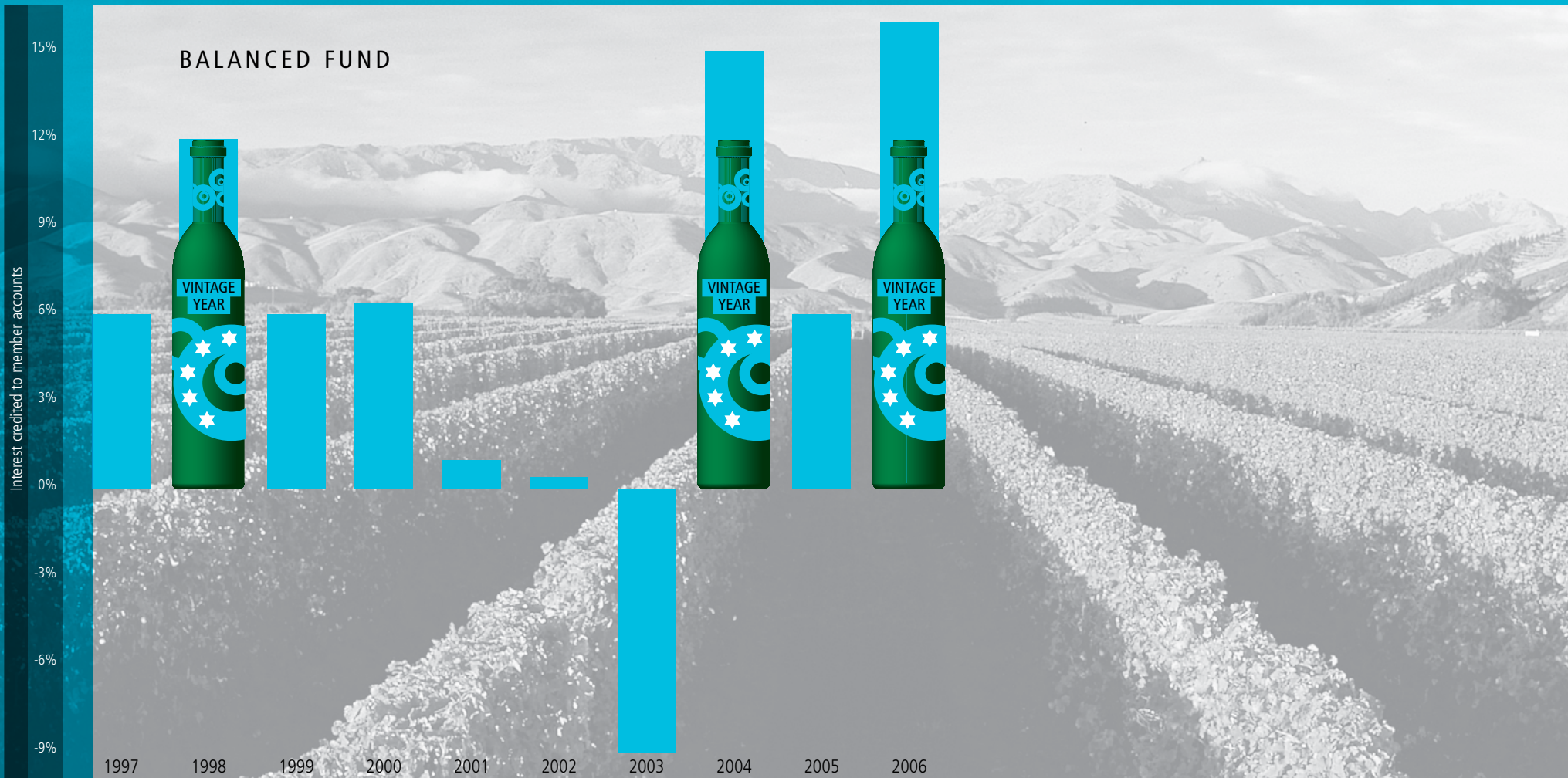


A VINTAGE YEAR WITH EXCELLENT RETURNS TO MEMBERS



When compared with the Mercer NZ Balanced Manager Fund Survey for investment returns (before fees, expenses, tax and insurance), the Scheme ranked in the top 25% for the last three years and last five years.

