Notes to Consolidated Financial Statements

>01 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Nature of Operations
Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. The company manufactures in nine countries under nine major brand names and markets products to distributors and retailers in more than 170 countries.

Principles of Consolidation
The consolidated financial statements include all majority-owned subsidiaries. Investments in affiliated companies, consisting principally of direct voting interests of 40% and 49% in two other international companies principally engaged in the manufacture and sale of major home appliances or related component parts, are accounted for by the equity method. All intercompany transactions have been eliminated upon consolidation.

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 title passes to the customer. The point at which title passes is determined by the shipping terms, which generally designate a transfer of title to the customer as soon as the product is shipped. Allowances for estimated returns are made on sales of certain products based on historical return rates for the products involved.

Accounts Receivable and Allowance for Doubtful Accounts
The company carries its accounts receivable at their face amounts less an allowance for doubtful accounts. On a periodic basis, the company evaluates its accounts receivable and establishes the allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions and based on a history of write-offs and collections. The company's policy is to generally not charge interest on trade receivables after the invoice becomes past due. A receivable is considered past due if payments have not been received within agreed upon invoice terms.

Freight and Warehousing Costs
Freight-out and warehousing costs included in selling, general and administrative expenses in the statements of operations were $520 million, $497 million and $470 million in 2002, 2001 and 2000, respectively.

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. Useful lives for buildings range from 25 to 40 years, and machinery and equipment range from three to 10 years. Assets recorded under capital leases are included in property, plant and equipment.

Research and Development Costs
Research and development costs are charged to expense as incurred. Such costs were $282 million, $231 million and $254 million in 2002, 2001 and 2000, respectively.

Advertising Costs
Advertising costs are charged to expense as incurred. Such costs were $176 million, $177 million and $191 million in 2002, 2001 and 2000, respectively.

Foreign Currency Translation
The functional currency for the company's international subsidiaries and affiliates is typically the local currency. Certain international subsidiaries utilize the U.S. dollar as the functional currency.

Derivative Financial Instruments
On January 1, 2001, the company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The adoption of SFAS No. 133 resulted in a cumulative effect of an accounting change of $8 million of income, net of tax, in the company's statement of operations and a $11 million decrease, net of tax, in stockholders' equity. As a result of the adoption of SFAS No. 133, the company recognizes all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the company must designate the hedging instrument, based upon the exposure being hedged, as a cash flow hedge, fair value hedge, or a hedge of a net investment in a foreign operation.

Cash flow hedges are hedges that use derivatives to offset the variability of expected future cash flows. The effective portion of the unrealized gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the unrealized gain or loss on the derivative instrument, if any, is recognized in other income (expense) in current earnings during the period of change.

Fair value hedges are hedges that eliminate the risk of changes in the fair values of assets, liabilities and certain types of firm commitments. The gain or loss on a derivative instrument designated as a fair value hedge and the offsetting loss or gain on the hedged item are recognized in the same line item associated with the hedged item in current earnings during the period of the change in fair values.

Net investment hedge designation refers to the use of derivative contracts or cash instruments to hedge the foreign currency exposure of a net investment in a foreign operation. For those derivatives that qualify as net investment hedges, the effective portion of any unrealized gain or loss is reported in accumulated other comprehensive income as part of the cumulative translation adjustment. Any ineffective portion of net investment hedges is recognized in other income (expense) in current earnings during the period of change.

For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in other income (expense) in current earnings during the period of change.

Stock-Based Employee Compensation

Stock option and incentive plans are accounted for under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The company has adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" but has not adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. Had the company elected to adopt the recognition provisions of SFAS No. 123, pro forma net earnings (loss) and diluted net earnings (loss) per share would be as follows:

Year ended December 31 – Millions of dollars, except per share data	2002	2001	2000
Compensation cost included in earnings as reported (net of tax benefits)	$ 12	$ 16	$ 1
Pro forma total fair value compensation cost (net of tax benefits)	$ 25	$ 29	$ 13
Net earnings (loss)			
As reported	$ (394)	$ 21	$ 367
Pro forma	(407)	8	355
Basic net earnings (loss) per share			
As reported	$ (5.79)	$ 0.31	$ 5.24
Pro forma	(5.99)	0.12	5.06
Diluted net earnings (loss) per share			
As reported	$ (5.68)	$ 0.31	$ 5.20
Pro forma	(5.87)	0.12	5.03

Net Earnings Per Common Share (in thousands)

Diluted net earnings per share of common stock includes the dilutive effect of stock options and stock based compensation plans. For the year ended December 31, 2002, 2001 and 2000, a total of 1,885 options, 619 options, and 4,820 options, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices would render them anti-dilutive.

Reclassifications

Certain reclassifications have been made to prior year data to conform to the current year presentation which had no effect on net income reported for any period.

>02 NEW ACCOUNTING STANDARDS

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation includes additional disclosure provisions as well as recognition and measurement provisions which require a liability to be recorded for certain guarantees at fair value. The disclosure requirements of this interpretation have been adopted by the company at December 31, 2002. The recognition and measurement provisions became effective for the company on January 1, 2003, and are not expected to have a material effect on the company.

>03 GOODWILL AND OTHER INTANGIBLES

Goodwill

The company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

The following table provides comparative net earnings (loss) and net earnings (loss) per share had the non-amortization provisions of SFAS No. 142 been adopted for all periods presented:

Millions of dollars, except per share data	2002	2001	2000
Reported net earnings (loss)	$ (394)	$ 21	$ 367
Goodwill amortization	–	27	27
Adjusted net earnings (loss)	$ (394)	$ 48	$ 394
Basic earnings per share			
Reported net earnings (loss)	$ (5.79)	$ .31	$ 5.24
Goodwill amortization	–	.40	.38
Adjusted net earnings (loss)	$ (5.79)	$ .71	$ 5.62
Diluted earnings per share			
Reported net earnings (loss)	$ (5.68)	$ .31	$ 5.20
Goodwill amortization	–	.40	.38
Adjusted net earnings (loss)	$ (5.68)	$ .71	$ 5.58

The company completed the transitional goodwill impairment review of its reporting units and recorded a non-cash after-tax charge of $613 million, or $8.84 per diluted share, as a cumulative effect of a change in accounting principle in 2002. An additional impairment of $9 million, after tax, was recognized as a charge to operations during the fourth quarter of 2002 relating to goodwill acquired in Asia (see Note 4).

