



New Zealand
**DEFENCE
FORCE**
Te Ope Kātua o Aotearoa

2016 – 2017

Annual Report

For the year ended 30 June 2017

Presented to the House of Representatives Pursuant to Section 44(1)
of the Public Finance Act 1989 and Section 91 of the Defence Act 1990

2016 – 2017

Annual Report

For the year ended 30 June 2017

New Zealand Defence Force
Te Ope Kātua O Aotearoa

Headquarters
New Zealand Defence Force
20 Aitken Street
Wellington
New Zealand

Phone: +64 4 496 0999
Facsimile: +64 4 496 0869
New Zealand Defence Force Website: www.nzdf.mil.nz

The NZDF Annual Report is published online at
www.nzdf.mil.nz/public information pursuant to
Section 44(4) of the Public Finance Act 1989.

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CHIEF OF DEFENCE FORCE MESSAGE

It was not so many years ago that an Annual Report like this would reflect the Defence Force's role almost solely in terms of preparing for combat and other military operations. While in those days we provided some support to other Government agencies, this was really treated by us as a positive externality – a bit of good luck if you will. That is, in preparing our ships, people and planes for military operations, we sometimes also had capacity to lend a helping hand towards other tasks in and around New Zealand.

This isn't our reality today.

While we continue to spend the greatest portion of the investment Government makes in the New Zealand Defence Force on preparing our Navy, Army and Air Force for joint military operations – the *raison d'être* of our armed forces - as this Annual Report highlights, we now have dedicated 'outputs' related to our broader contribution to the protection and promotion of New Zealand's way of life. So doing things like resource and border protection, supporting New Zealand's Antarctic programme, deploying during natural disasters and conducting search and rescue, are all a part of 'core business' for our Defence Force today.

This is an important and fundamental change we've been making at the DNA-level of our organisation. These tasks matter to ordinary New Zealanders, and they help ensure our Defence Force remains relevant

and connected to the people of New Zealand. Doing these things – and doing them well - has become an important source of identity and pride to the women and men serving and working in the New Zealand Defence Force.

However we do not step away from the fact that our primary purpose is to provide the Government (of the day) with an armed force ready and able to perform in combat.

We accept that challenge, and more besides.

New Zealand's Defence Force is prepared to fight and at the same time prepared to bring hope in times of crisis and despair, as we did to people in the aftermath of the Kaikoura earthquake. We did this while continuing to operate our headquarters from a damaged Wellington CBD.

We arm our people and platforms both for combat and to engage and contribute to regional security through our Mutual Assistance Programme (MAP) for example where we provide technical assistance to South Pacific nations. We are also instilling young New Zealanders with self respect and discipline through the Limited Service Volunteer programme, and through our contribution to Service Academies, to help them become more productive members of the community,

And while we train and educate Defence Force personnel in military tactics and doctrine, increasingly

we are training them to work more effectively alongside agency partners in the Police, Customs, Fire and Emergency New Zealand, Antarctic NZ, Foreign Affairs, Primary Industries and Conservation.

The multi-faceted nature of this mission places a huge premium on our people. Our greatest strength does not come from the numbers of people and equipment we can put into the field, but rather from their quality. Our people must conduct themselves with professionalism and integrity. We set and maintain high standards as a lynchpin for achieving our mission for New Zealand. And when we believe our standards have not been met, we hold our people to account. New Zealand society at large, would expect no less than that.

I believe the sailors, soldiers, airmen and civilians who make up the New Zealand Defence Force to be among the best in the world.

We are a Force for New Zealand.



T.J. Keating
Lieutenant General
Chief of Defence Force

Part One

WHO WE ARE AND WHAT WE DO

The purpose of this section is to provide a high level understanding of the roles and responsibilities of the New Zealand Defence Force and what has been achieved during the 2016/17 financial year.



A FORCE FOR NEW ZEALAND

The New Zealand Defence Force (the NZDF) is a professional military force, highly trained, expert, and equipped to provide military support to domestic, regional and global security situations.

The Government charges us to achieve three key outcomes: 'International Order is Supported,' 'New Zealand's National Interests are Secured,' 'Veterans' Service is Honoured'.

The NZDF is ready to respond to protect our nation, its security, and its interests. More than 14,000 military and civilian personnel make up the NZDF, incorporating the Navy, Army, and Air Force. We serve New Zealand while working with our partners to protect New Zealand's interests and the freedoms of those who cannot do it themselves. We help in humanitarian and disaster relief work here and across the Pacific. While we work to protect and advance New Zealand's future, we respect and honour the past and those who served before us.

We care for all our people. Our values are courage, commitment, comradeship. Together, we are a Force for New Zealand.

OUR BROADER COLLECTIVE PURPOSE

The Government plays a key role in ensuring that New Zealanders are able to go about their lives confidently and without fear. The NZDF helps make that happen by ensuring New Zealand and its interests are secure.

To ensure the NZDF is able to undertake the range of tasks required of it, we have developed military capabilities that can operate across a broad range of scenarios, both at home and abroad. These capabilities are built to work together, and with other New Zealand government agencies and the militaries of other countries.

The concept of 'national security' is broader than just protection from military threats and includes the preservation of our economic and social interests at home and abroad. Furthermore, the Government's Business Growth Agenda identifies the building of export markets as one of its six key focus areas. Maintaining and growing our access to those markets depends on the maintenance of international law and order, and the NZDF works both independently and in conjunction with security partners and organisations such as the United Nations to achieve that.

New Zealand's natural resources are also an area of focus and, due to its wide range of capabilities, the NZDF is able to support the Ministry for Primary Industries in working to protect our fisheries through air and sea patrols of our Exclusive Economic Zone. The NZDF also supports the work of the Department of Conservation to better understand and protect our natural environment through gathering information, and moving people and supplies to remote places.

