CHANGES IN SOLIDS NON-FAT PAYMENT POLICY
QUESTIONS AND ANSWERS

Effective December 1, 2026:

Tier 1: Components used in the Domestic Market – Within Quota Butterfat and Protein and Other Solids less than 2.15 kgs of SNF:BF

Tier 2: Structural Surplus Components valued at world price or less – Protein and Other Solids between 2.15 and 2.50 kgs of SNF:BF

No-Pay: Components with no market value – Protein and Other Solids greater than 2.50 kgs of SNF:BF

Please see example producer statement below:

	Kg	$/Kg	$
WITHIN QUOTA			
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			
Protein	191.29	Tier 2	596.90
Lactose/Other Solids	352.22		1,099.07
			1,695.97
SNF Ratio Cap			
Protein	93.08	No-Pay	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 December 1, 2026:

1. Adjust the protein price in Tier 2 to a fixed price of $25.00/kg.
   The funds required to increase the Tier 2 protein price will come from butterfat revenue.
   This significant signal change aims to provide an incentive for SNF production above the Tier 2 ratio to meet market needs.
2. Decrease the Tier 2 ratio from 2.20 to 2.15.
   Ongoing work has established that the P5's needs are at a ratio above 2.15.
   For the 2025-2026 year, 35% of P5 producers had a ratio above 2.15. The objective of this change is to further support producers in a position to make greater contribution to supplying the protein market and to encourage other producers to increase their ratio as well.

2. Why was December 1, 2026 chosen?

It was chosen to provide producers with the market requirements as soon as possible to continue to adjust their protein and butterfat production and plan decisions accordingly, in order to meet the market demand for increased protein.

3. Why is the payment policy changing?

As part of the continuous assessment of the payment policy parameters, the conclusion was reached that the volume of milk produced by the P5 needs to continue to increase more significantly to meet the market demand for increased protein.

Therefore, to emphasize the importance of increasing the protein and volumes produced, the additional funds required for the protein in Tier 2 will be transferred from butterfat, lowering the price paid to producers on butterfat produced. The other solids revenue remains at $0.90/kg for both tiers.

4. Is there a change to the payment of other solids?

No, other solids in tier 1 and tier 2 will continue to be paid at $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 and protein in tier 1 will decrease as a result of the increase in tier 2 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 ($/kg)	New Policy Effective Dec 1, 2026 ($/kg)	Difference ($/kg)
Tier 1 Price	Butterfat	$10.45	$10.21	-0.24
	Protein	$14.91	$15.04	+0.13
	Other Solids	$0.90	$0.90	+$0.00
Tier 2 Price	Protein	$6.55	**$25.00**	+18.45
	Other Solids	$0.90	$0.90	+$0.00

7. What would the impact of the payment policy change for a 100kg farm, <u>after transportation deductions</u>?

A 100kg farm would receive approximately an additional $3,200 annual revenue after deductions for each incremental increase of SNF ratio of 0.01 in tier 2 (ratio between 2.15 and 2.50).
Meaning, a 100kg farm that increases their SNF ratio from 2.15 to 2.20 would receive approximately an additional $16,000 of annual revenue after deductions.
For each incremental increase of SNF ratio of 0.01 in tier 1 (up to 2.15 ratio), it would be an additional $1,931 in annual revenue after deductions, 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 and tier 1 protein prices and increase in protein price in tier 2, the table below illustrates the change in total blend price revenue at each component level and includes the changes made in December compared to June or the revenue based on the new payment policy effective Dec 1, 2026.

Change in revenue

Rev $/kg of Quota		Protein (kg/hl)							
		3	**3.1**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**3.7**
BF (kg/hl)	**3.9**	$0.63	$0.80	$1.00	$1.19	$1.38	$1.59	$1.80	$2.02
	4	$0.27	$0.44	$0.61	$0.79	$0.98	$1.17	$1.38	$1.58
	4.1	-$0.03	$0.09	$0.25	$0.43	$0.60	$0.79	$0.97	$1.17
	4.2	-$0.15	-$0.12	-$0.04	$0.07	$0.24	$0.41	$0.58	$0.77

	4.3	-$0.15	-$0.15	-$0.14	-$0.13	-$0.04	$0.05	$0.21	$0.39
	4.4	-$0.15	-$0.14	-$0.14	-$0.14	-$0.14	-$0.14	-$0.05	$0.04
	4.5	-$0.15	-$0.15	-$0.14	-$0.15	-$0.14	-$0.14	-$0.14	-$0.13
	4.6	-$0.16	-$0.15	-$0.15	-$0.14	-$0.15	-$0.14	-$0.13	-$0.14
	4.7	-$0.16	-$0.16	-$0.15	-$0.15	-$0.15	-$0.14	-$0.14	-$0.14

Revenue

Rev $/kg of Quota		**Protein (kg/hl)**							
		3	**3.1**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**3.7**
BF (kg/hl)	**3.9**	$23.65	$24.13	$24.62	$25.11	$25.60	$26.10	$26.60	$27.10
	4	$23.13	$23.60	$24.07	$24.54	$25.02	$25.50	$25.99	$26.47
	4.1	$22.64	$23.09	$23.55	$24.01	$24.47	$24.94	$25.41	$25.88
	4.2	$22.23	$22.61	$23.05	$23.50	$23.95	$24.40	$24.85	$25.31
	4.3	$21.95	$22.30	$22.65	$23.01	$23.45	$23.88	$24.32	$24.77
	4.4	$21.68	$22.03	$22.37	$22.71	$23.05	$23.39	$23.82	$24.25
	4.5	$21.43	$21.76	$22.10	$22.43	$22.77	$23.10	$23.43	$23.77
	4.6	$21.18	$21.51	$21.84	$22.17	$22.49	$22.82	$23.15	$23.47
	4.7	$20.95	$21.27	$21.59	$21.91	$22.23	$22.55	$22.87	$23.19

9. What other future policy changes are being considered?

The P5 Boards are considering implementing new polices, including but not limited to a new ratio, a protein to butterfat (PT/BF) ratio with a target range for producers to attain.

The P5 will continue discussions on the details on any new polices and provide updates as they become available, although the expectation is that any implementation would occur no sooner than late 2027.

The combination of the short-term and expected long-term policy changes is to implement adjustments required to fill the market demand for all components. The P5 Quota Committee will continue to monitor the markets to determine if further adjustments are required.

10. 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.
2026-04	The market ratio is increased to 2.20 and the no-pay ratio is increased to 2.30. Modify butterfat and Tier 1 Protein price by changing the distribution of the residual revenue from the other solids, 30% to butterfat and 70% to protein paid in Tier 1.
2026-06	The no-pay ratio is increased to 2.50. Modify butterfat and Tier 1 (Within Quota) Protein price by changing the distribution of the residual revenue from the other solids, from 30% to butterfat and 70% to protein, to 100% to protein paid in Tier 1.