

MINISTRY OF DEFENCE | MANATŪ KAUPAPA WAONGA

Annual Report 2025/26 | Te Pūrongo-ā-Tau 2025/26



MANATŪ KAUPAPA
WAONGA
NEW ZEALAND
MINISTRY OF DEFENCE

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Cover page: The Protected Mobility Capability Project test fires smoke grenades from a Light Armoured Vehicle at Waiohuru Military Camp.

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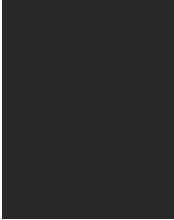
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REPORT STRUCTURE

This document contains details on the overall performance and the Ministry's delivery during the 2025/26 financial year. The table below contains a summary of the Annual Report's structure.



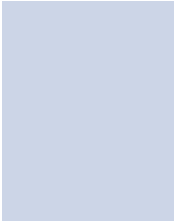
Chief Executive foreword, the Ministry at a glance and key performance highlights for 2025/26. This section provides an overview of the Ministry of Defence's (the Ministry's) performance during the reporting period. Highlights and key achievements can be found on pages 6 to 8.



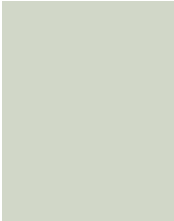
Who we are and implementing the Government's priorities. These sections report on the Ministry's role, our work with the New Zealand Defence Force (NZDF) and other government agencies in the national security sector, and how the Ministry is implementing the Government's priorities. This can be found on pages 10 to 16



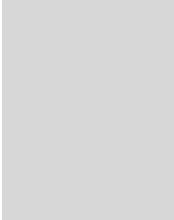
The **Plan, Equip, Partner and Assess** sections cover the Ministry's assessment of its progress towards our four strategic objectives demonstrating how we deliver value to New Zealanders. This can be found on pages 17 to 45



The **organisational health and capability** section details the stewardship of the Ministry, including our commitment to building our workforce capability, our staff health and safety, and our organisational sustainability. This can be found on pages 46 to 50.



The Ministry's performance and operations section reports on the Ministry's performance against our funding and can be found on pages 51 to 58.



The **statements and schedules** section covers how the Ministry performed this year against our key measures, our expenses, and capital spending against our appropriation.

CHIEF EXECUTIVE FOREWORD

The Ministry of Defence has been tasked with preparing and equipping a Defence Force that can respond to challenges New Zealand may face in a deteriorating strategic environment. That response can range from supporting communities impacted by severe weather events through to deploying personnel into perilous situations in support of our collective security. It is a responsibility we at the Ministry take seriously.

That is why over the past year we have been sharply focused on four areas:

- Delivering on the *2025 Defence Capability Plan* (Plan),
- Working with industry to deliver capability faster, without losing rigour (Equip),
- Working with our partners to ensure our bonds are strong and resilient (Partner), and
- Assessing performance of the Defence systems performance (Assess).

These areas drive the work we do alongside our colleagues in the NZDF and you will find an overview of our progress in the following pages.

Our focus on delivery does not mean we have taken our eye from the horizon. We are paying close attention to the changes in warfare, technology, and procurement that we see around the world.

That is to say New Zealand's Defence Capability Plan (the DCP) is not static. At every two-yearly review we are looking forward to answer the following key questions:

- What does the world look like?
- What effect does the NZDF need to deliver and with what equipment (and technology) in such a world?
- What further or different investment might be needed?

The first review is already underway and will ensure innovation, new technologies, and emerging risks can be considered and the Plan adjusted accordingly in 2027.

Supporting the ongoing implementation of that Plan, Defence uses a Capability Management System to manage complex procurement. It is a system that is proven with successful multi-billion-dollar projects delivered to specification, on time and on budget.

The system has been assessed by multiple external reviews as a leading exemplar for long-term capital planning within the public sector. It is also regularly fine-tuned to better implement the DCP and is flexible and scalable. Much of the credit for building this system rests with the late Dame Helene Quilter, former Secretary of Defence.

There will be other opportunities to ensure we deliver with pace and rigour as we equip the NZDF to be increasingly combat capable, interoperable with our partners, able to act as a force multiplier with Australia and make the most of innovations which allow it to be more effective.

Because the international system is volatile, we must ensure the personnel of the NZDF are well-equipped to do what the Government asks of them today and in the future.

Ngā mihi maioha



Brook Barrington
Secretary of Defence |
Te Tumu Whakarae mō te Waonga

THE MINISTRY IN SUMMARY



29

In-flight Defence-led projects

\$26.9 million

The Ministry's operating expenditure in 2025/26



>100

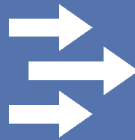
International bilateral
engagements in 2025/26 at senior
officials' level

10

Number of Ministerial offshore visits,
covering multiple **engagements**

3.73 / 5

Independent review of the quality of
the Ministry's policy advice



4 / 5

Minister of Defence's rating for
the quality of the Ministry's policy
advice



196

(Staff working in the Ministry (FTE) as of 30 June 2026)

KEY PERFORMANCE HIGHLIGHTS

Plan

Responding to the changing strategic environment: The Ministry has actively monitored the evolving strategic environment, in order to ensure New Zealand's defence policy settings and Defence's operational activities continue to protect and promote New Zealand's security.

Defence Capability Plan review: The first of the two-yearly reviews of the Defence Capability Plan is underway. This follows a structured process allowing New Zealand to adapt as the world around us changes.

Legislative stewardship: The Ministry provided support for drafting of the Defence Workforce Amendment Bill, which was passed into law in November 2025.

Equip

Defence Industry Strategy: The *Defence Industry Strategy* was released in October 2025 to support the implementation of the *2025 Defence Capability Plan*. It focuses on Defence partnering with industry to deliver capability faster and with resilience.

Frigate Life Extension Phase 1: A range of installation projects, including bilge keels, stability correction, steering unit control, sewerage treatment plant and reverse osmosis were completed on HMNZS *Te Mana* and the ship deployed in June 2026.

Future Air Mobility Capability – Tactical: Since arrival, the C-130J-30 Hercules fleet have transported people and cargo, responded to natural disasters, evacuated civilians from areas of unrest or conflict and supported New Zealand's presence and operations in Antarctica. Operational Release was achieved on 30 October 2025.

Partner

Alliance with Australia: Continued strengthening of our alliance with Australia, a key direction from Government outlined in the *2025 Strategic Defence Policy*.

Deepening our defence links with close Indo-Pacific partners: Provided advice on and supported a range of operational deployments in the Indo-Pacific.

Supporting the signing of numerous agreements: Progressed defence cooperation arrangements including with Timor-Leste, Acquisition and Cross-Servicing Arrangement with Japan, a Philippines Status of Visiting Forces Agreement and an Updated Joint Statement on Enhanced Defence Cooperation with the United Kingdom.

Assess

The Ministry's Long-term Insights Briefing: In February 2026, the Ministry published its Long-term Insights Briefing examining "how technology innovations are likely to influence New Zealand's Defence capabilities beyond 2035".

Audit of hazardous substance controls and compliance: Completed the NZDF's Hazardous Substance Controls and Compliance Audit, identifying risks and improvement opportunities across all classes and sites.

In-Operation and Post-Operation reviews: Conducted six in-operation reviews and finalised one post-operation review, assessing performance against each operation's strategic objectives.

SECTION ONE | WĀHANGA TUATAHI

Who we are and what we do | Ko wai mātau, he aha ā mātau mahi

The Ministry of Defence is the Government's lead civilian advisor on defence and is responsible for purchasing major capability used by the New Zealand Defence Force in order to enhance the security and national interests of New Zealand and its people.

Ko Te Manatū Kaupapa Waonga te kaitohutohu tūmatanui matua ki te Kāwanatanga mō ngā kaupapa waonga, ka whai takohanga ki te hoko i ngā rawa nui e whakamahia ana e Te Ope Kātua o Aotearoa hei whakahaumako i ngā take whakahaumaru ā-motu o Aotearoa me tōna.

WHO WE ARE

Collectively referred to as 'Defence', the Ministry and the NZDF are separate agencies who work together to ensure the New Zealand Government receives robust advice on defence and security matters.

The Defence agencies work together to develop and deliver a work programme through Vote Defence and Vote Defence Force to meet the Government objectives. Together, we deliver on the Minister of Defence's priorities for the Defence portfolio. These priorities are outlined in more detail on pages 14 to 15.

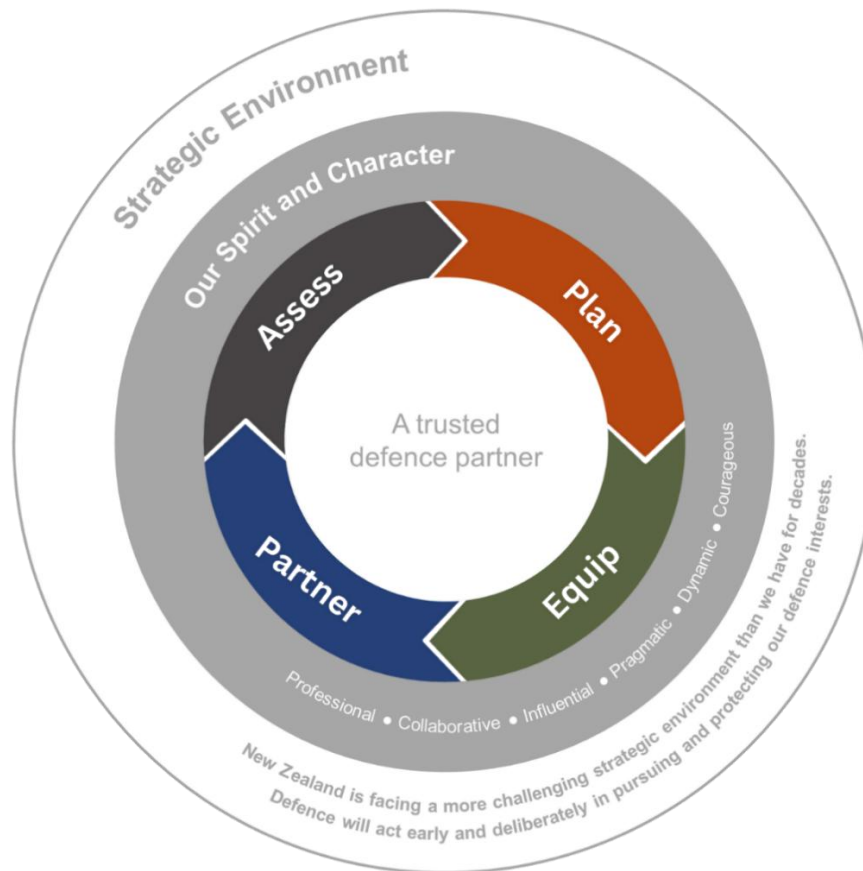
The Ministry is a separate agency from the NZDF to ensure clear division of responsibilities and accountabilities. The Defence Act 1990 articulates the role of the Ministry and the separation of the two agencies, as part of New Zealand's Defence legislative arrangements.

The value of the Ministry to Government, the NZDF, and the New Zealand public is its:

- Focus on sound stewardship of high value, high risk military procurement,
- Lead role in developing strategies for Defence,
- Provision of civilian perspectives on defence matters, and
- Fostering of links with other government agencies and our international partners.

WHAT WE DO

Our vision of the Ministry as a **trusted defence partner** is delivered through four strategic objectives, and is supported by our spirit and character.



The Ministry's work is focused in the following four areas:

	PLAN The Ministry assesses the strategic environment and provides the Government with civilian advice on Defence policy issues including advice on future investment options.		EQUIP The Ministry purchases major equipment which becomes a capability when it is used by the personnel of the NZDF. Once Cabinet has approved an investment, the Ministry is responsible for the successful delivery of that project from procurement to introduction into service.
	PARTNER The Ministry works with the NZDF to shape New Zealand's relationships with international counterparts, foreign militaries and security organisations. The Ministry also leads the development of advice to the Government on a range of deployments of NZDF personnel and assets and international defence engagements.		ASSESS The Ministry conducts audits and assessments of the NZDF to support continuous improvement and undertakes specific pieces of work as directed by the Minister of Defence. The Ministry commissions independent audits and assessments of our own projects or work programmes.

WORKING AS PART OF THE NATIONAL SECURITY SECTOR

The Ministry is a lead policy agency within the national security system. Our responsibility is to collaborate and integrate with other security agencies, to deliver:

- Coherent and consistent advice to Ministers on a range of national security matters,
- Maximum whole of sector performance from the available resources, and
- The ability to adapt quickly to changes in the strategic and security environment.

New Zealand's first ever *National Security Strategy* was launched in 2023. The *National Security Strategy* is based on an Act Early Framework, promoting a focused, integrated and inclusive approach to preventing national security threats and shaping the environment whenever possible. Consistent with the strategic defence policy settings outlined in the *2025 Defence Capability Plan*, it underscores the role of deterring the threats that would most do us harm, and the importance to New Zealand of a peaceful, stable, and resilient Pacific, and recognises the value of close international relationships for the security challenges we face.

The Ministry's work contributes to the three outcomes and priorities set out in the *National Security Strategy*:

New Zealand is protected from threats PRIORITY: Acting early to prevent national security threats and build New Zealand's resilience	A resilient society, informed and engaged on national security challenges PRIORITY: Working together to foster collective understanding and approaches	An effective national security system PRIORITY: Supporting an integrated approach
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Other key strategies that sit below the *National Security Strategy* include:

- The *New Zealand Space and Advanced Aviation Strategy 2024 to 2030* underscores the Ministry's priority for Defence's interests in space to be represented and reflected within major government policy products. The Ministry and the NZDF work closely with our international partners to advance New Zealand's interests in space, particularly through our membership to the Combined Space Operations initiative.
- The 2024 *Maritime Security Strategy* maintains that New Zealand has a maritime security sector that is able to continue to secure New Zealand's marine economic, cultural and environmental interests for future generations. This aligns with New Zealand's defence policy focus on acting early and deliberately to protect New Zealand's interests.

SECTION TWO | WĀHANGA TUARUA

Implementing the Government's priorities | Te whakatinana i ngā whakaarotau a te Kāwanatanga

MINISTERIAL FOCUS AREAS

During the 2025/26 financial year, the Ministry focused on the delivery of the Minister of Defence's priorities and the Budget initiatives for the Defence portfolio.

2025 Focus Area	Delivery in 2025/26
Implement the 2025 Defence Capability Plan and deliver an industry strategy	Defence has worked to implement the priority projects identified in the <i>2025 Defence Capability Plan</i> (DCP 2025) at pace. ¹ The <i>Defence Industry Strategy</i> was released this year and outlines how Defence can work with industry to deliver capability faster, with resilience while supporting the Government's economic growth agenda. ² Further details are available in the Plan section from pages 17 to 22.
Increase operational tempo and maintain strong relationships with key partners	The Ministry supported a significant number of bilateral international engagements this year, including numerous ministerial engagements. These engagements supported a more energetic approach to international engagement and increased contributions to collective security efforts globally. Further details are provided under the Partner section from pages 37 to 42.
Exercise financial prudence	The Ministry continues to focus on delivering value for New Zealand taxpayers. One of the four considerations for business cases relating to major defence procurement is 'what is the most cost-effective and durable option.
Ensure the NZDF workforce and legislative settings are fit for purpose	The Ministry supported the drafting of the Defence Workforce Amendment Bill, which was passed into law in November 2025. More information relating to this can be found under Plan on pages 17 to 22.
Contribute to public messaging around defence and national security	It is important for the New Zealand public to be aware of the environment in which Defence operates, Defence's policy settings and operational activities to protect New Zealand's security, and the value derived from the investment in Defence – both personnel and capabilities. The Ministry maintained a focus on reporting of major military procurement and supporting Minister's in international and domestic engagements. Further detail on this can be found in the Partner section from pages 37 to 42. The Ministry contributes to Ministerial speeches and public statements on the threats we face and the changing nature of the strategic context, and Defence's response, to support a more public discourse on defence national security. The Ministry also supports in defence engagement with academia, as appropriate.

¹ The *2025 Defence Capability Plan* is available from the Ministry's website at: <https://defence.govt.nz/publications/2025-defence-capability-plan/>.

² The *Defence Industry Strategy* is available from the Ministry's website at: <https://defence.govt.nz/publications/new-zealand-defence-industry-strategy-delivering-capability-faster/>.

In May 2026, the Minister of Defence identified the following focus areas:

2026 Focus Area	Delivery in 2026/27
Maintain operational effectiveness and strengthen New Zealand's international partnerships	The Ministry is currently leading and supporting a variety of international engagements and increased contributions to collective security efforts globally, with a particular focus on enhancing New Zealand's alliance with Australia. This work is expected to continue in the next financial year.
Strengthen New Zealand industry	The <i>Defence Industry Strategy</i> outlines a number of actions over a two-year period to support the implementation of the Defence Capability Plan and foster a partnership approach between Defence and industry.
Implement the Defence Capability Plan and improve the quality of advice provided to Cabinet	The DCP 2025 is currently being reviewed with an update expected next year. In the meantime, work is progressing on implementing the indicative investments outlined for the 2025–2028 period. The Ministry is working to review and enhance its policy advice, in line with all-of-government policy improvement work, and to support quality investment advice to deliver on the DCP 2025.

Budget 2025 initiatives	Budget 2026 initiatives
Funding for priority projects as outlined in the <i>2025 Defence Capability Plan</i>, led by the Ministry, include the following: • Replacing the Boeing 757 fleet: Replacing the two Boeing 757 aircraft to support military operations and deployments (including to Antarctica), humanitarian and disaster relief support, and trade and diplomatic missions. • Maritime helicopter replacement: Replacing the Seasprite maritime helicopters with a new fleet to operate from Navy ships. • Network Enabled Army (NEA): New encrypted radios to provide deployed Army units with secure voice communication and additional equipment for deployable headquarters. This expands on the network developed by earlier investment in the NEA programme, and ensures New Zealand remains interoperable with Australia and other partners. • Enhancing cyber security capabilities: Investment further to develop defensive cyber capabilities, to ensure the NZDF can continue to defend against cyber threats posed by adversaries while they are on deployment. • Vehicles for the NZDF – Garrison and Training Support: The first tranche of investment to replace vehicles which move people, equipment and supplies between and within camps and bases, support emergency services and disaster response, and support airfield operations. Information on these projects can be found in the Equip section from page 23. As part of Budget 2025, the Ministry also received a small uplift for its day-to-day operations, mainly to focus on regular refreshes of the DCP and resourcing for the Maritime Fleet Renewal Programme (see page 21).	Funding for priority projects in Budget 2026, led by the Ministry, include the following: • Maritime fleet renewal programme: Funding the overall programme looking at the make-up of New Zealand's maritime fleet. There is also funding for two uncrewed systems: ○ Uncrewed surface vessels and enabling systems to provide long-duration intelligence, surveillance and reconnaissance over the South-West Pacific. ○ A polar-capable uncrewed aerial system to conduct a range of missions from Royal New Zealand Navy vessels to enhance maritime domain awareness and supplement polar patrol capability. In addition, funding was provided for further work to extend the life of the frigates. HMNZS <i>Te Mana</i> and <i>Te Kaha</i>, while the programme develops options for their replacement. • Updating classified digital services: Funding the next phase of a programme of work to update classified digital services. As part of Budget 2026, the Ministry received an ongoing funding uplift of \$2.1 million per annum for its day-to-day operations, mainly focused on implementing the DCP and associated Industry Strategy. Further Information on what has been delivered against Budget 2026 funding will be included in next year's Annual Report.

