

COOPER TIRE & RUBBER COMPANY



Cooper Tire & Rubber Company, founded in 1914, specializes in the manufacturing and marketing of rubber products for consumer use. Products include automobile, truck and motorcycle tires; inner tubes; vibration control systems; automotive sealing; hose and assemblies.

The Company markets its products nationally and internationally through well-established channels of distribution. Among its customers are automotive manufacturing companies, independent tire dealers and wholesale distributors, and large retail chains.

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FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands; per-share amounts in dollars)

| | 1997 | 1996 | 1995 |
|--|-------------|-------------|-------------|
| Operating Results | | | |
| Net sales | \$1,813,005 | \$1,619,345 | \$1,493,622 |
| Income before income taxes | 194,792 | 172,092 | 180,070 |
| Net income | 122,411 | 107,884 | 112,820 |
| Basic and diluted earnings per share | 1.55 | 1.30 | 1.35 |
| Dividends per share | .35 | .31 | .27 |
| Financial Position | | | |
| Working capital | \$ 354,281 | \$ 256,130 | \$ 272,216 |
| Long-term debt | 205,525 | 69,489 | 28,574 |
| Stockholders' equity | 833,575 | 786,612 | 748,799 |
| Stockholders' equity per share | 10.58 | 9.67 | 8.95 |
| Other Operating Data | | | |
| Capital expenditures | \$ 107,523 | \$ 193,696 | \$ 194,894 |
| Depreciation | 94,464 | 76,820 | 63,313 |
| Net income as % of sales | 6.8% | 6.7% | 7.6% |
| Net income as % of beginning of year stockholders' equity | 15.6% | 14.4% | 17.0% |
| Long-term debt as % of capitalization | 19.8% | 8.1% | 3.7% |
| Current ratio | 2.8 | 2.4 | 2.7 |
| Number of shares outstanding (thousands) | 78,760 | 81,367 | 83,662 |
| Number of stockholders | 5,281 | 5,991 | 6,721 |
| Number of employees | 10,456 | 8,932 | 8,284 |

TO OUR STOCKHOLDERS:

This was a year of growth for the Company, both domestically and internationally. Construction projects, foreign acquisition and technology improvements were all highlights in 1997.

Sales were strong for our tires and engineered products reaching a record-setting total of \$1.8 billion for the year. Only a small part of these sales can be attributed to our acquisition of Avon Tyres Limited of the United Kingdom in early 1997. The perseverance and dedication of the Cooper team allowed us to achieve an overall sales increase of 12 percent in an industry environment that was extremely competitive.

Our earnings were at near record levels with net income of \$122 million, an increase of 13.5 percent over 1996. On both basic and diluted per share bases, earnings set an all-time record at \$1.55 compared to \$1.30 in 1996, an increase of 19.2 percent.

Our long-term debt, which now stands at \$206 million, substantially increased due to the Avon Tyres purchase and our common stock repurchase. During the first quarter of 1997 we completed the repurchase of 5 million shares of common stock which was first authorized and started in 1996. A second 5 million share repurchase was authorized but not acted on during 1997.

Long-term debt as a percent of total capitalization was 19.8 percent with a current ratio of 2.8 to 1, which we believe is very strong.

Stockholders' equity grew to \$834 million in 1997 and reflects 14.2 percent annual compounded growth over the past 10 years for Cooper investors. Stockholders' equity per share grew to \$10.58 which is 9 percent higher than a year earlier.

During the year the board of directors declared an increase in the dividend from 8.5 cents to 9.5 cents per share. Yearly dividend payments to stockholders have increased each year since 1979, and dividends have been paid to stockholders every year since 1950.

Strong cash flows provided by operations enabled us to make investments in productivity, expansion, product quality and technology development. All expenditures were directed toward helping the Company remain competitive in the long term. Our 1997 capital spending finished at \$108 million. In the last ten years, Cooper has spent more than one billion dollars in capital improvements. This investment represents a solid commitment to the future of the Company.



Alec Reinhardt

Pat Rooney

We welcomed more than 1,200 new associates to the Cooper team in 1997 with the acquisition of Avon Tyres. This event gained us an ISO 9001 certified tire manufacturing facility in Melksham, England. As part of the purchase, we also received distribution centers in France, Germany and Switzerland, which will help satisfy the distribution demands of our growing European market.

Upon purchase, our technical team began an immediate assessment of equipment needs and technology improvements which we could provide to maximize production efficiency and lower production costs. The resulting upgrade in the Melksham facility should provide benefits to the Company in the future.

During the year construction began on two new research and development centers. In Auburn a new technical center will provide a state-of-the-art testing and development lab for our engineered products.

In Findlay a new research and engineering facility will allow for significant expansion of our testing labs. Scheduled for completion during 1998, both of these facilities will enable our technical expertise to grow significantly in the future.

Labor relations in 1997 included negotiations with the United Steelworkers of America for contracts at El Dorado (vibration controls), Findlay (tires), Bowling Green (seals) and Auburn (vibration controls). We were pleased all contracts were settled without work stoppage. We had to increase inventories to assure that customer commitments would be met, and those costs were reflected in our earnings for the year.

Two changes occurred on the board of directors during the year. Delmont A. Davis, a member of the board since 1992, chose not to stand for re-election at the May annual meeting. At that time, John F. Meier, chairman and chief executive officer of Libbey Inc., joined the board with a term expiring in 2000. At the meeting in February, 1998, the board honored Dr. Allan H. Meltzer, who served on Cooper's board since 1983 and retired upon reaching the board's mandatory retirement age of 70. His advice, counsel and enthusiastic participation on the board will be missed.

In executive management changes, Roderick F. Millhof was elected a Vice President of the Company in January, 1998, and is currently leading the engineered products operations as a result of the retirement of Robert C. Gasser. During Bob's leadership our engineered products operations grew successfully in every way including sales, earnings, personnel, facilities and reputation for excellence.

At the direction of the board, in 1997 we began an initiative which has been referred to as "Cooper 21." Our team was challenged to make a comprehensive strategic review of our business as we prepare to enter the next century. Throughout the year, task groups have been reviewing the world marketplace for tires and engineered products and the forces which will affect future demand for our products.

Competitors were thoroughly examined to discover their movements both domestic and abroad, and how their plans might affect our opportunities for success.

Our own internal strengths and weaknesses were identified. Competencies we might exploit

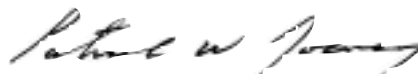
were analyzed. Ultimately a list of strategic imperatives was formulated with potential responses considered. Based on this information, our board of directors will meet early in 1998 to make decisions on the strategic direction for the Company.

We are excited about the development of this formalized plan for our continued success. It has been extremely gratifying to see our employee teams exploring the many opportunities which will result in a blueprint for the future of the Company and also may enrich their own career opportunities.

In reviewing our year-end results, we feel it is important to note that in an industry which only grew 2.9 percent during the year, our tire sales broke records with a double-digit increase. The production of light vehicles increased moderately during 1997 while we recorded our highest ever sales in engineered products. Our achievements in sales and earnings improved our competitive position in both tires and engineered products.

We are challenged to be proactive in guiding the success of the Company. We are actively seeking opportunities which capitalize on our strengths for potential growth and will result in increased shareholder value.

With our significant investments in equipment and technology, combined with what we feel is the best employee team in the rubber industry, we believe the future looks bright for our Company.



Patrick W. Rooney

Chairman of the Board, President, Chief Executive Officer



J. Alec Reinhardt

Executive Vice President, Chief Financial Officer

OPERATIONS - TIRE PRODUCTS

INDUSTRY OVERVIEW

The Company shipped a record number of tires in 1997, continuing to outpace the overall industry in replacement tire shipments.

In the U.S. replacement market, tire shipments increased 2.9 percent, rising almost 6.3 million units from the 1996 total of 214.4 million units. Cooper's increase in unit sales contributed a substantial share of the industry increase. The strong overall U. S. economy was a significant factor in allowing the tire industry to record a better than average increase for the year.

By product category, industry replacement passenger tire shipments increased 2.4 percent; light truck replacement tire shipments posted an increase of 5.2 percent; and medium truck tire shipments recorded a strong increase of 6.5 percent. Inner tube shipments continued to decline resulting in a 3.1 percent decrease from 1996 totals.

According to a trade publication, capacity in the industry increased by almost two percent from 1996 to 1997 and contributed to the intense competitive environment in the retail tire market.

GLOSSARY OF TERMS

Remould materials - Rubber materials produced for the retreading or remoulding of tires. Cooper-Avon is the largest supplier of these rubber materials in the United Kingdom.

Variable Belt Density (VBD) - The process in building motorcycle tires by which a continuous belt of aramid fibers is wound onto the tire with the plies applied closer together in the center of the tire and further apart at the shoulder. Exclusive to Cooper-Avon's motorcycle tire production, this process enhances the wear and stability of the tire.

Low profile sizing - In simplest terms, a tire having short sidewalls and wide tread. On a low profile truck tire, the sidewall height is 80 percent or less of the tire width.

CAD - Computer-aided design software used by Cooper's mold and product design groups to design tire molds in three-dimensional models.

Consumer preference for larger wheel diameters continued in 1997 with 32 percent of the performance tire sales being 16-inches or greater, compared to just 23 percent during 1996. Performance tires overall continued their steady increase as a percent of total replacement tire market - showing an even greater increase in the original equipment market.

The expertise and customer service provided by independent dealers continues to benefit today's tire consumer. According to a leading industry magazine, *Modern Tire Dealer*, independent tire dealers as a distribution channel, represented 71 percent of all passenger tires sold in 1997. With the Company distributing its Cooper, Mastercraft, Starfire and Roadmaster house brand tires primarily through independent tire dealers, this growing trend has a positive implication for the Company's domestic sales growth. The newly-acquired Avon brand also is sold primarily through the independent dealer channel both in the U.S. and abroad.

PRODUCTS

With the acquisition of Avon Tyres Limited, Cooper's assortment of products grew to include several new categories including motorcycle tires, racing tires and remould materials. During the year, several new product lines were introduced and additional sizes were made available for one of the most popular broadline offerings.

The new Cooper CXMT 320 was added during 1997 to fit a niche for local delivery and trailer service applications. With low profile sizing and a premium 16/32-inch tread depth, this commercial-size, all-steel radial tire rounds out the overall offering from Cooper in the medium truck tire category.

