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## About Our Company:

Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. The company manufactures in 13 countries and markets products in approximately 140 countries under major brand names such as *Whirlpool, KitchenAid, Roper, Estate, Bauknecht, Ignis, Laden, Inglis, Brastemp* and *Consul*. Whirlpool is also the principal supplier to Sears, Roebuck and Co. of many major home appliances marketed under the *Kenmore* brand name.

## Financial Summary

<i>(dollars in millions, except per share data)</i>	1997	1996	% Change
Net sales	\$ 8,617	\$ 8,523	1.1%
Net earnings (loss) from continuing operations	\$ (46)	\$ 141	NA
Per share on a diluted basis	\$ (0.62)	\$ 1.88	
Net earnings (loss) Per share on a diluted basis	\$ (15)	\$ 156	NA
Net earnings excluding non-recurring items Per share on a diluted basis	\$ 238	\$ 175	36.0%
Stockholders' equity	\$ 1,771	\$ 1,926	(8.0)%
Total assets	\$ 8,270	\$ 8,015	3.2%
Return on equity	(0.8)%	8.2%	
Return on equity excluding non-recurring items	12.0%	9.1%	
Return on assets	(0.7)%	1.8%	
Return on assets excluding non-recurring items	2.7%	2.0%	
Book value per share	\$ 23.71	\$ 25.93	(8.6)%
Dividends per share	\$ 1.36	\$ 1.36	
Average dividend yield	2.5%	2.7%	
Share price			
High	\$ 69 <sup>1</sup> / <sub>2</sub>	\$ 61 <sup>3</sup> / <sub>8</sub>	
Low	\$ 45 <sup>1</sup> / <sub>4</sub>	\$ 44 <sup>1</sup> / <sub>4</sub>	
Close	\$ 55	\$ 46 <sup>5</sup> / <sub>8</sub>	18.0%
Total return to shareholders (five-year annualized)	6.8%	6.3%	
Shares outstanding (in 000's)	75,262	74,415	
Number of stockholders	10,171	11,033	
Number of employees	61,370	48,163	

## Chairman's Letter

To Our Stakeholders: More than nine years ago Whirlpool Corporation embarked on a bold journey to create shareholder value by becoming the clear leader in the emerging global major home-appliance industry. Today, we do just that – we lead the industry.



DAVID R. WHITWAM  
Chairman of the Board  
and Chief Executive Officer

Over this period, we developed a groundbreaking strategy, aggressively implemented it around the world, and are now moving into the next phase – more fully integrating our global operations. I will tell you that we have progressed further and faster than I ever thought possible when we first embarked on this strategy in the late 1980s, despite some bumps along the way. In 1997, we again moved forward by strengthening our worldwide network and by more fully integrating our enterprise at all levels. It was a year of significant changes and challenges at Whirlpool; however, our people remained focused on the business to

deliver solid operating performance improvements.

Net sales for the year increased to a record \$8.6 billion, one percent ahead of the 1996 high of \$8.5 billion. Net earnings, exclusive of non-recurring charges, totaled \$238 million, or \$3.15 per diluted share, up significantly from \$175 million, or \$2.32 per diluted share, one year ago. These results are notable given the well-documented and tough economic conditions we faced in several markets, particularly during the second half of the year. Including non-recurring items, 1997 produced a loss of \$15 million, or 20 cents per diluted share, versus earnings of \$156 million or, \$2.08 per diluted share, in 1996.

In the third and fourth quarters we took restructuring charges to fundamentally change the overall structure of our company and to solidly improve our value-creation performance going forward. These charges touched all of our businesses – Europe, Asia, North America and Latin America, and totaled \$294 million, after-tax.

These steps, when fully implemented, will eliminate about 7,900 positions throughout the organization by increasing efficiencies and productivity in each business unit. These decisions were not easy for the company nor for the people affected by them.

organization by increasing efficiencies and productivity in each business unit. These decisions were not easy for the company nor for the people affected by them. We believe they are necessary decisions; they will significantly improve the competitiveness of our company, and improve operating performance in both the short and long term. The returns will be substantial; when fully implemented in 2000, we expect annual cost savings of more than \$200 million, though the majority will be realized in 1998 and 1999.


At the same time, we announced an extension of our very important partnership with Brasmotor S.A., with whom we've had an affiliation for 40 years in Brazil and throughout Latin America. Our decision to purchase majority-voting control was a natural evolution of that relationship and further extends our global leadership position.

In addition, we announced in September our decision to sell the inventory and consumer finance business of Whirlpool Financial Corporation (WFC), our financial services subsidiary, to Transamerica Corporation. WFC had contributed a great deal to Whirlpool Corporation over the past 40 years, yet our studies suggested that it was exceptionally difficult for WFC to grow its business and create

value while being captive to an appliance manufacturing company. Thus, we made the decision to enter into a strategic partnership with Transamerica, which will allow us to continue to serve Whirlpool customers and enable the company to channel investments into areas that will create greater value in the long term.

As I stated earlier, 1997 was a year of directed change and rapid implementation for Whirlpool, but our organization is now better positioned to deliver solid and consistently improving operating performance and gain leverage from our global size.

To create value in 1997, we shifted our focus from expanding our global presence to solidifying and integrating the Whirlpool network, comprised of businesses in North America, Europe, Latin America and Asia. We remain the market leader in North America, generating \$5.3 billion in net sales. Whirlpool, through its enhanced partnership with the Brasmotor Group, now holds the number one market position, which is more than two-times larger than any local competitor, in Latin America, with \$2.4 billion in net sales. Our company holds the number three market position in Europe with net sales of \$2.3 billion, and we have a major presence in Asia generating \$400 million in net



sales, from which we can participate in the future growth of that important market.

In North America, new product introductions under the *Whirlpool* and *KitchenAid* brands led our continued strong performance. For example, consumers have been demanding our new *AccuBake*™ range by name, leading to a significant increase in our share of the cooking products market. We maintained our overall market share lead despite intense pricing, competitive pressures and weak sales of air conditioners during the cooler-than-normal selling season. We also completed an extensive study of North American consumer perceptions and preferences that will lead to new product and brand introductions in 1998. These introductions will reinforce our market position in the face of a projected, though slight, downturn in the North American market in 1998.

In Latin America, Whirlpool now owns 66 percent of the voting shares of Brasmotor S.A., which includes Whirlpool Argentina and Multibrás Eletrodomésticos S.A., the leading appliance company in Latin America with annual sales of \$1.6 billion, and Embraco S.A., the world's second largest hermetic compressor manufacturer with annual sales of \$790

million. This move was a logical next step for the strong partnership that began in 1957 and allows both Whirlpool and Brasmotor to be better positioned to compete, grow and create value in Latin America and the rest of the world.

Under the leadership of H. Miguel Etchenique, Brasmotor's chairman, the company and its operating subsidiaries performed very well during 1997, maintaining its focus on consumers, costs and productivity despite a market that retreated from the record highs of 1996. We anticipate that 1998 will continue to be a challenging year but expect that appliance industry volumes will approximate 1997 levels.

Whirlpool Corporation's board of directors expanded to 13 members with the election of Mr. Etchenique to a board seat, effective December 1997. Whirlpool will benefit from both his extensive experience and vision as we move to integrate our global operations more fully around the world.

Europe proved to be a bright spot for us in 1997, following two years of turbulent times. Our performance in Europe has consistently improved, quarter after quarter, following cost-reduction and productivity improvement efforts begun in 1996. In addition, we aggressively marketed our product line,

which has been extensively redesigned in the last two years and improved the mix of our products and brands across the many markets that define our European region. To help continue our momentum, we expect a slight gain in industry shipments in 1998.

Additionally, we continued to expand our business in Central Europe and other emerging markets by drawing on our expertise throughout our other European operations. As a result, *Whirlpool* remains the leading brand across the whole region – quite an accomplishment given that it was largely unknown in Europe at the beginning of the decade. We expect the momentum we built in 1997 to continue into 1998 through further revenue growth, new product introductions, expanded distribution in such places as Russia, and additional cost reductions from restructuring actions.

In 1997, we took steps to strategically refocus our Asian business and improve both our cost position and executional capabilities. We refined our strategy to better concentrate our resources on investments for short- and long-term performance. The rapidly changing marketplace conditions of the region, especially in China, made these moves absolutely necessary and appropriate. Our lower cost

structure and focus on the remaining majority-owned joint ventures in China, combined with our strong market position in India and Asia-Pacific sales subsidiaries, leave *Whirlpool* well positioned for future growth and profitability in this region.

Our plans in Asia remain ambitious as we continue to operate five manufacturing sites and employ about 8,000 people in that dynamic market. In 1998, we will introduce new products, widen our distribution, and improve our sales and unit volumes. Our growing knowledge of Asia and ability to draw on the other global resources of *Whirlpool* will lead to continued improvement in our operating performance in 1998 and beyond, especially as we manage through a difficult market and economic environment.

Our 1998 global plans reflect our shift in focus from building a global enterprise to aligning and integrating it. More specifically, we will improve our customer satisfaction, productivity and speed in the marketplace through initiatives to improve quality, processes and systems worldwide, as well as work to reduce costs and working capital. And we will do this while continuing to build our brands worldwide, especially in places like China and India where the *Whirlpool* brand was introduced full scale in 1996.

Starting in 1998, our product development work will be accomplished under our new global product development organization. Where we once conducted product design and development work on a regional basis, we now work through one globally integrated group. We believe this will bring improved capabilities to our product design and development, with substantially reduced costs and cycle times.

But strategy and market position mean little without the driving force and commitment of our people. Here, too, we have begun to cultivate a work environment in which we can build stronger commitment, pride and performance, thus becoming one team of Whirlpool people around the world. In 1997, to help create a sense of common beliefs, values and behaviors, we introduced a transformation effort known as the High-Performance Culture (HPC) to all Whirlpool employees. HPC is centered on five shared values – respect, integrity, teamwork, learning to lead and the spirit of winning – which represent the essence of who we are as a company.

Using these values to align our organization around a common corporate culture has improved our ability to view our business globally. After all, a company is a group of people working toward a

common goal. And while we are starting to see that integrating and exploiting our capabilities more fully around the world is leading to ever-increasing levels of shareholder value, we know there is still much more to be accomplished. Again, no one else in our industry is positioned as well as Whirlpool to make this happen.

I am proud of our improved performance in 1997, and I am particularly proud of the ability of the 61,370 men and women of Whirlpool to meet, head on, the challenges and opportunities the year brought us. As we look toward the next millennium, we are further along our global journey than I ever expected. Today, we are uniquely positioned in our industry to realize the speed, cost and productivity benefits of global integration. Given the significant progress we made in 1997, I remain confident that our long-term strategy, and our capacity to carry it out, will lead to consistent value creation both now and in the future.



David R. Whitwam  
Chairman of the Board and Chief Executive Officer  
February 10, 1998

## Global Integration Introduction

It all began with a vision and the realization in the late 1980s that the home appliance industry would become global in scope over time. From this realization, we developed and began to execute an aggressive strategy to remake and expand Whirlpool Corporation.

Working from our strong United States market, we expanded globally. First, in Europe we quickly implemented an innovative strategy that sought to make the most of the common needs of our customers across the region, while still respecting local preferences. Next, in cooperation with Brasmotor, we developed a strategy to grow the Latin American home-appliance markets. By 1995 we had built the necessary infrastructure to enter into the dynamic and fast-growing Asian markets. Then in 1997 we



Executive Officers

Front Row: PAULO PERIQUITO, RALPH HAKE, JEFF FETTIG  
Back Row: MIKE THIENEMAN, RON KERBER, BILL MAROHN, BOB HALL

consolidated our Latin American investment with the purchase of controlling voting interest in Brasmotor.

Today our global network is largely complete. Yet the biggest challenge of our global strategy remains before us – to fully integrate our global operations. For Whirlpool, global integration means using our unequaled resources, knowledge, skills, products, brands and technology to develop a sustainable competitive advantage. The benefits of integration are profound; we are using common approaches to our business worldwide, moving with greater speed, at a lower cost, in offering consumers, worldwide, the products and features that deliver superior performance and value.

We have only just begun to realize the power of such global integration. In the pages that follow we will illustrate four examples, one from each region, of global integration. Through these efforts and all our others, we plan to drive superior long-term value for you, our stakeholders.

● North America

**AccuBake™**

**Electric and Gas Ranges**

The latest *Whirlpool* gas and electric ranges, produced in Tulsa, Oklahoma, offer more oven space than any other range in the industry – 4.65 cubic feet – making even the largest meals easy to prepare in record time. Even with huge ovens, these ranges cook foods evenly every time thanks to their exclusive *AccuBake™* cooking system. The secret is precise, computer-driven electronic controls that keep the oven in the desired temperature range and *EZ-Touch™* settings that operate the most often used functions.



**Global Processes**

In 1997 we made significant progress toward applying full use of Whirlpool Corporation's global resources to create a clear and sustainable competitive advantage within our industry. One example is our new supply-chain task force, led by J.C. Anderson, vice president, North American manufacturing and technology, and staffed with people from both North America and Europe. They are reviewing all aspects of our North American and European supply-chain operations, from raw materials to finished-products delivery, with an eye toward reducing our costs and incorporating Whirlpool Corporation's best practices and processes in procurement, manufacturing and logistics on a truly global basis.

While still under way, the results hold promise. Not only have both North America and Europe already benefited from the simple and regular exchange of the best practices, skills and processes, but the task force is targeting a significant savings in the use of working capital, better technology applications and reduced process-development spending.

For instance, we are examining the use of similar components in appliances produced in all regions. Although great strides have been made through our global procurement initiatives, we are still sourcing similar components from different suppliers and have not fully engineered commonality into all of our product platforms. By looking at our needs globally, we can maximize our economy-of-scale savings and still deliver products that exceed consumers' expectations. Our global technology organization is now charged with accelerating these benefits.


We are confident that the advantage of our global enterprise lies in such efforts where we can combine the many talents, skills and experiences of our people to approach our business from common product and process platforms worldwide, yet maintain the uniqueness required to do business in the various regions.

## North American Operations

Our continued consistent performance in the important North American market was driven by our ability to focus on understanding the needs of consumers and using that knowledge to deliver products that exceed their expectations. At the same time, we continued to improve productivity and accelerated our cost reductions in the face of a very competitive marketplace.

Several significant product advances were made in North America, including the successful first full year of distribution of the popular new stainless-steel *KitchenAid* brand dishwasher, built in Findlay, Ohio, and incorporating design features first introduced in Europe. Consumer acceptance of our free-standing electric and gas ranges, featuring our exclusive *AccuBake*<sup>™</sup> technology, led to full-capacity production at our newest facility in Tulsa, Oklahoma. These cooking products have been so well received that Sears, Roebuck and Co. will be adding select Whirlpool-built models to its *Kenmore* brand name across the U.S. in the fourth quarter of 1998.

In addition, Sears will purchase over-the-range microwave ovens, newly designed at our microwave oven technology center in Norrköping, Sweden.



Again, product features reflect the results of extensive consumer research in North America that confirmed consumer acceptance for key features, such as the largest usable capacity in the industry. The new microwave ovens are built at our microwave oven joint-venture factory in Shunde, China, for export to Sears stores all over North America.

More technology sharing has occurred in other product categories as well. For example, our *AccuBake™* technology for free-standing ranges has also been incorporated in the latest built-in ovens, produced in Oxford, Mississippi. In addition, a new *Whirlpool* brand automatic washer, built in Clyde, Ohio, features a rinse setting that requires 40 percent less water than conventional models for those consumers who demand energy and water savings.

Following in-depth research of consumer behaviors and preferences, we are launching two new brand extensions – *Whirlpool Gold* for the busy consumer who always buys the best and *KitchenAid Classics* for the buyer seeking ultimate luxury in home appliances. Both will offer highly featured products and clear benefits that serve consumers effectively.

All of our product and brand-development

work in North America is based on our market-driven approach to uncover consumer needs, which will result in tailoring products and services to meet them. This approach was used extensively in developing our new *Whirlpool*-brand positioning that pinpoints what people really want from their appliances, as well as life – “A Job Well Done.” This new theme touches on the superior performance of our products and the satisfaction that comes from doing a task well.

Another example of our global integration is our plan to expand the use of products from one geographic region to another. This practice is already being explored at Inglis Ltd., Whirlpool Corporation’s wholly owned Canadian subsidiary, and Vitromatic S.A., our Mexican affiliate. Such innovation and aggressive management has led to two straight years of record sales and profits in Canada.

These efforts show the degree to which our North American people are leading the industry with the understanding that we must win every day in the marketplace with our consumers and trade partners. Only then, will we win with our stakeholders and accomplish “A Job Well Done.”




### Global Market Expansion

Creating a global presence offers little competitive advantage unless a company can quickly apply lessons learned in one region to challenges or opportunities it finds in another. Whirlpool Europe has been applying its

### ● Europe

#### *Electronic Microwave Oven*

The *Talent™* microwave oven, built in Norrköping, Sweden, and introduced throughout Europe in 1997 under the *Whirlpool* brand, combines all the customer-pleasing features of its predecessors (including one-touch, fuzzy logic control) with a number of improvements. Its 3D system of microwave distribution increases the usable oven space by 50%, compared to similarly sized models, because the turntable is no longer necessary. The drop-down door also serves as a convenient shelf capable of supporting nearly 45 lbs. (20 kilos) of weight. The new oven continues Whirlpool's trendsetting tradition in microwave ovens.



expertise to speed its entry into new markets. This involves building a strong brand position, establishing reliable logistics and distribution networks and recruiting capable, local managerial talent. As a result, we have established a leadership position for most of the emerging markets of Central Europe, as well as parts of the Middle East and Africa.

During 1997 our emerging markets team, drawing on global resources in manufacturing and marketing and its own, growing knowledge base for creating successful operations in developing nations, established new sales offices in Lithuania, Estonia and Latvia. At the same time, the team posted double digit growth in countries it entered the previous year – Romania, Bulgaria, Turkey, Morocco and South Africa. We also strengthened our position in Russia and the Commonwealth of Independent States. Given this success, the company expanded the team's sphere of responsibility to include a number of Asian markets. While these markets may at first appear to be dissimilar, they actually share a number of traits and consumer purchasing preferences with their emerging market counterparts elsewhere. All told, we now serve more than 100 emerging markets worldwide.

