

Voluntary Report – Voluntary - Public Distribution

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Report Name: Record Payouts for Shareholders of Major Dairy Processor

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Post: Wellington

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Report Highlights:

On April 14, 2026, New Zealand's largest dairy processor Fonterra Co-operative Group Limited completed a substantial payout to its predominantly farmer shareholders. This payout is following the sale of its global consumer businesses to French dairy multinational, Lactalis. The tax-free capital return comes at a time when farmgate milk prices remain high, well above the breakeven price. The total payment is significant and equivalent to almost 0.9 percent of the country's annual Gross Domestic Product (GDP).

Executive Summary

On April 14, 2026, New Zealand's largest dairy processor Fonterra Co-operative Group Limited completed a substantial payout to its predominantly farmer shareholders. This payout is following the sale of its global consumer businesses to French dairy multinational, Lactalis.

The tax-free capital return comes at a time when farmgate milk prices remain high, well above the breakeven price. The total payment is significant and equivalent to almost 0.9 percent of the country's annual Gross Domestic Product (GDP).

According to industry contacts, shareholders are expected to expend this payout primarily on debt servicing and acquiring more inputs, particularly now as producers hope to frontload fuel and fertilizer purchases given current price volatility/uncertainty for their operations. As such, FAS/Wellington estimates that the majority of the payout proceeds will be directed to reducing debts along with increased purchases of fertilizer, supplemental feed, and along with repairs/maintenance and personal expenditures. Post will provide additional analysis on this payment in the upcoming New Zealand Dairy Semi-Annual report in June 2026.

The combination of asset divestment and capital return has raised broader questions about Fonterra's long-term trajectory from some industry and government representatives. The sale of consumer assets to Lactalis and the distribution of proceeds is a deliberate narrowing of strategic focus on business-to-business operations for Fonterra.

Note: For foreign exchange rate between New Zealand Dollar and United States Dollar, the rate used in this report is NZ\$ 1.00 = US\$ 0.59.

Background

Fonterra Co-operative Group Limited (FCG) was established in October 2001 following the merger of the country's two largest dairy co-operatives, New Zealand Dairy Group (NZDG) and Kiwi Cooperative Dairies, with the New Zealand Dairy Board. At its formation the New Zealand Government passed the Dairy Industry Restructuring Act 2001 (DIRA) to allow the merger to proceed as the merger would result an effective monopoly processing 96 percent of the nation's milk production. Since then, new dairy processors have emerged with FAS/Wellington estimating that FCG is currently processing 78 percent of national milk production.

The DIRA legislation provides guidance and conditions over the way the country's dairy industry operates, including:

- Where FCG can accept milk supplies
- How farmgate milk prices are calculated
- The allocation of raw milk supplies to independent processors at a regulated price
- How FCG shares are traded and capital is restructured

In 2022, the New Zealand Government made amendments to DIRA regarding how FCG can restructure their capital. This resulted in a more restricted farmer-only market, with provisions detailing how many shares a farmer would be required to own in relation to kilograms of milk solids (kgMS) produced. As a result, FCG's Flexible Shareholding capital structure requires that farmers who supply milk need to hold a minimum of one share for every three kilograms of kgMS supplied and can hold up to a maximum of four shares for every kgMS supplies. It also permanently capped the FCG shareholders fund to prevent outside investors from owning too much of FCG.

FCG is New Zealand's largest company, with global offices and reach. In the December 2025 Situation Outlook for Primary Industries, published by the Ministry for Primary Industries, the New Zealand agricultural sector contributed to 82.9 percent of national goods exported. Of these exports, dairy products accounted for 45 percent of the value of these goods.

Over the past decade, FCG has undergone a significant strategic recalibration following a period of offshore expansion that delivered inconsistent returns. Investments in international consumer and foodservice businesses, while intended to diversify earnings, exposed the cooperative to operational complexity and capital inefficiencies. This prompted a renewed focus on core competencies, particularly ingredients and foodservice channels where FCG retains scale advantages.

Following earlier expressions of interest from international dairy companies, FCG formally announced its intention to divest a portion of its global consumer and associated businesses in May 2024, signaling a strategic shift away from branded consumer exposure. Building on this process, FCG announced on August 22, 2025, that it had reached an agreement to sell selected assets to French dairy multinational, Lactalis.

Shareholder approval for the transaction was subsequently secured on October 30, 2025, with the deal valued at approximately NZ\$4.22 billion (US\$2.5 billion). FCG indicated that a significant proportion of the proceeds would be returned to farmer shareholders, with capital distributions commencing in 2026, following the completion of the sale. This sale was fully finalized on March 31, 2026.