As a Defence Force, we are proud of our history and continue to acknowledge the debt we owe to our veterans whether they are still serving, retired or deceased. We achieve this through directly providing services to our living veterans and by our ongoing commitment to commemorating historical sacrifices made.

Our three key outcomes – 'International Order is Supported', 'New Zealand's National Interests are Secured', 'Veterans' Service is Honoured' – are so achieved.

HOW WE WORK

The NZDF is three Services designed to work as one Force. The Navy, Army and Air Force each have unique capabilities, which have been developed to work together in joint operations and directed tasks. Joint operations often involve working with other militaries, public sector agencies, non-governmental organisations and international partners.

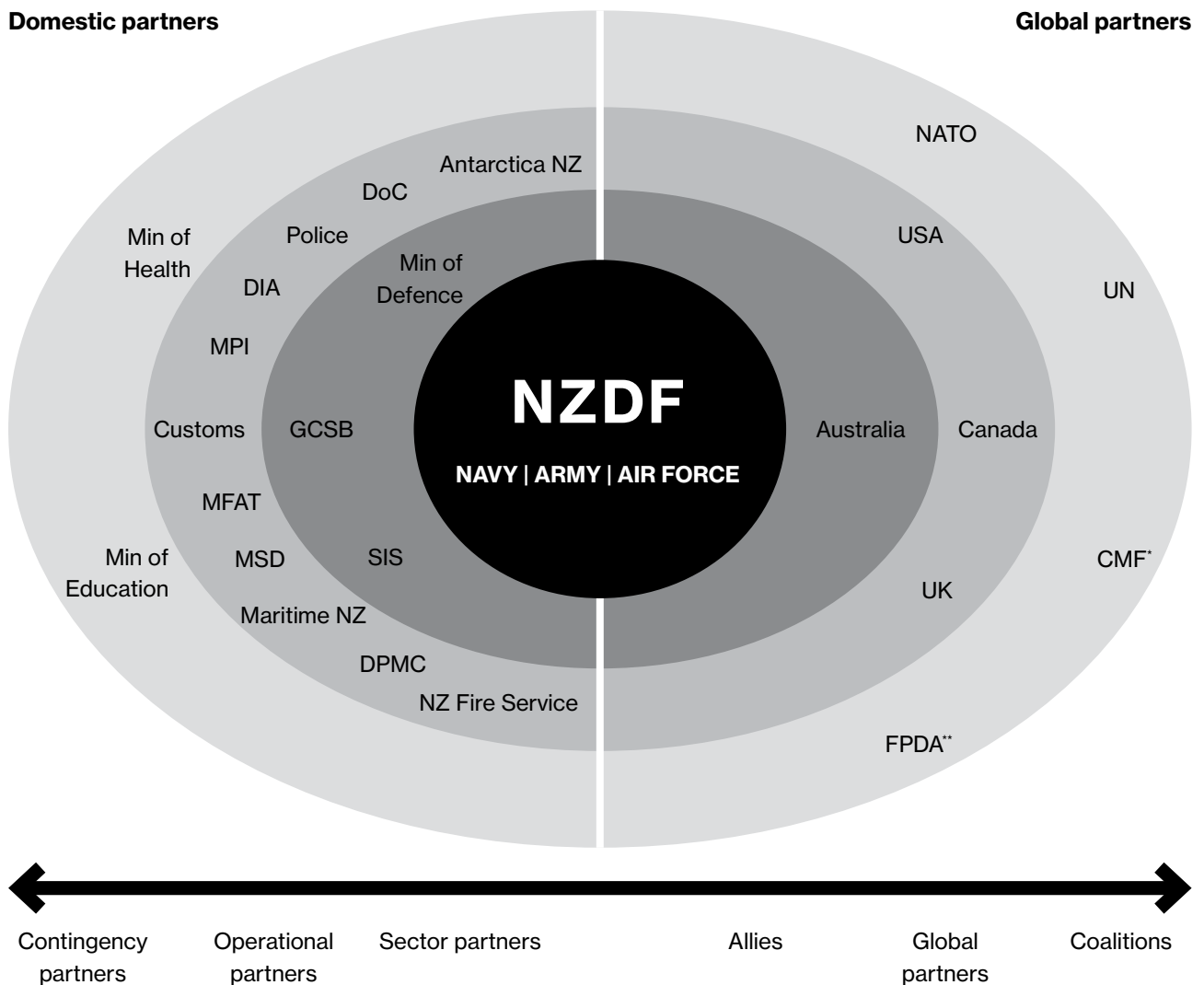
Our structure capitalises on the unique capabilities of each Service and allows flexibility, meaning task groups can be tailored to respond to specific tasks at any time, be it in peacetime, crisis or conflict.

We are one government agency that is also designed to work as part of a greater integrated system of government agencies. After the Kaikoura earthquake

in November 2016, the NZDF worked alongside other agencies to ensure support reached where it was needed as quickly as possible.

We are also designed to operate as part of a global network, and we regularly participate in international activities and exercises to test and standardise this. In 2016, the NZDF participated in the world's biggest international maritime exercise – RIMPAC, held off Hawaii. This exercise provided a valuable opportunity for NZDF personnel to exercise with its international partners and train for a broad range of military tasks. We also maintain close links with international security alliances.

The following diagram is a simplified representation of who we work with at home and abroad.



* Combined Maritime Forces

** Five Power Defence Arrangement

Case Study: Kaikoura Earthquake

OPERATION AWHINA: KAIKOURA

When a 7.8 magnitude earthquake rumbled through the centre of New Zealand on 14 November 2016, the New Zealand Defence Force was amongst the first agencies to respond.

The epicentre of the earthquake was northeast of Culverden, near Kaikoura, and it caused roads to collapse and buildings to topple. Vital supply routes were cut off with roads strewn with huge slips and boulders.