Plan | Te whakamahere

The Ministry regularly assesses major strategic trends and conducts in-depth assessments on emerging and evolving issues that could affect New Zealand's national security interests. These assessments inform the Government's defence policy settings.

KEY ACHIEVEMENTS



Responding to the changing strategic environment: The Ministry has actively monitored the evolving strategic environment, in order to ensure New Zealand's defence policy settings and Defence's operational activities continue to best protect and promote New Zealand's security.



Defence Capability Plan review: The first of the two-yearly reviews of the Defence Capability Plan is underway. This follows a structured process, allowing New Zealand to adapt as the world around us changes.



Legislative stewardship: The Ministry provided support in the drafting of the Defence Workforce Amendment Bill, which was passed into law in November 2025.

PLAN – AREAS OF FOCUS FOR 2025/26

The Ministry undertook a range of activities this financial year under our Plan strategic objective. Most significantly, this included commencing the first of the two-yearly reviews of the Defence Capability Plan. Other areas of work include legislative stewardship, and ongoing work on thematic policy areas such as space.

OUR STRATEGIC ENVIRONMENT

New Zealand is facing its most challenging and dangerous strategic environment for decades. Geopolitical developments over the past year continue to demonstrate the increasing nature of threats to our national security interests, with a range of events adding additional complexity and unpredictability. This includes Russia's continuing illegal war against Ukraine and disregard for international law, conflict in the Middle East, and growing strategic competition in the wider Indo-Pacific. Intensifying strategic competition is heightening global and regional tensions and raising the prospect of further military confrontation and conflict.

The Indo-Pacific is a primary geographical theatre for strategic competition, most visibly between China and the United States. China's assertive pursuit of its strategic objectives is the principal driver for strategic competition in the Indo-Pacific region, and it continues to use all of its tools of statecraft in ways that can challenge both international norms and the security of other states.

States within the Indo-Pacific and globally are responding to these pressures by increasing investment in their military and security capabilities, deepening and broadening their bilateral and multilateral security partnerships, and adopting sharper security postures. This includes our closest international security partners and other states that share security interests with New Zealand.

Rising competition and tensions in the wider Indo-Pacific are playing out in New Zealand's immediate region, which spans from Antarctica through to the South Pacific. While a broader range of international engagements by the countries of the South Pacific can bring benefits to the region, these could also pose challenges to regional security, stability, and unity as strategic competition plays out in our near region.

Climate change remains among the primary security concerns for Pacific Island countries. This is driving increasing and intensifying natural disasters, and over time could cause critical challenges for some Pacific countries both directly and by exacerbating other security issues.

Both climate change and growing strategic interest in the Pacific are layering on top of other regional security challenges, including vulnerability and exposure to natural hazards, transnational organised crime, illegal fishing, and maritime security threats.

Strategic interest in the Southern Ocean and Antarctica is also growing. The Antarctic Treaty System continues to provide the framework for state activity, but it is increasingly coming under pressure.

New Zealand's geographic isolation no longer shelters us to the extent it once did. We are seeing increasing threats to, and through, our extensive maritime area of interest. In addition to the risk of illegal activities, we have to face the increasing prospect of hostile forces operating in our wider maritime domain in ways that are coercive and threatening. Cyber intrusions are an ever-present threat, and our physical and virtual connections in the world are vulnerable.

THE DIRECTION FOR DEFENCE

Defence's direction is set by the Government's defence policy and strategy settings. The latest articulation of these are found in the *2025 Defence Capability Plan*. This provides strategic direction for both the Ministry and NZDF (the Defence agencies).

NATIONAL SECURITY

Protecting New Zealand from threats and advancing our national interests through harnessing all tools of statecraft

OUR DEFENCE INTERESTS

A secure, sovereign, and resilient New Zealand

A stable, secure, and resilient region

Collective security through a strong network of partners

A strong and effective international rules-based order

OUR DEFENCE POLICY OBJECTIVES

DEFENCE WILL ACT EARLY AND DELIBERATELY IN PURSUING AND PROTECTING OUR DEFENCE INTERESTS

- 1 Protect** and promote the security of New Zealand and the immediate region.
Safeguarding our sovereignty and territorial integrity, and promoting and protecting the security of our immediate region and sustaining regional conditions favourable to our security interests.
- 2 Enhance** the ANZUS alliance with Australia and New Zealand's most important security partnerships.
Material contributions to our security partnerships, particularly to our alliance with Australia, to the wider Five Eyes partnership, and our bilateral and regional Pacific partnerships.
- 3 Contribute** to achieving New Zealand's global interests.
Contribute to global security through ongoing defence engagement, operations, and activities.

OUR DEFENCE STRATEGY

UNDERSTAND

Defence will develop and share enhanced awareness and understanding of key operational and strategic environments, including through close cooperation with domestic and international partners, and the innovative use of new technologies.

PARTNER

Defence will work closely with other New Zealand agencies and our international partners to support collective security approaches to shared challenges, including through maximising opportunities for enhanced interoperability, and integration.

ACT

Defence will act early and deliberately to promote and protect New Zealand's interests, and will maintain credible, combat-capable forces able to operate and respond to events across the spectrum of military operations, both independently, and alongside our international security partners.

BASED ON FOUNDATIONS OF

EQUIP AND SUPPORT THE FORCE

REGENERATED, FIT-FOR-PURPOSE WORKFORCE

2025 DEFENCE CAPABILITY PLAN

The *2025 Defence Capability Plan* (DCP) was released in April 2025 and outlined the near (2025–2028) and long term (2029–2039) indicative investments for Defence to ensure the NZDF is:

- Combat capable with enhanced lethality and deterrent effect,
- An interoperable force multiplier with Australia and other partners, and
- Innovative with a greater emphasis on situational awareness.

As part of DCP investment priorities, associated business cases will be required to answer four key considerations:

- What is the Australian approach, and is there any reason for New Zealand to take a different approach?
- Can we partner with industry to deliver the capability differently?

- What is the minimum viable capability needed? and
- What is the most cost-effective and durable option?

The DCP also includes three defence policy objectives for New Zealand's strategic defence policy (see page 19 for more detail):

- Defence Policy Objective 1: Protect and promote the security of New Zealand and the immediate region,
- Defence Policy Objective 2: Enhance the ANZUS alliance with Australia and New Zealand's most important security partnerships, and
- Defence Policy Objective 3: Contribute to achieving New Zealand's global interests.

The Ministry has continued to develop and provide advice to the Minister of Defence on key elements of New Zealand's strategic defence policy settings.

REVIEW OF THE DCP

The global security environment is dynamic, with ever changing innovations, technologies, and emergent risks. Defence (the Ministry and NZDF collectively) undertakes a structured, two-yearly review process of the DCP, the first of which is underway. This will enable Defence to manage implementation of the DCP and allow the Government regularly to update four-year planning and the longer-term path for defence investment as the future security environment requires. It will provide both a substantially stronger and more resilient base for the NZDF as well as allow a staircase approach to investment, so New Zealand can adapt as the world around us changes and scale up as the fiscal situation allows.

The two-yearly review is a repeatable process which comprises three phases:

Phase 1 – Understand: This phase involves understanding any changes in the Defence environment since the development of the 2025 DCP, both globally and within the Defence Force. This includes a gap analysis of the current

DCP force structure to inform what should be considered in the next iteration of the DCP.

Phase 2 – Develop: This phase involves Defence developing potential solutions to any issues identified in the previous phase. It includes both the balancing and prioritisation of investments planned in the current DCP iteration, as well as the development of any new investment projects and programmes.

Phase 3 – Deliver: This phase involves the drafting of advice and the preparation of investment options to Cabinet, to help inform the decision making of Ministers. Defence will then develop a final, public version of the DCP as the DCP 2027. Defence will engage with key partners within and external to Government during the review process, including Government agencies, Australia, Realm countries, and Defence industry.

Case Study: Maritime fleet renewal

All ships in the Royal New Zealand Navy fleet, except the sustainment vessel HMNZS *Aotearoa*, will reach their end of life between 2032 and 2036. This provides a unique opportunity through the Maritime Fleet Renewal Programme to transform the Navy and incorporate new technology to better deliver against the Government's defence policy objectives.

The 2025 DCP outlined indicative investment in a mix of ships to undertake combat, projection, maritime security patrol, and operations in the Southern Ocean. There is a focus on investing in uncrewed surface vessels in the first four years to provide the NZDF and other government agencies with better visibility of activities in the region.

Frigate replacement programme

A key project within this programme is the replacement of New Zealand's Anzac frigates, which has been identified as future indicative investment in the 2029–2039 period in the DCP.

This year the Government agreed to prioritise discussions with the Royal Navy and Royal Australian Navy to inform the next stage for potentially replacing the Anzac frigates and ongoing service arrangements. Final selection of combat capabilities within the future fleet will be determined through the usual business case process.

Advice on next steps is expected to be provided to Cabinet before the end of 2027. No decisions have yet been made. As detailed in the Equip section, work continues on the sustainment and maintenance of the Anzac frigates HMNZS *Te Kaha* and *Te Mana*.



HMNZS *Te Kaha* at Devonport Naval Base.

LEGISLATIVE STEWARDSHIP

In the 2025/26 financial year, the Ministry produced a range of advice on thematic and regulatory policy.

A role of the Ministry is to ensure that the legislative and regulatory environment is fit for purpose and supports the effective delivery of defence outputs. This financial year, the Ministry supported the following major pieces of regulatory work.

- Support to the NZDF on the development and passage of the Armed Forces Discipline Legislation Amendment Bill. The Bill makes the military justice system easier to navigate and administer, to better enable command to focus

on operational outputs. This Bill is currently before select committee.

- Support for the Defence (Workforce) Amendment Bill, which was passed into law in November 2025. The Bill ensures that national security is maintained during industrial action. It also streamlines Parliamentary reporting requirements for these powers.
- The Ministry has also been reviewing elements of defence policy and legislation to identify issues that may impact the NZDF's effectiveness in a modern context.

THEMATIC POLICY AREA: SPACE DOMAIN

Space is becoming an increasingly important domain for Defence as space-based technologies advance. Space services are critical for the safety and capability of deployed Defence Force personnel and partner militaries, including for maritime domain awareness. Access to space systems has become critical on the modern battlefield, with space-based systems being relied on for intelligence, surveillance, and reconnaissance, communication, navigation, and targeting. New Zealand has an interest in space remaining secure and sustainable but competition in the space domain is increasing. Investment in space capabilities is outlined in the DCP and an Integrated Project Team has been established to enable capability definition and delivery.

The Ministry works with the NZDF and the Ministry of Business, Innovation and Employment on space security policy. In 2025 the Ministry worked with the

NZDF to provide advice to Cabinet on the decision to permit both the renewal of the NZDF's involvement in the Joint Commercial Operations Space Domain Awareness Programme, and to deem it standard operating procedure for the NZDF. The programme is led by the United States to generate and utilise unclassified information to protect satellites.

The Ministry works with NZDF to take part in the ten-nation Combined Space Operations initiative. The initiative is a forum to enable combined operations in the space domain and promote responsible behaviour in space. The Ministry provides policy advice on Defence matters in the space domain, including on NZDF participation in the US-led enduring operation Multi-National Force – Operation Olympic Defender.

3.73 / 5

**Independent review of
policy advice**

Assessing defence policy advice: The Ministry commissions an annual assessment of Defence policy advice from the New Zealand Institute of Economic Research. In 2025/26 the Ministry scored an average of **3.73 out of 5** for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's Policy Quality Framework.

This review provided feedback on a paper related to the Maritime Fleet Renewal Programme Cabinet paper and business case, stating that it provides Ministers with a comprehensive, well-structured assessment of the proposed Maritime Fleet Renewal programme, based on a comprehensive Programme Business Case. It clearly establishes the capability need, presents a balanced evaluation of the available options, and provides well-supported advice on the preferred course of action.

Equip | Ngā taputapu

The Ministry of Defence purchases major equipment which becomes a capability when it is used by the personnel of the NZDF.

KEY ACHIEVEMENTS



Future Air Mobility Capability – Tactical: Since arrival, the C-130J-30 Hercules fleet has transported people and cargo, responded to natural disasters, evacuated civilians from areas of unrest or conflict and supported New Zealand's presence and operations in Antarctica. Operational Release was achieved in October 2025, a month ahead of schedule.



Defence Industry Strategy: The *Defence Industry Strategy* was released in October 2025, to support the implementation of the *2025 Defence Capability Plan*.



HMNZS Canterbury: The Interim Operational Release was achieved in December 2025. Testing was conducted in March 2026 ahead of forecast Operational Release later in 2026.

EQUIP – AREAS OF FOCUS FOR 2025/26

A large part of the Ministry's work programme involves procuring major military equipment for use by the NZDF. Projects under delivery this financial year are outlined in the following pages along with activities that support work in this area such as working in partnership with industry to deliver capability faster, and navigating complexity and risk.

HOW THE MINISTRY EQUIPS DEFENCE

Investment in Defence enables the NZDF to operate effectively and deliver outcomes to support the Government's strategic defence policy. The Ministry, NZDF and industry partners deliver major military capability that is fit-for-purpose, safe for personnel to operate, while providing value for money for New Zealand.

Investment decisions are based on robust business cases informed by long-term planning, consultation, analysis, market assessment, and supplier engagement, following Treasury's Better Business Case methodology. Once Cabinet approves an investment business case for major capability (Approval to Deliver), the Ministry leads delivery in close engagement with the NZDF.

Major capability projects and programmes are complex and typically of medium to high scale and risk. Integrated project teams comprising Ministry and NZDF personnel manage procurement, including equipment, training systems, through-life support and infrastructure, and are supported by policy, commercial and financial specialists. The teams navigate contract negotiations, supply chain

challenges, the impact of inflation, design changes, and regulatory environments.

Strong existing governance and reporting structures are designed to support delivery on time and within budget. Where required, Treasury Gateway reviews are undertaken to assess the likelihood of successful delivery.

WORKING WITH SUPPLIERS

Defence capability can be acquired through competitive tender processes, sole (direct) sourcing, along with leasing and chartering. The Ministry uses the Government Electronic Tender Service (GETS) to advise the market of opportunities to provide information, proposals, and tenders.

New Zealand is also able to engage with the United States Foreign Military Sales Program. This Government-to-Government process can be used to facilitate the sale and export of US defence equipment, services and training.

Case Study – Foreign Military Sales procurement

New Zealand has selected the MH-60R Seahawk maritime helicopter as the preferred option to replace its Seasprite fleet. The procurement process is currently underway through the United States Foreign Military Sales Program (FMS).

An important step in the FMS process is formal notification to US Congress which took place in June 2026, ahead of the final business case being considered by Ministers.

FMS is a low-risk procurement option which can result in more favourable pricing, both for initial purchase and through-life support, than New Zealand could negotiate directly with a supplier.

The MH-60R Seahawk helicopter is New Zealand's preferred option as they will be interoperable with our ally Australia and partner defence forces and able to contribute to multi-national coalition missions. More than \$2 billion has been budgeted for the purchase which will increase the defensive and offensive capability and surveillance range of New Zealand's frigates.

Through FMS, New Zealand has acquired equipment, systems, and training equipment, including the P-8A Poseidon maritime patrol aircraft and the C-130J-30 Hercules fleets, and their respective training simulators. It has also been a source of equipment for the NEA Programme and the 81mm Mortar capability.

NAVIGATING COMPLEXITY: THE CAPABILITY MANAGEMENT SYSTEM

The Ministry delivers major military capabilities to the NZDF through investment programmes that are often complex, high risk, high value, and delivered with challenging timeframes. An increasingly dynamic strategic environment is driving the need to deliver capabilities more quickly while maintaining robust governance, assurance, and risk management.

These programmes are managed through Defence's Capability Management System (CMS), which provides a scalable framework for governance, assurance, and delivery. The CMS aligns oversight and assurance activities with the scale, risk, and complexity of each project through three lines of assurance:

First Line – Delivery Control

Projects assess their scale and risk at key decision points to determine appropriate governance and assurance requirements. Delivery is managed in accordance with CMS processes, supported by mandatory monthly reporting and line management oversight of schedule, risk, and budget performance.

Second Line – Oversight

Governance boards provide strategic direction, address delivery challenges, and escalate issues where necessary. Subject matter experts provide independent advice, guidance, and support.

Third Line – Independent Assurance

Higher-risk projects are subject to Treasury assurance requirements. Independent reviews, including Gateway Reviews and Independent Quality Assurance reviews, identify risks, support continuous improvement, and escalate critical issues to the Capability Governance Board.

To deliver complex programmes, the Ministry also engages specialist expertise across capability acquisition and support functions, including infrastructure, training systems, maintenance, procurement, and contract management. These specialists also help manage supply chain risks, cost pressures, regulatory requirements, and industry engagement to ensure capabilities remain fit for purpose and sustainable over the long term.

The Ministry and NZDF jointly operate the CMS across the full capability lifecycle, from design and acquisition through to maintenance and disposal. The CMS defines the governance structures, roles, responsibilities, standards, tools, and processes needed to support successful delivery and effective risk management. It is aligned with Government and Treasury expectations, including the Better Business Case framework and external assurance requirements.

While the Secretary of Defence and Chief of Defence Force have distinct accountabilities across different phases of the capability lifecycle, the CMS is designed to support close collaboration and shared responsibility for delivery outcomes. Based on international best practice and independently reviewed on multiple occasions, the CMS has been shown to strengthen collaboration, reduce risk, improve efficiency, and deliver better value for investment.

Defence is now undertaking one of the largest capability investment programmes in its modern history. As investment increases, strong governance, assurance, and performance monitoring are becoming even more important. Through audits, reviews, and assessments, the Ministry provides assurance to Ministers and Defence leaders while identifying opportunities to strengthen delivery across the defence system.

