

CHANGES IN SOLIDS NON-FAT (SNF) PAYMENT POLICY QUESTIONS AND ANSWERS

Effective April 1, 2026:

Tier 1: Components used in the Domestic Market – Within Quota Butterfat and Protein and Other Solids less than 2.2 kgs of SNF:BF

Tier 2: Structural Surplus Components valued at world price or less – Protein and Other Solids between 2.2 and 2.3 kgs of SNF:BF

No-Pay: Components with no market value – Protein and Other Solids greater than 2.3 kgs of SNF:BF

Please see example producer statement below:

WITHIN QUOTA		Kg		\$/Kg	\$
Butterfat	2,717.56	}	Tier 1		36,557.16
Protein	1,912.87				20,217.89
Lactose/Other Solids	3,522.25				3,170.03
					\$59,945.08
Market Ratio			Tier 2		
Protein	191.29	}			596.90
Lactose/Other Solids	352.22				1,099.07
					1,695.97
SNF Ratio Cap			No-Pay		
Protein	93.08	}			0.00
Lactose/Other Solids	171.40				0.00
					\$0.00
OVER QUOTA					
Butterfat	0.00			-2.7327	0.00
Protein	0.00			-1.9107	0.00
Lactose/Other Solids	0.00			-0.3917	0.00
					\$0.00

1. When is the change in the SNF payment policy effective?

The following changes in the SNF policy are effective April 1, 2026:

- Increase the market ratio to 2.20;
- Increase the no-pay ratio to 2.30; and
- Modify butterfat and Tier 1 protein price by changing the distribution of the residual revenue from the other solids, 30% to butterfat (BF) and 70% to protein paid in Tier 1.

2. Why was April 1, 2026 chosen?

It was chosen to provide producers with the market requirements as soon as possible to adjust their SNF and BF production and plan decisions accordingly.

3. Why is the payment policy changing and how does this affect tier 1 payment?

The faster than anticipated decrease of the farm production ratio has generated less volume at the same time as there have been significant increases in the market demand for protein. This has resulted in shortages of processors orders in P5 as processors seek more protein, while the butterfat market is fully served, and butter stock levels have increased significantly. P5 has had a decrease in surplus skim milk although there continues to be a need for additional processing capacity to respond to variability in demand.

The increase in both the market ratio and no-pay ratio is to provide a bonus for additional protein produced which is reflective of the additional demand for this component.

In addition, the redistribution of the residual revenue from other solids will result in a lower price for butterfat and an increase in the tier 1 protein price.

The expected effect is an increase in the tier 1 protein price by approximately \$2.00 and a decrease in the butterfat price by approximately \$1.80.

4. Are there changes to the prices being paid to producers for SNF in tier 2?

The tier 2 price will now apply to SNF between 2.20 and 2.30. There is no change for prices paid for SNF in tier 2, which were effective January 1, 2026:

- Protein: monthly 4a price + \$3.00/kg
- Lactose and other solids: \$0.90/kg

5. Does the new SNF/BF policy affect the prices paid by processing plants?

No, the new policy does not affect plant billing.

6. What would be the impact on the component prices paid to producers in tier 1 and tier 2?

The price of butterfat will decrease as a result of the increase in tier 1 protein price. Please see an example below of the change in prices due to the change in policy. Please note component prices will continue to change on a monthly basis dependent on the revenue received from processors.

		Current Policy Jan 1, 2026 (\$/kg)	New Policy Effective Apr 1, 2026 (\$/kg)	Difference (\$/kg)
Tier 1 Price	Butterfat	\$13.93	\$12.12	-\$1.81
	Protein	\$11.06	\$13.13	+\$2.07
	Other Solids	\$0.90	\$0.90	+\$0.00
Tier 2 Price	Protein	\$6.04	\$6.04	+\$0.00
	Other Solids	\$0.90	\$0.90	+\$0.00

7. What would the impact of the payment policy change for a 100kg farm?

A 100kg farm would receive approximately an additional \$1,900 annual revenue for each incremental increase of SNF ratio of 0.01, up to a 2.20 ratio.