The following table summarizes the impairment charges by reporting unit as well as the changes in the carrying amount of goodwill for the year ended December 31, 2002:

Reporting Unit – Millions of dollars	Beginning of Year	Impairment Charges	Acquisitions	End of Year
North America	$ 68	$ –	$ 89	$ 157
Europe	367	(367)	–	–
Latin America	64	(60)	–	4
Asia	186	(195)	9	–
Total	$ 685	$ (622)	$ 98	$ 161

The goodwill in Europe was related primarily to the company's acquisition in 1989 (53%) and 1991 (47%) of the major appliance business of Philips Electronics N.V. The Latin American goodwill was mainly generated by the company's majority ownership expansion in 1997 of its Brazilian affiliates. Within the Asian business segment, the majority of goodwill arose in 1995 due to the acquisition of a majority interest in Kelvinator of India, Ltd., and expansion into China.

The company determined the fair value of each reporting unit using a discounted cash flow approach taking into consideration projections based on the individual characteristics of the reporting units, historical trends and market multiples for comparable businesses. The resulting impairment was primarily attributable to a change in the evaluation criteria for goodwill utilized under previous accounting guidance to the fair value approach stipulated in SFAS No. 142. External factors such as increased regional competition and global economic conditions also negatively impacted the value of these acquisitions.

Other Intangible Assets

Other intangibles are comprised of the following:

December 31 – Millions of dollars	2002	2001
Trademarks (indefinite-lived)	$ 49	$ 13
Patents and non-compete agreements	5	10
Pension related	128	–
Total other intangible assets, net	$ 182	$ 23

The balance at December 31, 2002, includes trademarks acquired as part of the Whirlpool Mexico and Polar acquisitions (see Note 4), and intangible assets related to minimum pension liabilities (see Note 16). Accumulated amortization totaled $21 million and $16 million at December 31, 2002 and 2001.

>04 BUSINESS ACQUISITIONS

Whirlpool Mexico

On July 3, 2002, the company acquired the remaining 51% ownership in Vitromatic S.A. de C.V. (now called Whirlpool Mexico), an appliance manufacturer and distributor in Mexico. Prior to that date, the company's 49% ownership in Whirlpool Mexico was accounted for as an equity investment. Whirlpool Mexico has been included in the consolidated financial statements within the North American operating segment since the acquisition date. The aggregate purchase price was $151 million in cash plus outstanding debt at the time of acquisition, which totaled $143 million. The transaction resulted in goodwill of $89 million, and is expected to result in additional synergies and operational benefits. The transaction also generated approximately $15 million in indefinite-lived intangible assets related to trademarks owned by Whirlpool Mexico.

The Whirlpool Mexico opening balance sheet is summarized (in millions of dollars) as follows:

ASSETS	
Current assets	
Trade receivables, net	$ 130
Inventories	60
Other current assets	15
Total Current Assets	205
Other assets	
Property, plant and equipment	245
Goodwill	89
Other intangibles	15
Total Assets	$ 554
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities	
Accounts payable	$ 112
Notes payable	132
Total Current Liabilities	244
Other liabilities	
Other liabilities	80
Total Other Liabilities	80
Total Stockholder's Equity	230
Total Liabilities and Stockholder's Equity	$ 554

Polar

On June 5, 2002, the company acquired 95% of the shares of Polar S.A. (Polar), a leading major home appliance manufacturer in Poland. The results of Polar's operations have been included in the consolidated financial statements since that date. The aggregate purchase price was $27 million in cash plus outstanding debt at the time of acquisition, which totaled $19 million. The transaction also generated $17 million in indefinite-lived intangible assets related to trademarks owned by Polar. The operations of Polar have been included in the company's European operating segment.

Other

On November 18, 2002, the company acquired the remaining 20% interest in Whirlpool Narcissus Shanghai Company Limited ("Narcissus") for $9 million. Narcissus is a home appliance manufacturing company located in Shanghai, China. The transaction was largely necessitated by the exercise of a put option by the minority partner arising out of an amendment to the joint venture contract agreed to in February 1998. The purchase resulted in $9 million of goodwill, which was subsequently written off as impaired goodwill under the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets." The entity is now a wholly owned subsidiary of the company.

On January 7, 2000, the company completed its tender offer for the outstanding publicly traded shares in Brazil of its subsidiaries Brasmotor S.A. (Brasmotor) and Multibras S.A. Eletrodomesticos (Multibras). In completing the offer, the company purchased additional shares of Brasmotor and Multibras for $283 million, bringing its equity interest in these companies to approximately 94%. Including Embraco, the company's equity interest in its Brazilian subsidiaries increased from approximately 55% to approximately 87%.

>05 DISCONTINUED OPERATIONS

In 1997, the company discontinued its financing operations, Whirlpool Financial Corporation (WFC), and sold the majority of its assets. The remaining assets consist primarily of an investment in a portfolio of leveraged leases, which are recorded in other non-current assets in the balance sheets and totaled $44 million and $123 million, net of related reserves, at December 31, 2002 and 2001, respectively.

During the fourth quarter of 2002, the company wrote off WFC's investment in leveraged aircraft leases relating to United Airlines (UAL) as a result of UAL's filing for bankruptcy protection. The write-off resulted in a non-cash charge of $68 million, or $43 million after tax. The company also reclassified $49 million in related long-term deferred tax liabilities to current taxes payable, which is included in other current liabilities on the company's Consolidated Balance Sheet.

During the second quarter of 2001, the company wrote off a portion of WFC's investment in securitized aircraft leases. The write-off, due primarily to the softening aircraft leasing industry, resulted in a loss from discontinued operations of $35 million, or $21 million after-tax.

>06 INVENTORIES

December 31 – Millions of dollars	2002	2001
Finished products	$ 928	$ 949
Work in process	71	58
Raw materials	226	239
	1,225	1,246
Less excess of FIFO cost over LIFO cost	(136)	(136)
Total inventories	$ 1,089	$ 1,110

LIFO inventories represent approximately 33% and 39% of total inventories at December 31, 2002 and 2001, respectively.

>07 ASSET IMPAIRMENT

The company recorded a $22 million after-tax impairment charge in the second quarter of 2002 related to its minority investments in and advances to a European business. The company acquired its initial investment in this entity with its purchase of the appliance operations of Philips Electronics N.V. in 1989. Continued deterioration in the marketplace led to overcapacity in the wood cabinet industry, which resulted in the business revising its estimated future cash flows. These circumstances prompted the company to conduct an impairment review, resulting in the above charge, which is reflected in equity earnings (loss) in the consolidated statement of operations.