Case Study: Governance masterclasses and forums

One of the most important factors in project success is efficient and effective governance. The quality of the discussion and decision-making taking place at board meetings, and the leadership provided by Senior Responsible Owners (SROs) is key to the successful delivery of any project. Our board members, and especially SROs, must demonstrate insight and foresight to direct progress on projects and manage risks before they become issues.

External and internal board members are chosen for their skills and experience, and supported to be successful in the Defence context with tailored 'masterclass' training. These sessions are facilitated by experts and aim to equip our board members and SROs with techniques to govern effectively, including managing risk and uncertainty, long-term thinking, monitoring progress, and working closely with project teams to deliver fit-for-purpose capability to the NZDF on-time and on-budget.

Defence also provides governance boards regular opportunities for dialogue between members. These forums allow board members to share their experiences, learnings and challenges to work towards more effective practices. Some key takeaways this year from these forums have been the importance of encouraging free and frank dialogue in board meetings to ensure decision-makers understand the choices they have available and the implications of these choices and related risks. The forums made clear the need to act with pace and rigour and take a 'no surprises' approach to project risks.

Overall, our governance masterclasses and forums add significant value, and investing in upskilling our board members equips our boards to oversee the major investments New Zealand is making in Defence.

ENGAGING WITH DEFENCE INDUSTRY

To support implementation of the *2025 Defence Capability Plan* and the Government's direction to deliver capability to NZDF faster, the *Defence Industry Strategy* was released in October 2025. The Strategy recognises the strategic importance of industry partnerships for the rapid development, acquisition and sustainment of military capability. It aims to strengthen engagement with New Zealand industry, improve early collaboration with suppliers during capability development, and identify opportunities to use innovative and commercial solutions where appropriate.

These initiatives are intended to reduce procurement timelines, increase New Zealand industry participation, strengthen supply chain resilience, and accelerate the delivery of capability to NZDF. Strengthening New Zealand's industrial base is also a Government priority, particularly in emerging technologies, while contributing to broader economic growth objectives.

Under the Strategy, a deeper understanding of the defence industry operating within New Zealand is being developed. A conservative estimate indicates around 800 suppliers provide products and services to Defence, with many additional subcontractors

supporting delivery through broader supply chains. These businesses represent a significant national capability spanning advanced manufacturing, engineering, information and communications technology, aerospace, maritime support, logistics and specialist professional services. Building stronger relationships with this sector is essential to ensuring Defence can access the skills, technology and capacity required to deliver capability effectively.

Defence suppliers operate within three broad tiers:

- Prime suppliers that deliver major integrated platforms, systems, equipment and services.
- Major contractors or sub-primes delivering equipment, systems, assemblies and services.
- Businesses providing parts, consumables and services to enable the assembly, upgrade or ongoing operation of systems and functions.

Defence increased engagement with industry throughout the year, including workshops held with over 150 companies across New Zealand following the release of the DCP to identify opportunities to improve planning, procurement practices and industry partnerships. Feedback from these engagements is informing initiatives to strengthen consistency in engagement, improve visibility of Defence requirements, support broader participation by New Zealand businesses, and accelerate the delivery of capability. Early engagement with industry also helps Defence better understand market capability, emerging technologies and innovative solutions before investment decisions are made, while providing suppliers with clearer insight into future Defence requirements.

Direct industry engagement continues to be critical to informing Defence projects about capability that exists in the market or that is in development currently. For example in early 2026 potential solutions for delivering enhanced maritime surveillance were discussed through primarily online workshops for the Persistent Surveillance (Air) project. Almost 200 participants took part, from New Zealand and around the world, and these insights will support the project's recommendations.

Such engagement supports the development of robust business cases on which Government can make investment decisions. The Ministry also relies on suppliers and their subcontractors to support delivery of Defence-led projects outlined in the following pages.

In turn, Defence is focused on building industry awareness of future capability needs and opportunities. Development of three Strategic Industry Base Statements (SIBS) has commenced and will provide a deeper understanding of Defence requirements in identified priority areas, explain how Defence intends to support industry, and identify opportunities for innovation. By signalling long-term capability priorities, the Statements are intended to provide greater certainty to industry, support investment decisions, encourage innovation and strengthen sovereign capability in areas important to New Zealand's security and resilience.

The first SIBS was released in March 2026 and focused on Uncrewed Systems and Uncrewed Counter Systems (see below). The next SIBS on space capabilities and sustainment are in development. Defence is also supporting offshore opportunities for New Zealand businesses, including showcasing Kiwi innovation to international partners and promoting a deeper understanding of New Zealand's industrial capacity to support Defence requirements. This includes progressing the identification of a platform to help Prime suppliers develop New Zealand Industry Capability Plans.

These plans aim to strengthen resilience and capability by increasing opportunities for New Zealand firms to participate in domestic and international Defence programmes. Supporting export growth, relationships between New Zealand industry and prime suppliers and their stronger integration into global supply chains will help New Zealand businesses scale their capability, access new markets and contribute to a more resilient Defence industrial base. Investigation of platform options is expected to be completed in 2026.

Procurement and industry integration with Australia is also being prioritised, alongside efforts to harness and enable industry innovation and technology to support economic growth. Expanded cooperation with Australia on capability procurement and industry integration is expected to support faster and more cost-effective capability outcomes, strengthen supply chain resilience, create opportunities for New Zealand industry participation in Australian programmes, improve interoperability between both Defence Forces, and support the development of advanced technologies of mutual benefit.

Industry feedback was important as the Ministry developed the Industry Strategy, and we want that engagement is expected to continue. As part of that, the Strategy commits to re-invigorating the New Zealand Defence Industry Advisory Council, a non-statutory Ministerial advisory group. New Terms of Reference for the Council were approved by the Minister of Defence, and a new Council established in 2026. The Council is Defence's partner in implementing the New Zealand *Defence Industry Strategy*.

Case Study: Improving supply chain resilience

Defence released its first Strategic Industrial Base Statement in March 2026 covering how it will work with industry to improve New Zealand's supply chain resilience and sovereign capability in the area of uncrewed systems and uncrewed counter systems.

As outlined in the *New Zealand Defence Industry Strategy*, Defence committed to creating three Strategic Industrial Base Statements for areas where New Zealand needs higher levels of sovereign industry capability in supporting the NZDF.

The first of these statements focuses on uncrewed systems and uncrewed counter systems, an area where investment and cooperation between Defence and industry will support national and supply chain resilience, including by growing export opportunities.

The Statement outlines an approach that gives preference to systems where key development, production, and sustainment activities can be delivered in New Zealand. The aim is to have cutting-edge drone technology developed and supported by local businesses.

The *2025 Defence Capability Plan* signalled indicative investments of between \$200 and \$450 million for uncrewed systems and uncrewed counter systems over four years.

PROJECTS IN DELIVERY

The Ministry leads a range of major programmes and projects under four domains: Maritime, Land, Air and Information.

Projects and programmes with significant delivery activity during the 2025/26 year are described in the following pages. Two key phases for delivery of all projects and programmes are:

- **Interim Operational Release (IOR)**, which is achieved when Defence considers sufficient capability can be effectively employed on operations. It moves from being In Delivery to in service at that time. IOR may happen in phases as progressively more capability is released.
- **Operational Release**, which is achieved when the capability as a whole has proved to be effective, safe and suitable for its intended roles and, in all respects, is ready for operational service.

The recorded spend and forecast can be affected by foreign currency movements. Further details about these, including tracking changes since foreign currency was initially purchased (hedged), is provided on pages 31 to 36.

All capability projects delivered by the Ministry are designed as temporary structures that are closed, with NZDF's agreement, once delivery has been completed. During the year, one project closed; the Dive and Hydrographic Vessel project that had delivered HMNZS *Manawanui*.

Further details of each major project in delivery, including the capability requirements, business case process, and acquisition phase, are provided in the annual Major Projects Report. This is considered by the Foreign Affairs, Defence and Trade Select Committee, and published on the Ministry's website at: <https://www.defence.govt.nz/our-work/equip/major-projects-report/>.

MANAGING PROJECT FINANCES

The Ministry's procurement activities are unique within the New Zealand Government, in that much of the equipment we acquire comes from overseas and is purchased using various foreign currencies. To mitigate risk from foreign exchange movements, the Ministry works with the Capital Markets team at The Treasury to hedge this risk. These are normally implemented after Cabinet authorises the new project and a budget is approved.

The Ministry hedges funds through a series of forward purchase contracts – where the Ministry contracts to purchase a set amount of foreign currency at an agreed rate on a certain future date. These contracts allow the Ministry to 'fix' the cost of an acquisition to the New Zealand Government, providing certainty over the New Zealand dollar cost of the project, while still allowing funding requirements to match the timing of expenditure.

Each capability project has its own 'hedge rate', representing the New Zealand dollar cost of purchasing the foreign currency required for that project.

For financial reporting, including reporting against appropriations, all transactions must be reported at the exchange rate at the date of the transaction (the 'spot rate'). Differences in reported value between hedge and spot rates can be significant. In order to stay within limits appropriations may be amended using a non-cash technical adjustment. This changes the reporting level of the appropriation without changing the underlying New Zealand dollar cost.

In addition, most capability projects managed by the Ministry comprise funding from both the Ministry and NZDF. The financial table below presents the total project expenditure across both agencies ('consolidated spend') at both spot and hedge rates. These amounts will differ from those presented in the Financial Statements which reports only amounts spent by the Ministry at spot rates.

Project budgets, including any changes arising from foreign currency movement

Project	Cabinet Budget	\$ million			Forecast variance
		Forecast Cost		Hedge rate	
		Spot rate	Hedge rate		
MARITIME DOMAIN					
Frigate Life Extension ³ Phase 1	58.0	57.0	57.4	56.4	0.6
Frigate Sustainment - Communications	97.7	92.8	97.5	92.5	0.3
HMNZS <i>Canterbury</i> and Offshore Patrol Vessel Communications Upgrade	31.1	29.7	31	29.6	0.1
LAND DOMAIN					
Bushmaster Communications	83.1	81.9	85.0	81.9	0.0
Garrison and Training Support Vehicles: Phase One	33.5	32.8	30.6	30.1	2.7
Land Force Electronic Counter Measures	7.5	6.8	7.4	6.7	0.1
Network Enabled Army (NEA)					
Tranche One	107.3	106.0	106.4	105.8	0.2
Tranche Two - C4	64.4	62.0	64.3	62.0	0.1

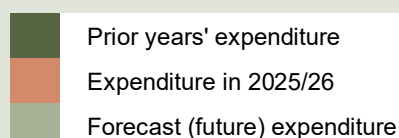
³ Prior to February 2026 this was called the Frigate Sustainment Programme.

Project	\$ million				
	Cabinet Budget	Forecast Cost		Forecast variance	Hedge rate
		Spot rate	Hedge rate	Spot rate	Hedge rate
Tranche Two - ISR	45.4	44.5	44.9	44.3	0.1
Tranche Three - Investment 1	75.8	75.8	76.9	75.7	0.1
Total NEA	292.8	288.3	292.5	287.8	0.5
Protected Mobility Capability (PMC)					
HM Light and Risk Reduction	14.6	14.6	14.4	14.4	0.2
Protected Vehicle - Medium	113.9	106.9	106.1	103.5	3.3
Utilities Replacement - Tranche One	108.4	102.7	103.4	98.1	4.6
Total PMC	236.9	224.2	223.9	216.1	8.1
AIR DOMAIN					
Air Surveillance Maritime Patrol	2,471.2	2,346.1	2,428.3	2,325.9	20.2
Future Air Mobility Capability - Strategic	620.5	620.5	621.7	619.3	1.2
Future Air Mobility Capability - Tactical	1,537.3	1,494.2	1,530.1	1,491.0	3.2
Maritime Helicopter Replacement, Tranche 1	6.6	6.6	6.5	6.5	0.1
Operational and Regulatory Aviation Compliance Sustainment (ORACS)					
Phase 1(a)	19.7	19.7	18.9	19.2	0.5
Phase 1(b)	48.7	46.9	47.5	45.7	1.2
Phase 2(a)	15.5	13.9	14.7	13.4	0.6
Phase 2(b)	11.8	11.4	11.7	11.2	0.2
Phase 2(c)	75.0	70.2	74.3	69.7	0.5
Phase 2(d)	49.9	49.9	46.4	48.3	1.6
Total ORACS	220.6	212.0	213.4	207.4	4.6
INFORMATION DOMAIN					
Cyber Security and Support Capability	15.3	15.3	15.3	15.3	-
Fixed High Frequency Radio Refresh	28.3	27.7	28.4	27.7	-
Updating Classified Digital Services	22.0	22.0	18.6	18.6	3.4

MARITIME DOMAIN

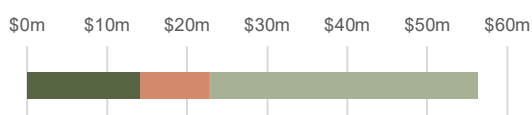
Extensions to the life and ongoing utility of the Royal New Zealand Navy's fleet are being delivered, and uncrewed systems are being explored as complementary capability. Replacement of selected systems on New Zealand's two Anzac-class frigates, HMNZS *Te Kaha* and *Te Mana*, will support them to remain operational and combat capable. Communications upgrades for HMNZS *Canterbury* and the Offshore Patrol Vessel HMNZS *Otago* are enabling better communication and networking with other ships, aircraft, ground forces and coalition partners.

The project charts show prior year expenditure, expenditure in 2025/26, and the forecast (future) expenditure.



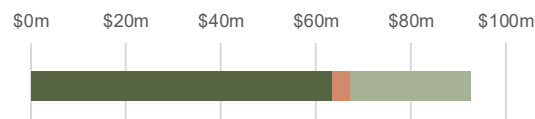
Frigate Life Extension⁴ Phase 1

A range of installation projects, including bilge keels, stability correction, steering unit control, sewerage treatment plant and reverse osmosis were completed on *Te Mana* and the ship deployed in early June 2026. Installation work began on *Te Kaha* in April 2026 as part of scheduled maintenance.



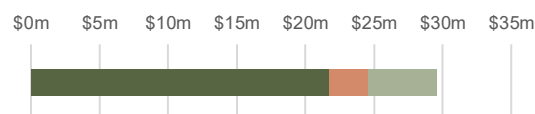
Frigate Sustainment – Communications

External tactical and strategic communications capabilities are being upgraded. This includes radios, antennae and other equipment providing voice and data communications to and from the frigates. Installation was completed this year on *Te Mana* and installation on *Te Kaha* commenced in April 2026.



HMNZS *Canterbury* and Offshore Patrol Vessel Communications Upgrade

Upgraded communications delivered by this project will increase interoperability and the ability to conduct concurrent operations, and lead joint and combined operations. Interim Operational Release for *Canterbury* was achieved in December 2025 and testing conducted in March 2026 ahead of forecast Operational Release later in 2026.

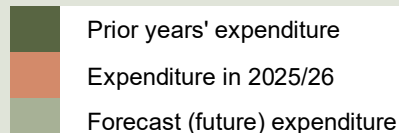


⁴ Prior to February 2026 this was called the Frigate Sustainment Programme.

LAND DOMAIN

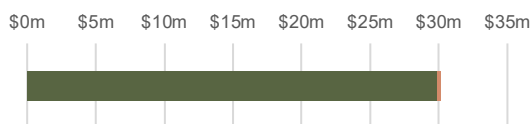
Projects are developing, sustaining, and modernising key New Zealand Army capabilities, with investments in vehicles, soldier systems, communications, and supporting infrastructure. Projects range from targeted upgrades and replacement to more complex capability programmes that enhance protection, mobility, and interoperability. These investments ensure the Army can respond to domestic tasks, contribute to international operations, and support wider Defence objectives.

The project charts show prior year expenditure, expenditure in 2025/26, and the forecast (future) expenditure.



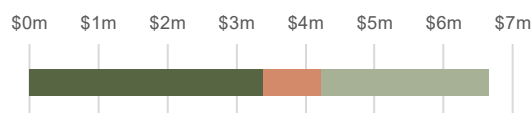
Garrison and Training Support Vehicles: Phase 1

Some of the NZDF's domestic and specialist training and support vehicles used in camps and bases across New Zealand have been replaced. These new fleets include fire appliances, medic response vehicles, and aircraft refuelling vehicles. These replacements improve the safety and reliability of support activities for personnel, infrastructure, and emergency response functions. Operational Release was approved in May 2026.



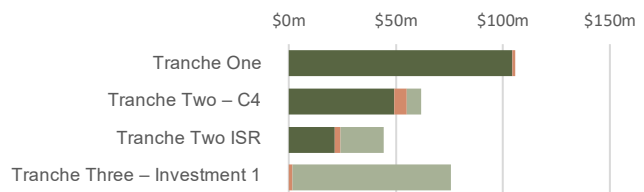
Land Force Protection Electronic Counter Measures: Phase 1

Electronic Counter Measures provide critical protection by disrupting or degrading adversary systems used to detect, track, and target personnel and platforms. How these systems would be installed were refined across vehicle types and work progress on confirming requirements, supporting integration into existing fleets. Engagement occurred with the Australian Defence Force to support alignment of vehicle design approaches and capability testing.

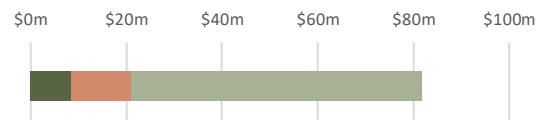


Network Enabled Army

The NEA Programme delivers Command, Control, Communications and Computers (C4), and Intelligence, Surveillance and Reconnaissance (ISR) capabilities, enabling the New Zealand Army and Special Operations Forces to operate modern, interoperable digital systems. This year, delivery of core systems, infrastructure, and training was progressed, along with advanced integration across platforms and units.

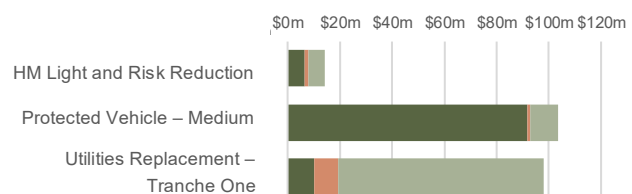


Alongside this, work progressed on how to install C4 systems in the new Bushmaster armoured vehicle fleet.



Protected Mobility Capability

The Protected Mobility Capability project comprises three projects delivering vehicles specialising in moving troops, supporting systems, and integration, strengthening the Army's ability to deploy, protect, and sustain personnel in diverse operational environments. Design work progressed for the new utility vehicles that will replace the current Army fleet of Unimogs and Pinzgauers.



Case Study: Network Enabled Army programme

The Network Enabled Army programme has procured a new suite of equipment, systems and applications in the last 12 months, for the New Zealand Army to use during training, exercises and operations.

