

annual report 2001



integrity:

buzzword or just good business?

At Lennox International, integrity means achieving success by following a code of business principles we share and believe. When Dave Lennox built the first riveted steel furnace in 1895, he focused on a few simple but timeless principles. The need for innovative, high-quality products that make people's lives easier. The importance of building a bond of trust between a company and its customers. The commitment to take advantage of growth opportunities, meet the challenges they present, and perform at the highest level possible.

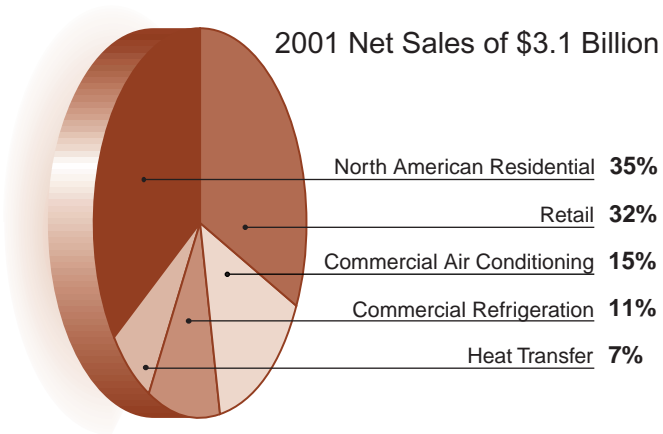
Over a century later, we have grown from Dave Lennox' blacksmith shop into a worldwide leader in climate control—but we still run our company by the solid principles he stood for. To us, that's integrity. And whether we're reflecting on our past achievements, facing the exciting challenges of today, or planning for our successes to come, that's just good business.



global climate control solutions

Lennox International is a leading provider of climate control solutions for the heating, air conditioning, and refrigeration markets in over 70 countries. Our business has been built on a heritage of integrity and innovation dating back to 1895. The 21,000 employees who make up Lennox International are dedicated to providing trusted brands, innovative products, unsurpassed quality, and responsive service.

business segments



Lennox International operates in five key business segments:

North American residential. We manufacture and market the heating and cooling equipment that makes your home more comfortable: furnaces, heat pumps, air conditioners, hearth products, and a variety of indoor air quality equipment, including humidifiers and electronic air cleaners.

Retail. We are Service Experts, the company to trust for home heating and cooling needs. With approximately 200 North American service centers representing \$1 billion in sales, we are a leading provider of retail heating, ventilation, and air conditioning (HVAC) equipment sales and services.

Commercial refrigeration. Our refrigeration products are sold under well-established brand names, primarily for cold storage applications in supermarkets, convenience stores, restaurants, warehouses, and distribution centers. We are a leading provider of commercial refrigeration products in North America and a growing presence internationally.

Commercial air conditioning. We make working, learning, and shopping more comfortable. Our unitary commercial air conditioning products are used in thousands of low-rise office buildings, restaurants, retail and supermarket centers, churches, and schools.

Heat transfer. Heat transfer surfaces are a key component of any heating, ventilation, air conditioning, or refrigeration (HVACR) system. We combine the engineering expertise of our sales force with flexible manufacturing processes to create distinct competitive advantages in the design and application of these products.

financial highlights

(In millions, except per share data)	For the year ending December 31,				
	2001 ⁽¹⁾	2000 ⁽²⁾	1999	1998	1997 ⁽³⁾
Statement of Operations Data					
Net Sales	\$3,119.7	\$3,247.4	\$2,361.7	\$1,821.8	\$1,444.4
Income (Loss) from Operations	(0.7)	158.6	155.9	106.6	(35.2)
Net Income (Loss)	(42.4)	59.1	73.2	52.5	(33.6)
Diluted Earnings (Loss) Per Share	(0.75)	1.05	1.81	1.47	(0.99)
Dividends Per Share	0.380	0.380	0.350	0.325	0.275
Other Data					
Capital Expenditures	17.4	58.3	76.7	52.4	34.6
Research and Development Expenses	37.3	36.5	39.1	33.3	25.4
Balance Sheet Data					
Working Capital	158.8	311.3	424.6	263.3	335.9
Total Assets	1,794.0	2,055.0	1,683.7	1,151.6	970.4
Total Debt	517.8	690.5	577.0	317.4	198.5
Stockholders' Equity	654.6	743.1	597.9	375.6	325.2

Note (1): Includes pretax restructuring charges of \$73.2 million. Excluding these charges, Income From Operations is \$72.5 million, Net Income is \$14.2 million, and Diluted EPS is \$0.25.