Promoted as the "ultimate sports/touring tire," the Avon Azaro radial front/rear motorcycle tire was introduced featuring Cooper-Avon's patented variable belt density (VBD). The tire provides outstanding mileage, consistent cornering and good handling even as the tire wears. Cooper-Avon Tyres Limited is the world's fifth largest motorcycle tire manufacturer.

The popular Cooper Lifeline Classic II passenger tire line was expanded to include eight new 75 series sizes including an extra load size for full-size vans and pickup trucks.

In early 1998 Cooper introduced a new light truck radial, the Cooper SRM II Radial LT with

- Dealer Locator
- Tires
- Engineered Products
- Financial Highlights
- Plants & Distribution Centers
- Our Spokesman
- History
- Employment Opportunities
- E-Mail

Welcome!



COOPER TIRE & RUBBER COMPANY

In July Cooper went "live" on the Internet with its web site www.coopertire.com. Browsers can read about Cooper's products, history and facilities as well as locate the independent Cooper dealers nearest to them. Designed for fast and easy use, the site features graphics that are bright, colorful and have a quick load time.

special sizes available for the international market. This replacement for the popular rib light truck line should prove to be a good seller worldwide.

FACILITIES

Cooper has an ongoing commitment to modernization at all its manufacturing facilities. In fact, during the past 10 years, more than \$1 billion has been spent in capital improvement projects. Increasing production capacity, implementing the latest technology to upgrade product quality and lowering production costs are at the heart of Cooper's improvement projects.

When Cooper acquired the Melksham, England, manufacturing operation in early 1997, a needs assessment of the facility began immediately in order to maximize the investment. During the year an aggressive plan was put into place for additional

equipment as well as upgrades to existing equipment in order to increase output. Through the diligent efforts of the talented Melksham and Findlay teams, the initial phase of the modernization will be completed in early 1998 and should benefit Cooper's long-term European sales plans.

In the United States, all four tire plants were involved in a program designed to improve tire uniformity. The "Operational Excellence" process improvement program uses a statistical-based approach to ensure predictability of each manufacturing process. This program helps tremendously in eliminating process variations and ultimately helps all products

achieve a consistent uniformity that meets or exceeds customer expectations.

All of Cooper's tire plants in the U.S. this year will be linked with a computerized maintenance system which helps keep equipment running at maximum efficiency. Cooper uses a systematic approach to facility improvement, generally selecting a lead plant to install any new process or equipment, then perfecting the process before it is transferred to the remaining plants. The new computerized maintenance system is an example of this successful approach.

Late in 1997 two projects were announced which will significantly strengthen Cooper's testing, research and engineering efforts for decades to come. In December construction began on an expansion to the research and engineering facility located in Findlay. The 73,500-square-foot addition will provide an optimum environment for creativity and collaboration using fiber optic technology to enhance communication from initial design to final production of the tire.

Also in 1997 plans were finalized for the Company to construct a tire testing facility in southern Texas. By the end of 1998, this 1,000-acre site near San Antonio will contain a one-mile road course,

OPERATIONS - TIRE PRODUCTS

a 2 1/2 mile oval course and a vehicle dynamics wet testing area. Cooper's speed-to-market with new products will be greatly enhanced with this control of future tire testing projects.

A new graphic arts facility in Findlay will be completed in 1998. This 12,000-square-foot structure will consolidate the production and distribution of the Company's printed materials. The new facility will save Cooper considerable time and expense in the production of printed forms, advertising materials and other promotional materials necessary to help market all Cooper products.

TECHNOLOGY

Over the years Cooper engineers and technicians have continually monitored advancements in computer technology to help keep products at the highest quality level and to maximize efficiency. New product development is critical in maintaining a competitive edge in the tire marketplace. Cooper's entire product development program is computer-driven in order to reduce time for the development process and provide the best quality in the designs.

The Company's CAD process allows engineers to create tire designs and predict the performance of that specific design – on screen – before any further development takes place. Through a rapid prototyping system, Cooper can provide its private-brand customers with a three dimensional, plastic model of the tire for quick evaluation regarding appearance issues. Linked with the new mold design facility in Findlay, the CAD system can quickly produce mold drawings and, ultimately, a prototype tire in days when just several years ago, it took weeks and months to provide the first sample tire for a new product line.

Cooper's entire technology process is fast-moving and cutting-edge and employees are proud of their efforts in providing new quality products to customers around the world.

MARKETING

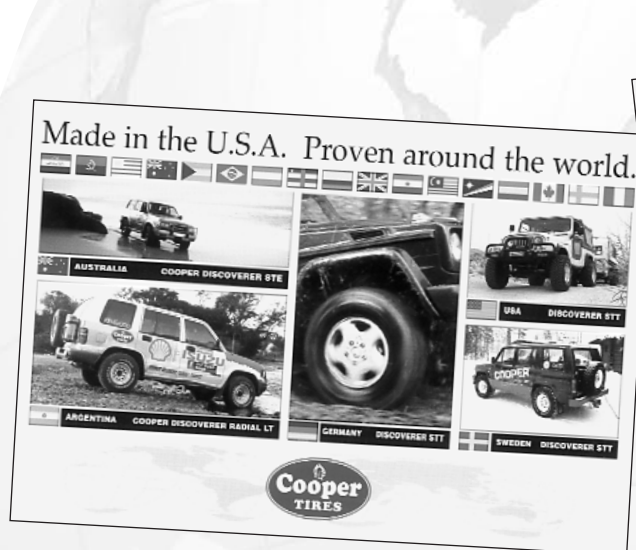
National awareness increased dramatically for Cooper in 1997 with the addition of Arnold Palmer as the company spokesman and the significant increase in advertising media expenditures for the year. Between March and September, the Palmer-Cooper



More than 118,000 motorists pass by this billboard daily on the New Jersey turnpike. Linking Arnold Palmer and Cooper, this billboard is one part of the national media campaign launched in 1997 to enhance Cooper's national awareness.

Inside dealers' showrooms, Arnold Palmer appeared as a life-sized "stand-up" among the tires on display. Colorful posters were also provided to dealers for in-store awareness of Cooper's new spokesman.





Highlighting Cooper's international presence, advertising materials bearing the theme "Made in the U.S.A. Proven around the world" were made available to international customers in 1997. The campaign features Cooper Tires on off-road vehicles performing in a variety of countries including Tunisia, Holland, Chile and Sweden.



association was highlighted on cable stations nationally by rotating two memorable 30-second commercials on popular cable TV programs. Cooper's associate sponsorship of the network televised PGA event, the Bay Hill Invitational, also contributed to the increase in recognition for the Cooper brand.

Cooper dealers were provided a wide assortment of Arnold Palmer materials to promote the association in their local markets including television and radio commercials, in-store display materials, billboard paper and even a counter card which promoted the use of the PSA (prostate specific antigen) test and its benefits in providing early warning for prostate cancer. In early 1997 Arnold Palmer underwent surgery for prostate cancer and attributes the PSA as an important element in helping him detect the disease early.

In mid-year, Cooper announced the renaming of the Melksham operation to Cooper-Avon Tyres Limited. Reflecting Cooper-Avon's image as a premium performance tire manufacturer, a distinctive red and blue logo was introduced. Subsidiaries in France, Germany and Switzerland became known as Cooper-Avon Pneumatiques SARL, Cooper-Avon Reifen (Deutschland) GmbH and Cooper-Avon Suisse SA,

respectively. Avon Technical Services is now Cooper-Avon International Development Limited.

Cooper was honored by private-brand customer Sears and received high marks from its independent dealers during the year. In March 1997 Cooper was presented with the Sears Partners in Progress Award from a pool of more than 10,000 vendors vying for the recognition. Cooper also received the Source Award as the top supplier in the automotive division and the Chairman's Award for innovation.

Later in the year, Cooper and Mastercraft brands were ranked at the top of a national survey of tire dealers conducted by the industry magazine *Tire Review*. Of the 47 brands mentioned by dealers, Mastercraft ranked first and Cooper second. Of the "major" brands, dealers ranked Cooper at the top.

Cooper continues to be a respected manufacturer in the tire industry with the unmatched ability to provide excellence in customer service, top quality products and competitive pricing.

OPERATIONS - ENGINEERED PRODUCTS

INDUSTRY OVERVIEW

During 1997 North American light vehicle production increased 3.4 percent over the previous year. Passenger car sales continued to decline while light truck sales increased moderately. As in past years, the Company continues to experience high demand for its engineered products.

Automotive industry analysts are predicting a slight downturn for 1998 in total North American vehicle production while Cooper anticipates continued growth for products produced by the Company. Sales of Cooper original equipment engineered rubber products per vehicle produced have steadily increased in the past decades as OEM manufacturers continue to recognize and take advantage of Cooper's expertise in the engineered products field.



Through a new program called Cooper Development Strategy (CDS), Cooper's engineered products operation has enhanced its management of the product development process. CDS helps Cooper engineers track the design, development, validation and manufacturing of Cooper's products while working to exceed customer expectations. Through CDS, everyone on the Cooper team is able to understand how his or her actions affect the overall product development cycle and what can be done to improve upon it.

PRODUCTS AND TECHNOLOGY

The Company continues to strengthen its position as a partner with the automakers in vehicle design and system problem solving. Original equipment manufacturers are increasingly more dependent on Cooper to be integrally involved in the up-front design work on components for vehicles of the future. The ongoing investments in improvements for equipment and technology make the Company well-prepared for this challenge.

Benchmarking studies increased during 1997 in automotive product lines. Cooper assessed a variety of world-class vehicles in customer-designated categories to determine key performance characteristics such as ride evaluation, pressure mapping, noise measurement and physical properties evaluation. These efforts have allowed Cooper to provide valuable performance data to customers which will result in better products for consumers.

Research and development continues in active noise and vibration control products with outstanding prototype performance models demonstrated to potential customers this past year. Production tooling using injection molding also began for a new spring design for a Tier-One supplier to heavy truck manufacturers.

The initial version of Computer Controlled Adjustable Mounts (CCAM) was completed in 1997. This advanced technology allows the ride characteristics of mounts to be changed—through computer adjustment—without removing the mount from the vehicle, resulting in a much quicker development cycle. In an effort to significantly reduce cost and weight for vehicles, engineering is nearing completion for extruded aluminum roll restrictors to replace cast-iron designs.

Development was completed on a unique hydraulic cradle mount design which allows varying damping effects in fore and aft directions versus lateral directions as well as a heavy-duty hydrobushing for large sports utility vehicles. The Company also completed development and began production tooling for multiple vibration control parts for the GMT800 pickup truck program.