This latest suite improves situational awareness, information sharing, and communications for soldiers and commanders operating in challenging environments, enhancing force protection and combat capability.

The new equipment and supporting technological infrastructure procured includes:

- A second tranche of nano Black Hornet 4 and micro Skydio uncrewed aircraft systems and remote ground sensor systems, to be delivered to soldiers based at Linton Military Camp,
- Another delivery of deployable information technology infrastructure, including mobile servers, routers, switches and satellite communication terminals, along with user training,
- More military grade digital radio systems to enhance communications for deployed soldiers and commanders,
- Further upgrades to the Battle Management System software application, as technologies have evolved. There has also been progress on work to integrate Network Enabled Army equipment, systems and applications previously procured,
- Updates for handheld smart devices, including software and firmware upgrades for equipment and systems used by soldiers in the field.

The programme has also confirmed delivery of new Electronic Warfare equipment from late 2026 for units based at Burnham Military Camp.

A contract to deliver software that supports intelligence processing and analysis capabilities for commanders in the field has also been confirmed, and a design process is now underway to integrate this software into the network.

Design work for command, control, communications and computers equipment and systems in the NZ 5.5 Bushmaster vehicle fleet is also underway, with the Australian defence engineering firm Luminact.

The Network Enabled Army programme is designed to roll out new equipment and technologies in successive phases, allowing new capabilities to be introduced or updated as they mature and ensuring there are ongoing opportunities to evaluate progress, and if necessary, change priorities.

Funding for the suite of capabilities procured in the last 12 months comes from Tranche Two of the Network Enabled Army programme and the Bushmaster Communications project.

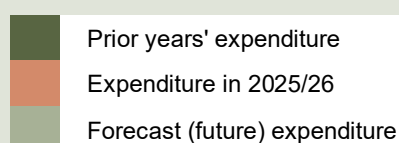


A New Zealand Army soldier operates a Skydio Micro Uncrewed Aircraft System during Exercise Cassino 2025.

AIR DOMAIN

Monitoring New Zealand's air and maritime areas protects our borders and national interests. The ability to move people and equipment quickly within New Zealand, across the Pacific, and globally is strategically important for national security. Having delivered Defence's new P-8A Poseidon and C-130J-30 Hercules fleets, our work is helping to ensure equipment, system, and software maintenance and upgrades are supported, and the aircraft remain ready for use and interoperable with partner nations, and that training is available to maintain and develop personnel. The Ministry continued its work to ensure NZDF aircraft comply with civil and military regulations. Investment decisions since 2019 have supported upgrades to navigation and communication systems and equipment across multiple fleets.

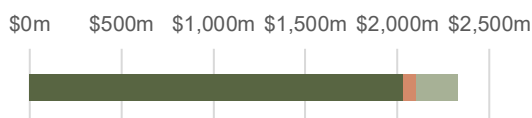
The project charts show prior year expenditure, expenditure in 2025/26, and the forecast (future) expenditure.



Air Surveillance Maritime Patrol

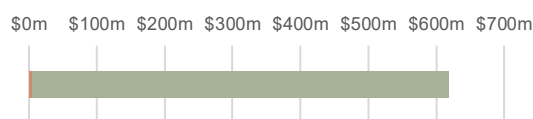
In July 2025 all roles and outputs for New Zealand's fleet of four P-8A Poseidons – maritime surveillance, mission support and intelligence operations, and resource protection in New Zealand's areas of interest – were released and expanded to global operations. Operational Release was achieved in December 2025.

In August 2025 Te Whare Toroa, the new base of operations for 5 squadron at RNZAF Base Ohakea was opened by then Minister of Defence, Hon Judith Collins KC. The flight training capability, located in Te Whare Toroa, was approved for use in training in March 2026.



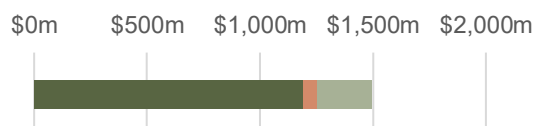
Future Air Mobility Capability – Strategic

Following Cabinet's approval of the business case in August 2025, NZDF signed a lease-to-buy with Air Lease Corporation for two Airbus A321XLRs to replace the RNZAF's two Boeing 757s. Formal design commenced and continues ahead of the build of the aircraft, which will be able to accommodate around 120 passengers and 9,100 kilograms of cargo. As commercial-off-the-shelf aircraft, they will be fitted out and ready to operate soon after arrival in 2028.



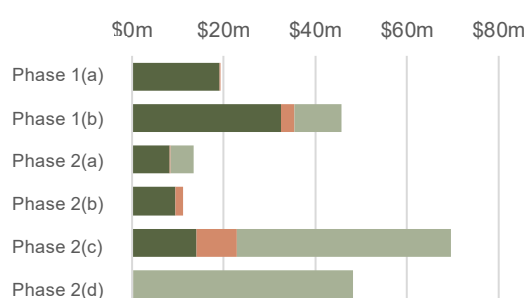
Future Air Mobility Capability – Tactical

Since the aircraft were released to deliver Air Logistics Support and Antarctic Operations in 2025, the C-130J-30 Hercules fleet has transported people and cargo, responded to natural disasters, evacuated civilians from areas of unrest or conflict and support New Zealand's presence in operations in Antarctica. Operational Release was achieved on 30 October 2025, a month ahead of schedule. Flight training device equipment delivered to RNZAF Base Auckland in August and September 2025 enabled the build of the simulator to begin. This is on schedule for completion in 2026.



Operational and Regulatory Aviation Compliance Sustainment (ORACS)

As aviation regulations and technology evolve, NZDF aircraft systems require ongoing upgrade and replacement. This work has been delivered in phases since funding was first approved in 2019. In 2025, Operational Release was achieved for upgraded air traffic control and military identification systems across aircraft fleets, as well as the encrypted radio upgrade for the NH90 helicopter fleet. The next phase of the project was approved in November 2025 and details of the required work are being finalised with NATO Helicopter Industries, manufacturers of the NH90.



Maritime Helicopter Replacement, Tranche 1

The Ministry received \$6.54 million to undertake pre-acquisition activities for the replacement of the RNZN's Seasprite helicopters. Formal discussions are underway with the United States regarding New Zealand's preferred option for replacement, the MH-60R Seahawk helicopter. Once final decisions have been made, more detailed reporting will be provided on the delivery of this project.

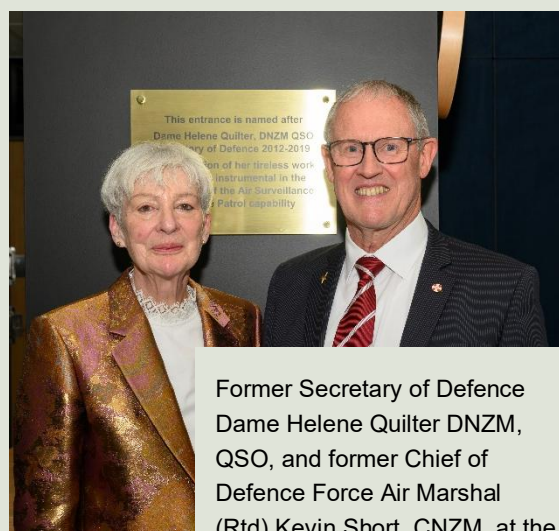
Case Study – The headquarters for the P-8A Poseidon aircraft was officially opened

In August 2025, a new million-dollar multipurpose facility for the P-8A Poseidon maritime surveillance aircraft fleet at Royal New Zealand Air Force Base Ohakea. This project is in the project closure phase.

This 20,000 square metre facility is a significant Government investment in the future of the NZDF. The purpose-built headquarters was constructed by a Ministry of Defence-led project team, with NZDF personnel embedded, and in close partnership with dozens of companies in the construction industry.

The building can train, sustain and support up to 320 personnel with its two aircraft hangars, maintenance and support facilities, spare parts warehouse, and mission support centre. For the first time, it brings together a range of training and support tools for air crew, maintenance and support personnel.

The facility, named Te Whare Toroa after the albatross that adorns RNZAF No. 5 squadron's crest, was built as part of the \$2.34 billion project to procure four new P-8A Poseidon aircraft for the NZDF.

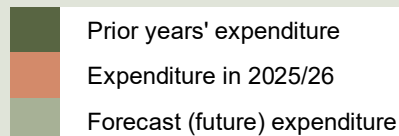


Former Secretary of Defence Dame Helene Quilter DNZM, QSO, and former Chief of Defence Force Air Marshal (Rtd) Kevin Short, CNZM, at the opening of Te Whare Toroa.

INFORMATION DOMAIN

As technology evolves, threats become more sophisticated. This means resilient, secure, and interoperable information systems are critical to operational effectiveness, decision-making, and interoperability with partners. Investments in the Information Domain are fundamental to enabling NZDF operations, ensuring information is transmitted and accessed securely, and can be acted on effectively. They strengthen the NZDF's ability to protect information, ensure secure access to classified systems, and maintain communications in contested or remote environments.

The project charts show prior year expenditure, expenditure in 2025/26, and the forecast (future) expenditure.



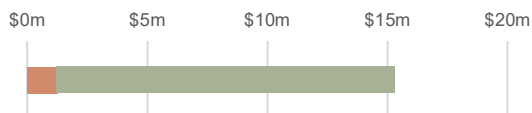
Updating Classified Digital Services

The NZDF's classified environment is being modernised. The project is in its first phase and progress has been made on the design for the updated environment as well as development for deployed capabilities. Funding for phase two was announced in Budget 2026.



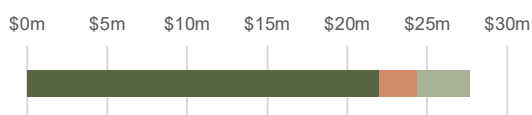
Cyber Security and Support Capability

Enhancing the NZDF's ability to defend against cyber threats when deployed requires investment in personnel as well as systems and hardware. This programme is seeking an industry partner to provide a Security Information and Event Management system for Defence. Local industry has been encouraged to engage, with suppliers required to meet national security vetting requirements, and provide strict assurances regarding supply chains.



Fixed High Frequency Radio Refresh

High frequency radio infrastructure enables the NZDF to communicate in areas where satellite communications are unavailable, such as the Southern Ocean. The mix of fixed, owned and leased assets has been consolidated and upgraded, achieving Interim Operational Release in March 2026.



Partner | Te whakahoa

The Ministry works with the NZDF to shape New Zealand's relationships with international counterparts, foreign militaries, and security organisations. We provide advice to Government and direction on defence relationships to maximise New Zealand's security and broader interests. Having a network of strong international relationships serves to protect and advance our interests.

KEY ACHIEVEMENTS



Alliance with Australia: Continued strengthening of our alliance with Australia, a key direction from Government outlined in the *2025 Defence Capability Plan*



Deployment advice: Provided advice on and supported a range of operational deployments in the Indo-Pacific



Defence agreements: Supporting the signing of numerous agreements such as the defence cooperation arrangement with Timor-Leste, *Acquisition and Cross-Servicing Arrangement* with Japan, Philippines *Status of Visiting Forces Agreement* and *Updated Joint Statement on Enhanced Defence Cooperation* with the United Kingdom

The Ministry undertook a range of activities this financial year under our Partner strategic objective. Alongside a high tempo of defence diplomacy activities and engagements with our international defence partners, a major focus was the strengthening of our alliance with Australia, a key direction from Government outlined in the *2025 Defence Capability Plan* (DCP). The Ministry continued to place significant resources and effort towards Pacific security outcomes. Within our wider region, the Ministry provided advice on and supported a range of operational deployments in the Indo-Pacific. Globally, our advice continued to contribute to efforts to buttress the existing international rules-based order.

DEFENCE DIPLOMACY

The Ministry supported 10 Ministerial visits offshore. Many of these were multilateral events covering multiple bilateral engagements.

Staff at the Ministry undertake a range of activities to strengthen ties with our ally, Australia, and New Zealand's international defence partners. They regularly lead bilateral and multilateral engagements alongside the NZDF, support activities to enhance interoperability, and work with other government agencies to respond to events in our region.

In 2025/26, the Ministry supported a high tempo of international engagements at the senior officials level, including formal defence policy talks with Australia, the US, China, India, Singapore, Indonesia, and Tonga, among others.

The Ministry works closely with the NZDF, Ministry of Foreign Affairs and Trade, and other government agencies to ensure its policy advice and engagements align to broader New Zealand government policies and priorities.

Engaging with our international partners is critical to delivering against our defence policy priorities. It helps us understand an increasingly complex global environment; strengthens the partnerships on which New Zealand depends for its security and prosperity; and builds connections for our emerging defence industry.

80%

**Ministerial satisfaction
with policy support**

Assessing defence policy support: The Ministry surveys the Minister of Defence on the quality of the Ministry's policy support. A key part of this is briefings to the Minister to support international engagements. Hon Judith Collins KC rated the Ministry's policy support at 80 percent for the 2025/26 year.

ALLIANCE WITH AUSTRALIA

Australia is New Zealand's closest friend and our only formal military ally. We have a long-standing and deep history of military cooperation, supporting peace and stability both globally and in our Pacific region.

Our people work seamlessly together at the Defence policy and operational levels, to uphold the international rules-based order and foster a safe and prosperous Pacific region.

Under our strategic defence policy settings, the Government has directed that Defence further strengthens our alliance with Australia, including by:

- deepening alignment and coordination on policy and strategy development, responses to events, and increasing information sharing,
- growing the interoperability and integration of our respective forces to increase our collective strategic weight, and
- expanding our combined operations and activities in the Pacific and wider Indo-Pacific to address shared security concerns.

The DCP commits the Defence Force to being a force multiplier with Australia, to the benefit of both of our nations. This means the two countries will increasingly integrate military forces in defence of shared interests, common values, and territory. This will include the introduction of more common, complementary, and increasingly interoperable capability, further entrenching our ability to act together in support of shared interests.

Our single economic market under Closer Economic Relations, with mutual recognition for our domestic defence industries, also provides a wide range of opportunities for joint capability procurement.

Operationalising of the Australia-New Zealand Alliance

In 2026, the Ministry led policy advice to operationalise the Australia-New Zealand Alliance outlined in the Joint Statement on Closer Defence Relations signed by Ministers on 17 March 2026. It commits both New Zealand and Australia to several lines of effort to improve integration and interoperability between the NZDF and the Australian Defence Force by 2035:

- Force posture activities,
- Combined operations and exercises,
- Force preparedness,
- Resilience,
- Defence industry integration, and
- Pacific security.

This statement, along with the previous 2024 Joint Statement on Closer Defence Relations and pre-existing defence dialogue architecture, provide the policy framework to modernise our alliance and adapt to new and emerging areas of cooperation.

PACIFIC SECURITY AND RESILIENCE

Our strategic defence policy reinforces the critical and non-discretionary importance of ensuring the security of our immediate region, spanning from Antarctica into the Pacific, and our constitutional

obligations towards defence and security of the Realm countries (the Cook Islands, Niue and Tokelau). This includes supporting the security and resilience of Pacific countries, and of the Pacific region as a whole, and ensuring that the NZDF is well positioned to respond to requests for assistance, including during and following natural disasters.

Engagements

Engagement with Pacific partners form a significant part of this effort. Every year, the Ministry leads on the policy aspects of formal talks with Fiji, Papua New Guinea, Tonga and Vanuatu. Ministry advisors also develop and provide policy advice to the Minister for participation in Pacific regional fora, primarily the South Pacific Defence Ministers' Meeting.

Pacific Secondments

The Ministry has two staff seconded to equivalent ministries in Fiji and Papua New Guinea. These secondments have been established, in 2023 and 2024 respectively, to strengthen defence relationships, deepen mutual understanding of security priorities, and build regional civilian defence capability together.

A core focus of the secondments is to support civilian-led policy advice on defence and national security matters with staff working in a range of areas such as Defence White Paper development and implementing national security strategies at the direction of their host Ministries.

Defence Cooperation Arrangement with Timor-Leste

On 11 June 2026, supported by Ministry advice, an updated defence cooperation agreement was signed between New Zealand and Timor-Leste. The agreement complements the existing Status of Visiting Forces Agreement and outlines key priorities and areas of cooperation between the two countries such as training, education and capacity building, deepening the bilateral relationship, cooperation on humanitarian and disaster relief, cooperation in maritime security, and exchange of expertise in a number of areas.

4 / 5

Ministerial satisfaction with policy advice

Assessing defence policy advice: Each year the Ministry surveys the Minister of Defence on the quality of the Ministry's policy advice using a questionnaire set by the Department of the Prime Minister and Cabinet.

The Minister reviews our advice on international deployments, Defence policy and Defence major capability projects. Hon Judith Collins KC rated the quality of the Ministry's policy advice at **4 out of 5** for the 205/26 year.

SUPPORTING INDO-PACIFIC SECURITY

New Zealand has a particular interest in Indo-Pacific security. This is where our security partners are closely engaged and where our economic and strategic interests converge. Defence will continue to focus on contributing to activities that reinforce the existing international rules-based order and supporting the sovereignty and security of regional states.

Indo-Pacific operations

The Ministry, in partnership with the NZDF, provided ongoing advice to Ministers in 2025/26 that supported the deployment of a range of NZDF assets to reinforce norms and international law in the Indo-Pacific region. This has included the deployment of P-8A Poseidon maritime patrol aircraft and HMNZS *Aotearoa* to the waters of East Asia to capture evidence of breaches of United Nations Security Council resolutions on North Korea's nuclear and ballistic missile programmes and exercising our rights and obligations under the United Nations Charter and the United Nations Convention on the Law of the Sea.

Inaugural India-New Zealand Bilateral Defence Talks

As part of Indo-Pacific engagement, the Ministry led and provided advice to the Inaugural India-New Zealand bilateral defence talks. The talks were arranged as a first step toward operationalising the Memorandum of Understanding on Defence Cooperation and allowed delegates from both countries to discuss views on the geostrategic environment. This bilateral arrangement facilitates a closer defence relationship by establishing regular defence engagements, including through dialogue, and opens up new areas for cooperation such as joint training and deployment.

Acquisition and Cross-Servicing Arrangement with Japan

The Ministry provided support for the December 2025 Cabinet decision to approve and sign an *Acquisition and Cross Servicing Agreement* (ACSA) with Japan. This agreement sets out how logistical support, such as the provision of supplies and services, will be managed during cooperation between the NZDF and the Self-Defence Forces of Japan. It creates the conditions for even more seamless cooperation with Japan, an important partner in the Indo-Pacific. The ACSA is complemented by an Information Sharing Agreement, led by the Ministry of Foreign Affairs and Trade (MFAT), which creates the legal framework for the sharing of classified level information.

