





Who We Are

Lennox International is a leading provider of climate control solutions for heating, air conditioning, and refrigeration markets around the world. We have built our business on a heritage of integrity and innovation dating back to 1895. The 18,000 employees who make up Lennox International are dedicated to providing trusted brands, innovative products, unsurpassed quality, and responsive service.

Lennox International operates in three key businesses:

1

Heating & Cooling.

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

2

Service Experts.

We are Service Experts, the company to trust for heating, cooling, and indoor air quality 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.

3

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.

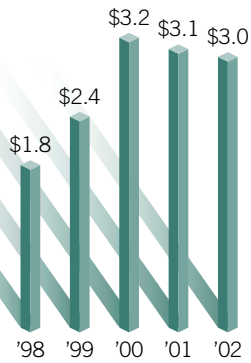
Our Businesses



Year in Review

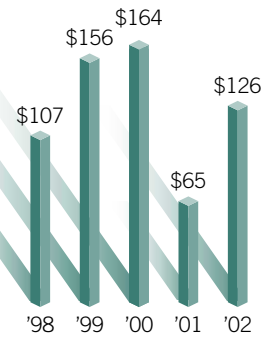
Revenues

(in billions)



Operating Income*

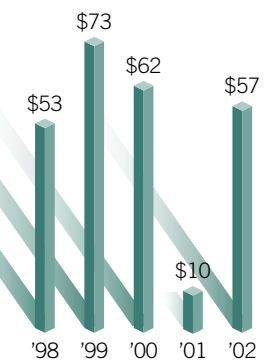
(in millions)



*excludes restructuring charges; goodwill impairment; gains, losses and other items.

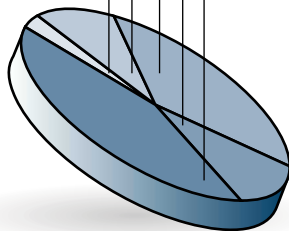
Net Income*

(in millions)



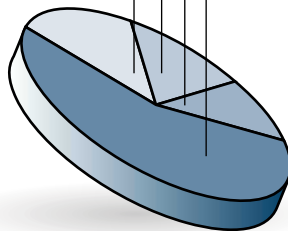
2002 Sales

Heating & Cooling	
Residential.....	40%
Commercial.....	14%
Service Experts.....	30%
Refrigeration.....	12%
Other.....	4%



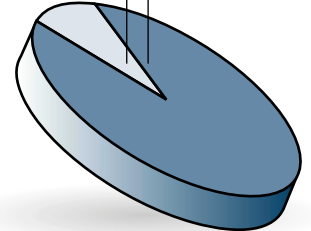
2002 Segment Operating Income**

Heating & Cooling	
Residential.....	59%
Commercial.....	10%
Service Experts.....	13%
Refrigeration.....	18%



Global Mix

US & Canada.....	88%
International.....	12%



**excludes unallocated corporate expense and non-recurring items.

Financial Highlights

(In millions, except per share data)	For the year ending December 31,				
	2002 ⁽¹⁾	2001 ⁽²⁾	2000 ⁽³⁾	1999	1998
Statement of operations data					
Net sales ⁽⁴⁾	\$3,025.8	\$3,113.6	\$3,242.2	\$2,357.5	\$1,818.4
Income (loss) from operations	125.6	(0.7)	158.6	155.9	106.6
Net income (loss)	(190.4)	(42.4)	59.1	73.2	52.5
Diluted earnings (loss) per share	(3.23)	(0.75)	1.05	1.81	1.47
Dividends per share	0.380	0.380	0.380	0.350	0.325
Other data					
Capital expenditures	22.7	17.4	58.3	76.7	52.4
Research and development expenses	38.2	37.3	36.5	39.1	33.3
Balance sheet data					
Working capital	137.6	158.8	311.3	424.6	263.3
Total assets	1,521.7	1,794.0	2,055.0	1,683.7	1,151.6
Total debt	379.9	517.8	690.5	577.0	317.4
Stockholders' equity	452.8	654.6	743.1	597.9	375.6

Notes:

- (1) Includes after-tax restructuring charges of \$6.1 million, or \$0.10 per diluted share, and after-tax (gains), losses and other expenses of \$(5.2) million, or \$(0.09) per diluted share. 2002 also includes after-tax goodwill impairment of \$249.2 million, or \$4.23 per diluted share, as a result of adoption of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets," and a \$(3.0) million, or \$(0.05) per diluted share, favorable resolution of tax contingencies from a prior year. Excluding these items, net income is \$56.7 million.
- (2) Includes after-tax restructuring and impairment charges of \$51.9 million, or \$0.92 per diluted share. Excluding these charges, net income is \$9.5 million.
- (3) Includes an after-tax restructuring charge of \$2.8 million, or \$0.05 per diluted share. Excluding this charge, net income is \$61.9 million.
- (4) As a result of adopting Emerging Issues Task Force (EITF) 01-9 in 2002, the Company restated prior years net sales. EITF 01-9 addresses various issues related to the income statement classification of certain promotional payments. The adoption of EITF 01-9 reduced 2001, 2000, 1999 and 1998 net sales by \$6.0 million, \$5.2 million, \$4.2 million and \$3.4 million, respectively.

Message to Our Shareholders

“Achieving success by following a code of business principles we share and believe.” That’s how we defined integrity in our 2001 annual report. We also shared examples of how integrity has been Lennox International’s core business value for over a century. We stressed integrity would be key to meeting our challenges in 2002 and the years to come—and that we were confident of success.

We did exactly what we said we were going to do. Throughout 2002, in the midst of a highly challenging global business environment, we stood by our century-old business principles—leading our industry in product innovation, expanding and enhancing our products and services, carefully building and managing our brands, and improving our financial performance—and we made dramatic progress. In fact, our total return to our stockholders

for the year was over 33%. This was our second straight year of delivering returns of more than 30% when the broader stock market indices declined.

While we took aggressive action to sharpen our focus on our core businesses, we also laid a strong foundation to take advantage of future growth opportunities, and we’re excited to share that news with you. But first, let’s look at last year’s performance.

2002 performance: significant improvement

LII achieved significant improvement in many key performance areas, most notably operating margins and earnings. While favorable weather supported our domestic residential businesses, demand from our commercial customers for heating, cooling, and refrigeration equipment and services was soft.

Our total corporate sales were \$3.0 billion, with revenues from our core businesses, despite mixed demand, down less than 1% from 2001. Our operating margin in 2002—excluding restructuring expenses; gains, losses, and other items; and goodwill amortization and impairment—expanded 150 basis points to 4.2% from 2001. On the same basis, our net income more than doubled to \$57 million, or \$0.96 earnings per diluted share. In accordance with generally accepted accounting principles (GAAP) and including the \$249 million goodwill impairment charge the company recorded in the first quarter, LII reported a net loss of \$190 million, or \$3.23 per diluted share, in 2002.

We continued to concentrate on our balance sheet and generated strong free cash flow of \$191 million in 2002, which we used primarily to reduce our total debt

“Throughout 2002, in the midst of a highly challenging global business environment, we stood by our century-old business principles...and we made dramatic progress.”



John W. Norris, Jr., Chairman of the Board & Robert E. Schjerven, Chief Executive Officer

by \$138 million, or 27%. As of December 31, 2002 our total debt was \$380 million, the lowest level reported on our balance sheet since LII went public in 1999. Thanks to our disciplined approach to capital expenditures, diligent working capital management, and improved earnings, we were able to reduce our debt-to-total capital ratio to 45.6% from 55.1% in 2001, adjusting the prior-year numbers for the impact of FAS 142 goodwill impairment. Our target had been 50%, and we feel continued debt reduction is appropriate given the current business environment.

Our progress was not limited to our financial performance:

- We sharpened our focus on our core strengths in the heating, ventilation, air conditioning, and refrigeration (HVACR) industry, allowing us to channel our energy and resources into areas in

which we have clear competitive advantages and strong potential for profitable growth. We entered into a joint venture with Outokumpu Oyj of Finland, with Outokumpu taking a 55% interest in our heat transfer segment, a components business, allowing us to focus on improving our effectiveness in providing value-added, branded products and services in our core markets. We completed an extensive rationalization program involving several of our manufacturing, sales, and distribution facilities in North and South America, Europe, and Asia. We also exited several non-core and underperforming product lines.

- Service Experts, our direct-to-customer business, realized important operational improvements and showed profitable results for the year. Thanks to better labor management, lower overhead, and

improved pricing, segment operating margins improved 275 basis points to 2.6% in 2002 from the prior year. While the top line remains challenging, our Service Experts management is developing numerous marketing and business development initiatives to address this situation, consistent with our goal of continued improvement in profitability.