Payout to Farmer-Shareholders

On April 14, 2026, the cooperative distributed multiple component payments, including a NZ\$2.00 per share tax free payment alongside additional taxable dividends. According to the New Zealand Companies Office, there are over 1.6 billion shares held in FCG. Below is an estimate on the total value of the disbursed payments.

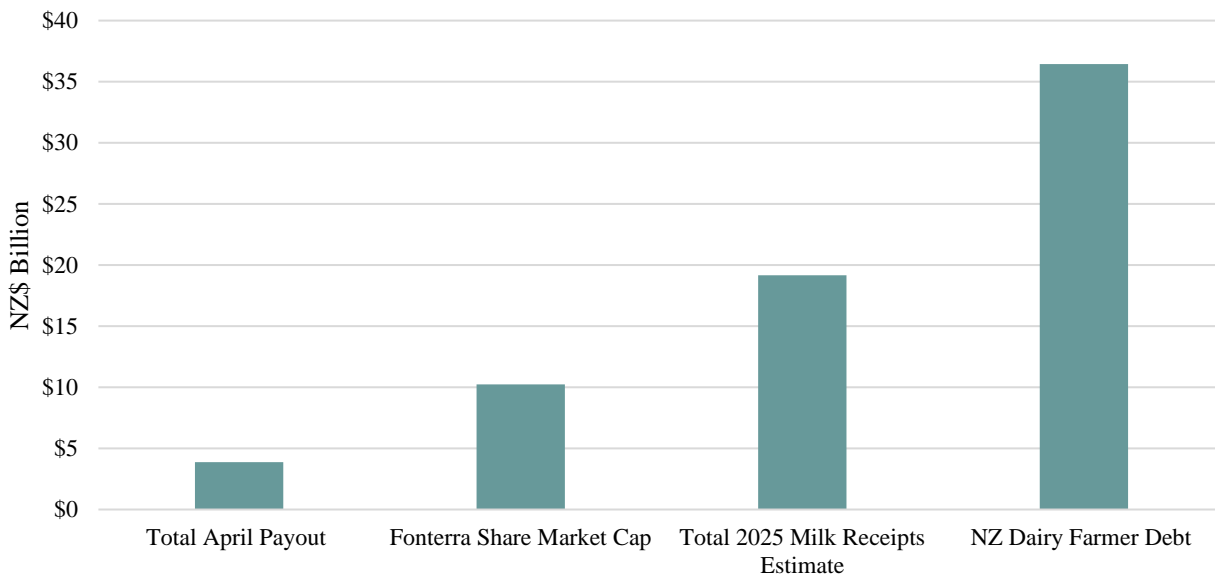
Table 1: April 2026 Shareholder Payout

		Value (NZ\$ million)
Tax Free Capital Return	\$2/share	\$3,218
Interim Dividend	24 cents/share	\$386
Special Mainland Dividend	16 cents/share	\$257
Total Payout	\$2.4/share	\$3,862

Source: Fonterra, NZ Companies Office, FAS/Wellington

This payout comes at a time when the dairy sector is experiencing significant farm gate returns and consolidation of debt. Figure 1 displays how the shareholder payout compares to other economic aspects associated with the sector.

Figure 1: Payout Comparisons for Industry



Source: Fonterra, NZX, Reserve Bank of New Zealand, FAS/Wellington

The tax-free component is best understood as a return of capital rather than a conventional dividend. Within New Zealand’s tax framework, standard dividends are typically paid out of retained earnings and are taxable, often accompanied by imputation credits to reflect corporate tax already paid. By contrast, a return of capital is sourced from shareholder equity rather than profits and is therefore not taxed as

income at the time of distribution. Instead, it reduces the shareholder’s cost basis in their shares, with any tax implications deferred until disposal.

The remaining dividend components were treated as taxable distributions, consistent with being paid from earnings. This blended structure highlights an intentional approach to capital management, where both the level and the form of payouts are actively optimized.

Table 2: Payout Proportional Comparisons

		Value (NZ\$ million)	April Payout in Proportion	Reporter
Fonterra Share Market Cap	\$6.363/Share	\$10,239	37.72%	NZX
Total 2025 Milk Receipts Estimate	\$9.70 per KgMS	\$19,155	20.16%	FAS/Wellington
NZ Dairy Farmer Debt	February 2026	\$36,437	10.6%	Reserve Bank of New Zealand
New Zealand GDP	2025	\$445,000	0.87%	Statistics New Zealand