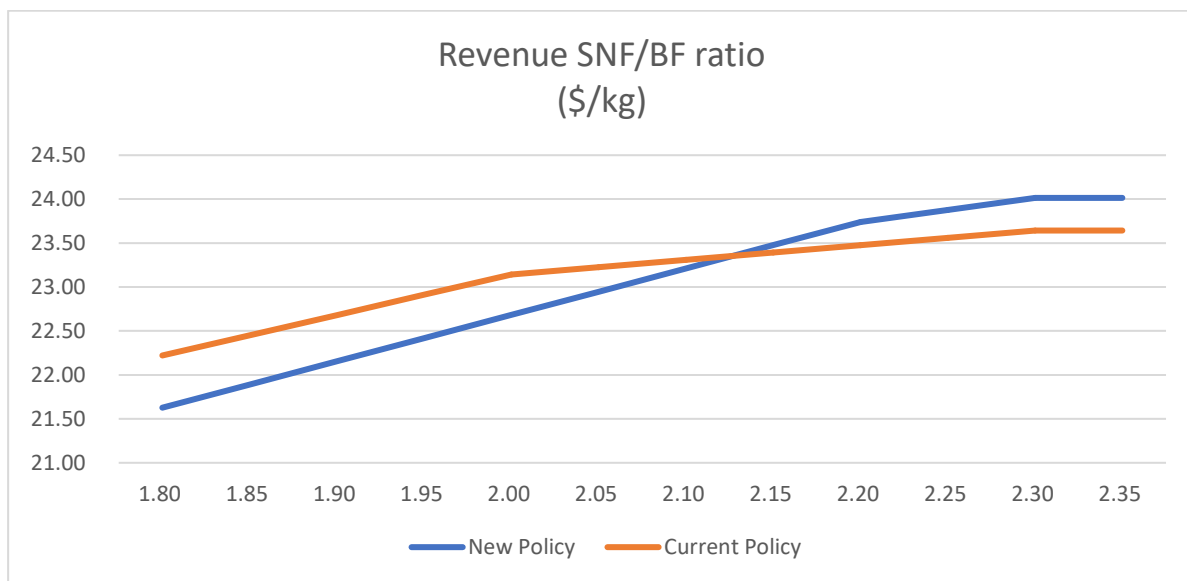
Meaning, a 100kg farm that increases their SNF ratio from 2.10 to 2.20 would receive approximately an additional \$19,000 of annual revenue.

For each incremental increase of SNF ratio of 0.01 between a 2.20 and 2.30 ratio, it would be an additional \$1,000 in annual revenue for a 100kg farm.

8. What would be the impact of the payment policy change on the overall \$/kg blend price?

With the decrease in butterfat price and increase in protein price in tier 1, the table below illustrates the change in total blend price revenue at each SNF ratio.

Note that producers with SNF ratio greater than 2.15 are expected to have an increased overall revenue, while producers that maintain a 2.10 ratio or less will have a decrease in overall revenue.



9. What have been the changes to this policy over the past few years?

The following is a table summarizing the SNF/BF payment policy changes since 2020:

2020	The maximum no pay SNF/BF ratio was adjusted from 2.35 to 2.30.
2021	Two tier pricing, including a market ratio was implemented. With tier 2 pricing paid at 4a price for protein, and lactose and other solids.
2022	The maximum no pay SNF/BF ratio was reduced from 2.30 to 2.25.
2023	The maximum no pay SNF/BF ratio was reduced from 2.25 to 2.20. In addition, the tier 2 pricing was adjusted to 70% of 4a price for protein and \$0.63/kg for lactose and other solids.
2025-08	The tier 2 pricing was adjusted to 4a price for protein and \$0.90/kg for lactose and other solids.
2026-01	The tier 2 pricing was adjusted to 4a price plus \$3.00/kg for protein.

10. Will there be more changes to this policy?

The P5 Quota Committee will continue to evaluate the payment policy and update its parameters and objectives as necessary, to ensure markets continue to be met.