>08 FINANCING ARRANGEMENTS

Notes Payable and Debt

At December 31, 2002, the company had committed unsecured revolving lines of credit available from banks totaling $1.2 billion. The lines of credit are comprised of a committed $800 million credit agreement, which expires in June 2006, and a committed $400 million 364-day credit agreement maturing in May 2003. These committed lines support the company's commercial paper programs and other liquidity needs. The interest rate for borrowing under the credit agreements is generally based on the London Interbank Offered Rate plus a spread that reflects the company's debt rating. The credit agreements require that the company maintain a maximum debt to EBITDA ratio and a minimum interest coverage ratio. At December 31, 2002, the company was in compliance with its financial covenants. The credit agreements provide the company with access to adequate and competitive funding under unusual market conditions. During 2002, there were no borrowings outstanding under the credit agreements.

Notes payable consist of the following:

December 31 – Millions of dollars	2002	2001
Payable to banks	$ 208	$ 139
Commercial paper	13	9
Total notes payable	$ 221	$ 148

The fair value of the company's notes payable approximates the carrying amount due to the short maturity of these obligations. The weighted average interest rate on notes payable was 5.7% and 7.6% at December 31, 2002 and 2001.

Long-term debt consists of the following:

December 31 – Millions of dollars	2002	2001
Debentures – 9% due 2003	$ 200	$ 200
Eurobonds (EUR 300 million) – 5.875% due 2006	310	264
Debentures – 9.1% due 2008	125	125
Notes – 8.6% due 2010	325	325
Debentures – 7.75% due 2016	243	243
Other (various interest rates with maturities of 2002-2012)	100	157
	$ 1,303	$ 1,314
Less current maturities	211	19
Total long-term debt, net of current maturities	$ 1,092	$ 1,295

Annual maturities of long-term debt in the next five years are $211 million, $15 million, $5 million, $318 million and $8 million.

The company paid interest on short-term and long-term debt totaling $141 million, $151 million and $181 million in 2002, 2001 and 2000, respectively.

The fair value of long-term debt (including current maturities) was $1,457 million and $1,348 million as of December 31, 2002 and 2001, and was estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements.

Preferred Stock

Although most of its assets have been divested, WFC remains a legal entity with assets consisting primarily of leveraged leases (see Note 5). WFC also has 349,300 shares of Series B preferred stock outstanding as of December 31, 2002, with a face value of $100 per share, an annual dividend of $6.55 per share and a mandatory redemption date of September 1, 2008. As of December 31, 2001, WFC had the above listed Series B preferred stock outstanding as well as 250,000 shares of Series C preferred stock outstanding with a face value of $100 per share, an annual dividend of $6.09 per share and a mandatory redemption date of February 1, 2002. The Series C preferred stock was redeemed on the mandatory redemption date. The preferred stock amounts are included within minority interests in the consolidated balance sheets, and the carrying amounts approximate fair value.

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

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 12 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 company was not required to make any payments under this agreement during 2002, 2001 or 2000. 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.

> 09 GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees

The company guarantees the bills of exchange related to a European business ("affiliate") in which Whirlpool is a minority shareholder. These bills of exchange are short-term agreements, usually for 90 days, which allow the issuer to convert its receivables into cash, less a minor fee paid to the bank. The bills of exchange are issued both by the company for loans made to the affiliate and by the affiliate for its trade accounts receivable. In the event the affiliate defaults on its obligations under any of the bills of exchange, the company would be liable for the related amounts. The company has limited recourse provisions against the assets of the affiliate in the event of its insolvency. As of December 31, 2002 and 2001, the company had approximately $30 million and $24 million of guarantees outstanding for the bills of exchange related to the affiliate.

The company also has guarantee arrangements in place in a Brazilian subsidiary. As a standard business practice in Brazil, the subsidiary guarantees customer lines of credit at commercial banks following its normal credit policies. In the event that a customer were to default on its line of credit with the bank, the subsidiary would be required to satisfy the obligation with the bank, and the receivable would revert back to the subsidiary. The total amount of the related guarantees at December 31, 2002 and 2001, is approximately $66 million and $124 million, respectively. The only recourse available on these guarantees would be legal or administrative collection efforts directed against the customer.

The company provides guarantees of indebtedness for various consolidated subsidiaries. Guarantee agreements for consolidated subsidiaries totaled $1.4 billion and $1.3 billion at December 31, 2002 and 2001, respectively.

Product warranty reserves are established in the same period that revenue from the sale of the related products is recognized. The amounts of those reserves are based on established terms and the company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. The product warranty reserves increased in 2002 due to increased sales volume and an extension of certain product warranty terms from one to two years in various European operations. The following represents a reconciliation of the changes in product warranty reserves for the periods presented:

December 31 – Millions of dollars	2002	2001
Balance at January 1	$ 108	$ 114
Warranties issued	228	198
Warranties acquired	7	–
Settlements made	(214)	(203)
Other changes	(1)	(1)
Balance at December 31	$ 128	$ 108
Current portion	$ 71	$ 63
Non-current portion	57	45
Total	$ 128	$ 108

Commitments and 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.

At December 31, 2002, the company had non-cancelable operating lease commitments totaling $203 million. The annual future minimum lease payments are detailed in the table below.

Millions of dollars	
2003	$ 54
2004	41
2005	34
2006	31
2007	26
Thereafter	17
Total non-cancelable operating lease commitments	$ 203

The company's rent expense was $72 million, $98 million and $93 million for the years 2002, 2001 and 2000, respectively.

> 10 HEDGES AND DERIVATIVE FINANCIAL INSTRUMENTS

The company is exposed to market risk from changes in foreign currency exchange rates, domestic and foreign interest rates, and commodity prices. Fluctuations in these rates and prices can affect the company's operating results and financial condition. The company manages its exposure to these market risks through its operating and financing activities, and through the use of derivative financial instruments. The company does not enter into derivative financial instruments for trading purposes.

Using derivative markets means assuming counter-party credit risk. Counter-party risk relates to the loss the company could incur if a counter-party defaulted on a derivative contract. The company deals only with investment-grade counterparties to these contracts and monitors its overall credit risk and exposure to individual counter-parties. The company does not anticipate nonperformance by any counter-parties. The amount of counter-party credit exposure is generally the unrealized gains on such derivative contracts. The company does not require, nor does it post, collateral or security on such contracts.