A RNZAF P-3K Orion quickly collected imagery of the devastation caused by the earthquake. The Air Force's No 3 Squadron's NH90s began the evacuation operation, and Warships from Australia, Canada and the United States, which were in the country to take part in the Royal New Zealand Navy's 75th anniversary, were re-tasked to support the national relief effort, alongside our own ships.

A convoy of NZDF trucks braved bad weather and risks of further landslides to bring much-needed fuel and water supplies to quake-damaged Kaikoura in the days immediately after the earthquake. The Army, driving mostly MHOVs, brought in supplies, ferried 7,320 litres of diesel and 1,540 litres of petrol for Kaikoura's petrol stations and emergency services. The convoy was guided by civil contractors and led by an engineer reconnaissance team that produced a route plan that identified critical points, which was then utilised by all civil agencies and the NZDF to traverse the route safely.

It also brought in 10,000 litres of potable water for distribution and nine Army chefs who catered for emergency workers and volunteers as well as 250 patients at Kaikoura Hospital.

The amphibious sealift vessel HMNZS *Canterbury* evacuated some 640 people carrying 9.3 tonnes of baggage, one cat, 17 dogs and about 30,000 bees. The offshore patrol vessel HMNZS *Wellington* embarked the Littoral Warfare Unit Military Hydrographic detachment that surveyed approaches for landing craft and anchorage positions.

Driving the quake-damaged route from Culverden to Kaikoura tested the mettle of the truck drivers ferrying vital aid supplies to the seaside community.



"The damage caused by the earthquake is very evident. Fault lines have sheared the road in half in many places. There are a lot of overhanging rocks. A number of bridges were also been damaged and cannot be used for heavy vehicles so we had to find alternate routes," Staff Sergeant Dan Rosewarne said.

The trucks travelled in a single file at 30kph, about two thirds slower than they would if the roads were not damaged. Communication was constant to ensure everyone was aware of the obstacles ahead.

"There were lots of obstacles we had to manage. The rocky and undulating terrain and the steep drops are very similar to Afghanistan," said SSGT Rosewarne, who has deployed twice previously to Afghanistan.

Outcomes

New Zealand's national interests are secured.

Outputs

4.3. Assistance to the civil power and provision of a public service in emergency situations.

Case Study: Moving into our new Headquarters

CAPABLE, ADAPTABLE AND MOVING IN

For Director for Future HQ, Jacki Couchman, and the teams working with her, clearing Freyberg House, or Defence House, was a mammoth task after the 14 November earthquake.

The 19,000 cartons removed from the building didn't include furniture, IT, artworks and artefacts, or countless redundant items. "It was like moving house on a mammoth scale, if your house was already incredibly messed up, and you hadn't sorted anything."

The clear-out was an example of the NZDF working "family" pitching in, including a team of reservists working alongside other NZDF personnel and contractors. "They just worked and worked, and a lot of it was done over Christmas. A lot of people gave you their holidays, to get Headquarters up and running."

In the meantime, the neighbouring Freyberg Building needed to dramatically evolve to support personnel from the Chief of Defence Force downwards. "We cabled every floor, putting Defence Information Exchange System and purchased furniture for the entire building," said Jacki. "By January 9, we had 493 personnel in Freyberg." It was also her remit to support those still displaced or working temporarily from other sites.

"How do we support HQ people wherever they are? Particularly those at home, suddenly working remotely for some months, everyone had to think quite differently." In the meantime, the Headquarters provided support to the initial recovery after the Kaikoura earthquake, operations overseas and continued to deliver on outputs.

Jacki says it was inspiring working with NZDF colleagues. "From the start we were swinging into action, with people who were very keen to get going, good at supporting one another, and making things happen." She applauds people's willingness to adapt. "That's NZDF. It's our culture, who we are." She also acknowledges the "unsung heroes", the teams doing the long hours and the heavy work to get Headquarters up and running – notably the Defence Property Group, CIS Branch, Defence Shared Services Group and the Directorate of Defence Security.

In February she had a walk-round of the Freyberg Building floors with Chief of Defence Force, Lieutenant General Tim Keating. "He said he was really impressed that headquarters had not dropped the ball. Headquarters work that needed to happen, was still happening."

As for the future, she sees this work as an exciting opportunity for Defence Headquarters. "We're learning how HQ functions, how we organise ourselves, and how we respond when things happen. This goes towards building future resilience for our Headquarters."

STATISTICS

50 working days to clear Defence House

70 Regular Force personnel, reservists, civilians and contractors providing property management, Health and Safety support, logistics, security, sensitive document packing, building and I.T.

49 skip bins of waste – at 9m3 per bin

77 secure destruction bins

19,000 packing cartons





NZDF BY THE NUMBERS

NZDF Personnel



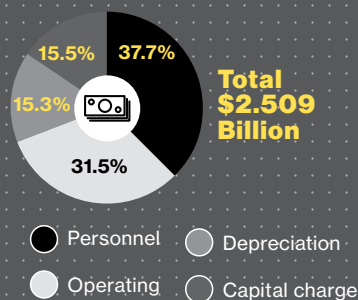
2,580
Navy Personnel

6,258
Army Personnel

2,725
Air Force Personnel

2,887
Civilian Personnel

Expenditure



National Emergencies



Kaikoura Earthquake
520 Tonnes of aid delivered by land, sea & air with first aid arriving within 3 days



1,000+ More than 1000 people evacuated

1,256 NZDF deployed within 5 days

7 Ships & 7 Aircraft

Fire Fighting



1,777 Hours NZDF Personnel worked in support of **218** requests from the Fire Service