Note (2): Includes pretax restructuring charge of \$5.1 million. Excluding this charge, Income From Operations is \$163.7 million, Net Income is \$61.9 million, and Diluted EPS is \$1.10.

Note (3): Includes product inspection charge of \$140 million. Excluding this charge, Income From Operations is \$104.8 million, Net Income is \$51.7 million, and Diluted EPS is \$1.53.

message to our stockholders



John W. Norris, Jr.
Chairman of the Board

Robert E. Schjerven
Chief Executive Officer

At Lennox International Inc. (LII) we define integrity as a firm commitment to a code of values. It's how we define our way of doing business. But what impact has our integrity had on our history, our current performance, or the vision we want to share with you for LII's future?

Before discussing how our traditions are still driving us today and how they will positively affect our performance in the years ahead, let's review our 2001 performance.

2001 Performance

LII faced soft global economic conditions while we worked to integrate and consolidate our retail operations. These challenges were clearly reflected in our results for 2001. Total corporate sales were \$3.1 billion, down 4% from 2000. Our operating margin before restructuring charges associated with consolidating some of our operations was 2.3%, down from 5.0% in 2000. Net income, before restructuring charges, was \$14 million, compared with \$62 million the previous year. Earnings per share were \$0.25 versus \$1.10 last year. On a GAAP basis, after accounting for total pre-tax restructuring charges of \$73 million, our reported net loss per share for the year was \$0.75, compared with earnings per share of \$1.05 in 2000.

While we are certainly not satisfied with these results, we did achieve some significant progress in several important areas during 2001:

- Despite strong competition and a weak economy, our domestic air conditioning, heating, and refrigeration businesses—which represent almost half of our revenues—gained measurable market share and position us favorably for the next economic cycle.

- Our emphasis on managing free cash flow throughout the organization enabled us to significantly improve performance on this key measurement. We generated \$184 million in free cash in 2001—well ahead of our mid-year 2001 guidance of \$80 to 90 million. We strengthened our balance sheet by using the additional cash primarily to reduce debt. As a result, we decreased our total debt to \$518 million as of December 31, 2001 from \$690 million the year before, reducing our debt-to-total-capital ratio to 44% from 48% over the same period.

- We appointed a new leader of our retail operations, Dennis Smith, who has a proven record of turning around similar businesses. He has made adjustments to right-size the organization, reducing the total head count at Service Experts by 15% from 12 months ago. We remain confident our retail operations offer significant earnings potential, and we are determined to begin realizing that potential in the near term.

- We announced restructuring initiatives designed to improve utilization of our manufacturing and distribution assets. While these will involve one-time charges, we project an annual pre-tax benefit of \$7 million in 2002, beginning in the second quarter, and \$11 million annually beginning in 2003.

- We are expanding our served market for heat transfer surfaces through de-integration of heat transfer component production by OEMs. We have entered into a key alliance with Ingersoll-Rand's Climate Control division that marks a significant success for LII in this area. The new agreement is expected to bring \$11 million in incremental revenues to Lennox in 2002 and up to \$25 million annually thereafter.

- We are serious about reducing our overhead. In the fourth quarter of last year we froze both salaries and hiring in our North American operations. Over the past 12 months, as cost reduction programs have been executed throughout the company, our total workforce has been reduced by over 10%.

LII has substantial strengths, including market leadership, strong brands, an experienced management team, clear strategies focused on growth and operating improvement, and an emphasis on generating cash and paying down debt. We are confident that by sticking to our strategies and continuing our aggressive efforts to improve our performance, we will see every segment of our business move toward its full earnings potential.

Our 21,000 employees worldwide are more than capable of meeting our challenges with integrity, improving our performance, and increasing our value to our shareholders. Their continued hard work and resilient attitude in difficult times are proof of that. Our 107-year history—notable for success and growth through an economic depression and two world wars—is proof of that as well.

A model for over a century of success

Dave Lennox started the Lennox business model in what one observer described as “an overgrown blacksmith shop” in Marshalltown, Iowa, in 1895. He made an innovative and popular product: the first riveted steel furnace, far more efficient and durable than the cast-iron furnaces common at the time.

But innovation was only part of Lennox' way of doing business. He also built a quality product, one that could deliver safe, economical comfort year after year. He sold his products directly to installing contractors, helping to build a personal bond of communication and trust with his customers. When things went wrong, he listened, took responsibility, and corrected them.

When D.W. Norris bought the business from Dave Lennox and became president in 1904, he built on what Lennox had begun, following his own simple but highly effective philosophy:

“Build me the best product, and get me the best salesman. The best salesman will get me the best dealer, and the best dealer will get me the most business.”

“We continue our unwavering commitment to innovation and performance, treat our customers like true business partners, and learn from our past as we build for the future.”

We have since expanded our business strategy around the world to encompass multiple distribution channels. But Dave Lennox and D.W. Norris defined the basic values that helped Lennox grow to become a global leader in the climate control industry.

Building on tradition

Even in today's far more complex business environment, we still find success and growth opportunities in following and expanding on our earliest values. For over a century, we have maintained our integrity through:

- **Innovation:** Dave Lennox' emphasis on practical innovation lives on in our commitment to expanding our fast-growing e-commerce systems with input from our customers. It is also evident in our recent development of web-based controls for residential and commercial comfort systems. This year we are also introducing our Dave Lennox Signature™ Collection of top-of-the-line home comfort equipment, utilizing our own SilentComfort™ technology that allows us to produce the quietest air conditioners and furnaces on the market today.

- **Performance:** After growing in the midst of many difficult domestic and global challenges over more than a century, we are firmly committed to maximizing our performance in the public sector. While our stock traded below its IPO price in 2001, our return to shareholders for the year was strong at over 30%. This performance far exceeded the broader markets, which had negative returns in 2001.

- **Products and services:** Our century-old commitment to quality products and services continues as we implement sophisticated lean manufacturing processes at many of our facilities, resulting in better products for our customers, built faster. We are developing highly sophisticated e-commerce systems that make it easier and faster for customers to communicate and do business with us. We are constantly exploring new ways to enhance our products and services by listening to our customers, refining our processes to improve quality and efficiency, and evaluating emerging technologies.

- **Brands:** Originally led by the trusted face of “Dave Lennox,” we have carefully expanded our brand family to cover the entire depth and breadth of our industry. At the same time, we have ensured each name represents the traditional Lennox standards of reliability and trust. Our brands—including Lennox, Armstrong, Ducane, Bohn, Kirby, Larkin, Heatcraft, and Service Experts—are well known and respected in the air conditioning and heating, refrigeration, heat transfer, and commercial refrigeration industries around the world.

We further demonstrated our commitment to innovation and stronger financial performance at the highest levels of our operations by making three key senior management appointments during the year:

- We announced Rick Smith's appointment to chief financial officer in our letter to you last year. Rick joined us on January 15, 2001 and, as we

predicted, has proven to be an excellent fit with our company. His emphasis on enhancing the basics of our balance sheet has resulted in significant improvement in many important areas of our financial operations.

- We appointed Linda Goodspeed to chief technology officer. Linda was president and chief operating officer for Partminer, Inc., a leading global supplier of electronic components and component information and a provider of inventory management services and enterprise solutions. Before coming to Partminer, Linda was product general manager of General Electric Appliances, responsible for \$1.2 billion in cooking products sales and maintaining the company's number one share position in that market. Her expertise in technology, product management, quality systems, and manufacturing best practices is helping accelerate improvement in these key areas.

