



17 October 2007

Board of Directors  
Satara Co-operative Group Limited  
PO Box 243  
Te Puke  
Bay of Plenty

To the Members of the Board

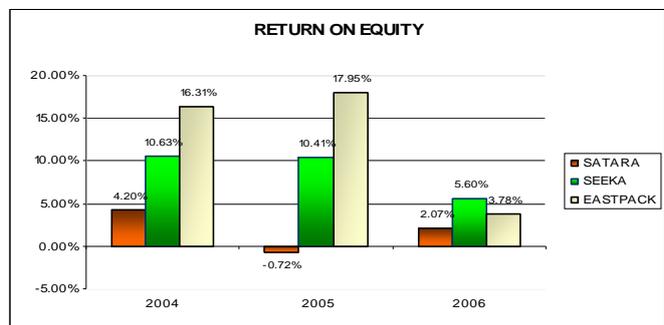
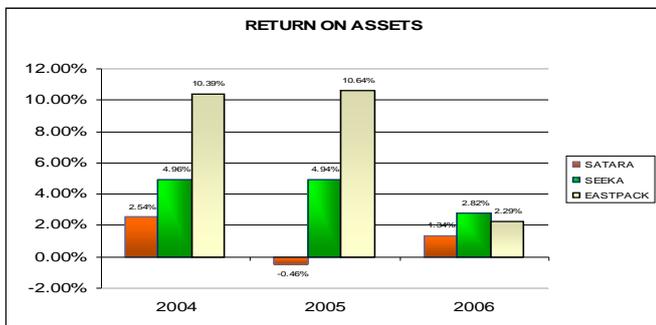
[www.elevationcapital.co.nz](http://www.elevationcapital.co.nz)

Elevation Capital Management Limited manages funds on behalf of investors in the Elevation Capital Multi Strategy Fund. The Fund is currently the largest investor shareholder [1,009,000 shares] in Satara Co-operative Group Limited.

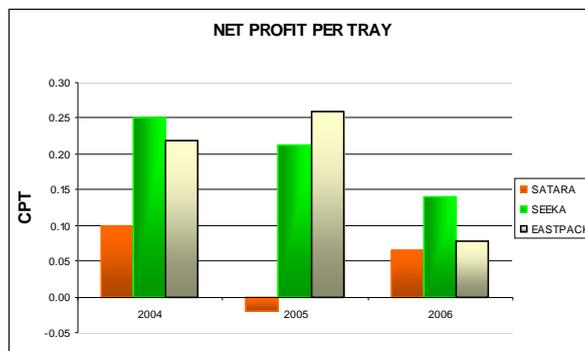
As the largest investor shareholder of Satara, we are disappointed with the Board's continued failure to effectively address the sizeable discount to NTA [currently NZ\$1.92] at which the shares trade on the NZAX market [Last Sale: NZ\$1.10 / 3 month Volume Weighted Average Price NZ\$ 1.1140].

We believe there are a number of reasons which are contributing to the shares trading at such a significant discount to NTA and have detailed some of these below:

- (i) **Satara's Return on Assets (ROA) & Return on Equity (ROE) both remain at unacceptably low levels and highlight the inefficient structure of the company's balance sheet.<sup>1</sup>**



- (ii) **Satara's Net Profit Per Tray (NPPT) also shows underperformance versus key industry peers.<sup>23</sup>**

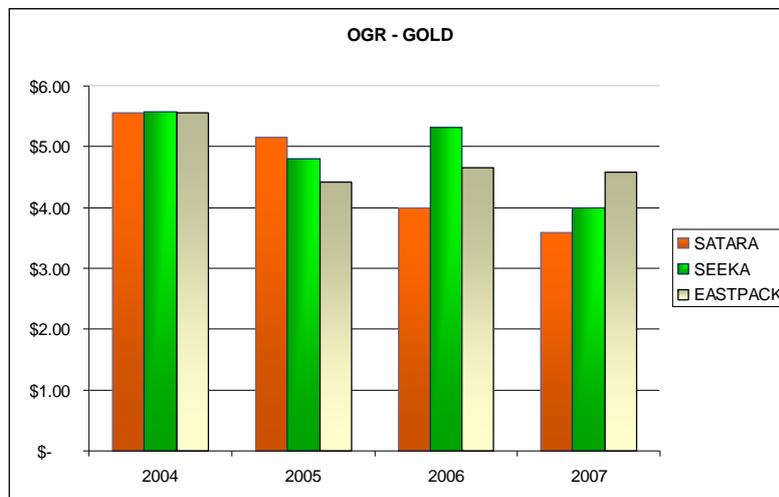


<sup>1</sup> Data sourced from: Satara, Seeka and Eastpack Annual Reports.

<sup>2</sup> Data sourced from: Satara, Seeka and Eastpack Annual Reports.

