

Chairman's Letter



> **David R. Whitwam**
Chairman of the Board and Chief Executive Officer

TO OUR SHAREHOLDERS – Whirlpool faced many challenges last year, and we responded appropriately and aggressively to the changing dynamics of world economies and the markets in which we participate. As a result, 2002 was an important year of milestones and accomplishments that reflect the strength of our operations and the company's ability to deliver consistent, ongoing improvements in operating and revenue performance. For example:

- > Net revenues exceeded \$11 billion, a record for the company.

- > Excluding one-time charges, full-year core earnings of \$6.07 per diluted share marked a record level of performance for our operations.
- > Through our strategic focus of building unmatched levels of customer loyalty for our brands globally, we extended our brand leadership position worldwide.
- > Our brands set a record for the most product innovations ever introduced by the company in a single year, reinforcing Whirlpool's standing as the innovation leader within the appliance industry. Examples of these innovations are highlighted throughout this report.
- > We successfully integrated two strategically important acquisitions during the year, and, in doing so, strengthened our manufacturing and brand positions in North America and Europe.
- > We identified the activities and finalized the charges of our most significant and important restructuring effort in the company's history. When fully implemented, the restructuring will reduce ongoing structural costs by more than \$200 million a year. Changes to date have already strengthened our global platform and improved our manufacturing cost position.
- > Improvements in global procurement, technology, product development and manufacturing helped drive record levels of productivity savings.

- > Our operations generated \$290 million of free cash flow as company-wide efforts resulted in record low levels of working capital.

RECORD REVENUES

Revenue growth across most regions during the year led to record net sales of more than \$11 billion and solidified Whirlpool's position as the world's top major appliance manufacturer and marketer. Contributing to the sales improvement was the continued growth of the *Whirlpool* brand – the No. 1 selling appliance brand in the world. Whirlpool Corporation is strongly positioned as the market leader in the United States, Canada, Latin America, Central Europe and India. The company also holds the No. 2 market position in Mexico, and the No. 3 spot in Western and Central Europe. Whirlpool also continues to build a strong and growing presence in China.

Throughout the year, our operations leveraged Whirlpool's global capabilities and regional market positions to deliver the record revenue growth and extend our brand leadership.

RESTRUCTURING

We recorded final charges for the company's global restructuring effort that we announced in December of 2000. Since then, the initiative has resulted in restructuring and related charges totaling \$373 million, and the elimination of more than 7,000 positions worldwide. Much of the restructuring initiative focused on Whirlpool's European operation. The initiative has created a more cost-effective global structure that is better aligned to support the company's value creation strategies. When fully implemented, the corporate restructuring effort is expected to result in annualized savings of more than \$200 million.

NET AND OPERATING RESULTS

A number of one-time charges contributed to a net loss of \$5.68 per diluted share in 2002. The most significant of these charges related to the company's adoption of the change in accounting principle pertaining to goodwill (Statement of Financial Accounting Standards No. 142), final costs for the company's global restructuring initiative and the write-off of aircraft-lease assets following the bankruptcy of UAL Corp.

Excluding these one-time charges, our operations delivered full-year record core operating earnings of \$6.07 per diluted share, an 11-percent improvement from comparable earnings in 2001, which was a solid achievement that met our growth expectations. These results were driven by the combination of record sales, unprecedented levels of product innovation, significant cost savings from productivity improvements and the benefits from restructuring.

Details about the charges, their effect on 2002 net earnings, and the reconciliation of net earnings to non-GAAP core earnings are discussed in the Management's Discussion and Analysis section of this report.

REGIONAL GROWTH THROUGH ACQUISITION

Whirlpool bolstered its global position during the year through the acquisition of two strategic businesses in key markets. In Mexico, we completed the purchase of Vitromatic S.A. de C.V., which had been a joint venture between Whirlpool and Vitro S.A. since 1987. Vitromatic, now called Whirlpool Mexico, is a leading appliance manufacturer that gives us direct access to the fast-growing Mexican market. The acquisition extends our North American manufacturing base and provides additional export opportunities to countries in the Caribbean, Central America and northern parts of South America, as well as to the United States. In Central Europe, Whirlpool acquired Polar S.A., a leading appliance manufacturer with the No. 1 brand name in Poland. The acquisition of Polar improves our brand presence in Central Europe and provides Whirlpool Europe with a low-cost manufacturing source to serve the entire region.

RECORD PACE OF INNOVATION

Our brands introduced a record number of product innovations to consumers worldwide in 2002. The introductions contributed to our record sales results and helped drive higher levels of customer loyalty to our brands. Over the last three years, we have built and embedded within our global enterprise the skills and capabilities required to discover, develop and rapidly bring to market true innovation. These innovations are giving our brands a sustainable competitive advantage in the marketplace and creating value for our customers, trade partners and shareholders.