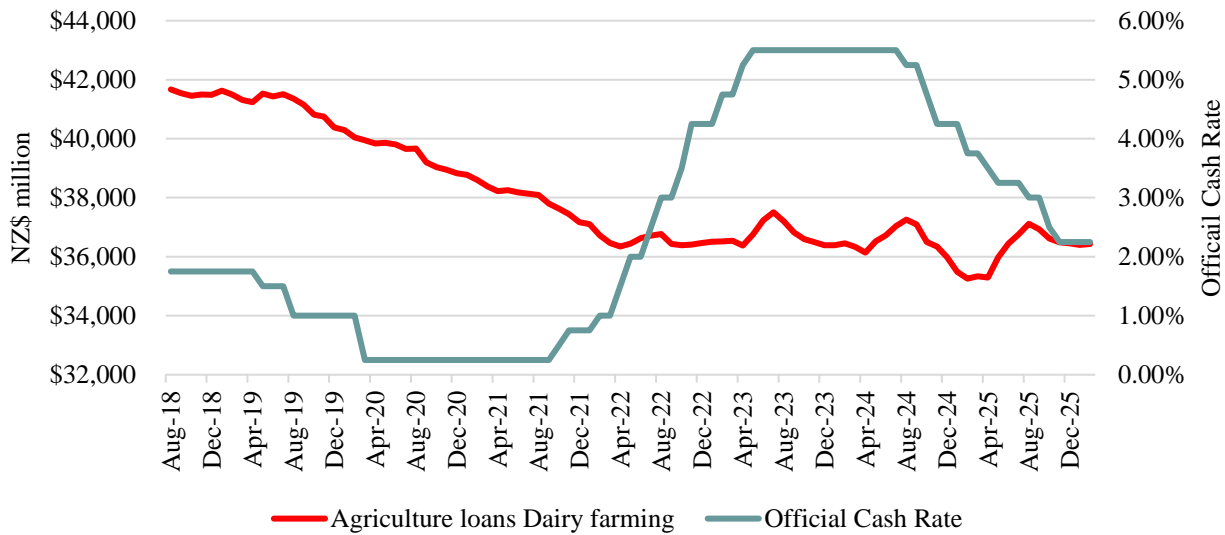
Source: FAS/Wellington

Implications for Farmer Shareholders

Media reports the average return to farmer shareholders is approximately NZ\$400,000 (US\$236,000) per farm. Due to the varying scale of dairy ownership as well as the mixture of substantially larger corporate suppliers and private ownership, this value may be slightly overstated at a per farm level. Nonetheless, corporate suppliers with multiple farms will be receiving a significant payout, DairyNZ have forecasted in the current farming year that average milk production per farm will slightly exceed 190,000 KgMS. Post estimates that this would more likely result in a payment less than reported of ~NZ\$150,000 (\$US88,500) to the average farm.

For farmer shareholders, the dividend provides an important supplementary income stream at a time when some farm cost pressures remain elevated, following several seasons of elevated interest rates (See figure 2).

Figure 2: Loans to Dairy Farming and Official Cash Rate

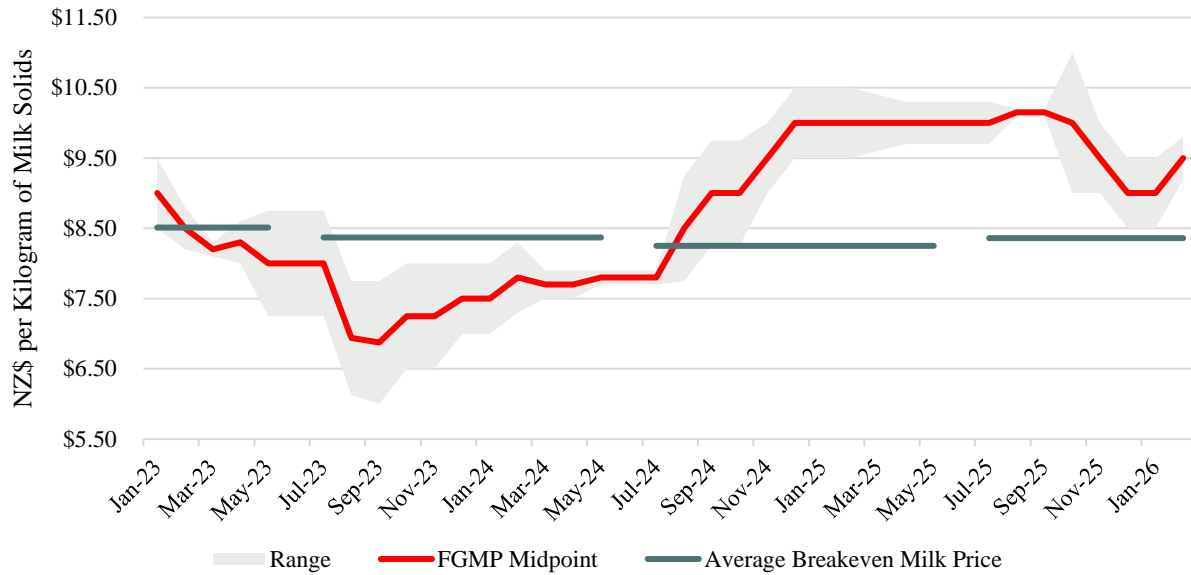


Source: Reserve Bank of New Zealand

The tax-free component is particularly valuable in enhancing immediate cash flow without increasing tax obligations, which may be especially relevant for highly leveraged or growth-oriented farm businesses.