The following summarizes the outstanding derivative contracts at December 31, 2002 and 2001, and the exposures to which they relate:

		Notional Amount in Millions of Dollars			
Exposure	Derivative	2002	2001	Hedge Type	Term
Forecasted cross currency cashflows	Foreign exchange forwards	$ 324	$ 421	Cash flow or fair value hedge	Various, up to 18 months
Non-functional currency asset/liability	Foreign exchange forwards	$ 533	$ 501	Undesignated	Various, up to 6 months
Raw Material Purchases	Commodity swaps	$ 29	$ 14	Cash flow hedge	Various, up to 18 months
Floating Rate Debt	Interest rate swaps	$ 100	$ 100	Cash flow hedge	2006
Fixed Rate Debt	Interest rate swaps	$ 200	$ –	Fair value hedge	2003

Forecasted cross currency cashflows relate primarily to foreign currency denominated expenditures and intercompany financing agreements, royalty agreements and dividends. Non-functional currency asset and liability hedges are undesignated, but relate primarily to short-term payables and receivables and intercompany loans. Commodity swaps relate to raw material purchases (for example, copper and aluminum) used in the manufacturing process. Unrealized gains and losses on the above foreign currency exchange contracts and commodities swaps were not significant as of December 31, 2002 and 2001.

The company's $100 million interest-rate swap maturing in 2006 is designated and is effective as a hedge of future cash payments, and is treated as a cash-flow hedge for accounting purposes. The fair value of this contract was a loss of $12 million as of December 31, 2002, and a loss of $4 million as of December 31, 2001.

The company's $200 million interest-rate swap maturing in 2003 is designated and is effective as a hedge of future cash payments and is treated as a fair-value hedge for accounting purposes. The fair value of this contract was a gain of $1 million as of December 31, 2002.

The company has designated a portion of its Euro-denominated, fixed-rate debt as a hedge to protect the value of its net investments in its European subsidiaries. Translation adjustments related to this debt are not included in the income statement, but are shown in the cumulative translation adjustment account included in accumulated other comprehensive income. During the year ended December 31, 2002, the company recognized $1 million of net losses included in the cumulative translation adjustment related to this net-investment hedge.

During the years ended December 31, 2002 and 2001, the company's gains and losses related to the ineffective portion of its hedging instruments were immaterial. The company did not recognize any gains or losses during the years ended December 31, 2002 and 2001, for cash-flow hedges that were discontinued because the forecasted transaction was not probable to occur.

The amount of unrealized gains and losses on derivative instruments included in other comprehensive income at December 31, 2002, that will be reclassified into earnings during 2003 is not significant.

The company managed a portfolio of domestic and cross-currency interest-rate swaps that effectively converted U.S. dollar denominated debt into that of various European currencies. Through May 15, 2000, such local currency denominated debt served as an effective hedge against the company's European cash flows and net assets. On May 15, 2000, the company undesignated these contracts as hedges of the net investment in its European operations and entered into offsetting Euro-denominated currency swaps, effectively locking in its positive cash position on the original swap portfolio. These contracts were not designated as hedges and, therefore, were marked-to-market each period through earnings as a component of interest expense, with unrealized gains (losses) on the May 2000 swap contracts substantially offsetting subsequent unrealized (losses) gains on the original swap portfolio. On October 5, 2001, the company monetized the above-referenced swaps, receiving $209 million in cash.

The net transaction losses recognized in other income (expense) in the statement of operations, including gains and losses from those contracts not qualifying as hedges, were $17 million in 2002, $11 million in 2001 and $17 million in 2000.

>11 STOCKHOLDERS' EQUITY

On February 15, 2000, the company announced that its Board of Directors approved an extension of the company's stock repurchase program to $1 billion. The additional $750 million share repurchase authorization extends the previously authorized $250 million repurchase program that was announced March 1, 1999. The shares are to be purchased in the open market and through privately negotiated sales as the company deems appropriate. The company has purchased 12.7 million shares at a cost of $683 million through December 31, 2002, under this stock repurchase program, of which 8.7 million shares ($427 million) were purchased in 2000, 0.7 million shares ($43 million) were purchased in 2001, and 0.7 million shares ($46 million) were purchased in 2002. The 2002 shares were purchased from one of the company's U.S. pension plans at an average cost of $66.32 per share, which was based upon an average of the high and low market prices on the date of purchase. The 2001 share repurchases included 0.6 million shares that were purchased from one of the company's U.S. pension plans at a cost of $41 million, or $67.78 per share, which was based upon an average of the high and low market prices on the date of purchase.

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.

Accumulated other comprehensive income (loss), net of tax, consists of:

Millions of dollars	2002	2001
Foreign currency translation adjustments	$ (821)	$ (673)
Derivative financial instruments	(20)	(17)
Minimum pension liability adjustments	(158)	(7)
Total	$ (999)	$ (697)

Preferred Stock Purchase Rights

One Preferred Stock Purchase Right (Rights) is outstanding for each share of common stock. The Rights, which expire May 22, 2008, will become exercisable 10 days after a person or group (an Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding common stock (the Trigger Date) or 10 business days after the commencement, or public disclosure of an intention to commence, a tender offer or exchange offer by a person that could result in beneficial ownership of 15% or more of the outstanding common stock. Each Right entitles the holder to purchase from the company one one-thousandth of a share of a Junior Participating Preferred Stock, Series B, par value $1.00 per share, of the company at a price of $300 per one one-thousandth of a Preferred Share subject to adjustment.

If a person becomes an Acquiring Person, proper provision shall be made so that each holder of a Right, other than Rights that are or were beneficially owned by the Acquiring Person (which will thereafter be void), shall thereafter have the right to receive upon exercise of such Right that number of shares of common stock (or other securities) having at the time of such transaction a market value of two times the exercise price of the Right. If a person becomes an Acquiring Person and the company is involved in a merger or other business combination transaction where the company is not the surviving corporation or where common stock is changed or exchanged or in a transaction or transactions in which 50% or more of its consolidated assets or earning power are sold, proper provision shall be made so that each holder of a Right (other than such Acquiring Person) shall thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right. In addition, if an Acquiring Person, does not have beneficial ownership of 50% or more of the common stock, the company's Board of Directors has the option of exchanging all or part of the Rights for an equal number of shares of common stock in the manner described in the Rights Agreement.

Prior to the Trigger Date, the Board of Directors of the company may redeem the Rights in whole, but not in part, at a price of $.01 per Right, payable in cash, shares of common stock or any other consideration deemed appropriate by the Board of Directors. Immediately upon action of the Board of Directors ordering redemption of the Rights, the ability of holders to exercise the Rights will terminate and such holders will only be able to receive the redemption price.

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.

The company covenants and agrees that it will cause to be reserved and kept available at all times a sufficient number of shares of Preferred Stock (and following the occurrence of a Triggering Event, shares of common stock and/or other securities) to permit the exercise in full of all Rights from time to time outstanding.