The team brought considerable resources to

bear on our new business in South Africa, reengineering manufacturing processes, introducing a new quality system and launching a full line of products under the *Whirlpool* and *KIC* brands, supported with customer-appealing imports from around the world.

Overall, our emerging markets team has now built a strong foundation for supplying knowledge and highly skilled people to the rest of our business as we exploit the potential of new markets.

### **European Operations**

Whirlpool's European business reported substantial operating improvements in 1997 and performance records in a number of categories. Sales in local currency grew by more than 8 percent – the best ever for the business. Other records were realized in net cost productivity, unit shipments, customer satisfaction levels with our service, product quality improvement and market share for the *Whirlpool* brand.

These achievements outpaced the industry as a whole, which grew by 3-4 percent, despite a continued, slow economic environment. Our operating performance improved through a combination of actions, including a better mix of

higher-margin products and better defined brand positioning for our principal brands of *Whirlpool*, *Bauknecht*, *Ignis* and *Laden*.

On the product side, our redesigned dryers from Amiens, France, gained strong customer acceptance. We also successfully introduced a new line of built-in and free-standing refrigerators and cooktops. Consumers like the refrigerators' new aesthetics and their flexible interior design features with "intelligent space management." Carefully controlled temperature zones offer best-in-class food preservation. Our new cooktops also claim best-in-class performance with a stylish, easy-to-clean design.

Among our most successful product launches of the year was our new *Talent*<sup>™</sup> microwave oven from Norrköping, Sweden. It has further consolidated our European leadership position in the premium microwave-oven market segment. Where its predecessor featured dual sources of microwaves, *Talent* offers a "3D" system. Its door opens from the top downward, improving accessibility. Whether you're cooking a turkey or baking a pizza with our

exclusive "crisp" technology, this microwave oven delivers superior performance.

Finally, in 1997 our European marketing and sales team forged important new relationships with several major trade customers who helped drive our revenue growth and who have the capability to boost our performance further in 1998.

We expect to continue this momentum in 1998 as we implement an aggressive strategy to create economic value in this business. We will do so through a combination of revenue-growth actions and continued attention on improved asset utilization and cost reductions. New products under development in washing and refrigeration will complement the major development work we began several years ago. For example, our factory in Poprad, Slovakia, just started production of a low-cost, front-loading washer that will be marketed throughout Europe.

Such are the opportunities we will continue to seek as we apply our growing expertise to expand our business in existing and emerging markets and establish clear industry leadership.

● Latin America

*Electronic  
Air Conditioner*

The new *Brastemp* electronic air conditioner, built in Manaus, Brazil, a free-trade zone in northern Brazil, features an intelligent fuzzy logic system which provides three operating modes for maximum comfort. In addition, a remote control with liquid crystal display provides operation information such as a temperature read-out. With its low noise and energy consumption, this product is designed to provide hours and hours of comfort.



**Global Integration**

We've long recognized the strength, scale, knowledge and management expertise of Brasmotor S.A., Whirlpool's partner in Latin America. When our partnership began in Brazil in 1957, Brasmotor found in Whirlpool the support it needed to develop and consolidate its own production of major

home appliances. Similarly, Whirlpool found in Brasmotor a partner to help it grow internationally in a rapidly emerging market. Early in the relationship, Whirlpool provided not just capital, but equipment, product designs and administrative control systems, while Brasmotor returned local market knowledge and marketing expertise.

Whirlpool supported Brasmotor's expansion in the 1960s, '70s and '80s, particularly in the acquisition of Consul, a competing appliance company, and Embraco, a leading producer of hermetic refrigeration compressors. The Brasmotor-Whirlpool ties strengthened over time, as the Brasmotor group of companies, under the leadership of H. Miguel Etchenique, grew into the leading consumer goods enterprise in Brazil and throughout Latin America.

In the 1990s Whirlpool assisted Brasmotor in the formation of Multibrás, a new appliance company resulting from the merging of three well-known and highly respected companies, Brastemp, Consul and Semer, and more recently the marriage with Whirlpool Argentina. Today, following a regionally integrated business approach, the Brasmotor group of companies commands the Brazilian home appliance market with

more than two times the market share of the nearest competitor. Together, through Multibrás and other sales organizations, we also lead the Latin American markets outside of Brazil.

Consequently, the Whirlpool decision to purchase majority-voting control in Brasmotor was a logical next step in our long history of partnership, and we look forward to working with other important Brazilian shareholders in growing this business.

Today we are focused on gaining the many advantages our combined size and scale can offer Latin American consumers – especially given the global appliance companies moving into that region. We have already made progress by including the Latin American organization in the Whirlpool global procurement and global product development efforts, and, based on our history of collaboration, we've already fostered the quick and open exchange of information, ideas and manufacturing processes. Whirlpool and Brasmotor share common strategies, ranging from investment planning and decisions to the choice of markets for the introduction of new products. Implementation of such joint strategies has led to productivity gains and reduced cycle times.

## Latin American Operations

After a strong first six months, the national market of Brazil slowed during the second half of the year, especially following implementation of a new federal economic plan to support the Brazilian currency and economy. While we believe that the steps announced by the Brazilian government were correct and appropriate, in the short term they adversely affected the economy and demand for durables, including home appliances.

The Brazilian home-appliance market doubled in size between 1993 and 1996. We knew that such dramatic growth levels were unsustainable. In 1997 the Brazilian home-appliance market declined about 10 percent from 1996 levels, returning to more normal levels of demand. Though the Argentine economic growth also slowed somewhat in the second half of 1997, our Argentine business performed well and maintained its operating margins. We expect Brazilian appliance industry shipments in 1998 to approximate 1997 levels.

Based on our long-term efforts to attract and keep customers for life, and in response to consumer research, we've upgraded our product line in Latin

America to include Whirlpool-designed microwave ovens. The microwave oven design and technology come from the company's global microwave oven business unit based in Norrköping, Sweden, and is based on a product platform that we currently build in China. We've also introduced a new high-efficiency air conditioner based on consumer preferences for better cooling controls. We will produce both new products in the second quarter of 1998 at a new factory in Manaus, a free-trade zone in northern Brazil.

In addition, a major product renewal effort will result in most of our product line being redesigned and updated in the next two years. The first redesigned products will be washers, freezers and refrigerators. Importantly, all new products are developed under our global product-business teams.

We are confident that the leadership capabilities in Brazil, combined with our plan to more fully integrate the Brasmotor business into Whirlpool's global network, will allow us to continue to perform solidly in Latin America. And, based on our combined knowledge, experience and leadership we remain optimistic about our ability to realize substantial stakeholder value from the region.

## Global Technology

Whirlpool Corporation's global size offers an obvious advantage in activities such as procurement, where today nearly one-third of our manufacturing components are purchased globally. An even greater advantage exists in using the Whirlpool global network for product-development activities, including research, design and technology development.

One recent example of our global product-development capability is the new no-frost and CFC-free refrigerator, developed for our newly constructed factory in Pune, India. This adds a vital product offering to our Indian product line-up and helps to maintain our leading marketing position. What are the benefits of this approach? A global team, including Whirlpool people from Asia, North America and Europe, using the company's best design, technology and engineering capabilities, developed the new no-frost refrigerator. Without the global bench strength, our Indian operations would not have had the resources to develop this important product and would have been disadvantaged in the marketplace.

Global product teams now support development for each of our major product categories – laundry, cooking, refrigeration and

dishwashers. These product categories are in addition to microwave ovens and air treatment products, which we already manage as global business units and where we have tested and refined our global management concept. Where we once conducted product development work regionally, we now do so with a global perspective. This approach offers the opportunity to use common components and appliance sub-systems around the world. We expect this to lead to improved capabilities, fewer product platforms and reduced capital spending globally. Furthermore, we expect our product development cycle times to decrease significantly, while the exchange of world-class products, processes and technology will dramatically increase. We are confident that global integration of our product-development activities will lead to new products that are markedly different from those of our competitors.

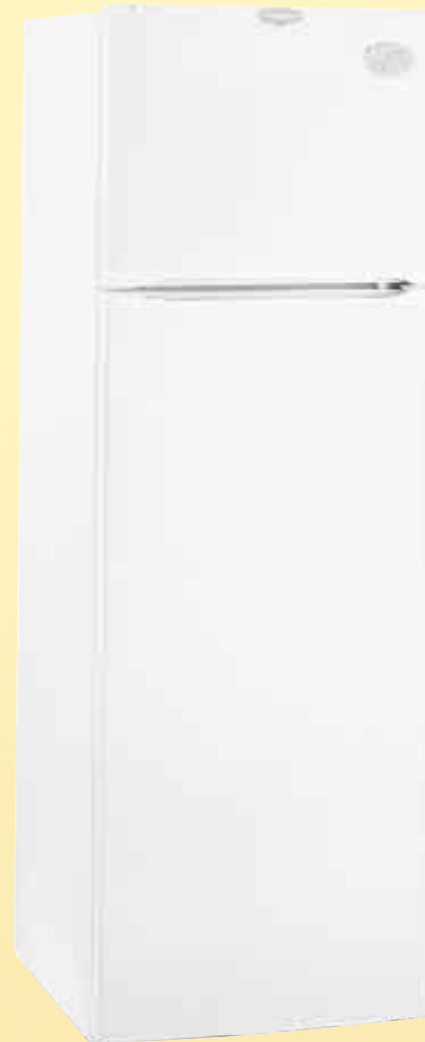
## Asian Operations

Although our operating performance in Asia resulted in a loss for 1997, there were significant improvements given the economic uncertainties in the region. The numerous actions we took in the region leave us positioned for short-term improvements and

● Asia

**No-frost, CFC-free  
Refrigerator**

Whirlpool's new global no-frost refrigerator is being built specifically for the Indian market at the company's new facility in Pune, India. The new refrigerator is available in three popular sizes and offers consumers no-frost cooling and freezing with low sound and energy-use levels. In 1998, Whirlpool Asia plans to export shipments of the new model to the Middle East and parts of Africa.



long-term participation in the world's largest home appliance market. We exited our Beijing Snowflake joint venture to produce refrigerators and are in the process of reducing our investment in Whirlpool Raybo, the air conditioner joint venture. We also took steps to significantly reduce our costs by folding many Asia-support functions into the broader Whirlpool global network.


Why did we take these difficult, but necessary, steps? The business analysis we completed in making these decisions showed significant over capacity in these two product categories, not just for today, but for the foreseeable future. For example, refrigeration manufacturing capacity doubled in 30 months in China, far outstripping consumer demand and depressing prices. As we looked at our capability in this environment, it became clear that we needed to refocus our resources to allow us to grow from our strengths, while reducing costs and simplifying our structure throughout the region.

Accordingly, in China we made the decision to focus on two of our joint ventures – Whirlpool Narcissus, which manufactures automatic washers, and Whirlpool Shunde SMC, which manufactures microwave ovens – one million of which we export to

North America and Europe for sale under our various brand names. We also moved responsibility for Asia-Pacific sales into our emerging market group based in Europe. Given Asia's size and growth potential, we remain unquestionably committed to this important region, as evidenced by our five manufacturing sites across China and India, solid product portfolio, presence in the region's major markets and 8,000 employees.

Even though we made significant changes in Asia, we made significant strides too. Our sales companies in markets such as Australia and Hong Kong continued to grow their unit volumes, market share and profitability. In India, we expanded the introduction of the *Whirlpool* brand by transferring our refrigerator line from the *Kelvinator* brand to the *Whirlpool* brand, which was challenging given the flat market performance there in 1997. And in China, we further brought the *Whirlpool* brand name to consumers with a new line of microwave ovens and washers, both designed and built specifically for Chinese consumers.

In 1998 we expect to increase both our unit volumes and revenues as we introduce the no-frost and CFC-free refrigerator and update our washer



products in India. In addition, we have aggressive plans to build the *Whirlpool* brand and improve customer satisfaction in India using newly created indices to measure both quality and service levels.

We also plan to launch a new vertical-axis washer in China and produce a new line of over-the-range microwave ovens in China for export to Sears, Roebuck and Co. in the United States. Our sales force in China will move aggressively to build the *Whirlpool* brand name throughout China following the

series of retail trade shows we conducted in 1997 to fully launch the brand as we built our presence there.

As we've said before, Asia is already the world's largest appliance market, with forecasted growth levels much stronger than other more mature markets. Asia represents a very important piece of our long-term global strategy. We intend to win in Asia, but to do so we must position ourselves for the long term, while driving significant short-term performance improvements.



▲ *Joint Venture*

■ *Manufacturing*

● *Headquarters*

## North America

### Major Whirlpool Brands

Acros\*  
Admiral (Canada)  
Chambers  
Crolls\*  
Coolerator  
Estate  
Inglis  
KitchenAid  
Roper  
Speed Queen (Canada)  
Supermatic\*  
Whirlpool

### Company, Affiliate Operations

- **Headquarters**  
Global and North American  
Headquarters  
Benton Harbor, Michigan

Inglis Ltd.  
Mississauga, Canada

- ▲ **Joint Ventures**  
Vitromatic S.A.  
Monterrey, Mexico

- **Manufacturing**  
Celaya, Mexico  
Clyde, Ohio  
Evansville, Indiana  
Findlay, Ohio  
Fort Smith, Arkansas  
Greenville, Ohio  
LaPorte, Indiana  
LaVergne, Tennessee  
Marion, Ohio  
Monterrey, Mexico  
Montmagny, Quebec  
Oxford, Mississippi  
Puebla, Mexico  
Reynosa, Mexico  
Tulsa, Oklahoma

### Principal Products

Automatic Dryers  
Automatic Washers  
Built-in Ovens  
Dehumidifiers  
Dishwashers  
Freezers  
Ice Makers  
Microwave Ovens  
Ranges  
Refrigerators  
Room Air Conditioners  
Trash Compactors

\*Used with permission

## Europe

### Major Whirlpool Brands

Bauknecht  
Ignis  
Laden  
Whirlpool

### Company, Affiliate Operations

- **Headquarters**  
Comerio, Italy
- ▲ **Joint Ventures**  
Riva di Chieri, Italy

- **Manufacturing**  
Amiens, France  
Calw, Germany  
Cassinetta, Italy  
Comerio, Italy  
Isithebe, South Africa  
Naples, Italy  
Neunkirchen, Germany  
Norrköping, Sweden  
Poprad, Slovakia  
Schorndorf, Germany  
Siena, Italy  
Riva di Chieri, Italy  
Trento, Italy

### Principal Products

Automatic Dryers  
Automatic Washers  
Dishwashers  
Freezers  
Microwave Ovens  
Ranges  
Refrigerators

## Latin America

### Major Whirlpool Brands

Brastemp  
Consul  
Eslabon de Lujo  
Semer  
Whirlpool

### Company, Affiliate Operations

- **Headquarters**  
Brasmotor S.A., Multibrás S.A.  
São Paulo, Brazil
- Embraco S.A.  
Joinville, Brazil

Whirlpool Argentina  
Buenos Aires, Argentina

- **Manufacturing**  
Cabo de Santo, Agostinho  
Joinville, Brazil  
Manaus, Brazil  
San Luis, Argentina  
Santa Catarina, Brazil  
São Paulo, Brazil

### Principal Products

Automatic Dryers  
Automatic Washers  
Dishwashers  
Freezers  
Microwave Ovens  
Ranges  
Refrigerators  
Room Air Conditioners

## Asia

### Major Whirlpool Brands

Narcissus\*  
Raybo  
SMC\*  
TVS\*  
Whirlpool

### Company, Affiliate Operations

- **Headquarters**  
Asian Headquarters  
Hong Kong, China
- New Delhi, India

- ▲ **Joint Ventures**  
Whirlpool Narcissus (Shanghai)  
Co. Ltd.  
Shanghai, China

Whirlpool Shunde SMC Microwave  
Products Co. Ltd.  
Shunde, China

Shenzhen Whirlpool Raybo Air  
Conditioner Industrial Co. Ltd.  
Shenzhen, China

- **Manufacturing**  
Faridabad, India  
Pondicherry, India  
Pune, India  
Shanghai, China  
Shenzhen, China  
Shunde, China

### Principal Products

Automatic Washers  
Microwave Ovens  
Refrigerators  
Room Air Conditioners

## Results of Operations

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The consolidated statements of earnings summarize operating results for the last three years. This section of Management's Discussion and Analysis highlights the main factors affecting changes in operating results during the three-year period. The accompanying financial statements include the company's investment in Whirlpool Financial Corporation (WFC) on a discontinued basis and the company's investment in its Brazilian subsidiary, Brasmotor S.A., on a consolidated basis for the last two months of 1997. Prior to the consolidation, the Brazilian operations were accounted for on an equity basis.

Prior to the fourth quarter of 1997, the company's Brazilian operations were reported on a one month lag. In the fourth quarter, this one month reporting lag was eliminated and the Brazilian results for the year ended December 31, 1997 included activity for 13 months. The effect of eliminating the one month lag increased net earnings \$5 million, excluding non-recurring items.

### Net Sales

Net sales were \$8.6 billion in 1997 including two months of sales related to consolidating Brasmotor, an increase of 1% over 1996. Excluding currency fluctuations and the consolidation of Brasmotor, net sales were down 1% year-over-year. North American unit volumes were up 1% over 1996, in an industry that was up less than 1%. North American sales were down 1% compared to 1996, due to competitive pricing partially offset by increased volume and favorable product mix. North American industry shipments are expected to be down slightly in 1998. European unit volumes were up 4% over 1996 while the industry was up nearly 4%. European sales were down 6% compared to 1996; however, excluding the effect of currency fluctuations, sales were up more than 8% year-over-year. Sales growth in Europe, in local currency, reflects stabilization of the trend of declining price realization that affected the industry for the last three years. European industry shipment growth is expected to be up 2% in 1998.