- As we mentioned earlier, we appointed Dennis Smith to president of Service Experts Inc., our retail operation. Dennis was formerly chief operating officer for Simplex Time Recorder, a \$900 million fire alarm and security systems business with 170 company-operated locations. Given Dennis' impressive track record of helping companies reach their fullest potential, we expect to see accelerated improvements in performance for our retail operations.

We are also proud to introduce our new corporate logo, which you can see on the cover of this annual report. The previous LII logo is associated with our Lennox brand of heating and cooling products and dates from the 1950s, when LII did not even exist.

Introducing a distinctive corporate logo represents our new role as a strong public company and our growth from a small-town furnace manufacturer into a global leader in all aspects of climate

control technology. A key element in the new logo is "LII," which stands for Lennox International Inc., reflecting our new identity. The logo's simple and direct visual style is suggestive of our focus on business basics and the underlying integrity that has been part of our culture since 1895.

We continue our unwavering commitment to innovation and performance, treat our customers like true business partners, and learn from our past as we build for the future. As we have grown around the world, we have remained faithful to these core values, through good times and challenging ones—and have always emerged successful.

While we expect our revenues will be flat to modestly down for 2002, we are confident the initiatives we took during 2001 will enable us to improve earnings, which will be reflected in the quality of our free cash flow. We look forward to progress in 2002 in realizing our earnings potential, and expect improvements will accelerate in the second half of the year.

For all of us at LII, "integrity" just means good business. Our integrity—the firm commitment we have to our code of values—will be key to meeting our challenges in the year ahead and the years to come.



Robert E. Schjerven
Chief Executive Officer



John W. Norris, Jr.
Chairman of the Board



integrity for over 100 years

1895 Dave Lennox develops a major innovation in home comfort: the first riveted steel furnace.

1935 Lennox develops and markets the first forced-air furnaces and enameled furnace cabinets.

1960 Lennox establishes an international division with facilities in England, Holland, and Germany.

1964 Lennox develops the Duracurve heat exchanger, reducing noise problems in gas furnaces.

1965 Lennox introduces packaged multi-zone units for commercial heating and cooling.

1973 Lennox increases air conditioning efficiency with the development of the two-speed hermetic compressor.

1982 Lennox develops and manufactures the industry's first high-efficiency gas furnaces.

1984 Lennox International Inc. (LII) is established as the parent company for Lennox Industries Inc. and future acquisitions.

1986 LII expands into the commercial refrigeration and heat transfer markets with the establishment of Heatcraft Inc.

1988 LII expands into two-step distribution of residential heating and cooling products with the acquisition of Armstrong Air Conditioning Inc.

1994 LII's Lennox Industries subsidiary introduces a complete combination high-efficiency residential space/water heating system, and enters the growing hearth products market.

1996 LII's Heatcraft subsidiary develops the Beacon control system, improving the accuracy and reliability of refrigeration system information and easing installation.

1997 LII enters into joint venture agreements in Europe and Latin America, and makes acquisitions in Australia.

1998 LII establishes a retail distribution network offering full sales and service functions and in 2000 expands operations with the acquisition of Service Experts, Inc.

1999 A Lennox Industries dealer places the first online order through the DaveNet™ e-commerce system.

1999 LII expands its reach into the price-sensitive segment of the market by acquiring the air conditioning and heating division of the Ducane Company.

2002 Lennox Industries announces the industry's quietest air conditioner and gas furnace, and PureAir™, the industry's most effective air purification system.

integrity in our commitment to performance



In the 20th century, Lennox successfully met challenges posed by the Great Depression and two world wars—not only surviving, but growing stronger. In 2001, we continued that commitment to performance, aggressively tackling key performance issues in the midst of a challenging worldwide economic environment.

Our domestic air conditioning, heating, and refrigeration businesses performed strongly in difficult markets, with measurably improved market shares. Responding to softening demand in 2001 and working to increase our production efficiency, we implemented significant cost control measures—including reducing our worldwide workforce by over 10%, amounting to over 2,600 jobs.

A corporate-wide focus on free cash flow in 2001 increased free cash flow to \$184 million, more than tripling the previous year's figure of \$57 million.