At the design center near Detroit, a new modeling system was installed to produce solid models directly from CAD data. This innovative system allows



In early 1997 the engineered products sales, engineering and design force was consolidated into one major facility in Farmington Hills, Michigan, a suburb of Detroit. The 35,000-square-foot facility houses the body seal, hose and vibration control products sales groups as well as an expanded engineering and design center for body sealing and hose. The facility enables the Company to provide more services to all of its engineered products customers.

Cooper engineers to evaluate design concepts before creating a production tool sample, a savings in both time and money.

FACILITIES

Cooper is committed to continuous improvement and growth to meet the worldwide demand for its products. Completion is expected in 1998 of a 76,000-square-foot engineering technical center in Auburn. This new facility will help provide an even higher

level of engineering excellence for customers and the entire engineered products operation.

The Bowling Green sealing plant was expanded during 1997 to include an additional 30,000 square feet of warehouse and manufacturing space. This expansion allows for increased production for new business contracts in the sealing product lines.

At the El Dorado vibration control manufacturing facility, a new, precision, high-output banbury rubber mixer was installed this past year along with additional equipment to meet increased business activities.

The Mount Sterling and Piedras Negras facilities received QS-9000 certifications in 1997. All six of Cooper's engineered products manufacturing locations now have achieved this status and continue to regularly pass all QS-9000 audits.

GLOSSARY OF TERMS

Benchmarking - Used to evaluate products or processes from various sources in order to determine what the state of the art is, or to compare a product to others available in the marketplace.

Damping - A material's ability to absorb energy to reduce vibration.

Tier-One - Manufacturers who supply parts or components directly to vehicle manufacturers. Companies at the Tier-Two level provide parts or materials to Tier-One suppliers.

QS-9000 - Rating program for automotive suppliers that certifies all quality procedures are fully documented and strictly followed.

MARKETING

Today's automotive manufacturers require suppliers to quickly provide parts everywhere vehicles are being manufactured. Cooper's first involvement in this world-car manufacturing concept was the Ford CDN 27 (Contour, Mystique and Mondeo) which was designed in Europe, tested in Michigan and Germany and built in Missouri, Mexico, England and Belgium. In order to be competitive in this "follow-me" sourcing environment, Cooper employees must work side-by-side with customer engineers and other

suppliers from around the world to develop parts to fit the manufacturer's requirements. Cooper is actively seeking opportunities for technical agreements and joint-ventures with other companies to strengthen its position in this global process.

Cooper engineered products appeared on every one of the top ten best selling vehicles in the United States again in 1997. The Company currently manufactures more than 1,800 types of parts which are sold directly to the automotive manufacturers or other Tier-One suppliers. As technology moves toward modularity – more assemblies of products rather than single product lines – Cooper is in a position to modify production to take advantage of this trend.

The Company's Auburn plant was recognized with several quality awards in 1997 including the Gold Pentastar from Chrysler and the Certified Supplier Award from Eaton Yale Suspension Division. Mount Sterling received the Q1 award from Ford Motor Company as well as the Gold Pentastar from Chrysler. Piedras Negras also received the Gold Pentastar from Chrysler.

The

1997 TOP TEN SELLING VEHICLES

Cooper has supplied parts for every vehicle on the 1997 top ten selling vehicles list as either a Tier-One or Tier-Two supplier.

- | | |
|-------------------------|-----------------------|
| 1. FORD F-SERIES PICKUP | 6. FORD TAURUS |
| 2. CHEVROLET C/K PICKUP | 7. DODGE RAM PICKUP |
| 3. TOYOTA CAMRY | 8. HONDA CIVIC |
| 4. HONDA ACCORD | 9. CHEVROLET CAVALIER |
| 5. FORD EXPLORER | 10. FORD RANGER |

Company is determined to stay competitive in today's automotive market with a commitment to investments in technology, facilities and people for greater business opportunities in the future. By producing high-quality products through innovative technology, it is the goal of Cooper to continue to grow as a world-class manufacturer of engineered products.



In 1997 Dodge launched its newest sport utility vehicle—the Durango. All of the body seals on the Durango are Cooper-made as well as a number of hose products and vibration control components.

PRODUCT OVERVIEW

TIRE PRODUCTS

Cooper sells replacement tires and tubes to consumers through a network of independent dealers, large wholesale distributors, mass merchandisers and large retail chains.

inner tubes

Radial passenger lines incorporate modern designs, competitive UTQG ratings and performance characteristics which meet the demands of today's driver.

Light trucks and SUVs accounted for five of the top ten best selling vehicles in 1997. Cooper's line-up meets the demand for style, durability and performance in this growing market.

medium truck

motorcycle

light truck

passenger

In the medium truck tire line, Cooper offers state-of-the-art radials along with conventional bias ply designs to meet the needs of tractor-trailer rigs, buses, and other commercial vehicles.

Cooper supplies inner tubes in both radial and bias constructions for passenger, light truck, medium truck and special applications.

Avon brand motorcycle tires are produced for sport and touring bikes and are highly respected worldwide by riders for their quality and performance.



vibration control



automotive sealing

ENGINEERED PRODUCTS

The Company supplies engineered rubber products to virtually every automobile manufacturer in the United States and Canada, either directly or through other Tier-One suppliers.

Vibration control systems help minimize vehicle vibrations. Cooper produces mounts, bushings, isolators and torsional springs to help reduce vehicle noise and increase passenger comfort.

Automotive sealing products help seal the vehicle from outside elements. Cooper manufactures rubber seals around vehicle doors, trunk and hood and window channels.

Hoses and assemblies are required to transport fluids, fuels and gases. Cooper's products include hoses in a variety of shapes, sizes, diameters, lengths, rubber compounds and constructions.



Financial Condition

The financial position of the Company continues to be excellent. Strong operating cash flows provided funds for investment in productivity, expansion, product quality and technology development and contributed to growing financial strength. The financial statements of the Company include amounts for the operations of Avon Tyres Limited, renamed Cooper-Avon Tyres Limited, of Melksham, England (Cooper-Avon) acquired late in the first quarter of 1997.

Working capital amounted to \$354 million at year-end 1997 compared with \$256 million one year earlier. A current ratio of 2.8 indicates a strong liquidity position and is up from the year-end 1996 current ratio of 2.4.

Accounts receivable increased to \$292 million from \$267 million at year-end 1996, reflecting the acquisition of Cooper-Avon offset by decreases in domestic receivable amounts resulting from the timing of receipts. Collection experience continues to be excellent and adequate allowances have been made for possible collection losses.

Total inventories at \$192 million were up from \$142 million at year-end 1996. Finished goods inventories contributed \$43 million of the increase resulting from the acquisition and inventory builds required during negotiations of labor contracts which took place late in the year. Work in process inventories were \$9 million higher and raw materials and supplies inventories were \$2 million lower than 1996.

Investments in property, plant and equipment were \$108 million in 1997 and are lower than the \$194 million invested in 1996. The Company's capital expenditure commitments approximated \$23 million at December 31, 1997. Capital expenditures in 1998 are anticipated to be higher than in 1997 but below 1996 levels. Funding for these expenditures will be available from operating cash flows with additional funding available, if needed, under the Company's existing commercial paper program, credit agreement and other informal lines of credit. Depreciation was \$94 million in 1997, a 23 percent increase from \$77 million in 1996, reflecting the significant capital expenditures in recent years.

Intangibles and other assets are up \$44 million reflecting the value of certain trademarks and technology acquired with the purchase of Cooper-Avon, as well as amounts related to pension accounting.

Long-term debt at \$206 million increased \$136 million from year-end 1996 reflecting the March 1997 issuance of \$200 million of 7 ⁵/₈ percent notes under the Company's Shelf Registration Statement, the retirement of the 9 percent

senior notes and the payment of scheduled debt maturities. The new notes were issued to finance stock repurchases and the acquisition of Cooper-Avon. Long-term debt, as a percent of total capitalization, increased to 19.8 percent at December 31, 1997 from 8.1 percent one year earlier.

Noncurrent deferred income taxes increased to \$74 million at December 31, 1997 from \$53 million one year earlier, primarily reflecting the excess of tax depreciation over book depreciation.

The Company has been named in environmental matters asserting potential joint and several liability for past and future cleanup, state and Federal claims, site remediation, and attorney fees. The Company has determined that it has no material liability for these matters. In addition, the Company is a defendant in unrelated product liability actions in Federal and state courts throughout the United States in which plaintiffs assert monetary damages. While the outcome of litigation cannot be predicted with certainty, the Company believes the pending claims and lawsuits against it should not have a material adverse effect on its financial condition or the results of its operations.

Stockholders' equity increased \$47 million during 1997 reaching \$834 million at year-end. The retention of earnings (net income less dividends paid) added \$95 million to stockholders' equity, but was partially offset by \$54 million relating to the repurchase of 2.7 million shares of the Company's stock. The adjustment to the minimum pension liability, recognition of the impact of cumulative foreign currency translation and exercise of stock options also contributed to the increase. Stockholders' equity per share was \$10.58 at year-end 1997, an increase of 9 percent over \$9.67 per share at year-end 1996.

Results of Operations

Customer demand for the Company's engineered rubber products was excellent. New and larger contracts with our customers continued to be achieved. Shipments of the Company's tires outpaced those of the industry and also benefited from inclusion of Cooper-Avon's operations during the last three quarters of the year. Net sales increased 12 percent in 1997 to a record of \$1.8 billion. This followed an 8 percent increase in sales in 1996 which resulted primarily from growth in customer demand. These improvements were achieved in an environment of intense competitive pressure.

Gross margins, as a percent of net sales, were 17.3 percent in 1997 compared to 15.6 percent in 1996 and 16.8

percent in 1995. During 1997, capacity utilization was maintained at high levels and technology improvements yielded greater efficiencies. However, decreases in raw material costs continued to be offset by price concessions. Cooper-Avon operations did not contribute to gross margin improvement in 1997. In 1996, intense pricing pressure in the replacement tire industry contributed to gross margin erosion from 1995. Raw material costs moderated in 1996, following two years of significant increases, and offset some of the price concessions.

Increases in 1997 selling, general and administrative expenses were attributable to the inclusion of Cooper-Avon and expanded advertising programs. As a percent of net sales, these expenses were 5.8 percent in 1997 compared to 4.9 percent in 1996. Selling, general and administrative expenses in 1996 were higher than in 1995. However, as a percent of net sales, these expenses were lower than the 5 percent incurred in 1995.

Interest expense in 1997 was higher than in 1996 reflecting increased borrowings and lower amounts of capitalized interest. The increase in interest expense in 1996 from 1995 resulted from increased borrowing partially offset by capitalized interest.