Net sales were \$8.5 billion in 1996, an increase of 4% over 1995. Excluding currency fluctuations, net sales were up 5% year-over-year

due to the impact of increased volume, partially offset by unfavorable brand and product mix. North American unit volumes were up 2% over 1995 in an industry that was up nearly 5%. North American sales were up 4% due to a combination of higher pricing and volume and improved product mix. European unit volumes were up 11% over 1995 while the industry was down nearly 2%. European sales were up 3% compared to 1995 and were up 5% excluding currency fluctuations. Partially offsetting the impact of volume increases on sales growth were unfavorable brand and product mix, as consumer preference continued the trend toward lower-priced brands and products, without any substantial price increases during the year.

### Expenses

Gross margin percentage improved by 1% in 1997 compared to 1996. North American gross margin percentage improved principally due to manufacturing efficiencies, effective cost control management and reduced material costs, partially offset by price deterioration. Price realization combined with improved product mix, effective cost control management and reduced material costs have improved the European gross margin percentage 2% compared to the prior year.

Gross margin percentage on product sales deteriorated 1% in 1996 compared to 1995 as the North American margin improvement of 1%, stemming from improved product mix and higher pricing, was more than offset by a 5% European margin deterioration. European margins reflect customers shifting to lower margin brands and products, unfavorable currency fluctuations, delays in achieving cost targets on new products and stagnant pricing in the marketplace.

Selling and administrative expenses, excluding non-recurring items, as a percent of net sales were flat in 1997 compared to 1996. The North American and European percentages were both essentially flat with the prior year.

Selling and administrative expenses as a percent of net sales decreased slightly in 1996 compared to 1995. The expense percentage in North America decreased slightly, while the European expense percentage declined 1% in 1996 primarily due to reduced selling costs and tight control over other spending. Europe also benefited from cost reductions stemming from restructuring efforts executed during 1995.

Restructuring costs of \$343 million in 1997 were incurred to

better align the company's cost structure within the global home-appliance marketplace. The restructurings are expected to result in annual savings of about \$200 million when fully implemented by the year 2000. Refer to Note 10 to the accompanying consolidated financial statements.

Restructuring costs of \$30 million in 1996 improved the company's long-term cost competitiveness and profitability in the North American refrigeration market and in Asia, with annual cost savings of \$37 million when fully implemented. Refer to Note 10 to the accompanying consolidated financial statements.

#### Other Income and Expense

Interest and sundry expense for 1997, including the Brasmotor consolidation, was down compared to 1996. Excluding the impact of consolidating Brasmotor, interest and sundry expense was flat with 1996 and 1995.

Interest expense for 1997 was up compared to 1996 due to the Brasmotor consolidation. Excluding the impact of consolidating Brasmotor, interest expense was flat in 1997. Interest expense for 1996 increased significantly from the prior year due to higher borrowing levels (Refer to Cash Flows-Financing Activities) and higher interest rates.

#### Income Taxes

The effective tax rate for continuing operations, excluding non-recurring items, was 44% in 1997 compared to 62% in 1996 and 42% in 1995. The lower effective tax rate in 1997 compared to 1996 is due to the diminished impact of permanent items resulting from higher pretax earnings, the impact of consolidating Brasmotor, as well as certain tax loss benefits. The increase in the provision in 1996 compared to 1995 is primarily due to higher unbenefited losses in Asia, the relatively larger impact permanent items had on the effective tax rate due to lower net earnings, and an unfavorable mix of pretax earnings and losses by country, partially offset by tax credits relating to prior years.

#### Earnings/(Loss) from Continuing Operations before Equity Earnings and Other Items

Earnings/(loss) from continuing operations before equity earnings and minority interests were \$(162) million, \$30 million and \$124 million in 1997, 1996 and 1995. Excluding the impact of non-recurring items, earnings before equity earnings and minority interests were \$129 million, \$49 million and \$124 million in 1997, 1996 and 1995.

#### Equity in Affiliated Companies

Equity earnings were \$67 million, \$93 million and \$72 million in 1997, 1996 and 1995.

The company's Brazilian affiliates contributed 1997 earnings of \$78 million (excluding non-recurring items), \$92 million and \$70 million in 1996 and 1995. The 1997 decline reflects a slowdown in the previously robust growth in the Brazilian appliance industry partially offset by \$34 million of Befiex and other tax benefits for 1997. The Befiex benefit, which is a government export incentive, is scheduled to expire mid 1998. Results in 1996 and 1995 reflected significant growth in the Brazilian appliance industry. Results in 1995 were also favorably affected by certain non-recurring tax benefits, including \$17 million of excise tax credits and the consequences of the May 1994 merger of two of the Brazilian affiliates, Brastemp S.A. and Consul S.A., into a new entity, Multibrás S.A. The merger resulted in operating efficiencies as an outcome of consolidating selling and administrative functions, improving utilization of prior year tax losses and more flexibly managing brands and products.

The company's Mexican affiliate equity earnings were \$5 million in 1997 compared to equity losses of \$3 million in 1996 and break-even equity earnings in 1995. This 1997 performance resulted from higher shipment volumes as the appliance industry was up over 30% and lower financing costs triggered by a refinancing at the end of the second quarter in 1996. 1996 was down compared to 1995 due primarily to lower foreign currency exchange gains.

Economic volatility and changes in government economic policy (including those affecting exchange rates and tariffs) continue to affect

consumer purchasing power and the appliance industry as a whole in Mexico, Brazil and the entire Latin American region.

#### Discontinued Operations

The discontinued operations results include a pretax charge in 1997 of \$36 million (after-tax \$22 million) to reduce the carrying value of certain retained WFC aerospace assets.

#### Non-Recurring Items and Net Earnings

In 1997, the company recorded the following non-recurring items; an after-tax restructuring charge of \$232 million or \$3.07 per diluted share, special operating charges of \$62 million or \$.83 per diluted share and gain on business dispositions of \$42 million or \$.55 per diluted share.

In 1996, the company recorded an after-tax restructuring charge of \$19 million or \$.25 per diluted share.

Absent non-recurring restructuring, operating charges and business dispositions, net earnings were \$238 million, \$175 million and \$209 million in 1997, 1996 and 1995. Corresponding diluted earnings per share were \$3.15, \$2.32 and \$2.78 in 1997, 1996 and 1995. Corresponding basic earnings per share were \$3.18, \$2.35 and \$2.83 in 1997, 1996 and 1995.

#### Cash Flows

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The statements of cash flows from continuing operations reflect the changes in cash and equivalents for the last three years by classifying transactions into three major categories: operating, investing and financing activities.

#### Operating Activities

The company's main source of liquidity is cash from operating activities consisting of net earnings from operations adjusted for non-cash operating items such as depreciation and changes in operating assets and liabilities such as receivables, inventories and payables.

Cash provided by operating activities was \$593 million, \$545 million and \$377 million in 1997, 1996 and 1995. The increase in 1997 from the prior year is primarily due to favorable performance in inventory, accounts payable and other operating accounts, excluding the impact of the Brasmotor consolidation. The increase in 1996 from the prior year is primarily due to favorable changes in working capital and other operating accounts and lower restructuring spending, partially offset by lower earnings.

#### Investing Activities

The principal recurring investing activities are property additions. Net property additions for continuing operations were \$378 million, \$336 million and \$483 million in 1997, 1996 and 1995. These expenditures were primarily for equipment and tooling related to product improvements, more efficient production methods and equipment replacement for normal wear and tear.

In 1997, the company began construction of a new \$86 million facility in Pune, India to manufacture no-frost refrigerators for the South Asia appliance market. The facility is expected to begin commercial production in the first quarter of 1998.

Refer to Note 2 to the accompanying consolidated financial statements for discussion of business dispositions and acquisitions during the last three years.

#### Financing Activities

Dividends to shareholders totaled \$102 million, \$101 million and \$100 million in 1997, 1996 and 1995.

The company's net borrowings decreased by \$1,069 million in 1997, excluding currency translation and \$132 million of borrowings net of cash assumed in acquisitions, resulting primarily from proceeds related to the WFC asset sales. The 1997 borrowing activities for continuing operations included the first quarter repayment of \$113 million of outstanding subordinated zero-coupon convertible notes, financed through the issuance of additional commercial paper.

The company's net borrowings increased by \$171 million in 1996, excluding currency translation and \$25 million of borrowings assumed in acquisitions, primarily to fund property additions and origination of financing receivables. The increase included a \$244 million issuance of 7 3/4% debentures maturing in 2016.

The company's net borrowings increased by \$758 million in 1995, excluding currency translation and \$50 million of borrowings assumed in acquisitions, primarily to fund property additions, origination of financing receivables and Asian acquisitions.

### *Financial Condition and Other Matters*

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The financial position of the company remains strong as evidenced by the December 31, 1997 balance sheet. The company's total assets are \$8.3 billion and stockholders' equity is \$1.8 billion.

The overall debt to invested capital ratio net of cash (debt ratio) of 42.1% was down from 58.6% in 1996 due to the sale of the WFC financing business and the consolidation of Brasmotor. The appliance business debt to invested capital ratio of 38.5% was down from 42.6% in 1996 due to the consolidation of Brasmotor. The company's debt continues to be rated investment grade by Moody's Investors Service Inc., Standard and Poor's and Duff & Phelps.

The company is exposed to market risk from changes in foreign currency exchange rates, domestic and foreign interest rates, and commodity prices, which can impact its operating results and overall financial condition. The company manages its exposure to these market risks through its operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and are not used for speculation or for trading purposes. Derivative financial instruments are entered into with a diversified group of investment grade counterparties to reduce the company's exposure to nonperformance on such instruments.

The company manages a portfolio of domestic and cross currency interest rate swaps which serve to effectively convert U.S. Dollar (USD) denominated debt into that of various European currencies. Such local currency denominated debt serves as an effective hedge against the European cash flows and net assets that exist today and which are generated by the European business over time. (Refer to Notes 1 and 7 for the accounting treatment for, and a detailed description of, these instruments.) Domestic and cross currency

interest rate swaps in this portfolio are sensitive to changes in foreign currency exchange rates and interest rates. As of December 31, 1997, a ten percent appreciation of the USD versus the European currencies alone would have resulted in an incremental unrealized gain on these contracts of \$73 million. The converse event would have resulted in an incremental unrealized loss on these contracts of \$86 million. As of December 31, 1997, ten percent favorable shifts in interest rates alone to each swap would have resulted in an incremental unrealized gain of \$23 million. The converse events would have resulted in an incremental unrealized loss of \$27 million.

The company uses foreign currency forward contracts and options from time to time to hedge the price risk associated with firmly committed and forecasted cross-border payments and receipts related to its ongoing business and operational financing activities. The value of these contracts moves in a direction opposite to that of the transaction being hedged, thus eliminating the price risk associated with changes in market prices. Foreign currency contracts are sensitive to changes in foreign currency exchange rates. At December 31, 1997, ten percent unfavorable exchange rate movements in the company's portfolio of foreign currency forward contracts would have resulted in an incremental unrealized loss of \$68 million while ten percent favorable shifts would have resulted in an incremental unrealized gain of \$64 million. Consistent with the use of these contracts, such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying transactions. The company had no foreign currency options outstanding at December 31, 1997.

The company manages a portfolio of domestic interest rate swap contracts which serve to effectively convert long-term, fixed rate USD-denominated debt into floating rate LIBOR-based debt. The company also uses commodity swap contracts to hedge the price risk associated with firmly committed and forecasted commodities purchases which are not hedged by contractual means directly with suppliers. As of December 31, 1997, a ten percent increase or decrease in interest rates or copper and zinc prices would not have resulted in a material gain or loss.

Brasmotor's long-term debt carries a floating interest rate which periodically reprices driving the carrying value to approximate the fair

value. As of December 31, 1997, a ten percent increase or decrease in interest rates would not have resulted in a material gain or loss.

The company's sensitivity analysis reflects the effects of changes in market risk but does not factor in potential business risks.

The company has external sources of capital available and believes it has adequate financial resources and liquidity to meet anticipated business needs and to fund future growth opportunities such as new products, acquisitions and joint ventures.

The company has taken actions to understand the nature and extent of the work required to make its global infrastructure Year 2000 compliant. The company began work a few years ago to prepare its financial, information and other computer-based systems for the Year 2000. The company continues to evaluate the estimated costs associated with these efforts. While these efforts will involve additional costs, the company believes it will be able to manage its total Year 2000 transition without any material adverse effect on its business operations.

Additionally, in an effort to enhance productivity and business systems performance, the company has begun the process of investing in the development of improved global business processes through Enterprise Resource Planning (ERP). ERP involves the implementation of a commercially-available, enterprise-wide business software package. The company expects ERP to drive benefits through improved communications to better integrate manufacturing, finance, customer management and distribution applications.

### Business Unit Sales and Operating Profit

The following data is presented as supplemental information:

Net Sales by Business Unit were as follows:

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	Increase/(Decrease)	
North America	\$ 5,263	\$ 5,310	\$ (47)	(1)%
Europe	2,343	2,494	(151)	(6)
Asia	400	461	(61)	(13)
Latin America	624	268	356	133
Other	(13)	(10)	(3)	(30)
<b>Total</b>	<b>\$ 8,617</b>	<b>\$ 8,523</b>	<b>\$ 94</b>	<b>1 %</b>

Operating Profit by Business Unit was as follows:

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	Increase/(Decrease)	
North America	\$ 546	\$ 537	\$ 9	2 %
Europe	54	(13)	67	N/M
Asia	(62)	(70)	8	11
Latin America	28	12	16	133
Restructuring charge	(343)	(30)	(313)	N/M
Special operating charge	(53)	-	(53)	N/M
Other	(159)	(158)	(1)	(1)
<b>Total</b>	<b>\$ 11</b>	<b>\$ 278</b>	<b>\$ (267)</b>	<b>(96) %</b>

For commentary regarding performance in North America, Europe, restructuring charge and special operating charge refer to "Results of Operations" and Note 10 to the accompanying consolidated financial statements. Latin American sales and operating profit include the Brazilian operations on a consolidated basis for the last two months of 1997. "Other" consists of corporate expenses and eliminations.

The significant increase in Latin American sales and operating profit over 1996 was driven by the consolidation of Brasmotor for the last two months of 1997. The activities of the Brazilian affiliates for the balance of the year are included in equity in affiliated companies and discussed in "Results of Operations."

In December 1996, a favorable decision was obtained by Multibrás S.A. Eletrodomésticos (Multibrás) and Empresa Brasileira de Compressores S.A. (Embraco) with respect to additional export

incentives in connection with a Brazilian government export incentive program (Befiex). In April 1997, Multibrás and Embraco submitted tax-credit claims for about \$440 million relating to the favorable decision for exports from July 1988 through December 1996. The Brazilian court must render a final decision on the amount, timing and the payment method of any final award. The company has not recognized any income relating to the claims involving sales prior to 1997 because the timing and payment amount of such claims are uncertain.

Sales decreased in Asia versus 1996 due to the economic slowdown affecting much of the region. Operating profit improved as compared to the prior year as cost structure initiatives and significantly reduced administrative spending offset the sales shortfalls. Operating profit is expected to be about break even in 1998 but could be negatively affected by economic conditions in the region.

• Consolidated Statements of Earnings •

<i>Year ended December 31 (millions of dollars, except per share data)</i>	1997	1996	1995
Net sales	\$ 8,617	\$ 8,523	\$ 8,163
<u>Expenses</u>			
Cost of products sold	6,604	6,623	6,245
Selling and administrative	1,625	1,557	1,521
Intangible amortization	34	35	31
Restructuring costs	343	30	—
	8,606	8,245	7,797
Operating Profit	11	278	366
<u>Other Income (Expense)</u>			
Interest and sundry	(14)	(23)	(23)
Interest expense	(168)	(155)	(129)
Earnings (Loss) Before Income Taxes and Other Items	(171)	100	214
Income taxes (benefit)	(9)	70	90
Earnings (Loss) from Continuing Operations Before Equity Earnings and Minority Interests	(162)	30	124
Equity in affiliated companies	67	93	72
Minority interests	49	18	(1)
Earnings (Loss) from Continuing Operations	(46)	141	195
Earnings (loss) from discontinued operations (less applicable taxes)	(11)	15	14
Gain on disposal from discontinued operations (less applicable taxes)	42	—	—
Net Earnings (Loss)	\$ (15)	\$ 156	\$ 209
Per share of common stock:			
Basic earnings (loss) from continuing operations	\$ (0.62)	\$ 1.90	\$ 2.64
Basic net earnings (loss)	\$ (0.20)	\$ 2.10	\$ 2.83
Diluted earnings (loss) from continuing operations	\$ (0.62)	\$ 1.88	\$ 2.60
Diluted net earnings (loss)	\$ (0.20)	\$ 2.08	\$ 2.78
Cash dividends	\$ 1.36	\$ 1.36	\$ 1.36

See notes to consolidated financial statements

• Consolidated Balance Sheets •

December 31 (millions of dollars)	1997	1996
<b>ASSETS</b>		
<u>Current Assets</u>		
Cash and equivalents	\$ 578	\$ 129
Trade receivables, less allowances of \$156 in 1997 and \$45 in 1996	1,565	966
Financing receivables and leases, less allowances	—	1,400
Inventories	1,170	1,034
Prepaid expenses and other	191	188
Deferred income taxes	215	95
Net assets of discontinued operations	562	—
<b>Total Current Assets</b>	<b>4,281</b>	<b>3,812</b>
<u>Other Assets</u>		
Investment in affiliated companies	100	513
Financing receivables and leases, less allowances	—	705
Intangibles, net	916	870
Deferred income taxes	220	152
Other	378	165
	1,614	2,405
<u>Property, Plant and Equipment</u>		
Land	92	93
Buildings	969	731
Machinery and equipment	4,201	3,015
Accumulated depreciation	(2,887)	(2,041)
	2,375	1,798
<b>Total Assets</b>	<b>\$ 8,270</b>	<b>\$ 8,015</b>