I'M HERE TO HELP

Peter Alsop takes care of the day to day running of the Scheme. Please ring Peter, or the Member Helpline, if there is any aspect of the Scheme or this report you do not understand.



Freephone: 0800 355 900
Telephone: (04) 890 7026
Facsimile: (09) 353 1712
P O Box 2897, Wellington

MEMBER SERVICES

Ring the Member Helpline

0800 355 900 to discuss any queries you may have about the Scheme, your Personal Benefit Statement or to discuss investment switch options

Access the Internet

www.superfacts.co.nz to access an estimate of your current personal benefits, to project your retirement benefit, to update your address record and read about superannuation developments

Project your Retirement Benefit

www.superfacts.co.nz has a calculator module. Simply click on the 'your super value' button, select the 'Estimate your future benefits' calculator and follow the instructions

CHAIRMAN'S REPORT

Vintage years do not happen that often but they do occur, as illustrated on the front cover. Bumper returns have now been produced in two of the last three years to offset the poor returns in the years 2001 to 2003.

Exceptional returns were provided by Trans-Tasman shares 29%, international shares (40% hedged) 34%, Trans-Tasman property 27% and global property 45%. Fixed interest and cash returns were more normal at 8% plus. The returns quoted are before tax and fees. The pleasing aspect was that the sharemarket gains were widespread, with Japan and Emerging Markets outperforming Europe and the USA. Stimulus to the market was provided by consumer demand driving corporate profits, global growth and merger/acquisition activity.

The return from international shares was also assisted by the decline in the New Zealand dollar, which fell 14% against the US dollar over the year. A further benefit was the Trustee lowering the level of foreign exchange cover on international shares from 50% to 40%.

The vintage year is reflected in the interest rates credited to member accounts as shown in the table below:

Year ended 31 March	2006	2005	2004	2003	2002
Cash fund	5.40%	4.25%	4.11%		
Cash/Conservative	8.03%	4.69%	6.87%		
Conservative fund	10.65%	5.13%	9.63%		
Conservative/Balanced	13.58%	5.55%	12.73%		
Balanced fund	16.50%	5.96%	15.84%	-8.76%	0.25%
Balanced/Growth	18.54%	6.26%	17.96%		
Growth fund	20.58%	6.55%	20.09%		

As advised to members in the December newsletter, the Trustee has further diversified the Scheme by including an alternative asset sector in the Balanced and Growth funds. The initial investment into the alternative asset sector is a fund of hedge funds with \$10 million invested at 31 March 2006. With its absolute return focus, the Trustee is attempting to reduce the amount of fluctuations in returns which can be expected from investing in shares. An explanation of hedge funds is provided later in this report.

A year of vintage returns

Shares and property performed exceptionally well

Lower forward exchange cover and a declining NZ dollar boosts returns

Balanced and Growth funds show the highest returns for the year but they are more volatile in performance than the Conservative and Cash funds

Fund of hedge funds introduced to Balanced and Growth funds

The Trustee welcomes the 745 new members to the Scheme. It is pleasing to note that the Scheme continues to grow in terms of number of members and their retirement savings, with the latter more than doubling over the past 10 years. Forty-seven pensioners elected to exchange their pensions for cash under a commutation offer made by the Trustee, and \$1.3 million was paid out.

The KiwiSaver Bill has been introduced to Parliament. From 1 April 2007 all new employees are automatically enrolled in KiwiSaver. The employee can elect to opt out from the second to sixth week after starting a new job. The Government is offering a sign-up incentive of \$1,000, an administration subsidy, the opportunity to withdraw savings for a first home purchase and receive a Government housing subsidy of up to \$5,000.

Fonterra Co-operative Group, the Scheme's largest employer, has advised the Trustee of its intention to offer KiwiSaver to employees alongside the Dairy Industry Superannuation Scheme (DISS) but with no company contribution subsidy. DISS remains Fonterra's preferred retirement savings plan for employees under a collective employment agreement. The Trustee notes that the 150% company contribution subsidy under DISS is worth considerably more to members than the Government provided incentives under KiwiSaver. Also, KiwiSaver has no built in death and disability insurance cover which is a benefit members enjoy under DISS. Fonterra's advice to the Trustee is based on the KiwiSaver Bill as first drafted.