<sup>3</sup> Seeka NPAT for 2005 includes an after tax gain on sale of property of NZ\$ 1.432mln (excluding this NPPT is 14 cpt)

- (iii) **The industry has had well publicised problems with Gold fruit packing in the past few years. However, Satara's fruit loss ratios and decline in OGR has been more extreme than key peer companies. This is a clear concern for both growers and investor shareholders alike.**<sup>4</sup>



- (iv) **The Orchard Division has destroyed considerable value. Over the past three years this division has lost a total of NZ\$ 6.9mln.**<sup>5</sup> Elevation Capital questions the economics of staying in this business, and is primarily concerned that the lease division volumes are being used to support rebates at the expense of achieving a higher return on assets employed for all shareholders. We request that the Board and Management review the ongoing benefits of leasing / managing orchards and provide this analysis to all shareholders. We suggest this analysis assumes currency rates around "spot" levels to better reflect the true cost / benefits of retaining the Orchard Division.
- (v) **To highlight the extent of value destruction for shareholders the Orchard Division has more than offset the (disclosed) capital appreciation Satara has seen from its Totara Street (Mt Maunganui) property over the same time period.** In the 2005 Annual Report (pg.6), the Chairman noted the Totara Street site accounted for NZ\$ 6.0mln of the reported NZ\$ 11.1mln in property revaluations. This property we believe is surplus to core requirements and should be divested. We believe it is a distorting factor in the Board's capital allocation decisions.
- (vi) **The market and Elevation Capital also remains circumspect on the Board and Management's site rationalisation strategy as there is no tangible evidence of progress on this front since the Annual Shareholders Meeting in April.** Elevation Capital urges the Board and Management to execute its site rationalisation strategy and then look to open dialogue with other industry participants before embarking on additional capital expenditure to avoid industry overcapacity.

**Elevation Capital is especially opposed to any plans to develop a new head office at Washer Road at considerable expense and negligible economic returns to shareholders. All other avenues should be explored, including co-operation and other initiatives with industry participants to avoid potentially expensive duplication of infrastructure.**

Further, we question why the company needs to build and own offices and is not willing to lease larger office space if it is required and instead return any excess capital to shareholders.

<sup>4</sup> Data sourced from Satara, Seeka and Eastpack. Elevation Capital has made an estimate of Satara's transactor rebate for 2007 at 28cps. Eastpack & Satara OGR's both include full grower rebates paid by the companies in each respective year.

<sup>5</sup> Losses for the Orchard Division are as follows: 2004 -NZ\$1.085m ; 2005 -NZ\$ 3.80m ; 2006 -NZ\$ 2.00m.

- (vii) Elevation Capital also believes that after such a sizeable capex program last year, with OGR's at historically low levels and limited visibility on the outlook for the next growing season, **it is in the best interests of shareholders to put on hold any additional capex until strategic alternatives have been explored.**
  
- (viii) **Elevation Capital also remains unsatisfied with the Board's decision to lower the capital charge. We believe the Board is not acting equitably or transparently which was highlighted as a strength of the company in the NZAX Listing Disclosure Document [Issued: 3 December 2004].** Elevation Capital believes the lowering of the capital charge in the face of the significant increase in the value of pack house and cool store assets, Board-approved capex in 2007 which only serves to increase this investment further, increasing maintenance costs and rising debt costs highlights that significant value is being transferred from investor shareholders. Further, we question whether the long-term NZ government bond is an appropriate benchmark given the rising cost of short-term debt globally and the exposure of Satara to both climatic and currency risks. The Board has a duty to protect and enhance shareholders capital judiciously. Should the Board feel that the current capital charge is in fact fair and equitable we request the calculations are disclosed to all shareholders either via NZAX release or at the next shareholder meeting.

The comment in your letter to Elevation Capital dated 10 July 2007 regarding Satara's "hybrid co-operative structure" suggests the Board believes those buying on the secondary market are in a different position to, or have lesser rights than, those who have been founder shareholders. Elevation Capital clearly disagrees with the Board's view and would remind the Directors of their fiduciary duty to the Company and to all its shareholders and of their undertakings made to shareholders in the NZAX Listing Disclosure Document.

**We therefore request that the Board immediately engage an appropriately qualified and credible adviser to provide an independent review of capital structure and the capital charge, and to investigate strategic alternatives for the company. This review should be time bound and presented to all shareholders.**

Elevation Capital has also noted the following comments from the Chairman (detailed below) which we believe further supports the case for the engaging of an adviser to explore strategic alternatives for the company as the Board has failed to take part in wider industry consolidation over the past few years:

27 June 2005 – Annual Shareholders Meeting

***"There has been considerable rationalisation of the post harvest sector onshore and that has some wondering "who's next?" We will continue to discuss and consider opportunities to strengthen our business provided that it results in greater benefits, efficiencies and returns for shareholders."***

[Andrew Fenton – Chairman Satara Co-operative Group Limited]

6 October 2006 – Special Shareholders Meeting

***"I would like to clearly state that looking forward from a high level point of view and an industry strategic position, the merger of industry participants into larger single entities makes commercial sense."***

[Andrew Fenton – Chairman Satara Co-operative Group Limited]

Finally, while we are disappointed Simon Gibbs has resigned from the Board after only a short time we congratulate him on his move to Rank Group. Given the vacancy created by Simon's resignation we request that the Board allow Elevation Capital (and any other shareholder that wishes to do so) to nominate potential candidates for the role of Commercial Director.

We trust the Board will find the comments from its largest investor shareholder constructive and we would welcome the opportunity to meet with the Board to discuss any of the issues raised in this letter or broader industry issues.

We would also like to inform the Board that we are releasing this letter on our website: [www.elevationcapital.co.nz](http://www.elevationcapital.co.nz) (password protected) and to the NZX to ensure all shareholders are fully informed and to enable other shareholders to provide their comments to the Board directly if they so wish.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'C Swasbrook', written in a cursive style.

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