	1997	1996
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<u>Current Liabilities</u>		
Notes payable	\$ 1,332	\$ 2,038
Accounts payable	987	983
Employee compensation	265	226
Accrued expenses	858	624
Restructuring costs	212	32
Current maturities of long-term debt	22	119
<b>Total Current Liabilities</b>	<b>3,676</b>	<b>4,022</b>
<u>Other Liabilities</u>		
Deferred income taxes	190	206
Postemployment benefits	598	563
Other liabilities	188	161
Long-term debt	1,074	955
	2,050	1,885
<u>Minority Interests</u>	773	182
<u>Stockholders' Equity</u>		
Common stock, \$1 par value:		
250 million shares authorized	82	81
Paid-in capital	280	246
Retained earnings	1,801	1,918
Unearned restricted stock	(6)	(7)
Cumulative translation adjustments	(149)	(76)
Treasury stock – 6 million shares at cost in 1997 and 1996	(237)	(236)
	1,771	1,926
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 8,270</b>	<b>\$ 8,015</b>

See notes to consolidated financial statements

• Consolidated Statements of Cash Flows •

Year ended December 31 (millions of dollars)	1997	1996	1995
<u>Operating Activities</u>			
Net earnings (loss)	\$ (15)	\$ 156	\$ 209
Depreciation	322	318	282
Deferred income taxes	(208)	(32)	44
Equity in net earnings of affiliated companies, less dividends received	(51)	(84)	(58)
Gain on business dispositions	(70)	—	—
Provision for doubtful accounts	89	52	43
Amortization of goodwill	34	35	30
Restructuring charges, net of cash paid	267	(42)	(119)
Minority interests	(49)	(18)	1
Changes in assets and liabilities, net of effects of business acquisitions and dispositions:			
Trade receivables	(145)	58	23
Inventories	177	(7)	(111)
Accounts payable	20	(21)	70
Other - net	222	130	(37)
<u>Cash Provided by Operating Activities</u>	<u>\$ 593</u>	<u>\$ 545</u>	<u>\$ 377</u>

	1997	1996	1995
<u>Investing Activities</u>			
Net additions to properties	\$ (378)	\$ (336)	\$ (483)
Net change in financing receivables and leases	706	(265)	(256)
Net assets of discontinued operations	(562)	—	—
Acquisitions of businesses, less cash acquired	179	(27)	(157)
Net (increase) decrease in investment in and advances to affiliated companies	13	15	(40)
Business dispositions	1,038	—	26
Other	(8)	(32)	(25)
<u>Cash Provided by (Used for) Investing Activities</u>	<u>988</u>	<u>(645)</u>	<u>(935)</u>
<u>Financing Activities</u>			
Proceeds of short-term borrowings	31,479	24,911	16,493
Repayments of short-term borrowings	(32,439)	(24,847)	(15,744)
Proceeds of long-term debt	102	316	130
Repayments of long-term debt	(211)	(209)	(121)
Repayments of non-recourse debt	(8)	(13)	(10)
Dividends	(102)	(101)	(100)
Purchase of treasury stock	—	—	(35)
Proceeds from the sale of preferred stock	—	25	—
Other	47	(2)	22
<u>Cash Provided by (Used for) Financing Activities</u>	<u>(1,132)</u>	<u>80</u>	<u>635</u>
Increase (Decrease) in Cash and Equivalents	449	(20)	77
Cash and Equivalents at Beginning of Year	129	149	72
<u>Cash and Equivalents at End of Year</u>	<u>\$ 578</u>	<u>\$ 129</u>	<u>\$ 149</u>

See notes to consolidated financial statements

• Consolidated Statements of Earnings •

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Minority interests	49	18	(1)
Earnings (Loss) from Continuing Operations	(46)	141	195
Earnings (loss) from discontinued operations (less applicable taxes)	(11)	15	14
Gain on disposal from discontinued operations (less applicable taxes)	42	—	—
Net Earnings (Loss)	\$ (15)	\$ 156	\$ 209
Per share of common stock:			
Basic earnings (loss) from continuing operations	\$ (0.62)	\$ 1.90	\$ 2.64
Basic net earnings (loss)	\$ (0.20)	\$ 2.10	\$ 2.83
Diluted earnings (loss) from continuing operations	\$ (0.62)	\$ 1.88	\$ 2.60
Diluted net earnings (loss)	\$ (0.20)	\$ 2.08	\$ 2.78
Cash dividends	\$ 1.36	\$ 1.36	\$ 1.36

See notes to consolidated financial statements

• Consolidated Balance Sheets •

December 31 (millions of dollars)	1997	1996
<b>ASSETS</b>		
<u>Current Assets</u>		
Cash and equivalents	\$ 578	\$ 129
Trade receivables, less allowances of \$156 in 1997 and \$45 in 1996	1,565	966
Financing receivables and leases, less allowances	—	1,400
Inventories	1,170	1,034
Prepaid expenses and other	191	188
Deferred income taxes	215	95
Net assets of discontinued operations	562	—
<b>Total Current Assets</b>	<b>4,281</b>	<b>3,812</b>
<u>Other Assets</u>		
Investment in affiliated companies	100	513
Financing receivables and leases, less allowances	—	705
Intangibles, net	916	870
Deferred income taxes	220	152
Other	378	165
	1,614	2,405
<u>Property, Plant and Equipment</u>		
Land	92	93
Buildings	969	731
Machinery and equipment	4,201	3,015
Accumulated depreciation	(2,887)	(2,041)
	2,375	1,798
<b>Total Assets</b>	<b>\$ 8,270</b>	<b>\$ 8,015</b>

	1997	1996
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<u>Current Liabilities</u>		
Notes payable	\$ 1,332	\$ 2,038
Accounts payable	987	983
Employee compensation	265	226
Accrued expenses	858	624
Restructuring costs	212	32
Current maturities of long-term debt	22	119
<b>Total Current Liabilities</b>	<b>3,676</b>	<b>4,022</b>
<u>Other Liabilities</u>		
Deferred income taxes	190	206
Postemployment benefits	598	563
Other liabilities	188	161
Long-term debt	1,074	955
	2,050	1,885
<u>Minority Interests</u>	773	182
<u>Stockholders' Equity</u>		
Common stock, \$1 par value:		
250 million shares authorized	82	81
Paid-in capital	280	246
Retained earnings	1,801	1,918
Unearned restricted stock	(6)	(7)
Cumulative translation adjustments	(149)	(76)
Treasury stock – 6 million shares at cost in 1997 and 1996	(237)	(236)
	1,771	1,926
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 8,270</b>	<b>\$ 8,015</b>

See notes to consolidated financial statements

• Consolidated Statements of Cash Flows •

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	1995
<u>Operating Activities</u>			
Net earnings (loss)	\$ (15)	\$ 156	\$ 209
Depreciation	322	318	282
Deferred income taxes	(208)	(32)	44
Equity in net earnings of affiliated companies, less dividends received	(51)	(84)	(58)
Gain on business dispositions	(70)	—	—
Provision for doubtful accounts	89	52	43
Amortization of goodwill	34	35	30
Restructuring charges, net of cash paid	267	(42)	(119)
Minority interests	(49)	(18)	1
Changes in assets and liabilities, net of effects of business acquisitions and dispositions:			
Trade receivables	(145)	58	23
Inventories	177	(7)	(111)
Accounts payable	20	(21)	70
Other - net	222	130	(37)
<u>Cash Provided by Operating Activities</u>	<u>\$ 593</u>	<u>\$ 545</u>	<u>\$ 377</u>

	1997	1996	1995
<u>Investing Activities</u>			
Net additions to properties	\$ (378)	\$ (336)	\$ (483)
Net change in financing receivables and leases	706	(265)	(256)
Net assets of discontinued operations	(562)	—	—
Acquisitions of businesses, less cash acquired	179	(27)	(157)
Net (increase) decrease in investment in and advances to affiliated companies	13	15	(40)
Business dispositions	1,038	—	26
Other	(8)	(32)	(25)
<u>Cash Provided by (Used for) Investing Activities</u>	<u>988</u>	<u>(645)</u>	<u>(935)</u>
<u>Financing Activities</u>			
Proceeds of short-term borrowings	31,479	24,911	16,493
Repayments of short-term borrowings	(32,439)	(24,847)	(15,744)
Proceeds of long-term debt	102	316	130
Repayments of long-term debt	(211)	(209)	(121)
Repayments of non-recourse debt	(8)	(13)	(10)
Dividends	(102)	(101)	(100)
Purchase of treasury stock	—	—	(35)
Proceeds from the sale of preferred stock	—	25	—
Other	47	(2)	22
<u>Cash Provided by (Used for) Financing Activities</u>	<u>(1,132)</u>	<u>80</u>	<u>635</u>
Increase (Decrease) in Cash and Equivalents	449	(20)	77
Cash and Equivalents at Beginning of Year	129	149	72
<u>Cash and Equivalents at End of Year</u>	<u>\$ 578</u>	<u>\$ 129</u>	<u>\$ 149</u>

See notes to consolidated financial statements

• Consolidated Statements of Earnings •

<i>Year ended December 31 (millions of dollars, except per share data)</i>	1997	1996	1995
Net sales	\$ 8,617	\$ 8,523	\$ 8,163
<u>Expenses</u>			
Cost of products sold	6,604	6,623	6,245
Selling and administrative	1,625	1,557	1,521
Intangible amortization	34	35	31
Restructuring costs	343	30	—
	8,606	8,245	7,797
Operating Profit	11	278	366
<u>Other Income (Expense)</u>			
Interest and sundry	(14)	(23)	(23)
Interest expense	(168)	(155)	(129)
Earnings (Loss) Before Income Taxes and Other Items	(171)	100	214
Income taxes (benefit)	(9)	70	90
Earnings (Loss) from Continuing Operations Before Equity Earnings and Minority Interests	(162)	30	124
Equity in affiliated companies	67	93	72
Minority interests	49	18	(1)
Earnings (Loss) from Continuing Operations	(46)	141	195
Earnings (loss) from discontinued operations (less applicable taxes)	(11)	15	14
Gain on disposal from discontinued operations (less applicable taxes)	42	—	—
Net Earnings (Loss)	\$ (15)	\$ 156	\$ 209
Per share of common stock:			
Basic earnings (loss) from continuing operations	\$ (0.62)	\$ 1.90	\$ 2.64
Basic net earnings (loss)	\$ (0.20)	\$ 2.10	\$ 2.83
Diluted earnings (loss) from continuing operations	\$ (0.62)	\$ 1.88	\$ 2.60
Diluted net earnings (loss)	\$ (0.20)	\$ 2.08	\$ 2.78
Cash dividends	\$ 1.36	\$ 1.36	\$ 1.36

See notes to consolidated financial statements

• Consolidated Balance Sheets •

December 31 (millions of dollars)	1997	1996
<b>ASSETS</b>		
<u>Current Assets</u>		
Cash and equivalents	\$ 578	\$ 129
Trade receivables, less allowances of \$156 in 1997 and \$45 in 1996	1,565	966
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<b>Total Assets</b>	<b>\$ 8,270</b>	<b>\$ 8,015</b>

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<u>Current Liabilities</u>		
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	2,050	1,885
<u>Minority Interests</u>	773	182
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See notes to consolidated financial statements

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Minority interests	(49)	(18)	1
Changes in assets and liabilities, net of effects of business acquisitions and dispositions:			
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Inventories	177	(7)	(111)
Accounts payable	20	(21)	70
Other - net	222	130	(37)
<b>Cash Provided by Operating Activities</b>	<b>\$ 593</b>	<b>\$ 545</b>	<b>\$ 377</b>

	1997	1996	1995
<b>Investing Activities</b>			
Net additions to properties	\$ (378)	\$ (336)	\$ (483)
Net change in financing receivables and leases	706	(265)	(256)
Net assets of discontinued operations	(562)	—	—
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<b>Increase (Decrease) in Cash and Equivalents</b>	<b>449</b>	<b>(20)</b>	<b>77</b>
<b>Cash and Equivalents at Beginning of Year</b>	<b>129</b>	<b>149</b>	<b>72</b>
<b>Cash and Equivalents at End of Year</b>	<b>\$ 578</b>	<b>\$ 129</b>	<b>\$ 149</b>

See notes to consolidated financial statements

## Note 1 • Summary of Principal Accounting Policies

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**Nature of Operations:** Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. The company manufactures in 13 countries on five continents and markets products to distributors and retailers in about 140 countries.

**Principles of Consolidation:** The consolidated financial statements include all majority-owned subsidiaries. Investments in affiliated companies are accounted for by the equity method. All intercompany transactions have been eliminated upon consolidation.

In November 1997, the company increased its voting ownership in its Brazilian affiliate, Brasmotor S.A., from 33% to 66% (Refer to Note 2). As a result, the Brazilian operations are consolidated as of November 1, 1997. Prior to that date, the Brazilian operations were accounted for on an equity basis.

**Discontinued Operations:** In the third quarter 1997, the company discontinued its financial services business; as a result, prior year amounts on the statement of earnings have been restated to reflect this business as a discontinued operation. Balance sheet and cash flow amounts would not have been materially different and have not been restated.

**Use of Estimates:** Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Revenue Recognition:** Sales are recorded when product is shipped to distributors or directly to retailers.

**Cash and Equivalents:** All highly liquid debt instruments purchased with a maturity of three months or less are considered cash equivalents.

**Inventories:** Inventories are stated at first-in, first-out (FIFO) cost, except U.S. production inventories which are stated at last-in, first-out (LIFO) cost and Brazilian inventories which are stated at average cost. Costs do not exceed realizable values.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost. Depreciation of plant and equipment is

computed using the straight-line method based on the estimated useful lives of the assets.

**Intangibles:** The cost of business acquisitions in excess of net tangible assets acquired is amortized on a straight-line basis principally over 40 years. Non-compete agreements are amortized on a straight-line basis over the terms of the agreements. Accumulated amortization totaled \$211 million and \$191 million at December 31, 1997 and 1996. Should circumstances indicate the potential impairment of goodwill, the company would compare the carrying amount against related estimated undiscounted future cash flows to determine if a write-down to market value or discounted cash flow value is required.

**Research and Development Costs:** Research and development costs are charged to expense as incurred. Such costs were \$181 million, \$197 million and \$180 million in 1997, 1996 and 1995.

**Advertising Costs:** Advertising costs are charged to expense as incurred. Such costs from continuing operations were \$155 million, \$142 million and \$148 million in 1997, 1996 and 1995.

**Foreign Currency Translation:** The functional currency for the company's international subsidiaries and affiliates is the local currency except for selected Latin American subsidiaries (including Brazil) which have been considered hyperinflationary and have been remeasured to U.S. dollars. Effective January 1, 1998, Brazil is no longer considered to be hyperinflationary and the local currency will be considered the functional currency.

**Derivative Financial Instruments:** The company uses derivative financial instruments to manage the economic impact of fluctuations in interest rates, foreign currency exchange rate and commodity prices. To achieve this, the company enters into interest rate and cross currency interest rate swaps, foreign currency forward contracts and options, and commodity swaps.

The company's hedging strategy for the foreign currency exchange risk associated with its investment in Europe is based on projected foreign currency cash flows over periods up to ten years. The company uses interest rate and cross currency interest rate swaps to effectively convert a portion of the company's U.S. dollar denominated

debt into various European currencies. The company's investment in Europe and the foreign currency portion of these cross currency interest rate swaps are revalued in dollar terms each period to reflect current foreign currency exchange rates with gains and losses recorded in the equity section of the balance sheet. To the extent that the notional amounts of these contracts exceed the company's investment in Europe, the related mark-to-market gains and losses are reflected currently in earnings. The net translation loss recognized in other income, including the gains and losses from those contracts not qualifying as hedges, was \$8 million, \$14 million and \$16 million in 1997, 1996 and 1995. The amounts receivable from or payable to counterparties to the swaps, offsetting the gains and losses recorded in equity or earnings, are recorded in long-term debt. The company also uses domestic interest rate swaps to manage the duration and interest rate characteristics of its outstanding debt. The interest component of the swaps, which overlay a portion of the company's interest payments on outstanding debt, is not carried at fair value in the financial statements. The interest differential paid or received is recognized as an adjustment to interest expense. Gains and losses on the interest component of terminated swaps are deferred in noncurrent liabilities and amortized as an adjustment to interest expense over the remaining term of the original swap. In the event of early extinguishment of debt, any realized or unrealized gains or losses from related swaps would be recognized in income concurrent with the extinguishment.

The company also uses foreign currency forward contracts to hedge payments due on cross currency interest rate swaps and intercompany loans and, along with foreign currency options, to hedge material purchases, intercompany shipments and other commitments. In addition, the company hedges a portion of its contractual requirements of certain commodities with commodity swaps. These contracts are not carried at fair value in the financial statements as the related gains and losses are recognized in the same period and classified in the same manner as the underlying transactions. Any gains and losses on terminated contracts are deferred in current liabilities until the underlying transactions occur.

The company deals only with investment-grade counterparties to these contracts and monitors its overall credit risk and exposure to individual counterparties. The company does not anticipate nonperformance by any counterparties. The amount of the exposure is generally the unrealized gains in such contracts. The company does not require, nor does it post, collateral or security on such contracts.

**Net Earnings Per Common Share:** In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share," which replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of common stock equivalents such as stock options. Diluted earnings per share amounts assume, if dilutive, the exercise of options and vesting of restricted stock using the treasury stock method. Earnings per share amounts, for all periods, have been presented, and where appropriate, restated to conform to Statement 128 requirements.

The following table provides the computation of basic and diluted earnings (loss) per share:

December 31 (millions of dollars, except per share data)	1997	1996	1995
<b>Numerator</b>			
Net earnings (loss):			
Continuing operations	\$ (46)	\$ 141	\$ 195
Discontinued operations	31	15	14
Numerator for basic earnings (loss) per share	(15)	156	209
Effect of dilutive securities:			
Convertible debt	–	4	4
Numerator for diluted earnings (loss) per share	\$ (15)	\$ 160	\$ 213
<b>Denominator</b>			
For basic earnings (loss) per share—weighted-average shares outstanding	74.7	74.3	73.9
Effect of dilutive securities:			
Employee stock options	–	0.7	0.7
Convertible debt	–	2.2	2.2
Dilutive potential common shares	–	2.9	2.9
Denominator for diluted earnings (loss) per share	74.7	77.2	76.8
Basic earnings (loss) from continuing operations	\$ (0.62)	\$ 1.90	\$ 2.64
Basic earnings (loss)	(0.20)	2.10	2.83
Diluted earnings (loss) from continuing operations	\$ (0.62)	\$ 1.88	\$ 2.60
Diluted earnings (loss)	(0.20)	2.08	2.78

## Note 2 • Business Acquisitions and Dispositions

In January 1998, the company increased its majority ownership interest in Whirlpool Narcissus Co., its Chinese joint venture that manufactures washing machines, for approximately \$12 million pending government approval.