>12 STOCK OPTION AND INCENTIVE PLANS

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. Stock options generally have 10-year terms, and vest and become fully exercisable over a two-year period after date of grant. Compensation expense related to the company's stock based incentive plans is recognized ratably over each plan's defined vesting period. Pre-tax expenses under the company's stock based incentive plans were $20 million, $26 million and $1 million in 2002, 2001 and 2000.

The company's stock option and incentive plans permit the grant of stock options and other stock awards covering up to 14.5 million shares to key employees of the company and its subsidiaries, of which 4.9 million shares are available for grant at December 31, 2002. Outstanding restricted and phantom shares totaled 1,557,123 with a weighted-average grant-date fair value of $56.01 per share at December 31, 2002, and 1,060,000 with a weighted-average grant-date fair value of $55.35 per share at December 31, 2001.

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. In addition, each nonemployee director is awarded annually deferred compensation in the form of 400 shares of phantom stock, which is converted into common stock on a one-for-one basis and paid when the director leaves the Board. This plan provides for the grant of up to 300,000 shares as either stock or stock options, of which 152,385 shares are available for grant at December 31, 2002. The stock options vest and become exercisable six months after date of grant. There were no significant expenses under this plan for 2002, 2001 or 2000.

The fair value of stock options used to compute proforma net earnings and diluted net earnings per share disclosures, as presented in Note 1, is the estimated present value at grant date using the Black-Scholes option-pricing model with the following assumptions for 2002, 2001 and 2000: expected volatility of 33.8%, 32.6% and 28.6%; dividend yield of 2.2%, 2.3% and 2.7%; risk-free interest rate of 2.7%, 4.3% and 5.1%, and a weighted-average expected option life of 5 years for all three years.

A summary of stock option information follows:

	2002		2001		2000	
Thousands of shares,except per share data	**Number of Shares**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**
Outstanding at January 1	6,066	$ 51.83	6,437	$ 50.86	4,605	$ 52.21
Granted	1,466	67.07	1,401	54.30	2,222	47.59
Exercised	(1,395)	51.48	(1,508)	50.19	(190)	42.23
Canceled or expired	(172)	52.72	(264)	50.49	(200)	53.83
Outstanding at December 31	5,965	$ 55.63	6,066	$ 51.83	6,437	$ 50.86
Exercisable at December 31	3,639	$ 52.59	3,574	$ 52.68	3,545	$ 52.44
Fair value of options granted during the year		$ 18.28		$ 15.59		$ 12.23

Of the outstanding options at December 31, 2002, 2.6 million options, of which 2.3 million are exercisable at a weighted-average price of $49.24, have exercise prices ranging from $38.38 to $52.47 and a weighted-average remaining life of 6.3 years. The remaining 3.4 million outstanding options, of which 1.3 million are exercisable at a weighted-average price of $57.97, have exercise prices ranging from $53.06 to $77.85 and a weighted-average remaining life of 7.6 years.

>13 RESTRUCTURING AND RELATED CHARGES

Restructuring Charges

Through December 31, 2002, the company had approved all phases of a restructuring program that began in the fourth quarter of 2000 and resulted in cumulative pre-tax restructuring charges of $251 million, of which $101 million was recognized during 2002 and $150 million was recognized during 2001. These charges have been identified as a separate component of operating profit. The restructuring plan and related charges relate primarily to the closing of a refrigeration plant in the company's Latin American region, a parts packing facility and a cooking plant in the North American region, a plastic components facility in the Asian region, the relocation of several laundry manufacturing facilities in Europe, and a restructuring of the company's microwave business in its European region. Employees terminated to date under the plan include both hourly and salaried employees.However, the majority are hourly personnel at the facilities listed above. For the initiatives announced through December 31, 2002, the company expects to eliminate over 7,000 employees, of which approximately 5,000 had left the company through December 31, 2002.

Other Related Charges

As a result of the company's restructuring activity, $122 million of pre-tax restructuring related charges, of which $60 million was recognized during 2002 and $62 million was recognized during 2001, have also been recorded primarily within cost of products sold. The 2002 charges include $4 million and $1 million write-downs of buildings in the North American and Latin American regions, inventory write-offs of $1 million in Europe, and $16 million of miscellaneous equipment in North America, Europe and Latin America, as well as $38 million in cash costs incurred during the year for various restructuring related activities, such as relocating employees and equipment and concurrent operating costs. The 2001 charges included $12 million in write-downs of various fixed assets, primarily buildings that are no longer used in the company's business activities in its Latin American region, $7 million of excess inventory due to the parts distribution consolidation in North America, $25 million in various assets in its North American, European and Asian regions, which were primarily made up of equipment no longer used in its business, and $18 million in cash costs incurred during 2001 for various restructuring related activities.

Details of the restructuring liability balance and full year restructuring and related activity for 2002 and 2001 are as follows:

Millions of dollars	Beginning Balance	Charge to Earnings	Cash Paid	Non-cash	Translation	Acquisitions	Ending Balance
2002							
Restructuring							
Termination costs	$ 73	$ 92	$ (60)	$ –	$ 4	$ 7	$ 116
Non-employee exit costs	4	9	(7)	–	–	–	6
Related charges							
Miscellaneous buildings	–	5	–	(5)	–	–	–
Inventory	–	1	–	(1)	–	–	–
Miscellaneous equipment	–	16	–	(16)	–	–	–
Various cash costs	–	38	(38)	–	–	–	–
Total	$ 77	$ 161	$ (105)	$ (22)	$ 4	$ 7	$ 122
2001							
Restructuring							
Termination costs	$ 5	$ 134	$ (64)	$ –	$ (2)	$ –	$ 73
Non-employee exit costs	–	16	(12)	–	–	–	4
Related charges							
Miscellaneous buildings	–	12	–	(12)	–	–	–
Inventory	–	7	–	(7)	–	–	–
Miscellaneous equipment	–	25	–	(25)	–	–	–
Various cash costs	–	18	(18)	–	–	–	–
Total	$ 5	$ 212	$ (94)	$ (44)	$ (2)	$ –	$ 77

>14 PRODUCT RECALLS

In September 2001, the company announced a voluntary recall of 1.8 million microwave hood combination units sold under the *Whirlpool, KitchenAid,* and Sears *Kenmore* brands. The company recognized a product recall pre-tax charge of $300 million ($184 million after tax) during the third quarter of 2001 and recorded this charge as a separate component of operating profit. During the fourth quarter of 2001 this liability was reduced by $79 million ($48 million after tax) due to the development of a more efficient service repair procedure, which enabled faster repairs and reduced costs. During 2002, the company incurred additional charges of approximately $9 million ($6 million after tax) for costs related to this recall.

