

Market Announcement

21 February 2018

FONTERRA AND THE a2 MILK COMPANY FORM GLOBAL STRATEGIC RELATIONSHIP

Fonterra Co-operative Group Limited (Fonterra) and The a2 Milk Company (a2MC) have today entered into a comprehensive strategic relationship that links Fonterra's global milk pool and supply chain, manufacturing capability and in-market sales and distribution capacity with a2MC's brand strength and capabilities.

As part of the partnership, Fonterra will now begin conversations with its farmers to source an A2 milk pool for a2MC products in New Zealand, which is intended to significantly expand over time to help meet the growing demand for a2MC products. A similar milk pool in Australia will also be developed.

Announcing the deal, Fonterra CEO Theo Spierings and a2MC Managing Director and CEO Geoffrey Babidge said the partnership is designed to generate returns for both companies by growing demand in both local and international markets for products using a2MC's brand strength and capabilities.

"The partnership is intended to fast-track market growth and this creates opportunity for our farmers to create additional value from their milk," said Mr Spierings. "Fonterra's high quality milk pools, our global supply chain, our manufacturing capabilities and knowledge, and our in-market sales and distribution expertise is being combined with a2MC's brand strength to unlock new opportunities in a wide range of international markets. It is a win-win for both companies.

"We continue to see a strong future for dairy based on our existing range of products, including recent additions such as organic, low-lactose and high protein milk choices that consumers seek out for a premium. The a2MC products promoted by this partnership sit well within our overall portfolio of products.

"Consumers like to have choices and the growth of a2MC branded nutritional powders and fresh milk sales in Australia, for example, shows the potential. This partnership is all about finding ways to continue to delight our consumers and generate more value for our farmers."

The partnership encompasses:

- **New Zealand and Australian milk pools** to support the strategic partnership, and in the first instance the Nutritional Products Manufacturing and Supply Agreement. Fonterra will now begin discussions with its farmers on the best way to source this A2 milk for a2MC products,

and share the value it will create for farmers. It is intended that these milk pools will significantly expand over time to support new a2MC products and its new priority markets across South East Asia and the Middle East.

- **Nutritional Products Manufacturing and Supply Agreement (NPMSA)** whereby Fonterra will exclusively supply nutritional milk powder products in both bulk and consumer packaged formats intended for sale in a2MC's new priority markets across South East Asia and the Middle East. These products will be produced at Fonterra's facilities in New Zealand as well as Fonterra's nutritionals facility, Darnum in Victoria, Australia.
- **Distribution and sales arrangements**, in respect of a2MC branded products whereby the companies will seek to establish distribution and sales arrangements to assist a2MC's entry into its new priority markets across South East Asia and the Middle East.
- **Exclusive period to explore a2MC branded butter and cheese, and China sourced liquid milk** for sale in Australia, New Zealand and China. These relate to other dairy products not presently marketed by a2MC and would be complementary to Fonterra's existing portfolio of dairy products.
- **A jointly owned packaging facility** will also be explored as an extension of the arrangements under the NPMSA and to cater for growth.
- **A New Zealand Fresh Milk Licence** which will see Fonterra hold an exclusive licensing arrangement for the production, distribution, sale and marketing of a2 Milk™ fresh milk for sale in New Zealand. Fonterra will leverage its substantial fresh milk capabilities to establish distribution across the country.

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About Fonterra

We're a global dairy nutrition company owned by more than 10,000 farmers and their families. We've built our expertise on the legacy of the thousands of farmers who've made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we're a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.

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