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NZX/ASX Market Release

The a2 Milk Company Limited and Fonterra Co-operative Group Limited Comprehensive Strategic Relationship

The a2 Milk Company Limited ('a2MC') is pleased to announce the formation of a comprehensive strategic relationship with Fonterra Co-operative Group Limited ('Fonterra') encompassing a range of supply, distribution, sales and marketing arrangements in targeted markets.

This is a significant development for a2MC given the wide-ranging nature of the relationship. The arrangements expand a2MC's ability to build its business in new priority markets and beyond, provide exciting growth initiatives in new A1 protein free products and enable consumers to obtain new and innovative milk products.

The initial scope of the relationship incorporates the following elements:

Nutritional Products Manufacturing and Supply Agreement (NPMSA)

The companies have entered into an NPMSA under which Fonterra will exclusively supply A1 protein free milk products in both bulk powder form and consumer packaged form to a2MC.

Within this agreement, Fonterra has been granted exclusive supply rights for certain nutritional products destined for sale in certain a2MC new priority markets in South East Asia and the Middle East up to a specified volume. In return for these rights, a2MC has become a strategic customer of Fonterra with allocation of production capacity as volume grows and competitive commercial terms. The products will be manufactured at Fonterra's Darnum facility in Victoria, Australia, and packaged into consumer packaged form at Fonterra's facility in Hamilton, New Zealand. To support the agreement, a new A1 protein free milk pool will be developed in Australia in conjunction with a2MC.

New Zealand Fresh Milk Licence

Fonterra has entered into an exclusive licensing agreement for the production, distribution, sale and marketing of a2 Milk™ branded fresh milk for end sale in the New Zealand market. As part of the New Zealand fresh milk licence, Fonterra will with support from a2MC, establish an A1 protein free milk pool in New Zealand.

a2MC will provide Fonterra with access to a2MC's systems and know-how relating to the sourcing, processing and marketing of a2 Milk™. Fonterra will leverage its substantial capabilities in the New Zealand milk market to establish distribution across the country.

Distribution and Sales Arrangements

As an extension of the NPMSA, the companies will seek to establish distribution and sales arrangements where Fonterra has resources and execution capability to assist a2MC's market entry strategies in the new priority markets. The services may relate to any of importation, registration, warehousing and sales and distribution.

Exclusive period to explore a2MC branded butter and cheese, and China sourced liquid milk

This includes evaluating and, if appropriate, negotiating commercial arrangements for the sale of certain new a2MC branded A1 protein free products in Australia, New Zealand and China. These arrangements relate to traditional dairy products not presently marketed by a2MC, including butter and cheese, as opposed to nutritional products, and would be complementary to Fonterra's dairy products portfolio in the specified markets.

Packaging facility to be explored

Given a2MC is now considering investment in blending and canning capabilities, a2MC and Fonterra have also agreed to explore the potential establishment of a jointly-owned facility as an extension of the arrangements under the NPMSA and to cater for growth.

Development of A1 protein free milk pool

To support these agreements, Fonterra in conjunction with a2MC will progressively develop an A1 protein free milk pool in New Zealand and Australia. This is for the purposes of manufacturing and supplying products to a2MC under these strategic arrangements. It is intended that these milk pools will significantly grow over time to service the agreement.

a2MC CEO Geoffrey Babidge said: "The comprehensive strategic relationship presents a2MC with a range of significant medium and long-term opportunities."

"The NPMSA will provide a2MC with a highly-credentialed second manufacturer to support the ongoing growth of the Company's nutritional business. The Company has been focused on broadening its manufacturing and supply chain options and the NPMSA will provide multi-site and geographic diversification and new product development opportunities. The partnership will also provide access to large scale manufacturing performance and competitive terms within a global context."

"The Company has been evaluating the best approach to build a meaningful position for a2 Milk™ branded fresh milk in New Zealand for some time. In our view, the relationship with Fonterra is the ideal model to build brand awareness and deliver a consistent high-quality product to the broadest customer base in this market."

"The opportunity to work together with Fonterra to explore new markets and products is also significant. Fonterra's resources and capability in many of our new priority markets should provide a basis to more quickly expand distribution of a2MC branded nutritional products. Over time additional markets and products may be added to this initiative."

Goldman Sachs acted as financial and strategic advisor to a2MC in relation to the establishment of the comprehensive strategic relationship.

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