



LEXMARK™

2002 *Annual Report*

Focused. Committed. Innovative.

Lexmark develops, manufactures and supplies printing solutions – including laser and inkjet printers, multifunction products, associated supplies and services – for businesses of all sizes and homes of every description in more than 150 countries around the globe. Lexmark continues to earn broad recognition for having a sharp focus on meeting the unique needs of its customers.

Hardworking. Reliable. Dedicated.

LEXMARK



Paul Curlander, chairman and CEO

To my fellow Lexmark stockholders: When I wrote to you a year ago, I was pleased to report that despite a weak economic environment, Lexmark had outperformed the market by growing revenue and generating profit in each quarter of 2001. Because the timing of a recovery was uncertain, we took steps to decrease the size of our infrastructure and lower expenses in the event of a prolonged downturn. As a result of that restructuring and the success of our new products, Lexmark delivered financial results in 2002 that set records for revenue, operating income and earnings per share.

Our revenue for 2002 was \$4.4 billion, up 6 percent from 2001. Diluted net earnings per share were \$2.79, an increase of 36 percent. Operating income grew 50 percent to \$511 million and cash from operations rose to \$816 million – a growth rate of 317 percent. Importantly, we also saw a significant increase in our installed printer base, which is expected to fuel a current and future stream of supplies revenue.

As we move forward into 2003, we continue working to strengthen our company, and there are three significant reasons why we are optimistic about the future.

Distributed printing is growing. Currently, about 3 trillion pages are printed each year in the home and office. While this is a tremendous amount, it is only 5 percent of the total world paper usage of around 60 trillion pages. The vast majority of pages are printed outside the home and office – books, magazines, newspapers, etc. – what you would call mass publication. These pages are then transported into the home and office in paper form. The Internet, however, is having a significant impact on this flow. As this content comes online, it will be delivered electronically directly to users, who can print or not print, but will do so only for their personal productivity in the home or office. As a result, we believe that the amount of pages being printed in a distributed way, in the home or office, will increase significantly. Instead of being 5 percent of total paper usage, we believe that by 2010 it could represent 10 percent to 15 percent or more of total paper usage. This means that the 3 trillion pages currently printed in the home or office could grow to possibly 8 trillion pages by the end of the decade.

We believe the future of printing is distributed printing and that the Internet will continue to increase distributed print output at a compounded annual rate of 7 percent to 12 percent. So, the market is moving toward distributed output and pages, and that is where Lexmark is focused. We are in the distributed output business in both the home and office.



WORLDWIDE REVENUE

Lexmark's revenue rose 6 percent in 2002 to \$4.4 billion.



Our supplies annuity provides stability. Lexmark has a very straightforward business model: We sell printers to deliver customer solutions that drive sales of our after-market supplies – primarily toner and ink cartridges. Increasing supplies sales is not only a factor of more electronic information flow, but also a function of the growing base of installed printers. From 1998 through 2002 our installed base of laser printers increased significantly from approximately 2.9 million to 4.9 million units. Over this same period, our inkjet printer installed base jumped sharply from approximately 10 million to 45 million units. This growth has driven an expansion of our supplies business from \$836 million in 1998, or 28 percent of our total revenue, to \$2.3 billion last year, or 54 percent of our total revenue. The resulting supplies annuity represents a stable and reliable source of funding needed to drive the research and development of products with the features, functions and cost-effectiveness that best serve our customers in the home and office. In fact, it is during times of economic instability that the power of our supplies-driven business model is most evident.



Lexmark is unique. We are 100 percent focused on printing solutions and services. This focus gives Lexmark multiple advantages. Because we own all three core print technologies – color inkjet, monochrome laser and color laser – we can be faster to market and more effective at driving down costs. Because we’re not in the PC business, we’re in a strong position to develop and maintain partnerships with companies around the world like IBM, Legend and Dell. Because we understand printing, we can use our technology and expertise to meet customers’ specific requirements, streamline their paper-intensive workflows and reduce process cycle times and cost.

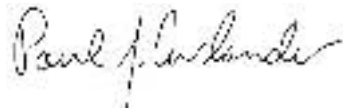
Lexmark is also unique in that our sales teams work directly with our corporate customers, organized by industry, such as retail, financial services, the public sector and health care. This not only generates demand, but also enables us to develop industry-specific applications and services that differentiate Lexmark and take us well beyond a simple printer hardware sale.

These unique characteristics keep Lexmark well-positioned to capitalize on the key developing growth opportunities in the market: the convergence of printers, copiers and fax machines in both the home and office; the growth of color pages in the office; and the leveraging of e-business infrastructure to re-engineer paper-intensive processes. Lexmark’s strong lineup of multifunction products, the introduction of our own internally developed color laser technology and the continued evolution of our output-centric solutions and services capabilities have us poised to participate in and capitalize on these key industry growth opportunities.

