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28 November 2007

Satara Co-operative Group Limited
Attn: Paul Moriarty
PO Box 243
Te Puke
Bay of Plenty

Cc Murray Gough
Cc Andrew Fenton

Paul,

Following on from our brief conversation nearly three weeks ago and the recent profit revision issued by Satara on Friday 9 November (which substantially downgraded the AGM profit guidance of 27 April 2007) we would like to table that we are extremely disappointed in the following:

(i) The Board of Satara has not yet seen fit to respond to our letter dated 17 October 2007 which we feel raises important issues surrounding capital allocation. This strongly suggests to us that the Board is not taking seriously its obligations to all shareholders and confirms to us that investors are not being treated fairly or in a transparent manner. It seems the Board of Satara is hoping we will just go away if they ignore us. We won't and intend to ensure that the Board feels the "weight of company capital entrusted to it on its shoulders" and begins to act in a manner which provides all investors with an economic return on the capital provided.

(ii) The timing of the profit downgrade at 5pm on Friday 9 November suggests to us a direct attempt by Management and the Board to try and keep this announcement out of the public, growers and shareholders eye. We find it extremely difficult to believe, given that Zespri released its lower payout forecast on 26 October, that Satara could only just conclude its calculations at this time. It seems to us that Satara is only too happy to publish what it perceives to be good news during market hours and at a time where it may be picked up by the press – I cite as an example of this the Interim Result which was entitled "Satara – Posts Record Half Year Result" released at 10:24am 3 September 2007 to the NZX. *[We also note the profit downgrade has not been posted on your website, yet the record Interim Result is in plain view – can you please explain this?]*

(iii) That we have still not received a response to my email which requested a breakdown of the carrying value of total land & buildings, leasehold improvement and plant & equipment? This is despite your recent commentary to me saying that you were only too happy to provide us with information and meet with us should we have any questions.

We have reviewed the recent profit warning and have the following questions which we would appreciate receiving answers to in a timely manner:

1. On 9 November Satara revised full year profit guidance down from NZ$5.1m before rebates and tax to "less than achieved in the previous year" (which was NZ$3.6m before rebates and tax). What do you mean by "less" – are we now expecting the result to be slightly below (<10%), moderately below, significantly below (>50%)? Why did it take so long (from 26 October to 9 November) to prepare a revised profit guidance?

2. The two reasons provided for this downgrade were: (a) reduction in Zespri Fruit Return (from NZ$6.40 to NZ$6.21 per tray, or a NZ$0.19 per tray decrease) largely caused by the appreciating exchange rate & (b) increased labour costs from a higher minimum wage and an extra week's leave. By how much (in $ value terms) have labour costs really increased?

3. Satara is exposed to changes in the Zespri return via its leased orchard operations, most of which is of the green variety. Last year, Satara grew 2.2m trays under lease and we could expect this year's crop to be less than 2.5m trays as you have a strategy to reduce exposure to orchard leasing. Therefore, we estimate that due to the reduction in Zespri fruit returns the maximum impact on Satara's forecast profit would be NZ$475,000 [i.e. 2.5m trays x 19c per tray]. However, the amount may be less than this as Satara should benefit from reduced orchard profit share payments to land owners – as the company has previously highlighted the re-negotiated leases as a strength would we expect to see some benefit from this?

4. Must the balance of the profit downgrade (~NZ$1.1m by our calculations) then be the result of the claimed increase in labour costs? Given that the minimum wage increase was announced by the Hon Ruth Dyson on 18 December 2006 (for implementation in April 2007) and that the move to 4 weeks annual leave was flagged by the Government well before the 2006 election, how could you not be aware of the full impact of these measures on labour costs at either the time of your AGM in April or when the Interim Result was released on 3 September?

5. Given what we believe is a disconnect between the profit downgrade and the interim result we can only assume there is either an error somewhere in the interim or some other adjustment that is being made, possibly as a result of ECPI audits by Zespri, if so to what extent and at whose cost?

6. How much of the profit downgrade results from the cost of an expanded executive and management team? New roles appointed or advertised this year include Commercial Manager, HR Manager and Financial Controller. Is it correct to presume that these will all be at the cost to the rebate rather than a cost to shareholders?

7. Will investor shareholders be compensated via interest charges for the early rebate payment this year – especially if this payment was made from an "incorrect" interim result reporting?

8. The profit downgrade should also have a negative impact on rebates to be paid as two thirds of the downgrade appears to relate to post harvest operations (the profits from which generate the transactor shareholder rebate). Assuming around 9m shareholder trays, could we expect this year's rebate to drop from 28 cents per tray to around 18 cents per tray?

9. The final comment in the latest NZX release around "certain strategic initiatives" is extremely ambiguous. Continuing to make comments with no action is both misleading and frustrating for investors. Are there any property sales/divestments being considered by the Board? What has happened to the Wedgewood Road property – is this on the market / was it on the market?

11. We would also like clarification as to why the company is investing in robotic technology for green packing when it is the gold crop that is presenting all the loss problems? What cost savings (in $ value terms) does the company hope to achieve from this investment?

12. We would also question the economics of continuing to grow green fruit on leased orchards, or investing in green packing technology when the declining returns from green fruit are due to supply competition from Chile, a NZD/USD exchange rate > 0.70, and higher labour costs all of which we believe are <u>not</u> temporary "one-off" events. In our minds they are "a window into the future state of the green kiwifruit industry". Are we correct in assuming the Board and Management of Satara believe that once Chilean plantings mature and begin mass producing green fruit then returns <u>will not</u> come under additional pricing pressure; the NZ Dollar will decline despite strong global demand for dairy products; and labour costs will decrease while unemployment is at/near record low levels?

13. When will you be reviewing the capital charge and provide a full disclosure of this calculation?

Finally, we would state that unlike the Board, given this is now the third year of disappointing returns we are <u>not</u> currently confident that going forward Satara can deliver an appropriate return on invested capital. Therefore, we request immediate disclosure of the strategic initiatives the company is undertaking to provide the market with some confidence that there is in fact a strategy to improve returns (versus just rhetoric).

If there is no strategy we again request the Company immediately appoint an independent advisor to investigate strategic alternatives for the company so as to stem the ongoing destruction of shareholder wealth.

Again, we hope you find our comments constructive and that you will respond to our questions.

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited