

To Our Shareholders, Customers, Employees, and Friends

In 2002, EFI introduced the theme, "**Changing the Way the World Prints.**" It is a particularly apt tagline for a year in which EFI successfully entered new markets and began our introduction of powerful, industry-changing products whose impact will be felt for years to come.

Despite the lingering global economic downturn, EFI continues to lead the industry in innovation and focus on customer needs. In 2002, EFI achieved its eighth consecutive quarter of margin improvements, introduced some of our most compelling new products, charged into the high-end printing market, and undertook two important acquisitions. And we did all this while continuing to focus on bottom-line growth and cash generation.

To achieve these results, we focused intently on growing our business in three strategic markets. In the Professional Market, our strategy is to offer commercial printers our advanced workflow productivity tools to increase profits, reduce costs, and attract and retain customers in this tough environment. In the Corporate Market, we continued to lead in innovation, developing high quality, cost-effective solutions to help our customers accelerate the transition to corporate color printing. Finally, in the Mobile Market, we focused on serving the rapidly growing mobile work force with our PrintMe™ mobile and wireless printing solutions that are quickly becoming industry standards.

While 2002 was a year in which we introduced many exciting new software solutions, we also focused relentlessly on expanding our core business—designing the industry-leading servers that power digital printing. In fact, in April 2003, EFI celebrated shipping our one millionth Fiery®. We'll have more to say about that milestone later.

PROFESSIONAL PRINT MARKET

In the professional arena, EFI greatly expanded its product line for the graphic arts market. Among the products we introduced last year was Velocity OneFlow™, a digital Computer-to-Plate (CTP) prepress solution that captured a "Must See 'Em" award at Graph Expo, our first year at this high-end printing show. Velocity OneFlow has received accolades from numerous beta sites and was officially launched in April 2003.

Our Velocity™ workflow software continues to attract new customers seeking to dramatically increase their productivity and cost management. Able to drive up to 12 engines through one intuitive interface, Velocity is the perfect software for printing organizations trying to reduce costs, increase productivity, and generate revenues from their existing capital investment. In fact, hundreds of Velocity systems have been deployed in markets ranging from advertising, banking, and healthcare to education, government, and in-plant reprographic centers.

EFI's leadership in high-speed color server technology helped propel us into the high-end printing market. At Graph Expo in October, we introduced our fastest Fiery yet, the supercharged Fiery Q4000 that includes our feature-packed Fiery System 5 software, Fiery Graphic Arts Package, and flexible Variable Data Printing (VDP) capabilities. This breakthrough Fiery offers leading-edge color management, advanced job processing, open VDP standards, and other powerful tools for graphic arts professionals.

We also announced an agreement to develop a breakthrough 2000 pages-per-minute color controller for Scitex Digital Printing for their ultra high-speed VersaMark printers for the transactional printing market. It will be launched in the Fall of 2003.

Continuing our expansion in production printing, we earned another major win with Xerox to jointly create a super high-speed controller for their iGen3 printer. This new Fiery-driven iGen 3 was showcased at the On Demand print show in New York in April 2003.

Finally, in the closing days of 2002, EFI announced its intention to acquire Best GmbH, a Germany-based company that has established a global reputation and dominant market share with its inkjet proofing software products. That acquisition was completed in early 2003 and we are already beginning to see synergies between Best's offerings and ours that will lead to future product innovations.

With all these new products and partners, EFI staked a claim in the high-end printing market, spurring opportunities to work with new customers to deliver the power of EFI technological leadership in the graphic arts arena.

CORPORATE PRINT MARKET

In the corporate market, EFI continued to lead the way with many new product announcements with an array of our OEM partners. Among the new color and black-and-white printers and multifunction devices released in 2002 that featured Fiery embedded and standalone servers were the Canon imageRUNNER and iRC2058; Xerox DocuTech 1010 and DocuColor 12; Minolta DiALTA Di551/650; Ricoh AP3850C and E820; Toshiba e-STUDIO 550/650/810; and the Sharp AR-651/851.

Additionally, EFI embarked on a design licensing initiative with many of its OEMs to help them reduce costs while retaining the market advantage of Fiery technology. These design licensing deals allowed EFI to increase its margins and our partners to utilize their manufacturing capability to cut costs but still offer their customers Fiery quality. Design licensing represents a significant new effort, allowing us to provide another competitive solution in the tight corporate printing market. Most importantly, this new business model will reduce the price end users should pay for our products in this market.

MOBILE PRINT MARKET

In our third area of focus, the mobile printing market, EFI continued to break ground with its innovative PrintMe mobile printing solution. After announcing the technology in late 2001 with a cadre of high profile partners, we launched the live PrintMe service in April 2002 with 14 additional partners representing an array of OEMs as well as Palm and IBM. Today, PrintMe has thousands of users who are printing documents to printers and fax machines throughout the world.

As we help develop this new market, we are targeting early adopters, the business professionals who need to be connected anywhere in the world. Working closely with our partners, we are now installing PrintMe at hundreds of major business hotels around the world. PrintMe service is also currently offered at several international airports with further expansion in 2003. The hospitality industry is clearly embracing the importance of providing convenient printing services to their business customers and is making PrintMe the standard of choice for this service.

IN SUMMARY

While EFI, like most companies, tightened its belt during these difficult times, we never sacrificed on the essentials—the foremost being the expertise of our people. We continued to invest in our business and we encouraged all of our employees to help us make our operations more efficient in ways that will allow us to grow in the future. The result has been a string of eight consecutive quarters of margin improvement—our highest margins in 10 years—and we closed the year with over \$500 million in our bank account to enable future acquisitions and/or internal expansion. We thank all of our employees for their dedication to these efforts. They are the true bottom line of our success.

We made it an overarching goal in 2002 to increase our contact with and responsiveness to our end users. We worked closely with them and we will continue to do so to understand their needs and identify areas where our expertise can add value to their endeavors. This intensive end user focus has paid off in creating new product areas and should position us well for the future. We have strengthened our longstanding relationships while welcoming many new customers and partners to the EFI family.

We want to close this letter by sharing with you a major milestone in EFI history. As of April 2003, EFI has sold over one million Fierys. One million Fierys worldwide signifies over 10 million skilled Fiery users. It also represents untold billions of Fiery prints. Back in 1991, when EFI launched its first Fiery, the world was amazed by its then breakthrough speed of 5-7 color pages per minute! As noted earlier, last Fall, EFI announced the development of our first 2000-ppm color server for Scitex Digital Printing. EFI has come a long way. And we're just getting started!

Even as we mark the historic occasion of our millionth Fiery, we want you to know that EFI remains sharply focused on the future. We thank all of our partners, customers and employees for helping us to achieve this great milestone. We look forward to working with them to continue changing the way the world prints by creating exciting new products to help people and businesses communicate better throughout the world.

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