

CHIEF EXECUTIVE OFFICER'S ADDRESS

Ladies and Gentlemen:

Thank you for the opportunity to address you at my first Annual General Meeting as your Chief Executive Officer.

As the Chairman has already outlined, it has been a year full of change and challenge. However, I believe that CPI Group has come through this period in far better shape than when I joined the company last December. This is despite a very hostile external environment. The major reason for our resilience is that our people have welcomed and adapted to change much better and much faster than would have been normally expected. They deserve a great deal of thanks and admiration for their efforts.

Over the last year, we have started to significantly reshape the organisation, the way we go to the market and our product offerings. We introduced the account management structure in our client service areas late last year in order to get closer to our clients, to get to know our clients' business and people well in order to understand their plans and needs as a total business. We also changed the way our engineering services are organized and gave our engineers the chance to become front line service personnel with the need to provide better value for money to our clients in maintaining their capital investments. Both these changes, including the introduction of a new telesales unit to better service our regional and smaller client base, have been very beneficial and has seen us achieve better results for clients, staff and shareholders.

As the Chairman has mentioned, we constantly review our product mix and the way we interact with our suppliers. We cleared the decks with sales of the assets of our Trading Division, which was a loss making area.

We turn over every stone to find ways to reduce our investment in stock and debtors whilst trying to generate better profits, thereby enhancing return on capital for our shareholders. This may mean at times having frank and robust discussions with some of our suppliers regarding trading terms, in some cases narrowing our product range to focus better on client needs whilst at the same time carrying deeper stock in fewer varieties. We are making progress, with many of our stakeholders being very co-operative and helpful. With some, we have more work to do.

As a result of these and many other initiatives, plus the enthusiasm of our people, we are making headway with our recovery towards better profits and better shareholder returns.

The market place has been tough for our clients. With the well-publicized worldwide reduction in advertising and promotional spending, the demand for paper based promotional material has been slow. As a result, pulp and fine paper volumes have been reducing. In Australia, this has manifested in a 6.5% reduction in fine paper and packaging board sales in the 12 months ended 30 June 2002. It has also meant that people participating in the graphic arts industry have had to make some difficult choices. Invest in the future or take a wait and see profile. Those who have invested in new technology in the pre-press area and their pressroom have benefited during these tougher times. Their productivity gains have given them some key advantages. However, the wait and see approach has made it very difficult for us to make significant headway with capital equipment sales. We have made some progress but more and more of our clients are looking for second hand solutions in order to reduce the capital investment. This comes at lower margins for us.

Whilst the market has been slow for the past year, our account management approach has seen CPI make significant inroads into the consumables sales area. For the 12 months ended 30 June 2002, our paper sales were 3.5% up on the previous year, our plate sales were 3% higher than the previous year and our inks and pressroom chemical sales were 28% up on the previous year.

We have continued with that momentum into this financial year. For the first four months ended 31 October 2002, our paper sales are another 3% higher than the previous comparable period, our plate sales are up 6% and our ink sales are up 9%.

Whilst these are impressive figures and speak volumes for the excellent work of our external and internal sales teams in getting closer to their clients, the pressures on margins have been pretty strong as well. In almost all categories, our gross profit margins are lower this year than last year. Whilst we have implemented some price increases, particularly in key paper categories in Australia, it has been difficult to achieve a full flow through into margins as distributors fight to secure sales in a tight market. It is only in October that all major distributors increased prices. This should have some beneficial impact over the next few months. A small upturn in demand for advertising and promotional activities in recent weeks should also help, if it is sustained.

We also constantly review the cost of our activities and implemented a major cost reduction programme during the year. It has reduced our ongoing expense base by \$5 million per annum, the benefits of which will flow through in full this year. As a result of our better sales activities, some price increases and cost reductions, our profits to date are well ahead of the same period last year. However, we have more work to do to ensure our recovery strategy continues to deliver the full benefits.

During September 2002, CPI Group reached its 25th anniversary. It was originally established by its founders the late Peter Sajet and Daryl Lea, who has now rejoined our Board and sits up here with the other Directors. In order to recognize his major contribution to the Company, Mrs Nel Sajet and her daughter instituted an award named after Peter Sajet.

The purpose is to encourage and reward achievement and commitment for CPI employees across all fields. Nominations are invited from all Branches and Head Office and an award announced at this time. It is a significant cash sum paid from the Peter Sajet Trust established by his family. A very generous gesture.

Given the disturbed year we have just been through, the focus on nominations has not been as great as in previous years. As a result, with Nel Sajet's agreement, we have deferred the award for a year with the possibility of two awards being made if sufficiently strong candidates are nominated.

We are certainly very proud and grateful to promote the Peter Sajet Award and encourage all our employees to take an active interest in the award. We look forward to announcing a couple of very deserving award winners in the memory of Peter Sajet next year.

Steve Somogyi
Chief Executive Officer