Critical to our broad-based success in 2002 were the dedication and hard work of our 18,000 employees worldwide. Together, they developed innovative ideas for new products, new services, and new and improved ways of doing business—and successfully put those ideas to work. We are grateful to all of our employees for their commitment to LII and will continue to look to them for the best ideas in the coming years.

“In terms of both our continued commitment to profitability and top line performance for our core businesses, we are well-positioned for growth.”

Confidence in the future: three core businesses

LII is now clearly focused on three core businesses: Heating & Cooling, Service Experts, and Refrigeration.

In terms of both our continued commitment to profitability and top line performance for our core businesses, we are well positioned for growth. Continued performance improvements in our core businesses are generating the cash needed to take advantage of important opportunities down the road, while a stronger balance sheet provides more flexibility for growth initiatives. Our successful sale of \$143 million in convertible notes in May of 2002 was also an important step to better align our capital structure with our long-term growth prospects.

Our confidence in our potential to build shareholder value in all three of our businesses is high:

- They are businesses in which we have core competencies, considerable experience, important competitive advantages—including well-established distribution channels and widely recognized and respected brand names—and a real passion to excel.
- They are related industries, focused on climate control and specializing in finished goods and services, with strong potential for developing synergies.
- They are businesses with significant growth potential. For example, Service Experts operates in a \$40 billion-plus service industry currently dominated by no major player, but one in which residential and commercial customers are

looking for trusted, recognized brand names. Also, our core heating and cooling equipment markets, while maturing, have demonstrated long-term growth driven by product replacement as the size of the installed base continues to expand.

While we take pride in our achievements in 2002, we are by no means satisfied. In last year's report, we defined integrity simply as our way of doing business—taking pride and inspiration from our past century of achievements, while constantly striving for future improvement. For LII in 2003 and beyond, integrity will mean what it has always meant: sticking to the core values that have brought us success for over a century, exploring opportunities for profitable growth, and remaining committed to increasing value for our shareholders.



Robert E. Schjerven
Chief Executive Officer



John W. Norris, Jr.
Chairman of the Board

Lennox International: sharpening our focus. We increased our focus on providing the best finished products and services to our core heating, cooling, and refrigeration markets by completing the formation of a joint venture with Outokumpu Oyj of Finland. Outokumpu purchased a 55% interest in our heat transfer segment—a relatively capital-intensive components business—for which we received \$55 million.



Focus on our Core Businesses

Heating and cooling: pursuing new market opportunities. Successful marketing of the Dave Lennox Signature™ Collection of residential home comfort products doubled the portion of Lennox Industries' revenue from its top-of-the-line equipment. Advanced Distributor Products launched its Healthy Solutions™ line of evaporator coils—key components in air conditioning systems—that further address growing indoor air quality concerns by utilizing a mold- and mildew-resistant drain pan design. We also became the first heating and cooling manufacturer to partner with the Indoor Air Quality Association in a program to increase consumer awareness of indoor air quality issues. In addition, Lennox Industries enhanced its popular L Series® line of commercial rooftop systems, including higher efficiencies on our standard efficiency models and significantly expanding the number of models offering the Humiditrol® dehumidification system—removing eight times more moisture than competing products—as a factory-installed option.

Service Experts: building business. Our retail heating and cooling service segment made considerable progress in building its commercial service business. We were selected to provide service to 300 AutoZone stores, 99 Pep Boy locations, and 65 Disney Store locations. We expanded our service to Washington Mutual by 35 locations when it acquired Dime Bank in the New York area, and added four servicing locations to strengthen our ability to serve our existing customer base. In the residential market, we were selected as one of the preferred providers of home comfort service for Ace USA Warranty Division's home warranty program.



Refrigeration: growing internationally. The highly fragmented, \$2.1 billion served commercial refrigeration market represents tremendous global growth potential. Product technologies, applications, and distribution channels are relatively universal, enabling us to leverage the success of our domestic business in growing international markets.



Teaming up for cost savings: As purchasers of a combined total of over \$1.5 billion in materials, supplies, and services annually, LII subsidiaries began working even more closely through corporate procurement councils to implement the most cost-effective strategies. Over \$100 million in material purchasing was conducted through reverse Internet auctions, with realized cost savings up to 47%. The reverse auction program continues in 2003, with another \$100 million in material purchases planned.