166 NZDF Personnel provided, at its peak assistance to fighting the Christchurch foothills fire

Community Engagement



3,300 Cadet Force Personnel

2,355 Reserve Force Personnel

797 Limited Service Volunteers

1,377 Service Academy students

Domestic Support



122 Hours flying time for training with the NZ Police & providing support for cannabis recovery

151 Requests to assist with disposal of explosive ordnance

Border Security



Support New Zealand Customs Service to keep New Zealanders **secure**

77 Hours flying time to build a detailed picture of our maritime region

Fisheries Protection



Supporting Ministry for Primary Industries checking for illegal fishing with:

23 Patrols

30 Days at sea; HMNZS Otago, Wellington, Taupō

147 Hours flying time

Supporting Conservation



Assisting the Department of Conservation to resupply & transport materials in remote locations including the transportation of a volcano shelter to White Island:

2,400 Kgs

NH90 The shelter was airlifted by an NH90 from Whakatane to the island

Search & Rescue at Sea



Supporting NZ Police & NZ Rescue Coordination Centre search & rescue Missions

19 Call-outs including 14 at sea

140 Hours flying time

Support of operations in Antarctica



8 flights

55,542 Kgs of cargo

47 personnel in ship offloading team

256 passengers

29 support personnel at Harewood

WHAT WE DID IN 2016/17

Over the past year, the NZDF has conducted not just military operations, but a wide range of support missions that contribute to New Zealand's national security objectives and wider social and economic interests. These operations required an extensive set of capabilities and occurred in a variety of environments from the Middle East region to Antarctica and Cape Reinga to the Chatham Islands.

The highlights of NZDF activities that support the people of New Zealand and our neighbours around the world are set out below.

Furthering New Zealand's interests around the world

It is NZDF's core role in an increasingly violent and unstable world to support a rules-based international order. It works both independently and in conjunction with security partners on a range of operations, from humanitarian through to combat, that contribute to global peace and security.

In 2016/17, NZDF's international work continued to be far-reaching:

- Since April 2015, more than 100 personnel, including HQ staff, have been deployed (alongside the Australian Defence Force) to train Iraqi Security Forces so they can better counter the threat posed by ISIL (Daesh) and deter its advances. The fifth rotation of 106 NZDF soldiers left for Iraq in May 2016. More than 23,000 Iraqi Security Forces have been trained since the commencement of the Building Partnership Capacity mission.
- NZDF's P-3K2 Orion surveillance aircraft and 55-person deployment contributed to the protection and freedom of trading routes from the Arabian Gulf to the Republic of Seychelles. Middle East Maritime Security Operations continue to be supported by NZDF personnel in Qatar and Bahrain.
- Five officers are stationed in South Korea as part of New Zealand's contribution to the 16-country United Nations Command Military Armistice Commission's supervision and maintenance of the Armistice Agreement between the Republic of Korea and North Korea.
- A transport section provides a training and advisory team and operates vehicles for the Multinational Force and Observers in Sinai as part of the Egyptian-Israeli Treaty of Peace to prevent any violation of its terms. New Zealand has had a presence on the

border since the Force's inception in 1982. More than 40 additional engineers deployed to the Sinai for six months during the reporting period.

- Personnel are serving as observers in the Republic of South Sudan as part of the United Nations Mission in the Republic of South Sudan (UNMISS) to consolidate peace and security and to support the South Sudanese government.
- Personnel are serving as part of the United Nations Truce Supervision Organisation (UNTSO), which covers five Middle Eastern countries, Israel, Lebanon, Syria, Jordan and Egypt.
- A C-130 Hercules and personnel were deployed on a six month mission to the Middle East until December 2016 (500 hours flown carrying 764,000 kg of payload), followed by a shorter tour over May and June 2017 (110 hours flown carrying 125,000 kg of payload) as part of an Australian-led air mobility task group supporting flights delivering freight and personnel within the Middle East region.
- NZDF trainers work in Afghanistan under a United Kingdom-led programme that trains the next generation of leaders in the Afghan National Army in conventional warfighting skills and counter-insurgency training.
- NZDF maintains a National Support Element in the Middle East to support New Zealand's contribution to operations across the region.
- Staff are deployed to various coalition headquarters in planning and liaison roles, including in Bahrain and Kuwait.

For further detail, refer to Output 5. Project, on page 49.

Promoting stability and prosperity in our region – the South Pacific, the Southern Ocean, and Antarctica

New Zealand has a stated commitment to helping our neighbours in the South Pacific, and the NZDF plays a crucial role in delivering on that – by way of improving social and environmental well-being, military operations in response to regional security events and surveillance, or humanitarian assistance and disaster relief. During the reporting period, P-3K2 Orion aircraft and crews flew over 500 hours in this support role.

New Zealand's cultural and historical ties with countries in the South Pacific as well as constitutional obligations towards the Cook Islands, Niue and Tokelau, and a special relationship with Samoa under the Friendship Treaty, underpin these relationships.

In 2016/17, the NZDF again demonstrated its ability to maintain its readiness at a level directed by the Government; NZDF remained prepared to deploy at short notice to help our neighbours, if required. Fortunately, no natural disasters befell our neighbours in the south west Pacific and NZDF was not required to deploy in support. However, NZDF was able to release its South West Pacific Campaign Plan and conducted a range of activities e.g., Exercise Tropic Castor, an annual, engineer-led reconstruction exercise conducted in Vanuatu.