Our major focus for improvement is on Service Experts, our retail business segment. We aggressively addressed the chronic under-performers in our retail business by rationalizing our network of service centers from 224 to less than 200 by selling, closing, or merging centers. During the year, we established operations accountability at the center level and replaced approximately 70 service center general managers with new leadership committed to improved performance.

We aggressively pursued expanding the market for our heat transfer business. Lennox will serve as a major provider of coil products to Ingersoll-Rand for the U.S., Mexico, and Canada. These coils, previously integrated into Ingersoll-Rand's manufacturing operations, will be produced at a new facility in Mexico beginning in the second quarter of this year, with the plant projected to be fully operational by mid-2003.



integrity in product innovation

Dave Lennox revolutionized home comfort when he built the first riveted steel furnace in 1895. That tradition of product innovation continues today in the Dave Lennox Signature™ Collection, a top-of-the-line series of residential home comfort equipment introduced in early 2002 featuring the quietest gas furnaces and air conditioners on the market today.

Growing awareness and concern over the quality of indoor air led us to develop the PureAir™ air purification system, which installs easily into new or existing air conditioning systems. Using a combination of ultraviolet light and photo-catalytic oxidation technology, PureAir proved in independent testing to be the industry's most effective air purification system.

Dave would also be proud to know his spirit of creativity and innovation lives on in other important markets. Smaller commercial refrigeration systems weren't providing what the restaurant industry told us they really needed, so we developed the popular Pro³ packaged refrigeration system—requiring minimal installation space and freeing up use of more refrigerated space inside the cooler or freezer.

Meeting the widely varying needs of our many commercial customers, the new Lennox L Connection Network™ is a flexible and comprehensive building controls management system that includes remote monitoring, demand control ventilation, and advanced diagnostics—making identification of comfort system problems as easy as pushing a button.

integrity in our brands

“Attaboy, Dave.” Long after the original Dave Lennox died in the late 1940s, his name and familiar cap and overalls continue to be a symbol of quality and trust to new generations of homeowners looking for the finest in home comfort. Today, Dave shares his legacy of trust with a growing family of Lennox International brand names respected around the world.

We have expanded the depth and breadth of the Lennox North American residential brand family to include a wide range of products at all major price points. Our Lennox brand continues to represent the highest level of home comfort innovation and is now being aggressively promoted in the growing hearth products market, via hearth specialty shops.

The Armstrong brand continues to grow and represents our strong commitment to the middle-tier residential market, while the Aire-Flo and Ducane brands are popular products in more price-sensitive market segments. To many consumers, service is as important as the equipment they buy—and last year our retail segment began to establish Service Experts as the most trusted name in residential heating and air conditioning service.

Building on our branding success in North America, we are consolidating our European air conditioning products under the Lennox name as part of our Pan-European marketing strategy. And, the products of our worldwide heat transfer and refrigeration business segments carry some of the most recognizable and trusted brand names in their industry—including Heatcraft, Bohn, Larkin, Kirby, Chandler, and Climate Control.

Continuing in the tradition of quality and trust inspired by the original Lennox name, the members of the growing Lennox International brand family represent some of the most respected names in our industry.



integrity in service



D.W. Norris, Lennox' first president, believed in establishing a relationship of mutual trust with his salespeople and his customers. That century-old drive to find the best customers and provide them with the best customer service is still integral to LII's business strategy around the world.

Our Advanced Distributor Products division announced a 5-day delivery on evaporator coils, the fastest delivery time in the industry. We also reduced the lead time on our popular configure-to-order commercial HVAC products from as much as seven weeks to three—cutting customer wait times by more than half.

Customer service also made innovative strides via emerging technologies: using Access2Answers™, Heatcraft customers can now check current inventory and track the status of their orders in real time through a new website service for order and product information. Another web-based tool, DaveNet™—Lennox' e-commerce system—welcomed 1,900 new users during the year as many impressive new features were added to help dealers grow their business, including the ability to access fresh sales leads daily. More than 3800 of our customers, representing over 80% of our Lennox residential HVAC business, now subscribe to DaveNet.