In November 1997, the company completed the purchase of approximately 33% of the voting shares, as well as preferred, or non-voting shares of the company's Brazilian affiliate, Brasmotor S.A., for \$217 million. The shares, combined with the existing holdings, give the company a controlling interest of approximately 66% of the voting shares of Brasmotor. Brasmotor is the parent company of Multibrás S.A. Eletrodomésticos, which has appliance sales of \$1.6 billion and the leading market share position in Latin America, and Embraco, the world's second largest hermetic compressor manufacturer with annual sales of approximately \$790 million.

In September 1997, the company reached a definitive agreement to sell the inventory, consumer, and international financing businesses of WFC to Transamerica Distribution Finance Corporation (TDF) (Refer to Note 3).

In August 1997, the company sold its majority interest in its Argentine business to Multibrás S.A. Eletrodomésticos, in a share for share exchange of Whirlpool Argentina shares for additional shares in Multibrás, slightly increasing the company's ownership stake in Multibrás. No gain or loss was recognized by the company on this transaction. Whirlpool Argentina's annual sales and earnings are not significant to the company's consolidated results of operations.

In September 1996, the company acquired 100% of Gentech Trading (Pty.) Ltd., a South African company, for about \$27 million - \$2 million of cash and \$25 million of assumed debt. Renamed Whirlpool South Africa, the company manufactures refrigerators and markets manufactured and imported appliances under the *Whirlpool* and local *KIC* brand names. Gentech annual sales were about \$100 million for its fiscal year 1995.

In May 1996, two of the company's majority-owned subsidiaries in India, Kelvinator of India (KOI) and Whirlpool Washing Machines Limited (WWML), were merged and renamed Whirlpool of India (WOI). As part of the merger plan, the company purchased an

additional interest in WWML for \$12 million in April 1996, resulting in a 56% interest in the combined entity, WOI.

In 1995, the company acquired a majority interest in Shunde SMC Microwave Products Co., Ltd., a Chinese manufacturer and marketer of microwave ovens, for about \$90 million in cash. The company also acquired a majority interest in KOI, a manufacturer and marketer of refrigerators, for about \$116 million in cash. The company invested \$16 million for a majority interest in Whirlpool Narcissus (Shanghai) Co. Ltd., a new Chinese joint venture, to produce washing machines.

The above acquisitions have been accounted for as purchases and their operating results have been consolidated with the company's results since the dates of acquisition. The proforma consolidated operating results reflecting these acquisitions for the full year would not have been materially different from reported amounts.

### Note 3 • *Discontinued Operations*

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During the third quarter of 1997, the company discontinued its financing operations and adopted a plan to dispose of most of the assets of Whirlpool Financial Corporation (WFC). The company recorded a pretax gain of \$70 million (\$42 million after-tax) related to the transaction.

In September 1997, the company reached a definitive agreement to sell the majority of WFC's assets in a series of transactions to Transamerica Distribution Finance Corporation (TDF). During the fourth quarter of 1997, the company completed the sale of certain inventory floor planning financing assets and international factoring assets to TDF for approximately \$927 million. In January 1998, the company sold to TDF additional international assets and consumer financing receivable assets for approximately \$370 million. The company expects to record a pretax gain of approximately \$22 million in the first quarter of 1998 related to the completion of the TDF transactions. Under an ongoing strategic partnership, TDF will continue to provide financing services to the company's trade partners and customers. In separate transactions during the fourth quarter of

1997, the company sold certain consumer financing receivables for \$98 million and entered into an agreement to sell a portion of WFC's aerospace financing business for \$168 million, of which \$144 million was sold in the first two months of 1998.

A \$36 million operating charge (\$22 million after-tax) was recorded in the third quarter of 1997 to provide an additional reserve for certain retained WFC aerospace assets.

Gross financing receivables and leases at December 31, 1997 and 1996 were \$331 million and \$2,128 million, respectively. Unearned income, estimated residual value and allowances related to these leases were \$(55) million and \$(23) million, respectively. Deferred income tax liabilities relating to financing leases were \$127 million and \$123 million at December 31, 1997 and 1996.

Interest and discount charges are recognized in revenues using the effective yield method. Lease income is recorded in decreasing amounts over the term of the lease contract, resulting in a level rate of return on the net investment in the lease. Origination fees and related costs are deferred and amortized as yield adjustments over the life of the related receivable or lease. The allowance for losses is maintained at estimated amounts necessary to cover losses on all finance and leasing receivables based on management's assessment of various factors including loss experience and review of problem accounts.

Net losses on financing receivables and leases were \$35 million (excluding operating charge), \$40 million and \$39 million in 1997, 1996 and 1995. Financing receivables of \$109 million, \$108 million and \$112 million are considered impaired under Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan" at December 31, 1997, 1996 and 1995. Specific allowances for losses on these receivables total \$65 million, \$29 million and \$19 million at December 31, 1997, 1996 and 1995. WFC recognized \$5 million, \$9 million and \$12 million of interest income in 1997, 1996 and 1995 on these receivables.

#### Note 4 • Inventories

<i>December 31 (millions of dollars)</i>	1997	1996
Finished products	\$ 1,015	\$ 991
Work in process	69	59
Raw materials	304	213
<b>Total FIFO cost</b>	<b>1,388</b>	<b>1,263</b>
Less excess of FIFO cost over LIFO cost	218	229
	<b>\$ 1,170</b>	<b>\$ 1,034</b>

LIFO inventories represent approximately 24% and 39% of total inventories at December 31, 1997 and 1996.

#### Note 5 • Affiliated Companies

The company has a 49% direct voting interest in a Mexican company (Vitromatic, S.A. de C.V.) and direct voting interests ranging from 10% to 40% in several other international companies principally engaged in the manufacture and sale of major home appliances or related component parts. Prior to consolidation of the company's Brazilian subsidiary for the last two months of 1997 (Refer to Note 1), results were reflected as equity earnings of affiliated companies. The company's share of Brazilian results for 1997 was \$78 million excluding restructuring and operating charges and \$64 million including restructuring and operating charges.

Equity in the net earnings (loss) of affiliated companies, net of related taxes, is as follows:

<i>(millions of dollars)</i>	1997	1996	1995
Brazilian affiliates	\$ 60	\$ 92	\$ 70
Mexican affiliate	5	(3)	—
Other	2	4	2
<b>Total equity earnings</b>	<b>\$ 67</b>	<b>\$ 93</b>	<b>\$ 72</b>

Combined condensed financial information for all affiliated operating companies (excluding Brazil in 1997) follows:

<i>December 31 (millions of dollars)</i>	1997	1996
Current assets	\$ 275	\$ 1,365
Other assets	372	1,090
	<b>\$ 647</b>	<b>\$ 2,455</b>
Current liabilities	\$ 303	\$ 795
Other liabilities	160	380
Stockholders' equity	184	1,280
	<b>\$ 647</b>	<b>\$ 2,455</b>

<i>(millions of dollars)</i>	1997	1996	1995
Net sales	\$ 937	\$ 3,112	\$ 2,772
Cost of products sold	\$ 596	\$ 2,323	\$ 2,122
Net earnings	\$ 17	\$ 265	\$ 192
Dividends and fees paid to Whirlpool by affiliates	\$ 5	\$ 20	\$ 20

The company has unused credit lines of approximately \$2.5 billion, including \$800 million expiring in 2002 and the remainder expiring in 1998. Generally, the banks are compensated for their credit lines by a fee and do not require formal compensating balances.

Notes payable consist of the following:

December 31 (millions of dollars)	1997	1996
Payable to banks	\$ 558	\$ 263
Commercial paper	752	1,761
Other	22	14
	<u>\$ 1,332</u>	<u>\$ 2,038</u>

The reduction of notes payable in 1997 from 1996 reflects a decrease in WFC commercial paper (Refer to Note 3) net of an increase in notes payable to banks resulting from the consolidation of Brasmotor S.A. (Refer to Note 2).

The weighted average interest rate on notes payable was 7.37% and 6.34% at December 31, 1997 and 1996.

Although the majority of its operating assets have been divested, WFC remains a legal entity with preferred stock arrangements as follows:

	Number of Shares	Face Value	Annual Dividend	Mandatory Redemption Date	Date of Issuance
Series A	400,000	\$100	\$5.55	9/1/1998	8/31/1993
Series B	350,000	\$100	\$6.55	9/1/2008	8/31/1993
Series C	250,000	\$100	\$6.09	2/1/2002	12/27/1996

The preferred stockholders are entitled to vote together on a share-for-share basis with WFC's common stockholder. Preferred stock dividends are payable quarterly. At its option, WFC may redeem the Series B at any time on or after September 1, 2003 or at any

earlier date for Series C. The redemption price for each series is \$100 per share plus any accrued unpaid dividends and the applicable redemption premium if redeemed early. Commencing September 1, 2003, WFC must pay \$1,750,000 per year to a sinking fund for the benefit of the Series B preferred stockholders, with a final payment of \$26,250,000 due on or before September 1, 2008. There are no sinking fund requirements for the Series A or Series C preferred stock.

The company and WFC are parties to a support agreement. Pursuant to the agreement, if at the close of any quarter WFC's net earnings available for fixed charges (as defined) for the preceding twelve months is less than a stipulated amount, the company is required to make a cash payment to WFC equal to the insufficiency within 60 days of the end of the quarter. The support agreement may be terminated by either WFC or the company upon 30 days notice provided that certain conditions are met. The company has also agreed to maintain ownership of at least 70% of WFC's voting stock.

In January 1997, the company paid \$113 million to call the outstanding subordinated zero coupon convertible notes resulting in an insignificant loss on extinguishment. The call payment was financed through issuance of additional commercial paper. At redemption, an aggregate principal amount of \$372 million was converted into 2.7 million shares of the company's common stock.

Long-term debt consists of the following:

December 31 (millions of dollars)	Maturity	Interest Rate	1997	1996
Debentures	2008 and 2016	7.8 and 9.1%	\$ 368	\$ 368
Senior notes	2000 and 2003	9.0 and 9.5	400	400
Medium-term notes	1999 to 2006	8.7 to 9.1	25	25
Subordinated convertible notes			-	113
Mortgage notes	1998 to 2012	6.3 to 6.6	65	67
Other			238	101
			<u>1,096</u>	<u>1,074</u>
Less current maturities			22	119
			<u>\$1,074</u>	<u>\$ 955</u>

Annual maturities of long-term debt in the next five years are \$22 million, \$180 million, \$264 million, \$51 million and \$14 million.

The company paid interest, including a portion recorded as discontinued operations, on short-term and long-term debt totaling \$242 million, \$228 million and \$232 million in 1997, 1996 and 1995.

## Note 7 • Fair Value of Financial Instruments

The following methods and assumptions were used in estimating fair values of financial instruments:

**Cash and Equivalents and Notes Payable:** The carrying amounts approximate fair values.

**Long-term Debt and WFC Preferred Stock:** The fair values are estimated using discounted cash flow analyses based on incremental borrowing or dividend yield rates for similar types of borrowing or equity arrangements. The WFC preferred stock carrying amount approximates fair value.

**Derivative Financial Instruments:** The fair values of interest rate swaps, cross currency interest rate swaps, foreign currency forward contracts and option collars and commodity swaps are based on quoted market prices.

The carrying amounts and fair values of financial instruments for which the fair value does not approximate the liability carrying amount are as follows:

December 31 (millions of dollars)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including current portion)	\$ 1,174	\$ 1,280	\$ 1,053	\$ 1,118
Derivative financial instruments (notional amounts indicated):				
Hedges of net investment in Europe including converted debt:				
Interest rate and cross currency interest rate swaps (\$1,390 million in 1997; \$1,506 million in 1996)	(78)	(42)	21	110
Foreign currency forward contracts (\$7 million in 1997; \$1 million in 1996)	—	—	—	—
Domestic interest rate swaps (\$240 million in 1997; \$240 million in 1996)	—	(4)	—	(1)
Transaction hedges:				
Foreign currency forward contracts (\$736 million in 1997; \$950 million in 1996)	—	(2)	—	—
Foreign currency options (\$— million in 1997; \$— million in 1996)	—	—	—	—
Hedges with commodity swaps (\$19 million in 1997; \$35 million in 1996)	—	1	—	—
WFC interest rate and cross currency swaps (\$30 million in 1997; \$44 million in 1996)	—	—	—	—
<b>Total long-term debt</b>	<b>\$1,096</b>	<b>\$1,233</b>	<b>\$1,074</b>	<b>\$1,227</b>

At December 31, 1997, interest rate and cross currency interest rate swaps effectively convert \$876 million of U.S. dollar denominated debt into European currency denominations (\$468 million - German marks, \$319 million - French francs, \$39 million - Swiss francs and \$50 million - British pounds). About 38% of this converted debt has floating rates and 62% has fixed rates. Floating rates received range from LIBOR less .9% to LIBOR, and floating rates paid range from local currency LIBOR to local currency LIBOR plus 3.25%. Fixed rates received range from 3.55% to 7.20%, and fixed rates paid range from 5.13% to 9.25%. The swaps mature within nine years.

At December 31, 1997, domestic interest rate swaps effectively convert \$240 million of fixed rate debt into floating rate debt. Fixed rates received range from 6.99% to 7.21%. Floating rates paid are LIBOR. The domestic interest rate swaps mature within five years.

At December 31, 1997, WFC interest rate swaps effectively convert \$26 million of floating rate debt into fixed rate debt as well as converting \$4 million of U.S. dollar denominated debt into Canadian currency denomination. Floating rates received are based on LIBOR or commercial paper rates, and fixed rates paid range from 6.33% to 8.83%. The WFC swaps mature within four years.

Foreign currency forward contracts mature within one day to two years and involve principally European and North American currencies. Copper and zinc commodity swaps mature within two years.

## Note 8 • *Stockholders' Equity*

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In addition to its common stock, the company has 10 million authorized shares of preferred stock (par value \$1 per share), none of which is outstanding.

Consolidated retained earnings at December 31, 1997 included \$20 million of equity in undistributed net earnings of affiliated companies.

The cumulative translation component of stockholders' equity represents the effect of translating net assets of the company's

international subsidiaries offset by related hedging activity net of tax. Conversion of notes, stock option transactions and restricted stock grants account for the changes in paid-in capital.

One Preferred Stock Purchase Right (Rights) is outstanding for each share of common stock. The Rights, which expire May 23, 1998, will become exercisable 10 days after a person or group either becomes the beneficial owner of 20% or more of the common stock or commences a tender or exchange offer that would result in such person or group beneficially owning 25% or more of the outstanding common stock. Each Right entitles the holder to purchase from the company one newly issued unit consisting of one one-hundredth of a share of Series A Participating Cumulative Preferred Stock at an exercise price of \$100, subject to adjustment.

If (i) any person or group becomes the beneficial owner of 25% or more of Whirlpool common stock, or (ii) the company is the surviving corporation in a merger with a 20% or more stockholder and its common stock is not changed or converted, or (iii) a 20% or more stockholder engages in certain self-dealing transactions with the company, then each Right not owned by such person will entitle the holder to purchase, at the Rights' then current exercise price, shares of the company's common stock having a value of twice the Rights' then current exercise price. In addition, if the company is involved in a merger in which its common stock is converted or sells 50% or more of its assets, each Right will entitle its holder to purchase for the exercise price shares of common stock of the acquiring successor company having a value of twice the Rights' then current exercise price.

The company will be entitled to redeem the Rights in whole, but not in part, at \$.05 per Right at any time prior to the expiration of a 10-day period (subject to extension) following public announcement of the existence of a 20% holder or of a 25% or more tender offer. Until such time as the Rights become exercisable, the Rights have no voting or dividend privileges and are attached to, and do not trade separately from, the common stock.

At December 31, 1997, one million preferred shares were reserved for future exercise of Stock Purchase Rights.

## Note 9 • Stock Option and Incentive Plans

The company's stock option and incentive plan permits the grant of stock options and other stock awards covering up to 9.4 million shares to key employees of the company and its subsidiaries, of which 1.9 million shares are available for grant at December 31, 1997. The plan authorizes the grant of both incentive and nonqualified stock options and, further, authorizes the grant of stock appreciation rights and related supplemental cash payments independently of or with respect to options granted or outstanding. Stock options generally have 10-year terms, and vest and become fully exercisable over a two to three year period after date of grant. An Executive Stock Appreciation and Performance Program (ESAP), a Restricted Stock Value Program (RSVP) and a Career Stock Program (CSP) have been established under the plan. Performance awards under ESAP and RSVP are generally earned over multi-year time periods upon the achievement of certain performance objectives or upon a change in control of the company. CSP awards are earned at specified dates during a participant's career with the company or upon change in control of the company. ESAP awards are payable in cash, common stock, or a combination thereof when earned. RSVP grants restricted shares which may not be sold, transferred or encumbered until the restrictions lapse. CSP grants phantom stock awards which are redeemable for shares of the company's common stock upon the recipient's retirement after attaining age 60 and are subject to certain noncompetition provisions. Outstanding restricted and phantom shares totaled 882,400 with a weighted-average grant-date fair value of \$46.07 per share at December 31, 1997 and 984,400 with a weighted-average grant-date fair value of \$46.84 per share at December 31, 1996. Expenses under the plan were \$21 million, \$3 million and \$5 million in 1997, 1996 and 1995.

Under the Nonemployee Director Stock Ownership Plan, each nonemployee director is automatically granted 400 shares of common stock annually and is eligible for a stock option grant of 600 shares if the company's earnings meet a prescribed earnings formula. This plan provides for the grant of up to 200,000 shares as either stock or stock options, of which 143,000 shares are available for grant at December

31, 1997. The stock options vest and become exercisable six months after date of grant. There were no significant expenses under this plan for 1997, 1996 or 1995.