Our customers are for life. We believe that we are succeeding because our customers like our products and services, they like our people and they like doing business with us. We have a single vision: Customers For Life. This is the standard that challenges us and drives our daily interactions with customers, business partners and co-workers. We believe this is also the key to our long-term success.

Thank you for your investment in Lexmark and thanks to our business partners, our customers and our employees for helping to make our company an ongoing success.

Sincerely,



Paul J. Curlander
Chairman and chief executive officer
March 11, 2003

**DILUTED NET EARNINGS
PER SHARE (EPS)**

Earnings were \$2.79 per share in 2002, compared to \$2.05 in 2001.



2000 EPS was reduced by 22 cents as a result of restructuring and related charges. 2001 EPS was reduced by 48 cents as a result of restructuring and related charges and was increased by 30 cents as a result of an income tax reversal due to the resolution of tax matters. 2002 EPS was increased by 3 cents as a result of reversal of restructuring and related charges.

LEXMARK

Dedicated leadership.



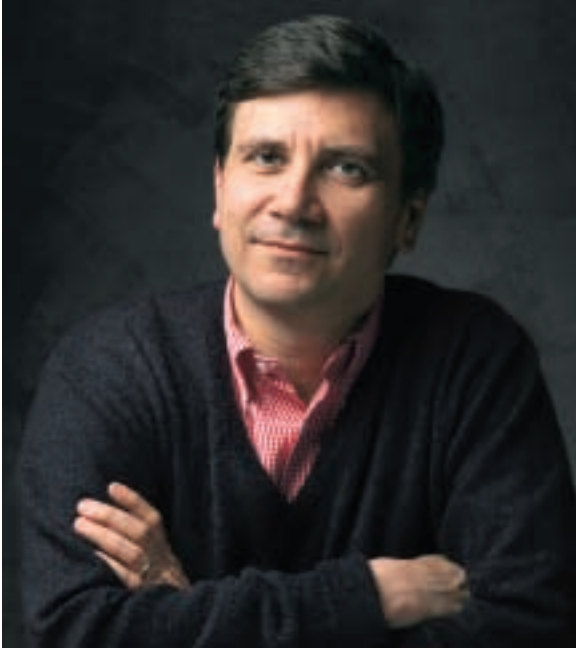
Paul Rooke
Executive vice president;
president, Printing Solutions and Services Division



Vinny Cole
Vice president, general counsel and secretary



David Goodnight
Vice president, Asia Pacific and Latin America



Najib Bahous
Vice president; president, Consumer Printer Division*



Jeri Stromquist
Vice president, Human Resources



Gary Morin
Executive vice president and CFO

* Mr. Bahous assumes his new duties upon the previously announced retirement of Tim Craig.

We listen.





Customers count on Lexmark for printing solutions and services that meet or exceed their needs. Because we own our core technologies and maintain close relationships with customers ranging from distinct vertical industry groups to the end user at home, the knowledge we gain can rapidly drive the direction of our research and development. Innovative and robust Lexmark hardware, software and supplies then enable customers in today's fast-paced, Internet-powered environment to print smarter, move information faster and more securely, and manage their activities more effectively – regardless of whether they're a multinational enterprise, a small-to-medium business or a student in school. Products for the office and home such as our high-quality, easy-to-use X series all-in-one devices help save space, reduce costs, increase productivity, improve workflow and cut cycle times – often through features and functions originally designed to solve the problems of specific large industry segments. Our reliable laser and inkjet printers have the flexibility to keep pace as a customer's requirements change or grow. And our rich history of expertise in printing allows us to serve as a partner and consultant for services such as systems integration and outsourcing. We listen to our customers and learn from them, whether they're a multisite corporate information technology department, a start-up business or a proud parent printing vivid digital images of a child. It's part of our endeavor to keep customers, large and small, for life.