Improving our Profitability

Running leaner: We successfully implemented programs aimed at streamlining our manufacturing operations and increasing efficiency throughout our company. Cost reduction programs involving overhead structures and the design and manufacture of our products contributed to a total of nearly \$70 million in annualized savings, of which we realized \$26 million in 2002. Through lean initiatives we decreased our inventory by 22% in 2002 and reduced working capital as a percentage of sales by 330 basis points to 19.6%. In our core businesses, sales per employee have grown by 14% in the past two years.



Streamlining operations: In 2002, we completed an extensive rationalization program involving several of our manufacturing, sales, and distribution facilities. Since that program began two years ago, we have closed plants in France, the Netherlands, Australia, and Canada. We have also sold, closed, or merged underperforming Service Experts service centers, and pared back several non-core and underperforming product lines in Asia, Australia, and South America.



Commercial success: With the industry's Lowest LifeCycle Cost™ savings and industry-leading configure-to-order lead times of just three weeks, Lennox' L Series® line of commercial equipment was instrumental in the U.S. Department of Energy naming Lennox a joint provider of energy-efficient commercial heating and air conditioning equipment. That same commitment to product innovation and customer service resulted in McDonald's ranking Lennox number one in a survey of its construction suppliers.

Providing industry leadership: Heating & Cooling

Heating and cooling innovation: The introduction of the Dave Lennox Signature™ Collection of home comfort equipment featured residential products with industry-leading performance—including the quietest furnace, quietest air conditioner, and most effective air purification system—and a compelling consumer marketing campaign. It helped Lennox Industries earn Good Housekeeping Seal and Environmental Protection Agency awards.



Distribution growth: Through an exclusive agreement signed with Tradewinds LLC, a subsidiary of Watsco Inc.—a leading HVAC equipment distributor—several LII facilities are manufacturing Whirlpool®-branded HVAC products. Thanks to our lean manufacturing initiatives, we can manufacture the new product without adding capacity—positioning us well for continued growth of our return on invested capital. We also increased distributor locations carrying the Armstrong Air, Ducane, and ADP brands by 21%, ending the year with over 2,100 points of sale throughout the U.S. and Canada.



Expanding our online network:

We continued to grow our business-to-business capabilities through Lennox Industries' DaveNet™ and Armstrong Air Conditioning's Velocit-e electronic business systems. Enhanced order and warranty processing features made doing business online more convenient and cost-effective than ever. By the end of 2002, 10% of all Lennox product orders and half of all Lennox warranty claims were processed online.



Improved financial results: We made great strides in building a performance-oriented culture at Service Experts. Thanks to a continued focus on cost reduction, labor management, and pricing, Service Experts posted a segment operating profit of \$24 million—a dramatic improvement over the segment operating loss of \$2 million* in 2001—and had positive free cash flow.

**adjusted for SFAS 142 goodwill amortization*



Building a culture of performance: Service Experts

Better focus through reorganization: We refocused the field management organization by halving the number of regions from six to three. In addition, we created two new districts to effectively manage the unique opportunities in commercial and residential new construction—markets with concentrated purchasing power, as opposed to the single unit sales to individual homeowners. We also centralized the accounting functions for 50 service centers into three regional accounting centers, improving control and further streamlining administration.



Controlling costs: Careful management of SG&A costs at the corporate and dealer service center levels resulted in a \$21 million, or 7% reduction from 2001 to 2002. Aggressively addressing procurement costs, we reduced our preferred suppliers of parts and supplies from 30 to seven. We also implemented a new fleet management program, effectively centralizing procurement, leasing, fuel, maintenance, and driver safety.