ADMM-Plus

The Ministry supported the Minister of Defence's attendance at the 2025 Association of Southeast Asian Nations Defence Ministers' Meeting-Plus (ADMM-Plus) in Kuala Lumpur, Malaysia as well as a number of bilateral meetings with Defence counterparts. ADMM-Plus is an opportunity to engage with counterparts on regional security issues and strengthen defence cooperation in the Indo-Pacific with the goal of upholding peace, stability, and prosperity in the region. ADMM-Plus 2025 marked the 50-year anniversary of New Zealand's dialogue relations with ASEAN, and the 15th of the first ADMM-Plus.

Philippines Status of Visiting Forces Agreement

The Ministry continues to support the operationalising of the Status of Visiting Forces Agreement with the Philippines. This agreement, which was built upon the previous *Mutual Logistics Supporting Arrangement* (2024) and *Defence*

Cooperation Agreement (2012), set out the legal framework for military cooperation between the NZDF and the Armed Forces of the Philippines including the responsibilities and obligations of both parties.

Case Study: Defence Capability Plan review Realm engagement

As part of the DCP review process, Defence is in the process of reaching out to Realm partners (Cook Islands, Niue, and Tokelau) to understand their defence needs as well as their perspective on NZDF capability investments and implementation. This engagement is consistent with the policy settings of the DCP, which prioritised defence of New Zealand's immediate region, as well as our constitutional commitment to the security of the Realm.

In May 2026 representatives from the Ministry and NZDF visited the Cook Islands to engage senior officials on the DCP 2027 review. This visit presented a valuable opportunity to discuss Pacific security issues, how the Cook Islands and New Zealand can cooperate to address these concerns through the NZDF and its capabilities, and the constitutional relationship between New Zealand and the Cook Islands. This visit was also the first defence engagement with the Cook Islands since the signing of the New Zealand-Cook Islands Defence and Security Declaration.

Future engagement is planned with the other members of the Realm.

REINFORCING THE EXISTING INTERNATIONAL RULES-BASED ORDER

The Ministry, in partnership with the NZDF and MFAT, provides advice to Ministers on the deployment of NZDF personnel and assets that support the upholding of the existing international rules-based order, beyond our immediate region. This includes advice on support to the defence of Ukraine, our long running peace support missions in the Middle East and Africa, including United Nations peacekeeping operations, and maritime security operations that help support international trade routes, support the global commons, and counter illegal activities.

Support to the Defence of Ukraine

The Ministry supported a range of activities related to the defence of Ukraine over the period of this Annual Report, including:

- Provision of advice on the deployment of NZDF personnel under Operation Legio, to take part in a multi-national training initiative led by Norway. Operation Legio includes personnel from countries including Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Poland, Sweden and Ukraine;

- Supporting and providing advice for the then-Minister of Defence's visit to Ukraine and Poland in September 2025, including for her engagements with counterparts and other officials in both countries; and
- Provision of advice on contributions to the Prioritised Ukraine Requirements List (PURL), a NATO and United States initiative to supply Ukraine with weapons and equipment.

Updated Joint Statement on Enhanced Defence Cooperation with the United Kingdom

The Ministry led the production of an updated, Joint Statement on Enhanced Defence Cooperation with the United Kingdom in September 2025. The statement recognised the ongoing attacks on the rules-based international system such as the illegal Russian invasion of Ukraine and attack on international shipping in the Middle East. It affirmed a commitment to working with like-minded partners to uphold the international rules-based order. New Zealand and the United Kingdom will do so by

increasing interoperability to improve combat effectiveness, cooperate in the Indo-Pacific to enhance security and stability, and facilitate effective defence industrial and technological cooperation. This was the first update of the Joint Statement in 10 years.

DEPLOYMENT ADVICE

The Ministry works closely with the NZDF and other government agencies to provide advice to the Government on options for deploying NZDF personnel offshore in response to instances of instability and in support of the rules-based international order. We also work together to provide advice on any changes to the strategic environment affecting NZDF deployments and activities.

In partnership with the NZDF and MFAT, in 2025/26 our deployment advice has led to Cabinet approving, for example:

- the renewal of the mandate for New Zealand's contributions to the United Nations Command on the Korean Peninsula,
- the renewal of the mandate for New Zealand's Contribution to the United Nations Truce Supervision Organisation in Israel, Syria and Lebanon,

- the renewal of the mandate for New Zealand's longstanding maritime security commitments in the Middle East, including to the Combined Maritime Forces based in Bahrain,
- the renewal of the mandate for New Zealand's contribution to the Multinational Force and Observers on the Sinai Peninsula, and
- renewal of the mandate for New Zealand's contributions to North Korea sanctions monitoring, through personnel, air and naval asset contributions.

Additionally, the Ministry maintains a Policy Advisor (POLAD) programme in order to embed civilian expertise into NZDF operations, as well as provide policy advice to commanders at the tactical and operation levels.

3.73/5

Independent review of policy advice

Assessing defence policy advice: The Ministry commissions an annual assessment of Defence policy advice from the New Zealand Institute of Economic Research. In 2025/26 the Ministry scored an average of **3.73 out of 5** for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's Policy Quality Framework.

This review awarded a 4.5 out of 5 rating for policy advice related to the Strait of Hormuz – Proposed UK/France Military Coalition Next Steps. It assessed: *Provides a clear description of the evolving international situation. It places the proposal within New Zealand's broader foreign policy objectives, particularly New Zealand's longstanding support for freedom of navigation and the rules-based international order.*

Assess | Te arotake

The Ministry undertakes audits and assessments to ensure there is a clear understanding of defence system performance. This demonstrates system credibility, supports continuous improvement, and strengthens the Ministry's ongoing advice to decision makers.

KEY ACHIEVEMENTS



Long-term briefing: Published a Long-Term Insights Briefing examining how technology innovations are likely to influence New Zealand's Defence capabilities beyond 2035



Audit: Completed the NZDF's Hazardous Substance Controls and Compliance Audit, identifying risks and improvement opportunities



Operation reviews: Delivered six in-operation reviews and one post-operation review, assessing performance against each operation's strategic objectives

ASSESS – AREAS OF FOCUS FOR 2025/26

The Ministry completed a number of initiatives this financial year under our Assess strategic objective. This included undertaking a range of audits and assessments, assessing system performance and deployments as well as publishing a Long-Term Insights Briefing.

ASSESSING DEFENCE'S PERFORMANCE AND EFFECTIVENESS AS A SYSTEM

The Ministry conducts audits and assessments of NZDF activities and the Ministry's military procurements to build a clear understanding of defence system performance and identify opportunities for continuous improvement. This work strengthens assurance that Defence is delivering on Government priorities and achieving its intended outcomes. The Ministry also undertakes large thematic reviews on targeted areas across the defence system, providing insights to improve organisational efficiency and effectiveness.

To ensure the effort is efficiently targeted, our audit and assessment work programme focuses on priority areas, including those identified by the Minister of Defence, and avoids duplication with other assurance providers. Through this programme, the Ministry is increasing the use of performance measurement and data insights to support decision-making and evaluation across Defence.

During the last financial year, we conducted:

- audits of hazardous substances at NZDF North Island camps and bases and ammunition and explosives, as required under the Hazardous Substances and New Organisms Act 1996,
- reviews of six ongoing and one completed NZDF operations, assessing performance against Cabinet-mandated strategic objectives,
- reviews of five completed Defence-led projects to provide assurance on delivery performance and benefits realisation, and to identify lessons to support continuous improvement across future capability projects, and
- an assessment of the NZDF's fuel supply chain resilience.

80%

**Ministerial satisfaction with
audit and assessment**

Audit and assessments: The Ministry surveys the Minister of Defence on the quality of the Ministry's audit and assessment work. Hon Judith Collins KC rated the Ministry's audit and assessment work at 80 percent for the 2025/26 year.

MEASURING DEFENCE SYSTEM PROGRESS AGAINST POLICY AND STRATEGY SETTINGS

The Ministry tracks progress against the Government's Strategic Defence Policy settings (see page 19), providing assurance to the Minister and senior Defence leaders that the defence system is working towards achieving the Government's objectives.

This regular assessment draws on a range of data sources to evaluate system performance, highlighting key operational achievements and emerging challenges.

The most recent assessment undertaken in April 2026 found that the defence system is responding to increasing operational demands on its resources in a volatile and complex security environment. Delivery of the Defence Capability Plan is progressing at pace, while at the same time, the NZDF is lifting readiness, strengthening international relationships, and sustaining a high tempo of deployments.

ASSESSING DEFENCE'S OPERATIONS AGAINST THEIR STRATEGIC OBJECTIVES

In response to the Expert Review Group's recommendations following the Operation Burnham Inquiry, the Ministry assesses NZDF operations to provide assurance to decision-makers on performance against Cabinet mandates. These assessments examine whether operations are achieving their strategic objectives, both during ('In-Operation Strategic Monitoring'), and after the completion or key phases ('Post-Operation Strategic Monitoring').

In 2025/26, six In-Operation Strategic Monitoring reviews were completed. While all Cabinet-mandated operations are reviewed annually, review timing was adjusted to align with mandate renewals. The remaining operations not assessed during 2025/26 are scheduled for review before the end of the 2026 calendar year.

One Post-Operation Strategic Monitoring assessment was completed, examining the NZDF's command of Combined Task Force 150 and the deployment of HMNZS *Te Kaha*'s in support of international maritime security efforts in the Middle East.

Overall, the reviews confirmed strong alignment between NZDF operations and the Government's strategic direction. They also identified lessons and recommended practical improvements to support the achievement of strategic objectives, including opportunities to strengthen the Operation Lifecycle Framework.

A key area of improvement is the need to refine operational objectives so they better align with Government priorities, reflect changing contexts, and enable objective measurement. Over the past year, guidance has been developed to support the drafting of clear, specific, and measurable objectives that translate strategy into outcomes and better inform decision-making, resource allocation, and performance management.

Long-Term Insights Briefing

In February 2026, the Ministry published its Long-Term Insights Briefing (LTIB) examining "how technology innovations are likely to influence New Zealand's Defence capabilities beyond 2035."⁵

The LTIB identifies four key themes: harnessing the power of data, human-machine teaming, next-generation effectors, and expeditionary sustainment. It also highlights three major shifts that carry significant operational, policy, and system-level implications for Defence to consider:

- from human accountability by default to human accountability by design,
- from software supporting hardware to hardware supporting software, and
- from public engagement to public inclusion.

The LTIB and supporting research are already informing Defence activity. For example, it is contributing to the next Defence Capability Plan refresh by identifying where future investments may be required to enable technology-driven defence capabilities. As a deliverable under the *Defence Industry Strategy*, the LTIB also provides early signals to New Zealand's defence industry on how emerging technologies may influence future demand and investment priorities.

⁵ The Long-term Insights Briefing is available from the Ministry's website at <https://defence.govt.nz/publications/long-term-insights-briefing/>.

Organisational health and capability | **Te hauora ā-whakahaere me te āheinga**

OUR PEOPLE

The Ministry’s workforce is comprised of policy makers, project specialists, data analysts, business case experts, and international relations experts. More than half our staff are project management professionals who lead on multi-million dollar projects to procure military equipment for the NZDF.

The Ministry is organised around its civilian advice and military capability delivery roles. Below is a summary of the Ministry’s workforce as at 30 June 2026.



DEVELOPING OUR WORKFORCE CAPABILITY

The Ministry’s People Strategy 2025-2028 outlines how to support the Ministry’s strategic kaupapa, to be a **happy, healthy, and high performing** organisation. This is central to how the Ministry operates, and its success in attracting, developing and retaining a talented workforce. Work continues on implementing the areas of focus within the Strategy.

The Ministry offers continuous learning and development to staff through a learning and development tool called FutureReady. FutureReady offers opportunities across a range of areas designed to strengthen our people’s skillsets to advance their knowledge as public servants, by building their expertise as trusted professionals, and enabling staff to take ownership of their professional development.

Leadership capability

The Ministry regularly brings senior leaders together to work through common leadership challenges. This promotes an environment of cohesive and connected leadership across the agency.

Additionally, the Ministry aims to enable strong team leadership, through a focus on understanding individual leadership capability and style.

Reviewing the Ministry’s values

The Ministry has been working to review its values. This review aims to foster a workforce who choose to work at the Ministry because they believe in what we do.

Employee-led networks

The Ministry’s employee led networks build community and connection across the agency, encourage a respectful culture and enable collaboration. Network chairs regularly come together to share their perspectives and experiences in support of the strategic kaupapa to be a happy, healthy and high performing organisation.

Pay gaps

The Ministry pays women the same as men for doing the same work and has protocols in place to ensure this is maintained. As at 30 June, the Ministry's gender pay gap sits at 20.1%. This is a reduction from 46% in 2016. The gap is largely driven by the need to recruit and retain senior, specialist project staff from traditionally male dominated backgrounds of STEM and the military.

The Ministry's full workforce diversity action plan published in November 2024 provides further detail.

Building cultural capability

Strengthening our cultural capability deepens our understanding of te ao Māori, helps us meet our responsibilities under Te Tiriti o Waitangi, and supports respectful, informed collaboration across teams and stakeholders.

HEALTH AND SAFETY

The Ministry remains committed to providing a safe and healthy working environment for its staff, contractors, and visitors, and continues to participate in a range of government-wide health and safety initiatives. Alongside the NZDF, the Ministry is responsible for the delivery of capabilities that are safe to operate, operated safely, and guidance is provided to ensure this is achieved.

The Ministry's Health and Safety Committee regularly meets to review the most significant health and safety risks and is active in promoting good health and safety practices in the workplace. It maintains regular engagement with the Ministry's Leadership team and the Risk and Assurance Committee.

The Ministry's Health and Safety Committee focused on the following areas over the 2025/2026 reporting period:

- **Leadership enhancements** that strengthened governance, commitment and accountability for health and safety across the Ministry. This included targeted discussions with the Strategic Leadership Team and the Ministry's external health and safety advisor on critical risks, effective governance practices, and oversight of the Ministry's health and safety work programme.

An uplift in cultural competence for the Ministry was reflected in the results of the most recent Public Service Census.

Savings initiative

The Ministry continues to contribute to the Government's expectations for a smaller, more efficient Public Service and its in-principle target of reducing the public service workforce over the next three years.

The Ministry is working through how any potential reductions in its own workforce can be achieved. This work is being undertaken with a focus on maintaining the organisational capability required to support the delivery of defence capability and provide high-quality advice to Government.⁶

- **Risk management** activities to identify, assess and manage health and safety risks. This included maintaining and reviewing the Ministry's critical risk register, monitoring emerging risks, and collaborating with other government agencies to develop sector guidance and good-practice standards for managing driving-related risks.
- **Assurance** activities to provide confidence that effective controls, policies and procedures are in place and operating as intended. Areas of focus included psychosocial health and safety, compliance with travel and driving requirements, and the effectiveness of the Capability Safety Framework in supporting the safe delivery and operating of Defence capabilities.
- **Training and engagement** activities to build staff capability and awareness, support consultation on health, safety and wellbeing matters, and promote a positive health and safety culture.

⁶ The workforce diversity action plan is available from the Ministry's website at <http://www.defence.govt.nz/publications/2024-papa-pounamu-and-kia-toipoto/>.

ADOPTING ARTIFICIAL INTELLIGENCE IN THE MINISTRY

The Ministry is taking a measured and responsible approach to adopting artificial intelligence (AI) as a workplace productivity tool. In April 2026, the Ministry set out its AI Intentions to:

- help us work more effectively;
- enrich the work our people do; and
- ensure AI is used in ways that are safe, transparent, and trusted.

To support responsible adoption, an AI Reference Group has been established with members from across the Ministry. The group addresses practical implementation challenges associated with using AI in the workplace, including how to build staff

capability, manage risks, and shape guidance to ensure AI is used consistently and appropriately across the Ministry.

Currently, Microsoft Copilot Chat is the only AI tool available to Ministry staff within the Defence Information Environment. Because the NZDF provides the Ministry's ICT services, new AI tools are introduced through NZDF processes. The Ministry is working closely with the NZDF to understand emerging AI capabilities and shape how future tools can support better decision-making and more effective ways of working, while keeping human judgement and accountability at the centre.

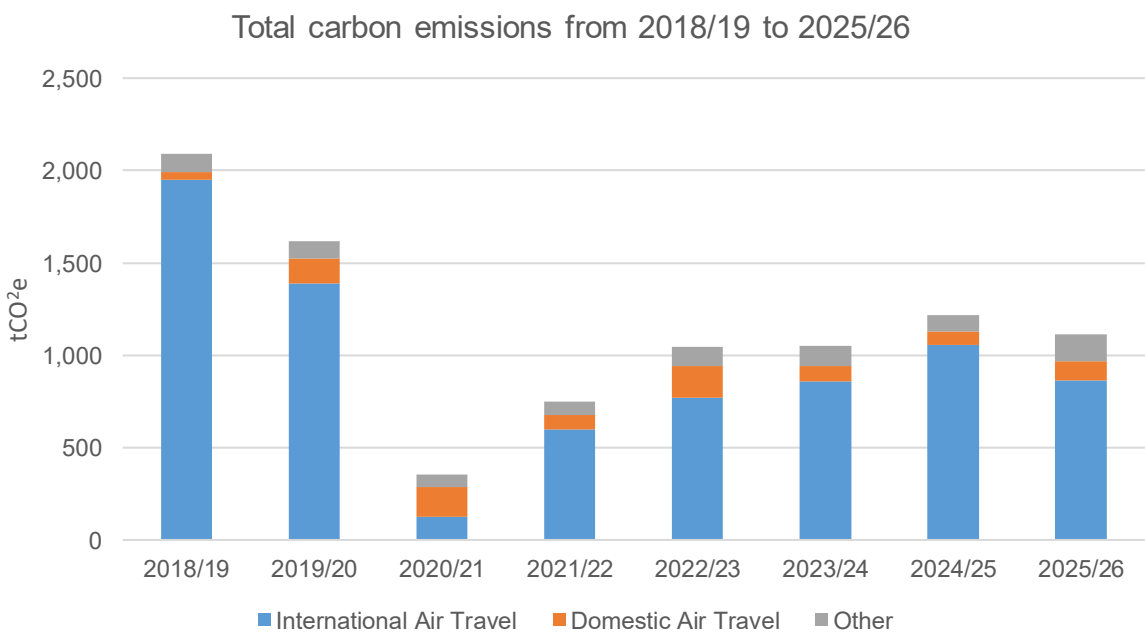
REDUCING THE MINISTRY'S CARBON EMISSIONS

The Ministry is committed to meeting the Carbon Neutral Government Programme requirements. The Ministry will measure, reduce and report its emissions profile, and have its data externally validated. In 2025/2026, the Ministry emitted 1,115 tonnes of carbon dioxide equivalent (tCO₂e), which was a 47% reduction from 2,088 tonnes of carbon dioxide equivalent (tCO₂e) in 2018/19 (the Ministry's base year).