The effective income tax rate of 37.2 percent in 1997 is comparable to 37.3 percent in 1996 and 1995.

The operations of Cooper-Avon contributed to net sales in 1997 but did not contribute to the Company's increase in income. Since the acquisition in March 1997, operations have been negatively impacted by the combined strength of the British pound and the lower than expected shipments in the Western European replacement tire market.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," during the fourth quarter of 1997. The Standard replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Amounts presented in all years reflect the requirements of the new Standard. Earnings per share in 1997 were favorably impacted by the Company's repurchase of 5 million shares of its common stock since September 1996.

In June, 1997 the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which require the disclosure of total comprehensive income and change the method for determining and reporting business segment

information. The Company's components of comprehensive income have historically been for the impact of pension accounting and foreign currency. The FASB's approach to determine business segments will cause the Company to report certain financial information at segment levels. These Standards are required to be adopted in 1998.

The Company has developed and initiated its plans to address the possible exposures related to the impact of the Year 2000 on its systems and computer equipment. Key financial information and operational systems have been assessed and detailed plans have been implemented to address modifications required by December 31, 1999. The Company expects these modifications to be completed and tested by that time. The financial impact of making the required changes will be comprised of internal costs, excluding the costs required to upgrade and replace systems and equipment in the normal course of business, and is not expected to be material to the Company's consolidated financial position or results of operations. The Company has also initiated communications with its significant suppliers to ensure they have appropriate plans to resolve Year 2000 issues where failure of their systems could adversely affect the Company's operations.

Forward-Looking Statements

This report may contain forward-looking statements involving uncertainty and risk. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including but not limited to: changes in economic conditions in the world, increased competitive activity, technology advancements, fluctuations in raw material and energy prices, changes in foreign exchange rates, and other unanticipated events and conditions.

It is not possible to foresee or identify all such factors. Any forward-looking statements in this report are based on certain assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Prospective investors are cautioned that any such statements are not a guarantee of future performance and actual results or developments may differ materially from those projected. The Company makes no commitment to update any forward-looking statement included herein, or to disclose any facts, events or circumstances that may affect the accuracy of any forward-looking statement.

FINANCIAL REVIEW

(Dollar amounts in thousands; per-share amounts in dollars)

Significant Accounting Policies

The Company employs accounting policies that are based on generally accepted accounting principles. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect reported amounts of (1) revenues and expenses during the reporting period, and (2) assets and liabilities, as well as disclosure of contingent assets and liabilities, at the date of the financial statements. Actual results could differ from those estimates.

The following summary of significant accounting policies is presented for assistance in the evaluation and interpretation of the financial statements and supplementary data.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material intercompany accounts and transactions have been eliminated.

Cash and cash equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value.

Inventories - Inventories are valued at cost, which is not in excess of market. Inventory costs have been determined by the last-in, first-out (LIFO) method for substantially all domestic inventories. Costs of other inventories have been determined principally by the first-in, first-out (FIFO) method.

Property, plant and equipment - Assets are recorded at cost and depreciated or amortized using the straight-line method over their expected useful lives. For income tax purposes accelerated depreciation methods and shorter lives are used.

Intangibles - Intangibles include trademarks, technology and intellectual property acquired from Avon Rubber p.l.c. These assets are being amortized over their useful lives which range from 15 years to 40 years.

Stock options - The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Additional disclosures required under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," are included in the Stock Options note.

Revenue recognition - Revenues are recognized when goods are shipped to customers in accordance with their purchase orders.

Warranties - Estimated costs for product warranties are charged to income at the time of sale.

Research and development - Costs are charged to expense as incurred and amounted to approximately \$21,700, \$19,700 and \$16,000 in 1997, 1996 and 1995, respectively.

Earnings per share - During the fourth quarter of 1997 the Company adopted SFAS No. 128, "Earnings per Share." The Standard replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Amounts presented in all years reflect the requirements of the new Standard.

Accounting pronouncements - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which require the disclosure of total comprehensive income and change the method for determining and reporting business segment information. The Company's components of comprehensive income have historically been for the impact of pension accounting and foreign currency. The FASB's approach to determine business segments will cause the Company to report certain financial information at segment levels. These Standards are required to be adopted for fiscal years beginning after December 31, 1997.

Business

The Company, a specialist in the rubber industry, manufactures and markets automobile, truck and motorcycle tires; inner tubes; vibration control systems; automotive sealing; hose and assemblies. Product shipments to original equipment vehicle manufacturers historically have approximated 15 to 20 percent of net sales.

The Company manufactures products in North America and the United Kingdom for the transportation industry. Shipments of domestically-produced products to customers outside the United States approximated eight, nine and eight percent of net sales in 1997, 1996 and 1995, respectively. Sales to one major customer approximated 12, 17 and 14 percent of net sales in 1997, 1996 and 1995, respectively.

Acquisition

On March 14, 1997, the Company, through a wholly-owned United Kingdom subsidiary, acquired the tire operations of Avon Rubber p.l.c. (Avon) of the United Kingdom. This purchase includes the land and manufacturing facility in Melksham, England; the shares of Avon Tyres Limited and shares of tire distribution companies in France, Germany and Switzerland; and

other minor assets. In a separate transaction the Company acquired from Avon various trademarks and technology. The acquisitions have been accounted for as a purchase with allocations, subject to adjustments, as follows:

| | |
|-------------------------------------|-----------------|
| Working capital | \$37,861 |
| Property, plant and equipment | 54,288 |
| Intangibles and other assets | 28,710 |
| Debt | (13,867) |
| Other liabilities | <u>(10,461)</u> |
| | <u>\$96,531</u> |

The Company's consolidated financial results and financial position subsequent to the date of the acquisition reflect Avon operations. Had these acquisitions occurred as of the beginning of 1996, the pro forma results of operations giving effect to the acquisitions would not be materially different from the net sales, net income and earnings per share presented in the statements of income.

Inventories

Under the LIFO method, inventories have been reduced by approximately \$60,627 and \$73,925 at December 31, 1997 and 1996, respectively, from current cost which would be reported under the first-in, first-out method. Approximately 85 percent and 99 percent of the Company's inventories have been valued under the LIFO method at December 31, 1997 and 1996, respectively.

Debt

Short-term debt at December 31, 1997 consisted of bank line borrowings primarily in European currencies at a weighted average interest rate of 5.6 percent. At December 31, 1996 short-term debt consisted of commercial paper borrowings and notes payable at a weighted average interest rate of 5.6 percent.

The Company's long-term debt at December 31 consisted of the following:

| | 1997 | 1996 |
|--|------------------|-----------------|
| 7 ⁵ / ₈ % notes due 2027 | \$200,000 | \$ - |
| Commercial paper notes with a weighted average interest rate of 5.6% | - | 46,000 |
| 9% senior notes due 2001 | - | 22,727 |
| Capitalized leases and other | 5,978 | 5,843 |
| | 205,978 | 74,570 |
| Less current maturities | 453 | 5,081 |
| | <u>\$205,525</u> | <u>\$69,489</u> |

The Company has an agreement with four banks authorizing borrowings up to \$150,000 on a long-term basis through October 31, 2002 and \$100,000 on a

short-term basis, with interest at varying rates. The credit facility provides for borrowings in foreign currencies and supports the issuance of commercial paper. The proceeds may be used for general corporate purposes. A commitment fee is payable quarterly and is based on the daily unused portion of the amount authorized. The agreement requires the maintenance of certain debt and fixed charge coverage ratios. The Company has other informal lines of credit available to meet domestic borrowing needs.

In March 1997 the Company issued \$200,000 of 7⁵/₈ percent notes under a Registration Statement with the Securities and Exchange Commission. The notes, due March 15, 2027, provide for semiannual interest payments on March 15 and September 15 with principal due in full at maturity. Proceeds from the issuance were used for the repurchase of 5,000,000 shares of the Company's common stock and the acquisition of Avon Tyres Limited. Based on the borrowing rates available to the Company for instruments with similar terms and maturity at December 31, 1997 the fair value of the 7⁵/₈ percent notes was \$223,417.

On October 2, 1997 the Company retired the 9 percent senior notes due in 2001.

Interest paid on debt during 1997, 1996 and 1995 was \$12,983, \$6,217 and \$3,515, respectively. The amount of interest capitalized was \$1,628, \$4,315 and \$2,694 during 1997, 1996 and 1995, respectively.

The required principal payments for long-term debt during the next five years are as follows: 1998 - \$453; 1999 - \$224; 2000 - \$182; 2001 - none; 2002 - none.

Lease Commitments

The Company rents certain manufacturing facilities and equipment under long-term leases expiring at various dates. Rental expense for operating leases was \$11,079 for 1997, \$7,242 for 1996 and \$6,696 for 1995.

Future minimum payments for all noncancelable operating leases during the next five years are as follows: 1998 - \$5,069; 1999 - \$3,722; 2000 - \$2,485; 2001 - \$1,867; 2002 - \$1,350.

Accrued Liabilities

Accrued liabilities at December 31, were as follows:

| | 1997 | 1996 |
|---------------|-----------------|-----------------|
| Payroll | \$40,311 | \$32,299 |
| Other | 42,135 | 33,428 |
| | <u>\$82,446</u> | <u>\$65,727</u> |

FINANCIAL REVIEW

(Dollar amounts in thousands; per-share amounts in dollars)

Common Stock

There were 9,629,932 common shares reserved for the exercise of stock options and contributions to the Company's Thrift and Profit Sharing and Pre-Tax Savings plans at December 31, 1997.

Preferred Stock Purchase Right

Each stockholder is entitled to the right to purchase 1/100th of a newly-issued share of Series A preferred stock of the Company at an exercise price of \$16.88. The rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the Company's outstanding common stock, or commences a tender or exchange offer which upon consummation would result in such person or group beneficially owning 30 percent or more of the Company's outstanding common stock.

If any person becomes the beneficial owner of 25 percent or more of the Company's outstanding common stock, or if a holder of 20 percent or more of the Company's common stock engages in certain self-dealing transactions or a merger transaction in which the Company is the surviving corporation and its common stock remains outstanding, then each right not owned by such person or certain related parties will entitle its holder to purchase a number of shares of the Company's Series A preferred stock having a market value equal to twice the then current exercise price of the right. In addition, if the Company is involved in a merger or other business combination transaction with another person after which the Company's common stock does not remain outstanding, or if the Company sells 50 percent or more of its assets or earning power to another person, each right will entitle its holder to purchase a number of shares of common stock of such other person having a market value equal to twice the then current exercise price of the right.

The Company will generally be entitled to redeem the rights at one cent per right, or as adjusted to reflect stock splits or similar transactions, at any time until the tenth day following public announcement that a person or group has acquired 20 percent or more of the Company's common stock.

Stock Options

The Company has elected to follow APB No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock options. Under APB No. 25 no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of grant.

SFAS No. 123, "Accounting for Stock-Based Compensation," is effective for awards granted by the Company during fiscal years beginning after December 15, 1994. The Standard requires, if APB No. 25 is followed, disclosure of pro forma information regarding net income and earnings per share determined as if the Company accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

| | 1997 | 1996 | 1995 |
|---|-----------|-----------|-----------|
| Risk-free interest rate | 6.1% | 6.6% | 6.2% |
| Dividend yield | 1.0% | 1.0% | 1.0% |
| Expected volatility of the Company's common stock | .197 | .206 | .203 |
| Expected life | 6.2 years | 5.4 years | 5.3 years |

The weighted-average fair value of options granted in 1997, 1996 and 1995 was \$7.52, \$5.58 and \$6.98, respectively. For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options' vesting period. During 1995, only grants awarded during the year are amortized. During 1996, amortization attributable to grants awarded in both 1995 and 1996 impacts pro forma results. During 1997, amortization attributable to grants awarded in 1997, 1996 and 1995 impacts pro forma results. The Company's reported and pro forma information follows:

| | 1997 | 1996 | 1995 |
|---------------------------------------|-----------|-----------|-----------|
| Net income: | | | |
| Reported | \$122,411 | \$107,884 | \$112,820 |
| Pro forma | 121,603 | 107,363 | 112,653 |
| Basic and diluted earnings per share: | | | |
| Reported | \$1.55 | \$1.30 | \$1.35 |
| Pro forma | 1.54 | 1.29 | 1.35 |

The Company's 1981, 1986 and 1996 incentive stock option plans provide for granting options to key employees to purchase common shares at prices not less than market at the date of grant. Options under these plans may have terms of up to ten years becoming exercisable in whole or in consecutive installments, cumulative or otherwise. The 1981 and 1986 plans were amended in 1988 to allow the granting of nonqualified stock options. Nonqualified stock options are not intended to qualify for the tax treatment applicable to incentive stock options under provisions of the Internal Revenue Code. The options granted under these plans which were outstanding at December 31, 1997 have a term of ten years and become exercisable 50 percent after the first year and 100 percent after the second year.

The Company's 1991 nonqualified stock option plan provides for granting options to directors, who are not current or former employees of the Company, to purchase common shares at prices not less than market at the date of grant. Options granted under this plan have a term of ten years and are exercisable in full beginning one year after the date of grant.

Summarized information for the plans follows:

| | Number of Shares | Weighted Average Exercise Price | Price Range Per Share |
|-----------------------------|------------------------|--|--------------------------|
| January 1, 1995 | | | |
| Outstanding | 475,232 | \$18.15 | \$ 5.09 - \$34.69 |
| Exercisable | 355,522 | 15.93 | |
| Granted under 1986 plan ... | 103,800 | 24.13 | 24.13 |
| Granted under 1991 plan ... | 3,153 | 24.25 | 24.25 |
| Exercised | (27,900) | 10.87 | 5.09 - 25.00 |
| Cancelled | (13,110) | 24.90 | 24.13 - 25.00 |
| December 31, 1995 | | | |
| Outstanding | 541,175 | 19.54 | 5.09 - 34.69 |
| Exercisable | 397,822 | 17.85 | |
| Granted under 1991 plan ... | 1,703 | 24.31 | 24.31 |
| Granted under 1996 plan ... | 140,900 | 18.50 | 18.50 |
| Exercised | (10,400) | 10.23 | 5.09 - 15.19 |
| Cancelled | (27,786) | 19.57 | 5.09 - 34.69 |
| December 31, 1996 | | | |
| Outstanding | 645,592 | 19.47 | 5.09 - 34.69 |
| Exercisable | 454,439 | 19.24 | |
| Granted under 1991 plan ... | 1,955 | 22.69 | 22.69 |
| Granted under 1996 plan ... | 229,000 | 24.50 | 24.50 |
| Exercised | (87,936) | 13.20 | 5.09 - 25.00 |
| Cancelled | (32,264) | 22.87 | 15.19 - 34.69 |
| December 31, 1997 | | | |
| Outstanding | 756,347 | 21.59 | 5.09 - 34.69 |
| Exercisable | 460,992 | 20.58 | |

The weighted average remaining contractual life of options outstanding at December 31, 1997 is 7.1 years.

SFAS No. 123 also requires segregated disclosure of options outstanding if a significant range of exercise prices exists. This information, at December 31, 1997, is as follows:

| | Range of Exercise Prices | |
|--|--------------------------|----------------------------------|
| | Less than \$24 | Equal to or greater than \$24 |
| Options outstanding | 248,555 | 507,792 |
| Weighted average exercise price | \$15.53 | \$24.56 |
| Remaining contractual life ... | 5.9 | 7.7 |
| Options exercisable | 182,100 | 278,892 |
| Weighted average exercise price | \$14.40 | \$24.61 |

The status of options exercisable and available for grant for each plan is as follows:

| | 1981 Plan | 1986 Plan | 1991 Plan | 1996 Plan |
|-------------------------|--------------|--------------|--------------|--------------|
| December 31, 1995 | | | | |
| Exercisable | 22,424 | 367,012 | 8,386 | |
| Available for grant ... | - | 1,146,300 | 88,225 | |
| December 31, 1996 | | | | |
| Exercisable | 22,424 | 425,712 | 6,303 | - |
| Available for grant ... | - | - | 90,758 | 3,060,600 |
| December 31, 1997 | | | | |
| Exercisable | 6,800 | 384,650 | 5,492 | 64,050 |
| Available for grant ... | - | - | 90,317 | 2,841,500 |

Earnings Per Share

Basic earnings per share is based upon the weighted average number of shares outstanding which were 79,127,577 in 1997, 83,213,960 in 1996 and 83,645,864 in 1995. Diluted earnings per share includes the dilutive effect of employee stock options. The impact of employee stock options in the computation of diluted earnings per share did not result in amounts different from basic earnings per share.

Pensions

The Company has defined benefit plans covering substantially all employees. The domestic salary plan provides pension benefits based on an employee's years of service and average earnings for the five highest calendar years during the ten years immediately preceding retirement. The domestic hourly plans provide benefits of stated amounts for each year of service. The Company's general funding policy is to contribute amounts deductible for Federal income tax purposes.

Employees in the United Kingdom are covered by a contributory, defined benefit pension plan. Benefits are based on an employee's years of service and last three years of earnings. Employees may make contributions to the plan to increase their benefit. The Company's funding requirement is determined by statute.

Pension expense for 1997, 1996 and 1995 included the following components:

| | 1997 | 1996 | 1995 |
|------------------------------------|-----------------|-----------------|-----------------|
| Service cost | \$16,668 | \$13,811 | \$ 9,833 |
| Interest cost | 32,716 | 24,707 | 20,374 |
| Actual return on plan assets | (70,573) | (44,559) | (54,268) |
| Net amortization and deferral ... | 37,356 | 24,144 | 38,966 |
| Net periodic pension cost | <u>\$16,167</u> | <u>\$18,103</u> | <u>\$14,905</u> |

FINANCIAL REVIEW

(Dollar amounts in thousands; per-share amounts in dollars)

Net periodic pension cost in 1997 includes \$2,018 attributable to nine months of operations for the United Kingdom plan. The increases in service and interest costs in 1996 result from changes in certain demographic actuarial assumptions made at December 31, 1995.

The plans' assets consist of cash, cash equivalents and marketable securities. The funded status of the Company's domestic and United Kingdom plans at December 31, 1997 and 1996 was as follows:

| | December 31, 1997 | | December 31, 1996 | |
|---|--|--|--|--|
| | Plans for Which | | Plans for Which | |
| | Assets Exceed Accumulated Benefits | Accumulated Benefits Exceed Assets | Assets Exceed Accumulated Benefits | Accumulated Benefits Exceed Assets |
| Actuarial present value of benefit obligations: | | | | |
| Vested benefit obligation | \$263,848 | \$124,817 | \$147,256 | \$120,221 |
| Accumulated benefit obligation | \$267,971 | \$128,361 | \$150,416 | \$123,905 |
| Projected benefit obligation | \$382,367 | \$129,938 | \$218,512 | \$124,911 |
| Plans' assets at fair value | 405,668 | 109,032 | 225,077 | 95,195 |
| Projected benefit obligation less than (in excess of) plan assets | 23,301 | (20,906) | 6,565 | (29,716) |
| Unrecognized transition amount | 3,753 | 1,970 | 4,485 | 2,326 |
| Unrecognized prior service cost | 309 | 10,356 | 93 | 9,818 |
| Unrecognized net loss | 4,180 | 8,412 | 12,736 | 12,753 |
| Adjustment for minimum liability | - | (19,910) | - | (24,709) |
| Pension asset (liability) recognized in the Balance Sheet | \$ 31,543 | \$(20,078) | \$ 23,879 | \$(29,528) |

For domestic plans, the assumed rate of increase in future compensation levels was 5.5 percent and the assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5 percent at December 31, 1997 and 1996. The expected long-term rate of return on the plans' assets was 10 percent in 1997, 1996 and 1995.

For the United Kingdom plan, the assumed discount rate used was 7.5 percent, the assumed rate of increase in future compensation levels was 5.5 percent and the expected long-term rate of return on the plans' assets was 8.5 percent at December 31, 1997.

The information presented above includes an unfunded, nonqualified supplemental executive retirement plan covering certain employees whose participation in the qualified plan is limited by provisions of the Internal Revenue Code.

The Company sponsors several defined contribution plans for its domestic employees. Substantially all domestic employees are eligible to participate upon attaining minimum continuous

service requirements. Participation is voluntary and participants' contributions are based on their compensation. The Company matches certain plan participants' contributions up to various limits. Company contributions are based on the lesser of (a) participants' contributions up to a specified percent of each participant's compensation, less any forfeitures, or (b) an amount equal to 15 percent of the Company's pre-tax earnings in excess of ten percent of stockholders' equity at the beginning of the year. Expense for these plans was \$9,334, \$8,331 and \$8,489 for 1997, 1996 and 1995, respectively.