Sales Offices

Asia Pacific

Brisbane, Australia
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Manila, Philippines
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Singapore
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Taipei, Taiwan
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Europe, Middle East and Africa

Wien, Austria
43 1 797 32 0

Zaventem, Belgium
32 2 716 74 11

Birkerød, Denmark
45 45 99 88 88

Marlow, England
44 8704 440044

Espoo, Finland
358 9 525 340

Paris, France
33 146 67 40 00

Dietzenbach, Germany
49 6074 488 0

Milan, Italy
39 2 70395 1

Naarden, The Netherlands
31 35 69 94 600

Oslo, Norway
47 2276 3500

Krakow, Poland
48 12 290 14 00

Lisbon, Portugal
351 21 415 3450

Johannesburg, South Africa
27 11 329 0999

Madrid, Spain
34 91 436 00 48

Solna, Sweden
46 8 52 25 79 00

Thalwil, Switzerland
41 1 722 88 11

*For Central and Eastern
Europe, the CIS/Baltics,
Greece, Turkey, Israel, the
Middle East, Africa and the
Indian Ocean region, contact
the Lexmark Export Division
in Paris at 33 146 67 44 00.*

Latin America

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55-11-3046-6200

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Mexico City, Mexico
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Irvine, California
(714) 371-2044

Irving, Texas
(214) 257-0049

Lexington, Kentucky
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Lexington, Massachusetts
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Montvale, New Jersey
(201) 301-4601

New York, New York
(212) 880-2825

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(610) 832-5359

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(301) 212-5905

Rosemont, Illinois
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Sacramento, California
(916) 567-4512

San Francisco, California
(415) 288-3004

Scottsdale, Arizona
(480) 315-6661

Seattle, Washington
(425) 453-9082

Chesterfield, Missouri
(636) 681-1210

Southfield, Michigan
(248) 263-3262

Corporate Information

Board of Directors

Paul J. Curlander, chairman and chief executive officer of Lexmark
B. Charles Ames, principal of Clayton, Dubilier & Rice, Inc.
Teresa Beck, former president of American Stores Co.
Frank T. Cary, former chairman and chief executive officer of IBM
William R. Fields, chairman and chief executive officer of
Factory 2-U Stores, Inc.
Ralph E. Gomory, president of the Alfred P. Sloan Foundation
Stephen R. Hardis, former chairman and chief executive officer
of Eaton Corp.
James F. Hardyman, former chairman and chief executive officer
of Textron, Inc.
Robert Holland Jr., former chief executive officer of
WorkPlace Integrators
Marvin L. Mann, chairman emeritus and former chairman and
chief executive officer of Lexmark
Michael J. Maples, former executive vice president and member
of the Office of the President of Microsoft Corp.
Martin D. Walker, former chairman and chief executive officer of
the M.A. Hanna Co.

Transfer Agent

The Bank of New York
(800) 524-4458
Stock transfer site: www.stockbny.com
E-mail: shareowner-svcs@bankofny.com

Send shareholder inquiries to:
Shareholder Relations Department
Box 11258
Church Street Station
New York, NY 10286

Send certificates for transfer and address changes to:
Receive and Deliver Department
Box 11002
Church Street Station
New York, NY 10286

Executive Officers

Paul J. Curlander, chairman and chief executive officer
Najib Bahous, vice president and president of the
Consumer Printer Division*
Daniel P. Bork, vice president, Tax
Kurt M. Braun, vice president and treasurer
Vincent J. Cole, Esq., vice president, general counsel and secretary
Timothy P. Craig, vice president and president of the
Consumer Printer Division
David L. Goodnight, vice president, Asia Pacific and Latin America
Gary E. Morin, executive vice president and chief financial officer
Paul A. Rooke, executive vice president and president of the
Printing Solutions and Services Division
Roger P. Rydell, vice president, Corporate Communications
Gary D. Stromquist, vice president and corporate controller
Jeri I. Stromquist, vice president, Human Resources

Investor Relations

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Independent Accountants

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Annual Meeting

Lexmark International, Inc., will hold its annual meeting of
stockholders at 8 a.m. EDT, Wednesday, April 30, 2003 at the
Embassy Suites Hotel, 1801 Newtown Pike, Lexington, Kentucky.

* Mr. Bahous assumes his new duties upon the previously announced retirement of Tim Craig.

“Safe harbor” statement under the Private Securities Litigation Reform Act of 1995:

This document may contain forward-looking statements that are based on current expectations, estimates and projections and management’s beliefs and assumptions. All statements which are not statements of historical fact are forward-looking statements. These statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict and could affect the company’s actual results. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Such risks and uncertainties include, but are not limited to, the impact of competitors’ products, aggressive pricing from competitors and resellers, market acceptance of new products and pricing programs, changes in a country’s or region’s political or economic conditions, management of the company’s and resellers’ inventory levels, production and supply difficulties including disruptions at important points of exit and entry, difficulties or delays in software and information systems implementations, competition in after-market supplies, financial failure or loss of a key customer, reseller or supplier, increased investment to support product development, unforeseen cost impacts, conflicts among sales channels, the outcome of pending and future litigation or governmental proceedings, intellectual property and other legal claims and expenses, currency fluctuations, and other risks described in the company’s Securities and Exchange Commission filings.

