

29 May 2007

Andrew Fenton  
Chairman  
Satara Co-operative Group Limited  
PO Box 243  
Te Puke

Dear Andrew

[www.elevationcapital.co.nz](http://www.elevationcapital.co.nz)

I recently met with Simon Gibbs in Hastings regarding his appointment as a Commercial Director of Satara Co-operative Group Limited.

Please find detailed below a summary of the topics discussed at this meeting that Simon has suggested I table with the board of Satara Co-operative Group Limited.

**Operating Performance:**

Elevation Capital would like to see an improved level of disclosure of the underlying performance of the pack house / cool store operations. We believe an increased level of transparency would also ensure that management is held fully accountable for the operational performance of the company.

For example, in the 2005 Annual Report, management and the board highlighted that the company had one of the lowest fruit loss ratios in the industry at 0.9% versus the industry average at 1.7%. Yet in the 2006 Annual Report, there is no mention about specific fruit loss ratios despite it being a key reason for the company missing its forecasts. The corresponding information was provided by the company's NZX listed competitor, Seeka Kiwifruit Industries both to the market and company analysts. Investor shareholders in Satara ought to be provided with this key performance metric.

Further, Elevation Capital specifically requested this information from the management team. To be clear, Elevation Capital is not asking for any information we would not expect to be released to all investor shareholders - we are just somewhat perplexed at a decision not to disclose such data, which ought not to be competitively sensitive to those that provide you with the capital to operate.

We would ask the board to disclose to the investor shareholders (if requested) the same level of information that is supplied to the transactor shareholders. At present, this is not happening and we feel strongly that this is not in compliance with NZX continuous disclosure rules.

**Management Incentive Scheme:**

We understand the company is reviewing and implementing a management incentive scheme. We would request that as well as operational performance, management are incentivised based on the price performance of the investor shares, and growth in the investor share dividends.

**Industry Consolidation:**

Elevation Capital is a firm believer that industry consolidation is in the best interests of the overall Kiwifruit Industry – particularly growers. Industry consolidation will drive synergies right across the pack house supply chain. We do not wish to see the door closed on any industry participant that is interested in exploring either a potential merger with / or takeover of Satara.

We would like confirmation from the board of Satara that should an approach be made (by any party), the board will deal with such an approach with the professionalism it deserves and consistent with the board's duties to all shareholders to maximise value. We would also like the board to confirm that should an offer be tabled (irrespective of price) this will be put to shareholders and an Independent Appraisal report will be commissioned to determine whether such an offer is fair and reasonable to all shareholders.

**Capital Structure:**

Elevation Capital does not support the current capital structure of Satara and believes the "hybrid co-operative" model is not delivering value to investor shareholders. As a result, investor shares currently trade at a sizeable discount to Net Tangible Assets (NTA).

We encourage the board to urgently review its distribution policy followed by a divestiture of non-core properties which are utilising investor capital for little or no financial return. Failing this we will be looking for a review of the capital structure to address the sizeable discount that the investor shares currently attract on the NZAX market. We believe an equalisation of voting rights (one vote per transactor shares and one vote per investor shares) would be the first step in such a review and recognise that this would necessitate relinquishing the company's co-operative status.

Given the strong cash flows generated by the business, we also see the potential for a return of capital to investor shareholders, if non-core properties are divested.

**Capital Charge:**

We do not agree with the board's decision to lower the capital charge to 10.0%, from 10.5%. We have listened to the explanations provided by management as to how this decision was reached, but believe that the company is not compensating the investor shareholders for the inherent risk in an agricultural based enterprise and the lack of control inherent in the current hybrid capital structure.

We believe the transactor shareholders are benefiting from the provision of cheap investor capital.

We request that the board reviews the capital charge to ensure it better reflects the company's true cost of equity. Our estimate of the company's weighted average cost of capital (WACC) is 11.41%, this compares with ABN Amro Craig's estimate of 11.0% for Seeka – we have utilised a 6.5% equity market risk premium (EMRP) and a weighted average interest rate as disclosed in the 2006 Annual Report of 8.40%.

We do not believe that the 10 year NZ government bond plus a margin (determined by the board) is an appropriate pricing benchmark. We highlight the recent decision by the NZ Commerce Commission which ruled that an acceptable return for Unison Networks (an electricity lines company) is 9.2% for all new capital invested.

Further, the inflation picture in the broader NZ economy remains problematic for the RBNZ and this has being reflected in the recent ~25bpt movement up in long bond yields.

Would the board of Satara realistically invest additional capital in a business with significant agricultural risk for only a 10% return?

Elevation Capital would be happy to provide any analytical work required to undertake such a review.

I hope this clearly states Elevation Capital's current views on Satara, and I would greatly appreciate it if you could present these views to the board on our behalf. If you consider it desirable we would be happy to present to the board ourselves.

I look forward to speaking with you again soon.

Yours Sincerely,



**Christopher Swasbrook**  
**Managing Director**  
**Elevation Capital Management Ltd**