Postretirement Benefits Other Than Pensions

The Company currently provides certain health care and life insurance benefits for its active and retired domestic employees. If the Company does not terminate such benefits, or modify coverage or eligibility requirements, substantially all of the Company's domestic employees may become eligible for these benefits upon retirement if they meet certain age and

service requirements. The Company has reserved the right to modify or terminate such benefits at any time, subject to applicable terms and conditions contained in union agreements for non-salary participants. In recent years benefit changes have been implemented throughout the Company.

The Company continues to fund these benefit costs as claims are incurred. Postretirement benefits expense for 1997, 1996 and 1995 included the following components:

| | 1997 | 1996 | 1995 |
|---------------------|-----------------|-----------------|-----------------|
| Service cost | \$ 3,465 | \$ 3,254 | \$ 2,607 |
| Interest cost | 11,468 | 10,674 | 9,810 |
| Amortization | — | — | (333) |
| | <u>\$14,933</u> | <u>\$13,928</u> | <u>\$12,084</u> |

The status of the Company's plans at December 31, 1997 and 1996 was as follows:

| | 1997 | 1996 |
|--|------------------|------------------|
| Accumulated postretirement benefits obligation (APBO): | | |
| Retirees | \$ 80,812 | \$ 78,378 |
| Fully eligible active plan participants ... | 25,074 | 26,413 |
| Other active plan participants | <u>47,251</u> | <u>39,143</u> |
| | 153,137 | 143,934 |
| Deferred gain | 429 | 2,836 |
| Postretirement benefits liability | <u>\$153,566</u> | <u>\$146,770</u> |

These amounts are included in the accompanying balance sheet captions:

| | 1997 | 1996 |
|---|------------------|------------------|
| Accrued liabilities | \$ 9,000 | \$ 7,700 |
| Postretirement benefits other than pensions | <u>144,566</u> | <u>139,070</u> |
| | <u>\$153,566</u> | <u>\$146,770</u> |

The discount rate used in determining the APBO was 8 percent in 1997 and 1996. At December 31, 1997, the assumed average annual rate of increase in the cost of health care benefits (health care cost trend rate) was 8.5 percent for 1998 declining by 1/2 percent per year through 2004 when the ultimate rate of 5.5 percent is attained. This trend rate assumption has a significant effect on the amounts reported above. A 1 percent increase in the health care cost trend rate would increase the APBO by \$3,658 and the net periodic expense by \$405 for the year.

The Company has a Voluntary Employees' Beneficiary Trust and Welfare Benefits Plan (VEBA) to fund health benefits for eligible active and retired domestic employees. The pre-funded amount was \$13,400 in 1997 and \$11,400 in 1996.

Income Taxes

The provision for income taxes consists of the following:

| | 1997 | 1996 | 1995 |
|---------------------------|-----------------|-----------------|-----------------|
| Current: | | | |
| Federal and foreign | \$52,570 | \$44,250 | \$51,141 |
| State and local | <u>6,310</u> | <u>5,862</u> | <u>6,753</u> |
| | 58,880 | 50,112 | 57,894 |
| Deferred: | | | |
| Federal and foreign | 11,738 | 12,096 | 8,062 |
| State and local | <u>1,763</u> | <u>2,000</u> | <u>1,294</u> |
| | 13,501 | 14,096 | 9,356 |
| | <u>\$72,381</u> | <u>\$64,208</u> | <u>\$67,250</u> |

The effective income tax rate differs from the statutory Federal tax rate as follows:

| | 1997 | 1996 | 1995 |
|--|--------------|--------------|--------------|
| Statutory Federal tax rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of Federal income tax benefit | 2.7 | 3.0 | 2.9 |
| Other | <u>(0.5)</u> | <u>(0.7)</u> | <u>(0.6)</u> |
| Effective income tax rate | <u>37.2%</u> | <u>37.3%</u> | <u>37.3%</u> |

Payments for income taxes in 1997, 1996 and 1995 were \$55,610, \$57,884 and \$53,110, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1997 and 1996 are as follows:

| | 1997 | 1996 |
|---|------------------|-----------------|
| Deferred tax liabilities: | | |
| Property, plant and equipment | \$107,424 | \$87,327 |
| Other | <u>35,434</u> | <u>28,647</u> |
| Total deferred tax liabilities | 142,858 | 115,974 |
| Deferred tax assets: | | |
| Postretirement benefits other than pensions | 53,957 | 50,661 |
| Other | <u>26,833</u> | <u>24,175</u> |
| Total deferred tax assets | 80,790 | 74,836 |
| Net deferred tax liabilities | <u>\$ 62,068</u> | <u>\$41,138</u> |

These amounts are included in the accompanying balance sheet captions:

| | 1997 | 1996 |
|--|-----------------|-----------------|
| Prepaid expenses and deferred income taxes | \$11,540 | \$11,630 |
| Deferred income taxes | <u>73,608</u> | <u>52,768</u> |
| Net deferred tax liabilities | <u>\$62,068</u> | <u>\$41,138</u> |

CONSOLIDATED BALANCE SHEETS

December 31

(Dollar amounts in thousands; per-share amounts in dollars)

| Assets | 1997 | 1996 |
|--|--------------------|--------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 52,910 | \$ 19,459 |
| Accounts receivable, less allowances of \$4,791 in 1997 and \$3,700 in 1996 | 292,416 | 267,149 |
| Inventories: | | |
| Finished goods | 130,339 | 87,105 |
| Work in process | 22,650 | 13,419 |
| Raw materials and supplies | <u>38,695</u> | <u>41,094</u> |
| | 191,684 | 141,618 |
| Prepaid expenses and deferred income taxes | <u>17,602</u> | <u>15,399</u> |
| Total current assets | 554,612 | 443,625 |
| Property, plant and equipment: | | |
| Land and land improvements | 28,765 | 23,641 |
| Buildings | 272,308 | 265,118 |
| Machinery and equipment | 1,013,354 | 882,774 |
| Molds, cores and rings | <u>84,660</u> | <u>69,316</u> |
| | 1,399,087 | 1,240,849 |
| Less accumulated depreciation and amortization | <u>538,639</u> | <u>448,430</u> |
| Net property, plant and equipment | 860,448 | 792,419 |
| Intangibles and other assets | 80,896 | 36,965 |
| | <u>\$1,495,956</u> | <u>\$1,273,009</u> |

See Financial Review, pages 14 to 19.

| Liabilities and Stockholders' Equity | 1997 | 1996 |
|--|--------------------|--------------------|
| Current liabilities: | | |
| Notes payable | \$ 10,820 | \$ 32,000 |
| Accounts payable | 100,135 | 81,571 |
| Accrued liabilities | 82,446 | 65,727 |
| Income taxes | 6,477 | 3,116 |
| Current portion of debt | <u>453</u> | <u>5,081</u> |
| Total current liabilities | 200,331 | 187,495 |
| Long-term debt | 205,525 | 69,489 |
| Postretirement benefits other than pensions | 144,566 | 139,070 |
| Other long-term liabilities | 38,351 | 37,575 |
| Deferred income taxes | 73,608 | 52,768 |
| Stockholders' equity: | | |
| Preferred stock, \$1 per share par value; 5,000,000 shares authorized; none issued | — | — |
| Common stock, \$1 per share par value; 300,000,000 shares authorized; 83,760,308 shares issued (83,672,372 in 1996) | 83,760 | 83,672 |
| Capital in excess of par value | 3,101 | 2,027 |
| Retained earnings | 849,270 | 754,481 |
| Cumulative currency translation adjustment | 2,448 | — |
| Minimum pension liability | <u>(4,753)</u> | <u>(7,434)</u> |
| | 933,826 | 832,746 |
| Less: 5,000,000 common shares in treasury at cost (2,305,500 in 1996) | <u>(100,251)</u> | <u>(46,134)</u> |
| Total stockholders' equity | <u>833,575</u> | <u>786,612</u> |
| | <u>\$1,495,956</u> | <u>\$1,273,009</u> |

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

(Dollar amounts in thousands; per-share amounts in dollars)

| | 1997 | 1996 | 1995 |
|--|-------------------|-------------------|-------------------|
| Revenues: | | | |
| Net sales | \$1,813,005 | \$1,619,345 | \$1,493,622 |
| Other income | <u>1,406</u> | <u>824</u> | <u>3,836</u> |
| | 1,814,411 | 1,620,169 | 1,497,458 |
| Costs and expenses: | | | |
| Cost of products sold | 1,498,432 | 1,366,549 | 1,242,895 |
| Selling, general and administrative | 105,532 | 79,874 | 73,796 |
| Interest | <u>15,655</u> | <u>1,654</u> | <u>697</u> |
| | <u>1,619,619</u> | <u>1,448,077</u> | <u>1,317,388</u> |
| Income before income taxes | 194,792 | 172,092 | 180,070 |
| Provision for income taxes | <u>72,381</u> | <u>64,208</u> | <u>67,250</u> |
| Net income | <u>\$ 122,411</u> | <u>\$ 107,884</u> | <u>\$ 112,820</u> |
| Basic and diluted earnings per share | <u>\$1.55</u> | <u>\$1.30</u> | <u>\$1.35</u> |

See Financial Review, pages 14 to 19.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollar amounts in thousands; per-share amounts in dollars)

| | Common Stock \$1 Par Value | Capital In Excess of Par Value | Retained Earnings | Cumulative Currency Translation Adjustment | Minimum Pension Liability | Common Shares in Treasury | Total |
|--|----------------------------------|--------------------------------------|----------------------|---|---------------------------------|---------------------------------|------------------|
| Balance at January 1, 1995 | \$83,634 | \$1,656 | \$582,137 | \$ - | \$ (5,350) | \$ - | \$662,077 |
| Net income | | | 112,820 | | | | 112,820 |
| Exercise of stock options | 28 | 275 | | | | | 303 |
| Cash dividends - \$.27 per share ... | | | (22,584) | | | | (22,584) |
| Minimum pension liability adjustment, net of income taxes..... | | | | | (3,817) | | (3,817) |
| Balance at December 31, 1995 | 83,662 | 1,931 | 672,373 | - | (9,167) | - | 748,799 |
| Net income | | | 107,884 | | | | 107,884 |
| Purchase of treasury shares | | | | | | (46,134) | (46,134) |
| Exercise of stock options | 10 | 96 | | | | | 106 |
| Cash dividends - \$.31 per share ... | | | (25,776) | | | | (25,776) |
| Minimum pension liability adjustment, net of income taxes..... | | | | | 1,733 | | 1,733 |
| Balance at December 31, 1996 | 83,672 | 2,027 | 754,481 | - | (7,434) | (46,134) | 786,612 |
| Net income | | | 122,411 | | | | 122,411 |
| Purchase of treasury shares | | | | | | (54,117) | (54,117) |
| Exercise of stock options | 88 | 1,074 | | | | | 1,162 |
| Cash dividends - \$.35 per share ... | | | (27,622) | | | | (27,622) |
| Cumulative currency translation adjustment..... | | | | 2,448 | | | 2,448 |
| Minimum pension liability adjustment, net of income taxes..... | | | | | 2,681 | | 2,681 |
| Balance at December 31, 1997 | <u>\$83,760</u> | <u>\$3,101</u> | <u>\$849,270</u> | <u>\$2,448</u> | <u>\$ (4,753)</u> | <u>\$ (100,251)</u> | <u>\$833,575</u> |