The Government has also announced its intention to change the way superannuation schemes are taxed. The Trustee is currently evaluating the impact of these taxation proposals.

Neil Walker has elected to retire at the May meeting of the Trustee. Neil has been a Director of the Trustee for 15 years, and his wise counsel and significant contribution will be sorely missed. Thank you Neil. Andy Williams has been appointed by the Dairy Industry Association to replace Neil.

To the other Directors of the Trustee, thank you for your contributions during the year and for putting in place investment strategies that have delivered to our members a vintage year.



Cheers
Peter Robertson

	2006	1996
Members	5,786	3,471
Retirement Savings	\$286m	\$125m

DISS

Contributions 2% to 6%
Company subsidy of 150%
Benefit available on resignation or retirement from age 55
Insurance cover

KiwiSaver

Contributions 4% or 8%
Government incentives and subsidises
Savings locked in until age 65

Thank you Neil Walker

BENCHMARKING THE SCHEME'S PERFORMANCE

The Directors of the Trustee monitor the performance of the Scheme every month, and every three months meet with a selection of fund managers to discuss performance, identify trends and investigate opportunities.

The focus of the Directors is very much to minimise costs and maximise investment returns in order to achieve the objectives set for each fund.

A number of benchmarks are used to measure the Scheme's performance including:



A comparison is made of returns for each asset sector against a specified index

The Scheme outperformed all indices for the year (see page 5)



A comparison is made with the Mercer NZ Balanced Managed Fund Survey

The Scheme performance results are:

2006	top 50%
Last 2 years	top 25%
Last 3 years	top 25%
Last 5 years	top 25%



Reviewing the Scheme's returns (after fees, expenses, tax and insurance) against the long-term objective for each fund

The Scheme performance results are:

Fund	Objective*		Achieved (average pa)**	
Cash	90 day bank bill rate	4.3%	4.6%	3 years only
Cash/Conservative		4.2%	6.5%	
Conservative	2% plus inflation	4.0%	8.5%	3 years only
Conservative/Balanced		4.5%	10.6%	
Balanced	3% plus inflation	5.0%	12.8%	3 years only
Balanced/Growth		5.5%	14.3%	
Growth	4% plus inflation	6.0%	15.7%	3 years only

*before insurance cost

** after insurance cost

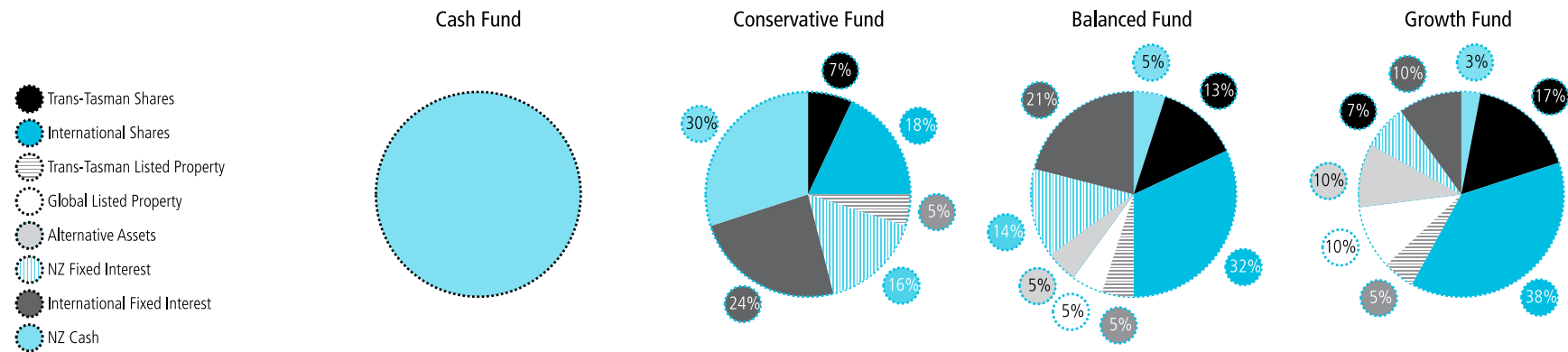
The only fund in existence long enough to provide a true comparison over the long term is the Balanced Fund; using the same format as above:

Balanced	3% plus inflation	5.0%	6.1%	10 year comparison
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WHERE ARE YOUR SAVINGS INVESTED?