The Ministry's greenhouse gas emissions measurement (emissions data and calculations) has been independently verified by Toitū Envirocare.

The Ministry is meeting the requirements of capturing emissions from all mandated sources. The quality of the source data is considered sound.

The Ministry's emissions for the last eight years, broken down by source, are illustrated below:



Our reduction targets

The Ministry's largest emissions source is international air travel. International travel will continue to be a key part of the way that the Ministry conducts its business to meet our 'Partner' objective for international engagements.

In line with the requirements of the Carbon Neutral Government Programme, the Ministry is working towards meeting its 2029/30 targeted emission level of no more than 1,211 tCO₂e, which will be a 42% from its base year of 2,088 tCO₂e. In 2024/25, the Ministry emitted 1,216 tCO₂e and achieved its first mandated emissions target of no more than 1,650 tCO₂e in that year, which was 21% from its base year.

The Ministry has updated its travel policy and procedures to support meeting its emissions targets. The Ministry will continue to monitor its travel requirements and the implications on carbon emissions to ensure 2030 target is met.

The Ministry's performance and operations | **Ngā mahi me ngā whakahaere a te Manatū**



THE ROLE OF THE MINISTRY

The Ministry is a New Zealand government department as defined by section 5 of the Public Service Act 2020. The relevant legislation governing the Ministry's operations includes the Defence Act 1990, the Public Finance Act 1989 and the Public Service Act. The Ministry's ultimate parent is the New Zealand Crown.

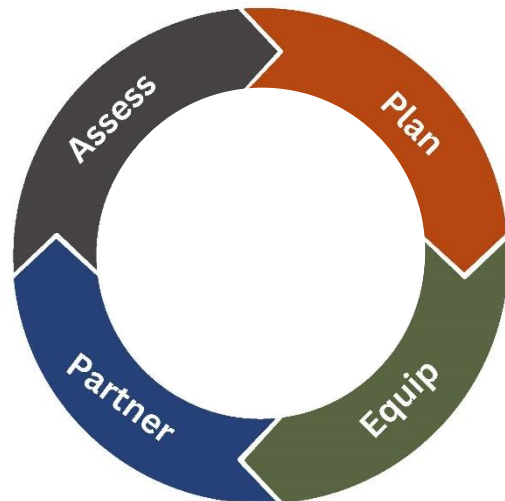
Under the Defence Act, the Ministry is the Government's lead civilian advisor on defence. It provides civilian advice on defence matters to enhance the security and national interests of New Zealand and its people. The Ministry also purchases major capabilities to be used by the service personnel of the NZDF.

The Ministry's high-level outcomes are set by the Government's strategic defence policy, included in the *2025 Defence Capability Plan* (the DCP). Further details are provided on page 19. The Ministry's own organisational strategy is set in its Statement of Intent 2025-2029. It identifies a series of milestone objectives framed around four focus areas. Further details are provided on page 11.

THE MINISTRY'S PERFORMANCE

To deliver our work, the Ministry has two departmental appropriations, and a non-departmental appropriation for the delivery of the defence capability to the NZDF on behalf of the Minister of Defence.

This section provides details of the appropriations under Vote Defence that fund the delivery of the Ministry's work, including the performance measures and targets for this work. The Ministry's Strategic Leadership Team receives quarterly reports on progress against these measures. The measures are reviewed annually so that they remain fit for purpose and accurately reflect our work, and to review if targets are appropriate. Additional detail about the specific projects delivering major defence capabilities are provided on pages 31 to 36.



Policy advice and related services to Ministers

Key Ministry departmental outputs are the delivery of policy advice, policy support and Ministerial servicing.

In terms of policy advice, the Ministry:

- provides long and short-term analysis and advice on New Zealand's defence interests and the security environment we operate in,
- advises the Government on how the NZDF can meet current and future challenges (such as potential deployments), and
- provides advice on the purchase of major defence equipment for us by the NZDF as a defence capability.

The Ministry provides a range of policy support to the Minister of Defence. This includes background briefings, briefings to support international engagements, and regular reporting on Defence portfolio developments.

Finally, the Ministry provides support to the Minister of Defence for Ministerial correspondence, parliamentary questions and, other information requests to the Minister.

The performance measures for this work are set out below, with additional detail about these measures provided on in the section on pages 53 to 58.

Departmental expenses: Ministry of Defence outputs

This appropriation is limited to the development, procurement, and delivery of defence capability for the NZDF and providing policy advice, audit and assessments, and other support to Ministers to discharge their policy decision-making and other portfolio responsibilities relating to defence.

Performance Measures	2024/25		2025/26
	Actual	Budget	Actual
Quality of ministerial support papers: As assessed by the percentage of first draft of correspondence accepted by the Minister.	100% (435 of 435 items unchanged)	≥90%	99% (403 of 406 items unchanged)
Timeliness of ministerial support: Assessed by the percentage of papers that were submitted by the timeframe set in legislation, or otherwise agreed with the Minister.	100% (435 of 435 items on time)	≥95%	100% (406 of 406 items on time)
Technical quality of policy advice: As assessed by independent review of a sample of policy papers.	3.55 / 5	≥3.5 / 5	3.7 / 5
Technical quality of policy advice:	Measure introduced from 2025/26		
Percentage of policy advice papers that score 3 or higher out of 5	100%	100%	100%
Percentage of policy advice papers that score 4 or higher out of 5	32%	20%	50%
Minister's satisfaction with quality of policy advice: As assessed by survey.	4.1 / 5	≥3.5 / 5	4 / 5
Minister's satisfaction with quality of policy support: As assessed by survey.	75%	≥70%	80%
Minister's satisfaction with quality of audits and assessments: As assessed by survey.	80%	≥70%	80%
Quality of capability advice: Options presented to the Minister for each refurbishment or procurement project up to the preferred tenderer stage will meet the high-level user requirements and will be affordable within the Defence Capital Plan. ¹	100%	100%	100%
Schedule of capability advice: Each refurbishment or procurement project up to the identification of the preferred tenderer will be managed to the agreed schedule, except when there are circumstances beyond the control of the Ministry.	100%	100%	100%

Note 1 – The Defence Capital Plan has now been replaced by an Integrated Investment Plan.

Expenditure for the year ended 30 June 2026:

Actual	Appropriation	Main estimates	Supp estimates	Actual
2025		2026	2026	2026
\$000		\$000	\$000	\$000
26,706	Ministry of Defence outputs	25,944	27,494	26,816

DEPARTMENTAL CAPITAL EXPENDITURE

The Ministry manages a relatively small appropriation for departmental capital expenditure, recognising that it receives property, ICT and some security services from the NZDF.

As part of assessing the effectiveness of its modest departmental capital expenditure, the Ministry ensures expenditure is within the Ministry's agreed capital plan.

Departmental capital: Ministry of Defence – Capital expenditure permanent legislative authority

This appropriation is limited to the purchase or development of assets by and for the use of the Ministry of Defence, as authorised by section 24(1) of the Public Finance Act 1989.

	2024/25	2025/26	
Performance Measures	Actual	Budget	Actual
Capital expenditure is within Capital Plan	Within Capital Plan	Within Capital Plan	Within Capital Plan

Expenditure for the year ended 30 June 2026:

Actual	Appropriation	Main estimates	Supp estimates	Actual
2025		2026	2026	2026
\$000		\$000	\$000	\$000
-	Ministry of Defence – capital expenditure PLA	50	125	117

Delivering major defence capabilities

Once policy decisions are made on the procurement, modification or refurbishment of a defence capability, the Ministry manages the delivery of major projects and programmes on behalf of the Minister of Defence.

Details about the performance of each individual project are provided in the project pages on pages 31 to 36, which includes details about the progress of the project or programme over the year.

The Ministry also assesses the performance of the major capability delivery portfolio through a series of performance measures covering all projects and programmes that are in delivery. The performance measures for this work are set out below, with additional detail about these measures provided in

the section *Critical Reporting Judgements, Estimates and Assumptions* on pages 56 to 58 below.

Non-departmental Multi-Category Appropriation: Defence capabilities

The single overarching purpose of this appropriation is to purchase, modify or refurbish defence capabilities for the New Zealand Defence Force.

Performance Measures	2024/25	2025/26	
	Actual	Budget	Actual
Overarching measure for Multi-category Appropriation			
The performance of the MCA as a whole will be assessed by the aggregate percentage of planned benefits expected to have been realised by quarter, as set out in approved project benefits realisation plans.	93%	≥80%	89%
Non-Departmental Other Expenses – Procurement Expenses			
Cost: Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget. Measured by the percentage of all projects that have project-related capital or other expenditure incurred in the year within the approved project expenditure budget.	100%	100%	100%
Non-Departmental Other Expenses – Defence Capability Delivery			
Cost: Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget. Measured by the percentage of all projects that have project-related expenditure incurred in the year within the approved project expenditure budget.	100%	100%	100%
Quality of deliverable: Each procurement or refurbishment project will achieve on delivery the agreed/contracted specifications that are critical to acceptance. Measured by the percentage of all projects in the delivery phase that meet all specifications that are critical to acceptance.	100%	100%	100%
Schedule: Each procurement or refurbishment project will be managed to schedule, without avoidable schedule over-run. Measured by the percentage of all projects in the delivery phase progressed within agreed schedule.	86% (24 of 28 projects to schedule) 81% (13 of 16 projects to schedule)	≥80% ≥80%	74% (17 of 23 projects to schedule) ¹ 81% (13 of 16 projects to schedule) ²
Cost forecasting: The aggregate capital expenditure on procurement and refurbishment projects compared to the forecast capital expenditure. Measured by comparing actual expenditure in the year with the most recent Crown forecast. It is calculated at hedged exchange rates to remove the impact of movements in exchange rates.	(23.8%) ³	Within ±10% of forecast	11.2 ³ %

Note 1 – 81mm Mortar, the Network Enabled Army (NEA): Electronic Warfare, NEA: Mobile Tactical Command System, NEA: Command Post Operating Environment, NEA: Common Universal Bearer System, and ORACS Phase 2D – Global Navigation Satellite System projects missed a governance milestone.

Note 2 – This result covers projects and programmes up to Interim Operational Release (IOR), when the capability is inherently understood and can be effectively employed on operations. Delivery to IOR is the best reflection of the Ministry's performance. 81mm Mortar, the Network Enabled Army: Electronic Warfare and ORACS Phase 2D – Global Navigation Satellite System projects missed a governance milestone.

Note 3 – Our cost forecasting measure is outside of target due to delays in Foreign Military Sales case disbursements. This does not impact delivery of the projects.

Expenditure for the year ended 30 June 2026:

Actual	Appropriation	Main estimates	Supp estimates	Actual
2025		2026	2026	2026
\$000		\$000	\$000	\$000
144	Other expenses – Procurement expenses	100	100	7
522,287	Capital expenditure – Defence capability delivery	469,312	384,888	226,298
522,431	Defence capabilities MCA	469,412	384,988	226,305

Note – The changes between estimates and actual are a reflection of delay in Foreign Military Sales case disbursements. This does not impact delivery of the projects.

STATEMENT OF COMPLIANCE

This performance report of the Ministry has been prepared in accordance with the requirements of the Public Finance Act, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and PBE Standards Reduced Disclosure Regime.

The performance report set out on pages 17 to 45 and 51 to 58 provides service performance

information. In preparing this report, the Ministry has made judgement on the application of reporting standards and has made estimates and assumptions concerning the future. The estimates and assumptions may differ from subsequent actual results.

The main judgements, estimates, and assumptions are discussed below.

CRITICAL REPORTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Performance measures have been selected for each of the activities that the Ministry performs. In selecting performance measures for these activities, judgements must be made in determining which aspects of performance are relevant and material to users of the performance report.

There is also judgement involved in determining how to measure performance against the measures selected. The judgements that have the most significant impact on selection and measurement are disclosed below.

The Ministry has grouped its activities under the following subsets, which broadly describes what the

Ministry does. To disclose material judgements, the Ministry has aggregated performance into the following subsets:

- Policy advice, policy support, Ministerial servicing, and audit and assessment, and
- The delivery of major defence capabilities.

Policy advice

As part of assessing the performance of Defence policy advice, the Ministry annually:

- Commissions a technical review of a sample of its advice to the Minister of Defence, and

- Surveys the Minister on their satisfaction with the policy advice provided by the agency.

The technical review draws on experienced independent reviewers using common standards set in the Department of the Prime Minister and Cabinet's *Policy Quality Framework*. The Ministry commissions external experts to review a selection of policy advice from the period. The advice is reviewed against the all-of-government *Policy Quality Framework* and provides both a score for each piece of policy advice and an average score across all the randomly selected items. This is assessed using a scale from 1 (unacceptable) to 5 (outstanding). Results are reviewed by Ministry and policy leadership, as well as the individual authors, and drive the focus for work to improve the Ministry's policy advice.

The satisfaction survey contains a common set of questions to assess the Minister's satisfaction with the services provided by the policy advice function, also aligned with the *Policy Quality Framework*. The publication of the Ministry's score and target provides external accountability and supports the Ministry's work to improve the way it engages with the Minister. The score reflects an average across themes of general satisfaction, quality of policy advice, overall trust, and overall confidence, on a scale from 1 (never) to 5 (always). Results are reviewed by Ministry and policy leadership, as well as the individual authors, and drive the focus for work to improve the Ministry's policy advice.

These shared performance measures are used by departments with appropriations for policy advice. Additional details are provided on the Department of the Prime Minister and Cabinet's webpages about The Policy Project: <https://dpmc.govt.nz/our-programmes/policy-project/progress-and-performance>.

An element of the Ministry's policy work is to advise the Minister of Defence on options for investment in defence capabilities – including business cases for decisions on the refurbishment or procurement of defence equipment. As part of maintaining performance in this work, the Ministry sets targets that all capability advice will:

- Meet high level user requirements and be affordable within the Integrated Investment Plan that is agreed annually through the Budget process, and

- Be managed to the agreed schedule, except where there are circumstances beyond the control of the Ministry.

Both measures are managed by the Ministry. At the point that a business case is submitted to the Minister it is judged against the high-level user requirements, and this is considered as part of the shared Defence capability governance. The schedule of business cases is managed as part of regular reporting to the Minister of Defence on major capability projects, based on information provided by project teams and reviewed by shared capability governance bodies.

Policy support

To assess the performance of the Ministry's policy support work, the Ministry conducts an annual survey on the Minister of Defence's perception of the Ministry's policy support. This covers briefings, updates, speeches and regular reporting in support of existing policy settings. The survey was developed by the Ministry. On a scale of 1-10 (extremely dissatisfied to extremely satisfied), the survey asks about the Minister's perception of the quality and timeliness of the policy support received. The results are reviewed by Ministry leadership as a feeder for continuous improvement.

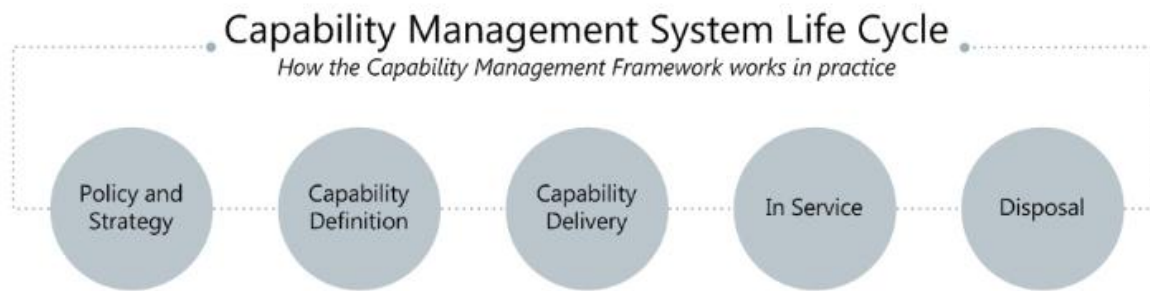
Ministerial servicing

The quality of the Ministry's work supporting the Minister of Defence and Associate Minister of Defence until April 2026, is assessed by identifying the proportion of first drafts accepted by the Minister. Timeliness is assessed by identifying the proportion of proposed responses provided to the Minister's Office within timeframes set by the Official Information Act 1982 or as agreed with the Minister's Office. The Ministry tracks these statistics on an ongoing basis.

Delivering major defence capabilities

The Ministry also assesses the performance of the capability delivery portfolio as a whole through a series of performance measures covering all projects and programmes that are in delivery. Projects are in delivery where Ministry-led projects have approval to proceed to seek solution proposals, up to the point where NZDF approves Operational Release (OR) of the capability. The Ministry also tracks progress up to Interim Operational Release (IOR), when the capability is inherently understood and can be effectively employed on operations. At this point, projects enter

the In-Service phase. Delivery to IOR is considered the best reflection of the Ministry's performance.



The Ministry's performance measures for these projects and programmes cover:

- **Cost:** all projects must operate within the approved appropriation.
- **Quality:** all projects must meet the high-level user requirements set by the Capability Governance Board. These set out the desired mission effects and outcomes required from the capability and are assessed as part of the test and evaluation of the capability.
- **Schedule:** the Ministry sets a target for the number of projects that will be delivered to schedule milestones. The result is the proportion of relevant projects on-track at the end of the reporting period. This is tracked throughout the year through shared Defence governance for major capability projects and reported in regular reporting to the Minister of Defence. Assessments of project schedule have a process for considering where delays are beyond the control of the Ministry. Projects that miss a governance milestone are noted.
- **Benefits:** a benefits realisation plan is approved for each project. This plan forecasts the timeframe over which benefits are expected to be delivered. Benefits are forecast to be realised incrementally, usually over a period of years. Reporting of the aggregate proportion of benefits realised shows progress against the project's plans. Benefits realisation looks at a

range of measures to assess whether a project has delivered the benefits to Government identified in the case for investment. It has both post-delivery measures and pre-delivery indicators. The Ministry's performance measure is focused on the benefits indicators – specific, measurable, and time-bound milestones that describe the completion of activity and that projects are on a trajectory to realise their intended benefits through their delivery.

Reporting on cost forecasting for the appropriation supports the efficient use of Government funding allocated for defence capability projects and programmes. The Ministry identifies the effectiveness of Ministry forecasting across the portfolio by comparing actual spend against the most recent Crown forecast.