BUILDING CUSTOMER LOYALTY

Whirlpool’s growth strategy – “Building unmatched customer loyalty”– is unlike any other within the appliance industry. The strategy focuses on winning the hearts and minds of our customers. We know that loyal customers are recommending our brands to others; that they are requesting and repurchasing our brands over those of competitors; and that they are beginning to upgrade their appliances because they trust the innovation and value that our brands deliver. Initiatives that lead to higher levels of customer loyalty, such as our innovation process, result in improved revenue growth, margin expansion and trade support for our brands.

Because innovation is such an important driver of customer loyalty, we are expanding our efforts to transfer innovation capabilities and skills to employees everywhere. Approximately 600 innovation mentors and consultants assisted and trained employees involved in development projects last year, and the number will grow as our innovation efforts continue in 2003.

Another key aspect of customer loyalty involves the experiences that touch customers before, during and long after the initial purchase. Each of our brands is putting in place a complete set of experiences – including brand advertising, the in-store purchase, call center interactions and ongoing customer communications – that will help forge lifelong relationships with our customers.

Within our operations, every person and function has a role to play in building customer loyalty. For example, each operation is taking the company’s Six-Sigma quality improvement process to a higher level by first placing the needs of the customer at the center of every function – such as manufacturing, technology, marketing and administrative support – and then driving down all unnecessary costs. Resources that become available through this enterprise-wide effort are reinvested in new initiatives that are focused squarely on improving the brand experiences of our customers.

Ultimately, the success of the customer loyalty strategy depends on the leadership capabilities of our global management team, as well as the skills and involvement of our employees. We have instituted a process to assess and develop our leaders around a simple global leadership model that will help prepare them to lead in today’s complex and challenging environments.

DIVERSE CUSTOMERS, EMPLOYEES AND IDEAS

Much of our customer loyalty strategy is built upon the same foundation that supports the company’s approach to diversity and inclusion. For example, understanding and embracing differences and ideas of customers and coworkers are essential first steps in our innovation process. Diversity within Whirlpool creates the originality and relevancy of ideas needed to solve unique problems. And because diverse employees reflect our global customer base, Whirlpool gains a keen understanding of our customers’ needs.

CORPORATE GOVERNANCE

Embedded in our company, as well as our Board of Directors, is the deeply held value that continues to guide us: “There is no right way to do a wrong thing.” This basic code of conduct underlies the company’s long tradition of strong and independent corporate governance. For example, of Whirlpool’s 12-member board, ten are independent directors who are highly regarded business professionals with significant and relevant management experience. The Whirlpool board’s principles and processes – which include internal annual reviews of board practices, the board selection process and the company’s code of ethics – have been in place for many years.

Whirlpool fully supports the steps that have been taken by business and government to make sure that companies have the necessary values and governing principles that will assure trust from all stakeholders.

OUTLOOK

We enter 2003 with continuing economic uncertainty in most of the global markets we serve. We have taken the appropriate cost and productivity actions to deal with that uncertainty. We believe that Whirlpool’s global leadership position, the company’s unique global platform, and innovation activities focused on building customer loyalty will drive continued performance improvement in 2003 and beyond.



David R. Whitwam
Chairman of the Board and
Chief Executive Officer
February 27, 2003

Financial Highlights

millions of dollars, except per share data	2002	2001	% change
Net sales	\$ 11,016	\$ 10,343	6.5%
Core earnings, which excludes non-recurring items	420	371	13.2%
Per share on a diluted basis	6.07	5.45	
Earnings from continuing operations	262	34	670.6%
Per share on a diluted basis	3.78	0.50	
Net earnings (loss)	(394)	21	
Per share on a diluted basis	(5.68)	0.31	
Stockholders’ equity	739	1,458	(49.3)%
Total assets	6,631	6,967	(4.8)%
Return on equity *	14.8%	1.3%	
Return on equity excluding non-recurring items	27.4%	22.2%	
Return on assets *	3.4%	0.4%	
Return on assets excluding non-recurring items	6.1%	5.6%	
Book value per share	\$ 10.67	\$ 21.44	\$ (50.2)%
Dividends per share	1.36	1.36	
Average dividend yield	2.2%	2.4%	
Share Price			
High	\$ 79.80	74.20	
Low	39.23	45.88	
Close	52.22	73.33	(28.8)%
Total return to shareholders (five year annualized)	1.4%	12.2%	
Shares outstanding (in 000’s)	68,226	67,215	
Number of stockholders	8,556	8,840	
Number of employees	68,272	61,923	

Non-recurring items include cumulative effects of changes in accounting principle, discontinued operations, restructuring and related charges and product recall charges in 2002 and 2001 as well the write-off of asset impairments in 2002.

* Refer to Eleven-Year Consolidated Statistical Review (pages 72-73) for more information about return on equity and asset calculations.