- Over the period June to August 2016, HMNZS *Otago* completed Operation CALYPSO in support of government agencies in the south west Pacific region in order to promote New Zealand objectives, contributed to the Forum Fisheries Agency and the Quadrilateral Defence Co-ordination Group, and enhanced New Zealand's reputation as a valued international partner.
- In April 2017, the inshore patrol vessel HMNZS *Hawea* deployed on Operation WASAWASA, a six month deployment to Fiji to reinforce the Republic of Fiji Military Force (RFMF) Resource and Border Protection operations and to demonstrate New Zealand's continued engagement with the RFMF and support to the Republic of Fiji.
- In November 2016, a P-3K2 Orion aircraft was used to find three fishermen west of Tarawa who had been missing for a week. A survival pack was dropped to the fishermen, which sustained them until they were rescued. During the reporting period, P-3K2 aircraft and crew flew around 120 hours on search and rescue missions.
- On 28 February 2017, a NZDF C130 Hercules and crew supported the repatriation of the Queen Mother of Tonga and 20 associated personnel from Whenuapai to Tonga.
- NZDF's air transport capabilities and logistic personnel supported New Zealand's interests in Antarctica, through their contribution to the New Zealand, United States and Italian Antarctic programmes as part of the Joint Logistics Pool.
- The P-3K2 Orion and offshore patrol vessels continued to be in demand in the Southern Ocean, supporting Ministry of Foreign Affairs and Trade in New Zealand's commitment to the Convention on the Conservation of Antarctic Marine Living Resources, and Ministry for Primary Industries in the detection and deterrence of illegal, unregulated and unreported fishing activities.

- P-3K2 aircraft and crews conducted surveillance patrols of a number of South Pacific Islands' exclusive economic zones as part of Operation NORPAT.

For further detail, refer to Outputs 4 and 5. Protect and Project, on pages 44 and 49.

Mutual Assistance Programme

The NZDF Mutual Assistance Programme (MAP) is an integral part of New Zealand's contribution to regional security.

The programme provides training, technical and other support to South Pacific and Southeast Asian security and defence forces. Originally created to provide training assistance to Tonga, Singapore and Malaysia, it has expanded to include other South Pacific and Southeast Asian nations. One-off MAP activities may also be undertaken in other countries as required.

The MAP allows for the strengthening of New Zealand's bilateral relations. Other contributing activities include combined military exercises, ship visits, search and rescue, disaster relief, Exclusive Economic Zone surveillance, security dialogues and visits. It is a practical expression of the Government's commitment to promote a stable and peaceful neighbourhood and complements efforts in the political, economic and development fields.

The MAP contributes to the effectiveness and self-reliance of the other nations' forces without requiring any operational commitments. It also contributes to NZDF training and work in tropical environments, and allows regional security forces to train in New Zealand alongside the NZDF. The priority is on developing personal and collective skills rather than providing equipment.

During 2016/17, the NZDF contributed to 120 individual MAP engagements in the South Pacific, and 10 in Southeast Asia.