In January of 2002, the company announced a voluntary recall of approximately 1.4 million dehumidifier units sold under the *Whirlpool, ComfortAire,* and Sears *Kenmore* brands. The company recognized a product recall pre-tax charge of $74 million ($45 million after tax) during the fourth quarter of 2001 and recorded this charge as a separate component of operating profit.

>15 INCOME TAXES

Income tax expense from continuing operations are as follows:

Year ended December 31 – Millions of dollars	2002	2001	2000
Current:			
Federal	$ 101	$ 201	$ 149
State and local	(6)	14	14
Foreign	109	34	34
	204	249	197
Deferred:			
Federal	47	(121)	26
State and local	3	(21)	3
Foreign	(61)	(64)	(26)
	(11)	(206)	3
Total income tax expense	$ 193	$ 43	$ 200

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

Year ended December 31 – Millions of dollars	2002	2001	2000
Domestic	$ 485	$ 204	$ 479
Foreign	10	(111)	98
Total earnings from continuing operations before taxes and other items	$ 495	$ 93	$ 577

Earnings before income taxes and other items, including discontinued operations (refer to Note 5), were $427 million, $58 million and $577 million for 2002, 2001 and 2000, respectively.

Reconciliations between tax expense at the U.S. federal statutory income tax rate of 35% and the consolidated effective income tax rate for earnings before income taxes and other items from continuing operations are as follows:

Year ended December 31 – Millions of dollars	2002	2001	2000
Income tax expense computed at U.S. federal statutory rate	$ 173	$ 33	$ 202
State and local taxes, net of federal tax benefit	3	(4)	5
Nondeductible expenses	6	7	(1)
Nondeductible goodwill amortization	–	6	6
Excess foreign taxes	4	11	1
Foreign dividends and subpart F income	7	13	13
Foreign government tax incentive	(15)	(22)	(21)
Foreign tax credits	(19)	(9)	(10)
Deductible interest on capital	(8)	(18)	(5)
Foreign withholding taxes	13	6	5
Valuation allowances	36	16	1
Other items, net	(7)	4	4
Income tax expense	$ 193	$ 43	$ 200

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:

Year ended December 31 – Millions of dollars	2002	2001
Deferred tax liabilities		
Property, plant and equipment	$ 150	$ 115
Financial services leveraged leases	69	120
Pensions	11	95
Software costs	16	21
Contested liabilities	24	22
LIFO Inventory	17	14
Other	108	73
Total deferred tax liabilities	395	460
Deferred tax assets		
Postretirement obligation	205	196
Restructuring costs	29	12
Product warranty accrual	21	19
Receivable and inventory allowances	47	35
Loss carryforwards	260	182
Product recall reserves	–	93
Employee payroll and benefits	71	45
Other	130	144
Total deferred tax assets	763	726
Valuation allowances for deferred tax assets	(65)	(29)
Deferred tax assets, net of valuation allowances	698	697
Net deferred tax assets	$ 303	$ 237

Other deferred tax liabilities relate to temporary differences in multiple foreign jurisdictions and various other items. Other deferred tax assets relate to various reserves and accrued expenses, financing activities, and various other items.

The company has recorded valuation allowances to reflect the estimated amount of net operating loss carryforwards that may not be realized. At December 31, 2002, the company has foreign net operating loss carryforwards of $632 million, $525 million of which do not expire, with substantially all of the remaining $107 million expiring in various years through 2007.

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 ($440 million at December 31, 2002) 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 $126 million in 2002, $148 million in 2001 and $262 million in 2000.

Income taxes payable of $186 million and $109 million are included in other current liabilities at December 31, 2002 and 2001.

>16 PENSION AND POSTRETIREMENT MEDICAL BENEFITS PLANS

The company sponsors defined benefit pension plans and defined contribution 401(k) plans for active employees and certain medical benefit plans for retirees. The company's funding policy is to contribute to its U.S. pension plans amounts sufficient to meet the minimum funding requirement as defined by employee benefit and tax laws, plus additional amounts which the company may determine to be appropriate. In certain countries other than the U.S., the funding of pension plans is not common practice. The company has several unfunded, non-U.S. pension plans in certain of these countries. The company pays for retiree medical benefits as they are incurred.

The company's defined benefit pension plans include contributory and non-contributory plans and cover substantially all North American employees and certain Brazilian and European employees. Pension benefits are based primarily on either service and compensation during a specified period before retirement or specified amounts for each year of service. Plan assets are held in trust and consist primarily of common stock and fixed income securities and cash. At December 31, 2002, stocks represent 75% of the market value of pension assets for the U.S. plans, and fixed income securities and cash represent 25%. As of December 31, 2002, the company's U.S. pension plans held as investments approximately $51 million, or 1 million shares, of Whirlpool Corporation common stock. This investment represented approximately 4% of the total market value of assets held by these plans as of December 31, 2002.

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 either a change in the majority of the incumbent board of directors or an acquisition of 25% or more of the voting power of the company's outstanding stock, without the approval of a majority of the incumbent board.

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 $16 million, $12 million and $12 million in 2002, 2001 and 2000, respectively.

The company sponsors plans to provide selected health care benefits for eligible retired employees. Eligible retirees are those full-time U.S. employees with 10 years of service who have attained age 55 while in service with the company. The company's practice with respect to these plans is to fund expenses as incurred. The Plan is currently noncontributory and contains cost-sharing features such as deductibles, coinsurance and a lifetime maximum. The company has reserved the right to modify the benefits. No significant postretirement medical benefits are provided by the company to non-U.S. employees.

The company's pension plans were underfunded on a combined basis as of December 31, 2002, which resulted in a non-cash, after-tax charge to equity of $151 million to recognize a minimum pension liability. While certain plans were overfunded, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the underfunded plans at December 31, 2002, were $1,572 million, $1,414 million and $1,168 million. Although the company's pension plans were overfunded on a combined basis as of December 31, 2001 and 2000, several of the plans did not hold or had minimal assets and were therefore underfunded. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for these plans were $197 million, $187 million and $109 million, respectively, as of December 31, 2001, and $83 million, $73 million and $6 million, respectively, as of December 31, 2000.

