



Media release

27 August 2014

Auckland, New Zealand

FONTERRA AND BEINGMATE INITIATE GLOBAL PARTNERSHIP IN CHINA'S HIGH-VALUE INFANT FORMULA MARKET

Key points

- New Zealand dairy co-operative Fonterra Co-operative Group Limited and a leading Chinese infant food manufacturer Beingmate intend to form a global partnership that will help meet China's growing demand for infant formula.
- The partnership will create a fully integrated global supply chain from the farm gate direct to China's consumers, using Fonterra's milk pools and manufacturing sites in New Zealand, Australia, and Europe.
- The partnership is intended to increase the volume and value of Fonterra's ingredients and branded products exported to China.
- It will be achieved in two phases:
 - Fonterra will shortly start the process to issue a partial tender offer to gain up to a 20 per cent stake in Beingmate
 - After gaining regulatory approvals and Fonterra satisfactorily completing the partial tender offer, Fonterra and Beingmate will set up a joint venture to purchase Fonterra's Darnum plant in Australia and will establish a distribution agreement to sell Fonterra's Annum™ brand in China.

Fonterra strategy in action

Fonterra Chief Executive Theo Spierings said the partnership between two leading dairy nutrition companies will be a game changer that will provide a direct line into the infant formula market in China, which is the biggest growth story in paediatric nutrition in the world. The partnership will also play a part in promoting leading product quality and safety standards in the infant formula market in China, participating in the ongoing development of the Chinese dairy industry, and supporting the development of Beingmate's business.

"By working together with Beingmate, we will strengthen our infant formula brand presence in China and link China to high quality ingredients from New Zealand, high value paediatric products made at Darnum in Australia, and whey specialty ingredients manufactured at our new plant in Heerenveen in the Netherlands and in alliance with Dairy Crest in the United Kingdom," said Mr Spierings. "We will also work with Beingmate to evaluate mutual investments in dairy farms in China.

"This will be another milestone in our strategy to create additional demand for ingredients and high-value paediatric and maternal nutrition products made from our New Zealand milk, complemented by milk drawn from our other international milk pools.

"China is our number one market and the proposal to join forces with Beingmate will be an important building block in Fonterra driving volume and value, and taking a step forward in terms of being a globally relevant co-operative.

“Our partnership with Beingmate will show the benefits of an integrated and secure supply chain, starting in New Zealand – our number one milk pool – where we are fast-tracking investment in milk processing capacity to meet global demand.”

Beingmate Chairman Mr. Wang Zhentai said, “Working together with Fonterra, we will create globally competitive, safe and secure supply chains to deliver high quality, advanced dairy nutrition to meet the needs of China’s growing population as well global consumers. The partnership will see our business take a significant step forward in its globalisation ambitions.”

The China dairy industry and infant nutrition market

Fonterra Chairman John Wilson said Fonterra has been committed to being a part of China’s dairy industry and contributing to its development for many years.

“Fonterra is already playing its part in the creation of a vibrant, local dairy industry through our farms investment, sharing technical expertise, providing high-quality imported ingredients to local food manufacturers and innovative dairy solutions to the foodservice sector,” said Mr Wilson.

“We are looking for this global partnership to take our relationship with China and its consumers to a whole new level. It will benefit Fonterra, Beingmate and all our stakeholders and is part of our drive to increase returns to our farmer shareholders.”

Mr. Wang from Beingmate said, “The proposed partnership is well-aligned with the Chinese government’s desire to see a strengthened focus on quality and consumer safety in the local dairy industry. We believe this global partnership will play a constructive role in the development of China’s and the global dairy industry as both parties work together to drive a two-way flow of capital, technology, supply and distribution.”

Mr Spierings said by working alongside Beingmate, the partnership will participate in growth in a category where there is huge demand.

“The infant formula market in China is worth about NZ\$18 billion today and is expected to be worth NZ\$33 billion by 2017. This growth is driven by increasing urbanisation, higher disposable incomes, a preference for premium brands, and relaxation of the one child policy,” he said.

Mr Spierings said Fonterra and Beingmate have a shared commitment to international best practice quality standards and are committed to stringent processes and controls around procurement of raw materials, fresh milk collection, production process testing, the addition of nutrients, pre-delivery inspection and tracking and tracing of manufactured product.