NZDF GLOBAL FOOTPRINT IN 2016/17



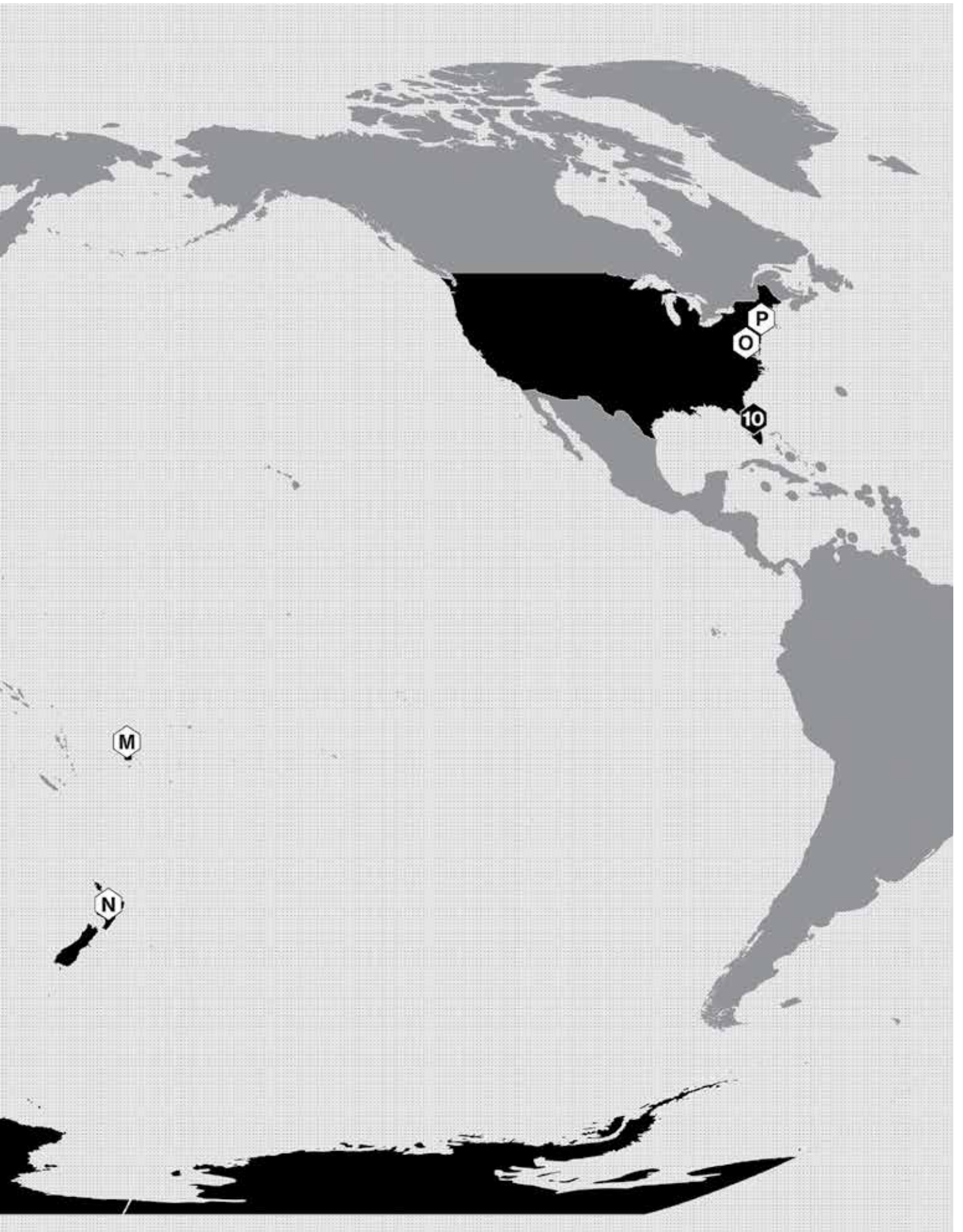
OPERATIONS AND OTHER DEPLOYED PERSONNEL

- 1 **Afghanistan**
Op RUA II
- 2 **Antarctica**
Op Antarctica
- 3 **Middle East**
Ops Troy, Takapu, Pukeko, Teal
- 4 **Iraq**
Ops Manawa, Mohua
- 5 **Israel, Lebanon**
Op Scoria
- 6 **Republic of Korea**
Op Monitor
- 7 **Sinai Peninsula**
Op Farad
- 8 **South Sudan**
Op Sudden
- 9 **Timor-Leste**
- 10 **USA**
CENTCOM

DEFENCE ATTACHÉS

- A Head of Defence Staff and Defence Advisor United Kingdom
- B Assistant DA France
- C DA Turkey
- D DA Saudi Arabia
- E DA Malaysia
- F DA Singapore
- G DA Indonesia
- H DA China
- I DA Korea
- J DA Japan
- K DA Papua New Guinea
- L Head of NZ Defence Staff and Defence Advisor Australia
- M DA Fiji
- N DA Pacific
- O DA Head of Defence Staff and Advisor USA
- P Military & Police Advisor, NZ permanent representative to the United Nation

KEY: ■ Operations Other deployed personnel Defence Attachés



In New Zealand

The NZDF is charged with protecting New Zealand and its people at home. It does this first and foremost by maintaining a very high readiness counter-terrorist capability so it can respond to asymmetric threats or other incidents that could impact on public safety. In this it works closely with Police and other government security and intelligence agencies.

It also uses its unique capabilities to support other agencies in a variety of ways: resource and border protection and monitoring, including in our territorial waters; disaster relief and assistance, search and rescue, recovery operations and rural fire-fighting.

In 2016/17 the NZDF's work at home continued:

- The NZDF Explosive Ordnance Disposal Squadron, which has the capability to deal with incidents involving chemical, biological, radiological or improvised explosive devices, attended 151 callouts and requests from the Police. The Air Force's NH90 was used across a range of activities, including supporting Police in the recovery of 10,688 cannabis plants in two separate areas, Auckland and the Central North Island regions. SH2G(I) helicopters and Inshore Patrol Vessels worked with the Ministry for Primary Industries for coastal surveillance of the upper East Coast of the South Island focusing on illegal fisheries in the Kaikoura region post earthquake.
- P-3K2 Orions and the Offshore Patrol Vessel fleet worked with the Ministry for Primary Industries on fisheries inspection, monitoring, and patrols along the coastline and across our wider Exclusive Economic Zone, and provided logistical support to the Department of Conservation. The NZDF maintained the capacity to conduct land search and rescue activities with response groups in the North and South Islands. Some 21 callouts were made.
- Search and rescue activities by Air Force helicopters and fixed-wing aircraft, and Navy ships in and around New Zealand, in the Pacific Islands, and in the Tasman Sea also featured heavily during the year.
- The NZDF also responded to 218 requests for assistance from the New Zealand Fire Service.

For further detail, refer to Outputs 4.1 and 4.3 Protect on pages 44 and 48.

Community Service

Personnel of the NZDF make a valuable contribution every day to local communities, being actively involved in family and community life, and not just in the towns and cities where we have camps and bases, but as one of New Zealand's larger employers. We regularly conduct ceremonial activities and parades all over New Zealand.

In 2016/17, this activity included:

- Ongoing services and activities, both in New Zealand and overseas, to commemorate the 100th anniversary of the First World War.
- Provision of Navy, Army and Air Force personnel for the daily Last Post ceremony at the National War Memorial in Wellington.
- Individual NZDF units conducted regular parades, such as charter parades or formal ceremonial activities, and especially Anzac Day commemorations, both in New Zealand and overseas at Gallipoli, in Europe, and in other overseas posts.
- The Royal New Zealand Navy celebrated its 75th Anniversary. The biggest single event of the birthday celebrations was the International Naval Review where visiting ships from 15 different countries could be seen on Auckland Harbour.
- Personnel from the three Services attended the annual Art Deco festival in Napier, where they participated in parades, performed music, and provided a uniformed presence to the festival atmosphere.
- Air Force aircraft participated in *Warbirds over Wanaka* with other Services also attending.
- The Air Force hosted an Air Tattoo at RNZAF Base Ohakea, which was attended by the Chiefs of Air Force and aircraft from eight nations. There were a total of 22,000 visitors and excellent feedback was received from participants on displays and traffic management in and around the venue.
- HMNZS *Canterbury* hosted guests for the annual Fish'n'Ships charity event in Wellington in support of the City Mission.
- Personnel attended numerous charity events, such as the Cancer Society Relay for Life, and provided teams for the Invictus Games, the International Defence Force Rugby World Cup, as well as various sports competitions throughout the country.

For further detail, refer to Outputs 4.4 and 4.5. Protect, on page 48 and 49.

Honouring Our Veterans

The third of the NZDF's key outcomes is 'Veterans' Service is honoured'. Veterans' Affairs New Zealand serves and supports New Zealand veterans and their families. Its clients range in age from 19 to over 100 and are the men and women who have served New Zealand in operations overseas where significant risk of harm has been recognised. It provides support (including case management, rehabilitation, and payments) as well as policy advice and ceremonial services.