The company's obligations and related expense for pension and postretirement health care plans are as follow:

Millions of dollars	US 2002	US 2001	US 2000	Foreign 2002	Foreign 2001	Foreign 2000
						Pension Benefits
Change in benefit obligation						
Benefit obligation as of January 1	$ 1,269	$ 1,090	$ 1,044	$ 145	$ 193	$ 198
Service cost	56	53	38	7	8	10
Interest cost	95	88	86	11	13	15
Plan participants' contributions	–	–	–	–	–	–
Amendments	29	48	11	(11)	(3)	–
Business combinations	–	–	–	25	–	–
Actuarial (gain) loss	124	55	44	12	(4)	(6)
Settlements	–	–	–	–	(36)	–
Benefits paid	(70)	(65)	(165)	(8)	(11)	(10)
Curtailments	–	–	–	(13)	(1)	–
Special termination benefits	–	–	32	–	(3)	–
Foreign currency exchange rate changes	–	–	–	4	(11)	(14)
Benefit obligation as of December 31	$ 1,503	$ 1,269	$ 1,090	$ 172	$ 145	$ 193
Change in plan assets:						
Fair value of plan assets as of January 1	$ 1,460	$ 1,794	$ 2,050	$ 97	$ 147	$ 151
Actual return on plan assets	(203)	(275)	(72)	1	6	15
Employer contributions	3	6	1	2	1	2
Settlements	–	–	–	(11)	(36)	–
Plan participants' contributions	–	–	–	1	1	–
401 (h) transfer	–	–	(20)	–	–	–
Benefits paid	(70)	(65)	(165)	(8)	(11)	(10)
Foreign currency exchange rate changes	–	–	–	(1)	(11)	(11)
Fair value of plan assets as of December 31	$ 1,190	$ 1,460	$ 1,794	$ 81	$ 97	$ 147

Millions of dollars	US 2002	US 2001	US 2000	Foreign 2002	Foreign 2001	Foreign 2000
						Pension Benefits (continued)
Reconciliation of prepaid (accrued) cost and total amount recognized:						
Funded status as of December 31	$ (313)	$ 191	$ 704	$ (91)	$ (48)	$ (46)
Unrecognized actuarial loss (gain)	407	(118)	(659)	17	(17)	(42)
Unrecognized prior service cost	129	115	78	5	6	1
Unrecognized transition asset	–	(1)	(3)	1	8	14
Prepaid (accrued) cost as of December 31	$ 223	$ 187	$ 120	$ (68)	$ (51)	$ (73)
Prepaid cost	$ 43	$ 219	$ 155	$ –	$ 5	$ 5
Accrued benefit liability	(188)	(37)	(43)	(92)	(63)	(80)
Intangible asset	128	(5)	(1)	5	5	2
Equity Charge and Other	240	10	9	19	2	–
Total recognized as of December 31	$ 223	$ 187	$ 120	$ (68)	$ (51)	$ (73)
Assumptions as of December 31						
Discount rate	6.75%	7.50%	8.00%	5.5 - 11.3%	5.0 - 11.3%	5.0 - 11.3%
Expected return on assets	8.75%	10.00%	10.50%	5.5 - 11.3%	6.0 - 11.3%	6.0 - 11.3%
Rate of compensation increase	4.50%	5.00%	5.00%	2.5 - 8.0%	2.5 - 8.0%	1.0 - 8.0%
Components of net periodic benefit cost (credit)						
Service cost	$ 56	$ 53	$ 38	$ 6	$ 8	$ 10
Interest cost	95	89	86	11	12	15
Expected return on plan assets	(175)	(177)	(164)	(7)	(12)	(14)
Recognized actuarial (gain)	(22)	(35)	(37)	(1)	(1)	(2)
Amortization of prior service cost	14	11	10	–	–	–
Amortization of transition asset	(1)	(2)	(4)	2	2	3
Net periodic benefit cost (credit)	(33)	(61)	(71)	11	9	12
Curtailments	–	–	–	(10)	(1)	–
Special termination benefits	–	–	32	(2)	3	–
Settlements	–	–	(71)	(3)	(20)	–
Total pension cost (credit)	$ (33)	$ (61)	$ (110)	$ (4)	$ (9)	$ 12

Millions of dollars	Postretirement Medical Benefits 2002	2001	2000
Change in benefit obligation			
Benefit obligation as of January 1	$ 525	$ 439	$ 414
Service cost	14	11	9
Interest cost	41	34	32
Amendments	(9)	(43)	–
Actuarial loss	123	108	6
Benefits paid	(39)	(24)	(22)
Benefit obligation as of December 31	$ 655	$ 525	$ 439
Change in plan assets			
Fair value of plan assets as of January 1	$ –	$ –	$ –
Contributions	39	24	22
Benefits paid	(39)	(24)	(22)
Fair value of plan assets as of December 31	$ –	$ –	$ –
Reconciliation of prepaid (accrued) cost and total amount recognized			
Funded status as of December 31	$ (655)	$ (525)	$ (439)
Unrecognized actuarial (gain) loss	215	87	(21)
Unrecognized prior service cost	(47)	(43)	–
Prepaid (accrued) cost as of December 31	$ (487)	$ (481)	$ (460)
Prepaid cost at December 31	$ –	$ –	$ –
Accrued benefit liability at December 31	(487)	(481)	(460)
Total recognized as of December 31	$ (487)	$ (481)	$ (460)
Weighted average assumptions as of December 31			
Discount rate	6.75%	7.50%	8.00%
Medical costs trend rate:			
For year ending December 31	9.5-10.5%	8.5-10.5%	6.00%
Ultimate medical trend rate (2006)	5.50%	6.00%	
Components of net periodic benefit cost			
Service cost	$ 14	$ 11	$ 9
Interest cost	41	34	32
Recognized actuarial loss	5	–	–
Amortization of prior service cost	(4)	–	–
Net periodic benefit cost	$ 56	$ 45	$ 41

The medical cost trend significantly affects the reported postretirement benefit cost and benefit obligations. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

Millions of dollars	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service cost and interest cost components	$ 1	$ (2)
Effect on postretirement benefit obligation	17	(19)

>17 BUSINESS SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The company identifies such segments based upon geographical regions of operations because each operating segment manufactures home appliances and related components, but serves strategically different markets. The chief operating decision maker evaluates performance based upon each segment's operating income, which is defined as income before interest income and sundry, interest expense, taxes, minority interests, and before one-time charges. Total assets by segment are those assets directly associated with the respective operating activities. The "Other/Elimination" column primarily includes corporate expenses, assets and eliminations, as well as all other one-time charges. Intersegment sales are eliminated within each region with the exception of compressor sales out of Latin America, which are included in Other/Eliminations.

Sales activity with Sears, Roebuck and Co., a North American major home appliance retailer, represented 21%, 21% and 20% of consolidated net sales in 2002, 2001, 2000, respectively. Related receivables were 23%, 25% and 22% of consolidated trade receivables as of December 31, 2002, 2001 and 2000, respectively.