With assistance from the Scheme's Investment Consultant, the Trustee prepares a Statement of Investment Policy and Objectives covering each of the four investment funds which underpin the seven member choice options. The key to this policy document is to ensure a diversified portfolio of investment, and not to have 'all your eggs in the one basket'. The sector mix, risk profile and member choice for the \$287m invested by the Scheme is shown in the table below.

SECTOR MIX at 31 March 2006



SUMMARY

Growth Assets: Shares & Property & Alternative Assets	-	30	60	80
Income Assets: Fixed Interest & Cash	100	70	40	20
	100%	100%	100%	100%

MEMBER INVESTMENT CHOICE

at 31 March 2006	\$42m	\$60m	\$160m	\$25m
at 1 April 2005	\$39m	\$59m	\$161m	\$28m

WHO MANAGES YOUR RETIREMENT SAVINGS?

Investment managers have contrasting styles (another form of diversification) and are selected via a rigorous process. The six investment managers and the respective asset sectors they manage are as follows:

	\$m
AMP Capital Investors	
International shares (passive 150% hedged)	29
Global listed property	11
NZ fixed interest	15
NZ cash	32
Brook Asset Management	
Trans-Tasman shares	16
BT Funds Management	
Alternative Assets	10
ING	
Trans-Tasman shares	16
International shares (active unhedged)	18
Trans-Tasman listed property	12
NZ fixed interest	16
NZ Cash	32
Tower Asset Management	
International shares (active unhedged)	17
International fixed interest	23
Tyndall Investment Management	
International shares (active unhedged)	17
International fixed interest	23
Total Investments	\$287m

WHERE DID YOUR RETURNS COME FROM?

The return for each asset sector is monitored against a specified index. The comparison for the year ended 31 March 2006 is shown below, before investment fees, Scheme expenses and income tax.

Sector	\$m	Index	Performance Index %	Performance Scheme %
Trans-Tasman shares	32	NZSX-50	23.1	29.3
International shares	81	MSCI World Index (40% hedged)	33.5	34.0
Trans-Tasman listed property	12	NZSX Property Index	19.6	27.5
Global listed property	11	UBS Global Real Estate Hedged	42.4	45.2
Alternative assets	10	CSFB 90 day Bank Bill +3%	0.9	1.4*
New Zealand fixed interest	31	CSFB NZ Government Stock	7.8	9.0
International fixed interest	46	Lehman Bros Global	6.4	6.9
NZ Cash	64	CSFB 90 day Bank Bill	7.4	8.3
Total Investments	\$287m			

* 1 month only

MEMBERSHIP

Members belong to a Scheme that benefits from increased membership and growth in retirement savings.

	Employee Members	Individual Members	Preserved Members	Pensioners	Total
At 1 April 2005	5,134	78	261	168	5,641
New members	637	19	4	5	665
Transfers in	80	-	-	-	80
Transfers out	(1)	-	-	-	(1)
Resignations	(319)	-	-	-	(319)
Withdrawals/Commutations	-	(9)	(20)	(47)	(76)
Retirements	(68)	-	-	-	(68)
Redundancies	(115)	-	-	-	(115)
Deaths	(6)	-	-	(13)	(19)
Disablements	(2)	-	-	-	(2)
At 31 March 2006	5,340	88	245	113	5,786

Transfers in were mainly from Anchor Plan.