However, the dividend should still be viewed as secondary to the farmgate milk price, which remains the primary driver of farm profitability in the incoming and outgoing season. Especially as the farmgate milk price is currently favorable for on-farm cash surplus (Figure 3). The current structure does, however, reinforce the attractiveness of remaining within the cooperative system, particularly in regions where competition for milk supply is increasing such as Waikato, Central Plateau and Canterbury regions.

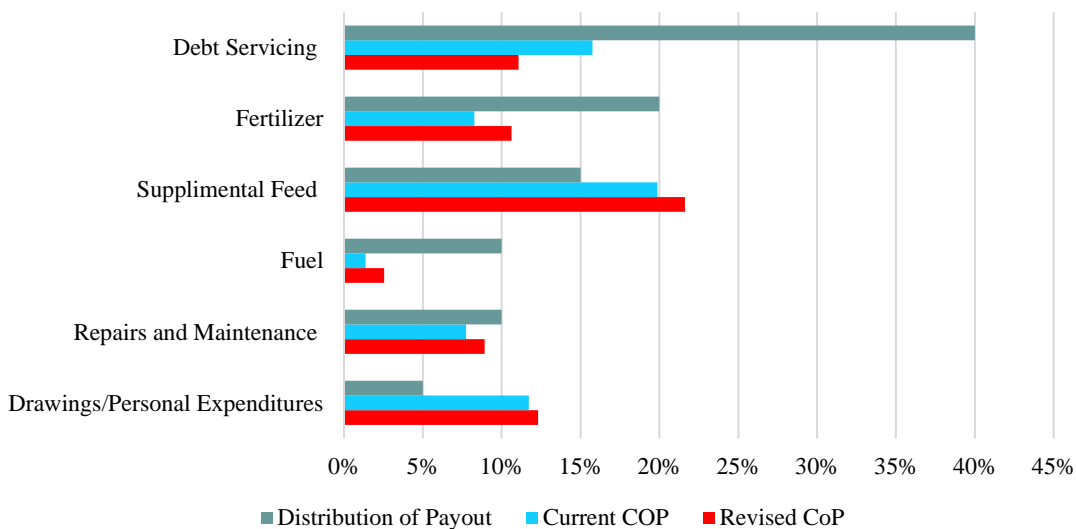
Figure 3: Farmgate Milk Price and Breakeven Milk Price



Source: Fonterra, DairyNZ

According to industry sources, the disbursement of this payout will be immediately focused on debt servicing and investing in cost-reducing tools for their dairy business. Figure 4 displays a scenario based on feedback received from industry sources based on how a dairy farmer may distribute the payout, with additional analysis on how this would change to the businesses' cost of production (CoP). Local contacts have signaled that this capital return payment is seen as an opportunity to purchase, improve or upgrade current capital assets, such as machinery, plant, and infrastructure.

Figure 4: Distribution of Payout Scenario and Change to Cost of Production



Source: FAS/Wellington

One of FCG largest farmer shareholders is the state-owned enterprise - Pāmu (Landcorp Farming Limited). Following the capital repayment, Pāmu announced a special dividend of NZ\$10 million (US\$5.9 million) to the Crown. Which reportedly included all the organization's NZ\$9.5 million (US\$5.6 million) return, reflecting a strong outlook for its business in the current farming environment.

Strategic and Structural Considerations

The combination of asset divestment and capital return have raised broader questions about Fonterra's long-term trajectory from some industry and government representatives. Prior to the shareholder vote, leader of the New Zealand First political party and Foreign Minister Rt Hon Winston Peters, expressed in an [open letter](#) that the sale of FCG 's consumer business risks the safeguarding of New Zealand's economic interests, giving away commercial assets for a " short-term sugar hit."

The sale of consumer assets to Lactalis and the distribution of proceeds is a deliberate narrowing of strategic focus on business-to-business operations for FCG. This approach has clear advantages in terms of capital efficiency and risk reduction. However, it also potentially limits exposure to higher margin branded segments, which could be important for long term value creation.

The cooperative structure has always added an additional layer of complexity in New Zealand agriculture. The challenge of balancing immediate shareholders returns with the need for sustained investment remains a central tension. While there is criticism that the current dividend strategy suggests that FCG is prioritizing capital returns, it is worth noting that NZ\$1 billion (US\$590 million) of the sale proceeds will be invested by FCG into its business operations including facility upgrades and other investments.

Attachments:

No Attachments.