Financial Highlights

(Dollars in millions, except per share data)

Statement of earnings data:	2002	2001	2000	1999	1998
Revenue (1)	\$4,356.4	\$4,104.3	\$3,767.3	\$3,413.7	\$2,978.2
Cost of revenue (2)	2,985.8	2,865.3	2,550.9	2,222.8	1,934.4
Gross profit	1,370.6	1,239.0	1,216.4	1,190.9	1,043.8
Research and development	247.9	246.2	216.5	183.6	158.5
Selling, general and administrative (1)	617.8	593.4	542.9	530.7	502.5
Restructuring and related (reversal) charges (2) (3) (4)	(5.9)	58.4	41.3	–	–
Operating expense	859.8	898.0	800.7	714.3	661.0
Operating income	510.8	341.0	415.7	476.6	382.8
Interest expense	9.0	14.8	12.8	10.7	11.0
Other	6.2	8.4	6.5	7.0	6.4
Earnings before income taxes	495.6	317.8	396.4	458.9	365.4
Provision for income taxes (5)	128.9	44.2	111.0	140.4	122.4
Net earnings	\$366.7	\$273.6	\$285.4	\$318.5	\$243.0
Diluted net earnings per common share (6)	\$2.79	\$2.05	\$2.13	\$2.32	\$1.70
Shares used in per share calculation (6)	131.6	133.8	134.3	137.5	142.8
Statement of financial position data:					
Working capital	\$699.8	\$562.0	\$264.7	\$353.2	\$414.3
Total assets	2,808.1	2,449.9	2,073.2	1,702.6	1,483.4
Total debt	161.5	160.1	148.9	164.9	160.4
Stockholders' equity	1,081.6	1,075.9	777.0	659.1	578.1
Other key data:					
Cash from operations (7)	\$815.6	\$195.7	\$476.3	\$448.2	\$300.3
Capital expenditures	\$111.7	\$214.4	\$296.8	\$220.4	\$101.7
Debt to total capital ratio (8)	13%	13%	16%	20%	22%
Number of employees (9)	12,068	12,724	13,035	10,933	8,835

- (1) All data prior to 2002 has been reclassified in accordance with EITF 00-25 and clarified by EITF 01-9, resulting in a reduction to both revenue and selling, general and administrative expense in the amount of \$38.5 million in 2001, \$39.7 million in 2000, \$38.6 million in 1999 and \$42.4 million in 1998.
- (2) Amounts include the impact of restructuring and other charges in 2001 of \$87.7 million (\$64.5 million, net of tax), which resulted in a \$0.48 reduction in diluted net earnings per share. Inventory write-offs of \$29.3 million associated with the restructuring actions were included in cost of revenue.
- (3) Amounts include the impact of restructuring and related charges in 2000 of \$41.3 million (\$29.7 million, net of tax), which resulted in a \$0.22 reduction in diluted net earnings per share.
- (4) Amounts include the benefit of a (\$5.9) million ((\$4.4) million, net of tax) reversal of restructuring and other charges in 2002, which resulted in a \$0.03 increase in diluted net earnings per share.
- (5) Provision for income taxes in 2001 includes a \$40 million benefit from the resolution of income tax matters, which resulted in a \$0.30 increase in diluted net earnings per share.
- (6) All data prior to 1999 has been restated to reflect a two-for-one stock split on June 10, 1999.
- (7) Cash flows from investing and financing activities, which are not presented, are integral components of total cash flow activity.
- (8) The debt to total capital ratio is computed by dividing total debt (which includes both short-term and long-term debt) by the sum of total debt and stockholders' equity.
- (9) Represents the number of full-time equivalent employees at December 31 of each year.

Committed business partner.

There is only one significant company in the world that is focused solely on printing solutions and services – Lexmark. We have grown to be an internationally recognized leader in our industry by providing a compelling value proposition through robust and reliable products. These products provide widely acknowledged economy and ease of use, and Lexmark distinguishes itself by being a distinctively amenable business partner. Our success continues to be built on delivering breakthrough technology and exceptional customer service to the giants of global commerce, but we also clearly understand and satisfy the specialized requirements of today's small and medium businesses. Lexmark products are designed and built to meet the needs of customers of varying sizes with intuitive, modular technology that enables sophisticated yet uncomplicated expansions and additions as businesses change and grow. We deliver the performance, dependability and capabilities demanded by the world's largest companies, but with acquisition and operation costs that are affordable for budgets large and small. At Lexmark, we're helping change the face and pace of the global workplace.





LEXMARK

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