DEATHS

The following members died during the Scheme year:

D T Gardiner (Fonterra), C G Hurley (Mainland), K A Johns (Fonterra), B T Kane (Fonterra), G N Lilley (Fonterra), M S Rangitonga (Fonterra), T R Turner (Canpac)

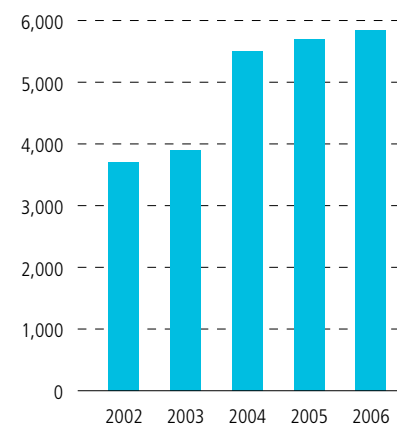
The following pensioners died during the Scheme year:

D M Agar, E J I Bailey, N W Bell, J Bonk, H Cameron, K G Crosby, J C Foster, N E Harnett, I C Kelly, G Robinson, I M Smith, T T Wrathall

Sympathy is extended to the families of members and pensioners who have died.

MEMBERSHIP GROWTH

The Scheme has benefited from the consolidation of superannuation plans by Fonterra Co-operative Group Limited.



THIS IS A LARGE SCHEME

The Dairy Industry Superannuation Scheme is one of the largest private schemes in New Zealand, with retirement savings of \$286m. This means the costs of running the Scheme are spread over a large number of members to reduce the impact of costs on the interest rate credited to members.

Members' Retirement Savings		Scheme Costs (\$'000)		2006	2005
Growth for the Year		\$m			
Member contributions		17	Investment fees	749	639
Employer contributions		16	Administration & actuarial fees	405	453
Transfers in/out		3	Auditors' remuneration – audit	37	33
Benefits paid		(29)	– taxation advice	21	25
Surplus for year		35	Legal & other expenses	177	164
Growth for year		42	Cost to members before tax	1,389	1,314
Accrued benefits	1 April 2005	244	Income tax	(458)	(434)
	31 March 2006	286	Cost to members after tax	931	880
			Average retirement savings \$m	265	233
			% cost to members	0.4%	0.4%
			Insurance premium \$'000	2,106	1,836
			% cost to members	0.8%	0.8%

FUND OF HEDGE FUNDS

Diversification is a key component in the construction of any portfolio. Hence the Scheme's assets comprise growth assets (shares and property) and income assets (fixed interest and cash). There are many components to the Scheme's investments in shares including passive, where the fund managers track an index; and active, where the fund managers' mandates are to outperform the index.

There are alternative forms of investing that are not index linked. These include hedge funds which have an absolute return focus; irrespective of whether the market (the index) goes up or down, the hedge fund manager targets an absolute return each year.

The Scheme has invested in Grosvenor Capital Management, a firm with \$US15 billion under management founded back in 1971. This is a fund of hedge funds which invests in over 50 separate funds, but with two main streams of investment strategies operating in key markets of the world:

- arbitrage, where the fund will take advantage of the price or timing differences in a security, e.g. Vodafone shares on the US and UK sharemarkets may not equate after exchange conversion and brokerage are taken into account

- equities, where a fund will hold or short-sell shares, e.g. it may 'borrow' 20,000 Vodafone shares and sell them, and replace the 'borrowed' shares when the anticipated fall in Vodafone shares has occurred.

The Trustee has introduced the fund of hedge funds to cushion some of the fluctuations normally associated with share investments.

SUMMARY FINANCIAL STATEMENTS

for the year ended 31 March 2006

Statement of Financial Performance	2006	2005
	\$	\$
Revenue		
Net Investment Revenue	35,480,374	15,304,241
Group Life Claims	2,651,417	1,847,325
Use of Money Interest	84,379	-
Total Revenue	38,216,170	17,151,566
Less		
Expenses		
Administration and Actuarial Fees	405,326	452,980
Auditors' Remuneration - Audit Fees	36,635	32,557
- Taxation Consulting	20,937	24,978
Group Life Premiums	2,106,094	1,835,532
Other Expenses	177,067	164,461
Total Expenses	2,746,059	2,510,508
Surplus before Taxation and Membership Activities	35,470,111	14,641,058
Income Tax Expense	158,924	1,475,068
Surplus after Taxation and before Membership Activities	35,311,187	13,165,990
Membership Activities		
Member Contributions	16,948,980	15,333,572
Employer Contributions	16,119,180	14,606,783
Transfers in from Other Schemes	2,767,057	3,036,755
Less Benefits Paid	28,859,193	24,381,234
Total Membership Activities	6,976,024	8,595,876
Benefits Accrued During the Year	42,287,211	21,761,866