In 2016/17, activities included:

- Provision of support for an independent review of the operation of the Veterans' Support Act 2014. The review team is headed by Professor Ron Paterson and will report to the Chief of Defence Force in December 2017.
- Development of a social and vocational rehabilitation strategy. The focus of the Veterans' Support Act 2014 is on helping those who have been injured or made ill by their service to improve their health and quality of life. Veterans' Affairs has been working with representatives across both government and non-government sectors to develop a framework that would offer veterans a smooth and coordinated pathway towards wellbeing and independence.
- The 100th anniversaries of the Battles of the Somme and Messines were marked in France, Belgium and in Wellington. NZDF provided transport and support for veterans to attend the 50th anniversary of the Vietnam War in Canberra and supported the Wellington commemoration at the Michael Fowler Centre.
- A four-year-long period of commemorations of the 100th anniversary of First World War began on Anzac Day 2015. This will continue through to 2018. The NZDF has provided transport and support for veterans and others to attend some of these ceremonies on the battlefield locations.
- Provision of Navy, Army and Air Force personnel for the duties of flag orderlies, ode readers, bugler and command for the daily Last Post ceremony at the National War Memorial in Wellington. This ceremony has been performed daily at 1700 hours since Anzac Day 2015 and will continue until 11 November 2018, the 100th anniversary of the end of the First World War.

Youth Development

The NZDF is committed to teaching leadership, self-reliance, and resilience in young New Zealanders. It does this by supporting youth development programmes in the community that seek to extend young people to make a difference in their lives. These

initiatives also contribute to the Government's Better Public Services programme, specifically the Boosting Skills and Employment and Reducing Crime priority areas.

In 2016/17, these ongoing programmes included those operated by the government-funded Youth Development Unit, where NZDF personnel have completed specialist training to help motivate young people to enter the workforce.

- Supporting the Ministry of Social Development's Limited Service Volunteer programme, Defence delivers an intensive six-week motivational training course that provides life skills to unemployed young people aged between 18 and 25. It aims to increase the number of young people entering employment or training through improving their self-discipline, self-confidence, motivation and initiative. This is supported from Burnham Military Camp and a leased facility, Motu Moana Scout Camp, Auckland. NZDF support to this programme delivers up to 800 trainees per year.
- Supporting the Ministry of Education, the Service Academy programme provides support to 29 Service Academies run out of high schools throughout New Zealand. These are military-focused programmes which are delivered in secondary schools and aimed at 12 to 17 year-old Maori and Pasifika high school children at risk of disengaging from school. They help students gain qualifications in preparation for the workforce, further education or training. The Education Review Office says these academies can transform lives socially, academically and physically. NZDF support to this programme delivers up to 580 trainees per year.
- Supporting New Zealand Police-sponsored Blue Light Trust. The Light Life Skills programme is a partnership between the NZDF, Police, and New Zealand Blue Light. It provides leadership training and life skills for young people aged 14 to 17. NZDF support to this programme delivers up to 350 trainees per year.
- The New Zealand Cadet Force is a key partnership between the NZDF and approximately 100 communities throughout New Zealand. It is a voluntary, disciplined, uniformed youth leadership training organisation for boys and girls aged 13 to 18. The three branches: Sea Cadet Corps, New Zealand Cadet Corps, and Air Training Corps, mirror the three Services in the NZDF. Many of the youth who join these Corps go on to serve in the relevant Service in the NZDF. The current strength of the NZ Cadet Forces is approximately 350 NZ Cadet Force Officers and 3,500 Cadets.

Case Study: Community Support

HELPING OUR COMMUNITIES

Twenty 'little spotted kiwi' were released on Saturday 29 April 2017 at the Shakespear Open Sanctuary on the Whangaparaoa Peninsula on land occupied by the New Zealand Defence Force (NZDF).

These are the first little spotted kiwi to be released into the pest-free sanctuary which is managed in a collaborative approach by Auckland Council park rangers and NZDF personnel. Project partners include other landowners (YMCA and Watercare), Iwi, and the Shakespear Open Sanctuary Society Inc.

Of the 500-hectare predator-proofed area, NZDF occupies 158 hectares which is home to the Navy's Tamaki Leadership Centre, an area used for training Navy, Air Force and Army personnel. The land is ideal for an open sanctuary, given the limited number of people and domestic animals that enter the Tamaki Leadership Centre's extensive bush-clad areas, and is a great example of how Defence's operational activities can be combined with supporting New Zealand's biodiversity.

Little spotted kiwi are our second rarest kiwi species with only a small population of them left, which are primarily based on Kapiti Island. The NZDF was represented at the release ceremony by Captain Richard Walker, Assistant Chief Personnel and Training. Captain Walker said that it was a great opportunity for Defence to work with the Auckland Council on such a significant milestone for the sanctuary.



"The NZDF is all about protecting kiwi, and that's usually people but today it's the feathered kind. It's great that we can play a part in protecting kiwi numbers in New Zealand and establishing a population here at Shakespear Open Sanctuary."