The company conducts business in two countries that individually comprised over 10% of consolidated net sales and total assets within the last three years. The United States represented 59%, 59%, and 55% of net sales for 2002, 2001 and 2000, respectively, while Brazil totaled 8%, 9% and 11% for 2002, 2001 and 2000, respectively. As a percentage of total assets, the United States accounted for 40%, 44% and 41% at the end of 2002, 2001 and 2000, respectively. Brazil accounted for 11%, 14% and 18% of total assets at the end of 2002, 2001 and 2000, respectively.

As described above, the company's chief operating decision maker reviews each operating segment's performance based upon operating income excluding one-time charges. In 2002, these one-time charges were comprised of restructuring and other related charges, product recall charges and goodwill impairment charges in Asia. These charges are included in operating profit on a consolidated basis and included in the Other/Eliminations column in the tables below. For 2002 year-to-date amounts, the operating segments recorded total restructuring and related charges (refer to Note 13) as follows: North America – $43 million, Europe – $79 million, Latin America – $24 million, Asia – $11 million and Corporate – $4 million, for a total of $161 million. Also included in Other/Eliminations during 2002 is $9 million of product recall related charges (refer to Note 14) recorded in the fourth quarter and $9 million in goodwill impairment charges. In 2001, the operating segments recorded total restructuring and related charges as follows: North America – $35 million, Europe – $92 million, Latin America – $68 million, Asia – $13 million and Corporate – $4 million for a total of $212 million. Also included in the Other/Eliminations column during 2001 is $295 million of product recall charges related to the North American region.

Millions of dollars	North America		Europe		Latin America		Asia		Other/ Eliminations		Total Whirlpool
									Geographic Segments		
Net sales											
2002	$	7,306	$	2,199	$	1,266	$	391	$	(146)	$ 11,016
2001		6,581		2,058		1,487		373		(156)	10,343
2000		6,223		2,156		1,706		390		(150)	10,325
Intangible amortization											
2002	$	–	$	–	$	–	$	–	$	14	$ 14
2001		3		13		3		5		4	28
2000		3		13		3		5		5	29
Depreciation											
2002	$	197	$	83	$	80	$	16	$	15	$ 391
2001		173		78		91		15		11	368
2000		157		74		106		17		17	371
Operating profit (loss)											
2002	$	830	$	81	$	107	$	14	$	(340)	$ 692
2001		758		39		134		19		(644)	306
2000		682		102		125		21		(123)	807
Total assets											
2002	$	2,913	$	2,015	$	1,054	$	516	$	133	$ 6,631
2001		2,591		2,067		1,339		653		317	6,967
2000		2,624		1,948		1,600		704		26	6,902
Capital expenditures											
2002	$	165	$	103	$	112	$	15	$	35	$ 430
2001		191		87		80		10		10	378
2000		175		94		86		10		10	375

>18 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Millions of dollars, except per share data	Dec. 31	Sept. 30	Jun. 30	Restated Mar. 31
	Three Months Ended			
2002				
Net sales	$ 2,947	$ 2,759	$ 2,737	$ 2,574
Cost of products sold	2,266	2,114	2,103	1,982
Earnings from continuing operations	14	101	63	84
Net earnings (loss)	(29)	101	63	(529)
Per share of common stock				
Basic earnings from continuing operations	$ 0.20	$ 1.48	$ 0.93	$ 1.25
Basic net earnings (loss)	(0.43)	1.48	0.93	(7.86)
Diluted earnings from continuing operations	$ 0.20	$ 1.46	$ 0.91	$ 1.21
Diluted net earnings (loss)	(0.42)	1.46	0.91	(7.63)
Dividends	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Significant after-tax items included in the quarterly net earnings (loss):				
Restructuring and related charges (Note 13)	$ (84)	$ (11)	$ (19)	$ (8)
Impairment charge related to minority investment (Note 7)	–	–	(22)	–
Goodwill write-off of an Asian entity (Note 3)	(9)	–	–	–
Product recalls (Note 14)	(6)	–	–	–
Discontinued operations (Note 5)	(43)	–	–	–
Cumulative effect of a change in accounting principle (Note 3)	–	–	–	(613)

The net loss (and related per share amounts) for the restated first quarter as shown above differ from the originally filed amounts due to the adoption of SFAS No. 142, as discussed in Note 3.

Millions of dollars, except per share data	Dec. 31	Sept. 30	Jun. 30	Mar. 31
	Three Months Ended			
2001				
Net sales	$ 2,647	$ 2,594	$ 2,585	$ 2,517
Cost of products sold	1,989	1,988	1,989	1,959
Earnings (loss) from continuing operations	21	(94)	74	33
Net earnings (loss)	21	(94)	53	41
Per share of common stock				
Basic earnings (loss) from continuing operations	$ 0.31	$ (1.40)	$ 1.12	$ 0.49
Basic net earnings (loss)	0.31	(1.40)	0.80	0.62
Diluted earnings (loss) from continuing operations	$ 0.31	$ (1.40)	$ 1.10	$ 0.49
Diluted net earnings (loss)	0.31	(1.40)	0.78	0.61
Dividends	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Significant after-tax items included in the quarterly net earnings (loss):				
Restructuring and related charges (Note 13)	$ (91)	$ (11)	$ (14)	$ (40)
Product recalls (Note 14)	3	(184)	–	–
Discontinued operations (Note 5)	–	–	(21)	–
Cumulative effect of a change in accounting principle (Note 1)	–	–	–	8

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, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whirlpool Corporation as of December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets. As discussed in Note 1 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

Ernst & Young LLP

Chicago, Illinois
February 4, 2003

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 LLP, independent auditors, whose report, based upon their audits, expresses the opinion that these financial statements present fairly the consolidated financial position, results of operations and cash flows of Whirlpool and its subsidiaries in accordance with accounting principles generally accepted in the United States. Their audits are conducted in conformity with auditing standards generally accepted in the United States.

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 is composed of five independent directors who, in the opinion of the board, meet the relevant financial experience, literacy, and expertise requirements. The audit committee provides independent and objective oversight of the company's accounting functions and internal controls and monitors the objectivity of the company's financial statements, (2) the company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the company's internal audit function and independent auditors. In performing these functions, the committee has the responsibility to review and discuss the annual audited financial statements and quarterly financial statements and related reports with management and independent auditors, including the company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations;" to monitor the adequacy of financial disclosure; and to retain and terminate the company's independent auditors and exercise the committee's sole authority to review and approve all audit engagement fees and terms and preapprove the nature, extent, and cost of all non-audit services provided by independent auditors (for 2002 and prior, the board of directors held this responsibility).

RSBarrett, Jr.

R. Stephen Barrett, Jr.
Executive Vice President and Chief Financial Officer
February 27, 2003