Linking the Internet with lean principles, our Armstrong subsidiary introduced Velocit-e™, an Internet-based system connecting Armstrong, the customer, and suppliers to increase efficiency, reduce waste, and provide quicker response.

When we entered the retail marketplace in 1998, the homeowner became our customer for the first time—and we're expanding our century-old commitment to superior service to them as well. In 2001 Service Experts, our retail operation, announced a 100% customer satisfaction guarantee on the sales and service of home comfort equipment.

board of directors

Linda G. Alvarado
President
Alvarado Construction Inc.

David H. Anderson
Attorney-at-Law

Richard W. Booth
Retired Executive Vice President
Administration and Secretary
Lennox International Inc.

Thomas W. Booth
Vice President
Advanced Heat Transfer
Lennox International Inc.

David V. Brown
Owner/Director
Plantation Farm Camp

James J. Byrne
Chairman
Byrne Technology Partners Ltd.

Janet K. Cooper
Chief Financial Officer
McDATA Corporation

C. L. (Jerry) Henry
Chairman, President and CEO
Johns Manville Corporation

John E. Major
CEO
Novatel Wireless, Inc.

John W. Norris, Jr.
Chairman of the Board
Lennox International Inc.

John W. (Bo) Norris III
Director of Annual Funding
Maine Chapter
The Nature Conservancy

William G. Roth
Retired Chairman of the Board
Dravo Corporation

Robert E. Schjerven
CEO
Lennox International Inc.

Terry D. Stinson
Former Chairman and CEO
Bell Helicopter Textron Inc.

Richard L. Thompson
Group President
Caterpillar Inc.

executive staff

Robert E. Schjerven
Chief Executive Officer

Harry J. Ashenurst
Chief Administrative Officer

Carl E. Edwards Jr.
Chief Legal Officer

Linda A. Goodspeed
Chief Technology Officer

Richard A. Smith
Chief Financial Officer

Scott J. Boxer
President, Lennox Industries Inc.

Robert J. McDonough
President, Worldwide Refrigeration,
Heat Transfer, and
International Operations

Michael G. Schwartz
President, North American
Distributed Products

Dennis H. Smith
President, Service Experts

David L. Inman
Vice President, Controller and
Chief Accounting Officer

corporate information

Corporate Headquarters

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Richardson, TX 75080
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For more information on Lennox International and our subsidiaries, visit our website at www.lennoxinternational.com.

Annual Meeting

Our annual shareholders meeting will be held on May 17, 2002 at 9 a.m. local time. Any shareholder with proper identification may attend. The meeting will be held at:

University of Texas at Dallas
Conference Center
Rutford Avenue and Drive A
Richardson, TX 75083

Investor Inquiries

Investors and financial analysts interested in obtaining information about Lennox International should contact:

Bill Moltner
Vice President, Investor Relations
Phone: 972-497-6670
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Stock Exchange

Lennox International's trading symbol is LII. The common stock of LII has traded on the New York Stock Exchange since July 29, 1999. There were approximately 12,000 beneficial holders of the company's common stock as of March 25, 2002.

Form 10-K

A copy of the Lennox International Inc. Annual Report filed with the Securities and Exchange Commission for 2001 (Form 10-K) is available through our corporate website or will be furnished, without charge, on written request to:

Lennox International
Investor Relations
P.O. Box 799900
Dallas, TX 75379-9900

Transfer Agent and Registrar

Mellon Investor Services is Lennox International's Transfer Agent. All inquiries should be directed to:

Lennox International Inc.
c/o Mellon Investor Services
P. O. Box 3315
South Hackensack, NJ
07606-1915

LII stockholders can access their account for automated information 24 hours a day, 7 days a week by dialing 1-800-797-5603.

Independent Auditors

Arthur Andersen LLP
Dallas, TX

Dividend Information

In recent years, Lennox International has declared dividends four times a year. The amount and timing of dividend payments are determined by our board of directors.

Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see Lennox International's publicly available filings with the Securities and Exchange Commission. Lennox disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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