The company maintains an employee stock option plan (PartnerShare) that grants substantially all full-time U.S. employees a fixed number of stock options that vest over a three-year period and may be exercised over a 10-year period. PartnerShare authorizes the grant of up to 2.5 million shares of which 500,000 shares are available for grant at December 31, 1997.

Stock option and incentive plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Generally, no compensation expense is recognized for stock options with exercise prices equal to the market value of the underlying shares of stock at the date of grant. Compensation expense is recognized for ESAP, RSVP and CSP awards based on the market value of the underlying shares of stock when the number of shares is determinable.

Had the company elected to adopt recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," under which stock options are accounted for at estimated fair value, proforma net earnings (loss) and diluted net earnings (loss) per share would be as follows:

<i>December 31 (millions of dollars)</i>	1997	1996	1995
Net earnings (loss)			
As reported	\$ (15)	\$ 156	\$ 209
Proforma	(21)	153	209
Diluted net earnings (loss) per share			
As reported	\$ (0.20)	\$ 2.08	\$ 2.78
Proforma	(0.28)	2.04	2.77

The fair value of stock options used to compute proforma net earnings (loss) and earnings (loss) per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following assumptions: expected volatility factor of .183; dividend yield of 2.4%; risk-free interest rate of 5.5% and a weighted-average expected option life of 5 years.

The effects of proforma disclosures of applying SFAS No. 123 are not likely to be representative of the effects of such disclosures in future years. Statement No. 123 is applicable only to options granted subsequent to December 15, 1994, therefore the full proforma effect is not reflected in the years presented.

A summary of stock option information follows:

December 31 (thousands of shares, except per share data)	1997		1996		1995	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding at Jan. 1	4,127	\$ 46.31	3,397	\$ 43.99	3,214	\$ 39.96
Granted	1,360	45.78	1,282	50.62	723	55.75
Exercised	(842)	39.83	(331)	34.06	(427)	32.65
Canceled or expired	(415)	50.12	(221)	53.99	(113)	47.62
Outstanding at Dec. 31	4,230	\$ 47.06	4,127	\$ 46.31	3,397	\$ 43.99
Exercisable at Dec. 31	2,308	\$ 46.43	2,438	\$ 42.43	2,307	\$ 38.60
Fair value of options granted during the year		\$ 9.26		\$ 10.24		\$ 11.28

Of the outstanding options at December 31, 1997, 885,000 shares granted prior to 1993 (all of which are exercisable) have exercise prices ranging from \$24.75 to \$37.50 and a weighted-average remaining contractual life of 3.4 years, while 4,385,000 shares granted subsequent to 1992 (of which 1,423,000 shares are currently exercisable at a weighted-average exercise price of \$53.69) have exercise prices ranging from \$45.75 to \$55.81 and a weighted-average remaining contractual life of 8.3 years.

## Note 10 • Restructuring and Other Special Charges

Restructuring costs in 1997 and 1996 consist of the following:

December 31 (millions of dollars)	1997	1996
<b>Cash costs:</b>		
Employee severance and related payments	\$ 198	\$ 9
Lease termination, facility disposition and other costs	46	3
Total cash costs	244	12
<b>Noncash costs:</b>		
Loss on disposal of facilities and equipment	57	-
Other asset write-downs	42	18
Total noncash costs	99	18
	\$ 343	\$ 30

During 1997, the company incurred restructuring costs of \$343 million to better align the company's cost structure within the global home-appliance marketplace. Pretax restructuring charges of \$172 million, \$101 million, \$35 million, \$25 million and \$10 million relate to the company's European, Asian, Latin American, Corporate and North American operations. The restructuring charge includes the elimination of about 7,900 global positions between 1997 and 2000. About 25% of the cash costs were paid in 1997, with the remainder to be paid in 1998 and 1999. The impact of 1997 restructuring costs after-tax and minority interests was \$232 million or \$3.07 per diluted share.

In 1997, the company also recognized special charges of \$62 million (\$53 million of which affected operating profit), principally due to the adjustment of the carrying value of receivables and inventory, primarily in Europe and Asia. The impact of 1997 special operating charges on continuing operations after-tax and minority interests was

\$40 million or \$.54 per diluted share. In addition, discontinued operations results include a pretax charge of \$36 million, after-tax charge of \$22 million or \$.29 per diluted share to provide a reserve for certain WFC aerospace assets.

In 1996, restructuring costs relate to streamlining a North American refrigerator manufacturing operation in order to achieve greater efficiencies and lower manufacturing costs for specific refrigerator models, transferring Asian research and engineering operations from the regional center to the manufacturing locations and relocating the Whirlpool Asian headquarters. Pretax charges of \$18 million and \$12 million relate to the company's North American and Asian operations and involve the termination of about 850 employees. About 50% of the cash costs were paid in 1996, with the remainder paid in 1997. Total 1996 after-tax charges were \$19 million or \$.25 per diluted share.

## Note 11 • Income Taxes

Income tax provisions from continuing operations are as follows:

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	1995
<b>Current:</b>			
Federal	\$ 78	\$ 72	\$ 37
State and local	20	17	4
Foreign	26	7	24
	124	96	65
<b>Deferred:</b>			
Federal	(27)	(7)	26
State and local	(3)	1	7
Foreign	(103)	(20)	(8)
	(133)	(26)	25
	\$ (9)	\$ 70	\$ 90

Inclusive of discontinued operations (Refer to Note 3) provisions for income taxes were \$(12) million, \$81 million and \$100 million for 1997, 1996 and 1995, respectively.

Domestic and foreign earnings (loss) before income taxes and other items from continuing operations are as follows:

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	1995
Domestic	\$ 288	\$ 288	\$ 199
Foreign	(459)	(188)	15
	\$ (171)	\$ 100	\$ 214

Earnings (loss) before income taxes and other items, including discontinued operations (Refer to Note 3), were \$(178) million, \$130 million and \$242 million for 1997, 1996 and 1995, respectively.

Reconciliations between the U.S. federal statutory income tax rate and the consolidated effective income tax (benefit) rate for earnings before income taxes and other items for continuing operations are as follows:

<i>Year ended December 31 (millions of dollars)</i>	1997	1996	1995
U.S. federal statutory rate	(35.0) %	35.0 %	35.0 %
Impact of restructuring charge	18.2	(0.5)	-
State and local taxes, net of federal tax benefit	8.8	12.4	4.0
Nondeductible goodwill amortization	2.3	9.9	4.9
Settlement of prior year taxes	-	-	(5.1)
Excess foreign taxes (benefits)	(4.0)	(5.8)	4.5
Net benefits from unrecognized prior year deferred tax assets and carryforwards	(5.1)	(6.2)	(7.7)
Unbenefited operating losses	10.9	23.2	3.2
Nondeductible interest	-	4.3	1.9
Research tax credits	(0.6)	(9.0)	(0.9)
Other items	(0.5)	6.8	2.4
<b>Effective income tax (benefit) rate</b>	<b>(5.0) %</b>	<b>70.1 %</b>	<b>42.2 %</b>

Inclusive of discontinued operations, the effective income tax (benefit) rate was (6.9)%, 61.9% and 41.3% for 1997, 1996 and 1995, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the company's deferred tax liabilities and assets are as follows:

<i>December 31 (millions of dollars)</i>	1997	1996
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	\$ 166	\$ 162
Financial services leveraged leases	126	123
Other	23	38
<b>Total deferred tax liabilities</b>	<b>315</b>	<b>323</b>
<b>Deferred tax assets:</b>		
Postretirement obligation	161	151
Reserves	17	20
Restructuring costs	68	20
Product warranty accrual	20	20
Receivable and inventory allowances	97	2
Prepaid expenses	11	9
Loss carryforwards	125	88
Employee compensation	35	21
Other	24	27
<b>Total deferred tax assets</b>	<b>558</b>	<b>358</b>
Valuation allowances for deferred tax assets	(25)	(30)
<b>Deferred tax assets, net of valuation allowances</b>	<b>533</b>	<b>328</b>
<b>Net deferred tax assets</b>	<b>\$ 218</b>	<b>\$ 5</b>

The company has recorded valuation allowances to reflect the estimated amount of net operating loss carryforwards, restructuring costs and other deferred tax assets which may not be realized.

The company provides deferred taxes on the undistributed earnings of foreign subsidiaries and affiliates to the extent such earnings are expected to be remitted. Generally, earnings have been remitted only when no significant net tax liability would have been incurred. No provision has been made for U.S. or foreign taxes that may result from future remittances of the undistributed earnings (\$442 million at December 31, 1997) of foreign subsidiaries and affiliates expected to be reinvested indefinitely. Determination of the deferred income tax liability on these unremitted earnings is not practicable as such liability, if any, is dependent on circumstances existing when remittance occurs.

The company paid income taxes of \$23 million in 1997 and \$102 million in both 1996 and 1995.

At December 31, 1997, the company has foreign net operating loss carryforwards of \$330 million which are primarily nonexpiring.

#### Note 12 • Pension Plans

The company maintains both contributory and noncontributory defined benefit pension plans covering substantially all North American and Brazilian employees and certain European employees. Benefits are based primarily on compensation during a specified period before retirement or specified amounts for each year of service. The company's present funding policy is to generally make the minimum annual contribution required by applicable regulations. Assets held by the plans consist primarily of listed common stocks and bonds, government securities, investments in trust funds, bank deposits and other investments.

In 1997, the company recognized settlement gains, net of termination benefit cost, of \$12 million. These related to the sale of the WFC inventory and consumer financing businesses and a voluntary retirement program offered to certain other North American employees. The WFC retirement plan was merged into the Whirlpool Salaried Retirement Plan during the fourth quarter of 1997.

Pension cost, excluding the net gains described above, includes the following components:

December 31 (millions of dollars)	1997	1996	1995
Service cost - benefits earned during the year	\$ 41	\$ 40	\$ 36
Interest cost on projected benefit obligation	84	80	77
Actual return on plan assets	(204)	(157)	(267)
Net deferral/amortization	99	50	164
	\$ 20	\$ 13	\$ 10

Assumptions used in accounting for defined benefit pension plans are as follows:

December 31	1997	1996	1995
Discount rate	6.0-9.0 %	6.5-9.0 %	7.0-9.0 %
Rate of compensation level increase	2.5-9.0 %	2.5-6.0 %	3.5-6.5 %
Expected long-term rate of return on plan assets	4.5-9.5 %	6.5-9.5 %	6.5-9.5 %

The funded status of the pension plans is as follows:

December 31 (millions of dollars)	Plans Whose Assets Exceed Accumulated Benefits		Plans Whose Accumulated Benefits Exceed Plan Assets	
	1997	1996	1997	1996
Projected benefit obligation	\$ (943)	\$ (913)	\$ (312)	\$ (144)
Plan assets at fair value	1,312	1,259	140	63
Plan assets in excess of (less than) projected benefit obligation	369	346	(172)	(81)
Unrecognized prior service cost	69	47	14	7
Unrecognized net experience gain	(369)	(342)	4	4
Unrecognized net obligation, net of amortization	(15)	(20)	48	(1)
Additional minimum liability	—	—	(7)	(5)
Pension asset (liability) included in other assets (postemployment benefits)	\$ 54	\$ 31	\$ (113)	\$ (76)

The accumulated benefit obligation, which is included in the projected benefit obligation, represents the actuarial present value of benefits attributed to employee service and compensation levels to date. The accumulated benefit obligation was \$1,054 million and \$919 million at December 31, 1997 and 1996. The vested portion was \$932 million and \$812 million at December 31, 1997 and 1996.

The U.S. pension plans provide that in the event of a plan termination within five years following a change in control of the company, any assets held by the plans in excess of the amounts needed to fund accrued benefits would be used to provide additional benefits to plan participants. A change in control generally means one not

approved by the incumbent board of directors, including an acquisition of 25% or more of the voting power of the company's outstanding stock or a change in a majority of the incumbent board.

Certain European subsidiaries maintain termination indemnity and special severance plans. The cost of these plans, determined in accordance with local government specifications, was \$15 million and \$12 million in 1996 and 1995. The costs in 1997 were immaterial due to a lower termination rate than prior years.

The company maintains a 401(k) defined contribution plan covering substantially all U.S. employees. Company matching contributions for domestic hourly and certain other employees under the plan, based on the company's annual operating results and the level of individual participant's contributions, amounted to \$6 million, \$7 million and \$5 million in 1997, 1996 and 1995.

#### Note 13 • Postretirement Benefit Plans

The company currently sponsors a defined benefit health-care plan that provides postretirement medical benefits to full time U.S. employees who have worked 5 years and attained age 55 while in service with the company. The plan is currently noncontributory and contains cost-sharing features such as deductibles, coinsurance and a lifetime maximum. The company does not fund the plan. No significant postretirement benefits are provided by the company to non-U.S. employees.

The components of the annual postretirement benefit costs are as follows:

December 31 (millions of dollars)	1997	1996	1995
Service cost	\$ 10	\$ 11	\$ 10
Interest cost	29	28	26
	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 36</u>

The components of the postretirement obligation are as follows:

December 31 (millions of dollars)	1997	1996
Accumulated postretirement benefit obligation		
Retirees	\$ 200	\$ 181
Fully eligible active participants	78	87
Other active plan participants	110	114
Total	<u>388</u>	<u>382</u>
Unrecognized gain (loss)	14	(1)
Postretirement obligation	<u>\$ 402</u>	<u>\$ 381</u>

The assumed health-care trend rate decreases gradually from 8% in 1997 to 7% in 1998 and 1999 and finally to 6% in 2000 and future years. Increasing the health-care trend rate by one percentage point would increase the accumulated postretirement benefit obligation as of December 31, 1997 by \$28 million and increase the annual postretirement benefit cost for 1997 by \$3 million. Discount rates of 7.75% and 8.0% were used to determine the accumulated postretirement benefit obligation at December 31, 1997 and 1996.

#### Note 14 • Contingencies

The company is involved in various legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will not have a material adverse effect on the company's financial position.

The company is a party to certain financial instruments with off-balance-sheet risk which are entered into in the normal course of business. These instruments consist of financial guarantees, repurchase agreements and letters of credit. The company's exposure to credit loss in the event of nonperformance by the debtors is the contractual

amount of the financial instruments. The company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral or other security is generally required to support financial instruments with off-balance-sheet credit risk.

At December 31, 1997 the company had \$212 million in receivables subject to recourse provisions with TDF (Refer to Note 3).

### Note 15 • Business Segment Information

#### Geographic Segments

<i>(millions of dollars)</i>	<i>North America</i>	<i>Europe</i>	<i>Other and Eliminations</i>	<i>Major Home Appliances</i>
<b>Net sales</b>				
1997	\$ 5,382	\$ 2,431	\$ 804	\$ 8,617
1996	\$ 5,441	\$ 2,592	\$ 490	\$ 8,523
1995	\$ 5,093	\$ 2,502	\$ 568	\$ 8,163
<b>Operating profit (loss)</b>				
1997	\$ 347	\$ (145)	\$ (191)	\$ 11
1996	\$ 380	\$ (17)	\$ (85)	\$ 278
1995	\$ 314	\$ 90	\$ (38)	\$ 366
<b>Identifiable assets</b>				
1997	\$ 2,084	\$ 1,624	\$ 3,984	\$ 7,692
1996	\$ 2,080	\$ 1,951	\$ 2,135	\$ 6,166
1995	\$ 2,171	\$ 2,084	\$ 1,913	\$ 6,168
<b>Depreciation expense</b>				
1997	\$ 171	\$ 110	\$ 18	\$ 299
1996	\$ 164	\$ 107	\$ 20	\$ 291
1995	\$ 140	\$ 105	\$ 8	\$ 253
<b>Net capital expenditures</b>				
1997	\$ 140	\$ 84	\$ 151	\$ 375
1996	\$ 160	\$ 103	\$ 70	\$ 333
1995	\$ 262	\$ 186	\$ 29	\$ 477

The "Other and Eliminations" column includes \$1,714 million in 1997 for Brazilian identifiable assets.

Identifiable assets are those assets directly associated with the respective operating activities. Corporate assets which consist principally of cash, investments, prepaid expenses, intangibles, deferred income taxes and property and equipment related to corporate activities are included as other.

Substantially all of the company's trade receivables are from distributors and retailers.

Sales activity with Sears, Roebuck and Co., a North American major home appliance retailer, represented 20%, 21% and 20% of consolidated net sales in 1997, 1996 and 1995. Related receivables were 16%, 25% and 14% of consolidated trade receivables for December 31, 1997, 1996 and 1995.

Note 16 • Quarterly Results of Operations (Unaudited)\*

(millions of dollars, except per share data)	Three Months Ended			
	December 31	September 30	June 30	March 31
<b>1997:</b>				
Net sales	\$ 2,510	\$ 2,043	\$ 2,074	\$ 1,990
Cost of products sold	\$ 1,887	\$ 1,593	\$ 1,588	\$ 1,536
Earnings (loss) from continuing operations	\$ 50	\$ (200)	\$ 61	\$ 43
Net earnings (loss)	\$ 92	\$ (218)	\$ 65	\$ 46
Per share of common stock:				
Basic earnings (loss) from continuing operations	\$ .67	\$ (2.68)	\$ .82	\$ .57
Basic net earnings (loss)	\$ 1.24	\$ (2.93)	\$ .87	\$ .62
Diluted earnings (loss) from continuing operations	\$ .66	\$ (2.68)	\$ .81	\$ .57
Diluted net earnings (loss)	\$ 1.22	\$ (2.93)	\$ .86	\$ .62
Dividends paid	\$ .34	\$ .34	\$ .34	\$ .34
Stock price:				
High	\$ 66 <sup>15</sup> / <sub>16</sub>	\$ 69 <sup>1</sup> / <sub>2</sub>	\$ 55 <sup>1</sup> / <sub>4</sub>	\$ 52 <sup>1</sup> / <sub>2</sub>
Low	\$ 51 <sup>7</sup> / <sub>8</sub>	\$ 48	\$ 45 <sup>1</sup> / <sub>4</sub>	\$ 46
Close	\$ 55	\$ 66 <sup>5</sup> / <sub>16</sub>	\$ 54 <sup>9</sup> / <sub>16</sub>	\$ 47 <sup>5</sup> / <sub>8</sub>

Restructuring and other special charges described in Note 10 reduced third and fourth quarter earnings from continuing operations by \$258 million and \$14 million, respectively. Discontinued operations include a third quarter after-tax charge of \$22 million to provide a reserve for certain WFC assets and a \$42 million after-tax gain in the fourth quarter for the sale of WFC assets (Refer to Note 3).