Statement of Financial Position	2006	2005
	\$	\$
Assets		
Investments	287,229,360	242,776,765
Current Assets	455,105	1,343,949
Total Assets	287,684,465	244,120,714
Less		
Liabilities		
Benefits Payable	1,332,816	91,088
Contributions Refundable	3,337	777
Sundry Creditors	163,997	152,672
Non-Current Liabilities - Deferred Tax	263,444	242,517
Total Liabilities	1,763,594	487,054
Liability for Accrued Benefits	285,920,871	243,633,660
Vested Benefits*	259,908,670	219,967,109
Statement of Cash Flows		
Net Cash Flows from Operating Activities	7,707,645	7,857,228
Net Cash Flows from Investing Activities	(8,899,844)	(8,445,537)
Net (Decrease) in Cash Held	(1,192,199)	(588,309)
Cash at Beginning of Year	1,202,103	1,790,412
Cash at End of Year	9,904	1,202,103

*Vested Benefits are benefits payable to members or beneficiaries under the conditions of the Trust Deed, on the basis of all members ceasing to be members of the Scheme at balance date.

AUDIT REPORT

A Summary of the Scheme's audited financial statements for the year ended 31 March 2006 which were authorised for issue on 30 May 2006 is shown on page 9.

The summary financial report has been extracted from the full audited financial statements dated 31 March 2006 and therefore cannot be expected to provide as complete understanding as provided by the full financial statements of the financial performance, position and cash flows of the entity. A copy of the full financial statements can be obtained from the Scheme's Secretary free of charge.

The auditor has examined the summary financial report for consistency with the audited financial statements and has issued an unqualified opinion.



TO THE MEMBERS OF THE DAIRY INDUSTRY SUPERANNUATION SCHEME

We have audited the summary financial report of Dairy Industry Superannuation Scheme for the year ended 31 March 2006 as set out on page 9.

RESPONSIBILITIES OF THE TRUSTEE AND AUDITOR

The Trustee is responsible for the preparation of a summary financial report in accordance with generally accepted accounting practice in New Zealand. It is our responsibility to express to you an independent opinion on the financial report presented by the Trustee.

BASIS OF OPINION

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary financial report is consistent with the full financial report on which the summary financial report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial report against the requirements of FRS-39: Summary Financial Reports.

Other than our capacity as auditor our firm has also provided other services to the Scheme in relation to taxation. These matters have not impaired our independence as auditors of the Scheme. We have no relationship or interests in the Dairy Industry Superannuation Scheme.

UNQUALIFIED OPINION

In our opinion:

- the summary financial report has been correctly extracted from the full financial report; and
- the information reported in the summary financial report complies with FRS-39: Summary Financial Reports and is consistent in all material respects with the full financial report from which it is derived and upon which we expressed an unqualified audit opinion in our report to members dated 30 May 2006.

We completed our work for the purposes of this report on 30 May 2006.

Wellington

STATUTORY INFORMATION

TRUSTEE

Dairy Industry Superannuation Scheme Trustee Limited is the corporate trustee for the Scheme. The Directors of the corporate trustee are:



Mark Apiata-Wade
Elected by Dairy Workers
Union



Peter Robertson
(Chairman)
Elected by Employer
Companies



Guy Roper
Elected by Employer
Companies



David Scott
Elected by Employer/s
identified by the Trustee



Andrew Steele
Elected by Employer
Companies



Neil Walker
Elected by Dairy Industry
Association NZ



Tony Wilding
Elected by Employer
Companies



Andy Williams
Replacing Neil Walker
from 26 May 2006

DECLARED INTEREST RATES FOR THE YEAR TO 31 MARCH 2006

Period	Cash	Cash/ Conservative	Conservative	Conservative/ Balanced	Balanced	Balanced/ Growth	Growth
2005	April	0.33%	0.07%	-0.19%	-0.53%	-0.87%	-1.31%
	May	0.34%	0.83%	1.32%	1.73%	2.14%	2.64%
	June	0.44%	0.82%	1.19%	1.55%	1.90%	2.34%
	July	0.32%	0.70%	1.07%	1.56%	2.05%	2.73%
	August	0.39%	0.41%	0.43%	0.36%	0.28%	0.14%
	September	0.50%	0.61%	0.71%	0.94%	1.16%	1.53%
	October	0.34%	-0.15%	-0.64%	-1.06%	-1.47%	-1.93%
	November	0.31%	0.71%	1.10%	1.47%	1.84%	2.35%
	December	0.43%	0.91%	1.38%	1.78%	2.18%	2.61%
2006	January	0.38%	0.60%	0.82%	1.17%	1.52%	2.04%
	February	0.34%	0.49%	0.64%	0.86%	1.08%	1.40%
	March	1.15%	1.76%	2.37%	3.02%	3.67%	4.50%
Equivalent Annual Rate	5.40%	8.03%	10.65%	13.58%	16.50%	18.54%	20.58%

TRUST DEED

No changes have been made to the Trust Deed.

PROSPECTUS

The registration date of the Scheme's most recent prospectus was 27 September 2005 which was amended 22 December 2005.

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 March 2006. The valuation assumptions reflected pensioners enjoying a longer expectancy of life than last year's actuarial review, and anticipated future Scheme returns of 5% pa.

The actuarial review reported a deficit, which the Actuary recommended be funded immediately by the transfer of \$436,357 from the Reserve Fund to the Non Allocated Fund. The Trustee has adopted this recommendation and the Non Allocated Account is in a balanced position as at 31 March 2006.

The Trustee has stated its intention to complete an actuarial valuation on an annual basis in readiness for NZ International Accounting Standard 26.

TRUSTEE STATEMENT

The Trustee certifies, in accordance with the Superannuation Schemes Act 1989, that:

- all contributions required to be made to the Scheme in accordance with the terms of the Trust Deed have been made;
- all benefits required to be paid from the Scheme in accordance with the terms of the Trust Deed have been paid;
- the market value of the assets of the Scheme at 31 March 2006 equalled the total value of benefits that would have been payable had all members of the Scheme ceased to be members at that date and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries at that date.



P J Robertson
for the Trustee

DIRECTORY

ADMINISTRATOR

All correspondence should be addressed to:
Secretary
Dairy Industry Superannuation Scheme
C/- Mercer Human Resource Consulting Limited
P O Box 2897
Wellington
Freephone: 0800 355 900
Telephone: (04) 890 7026
Facsimile: (09) 353 1712
[Administers the Scheme on behalf of the Trustee.](#)

INVESTMENT MANAGERS

AMP Capital Investors (NZ) Limited
Brook Asset Management
BT Funds Management
ING Investment Services Limited
Tower Asset Management Limited
Tyndall Investment Management New Zealand Limited
[Responsible for investing the Scheme's assets in accordance with the investment policy adopted by the Trustee.](#)

INVESTMENT CONSULTANT

Mercer Investment Consulting
[Assists the Trustee in setting investment policy and monitoring the investment managers.](#)

ACTUARY

Mercer Human Resource Consulting Limited
[Conducts actuarial reviews and calculates the monthly interest rate.](#)

AUDITOR

KPMG
[Audits the Scheme's financial statements.](#)

INSURANCE PROVIDER

National Mutual Life Association of New Zealand Limited
(trading as AXA New Zealand Limited)
[Provides the cover for the insurance benefits.](#)

SOLICITORS

Kensington Swan
[Advises the Trustee on legal issues affecting the Scheme.](#)

PRIVACY ACT

Your personal information may be held for the purposes of the Scheme and when necessary passed between your employers, the Trustee and the Scheme's professional advisers. If you wish to check or amend your personal information, please contact the Scheme Secretary.

ANY MORE QUESTIONS?

Neil Jury is the Secretary to the Scheme. Please ring Neil if you have any questions about this report or would like a copy of the Scheme's audited financial reports.



Neil can be contacted at:

Freephone: 0800 355 900
Telephone: (04) 890 7026
Facsimile: (09) 353 1712
P O Box 2897, Wellington

LOOKING FOR MORE INFORMATION?

Internet Access: www.superfacts.co.nz
Member Helpline: 0800 355 900

DAIRY
INDUSTRY
SUPERANNUATION
SCHEME