having the phone ring.

### time division multiple access ("tdma")
A technique by which multiple conversations can be carried on one radio channel by transmitting fragments of these conversations at precisely timed intervals. The current version of TDMA for wireless carries three conversations on one cellular radio channel; future versions will carry more than six conversations on one channel.

### unbundling
The separation and discrete offering of the components of the local telephone service. Unbundling of network components facilitates the provision of "pieces" of the local network, such as local switching and transport, by telephone company competitors.

### visual call waiting
A digital PCS optional service that gives the customer a call waiting tone as notification that another call is waiting while the phone is in use. This is the same as Call Waiting on a residential phone.

### vocodor or voice coder
Device inside a digital mobile telephone which converts analog speech wave forms into digital signals and compresses the digital signal in order to reduce the amount of radio broadband required to carry it.

### voice command™
An optional service introduced in 1994 by Rogers Cantel which enables any Cantel customer to place calls by speaking commands such as "dial" or "call" without the requirement to dial a phone number.

## directors

h. garfield emerson, q.c.[1,2,3,4]
President and
Chief Executive Officer
Rothschild Canada Limited

george a. fierheller[4]
President
Four Halls Inc.

albert gnat, q.c.
Senior Partner
Lang Michener

james c. grant
President
C.G. James & Associates

charles e. hoffman[2]
President and
Chief Executive Officer
Rogers Cantel Mobile
Communications Inc.

nicolas kauser
Executive Vice President and
Chief Technology Officer
AT&T Wireless Services

robert w. korthals
Company Director

pierre l. morrissette[1]
President and
Chief Executive Officer
Pelmorex Inc.

the hon. david r. peterson, p.c., q.c.[1]
Senior Partner
Cassels Brock & Blackwell

john f. ricketts, c.a.[1]
Company Director

richard d. roberts[3]
President
The Barnacle Group

edward s. rogers, o.c.[2,4]
President and
Chief Executive Officer
Rogers Communications Inc.

loretta a. rogers
Company Director

robert smith[1,3]
President
Newmark Capital Limited

w. david wilson
Chairman and
Chief Executive Officer
ScotiaMcLeod Inc.

1 *Audit Committee*
2 *Executive Committee*
3 *Compensation Committee*
4 *Nominating and Corporate Governance Committee*

## officers

edward s. rogers, o.c.
Chairman

charles e. hoffman
President and
Chief Executive Officer

h. garfield emerson, q.c.
Vice Chairman

george a. fierheller
Honorary Chairman

robert f. berner
Senior Vice President and
Chief Technology Officer

donald b. burt
Vice President, Human Resources

lynda s. cranston
Executive Vice President
and General Manager,
Western Canada

dekkers l. davidson
President, Ontario

the hon. francis fox, p.c., q.c.
President, Quebec and
Eastern Canada

leonard m. katz
Senior Vice President, External Affairs

john d. maduri, c.a.
Executive Vice President, Finance and
Planning and Chief Financial Officer

graeme h. mcphail
Vice President
Associate General Counsel

paul w. nelson
Vice President,
Information Technology
and Chief Information Officer

edward s. rogers
Vice President and
General Manager, Paging

## cantel offices

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600, boul. de Maisonneuve ouest
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(514) 340-7400

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One Mount Pleasant Road
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Halifax, ns b3k 5l2
(902) 453-1400

Vancouver
Rogers Cantel Tower
1600–4710 Kingsway
Burnaby, bc v5h 4m5
(604) 431-1400

Calgary
112–4th Avenue S.W., #1810
Calgary, ab t2p 0h3
(403) 265-1400

Winnipeg
1600–330 Portage Avenue
Winnipeg, mb r3c 0c4
(204) 942-1400

## annual general meeting

The Annual General Meeting of Rogers Cantel Mobile Communications Inc. will be held at 10:30 A.M. (Toronto time) Monday, May 25, 1998 at The Grand Ballroom, Lower Level, Sheraton Centre, 123 Queen Street West, Toronto, Ontario

## agent bank

The Bank of Nova Scotia

## auditors

KPMG

## common shares

The Class B Restricted Voting Shares are traded on the Toronto, Montreal, Alberta and Vancouver stock exchanges and through the New York Stock Exchange.
In Canada, RCM.B; NYSE, RCN: CUSIP # 775102205.
Transfer Agent:
Montreal Trust Company of Canada (416) 981-9633 or 1-800-663-9097
and The Bank of Nova Scotia Trust Company of New York
(212) 225-5438

## rogers cantel inc. bonds

Senior Secured Notes due 2006
CUSIP # 775101 AA6
Trustees & Transfer Agents:
The Chase Manhattan Bank
1-800-648-8380
CIBC Mellon Trust Company
1-800-387-0825

Senior Secured Notes due 2007
CUSIP # 775101 AG3
Trustees & Transfer Agents:
The Chase Manhattan Bank
1-800-648-8380
CIBC Mellon Trust Company
1-800-387-0825

Senior Secured Debentures due 2008
CUSIP # 775101 AB4
Trustees & Transfer Agents:
The Chase Manhattan Bank
1-800-648-8380
CIBC Mellon Trust Company
1-800-387-0825

Senior Secured Debentures due 2016
CUSIP # 775101 AC2
Trustees & Transfer Agents:
The Chase Manhattan Bank
1-800-648-8380
CIBC Mellon Trust Company
1-800-387-0825

Senior Subordinated Notes due 2007
CUSIP # 775101 AHi
Trustees & Transfer Agents:
The Chase Manhattan Bank
1-800-648-8380
CIBC Mellon Trust Company
1-800-387-0825

## for further information

Institutional investors, security analysts and others who want financial information about Rogers Cantel should write, call, or fax:

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On pourra se procurer le texte français de ce rapport annuel en communiquant avec
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For all media inquiries, please contact Carleen Carroll, Director, Corporate Communications at (416) 935-7320.



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