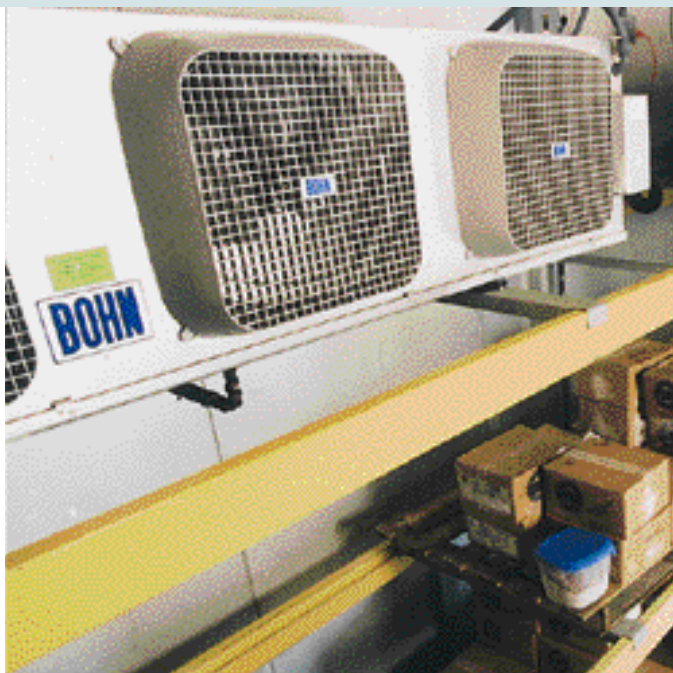
Products and service you can trust: We invested over 70,000 hours of training to help our personnel deliver the highest quality service to our customers. Further reinforced by our 100% customer satisfaction guarantee on the sales and service of home comfort equipment, Service Experts is providing homeowners across North America the best in home comfort and peace of mind.



International growth: We gained new customers, sales, and market share in Brazil and Europe, thanks to enhanced global coordination of our strategy, supply chain, best practices, and information technologies. Successful consolidation of our facilities in France further focused and streamlined our manufacturing operations.

Growing globally: Refrigeration

Success in North America: We recorded top line growth in all major product lines and achieved EBIT margins in the mid-teens while picking up several points of market share, thanks in part to the successful launch of our new Pro³™ package refrigeration units. Eleven new product platforms were introduced in 2002, with one-third of our revenues coming from products introduced in the past three years.



Focus on the future: With our intense focus on providing total solutions for our customers, we are confident we will continue growing our international refrigeration business. We are utilizing common global product platforms, improving speed to market, eliminating duplication of effort, reducing product development costs, and driving greater knowledge sharing worldwide.

Board of Directors

Linda G. Alvarado
 President and CEO
 Alvarado Construction, Inc.
 Committees: 3, 6, 7

David H. Anderson
 Attorney-at-Law
 Committees: 5, **6**

Steven R. Booth
 President
 PolyTech Molding Inc.
 Committees: 1, 6, 7

Thomas W. Booth
 Vice President, Corporate Technology
 Lennox International Inc.
 Committees: 1, 6,

David V. Brown
 Owner/Director
 Plantation Farm Camp
 Committees: 1, **7**

James J. Byrne
 Chairman
 Byrne Technology Partners Ltd.
 Committees: 4, **5, 7**

Janet K. Cooper
 Senior Vice President and Treasurer
 Qwest Communications International Inc.
 Committees: **2, 4, 5**

C. L. (Jerry) Henry
 Chairman, President and CEO
 Johns Manville Corporation
 Committees: 1, 2, 3

John E. Major
 President
 Technology Solutions Group
 Committees: **1, 2, 4, 5**

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

John W. (Bo) Norris III
 Assistant Director of Philanthropy
 Maine Chapter,
 The Nature Conservancy
 Committees: 6, 7

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.
 Committees: 1, 2, **3**

Richard L. Thompson
 Group President
 Caterpillar Inc.
 Committees: 3, **4, 5**

Committee Legend
 (bold indicates chairperson):
 1: Acquisition
 2: Audit
 3: Board Governance
 4: Compensation
 5: Human Resources
 6: Pension & Risk Management
 7: Public Policy & Education

Management Team

Robert E. Schjerven
 Chief Executive Officer

Harry J. Ashenhurst
 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 and
 International Operations

Michael G. Schwartz
 President,
 North American Distributed Products

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

Corporate Information

Corporate Headquarters

Lennox International Inc.
2140 Lake Park Blvd.
Richardson, TX 75080
972-497-5000

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 16, 2003 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
e-mail: investor@lennoxintl.com

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 10,600 beneficial holders of the company's common stock as of March 24, 2003.

SEC Filings

A copy of the Lennox International Inc. Annual Report (Form 10-K) and other reports filed with the Securities and Exchange Commission for 2002 are 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

KPMG 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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