Fourth quarter 1997 included two months of consolidated Brazilian results, \$5 million relating to the elimination of the Brazil one-month lag in reporting equity earnings and \$8 million related to the pension settlement gain (Refer to Note 12).

(millions of dollars, except per share data)	Three Months Ended			
	December 31	September 30	June 30	March 31
<b>1996:</b>				
Net sales	\$ 2,126	\$ 2,155	\$ 2,229	\$ 2,013
Cost of products sold	\$ 1,644	\$ 1,679	\$ 1,737	\$ 1,563
Earnings from continuing operations	\$ 40	\$ 19	\$ 48	\$ 34
Net earnings	\$ 45	\$ 21	\$ 52	\$ 38
Per share of common stock:				
Basic earnings from continuing operations	\$ .54	\$ .26	\$ .64	\$ .46
Basic net earnings	\$ .60	\$ .28	\$ .71	\$ .51
Diluted earnings from continuing operations	\$ .53	\$ .26	\$ .63	\$ .46
Diluted net earnings	\$ .59	\$ .28	\$ .70	\$ .51
Dividends paid	\$ .34	\$ .34	\$ .34	\$ .34
Stock price:				
High	\$ 50 <sup>7</sup> / <sub>8</sub>	\$ 53 <sup>1</sup> / <sub>8</sub>	\$ 61 <sup>3</sup> / <sub>8</sub>	\$ 59 <sup>1</sup> / <sub>2</sub>
Low	\$ 44 <sup>1</sup> / <sub>4</sub>	\$ 47 <sup>7</sup> / <sub>8</sub>	\$ 48	\$ 50 <sup>1</sup> / <sub>8</sub>
Close	\$ 46 <sup>5</sup> / <sub>8</sub>	\$ 50 <sup>5</sup> / <sub>8</sub>	\$ 49 <sup>5</sup> / <sub>8</sub>	\$ 55 <sup>1</sup> / <sub>4</sub>

Restructuring initiatives described in Note 10 reduced third quarter net earnings by \$19 million or \$.25 per diluted share.

\* The 1996 and first three quarters of 1997 earnings per share amounts have been restated to reflect WFC as a discontinued operation, and to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." As a result of the company's 1997 full year net loss, diluted earnings per share on a year-to-date basis does not equal the sum of the individual quarters' diluted earnings per share.

Report of Ernst & Young LLP,  
Independent Auditors

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The Stockholders and Board of Directors  
Whirlpool Corporation  
Benton Harbor, Michigan

We have audited the accompanying consolidated balance sheets of Whirlpool Corporation as of December 31, 1997 and 1996, and the related consolidated statements of earnings 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 did not audit the financial statements of Brasmotor S.A. and its consolidated subsidiaries, whose statements reflect total assets of \$2,200 million and \$2,100 as of December 31, 1997 and 1996, respectively and net earnings of \$41 million and \$120 million for the years ended December 31, 1997 and 1996, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Brasmotor S.A. and its consolidated subsidiaries, is based solely on the reports of the other auditors.

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 our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whirlpool Corporation 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.

*Ernst & Young LLP*

Chicago, Illinois  
January 26, 1998

Report by Management on the  
Consolidated Financial Statements

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The management of Whirlpool Corporation has prepared the accompanying financial statements. The financial statements have been audited by Ernst & Young, independent auditors, whose report, based upon their audits and the reports of other independent auditors, expresses the opinion that these financial statements present fairly the consolidated financial position, results of operations and cash flows of Whirlpool and subsidiaries in accordance with generally accepted accounting principles. Their audits are conducted in conformity with generally accepted auditing standards.

The financial statements were prepared from the company's accounting records, books and accounts which, in reasonable detail, accurately and fairly reflect all material transactions. The company maintains a system of internal controls designed to provide reasonable assurance that the company's accounting records, books and accounts are accurate and that transactions are properly recorded in the company's books and records, and the company's assets are maintained and accounted for, in accordance with management's authorizations. The company's accounting records, policies and internal controls are regularly reviewed by an internal audit staff.

The audit committee of the board of directors of the company, which is composed of four directors who are not employed by the company, considers and makes recommendations to the board of directors as to accounting and auditing matters concerning the company, including recommending for appointment by the board the firm of independent auditors engaged on an annual basis to audit the financial statements of Whirlpool and its majority-owned subsidiaries. The audit committee meets with the independent auditors at least three times each year to review the scope of the audit, the results of the audit and such recommendations as may be made by said auditors with respect to the company's accounting methods and system of internal controls.



Ralph F. Hake  
Senior Executive Vice President and Chief Financial Officer  
February 10, 1998

• Elev en-Year Consolidated Statistical Re view •

(millions of dollars, except share and employee data)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
<u>Consolidated Operations</u>											
Net sales	\$ 8,617	\$ 8,523	\$ 8,163	\$ 7,949	\$ 7,368	\$ 7,097	\$ 6,550	\$ 6,424	\$ 6,138	\$ 4,306	\$ 4,104
Operating profit (1)	\$ 11	\$ 278	\$ 366	\$ 370	\$ 504	\$ 447	\$ 353	\$ 300	\$ 377	\$ 227	\$ 283
Earnings (loss) from continuing operations before income taxes and other items	\$ (171)	\$ 100	\$ 214	\$ 269	\$ 418	\$ 334	\$ 256	\$ 177	\$ 281	\$ 210	\$ 265
Earnings (loss) from continuing operations	\$ (46)	\$ 141	\$ 195	\$ 147	\$ 257	\$ 179	\$ 139	\$ 45	\$ 169	\$ 146	\$ 173
Earnings (loss) from discontinued operations (2)	\$ 31	\$ 15	\$ 14	\$ 11	\$ (28)	\$ 26	\$ 31	\$ 27	\$ 18	\$ (52)	\$ 8
Net earnings (loss) (3)	\$ (15)	\$ 156	\$ 209	\$ 158	\$ 51	\$ 205	\$ 170	\$ 72	\$ 187	\$ 94	\$ 192
Net capital expenditures	\$ 378	\$ 336	\$ 483	\$ 418	\$ 309	\$ 288	\$ 287	\$ 265	\$ 208	\$ 166	\$ 223
Depreciation	\$ 322	\$ 318	\$ 282	\$ 246	\$ 241	\$ 275	\$ 233	\$ 247	\$ 222	\$ 143	\$ 133
Dividends	\$ 102	\$ 101	\$ 100	\$ 90	\$ 85	\$ 77	\$ 76	\$ 76	\$ 76	\$ 76	\$ 79
<u>Consolidated Financial Position</u>											
Current assets	\$ 4,281	\$ 3,812	\$ 3,541	\$ 3,078	\$ 2,708	\$ 2,740	\$ 2,920	\$ 2,900	\$ 2,889	\$ 1,827	\$ 1,690
Current liabilities	\$ 3,676	\$ 4,022	\$ 3,829	\$ 2,988	\$ 2,763	\$ 2,887	\$ 2,931	\$ 2,651	\$ 2,251	\$ 1,374	\$ 1,246
Working capital	\$ 605	\$ (210)	\$ (288)	\$ 90	\$ (55)	\$ (147)	\$ (11)	\$ 249	\$ 638	\$ 453	\$ 444
Property, plant and equipment—net	\$ 2,375	\$ 1,798	\$ 1,779	\$ 1,440	\$ 1,319	\$ 1,325	\$ 1,400	\$ 1,349	\$ 1,288	\$ 820	\$ 779
Total assets	\$ 8,270	\$ 8,015	\$ 7,800	\$ 6,655	\$ 6,047	\$ 6,118	\$ 6,445	\$ 5,614	\$ 5,354	\$ 3,410	\$ 3,137
Long-term debt	\$ 1,074	\$ 955	\$ 983	\$ 885	\$ 840	\$ 1,215	\$ 1,528	\$ 874	\$ 982	\$ 474	\$ 367
Stockholders' equity	\$ 1,771	\$ 1,926	\$ 1,877	\$ 1,723	\$ 1,648	\$ 1,600	\$ 1,515	\$ 1,424	\$ 1,421	\$ 1,321	\$ 1,304
<u>Per Share Data</u>											
Basic earnings (loss) from continuing operations before accounting change	\$ (0.62)	\$ 1.90	\$ 2.64	\$ 1.98	\$ 3.60	\$ 2.55	\$ 2.00	\$ 0.65	\$ 2.44	\$ 2.11	\$ 2.41
Diluted earnings (loss) from continuing operations before accounting change	\$ (0.62)	\$ 1.88	\$ 2.60	\$ 1.95	\$ 3.47	\$ 2.46	\$ 1.98	\$ 0.65	\$ 2.44	\$ 2.10	\$ 2.41
Diluted net earnings (loss) (3)	\$ (0.20)	\$ 2.08	\$ 2.78	\$ 2.10	\$ 0.71	\$ 2.81	\$ 2.41	\$ 1.04	\$ 2.70	\$ 1.36	\$ 2.67
Dividends	\$ 1.36	\$ 1.36	\$ 1.36	\$ 1.22	\$ 1.19	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10
Book value	\$ 23.71	\$ 25.93	\$ 25.40	\$ 23.21	\$ 23.17	\$ 22.91	\$ 21.78	\$ 20.51	\$ 20.49	\$ 19.06	\$ 18.83
Closing Stock Price – NYSE	\$ 55	\$ 46 <sup>5</sup> / <sub>8</sub>	\$ 53 <sup>1</sup> / <sub>4</sub>	\$ 50 <sup>1</sup> / <sub>4</sub>	\$ 66 <sup>1</sup> / <sub>2</sub>	\$ 44 <sup>3</sup> / <sub>8</sub>	\$ 38 <sup>7</sup> / <sub>8</sub>	\$ 23 <sup>1</sup> / <sub>2</sub>	\$ 33	\$ 24 <sup>3</sup> / <sub>4</sub>	\$ 24 <sup>3</sup> / <sub>8</sub>

approved by the incumbent board of directors, including an acquisition of 25% or more of the voting power of the company's outstanding stock or a change in a majority of the incumbent board.

Certain European subsidiaries maintain termination indemnity and special severance plans. The cost of these plans, determined in accordance with local government specifications, was \$15 million and \$12 million in 1996 and 1995. The costs in 1997 were immaterial due to a lower termination rate than prior years.

The company maintains a 401(k) defined contribution plan covering substantially all U.S. employees. Company matching contributions for domestic hourly and certain other employees under the plan, based on the company's annual operating results and the level of individual participant's contributions, amounted to \$6 million, \$7 million and \$5 million in 1997, 1996 and 1995.

#### Note 13 • Postretirement Benefit Plans

The company currently sponsors a defined benefit health-care plan that provides postretirement medical benefits to full time U.S. employees who have worked 5 years and attained age 55 while in service with the company. The plan is currently noncontributory and contains cost-sharing features such as deductibles, coinsurance and a lifetime maximum. The company does not fund the plan. No significant postretirement benefits are provided by the company to non-U.S. employees.

The components of the annual postretirement benefit costs are as follows:

December 31 (millions of dollars)	1997	1996	1995
Service cost	\$ 10	\$ 11	\$ 10
Interest cost	29	28	26
	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 36</u>

The components of the postretirement obligation are as follows:

December 31 (millions of dollars)	1997	1996
Accumulated postretirement benefit obligation		
Retirees	\$ 200	\$ 181
Fully eligible active participants	78	87
Other active plan participants	110	114
Total	<u>388</u>	<u>382</u>
Unrecognized gain (loss)	14	(1)
Postretirement obligation	<u>\$ 402</u>	<u>\$ 381</u>

The assumed health-care trend rate decreases gradually from 8% in 1997 to 7% in 1998 and 1999 and finally to 6% in 2000 and future years. Increasing the health-care trend rate by one percentage point would increase the accumulated postretirement benefit obligation as of December 31, 1997 by \$28 million and increase the annual postretirement benefit cost for 1997 by \$3 million. Discount rates of 7.75% and 8.0% were used to determine the accumulated postretirement benefit obligation at December 31, 1997 and 1996.

#### Note 14 • Contingencies

The company is involved in various legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will not have a material adverse effect on the company's financial position.

The company is a party to certain financial instruments with off-balance-sheet risk which are entered into in the normal course of business. These instruments consist of financial guarantees, repurchase agreements and letters of credit. The company's exposure to credit loss in the event of nonperformance by the debtors is the contractual

amount of the financial instruments. The company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral or other security is generally required to support financial instruments with off-balance-sheet credit risk.

At December 31, 1997 the company had \$212 million in receivables subject to recourse provisions with TDF (Refer to Note 3).

### Note 15 • Business Segment Information

#### Geographic Segments

<i>(millions of dollars)</i>	<i>North America</i>	<i>Europe</i>	<i>Other and Eliminations</i>	<i>Major Home Appliances</i>
<b>Net sales</b>				
1997	\$ 5,382	\$ 2,431	\$ 804	\$ 8,617
1996	\$ 5,441	\$ 2,592	\$ 490	\$ 8,523
1995	\$ 5,093	\$ 2,502	\$ 568	\$ 8,163
<b>Operating profit (loss)</b>				
1997	\$ 347	\$ (145)	\$ (191)	\$ 11
1996	\$ 380	\$ (17)	\$ (85)	\$ 278
1995	\$ 314	\$ 90	\$ (38)	\$ 366
<b>Identifiable assets</b>				
1997	\$ 2,084	\$ 1,624	\$ 3,984	\$ 7,692
1996	\$ 2,080	\$ 1,951	\$ 2,135	\$ 6,166
1995	\$ 2,171	\$ 2,084	\$ 1,913	\$ 6,168
<b>Depreciation expense</b>				
1997	\$ 171	\$ 110	\$ 18	\$ 299
1996	\$ 164	\$ 107	\$ 20	\$ 291
1995	\$ 140	\$ 105	\$ 8	\$ 253
<b>Net capital expenditures</b>				
1997	\$ 140	\$ 84	\$ 151	\$ 375
1996	\$ 160	\$ 103	\$ 70	\$ 333
1995	\$ 262	\$ 186	\$ 29	\$ 477

The "Other and Eliminations" column includes \$1,714 million in 1997 for Brazilian identifiable assets.

Identifiable assets are those assets directly associated with the respective operating activities. Corporate assets which consist principally of cash, investments, prepaid expenses, intangibles, deferred income taxes and property and equipment related to corporate activities are included as other.

Substantially all of the company's trade receivables are from distributors and retailers.

Sales activity with Sears, Roebuck and Co., a North American major home appliance retailer, represented 20%, 21% and 20% of consolidated net sales in 1997, 1996 and 1995. Related receivables were 16%, 25% and 14% of consolidated trade receivables for December 31, 1997, 1996 and 1995.

Note 16 • Quarterly Results of Operations (Unaudited)\*

(millions of dollars, except per share data)	Three Months Ended			
	December 31	September 30	June 30	March 31
<b>1997:</b>				
Net sales	\$ 2,510	\$ 2,043	\$ 2,074	\$ 1,990
Cost of products sold	\$ 1,887	\$ 1,593	\$ 1,588	\$ 1,536
Earnings (loss) from continuing operations	\$ 50	\$ (200)	\$ 61	\$ 43
Net earnings (loss)	\$ 92	\$ (218)	\$ 65	\$ 46
Per share of common stock:				
Basic earnings (loss) from continuing operations	\$ .67	\$ (2.68)	\$ .82	\$ .57
Basic net earnings (loss)	\$ 1.24	\$ (2.93)	\$ .87	\$ .62
Diluted earnings (loss) from continuing operations	\$ .66	\$ (2.68)	\$ .81	\$ .57
Diluted net earnings (loss)	\$ 1.22	\$ (2.93)	\$ .86	\$ .62
Dividends paid	\$ .34	\$ .34	\$ .34	\$ .34
Stock price:				
High	\$ 66 <sup>15</sup> / <sub>16</sub>	\$ 69 <sup>1</sup> / <sub>2</sub>	\$ 55 <sup>1</sup> / <sub>4</sub>	\$ 52 <sup>1</sup> / <sub>2</sub>
Low	\$ 51 <sup>7</sup> / <sub>8</sub>	\$ 48	\$ 45 <sup>1</sup> / <sub>4</sub>	\$ 46
Close	\$ 55	\$ 66 <sup>5</sup> / <sub>16</sub>	\$ 54 <sup>9</sup> / <sub>16</sub>	\$ 47 <sup>5</sup> / <sub>8</sub>

Restructuring and other special charges described in Note 10 reduced third and fourth quarter earnings from continuing operations by \$258 million and \$14 million, respectively. Discontinued operations include a third quarter after-tax charge of \$22 million to provide a reserve for certain WFC assets and a \$42 million after-tax gain in the fourth quarter for the sale of WFC assets (Refer to Note 3).

Fourth quarter 1997 included two months of consolidated Brazilian results, \$5 million relating to the elimination of the Brazil one-month lag in reporting equity earnings and \$8 million related to the pension settlement gain (Refer to Note 12).