See Financial Review, pages 14 to 19.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(Dollar amounts in thousands)

| | 1997 | 1996 | 1995 |
|--|------------------|------------------|------------------|
| Operating activities: | | | |
| Net income | \$122,411 | \$107,884 | \$112,820 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 94,464 | 76,820 | 63,313 |
| Deferred income taxes | 13,501 | 14,096 | 9,356 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 16,783 | (10,100) | (35,812) |
| Inventories and prepaid expenses | (21,796) | (6,669) | (20,159) |
| Accounts payable and accrued liabilities | (3,973) | 4,799 | 2,052 |
| Postretirement benefits other than pensions | 6,796 | 7,207 | 6,315 |
| Other | (17,769) | (5,830) | 3,051 |
| Net cash provided by operating activities | 210,417 | 188,207 | 140,936 |
| Investing activities: | | | |
| Property, plant and equipment | (107,523) | (193,696) | (194,894) |
| Acquisition of business, net of cash acquired | (96,531) | — | — |
| Other | 711 | 604 | 1,258 |
| Net cash used in investing activities | (203,343) | (193,092) | (193,636) |
| Financing activities: | | | |
| Issuance of debt | 386,000 | 162,000 | — |
| Payment on debt | (280,292) | (89,039) | (5,117) |
| Purchase of treasury shares | (54,117) | (46,134) | — |
| Payment of dividends | (27,622) | (25,776) | (22,584) |
| Issuance of common shares | 1,162 | 106 | 303 |
| Net cash provided by (used in) financing activities | 25,131 | 1,157 | (27,398) |
| Effects of exchange rate changes on cash | 1,246 | — | — |
| Changes in cash and cash equivalents | 33,451 | (3,728) | (80,098) |
| Cash and cash equivalents at beginning of year | 19,459 | 23,187 | 103,285 |
| Cash and cash equivalents at end of year | <u>\$ 52,910</u> | <u>\$ 19,459</u> | <u>\$ 23,187</u> |

See Financial Review, pages 14 to 19.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Cooper Tire & Rubber Company is responsible for the integrity, objectivity and accuracy of the financial statements of the Company. The statements have been prepared by the Company in accordance with generally accepted accounting principles and, where appropriate, are based on management's best estimates and judgment. The financial information presented in this report is consistent with the statements.

The accounting systems established and maintained by the Company are supported by adequate internal controls augmented by written policies, internal audits and the training of qualified personnel.

The accompanying financial statements have been audited by Ernst & Young LLP, independent auditors, whose report appears herein.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The committee meets regularly with management, the Company's internal auditors and its independent auditors to discuss their evaluations of internal accounting controls, the audit scopes and the quality of financial reporting. The independent auditors and the internal auditors have free access to the committee, without management's presence, to discuss the results of their respective audits.



Patrick W. Rooney
*Chairman of the Board,
President, Chief Executive Officer*



J. Alec Reinhardt
*Executive Vice President,
Chief Financial Officer*

REPORT OF INDEPENDENT AUDITORS

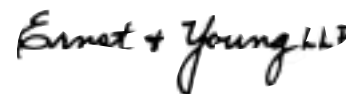
The Board of Directors
Cooper Tire & Rubber Company

We have audited the accompanying consolidated balance sheets of Cooper Tire & Rubber Company as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cooper Tire & Rubber Company at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.



Toledo, Ohio
February 10, 1998

ELEVEN-YEAR SUMMARY OF OPERATIONS AND FINANCIAL DATA

| | Net Sales | Gross Margin | Operating Margin | Income Before Income Taxes ^(a) | Income Taxes | Income ^(a) | Net Income |
|------|-------------|--------------|------------------|---|--------------|-----------------------|------------|
| 1997 | \$1,813,005 | \$314,573 | \$209,041 | \$194,792 | \$72,381 | \$122,411 | \$122,411 |
| 1996 | 1,619,345 | 252,796 | 172,922 | 172,092 | 64,208 | 107,884 | 107,884 |
| 1995 | 1,493,622 | 250,727 | 176,931 | 180,070 | 67,250 | 112,820 | 112,820 |
| 1994 | 1,403,243 | 277,265 | 208,517 | 208,119 | 79,600 | 128,519 | 128,519 |
| 1993 | 1,193,648 | 228,295 | 166,013 | 164,250 | 62,040 | 102,210 | 102,210 |
| 1992 | 1,174,728 | 229,332 | 170,646 | 169,841 | 61,670 | 108,171 | 43,211 |
| 1991 | 1,001,071 | 180,432 | 128,495 | 124,465 | 45,030 | 79,435 | 79,435 |
| 1990 | 895,896 | 155,892 | 108,715 | 104,874 | 38,410 | 66,464 | 66,464 |
| 1989 | 866,805 | 139,482 | 94,188 | 92,624 | 34,380 | 58,244 | 58,244 |
| 1988 | 748,032 | 106,419 | 66,575 | 64,912 | 23,850 | 41,062 | 41,062 |
| 1987 | 665,775 | 93,877 | 56,031 | 53,090 | 22,410 | 30,680 | 30,680 |

| | Stockholders' Equity | Total Assets | Working Capital | Net Property, Plant & Equipment | Capital Expenditures | Depreciation | Long-term Debt |
|------|----------------------|--------------|-----------------|---------------------------------|----------------------|--------------|----------------|
| 1997 | \$833,575 | \$1,495,956 | \$354,281 | \$860,448 | \$107,523 | \$94,464 | \$205,525 |
| 1996 | 786,612 | 1,273,009 | 256,130 | 792,419 | 193,696 | 76,820 | 69,489 |
| 1995 | 748,799 | 1,143,701 | 272,216 | 678,876 | 194,894 | 63,313 | 28,574 |
| 1994 | 662,077 | 1,039,731 | 303,103 | 549,601 | 78,449 | 55,603 | 33,614 |
| 1993 | 550,186 | 889,584 | 204,857 | 527,949 | 117,249 | 46,352 | 38,729 |
| 1992 | 471,474 | 796,858 | 175,154 | 460,373 | 110,157 | 38,077 | 48,075 |
| 1991 | 439,648 | 670,572 | 144,285 | 388,557 | 85,954 | 31,969 | 53,512 |
| 1990 | 369,003 | 616,458 | 167,291 | 334,794 | 100,141 | 27,615 | 91,027 |
| 1989 | 310,064 | 519,893 | 150,285 | 262,445 | 73,182 | 23,393 | 65,727 |
| 1988 | 257,756 | 442,582 | 143,101 | 212,923 | 70,621 | 19,873 | 67,790 |
| 1987 | 221,566 | 413,306 | 154,283 | 162,447 | 41,507 | 18,436 | 70,059 |

| | Return On Beginning Equity ^(a) | Return On Beginning Assets ^(a) | Current Ratio | Pretax Margin ^(a) | Effective Tax Rate ^(a) | Return On Sales ^(a) | Long-term Debt To Capitalization |
|------|---|---|---------------|------------------------------|-----------------------------------|--------------------------------|----------------------------------|
| 1997 | 15.6% | 9.6% | 2.8 | 10.7% | 37.2% | 6.8% | 19.8% |
| 1996 | 14.4 | 9.4 | 2.4 | 10.6 | 37.3 | 6.7 | 8.1 |
| 1995 | 17.0 | 10.9 | 2.7 | 12.1 | 37.3 | 7.6 | 3.7 |
| 1994 | 23.4 | 14.4 | 3.0 | 14.8 | 38.2 | 9.2 | 4.8 |
| 1993 | 21.7 | 12.8 | 2.6 | 13.8 | 37.8 | 8.6 | 6.6 |
| 1992 | 24.6 | 16.1 | 2.3 | 14.5 | 36.3 | 9.2 | 9.3 |
| 1991 | 21.5 | 12.9 | 2.2 | 12.4 | 36.2 | 7.9 | 10.9 |
| 1990 | 21.4 | 12.8 | 2.7 | 11.7 | 36.6 | 7.4 | 19.8 |
| 1989 | 22.6 | 13.2 | 2.5 | 10.7 | 37.1 | 6.7 | 17.5 |
| 1988 | 18.5 | 9.9 | 2.7 | 8.7 | 36.7 | 5.5 | 20.8 |
| 1987 | 15.7 | 8.3 | 2.6 | 8.0 | 42.2 | 4.6 | 24.0 |

(a) Prior to cumulative effect of changes in accounting in 1992 for postretirement benefits other than pensions and income taxes.

(b) Basic and diluted earnings per share prior to cumulative effect of changes in accounting were \$1.30 and \$1.29, respectively.

(c) Share data reflects stock splits in 1992, 1990 and 1988.

(d) Excluding Federal excise taxes.