“In addition, Beingmate has an extensive distribution network and local knowledge that complements Fonterra’s commitment to food safety and quality.

“What Fonterra brings to the table is world-leading expertise in dairy, particularly in the areas of farm management, milk production, dairy processing, quality control, tracking and tracing, dairy nutrition and innovation,” said Mr Spierings.

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About Fonterra

[Fonterra](#) is a global leader in dairy nutrition – the preferred supplier of [dairy ingredients](#) to many of the world's leading food companies. Fonterra is also a market leader with our own [consumer dairy brands](#) in Australia/New Zealand, Asia/Africa, Middle East and Latin America.

The [farmer-owned](#) New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on [generations of dairy expertise](#), Fonterra is one of the largest investors in dairy based [research and innovation](#) in the world. Our more than **16,000 staff** work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.

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Editor's Note: Details on the structure of the proposed global partnership

It is noted that the following arrangements are subject to regulatory approvals in China and Australia. Beingmate and Fonterra will comply with all regulations and co-operate with all relevant regulatory authorities in the execution of the proposed arrangements.

The key elements of the proposed global partnership between Fonterra and Beingmate are:

- An up to 20 per cent investment by Fonterra in Beingmate
- The establishment of a joint venture in Australia that will deliver high quality infant formula product to Beingmate for Chinese consumers
- A distribution agreement for Fonterra's Annum™ infant formula product in China
- Fonterra and Beingmate are investigating additional areas of co-operation, including joint R&D, ingredients supply, and building on world-leading food quality assurance.

Equity investment and Shareholders' Agreement

Fonterra will start the process to issue a partial tender offer to gain up to a 20 per cent stake in Beingmate at RMB 18 per share, subject to Beingmate's shareholder, government and regulatory approvals. Depending on the response to the tender offer, Fonterra's investment in the global partnership will be NZ\$615 million (including proceeds from the JV in Australia).

Following the successful completion of Fonterra's partial tender offer, a formal Shareholders' Agreement with Beingmate Group will come into force. It will provide for:

- Fonterra to be able to nominate up to two directors on the Board of Beingmate
- Beingmate Group to retain at least a 30 per cent controlling stake in Beingmate and Fonterra's shareholding not to exceed the shareholding of the Beingmate Group.

Annum™ distribution agreement

By forming a strategic partnership with Beingmate, Fonterra's Annum™ brand will become more widely available throughout China. The two companies will enter a distribution agreement, appointing Beingmate as Fonterra's exclusive Annum™ distributor in the People's Republic of China.

The distribution agreement will provide for the following:

- Beingmate will drive distribution channels and sales
- Brand management will be managed by a brand management committee, with representatives of both Beingmate and Fonterra.

Proposed joint venture

If the strategic partnership proceeds, Fonterra and Beingmate will establish a joint venture to purchase the Darnum plant in Australia, through wholly owned subsidiaries. Darnum is a state-of-the-art facility in Victoria, recognised as one of the world's leading paediatric plants.

The JV's formation will be conditional on factors including the parties entering into formal agreements, due diligence on Darnum, and regulatory approvals in Australia and China.

The purpose of the proposed JV will be to manufacture nutritional powders, including infant formula and other nutritional milk powders, at Darnum, for Fonterra and Beingmate. Darnum will prioritise supply to the Chinese market and also provide supply to the rest of the world.

Beingmate will own 51 per cent of the JV to satisfy Chinese regulatory requirements.

The day-to-day operation of Darnum will be unaffected if the proposed JV were to proceed. All employees will continue to be employed by Fonterra and milk collection agreements between Fonterra and dairy farmers in Australia will remain as they are today.

Details of the proposed JV include:

- Darnum's operational functions will be managed by a Fonterra management company, under a formal management agreement
- Fonterra will also supply raw milk to Darnum
- The JV will be governed by a Board, to which Fonterra and Beingmate will each appoint two directors. The Chairman will be appointed by Beingmate.

Additional areas of co-operation

The proposed JV will provide a framework that may include further co-operation between Fonterra and Beingmate that may include:

- Strategic co-operation in relation to food safety and supply chain management
- A review of each other's China farm assets and development plans to assess possible co-investments in farms
- Partnerships to develop potential new products for the Chinese market
- Joint investment in other Australian foods markets for supply to China
- Development of new dairy products.