(millions of dollars, except per share data)	Three Months Ended			
	December 31	September 30	June 30	March 31
<b>1996:</b>				
Net sales	\$ 2,126	\$ 2,155	\$ 2,229	\$ 2,013
Cost of products sold	\$ 1,644	\$ 1,679	\$ 1,737	\$ 1,563
Earnings from continuing operations	\$ 40	\$ 19	\$ 48	\$ 34
Net earnings	\$ 45	\$ 21	\$ 52	\$ 38
Per share of common stock:				
Basic earnings from continuing operations	\$ .54	\$ .26	\$ .64	\$ .46
Basic net earnings	\$ .60	\$ .28	\$ .71	\$ .51
Diluted earnings from continuing operations	\$ .53	\$ .26	\$ .63	\$ .46
Diluted net earnings	\$ .59	\$ .28	\$ .70	\$ .51
Dividends paid	\$ .34	\$ .34	\$ .34	\$ .34
Stock price:				
High	\$ 50 <sup>7</sup> / <sub>8</sub>	\$ 53 <sup>1</sup> / <sub>8</sub>	\$ 61 <sup>3</sup> / <sub>8</sub>	\$ 59 <sup>1</sup> / <sub>2</sub>
Low	\$ 44 <sup>1</sup> / <sub>4</sub>	\$ 47 <sup>7</sup> / <sub>8</sub>	\$ 48	\$ 50 <sup>1</sup> / <sub>8</sub>
Close	\$ 46 <sup>5</sup> / <sub>8</sub>	\$ 50 <sup>5</sup> / <sub>8</sub>	\$ 49 <sup>5</sup> / <sub>8</sub>	\$ 55 <sup>1</sup> / <sub>4</sub>

Restructuring initiatives described in Note 10 reduced third quarter net earnings by \$19 million or \$.25 per diluted share.

\* The 1996 and first three quarters of 1997 earnings per share amounts have been restated to reflect WFC as a discontinued operation, and to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." As a result of the company's 1997 full year net loss, diluted earnings per share on a year-to-date basis does not equal the sum of the individual quarters' diluted earnings per share.

Report of Ernst & Young LLP,  
Independent Auditors

---

The Stockholders and Board of Directors  
Whirlpool Corporation  
Benton Harbor, Michigan

We have audited the accompanying consolidated balance sheets of Whirlpool Corporation as of December 31, 1997 and 1996, and the related consolidated statements of earnings 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 did not audit the financial statements of Brasmotor S.A. and its consolidated subsidiaries, whose statements reflect total assets of \$2,200 million and \$2,100 as of December 31, 1997 and 1996, respectively and net earnings of \$41 million and \$120 million for the years ended December 31, 1997 and 1996, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Brasmotor S.A. and its consolidated subsidiaries, is based solely on the reports of the other auditors.

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 our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whirlpool Corporation 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.

*Ernst & Young LLP*

Chicago, Illinois  
January 26, 1998

Report by Management on the  
Consolidated Financial Statements

---

The management of Whirlpool Corporation has prepared the accompanying financial statements. The financial statements have been audited by Ernst & Young, independent auditors, whose report, based upon their audits and the reports of other independent auditors, expresses the opinion that these financial statements present fairly the consolidated financial position, results of operations and cash flows of Whirlpool and subsidiaries in accordance with generally accepted accounting principles. Their audits are conducted in conformity with generally accepted auditing standards.

The financial statements were prepared from the company's accounting records, books and accounts which, in reasonable detail, accurately and fairly reflect all material transactions. The company maintains a system of internal controls designed to provide reasonable assurance that the company's accounting records, books and accounts are accurate and that transactions are properly recorded in the company's books and records, and the company's assets are maintained and accounted for, in accordance with management's authorizations. The company's accounting records, policies and internal controls are regularly reviewed by an internal audit staff.

The audit committee of the board of directors of the company, which is composed of four directors who are not employed by the company, considers and makes recommendations to the board of directors as to accounting and auditing matters concerning the company, including recommending for appointment by the board the firm of independent auditors engaged on an annual basis to audit the financial statements of Whirlpool and its majority-owned subsidiaries. The audit committee meets with the independent auditors at least three times each year to review the scope of the audit, the results of the audit and such recommendations as may be made by said auditors with respect to the company's accounting methods and system of internal controls.



Ralph F. Hake  
Senior Executive Vice President and Chief Financial Officer  
February 10, 1998

• Elev en-Year Consolidated Statistical Re view •

(millions of dollars, except share and employee data)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
<u>Consolidated Operations</u>											
Net sales	\$ 8,617	\$ 8,523	\$ 8,163	\$ 7,949	\$ 7,368	\$ 7,097	\$ 6,550	\$ 6,424	\$ 6,138	\$ 4,306	\$ 4,104
Operating profit (1)	\$ 11	\$ 278	\$ 366	\$ 370	\$ 504	\$ 447	\$ 353	\$ 300	\$ 377	\$ 227	\$ 283
Earnings (loss) from continuing operations before income taxes and other items	\$ (171)	\$ 100	\$ 214	\$ 269	\$ 418	\$ 334	\$ 256	\$ 177	\$ 281	\$ 210	\$ 265
Earnings (loss) from continuing operations	\$ (46)	\$ 141	\$ 195	\$ 147	\$ 257	\$ 179	\$ 139	\$ 45	\$ 169	\$ 146	\$ 173
Earnings (loss) from discontinued operations (2)	\$ 31	\$ 15	\$ 14	\$ 11	\$ (28)	\$ 26	\$ 31	\$ 27	\$ 18	\$ (52)	\$ 8
Net earnings (loss) (3)	\$ (15)	\$ 156	\$ 209	\$ 158	\$ 51	\$ 205	\$ 170	\$ 72	\$ 187	\$ 94	\$ 192
Net capital expenditures	\$ 378	\$ 336	\$ 483	\$ 418	\$ 309	\$ 288	\$ 287	\$ 265	\$ 208	\$ 166	\$ 223
Depreciation	\$ 322	\$ 318	\$ 282	\$ 246	\$ 241	\$ 275	\$ 233	\$ 247	\$ 222	\$ 143	\$ 133
Dividends	\$ 102	\$ 101	\$ 100	\$ 90	\$ 85	\$ 77	\$ 76	\$ 76	\$ 76	\$ 76	\$ 79
<u>Consolidated Financial Position</u>											
Current assets	\$ 4,281	\$ 3,812	\$ 3,541	\$ 3,078	\$ 2,708	\$ 2,740	\$ 2,920	\$ 2,900	\$ 2,889	\$ 1,827	\$ 1,690
Current liabilities	\$ 3,676	\$ 4,022	\$ 3,829	\$ 2,988	\$ 2,763	\$ 2,887	\$ 2,931	\$ 2,651	\$ 2,251	\$ 1,374	\$ 1,246
Working capital	\$ 605	\$ (210)	\$ (288)	\$ 90	\$ (55)	\$ (147)	\$ (11)	\$ 249	\$ 638	\$ 453	\$ 444
Property, plant and equipment—net	\$ 2,375	\$ 1,798	\$ 1,779	\$ 1,440	\$ 1,319	\$ 1,325	\$ 1,400	\$ 1,349	\$ 1,288	\$ 820	\$ 779
Total assets	\$ 8,270	\$ 8,015	\$ 7,800	\$ 6,655	\$ 6,047	\$ 6,118	\$ 6,445	\$ 5,614	\$ 5,354	\$ 3,410	\$ 3,137
Long-term debt	\$ 1,074	\$ 955	\$ 983	\$ 885	\$ 840	\$ 1,215	\$ 1,528	\$ 874	\$ 982	\$ 474	\$ 367
Stockholders' equity	\$ 1,771	\$ 1,926	\$ 1,877	\$ 1,723	\$ 1,648	\$ 1,600	\$ 1,515	\$ 1,424	\$ 1,421	\$ 1,321	\$ 1,304
<u>Per Share Data</u>											
Basic earnings (loss) from continuing operations before accounting change	\$ (0.62)	\$ 1.90	\$ 2.64	\$ 1.98	\$ 3.60	\$ 2.55	\$ 2.00	\$ 0.65	\$ 2.44	\$ 2.11	\$ 2.41
Diluted earnings (loss) from continuing operations before accounting change	\$ (0.62)	\$ 1.88	\$ 2.60	\$ 1.95	\$ 3.47	\$ 2.46	\$ 1.98	\$ 0.65	\$ 2.44	\$ 2.10	\$ 2.41
Diluted net earnings (loss) (3)	\$ (0.20)	\$ 2.08	\$ 2.78	\$ 2.10	\$ 0.71	\$ 2.81	\$ 2.41	\$ 1.04	\$ 2.70	\$ 1.36	\$ 2.67
Dividends	\$ 1.36	\$ 1.36	\$ 1.36	\$ 1.22	\$ 1.19	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10
Book value	\$ 23.71	\$ 25.93	\$ 25.40	\$ 23.21	\$ 23.17	\$ 22.91	\$ 21.78	\$ 20.51	\$ 20.49	\$ 19.06	\$ 18.83
Closing Stock Price – NYSE	\$ 55	\$ 46 <sup>5</sup> / <sub>8</sub>	\$ 53 <sup>1</sup> / <sub>4</sub>	\$ 50 <sup>1</sup> / <sub>4</sub>	\$ 66 <sup>1</sup> / <sub>2</sub>	\$ 44 <sup>3</sup> / <sub>8</sub>	\$ 38 <sup>7</sup> / <sub>8</sub>	\$ 23 <sup>1</sup> / <sub>2</sub>	\$ 33	\$ 24 <sup>3</sup> / <sub>4</sub>	\$ 24 <sup>3</sup> / <sub>8</sub>

(millions of dollars, except share and employee data)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
<b>Key Ratios (4)</b>											
Operating profit margin	0.1 %	3.3 %	4.5 %	4.7 %	6.8 %	6.3 %	5.4 %	4.7 %	6.1 %	5.3 %	6.9 %
Pre-tax margin (5)	(2.0)%	1.2 %	2.6 %	3.4 %	5.7 %	4.7 %	3.9 %	2.8 %	4.6 %	4.9 %	6.5 %
Net margin (6)	(0.5)%	1.7 %	2.4 %	1.8 %	3.5 %	2.5 %	2.1 %	0.7 %	2.8 %	3.4 %	4.2 %
Return on average stockholders' equity (7)	(0.8)%	8.2 %	11.6 %	9.4 %	14.2 %	13.1 %	11.6 %	5.1 %	13.7 %	7.2 %	13.6 %
Return on average total assets (8)	(0.7)%	1.8 %	3.0 %	2.8 %	4.0 %	3.3 %	2.9 %	1.4 %	4.9 %	2.9 %	6.0 %
Current assets to current liabilities	1.2	0.9	0.9	1.0	1.0	0.9	1.0	1.1	1.3	1.3	1.4
Total debt-appliance business as a percent of invested capital (9)	38.5 %	42.6 %	43.3 %	34.4 %	31.6 %	41.7 %	46.1 %	37.6 %	39.2 %	20.5 %	19.3 %
Price earnings ratio	—	22.4	19.2	23.9	21.2	15.9	16.1	22.6	12.2	18.2	9.7
Interest coverage (10)	0.7	2.4	3.1	4.0	5.0	3.4	2.9	2.0	3.6	6.2	13.6

#### Other Data

Number of common shares											
outstanding (in thousands):											
Average-on a diluted basis	74,697	77,178	76,812	77,588	76,013	75,661	72,581	69,595	69,461	69,435	71,911
Year-end	75,262	74,415	74,081	73,845	73,068	70,027	69,640	69,465	69,382	69,289	69,232
Number of stockholders (year-end)	10,171	11,033	11,686	11,821	11,438	11,724	12,032	12,542	12,454	12,521	12,128
Number of employees (year-end)	61,370	48,163	45,435	39,016	39,590	38,520	37,886	36,157	39,411	29,110	30,301
Total return to shareholders (five year annualized) (11)	6.8%	6.3%	20.8%	12.0%	25.8%	17.0%	6.7%	2.8%	11.3%	4.4%	6.2%

- (1) Restructuring and special operating charges were \$405 million in 1997,\$30 million in 1996 and \$250 million in 1994 (Refer to Note 10).
- (2) The Company's financial services business was discontinued in 1997 and the kitchen cabinet business was discontinued in 1988.
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- (4) Excluding non-recurring items, selected 1997 Key Ratios would be as follows: a) Operating profit margin – 4.7%, b) Pre-tax margin – 2.7%, c) Net margin – 2.6%,d) Return on average stockholders' equity – 12%, e) Return on average total assets – 2.7%,f) Interest coverage – 3.0%.
- (5) Earnings from continuing operations before income taxes and other items, as a percent of sales.
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- (10) Ratio of earnings from continuing operations (before income taxes, accounting change and interest expense) to interest expense.
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*Committees: Corporate Governance, Human Resources*

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*Corporate Governance, Finance*

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*Audit*

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Senior Executive Vice President  
and Chief Financial Officer

Jeff M. F ettig  
President, Whirlpool Europe

Robert D. Hall  
President, Whirlpool Asia

Ronald L. K erber  
Chief Technology Officer

Paulo F. M. Periquito  
Latin American Region

Michael D. Thieneman  
North American Region

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*Vice Presidents*

J. C. Anderson  
Group Manufacturing and  
Technology, North America

Roy V. Armes  
Global Procurement Operations

Mark E. Brown  
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Ruy de Campos Filho  
Finance and Administration,  
Multibrás S.A.

Garrick D'Silva  
President and Chief Executive  
Officer, Whirlpool South Asia

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Human Resources and Assistant  
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Bengt G. Engstrom  
Manufacturing and Technology,  
Whirlpool Europe

Ricardo J. Etchenique  
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Dandridge L. Harrison  
Corporate Affairs

Ernesto Heinz elmann  
President, Embraco S.A.

Edward J. F. Herrelko  
Group Sales and Marketing,  
Whirlpool Europe

Daniel F. Hopp  
General Counsel and Secretary

Halvar S.W. Johansson  
Corporate Technology and  
Engineering Development

Kenneth W. Kaminski  
Small Appliance Business Unit

Gregory T. McManus  
Group Sales and Distribution,  
North America

David J. Mehrbrodt  
Group Marketing, North America

Brian F. Peters  
Treasurer

Rudolph S. Provoost  
Group Marketing, Whirlpool  
Europe

Michael A. Todman  
Sears Sales and Marketing, North  
America

David W. Williams  
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Tom Filstrup, Whirlpool Corporation, 2000 N. M-63, #3001  
Benton Harbor, MI 49002-2692

Telephone: 616/923-3189, Fax: 616/923-5038  
E-mail: Thomas\_C\_Filstrup@email.whirlpool.com

### Transfer Agent, Shareholder Records and Dividend Disbursements

For information about or assistance with individual stock records, transactions, dividend checks or stock certificates, contact:  
First Chicago Trust Company, P.O. Box 2500  
Jersey City, NJ 07303-2500  
Telephone: (800)-446-2617, E-mail: fctc@em.fcncd.com  
Internet: www.fctc.com

### Dividend-Reinvestment Plan

Whirlpool's automatic dividend-reinvestment plan, in which the company pays both the broker's fee and bank charges, is available to stockholders of record. Participants may make cash contributions of up to \$250,000 annually, invested monthly, with or without reinvesting their dividends. Plan members may elect to have all or a portion of their dividends reinvested, and can sell part of the shares held in the program without exiting the plan. For details about dividend reinvestment, write to First Chicago Trust Company (above).

### Trustee for 9.1-Percent Notes

The Chase Manhattan Bank N.A.  
111 New York Plaza, New York, NY 10081

### Trustee for 9.5- and 9-Percent Notes

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New York, NY 10043

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(Example: One hundred shares of Whirlpool common stock purchased in April 1964 equaled 1,200 shares in January 1998.)

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	High	Low	Close
4Q 1997	\$ 66 <sup>15</sup> / <sub>16</sub>	\$ 51 <sup>7</sup> / <sub>8</sub>	\$ 55
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2Q 1997	55 <sup>1</sup> / <sub>4</sub>	45 <sup>1</sup> / <sub>4</sub>	54 <sup>9</sup> / <sub>16</sub>
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4Q 1996	\$ 50 <sup>7</sup> / <sub>8</sub>	\$ 44 <sup>1</sup> / <sub>4</sub>	\$ 46 <sup>5</sup> / <sub>8</sub>
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2000 N. M-63

Benton Harbor, MI 49022-2692

Telephone: 616/923-5000

### Europe

Viale G. Borghi 27, 21025 Comerio VA, Italy

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Av. Brig. Faria Lima, 2020 2nd Andar, Pinheiros - São Paulo - S.P.

01481-900, Brazil

Telephone: 55 11 867-2999, Fax: 55 11 867-2988

### Asia

16th Floor, Paliburg Plaza, 68 Yee Wo St., Causeway Bay, Hong Kong

Telephone: 852 2881 1211, Fax: 852 2895 1693

## Product and Service Information (North America)

*KitchenAid* brand: 800/422-1230; *Whirlpool* brand: 800/253-1301

(millions of dollars, except share and employee data)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
<b>Key Ratios (4)</b>											
Operating profit margin	0.1 %	3.3 %	4.5 %	4.7 %	6.8 %	6.3 %	5.4 %	4.7 %	6.1 %	5.3 %	6.9 %
Pre-tax margin (5)	(2.0)%	1.2 %	2.6 %	3.4 %	5.7 %	4.7 %	3.9 %	2.8 %	4.6 %	4.9 %	6.5 %
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• Directors & Senior Management •

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*Committees: Corporate Governance, Human Resources*

Herman Cain  
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and Chief Financial Officer

Jeff M. Fetting  
President, Whirlpool Europe

Robert D. Hall  
President, Whirlpool Asia

Ronald L. Kerber  
Chief Technology Officer

Paulo F. M. Periquito  
Latin American Region

Michael D. Thieneman  
North American Region

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Technology, North America

Roy V. Armes  
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Ruy de Campos Filho  
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Multibrás S.A.

Garrick D'Silva  
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Halvar S.W. Johansson  
Corporate Technology and  
Engineering Development

Kenneth W. Kaminski  
Small Appliance Business Unit

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Tom Filstrup, Whirlpool Corporation, 2000 N. M-63, #3001  
Benton Harbor, MI 49002-2692

Telephone: 616/923-3189, Fax: 616/923-5038  
E-mail: Thomas\_C\_Filstrup@email.whirlpool.com

### Transfer Agent, Shareholder Records and Dividend Disbursements

For information about or assistance with individual stock records, transactions, dividend checks or stock certificates, contact:  
First Chicago Trust Company, P.O. Box 2500  
Jersey City, NJ 07303-2500  
Telephone: (800)-446-2617, E-mail: fctc@em.fcncd.com  
Internet: www.fctc.com

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