(Dollar amounts in thousands; per-share amounts in dollars)

| | Earnings Per Share ^(c) | | Equity Per Share ^(c) | Dividends Per Share ^(c) | Common Shares Average (000) ^(c) | Common Shares Year End (000) ^(c) |
|-------------|-----------------------------------|--------------------|------------------------------------|---------------------------------------|---|--|
| | Basic | Diluted | | | | |
| 1997 | \$1.55 | \$1.55 | \$10.58 | \$.35 | 79,128 | 78,760 |
| 1996 | 1.30 | 1.30 | 9.67 | .31 | 83,214 | 81,367 |
| 1995 | 1.35 | 1.35 | 8.95 | .27 | 83,646 | 83,662 |
| 1994 | 1.54 | 1.53 | 7.92 | .23 | 83,623 | 83,634 |
| 1993 | 1.22 | 1.22 | 6.58 | .20 | 83,550 | 83,582 |
| 1992 | .52 ^(b) | .52 ^(b) | 5.65 | .17 | 83,357 | 83,511 |
| 1991 | .96 | .95 | 5.30 | .13 | 82,738 | 82,962 |
| 1990 | .81 | .80 | 4.47 | .11 | 82,391 | 82,519 |
| 1989 | .71 | .70 | 3.77 | .09 | 82,077 | 82,259 |
| 1988 | .50 | .50 | 3.15 | .07 | 81,583 | 81,821 |
| 1987 | .38 | .38 | 2.72 | .06 | 81,258 | 81,383 |

| | Number of Stockholders | Number of Employees | Wages & Benefits | Total Taxes ^(d) | Research & Development | Stock Price ^(c) | | Price/Earnings Average Ratio ^(a) |
|-------------|---------------------------|------------------------|---------------------|-------------------------------|---------------------------|----------------------------|---------|--|
| | | | | | | High | Low | |
| 1997 | 5,281 | 10,456 | \$517,716 | \$121,189 | \$21,700 | \$28.44 | \$18.00 | 15.0 |
| 1996 | 5,991 | 8,932 | 440,393 | 102,097 | 19,700 | 27.25 | 18.00 | 17.4 |
| 1995 | 6,721 | 8,284 | 411,694 | 101,884 | 16,000 | 29.63 | 22.25 | 19.2 |
| 1994 | 7,623 | 7,815 | 382,002 | 111,504 | 14,700 | 29.50 | 21.63 | 16.6 |
| 1993 | 8,096 | 7,607 | 346,062 | 91,479 | 15,100 | 39.63 | 20.00 | 24.4 |
| 1992 | 6,142 | 7,207 | 329,396 | 46,432 | 13,700 | 35.63 | 22.00 | 22.2 |
| 1991 | 4,492 | 6,545 | 266,683 | 67,933 | 14,000 | 26.25 | 7.88 | 17.8 |
| 1990 | 4,459 | 6,225 | 256,076 | 59,802 | 10,800 | 10.50 | 6.19 | 10.3 |
| 1989 | 3,871 | 6,041 | 233,881 | 54,020 | 10,300 | 9.75 | 5.63 | 10.8 |
| 1988 | 3,627 | 6,031 | 217,480 | 41,743 | 11,200 | 6.81 | 3.53 | 10.3 |
| 1987 | 3,516 | 5,720 | 189,209 | 39,056 | 10,300 | 4.97 | 2.78 | 10.3 |

SELECTED QUARTERLY DATA

(Unaudited)

| | Net Sales | Gross Margin | Net Income | Earnings Per Share | Dividend Per Share | Stock Price | |
|---------------|--------------|-----------------|---------------|-----------------------|-----------------------|-----------------------------------|------------------------------------|
| | | | | | | High | Low |
| 1997 | | | | | | | |
| Fourth | \$488,908 | \$86,474 | \$34,631 | \$.44 | \$.095 | \$28 ⁷ / ₁₆ | \$20 ¹³ / ₁₆ |
| Third | 480,572 | 80,095 | 31,124 | .40 | .085 | 27 | 21 ¹³ / ₁₆ |
| Second | 463,993 | 84,385 | 31,506 | .40 | .085 | 23 ¹ / ₂ | 18 |
| First | 379,532 | 63,619 | 25,150 | .31 | .085 | 21 ⁵ / ₈ | 18 ¹ / ₄ |
| 1996 | | | | | | | |
| Fourth | \$416,277 | \$71,704 | \$32,700 | \$.40 | \$.085 | \$21 ⁷ / ₈ | \$18 ³ / ₄ |
| Third | 423,172 | 64,095 | 26,913 | .32 | .075 | 22 ³ / ₈ | 18 |
| Second | 398,858 | 60,292 | 25,162 | .30 | .075 | 26 ⁵ / ₈ | 21 ⁷ / ₈ |
| First | 381,038 | 56,705 | 23,109 | .28 | .075 | 27 ¹ / ₄ | 22 ³ / ₄ |

Earnings per share amounts are basic and diluted as computed under the requirements of Statement of Financial Accounting Standards No. 128, "Earnings per Share." The common stock of the Company (CTB) is traded on the New York Stock Exchange.

DIRECTORY

EXECUTIVE OFFICES

Cooper Tire & Rubber Company
701 Lima Avenue
Findlay, Ohio 45840
(419) 423-1321

TRANSFER AGENT & REGISTRAR

Fifth Third Bank
38 Fountain Square Plaza; MD - 1090F5
Cincinnati, Ohio 45263
(800) 837-2755

FOR INFORMATION

Tires and tubes – (800) 854-6288
Engineered products – (219) 925-0700
Common stock and dividends – (419) 424-4233
Web site – www.coopertire.com

Direct investment plan – Fifth Third Bank serves as Administrator for a direct investment plan for the purchase, sale and/or dividend reinvestment of Cooper Tire & Rubber Company common stock. For information, call: (800) 837-2755.

ANNUAL MEETING

The annual meeting of stockholders will be held at 10 a.m., Tuesday, May 5, 1998, at Urbanski's, 1500 Manor Hill Road, Findlay, Ohio. All stockholders are cordially invited to attend. Proxy material is sent to stockholders together with this report.

FORM 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K, including the financial statements and schedules thereto, will be furnished after March 24, 1998, upon written request to: Secretary, Cooper Tire & Rubber Company, Findlay, Ohio 45839-0550.

BOARD OF DIRECTORS

Arthur H. Aronson²
*Executive Vice President,
Allegheny Teledyne Incorporated
(Manufacturing)*

Edsel D. Dunford¹
*Retired President
and Chief Operating Officer,
TRW Inc. (Manufacturing)*

John Fahl³
*Vice President
of the Company*

Deborah M. Fretz²
*Senior Vice President,
Lubricants and Logistics,
Sun Company, Inc. (Energy)*

Dennis J. Gormley²
*Former Chairman of the Board
and Chief Executive Officer,
Federal-Mogul Corporation (Manufacturing)*

John F. Meier¹
*Chairman and Chief Executive Officer
Libbey Inc. (Manufacturing)*

J. Alec Reinhardt³
*Executive Vice President
and Chief Financial Officer
of the Company*

Patrick W. Rooney^{1,3}
*Chairman of the Board, President and
Chief Executive Officer of the Company*

John H. Shuey¹
*Chairman, President
and Chief Executive Officer,
Amcast Industrial Corporation
(Manufacturing)*

¹ Member of the Nominating Committee

² Member of the Audit and Compensation Committee

³ Member of the Executive Committee

EXECUTIVE OFFICERS

Patrick W. Rooney
*Chairman of the Board, President
and Chief Executive Officer*

John Fahl
Vice President

Keith L. Jolliff
Vice President

Roderick F. Millhof
Vice President

Stan C. Kaiman
Secretary

Stephen O. Schroeder
Assistant Treasurer

J. Alec Reinhardt
*Executive Vice President and
Chief Financial Officer*

William C. Hattendorf
Vice President and Treasurer

William S. Klein
Vice President

Richard D. Teeple
Vice President and General Counsel

Eileen B. White
Corporate Controller

DISTRIBUTION CENTERS

NORTH AMERICA

Albany, Georgia
3300 Sylvester Road
Albany, Georgia 31703
(912) 438-6896

Chicago, Illinois
1300 Lunt Avenue
Elk Grove Village, Illinois 60007
(847) 439-3132

Dayton, Ohio
3601 Dryden Road
Moraine, Ohio 45439
(937) 293-6935

Findlay, Ohio
1625 Lake Cascades Parkway
Findlay, Ohio 45840
(419) 423-1321

Kansas City, Missouri
1026 North Century Avenue
Kansas City, Missouri 64120
(816) 231-1300

Los Angeles, California
6340 Artesia Boulevard
Buena Park, California 90620
(714) 521-7080

New York, New York
P.O. Box 7062 (Mail)
North Brunswick, New Jersey 08902
Terminal Road & Industrial Drive
New Brunswick, New Jersey 08901
(732) 247-3400

Tacoma, Washington
4200-D Industry Drive
Fife, Washington 98424
(206) 922-8790

Texarkana, Arkansas
3500 East Washington Road
Texarkana, Arkansas 71854
(870) 779-4268

Tupelo, Mississippi
1689 South Green Street
Tupelo, Mississippi 38801
(601) 842-2200

EUROPE

Melksham, England
Cooper-Avon Tyres Limited
Bath Road
Melksham, Wiltshire SN12 8AA
England
44-1225-703101

Wilnsdorf, Germany
Cooper-Avon Reifen (Deutschland) GmbH
Dortmunder Strasse 15
57234 Wilnsdorf, Germany
49-2739-87440

Compiègne, France
Cooper-Avon Pneumatiques SARL
4 Rue Jacques De Vaucanson
Zac DeMercieres II
60200 Compiègne, France
333-4497-0100

Dietikon, Switzerland
Cooper-Avon (Suisse) SA
Hagackerstrasse 12
8953 Dietikon, Switzerland
41-1740-4144

MANUFACTURING FACILITIES

NORTH AMERICA

Albany, Georgia (tires)
3300 Sylvester Road
Albany, Georgia 31703
(912) 438-6800

Auburn, Indiana (vibration control)
725 West Eleventh Street
Auburn, Indiana 46706
(219) 925-0700

Bowling Green, Ohio (automotive sealing)
P.O. Box 1108 • 1175 North Main Street
Bowling Green, Ohio 43402
(419) 352-3533

Bowling Green, Ohio (hose and assemblies)
400 Van Camp Road
Bowling Green, Ohio 43402
(419) 353-2500

Clarksdale, Mississippi (inner tubes)
P.O. Box 130 • 2205 Dr. Martin Luther King Blvd.
Clarksdale, Mississippi 38614
(601) 624-4366

El Dorado, Arkansas (vibration control)
166 Cooper Drive
El Dorado, Arkansas 71730
(501) 862-6441

Findlay, Ohio (tires)
P.O. Box 550 • 701 Lima Avenue
Findlay, Ohio 45839-0550
(419) 423-1321

Mt. Sterling, Kentucky (hose and assemblies)
250 Oak Grove Drive
Mt. Sterling, Kentucky 40353
(606) 497-9600

Texarkana, Arkansas (tires)
3500 East Washington Road
Texarkana, Arkansas 71854
(501) 773-4502

Tupelo, Mississippi (tires)
P.O. Box 170 • 1689 South Green Street
Tupelo, Mississippi 38802
(601) 842-2200

LATIN AMERICA

Piedras Negras, Mexico (vibration control)
Coopermex, S.A. de C.V.
Victoria Norte 2707
Piedras Negras, Coahuila
Mexico, C.P. 26010
52-878-24763

EUROPE

Melksham, England (tires, remould materials)
Cooper-Avon Tyres Limited
Bath Road
Melksham, Wiltshire SN12 8AA
England
44-1225-703101



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