Performance measures footnotes

The Ministry includes footnotes for some of its non-financial performance measures where they provide meaningful additional information. These provide context, such as the projects covered by an aggregate measure, or where there have been:

- Major variances between the current and prior year results, or
- Material changes in performance measures for an appropriation.

Statement of Responsibility and Audit Report | Te Tauāki Takohanga me te Ripoata Arotake

STATEMENT OF RESPONSIBILITY

I am responsible, as Chief Executive of the Ministry of Defence (the Ministry), for:

- the preparation of the Ministry's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them,
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting,
- ensuring that end-of-year performance information on each appropriation administered by the Ministry is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this Annual Report, and
- the accuracy of any end-of-year performance information prepared by the Ministry, whether or not that information is included in the Annual Report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2026 and its operations for the year ended on that date,
- the annual report fairly reflects the operations, progress, and the organisational health and capability of the Ministry, and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2027 and its operations for the year ending on that date.

Signed by:



Brook Barrington
Secretary of Defence
Te Tumu Whakarae mō te Waonga

18 September 2026

INDEPENDENT AUDITOR'S REPORT

To the readers of Ministry of Defence's annual report for the year ended 30 June 2026

The Auditor-General is the auditor of the Ministry of Defence (the Ministry). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of The Audit Office, to carry out, on his behalf, the audit of the information required to be audited.

Opinion

We have audited:

- The financial statements of the Ministry that comprise the statement of financial position, statement of commitments, and statement of contingent assets and contingent liabilities as at 30 June 2026, the statement of comprehensive revenue and expenses, statement of changes in equity, and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information on pages 69 to 86.
- The end-of-year performance information for appropriations of the Ministry for the year ended 30 June 2026 on pages 51 to 58.
- The statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2026 on pages 66 to 68.
- The schedules of non-departmental activities managed by the Ministry on behalf of the Crown, that comprises the schedules of assets, liabilities, commitments, contingent assets, and contingent liabilities as at 30 June 2026, the schedules of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2026, and the notes to the schedules that include accounting policies and other explanatory information on pages 87 to 99.

In our opinion:

- The financial statements of the Ministry present fairly, in all material respects, its financial position as at 30 June 2026, and its financial performance and cash flows for the year then ended, in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.
- The end-of-year performance information for each appropriation for the year ended 30 June 2026 is appropriate and meaningful and prepared in accordance with the Ministry's measurement bases or evaluation methods and Public Benefit Entity Standards Reduced Disclosure Regime, and presents fairly, in all material respects:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred in relation to the appropriation as compared with the expenses or capital expenditure that were appropriated or forecast to be incurred.

- The statements of expenses and capital expenditure have been prepared, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- The schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown have been prepared, in all material respects, in accordance with the Treasury Instructions.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards, the International Standards on Auditing (New Zealand), and New Zealand Auditing Standard 1 (Revised): *The Audit of Service Performance Information* issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the information to be audited* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Secretary of Defence for the information to be audited

The Secretary of Defence is responsible on behalf of the Ministry for preparing financial statements and end-of-year performance information for appropriations that are fairly presented and comply with Public Benefit Entity Standards Reduced Disclosure Regime and legislative requirements.

This includes:

- the selection of aspects of service performance, performance measures and descriptions, and measurement bases or evaluation methods to enable the presentation of end of year performance information for an appropriation that is appropriate and meaningful; and
- the preparation of end-of-year performance information for an appropriation in accordance with the Ministry's measurement bases or evaluation methods and Public Benefit Entity Standards Reduced Disclosure Regime and legislative requirements.

The Secretary of Defence is responsible on behalf of the Ministry for preparing Statements of expenses and capital expenditure, and schedules of non-departmental activities managed by the Ministry on behalf of the Crown, in accordance with the Public Finance Act 1989 and Treasury Instructions.

The Secretary of Defence is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Secretary of Defence is responsible on behalf of the Ministry for assessing the Ministry's ability to continue as a going concern. The Secretary of Defence is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Ministry, or there is no realistic alternative but to do so.

The Secretary of Defence's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audit, our procedures are limited to checking that the information agrees to the Estimates of Appropriations for the Government of New Zealand for the Year Ended 30 June 2026. For performance information for appropriations, we agree any changes from the performance measures and standards in the Estimates to the Supplementary Estimates. For the forecast financial information for the year ending 30 June 2027 our procedures are limited to checking to the best estimate financial forecast information based on the Budget Economic Fiscal Update for the year ending 30 June 2027.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary of Defence.

- In respect of the end-of-year performance information for appropriations, we:
 - obtain an understanding of the process applied by the Ministry to select its aspects of service performance, performance measures and descriptions and the measurement bases or evaluation methods and evaluate whether these present an appropriate and meaningful assessment of the Ministry's service performance.
 - evaluate whether the end-of-year performance information for appropriations is prepared in accordance with the Ministry's measurement bases or evaluation methods, in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.
- We evaluate whether the statements of expenses and capital expenditure, and schedules of non-departmental activities, have been prepared in accordance with legislative requirements.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Secretary of Defence and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Secretary of Defence regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Secretary of Defence is responsible for the other information. The other information comprises all of the information included in the annual report other than the information we audited and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Ministry in accordance with the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1:

International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we carried out assurance reviews over the Major Projects Report 2025 prepared by the Ministry and the New Zealand Defence Force, the Garrison and Training Support trucks procurement process and the New Zealand Defence Capability Management System.

Other than the audit and the above assurance reviews, we have no relationship with, or interests in, the Ministry.



Ajay Sharma
The Audit Office
On behalf of the Auditor-General
Wellington, New Zealand
18 September 2026

Appropriation Statements | Te Tauāki Rohenga Pūtea

Statement of expenses and capital expenditure against appropriations

For the year ended 30 June 2026 (refer to pages 51 to 58 for performance information on these appropriations)

Actual		Main estimates not audited	Supp estimates not audited	Actual	Main estimates not audited
2025 \$000		2026 \$000	2026 \$000	2026 \$000	2027 \$000
Vote: Defence					
Departmental Appropriations					
Output expenses					
26,706	Ministry of Defence outputs	25,944	27,494	26,816	29,280
26,706	Total appropriations for output expenses	25,944	27,494	26,816	29,280
Departmental capital expenditure					
-	Ministry of Defence – capital expenditure PLA	50	125	117	50
26,706	Total Departmental appropriations	25,994	27,619	26,933	29,330
Non-Departmental Appropriations					
Multi-category appropriations (MCA)					
Defence capabilities MCA					
Other expenses					
144	Procurement expenses	100	100	7	100
Capital expenditure					
522,287	Defence capability delivery	469,312	384,888	226,298	279,641
522,431	Total Non-Departmental appropriations	469,412	384,988	226,305	279,741
549,137	Total annual appropriations administered by the Ministry of Defence	495,406	412,607	253,238	309,071

NOTES TO THE STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

Ministry of Defence – capital expenditure PLA

The departmental capital expenditure appropriation is given by permanent legislative authority (PLA) under section 24(1) of the Public Finance Act 1989.

Accounting Policies

Cost allocation policy: The Ministry has determined the cost of outputs using a cost allocation system:

- Direct costs are those costs directly attributable to an output. Direct costs are charged directly to outputs.
- Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner. Indirect costs are charged to outputs based on a predetermined ratio, which is assessed annually based on the services expected to be provided for each output over the ensuing year.

There have been no changes in cost allocation policies since the date of the last audited financial statements.

Performance information

Performance information for all departmental appropriations are reported in this Annual Report.

Performance information for all non-departmental appropriations are reported on pages 87 to 99 in this Annual Report.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

For the year ended 30 June 2026

The Ministry has not incurred any expenses or capital expenditure without, or in excess of, appropriation or other authority (2025 – Nil).

Statement of departmental capital injections without, or in excess of, authority

For the year ended 30 June 2026

The Ministry has not received any capital injections during the year without, or in excess of, authority (2025 – Nil).

Transfers under section 26A of the Public Finance Act 1989

For the year ended 30 June 2026

The Ministry has not made any transfers under Section 26A of the Public Finance Act 1989 (2025 – Nil).

Departmental Statements |

Te Tauāki Pūtea Ā-tari

Statement of comprehensive revenue and expense

For the year ended 30 June 2026

Actual		Note	Forecast not audited	Actual	Forecast not audited
2025			2026	2026	2027
\$000			\$000	\$000	\$000
Revenue					
24,252	Revenue Crown	2	25,944	24,944	29,280
3,090	Other revenue	2	-	2,422	280
27,342	Total revenue		25,944	27,366	29,560
Expenses					
20,999	Personnel expenses	3	21,129	21,388	24,459
5,817	Operating expenses	4	4,680	5,449	4,957
6	Depreciation and amortisation expense	7,8	15	7	24
118	Capital charge	5	120	118	120
26,940	Total expenses		25,944	26,962	29,560
402	Surplus		-	404	-
-	Other comprehensive revenue and expense		-	-	-
402	Total comprehensive revenue and expense		-	404	-

The accompanying notes form part of these financial statements. Explanations of major variances against the 2026 forecast financial statements are shown in note 15.

Statement of financial position

As at 30 June 2026

Actual		Note	Forecast not audited	Actual	Forecast not audited
2025			2026	2026	2027
\$000			\$000	\$000	\$000
Assets					
Current assets					
5,101	Cash and cash equivalents		3,494	4,630	4,057
399	Receivables	6	656	198	145
18	Prepayments		19	99	23
5,518	Total current assets		4,169	4,927	4,225
Non-current assets					
4	Property, plant and equipment	7	97	114	109
-	Intangible assets	8	-	-	-
4	Total non-current assets		97	114	109
5,522	Total assets		4,266	5,041	4,334
Liabilities					
Current liabilities					
1,328	Creditors and other payables	9	447	650	525
402	Return of surplus to the Crown	10	-	404	-
1,189	Employee entitlements	11	1,101	1,430	1,035
2,919	Total current liabilities		1,548	2,484	1,560
Non-current liabilities					
250	Employee entitlements	11	365	204	421
250	Total non-current liabilities		365	204	421
3,169	Total liabilities		1,913	2,688	1,981
2,353	Net assets		2,353	2,353	2,353
Equity					
2,353	Taxpayers' funds	12	2,353	2,353	2,353
2,353	Total equity		2,353	2,353	2,353

The accompanying notes form part of these financial statements. Explanations of major variances against the 2026 forecast financial statements are shown in note 15.

Statement of cash flows

For the year ended 30 June 2026

Actual		Forecast not audited	Actual	Forecast not audited
2025		2026	2026	2027
\$000		\$000	\$000	\$000
Cash flows from operating activities				
24,252	Receipts from Revenue Crown	25,944	24,944	29,280
3,024	Receipts from other revenue	-	2,623	280
(21,057)	Payments to employees	(21,093)	(21,193)	(24,416)
(5,585)	Payments to suppliers	(4,716)	(5,949)	(5,000)
(118)	Payments for capital charge	(120)	(118)	(120)
(188)	Goods and services tax (net)	-	(259)	-
328	Net cash flow from operating activities	15	48	24
Cash flows from investing activities				
-	Receipts from sale of property, plant and equipment	-	-	-
-	Purchase of property, plant and equipment	(20)	(117)	(20)
-	Purchase of intangible assets	-	-	-
-	Net cash flow from investing activities	(20)	(117)	(20)
Cash flows from financing activities				
(259)	Return of operating surplus	(40)	(402)	(75)
(259)	Net cash flow from financing activities	(40)	(402)	(75)
69	Net increase/(decrease) in cash	(45)	(471)	(71)
5,032	Cash at the beginning of the year	3,539	5,101	4,128
5,101	Cash at the end of the year	3,494	4,630	4,057

The accompanying notes form part of these financial statements. Explanations of major variances against the 2026 forecast financial statements are shown in note 15.

Statement of changes in equity

For the year ended 30 June 2026

Actual	Note	Forecast not audited	Actual	Forecast not audited
2026 \$000		2026 \$000	2026 \$000	2027 \$000
2,353	Balance at 1 July	2,353	2,353	2,353
402	Total comprehensive revenue and expense	-	404	-
(402)	Return of operating surplus to the Crown	10	(404)	-
2,353	Balance at 30 June	12	2,353	2,353

Statement of contingent liabilities and contingent assets

As at 30 June 2026

Contingent Liabilities

The Ministry has no quantifiable or unquantifiable contingent liabilities (2025 – Nil).

Legal proceedings and disputes

The Ministry has no pending legal proceedings and disputes (2025 – Nil).

Contingent Assets

The Ministry has no contingent assets (2025 – Nil).

Statement of commitments

As at 30 June 2026

Capital Commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at the balance date.

The Ministry has no capital commitments (2025 – Nil).

The accompanying notes form part of these financial statements. Explanations of major variances against the 2026 forecast financial statements are shown in note 15.

Non-cancellable Operating Lease Commitments

The Ministry leases property, plant and equipment in the normal course of its business. In October 2019 the Ministry moved to its long-term accommodation in Defence headquarters (Defence House). The sublease with the New Zealand Defence Force has a non-cancellable leasing period of around 11 years remaining. The commitments below all relate to this accommodation lease, which includes the associated fit-out and furniture:

Actual 2025 \$000		Actual 2026 \$000
Non-cancellable operating lease commitments		
2,154	Not later than one year	2,169
2,175	Later than one year and not later than two years	2,190
6,645	Later than two years and not later than five years	6,672
15,495	Later than five years	13,224
26,469	Total non-cancellable operating lease commitments	24,257

The accompanying notes form part of these financial statements. Explanations of major variances against the 2026 forecast financial statements are shown in note 15.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

The Ministry of Defence (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. The relevant legislation governing the Ministry's operations includes the Public Finance Act 1989, the Public Service Act 2020 and the Defence Act 1990. The Ministry's ultimate parent is the New Zealand Crown.

In addition, the Ministry has reported on Crown activities that it administers in the non-departmental statements and schedules on pages 87 to 99.

The Ministry's primary objective is to provide services to the New Zealand public. The Ministry does not operate to make a financial return. The Ministry has designated itself as a public benefit entity (PBE) for the purposes of complying with generally accepted accounting practice.

The financial statements of the Ministry are for the year ended 30 June 2026 and were approved for issue by the Secretary of Defence of the Ministry on 18 September 2026.

Basis of preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year

Statement of compliance

The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and Treasury Instructions.

The financial statements have been prepared in accordance and comply with Tier 2 PBE accounting standards. The Ministry meets the requirements of Tier 2 and is eligible for reduced disclosure reporting as its expenses are less than \$30 million and does not have public accountability.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is New Zealand dollars.

Changes in accounting policies

There have been no changes in the Ministry's accounting policies since the date of the last audited financial statements.

Standards issued and not yet effective and not early adopted

There are no relevant financial accounting standards and amendments issued but not yet effective that have not been early adopted.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Income tax

The Ministry is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

Forecast figures

The 2026 forecast figures are for the year ended 30 June 2026 and were published in the 2024/25 Annual Report. They are consistent with the Ministry's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 30 June 2026.

The 2027 forecast figures are for the year ending 30 June 2027, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 30 June 2027.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. Forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 2027 forecast financial statements ("Forecast") are prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were authorised for issue by the Secretary of Defence of the Ministry on 1 April 2026.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ended 30 June 2027 will not be published.

The significant assumptions underlying the forecast financial statements are:

- the functions performed and the appropriations administered by the Ministry will not change over the forecast period
- the Ministry will not receive any additional funding beyond that voted in the Estimates of Appropriations during the forecast period.

The actual financial results achieved for 30 June 2027 are likely to vary from the forecast information, and the variations may be material.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no estimates or assumptions that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical judgements in applying the Ministry's accounting policies

The Ministry has not exercised any critical judgements in applying the Ministry's accounting policies for the year ended 30 June 2026.

Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amounts.

NOTE 2: REVENUE

Accounting policy

Revenue Crown

Revenue from the Crown is measured based on the Ministry's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Ministry may only incur expenses within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

Other revenue

Costs incurred by the Ministry in the pre-acquisition stages of acquisition projects are recovered from the Defence Force. This is classified as an exchange transaction.

Other cost recoveries relate to contributions from other government agencies to reimburse costs incurred by the Ministry for activities contributing to both agencies.

Expenses incurred under Administration and Use Agreements are reimbursed by the administering agency. Expenses incurred by the Ministry, as the user, are included in the administrator's appropriated expenditure and are not included in the Ministry's appropriated expenditure.

Breakdown of other revenue

Actual 2025 \$000		Actual 2026 \$000
2,668	Project costs recovered from NZDF	2,158
188	Other cost recoveries	119
234	Reimbursement of expenses incurred under Administration and Use Agreement	145
-	Other gains	-
3,090	Total other revenue	2,422

NOTE 3: PERSONNEL EXPENSES

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Employee contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Actual 2025 \$000		Actual 2026 \$000
20,261	Salaries and wages	20,180
624	Employer contributions to defined contribution plans	677
114	Increase/(decrease) in employee entitlements	531
20,999	Total personnel expenses	21,388

NOTE 4: OPERATING EXPENSES

Accounting policy

Operating expenses are recognised when goods and services are received.

Actual		Forecast not audited	Actual	Forecast not audited
2025		2026	2026	2027
\$000		\$000	\$000	\$000
210	Audit fees for financial statements	220	214	220
47	Fees paid to The Audit Office for assurance review of Major Projects Report	35	40	47
257	Total fees incurred for assurance services provided by The Audit Office	255	254	267
900	Consultants and contractors	691	399	357
27	Professional services	-	22	-
1,105	Travel and related costs	728	1,029	830
243	Courses, conferences and exhibitions	199	326	202
1,739	Rental of premises	2,196	1,784	2,174
162	Legal	120	114	115
187	Grants and contributions	166	105	112
1,197	Other operating costs	325	1,416	900
5,817	Total operating expenses	4,680	5,449	4,957

The Ministry's 2025 audit was completed by Audit New Zealand. During 2025/26 Audit New Zealand merged with the Office of the Auditor-General to become The Audit Office.

NOTE 5: CAPITAL CHARGE

Accounting policy

The capital charge is recognised as an expense in the period to which the charge relates.

Further information

The Ministry pays a capital charge to the Crown on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2026 was 5.0% (2025 5.0%).

NOTE 6: RECEIVABLES

Accounting policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The Ministry applies the simplified expected credit loss model of recognising expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

Actual 2025 \$000	Actual 2026 \$000
Receivables from exchange transactions	
399 Debtors	198
- Less allowance for credit losses	-
399 Net debtors	198
399 Total receivables from exchange transactions	198
- Receivables from non-exchange transactions	-
399 Total receivables	198

The carrying value of debtors and other receivables approximates their fair value.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Property, plant and equipment consists of leasehold improvements, furniture and office equipment.

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$5,000. The value of an individual asset that is less than \$5,000 and is part of a group of similar assets is capitalised.

In most instances, an item of property, plant and equipment is recognised at its cost.

Disposals

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Office equipment	5-10 years
Computer equipment	3-5 years
Motor Vehicles	5 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Impairment

The Ministry does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Any impairment loss or reversal of an impairment loss is recognised in the surplus or deficit.

Restrictions on title

There are no restrictions over the title of the Ministry's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

		Actual	
	Motor Vehicles	Office and computer equipment	Total
	\$000	\$000	\$000
Cost or valuation			
Balance at 1 July 2024	-	367	367
Additions	-	-	-
Disposals	-	-	-
Balance at 30 June 2025	-	367	367
Balance at 1 July 2025	-	367	367
Additions	117	-	117
Disposals	-	(51)	(51)
Balance at 30 June 2026	117	316	433
Accumulated depreciation and impairment losses			
Balance at 1 July 2024	-	357	357
Depreciation expense	-	6	6
Eliminate on disposal	-	-	-
Balance at 30 June 2025	-	363	363
Balance at 1 July 2025	-	363	363
Depreciation expense	5	2	7
Eliminate on disposal	-	(51)	(51)
Balance at 30 June 2026	5	314	319
Carrying amounts			
At 30 June and 1 July 2025	-	4	4
At 30 June 2026	112	2	114

The sublease from the Defence Force in Defence headquarters (the former Bowen State Building) includes all required building fit-out and furniture. As a result, from 30 June 2020 onwards the Ministry has not purchased any leasehold improvements or furniture.

NOTE 8: INTANGIBLE ASSETS

Accounting policy

Additions

Software development costs, including licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3-5 years
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Impairment

Refer to the policy for impairment of property, plant, and equipment in Note 7. The same policy applies to the impairment of intangible assets.

Critical accounting estimates and assumptions

Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Ministry will receive benefits from the software, but not exceeding the licence term.

Restrictions on title

There are no restrictions over the title of the Ministry's intangible assets, nor are any intangible assets pledged as security for liabilities.

	Actual	
	Software \$000	Total \$000
Cost		
Balance at 1 July 2024	637	637
Additions	-	-
Disposals	-	-
Balance at 30 June 2025	637	637
Balance at 1 July 2025	637	637
Additions	-	-
Disposals	(637)	(637)
Balance at 30 June 2026	-	-
Accumulated amortisation and impairment losses		
Balance at 1 July 2024	637	637
Amortisation expense	-	-
Disposals	-	-
Balance at 30 June 2025	637	637
Balance at 1 July 2025	637	637
Amortisation expense	-	-
Disposals	(637)	(637)
Balance at 30 June 2026	-	-
Carrying amounts		
At 30 June and 1 July 2025	-	-
At 30 June 2026	-	-

NOTE 9: CREDITORS AND OTHER PAYABLES

Accounting policy

Short-term creditors are recorded at the amount payable.

Actual 2025 \$000	Actual 2026 \$000
- Creditors	-
1,150 Accrued expenses	436
178 GST payable	214
1,328 Total creditors and other payables	650

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 10: RETURN OF OPERATING SURPLUS

Actual 2025 \$000	Actual 2026 \$000
402 Net surplus	404
- Approved retention of surplus	-
402 Total return of operating surplus	404

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

NOTE 11: EMPLOYEE ENTITLEMENTS

Accounting policy

Short-term employee entitlements

Entitlements expected to be settled within twelve months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within twelve months, and sick leave.

Long-term employee entitlements

Employee entitlements that are due to be settled beyond twelve months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, contractual entitlement information and the likelihood that staff will reach the point of entitlement
- the present value of the estimated future cash flows.

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

The measurement of the long service leave and retirement gratuities obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using a weighted average discount rate of 4.03% (2025 4.06%) and an inflation factor of 3.12% (2025 2.89%) based on Treasury discount rates.

If either the discount rate or the salary inflation factor were to change by 1% from the Treasury's discount rates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would change by less than \$15,000 (2025 less than \$16,000).

Actual 2025 \$000		Actual 2026 \$000
Current provisions are represented by:		
998	Annual leave	1,143
36	Sick leave	44
155	Retirement and long service leave	243
1,189	Total current provision	1,430
Non-current employee entitlements are represented by:		
250	Retirement and long service leave	204
1,439	Total employee entitlements	1,634

NOTE 12: EQUITY

Actual 2025 \$000		Actual 2026 \$000
Taxpayers' funds		
2,353	Balance at 1 July	2,353
402	Net surplus/(deficit)	404
-	Capital contribution from the Crown	-
(402)	Provision for repayment of surplus to the Crown	(404)
2,353	Taxpayers' funds at 30 June	2,353

NOTE 13: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

The Ministry is a wholly-owned entity of the Crown.

All transactions with related parties have been undertaken either:

- within a supplier/client relationship on terms and conditions no more or less favourable than those it is reasonable to expect of the Ministry would have adopted in dealing with the party on an arm's length basis, and/or
- with other government agencies consistent with the usual operating arrangements between the Ministry and those agencies.

Key management personnel compensation

Actual 2025 \$000	Actual 2026 \$000
Leadership team, including the Secretary of Defence	
2,593 Remuneration	2,667
8 Full-time equivalent staff	8

Key management personnel include the Secretary of Defence and the seven members (2025 – seven) of the Leadership Team.

The above key management personnel compensation excludes the remuneration and other benefits received by the Minister of Defence. The Minister's remuneration and other benefits are not received only for their role as a member of key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Defence.

NOTE 14: FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows:

Actual 2025 \$000	Actual 2026 \$000
Financial assets measured at amortised cost	
5,101 Cash and cash equivalents	4,630
399 Debtors and other receivables	198
18 Prepayments	18
5,518 Financial assets measured at amortised cost	4,846
Financial liabilities measured at amortised cost	
1,328 Creditors and other payables	570

NOTE 15: EXPLANATION OF MAJOR VARIANCES AGAINST FORECAST

Explanations for major variances from the forecast financial statements for 2025/26 are as follows:

Statement of comprehensive revenue and expense

Revenue Crown

Revenue Crown decreased due a transfer of funding to future years to align funding with the expected timing of costs over the capability management life cycle.

Other revenue

The increase in Other Revenue primarily results from the recovery of costs from the New Zealand Defence Force for costs incurred in the definition and pre-acquisition stages of acquisition projects.

Operating expenses

Over the course of the year, the Ministry incurred expenditure on Other Operating Costs for in-definition and pre-acquisition stage acquisition projects, for which it was fully reimbursed by the NZDF. Expenditure was higher than forecast at the start of the year, due to the NZDF agreeing to fund this expenditure during the year.

Statement of financial position

Cash and cash equivalents

The value of Cash and cash equivalents is higher than forecast due to the timing of payments and receipts.

Property, plant and equipment

The value of property, plant and equipment is higher than forecast as the forecast purchase of equipment to support staff on Pacific secondments was deferred from the prior year following review of the requirement for replacement of the current equipment. Consequently, at balance date, the purchased equipment had minimal depreciation expense.

Statement of cash flows

Variances in cashflows largely reflect the above explanations.

NOTE 16: EVENTS AFTER BALANCE DATE

There are no events after balance date (2025 – Nil).

SECTION TWELVE | WĀHANGA TUANGAHURU MĀ RUA

Non-Departmental Statements and Schedules | Te Tauāki Me Ngā Hōtaka Ehara nā Te Tari

The following non-departmental statements and schedules record the revenue, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the Ministry manages on behalf of the Crown.

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2026

Actual 2025 \$000		Actual 2026 \$000
18,059	Realised foreign exchange gains	30,793
18,834	Realised gains on derivatives	8,639
6,406	Unrealised gains on derivatives	19,839
2,245	Interest	1,498
1,258	Other income	2,770
46,802	Total non-departmental revenue	63,539

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

For the year ended 30 June 2026

Actual 2025 \$000		Actual 2026 \$000
220	Realised foreign exchange losses	171
19,377	Realised losses on derivatives	2,959
751	Unrealised losses on derivatives	728
144	Other expenses	151
212,200	GST input expense	36,501
232,692	Total non-departmental expenses	40,510

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2026.

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2026

Actual 2025 \$000		Note	Actual 2026 \$000
Current assets			
374,677	Cash and cash equivalents		408,412
250,914	Receivables from exchange transactions	2	117,699
332,787	Prepayments		264,362
2,803	Derivative financial instruments	4	14,245
961,181	Total current assets		804,718
Non-current assets			
3,670	Derivative financial instruments	4	9,264
3,670	Total non-current assets		9,264
964,851	Total non-departmental assets		813,892

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2026

Actual 2025 \$000		Note	Actual 2026 \$000
Current liabilities			
35,470	Creditors and other payables	3	20,748
83	Derivative financial instruments	4	-
35,553	Total current liabilities		20,748
Non-current liabilities			
-	Derivative financial instruments	4	728
-	Total non-current liabilities		728
35,553	Total non-departmental liabilities		21,476

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2026.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS

For the year ended 30 June 2026

Actual 2025 \$000		Actual 2026 \$000
(81)	81mm Mortar Replacement	248
123,766	Air Surveillance Maritime Patrol	78,843
1,650	Anzac Frigate Systems Upgrade	989
1,614	Bushmaster Communications	13,229
-	- Cyber Security and Support Capability – Tranche One	1,238
350	Dive and Hydrographic Vessel	-
3,620	Fixed High Frequency Radio Refresh	2,573
24,172	Frigate Sustainment Phase 1 - Communications	4,140
10,969	Frigate Sustainment Programme	8,618
297,376	Future Air Mobility Capability - Tactical	63,719
-	- Future Air Mobility Capability - Strategic	2,235
888	Garrison and Training Support Vehicles: Phase One	308
1,611	HMNZS <i>Canterbury</i> and Offshore Patrol Vessel Communications Upgrade	2,909
2,337	Land-Force Electronic Counter Measures	877
-	- Maritime Helicopter Replacement – Tranche One	2,679
1,116	Maritime Sustainment Capability	(245)
(157)	Network Enabled Army - Tranche One	1,108
10,772	Network Enabled Army - Tranche Two	9,167
-	- Network Enabled Army - Tranche Three: Investment One	1,777
70	Operational and Regulatory Aviation Compliance Sustainment: Phase One (A)	8
6,892	Operational and Regulatory Aviation Compliance Sustainment: Phase One (B)	3,420
491	Operational and Regulatory Aviation Compliance Sustainment: Phase Two (A)	86
5,541	Operational and Regulatory Aviation Compliance Sustainment: Phase Two (B)	1,918
14,280	Operational and Regulatory Aviation Compliance Sustainment: Phase Two (C)	9,579
-	- Operational and Regulatory Aviation Compliance Sustainment: Phase Two (D)	191
1,076	Protected Mobility	1,619
2,581	Protected Mobility – Protected Vehicle Medium	1,004
10,397	Protected Mobility – Utility Vehicles Replacement – Tranche One	9,876
8	Strategic Bearer Network	-
948	Updating Classified Digital Services: Phase One	4,185
522,287	Total non-departmental capital receipts	226,298

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2026.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL EXPENDITURE

For the year ended 30 June 2026

Actual 2025 \$000		Actual 2026 \$000
(81)	81mm Mortar Replacement	248
123,766	Air Surveillance Maritime Patrol	78,843
1,650	Anzac Frigate Systems Upgrade	989
1,614	Bushmaster Communications	13,229
-	- Cyber Security and Support Capability – Tranche One	1,238
350	Dive and Hydrographic Vessel	-
3,620	Fixed High Frequency Radio Refresh	2,573
24,172	Frigate Sustainment Phase 1 - Communications	4,140
10,969	Frigate Sustainment Programme	8,618
297,376	Future Air Mobility Capability - Tactical	63,719
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SCHEDULE OF NON-DEPARTMENTAL CAPITAL COMMITMENTS

As at 30 June 2026

Actual 2025 \$000		Actual 2026 \$000
Non-cancellable capital commitments		
192,162	Not later than one year	119,709
72,343	Later than one year and not later than two years	114,285
31,640	Later than two years and not later than five years	62,164
-	Later than five years	-
296,145	Total non-cancellable capital commitments	296,158

Capital commitments are the aggregate amount of capital expenditure contracted for the purchase, modification or refurbishment of defence capabilities for the New Zealand Defence Force that have not been paid for or not recognised as a liability at the balance date.

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2026

Contingent Liabilities

The Ministry on behalf of the Crown has no contingent liabilities (2025 – Nil).

Contingent Assets

The Ministry on behalf of the Crown has no contingent assets (2025 – Nil).

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2026.

NOTES TO THE NON-DEPARTMENTAL SCHEDULES

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These non-departmental statements and schedules present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2026. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government for the year ended 30 June 2026.

Basis of preparation

The non-departmental statements and schedules have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions, and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

Changes in accounting policies

There have been no changes in the Ministry's accounting policies since the date of the last audited financial statements.

Standards issued and not yet effective and not early adopted

There are no relevant financial accounting standards and amendments issued but not yet effective that have not been early adopted.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

Revenue

Interest income is recognised using the effective interest method.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amounts.

NOTE 2: RECEIVABLES

Accounting policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The Ministry applies the simplified expected credit loss model of recognising expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

Actual 2025 \$000		Actual 2026 \$000
Receivables from exchange transactions		
250,914	Debtors	117,699
-	Less allowance for credit losses	-
250,914	Net debtors	117,699
250,914	Total receivables from exchange transactions	117,699
-	Receivables from non-exchange transactions	-
250,914	Total receivables	117,699

The carrying value of receivables approximates their fair value.

At 30 June 2026 the Ministry had no past due debtors (2025 – Nil). Due to the credit quality of debtors no allowance for credit losses was made at balance date (2025 – Nil).

NOTE 3: CREDITORS AND OTHER PAYABLES

Actual 2025 \$000		Actual 2026 \$000
-	Creditors	393
35,470	Accrued expenses	20,354
35,470	Total creditors and other payables	20,747

NOTE 4: FINANCIAL INSTRUMENTS

Accounting policy

The Ministry uses derivative financial instruments to hedge its exposure to foreign exchange movements. In accordance with its Foreign Exchange Management Policy, the Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the schedule of non-departmental income or schedule of non-departmental expenses.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

Financial instrument categories

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows:

Actual 2025 \$000		Actual 2026 \$000
Financial assets measured at amortised cost		
374,677	Cash and cash equivalents	408,412
250,914	Receivables from exchange transactions	117,699
332,787	Prepayments	264,362
958,378	Financial assets measured at amortised cost	790,473
Fair value through surplus or deficit – designated as such upon initial recognition		
6,473	Derivative financial instrument assets	23,509
83	Derivative financial instrument liabilities	728
Financial liabilities measured at amortised cost		
35,470	Creditors and other payables	20,747

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2026 is NZD 1,179.305 million (2025 – NZD 224.981 million). The contracts consist of the purchase/(sale) of (amounts in foreign currency):

Actual 2025 fx 000		Actual 2026 fx 000
-	Australian dollars	25,000
53,000	Euros	52,000
77,992	United States dollars	609,130

Fair value hierarchy disclosures

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

		Valuation technique		
	Total	Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
2026				
Financial assets				
Derivative financial instruments	23,509	-	23,509	-
Financial liabilities				
Derivative financial instruments	728	-	728	-
2025				
Financial assets				
Derivative financial instruments	6,473	-	6,473	-
Financial liabilities				
Derivative financial instruments	83	-	83	-

There were no transfers between the different levels of the fair value hierarchy.

Financial instrument risks

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Ministry purchases capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the United States, Canadian and Australian dollars, British pounds and Euro. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.

The Ministry's Foreign Exchange Management Policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to hedge the entire foreign currency risk exposure. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury *Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure*.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss. In the normal course of its business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds and enter into foreign exchange forward contracts with approved counterparties. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 2), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

Contractual maturity of financial liabilities, excluding derivatives

The table below analyses the Ministry's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

At 30 June 2026	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
2026					
Creditors and other payables	20,748	-	-	-	20,748
2025					
Creditors and other payables	35,470	-	-	-	35,470

Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses the Ministry's forward foreign exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount \$000	Contractual cash flows NZ \$000	Less than 6 months NZ \$000	6-12 months NZ \$000	1-2 years NZ \$000	2-5 years NZ \$000	Over 5 years NZ \$000
Gross settled forward foreign exchange contracts:							
2026							
Asset value	23,509						
Liability value	728						
- outflow		1,179,305	417,119	35,541	298,966	427,679	-
- inflow		1,131,610	403,416	34,302	288,258	405,634	-
2025							
Asset value	6,473						
Liability value	83						
- outflow		225,376	63,415	98,877	38,350	24,734	-
- inflow		221,647	63,437	98,446	36,493	23,271	-

Sensitivity analysis

The table below shows the net effect on the reported gains and losses from movements in exchange rates and derivative values if the New Zealand dollar had been either 5% stronger or weaker at balance date.

	2025			2026		
	Cash and cash equivalents	Derivatives	Net gain/(loss)	Cash and cash equivalents	Derivatives	Net gain/(loss)
	\$000	\$000	\$000	\$000	\$000	\$000
Effect on surplus if NZ dollar strengthened by 5%						
AUD	(384)	-	(384)	(397)	(1,345)	(1,742)
CAD	(83)	-	(83)	(80)	-	(80)
EUR	(453)	(4,768)	(5,221)	(2,000)	(4,816)	(6,816)
GBP	(844)	-	(844)	(719)	-	(719)
NOK	(10)	-	(10)	(10)	-	(10)
USD	(20,946)	(2,154)	(23,100)	(21,796)	(48,425)	(70,221)
Total	(22,720)	(6,922)	(29,642)	(25,002)	(54,586)	(79,588)
Effect on surplus if NZ dollar weakened by 5%						
AUD	425	-	425	439	1,486	1,925
CAD	92	-	92	89	-	89
EUR	500	5,270	5,770	2,211	5,323	7,534
GBP	933	-	933	795	-	795
NOK	11	-	11	11	-	11
USD	23,152	2,381	25,533	24,090	53,523	77,613
Total	25,113	7,651	32,764	27,635	60,332	87,967

NOTE 5: EVENTS AFTER BALANCE DATE

Major project approvals

In July 2026, joint Ministers authorised Tranche 2 of the Frigate Life Extension Programme with a budget of \$219.455 million. The programme is to undertake a series of activities required to maintain the operational capabilities of the two Anzac frigates, HMNZS *Te Kaha* and *Te Mana*, until replacement capabilities are delivered under the Maritime Fleet Renewal Programme.



New Zealand Government

Te Kāwanatanga
o Aotearoa