Outcomes

New Zealand's national interests are secured

Outputs

4.5 Defence support to the community

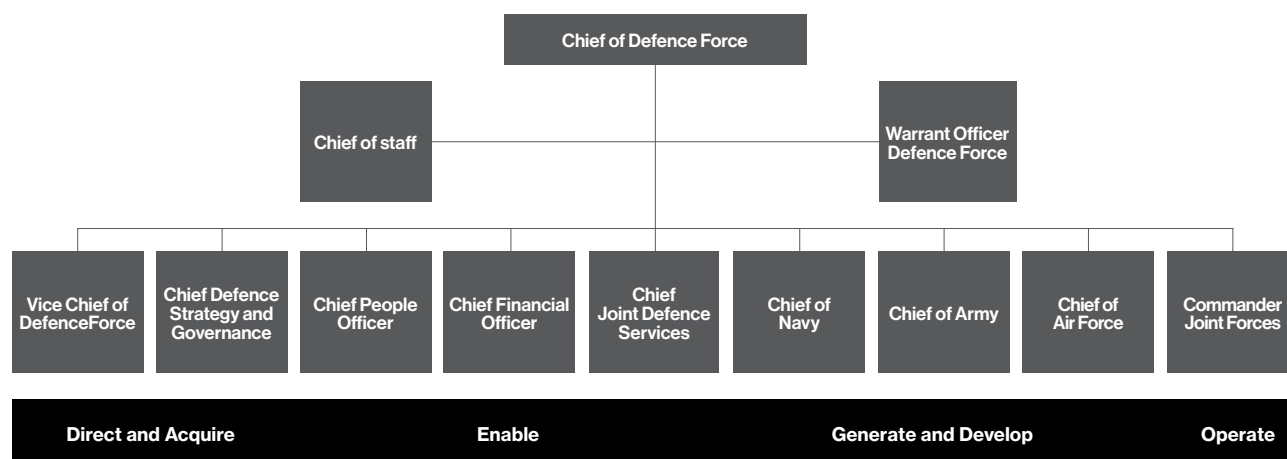
HOW ARE WE ORGANISED?

The NZDF provides the Government with defence outputs in conjunction with the Ministry of Defence and in accordance with the Defence Act 1990, the Veterans' Support Act 2014, and other regulations.

The command structure of the NZDF is a chain that emanates from the Crown, down through the Chief of the Defence Force, then branches out to the three

Services; the Royal New Zealand Navy, the New Zealand Army and the Royal New Zealand Air Force, as well as Joint Forces New Zealand, the New Zealand Defence Force Headquarters, and enabling functions.

The executive management structure is set out in the following diagram.



The governance of NZDF is supported by a Board that provides advice to the Chief of the Defence Force. Chaired by an independent external member, the Board includes the Chief of Defence Force, Vice Chief of the Defence Force, the Chiefs of the three Services, the Warrant Officer of the Defence Force, and a number of independent, external members including the Secretary

of Defence. The role of the Board is to set the long term strategy for the NZDF and to monitor the organisation's performance.

The Defence Force is comprised of about 14,500 military personnel, reserves and civilian employees, as set out in the following table.

NZDF Personnel as at 30 June 2017

| Our People Capability | | | | |
|----------------------------|--------------|--------------|--------------|---------------|
| | Regular | Reserves | Civilian | TOTAL |
| Navy | 2,116 | 464 | 109 | 2,689 |
| Army | 4,595 | 1,663 | 363 | 6,621 |
| Air Force | 2,497 | 228 | 249 | 2,974 |
| Other Defence Roles | - | - | 2,166 | 2,166 |
| TOTAL | 9,208 | 2,355 | 2,887 | 14,450 |

The NZDF Regular Force

The NZDF Regular Force is made up of enlisted personnel who fill a wide variety of roles across the three Services.

They are an extremely diverse and capable group of people – Privates to Generals, Ordinary Seamen to Rear Admirals, Aircraftsmen to Air Vice Marshals, technicians to special operations troops, engineers to chefs, intelligence specialists to medics, and divers to drivers.

In addition, they are trained in command planning, leadership, operations, logistics support, and participate in and support operational deployments, training, and recruitment, both in New Zealand and in overseas posts. They have oversight, managerial and corporate functions on bases, camps, and at Headquarters Joint Forces New Zealand and Headquarters NZDF.

NZDF Reserves

As well as the full-time Regular Force personnel, the NZDF provides extra military capacity through the Navy, Army and Air Force Reserves, who work and train part-time. These Reserves supplement the Regular Force by providing specialist roles and a contingent capability in the event of a large-scale military deployment.

The Army Reserve is made up of soldiers and officers who conduct military training in addition to their civilian employment. These Reserves have played a significant role throughout New Zealand's history, contributing to deployments, civil defence, and ceremonial activities. Because they live and train in their local communities, in all over the country, they are often the public face of the New Zealand Army.

The Navy Reserves are made up of both civilian and former Naval personnel. They support the Navy's operational capability in its maritime defence and security roles, as well as the wider NZDF mission to protect New Zealand's interests and provide support during disasters.

Air Force Reservists are recruited differently to those of the Navy and Army. Because Air Force personnel are often trained in specialist roles, the Air Force Reserves also draw from people who are leaving the regular Force by keeping them on part-time. This way they get to make use of their skills and training while pursuing other career opportunities.

NZDF civilian personnel

Civilian employees fill a wide range of specialist and corporate roles in the NZDF that don't require deployment in an operational environment. The work they do enables the NZDF to operate effectively. Many civilian personnel are ex-Regular Force, or are currently-serving Reserve Force sailors, soldiers, or airmen.

IMPROVING OUR MILITARY CAPABILITY

What is a military capability?

The NZDF has a range of military capabilities within its three Services. For each mission, the best mix of capabilities is selected to create a tailored task force. The term 'military capability' is broader than a ship, machine gun or aircraft. It is a complete combination of highly trained and skilled people, top-class equipment (such as vehicles, weapons and supplies), supporting infrastructure and the best in leadership, research and development and information technology.

Readiness

NZDF's core role is to be ready for expeditionary operations at the Government's direction. Outputs 1, 2 and 3 fund NZDF to maintain 'readiness' to deploy Naval, Army and Air Force units or formations.

The measurement of readiness¹ is an assessment of the time it would take for a designated unit or formation to be ready to deploy, appropriately manned, trained, equipped and supported, to meet the defined conditions and standards for the designated operation. A unit is deemed to be at readiness when it can demonstrate that it can be made ready to deploy within the timeframe agreed with government. Different units are kept at different levels of readiness depending on how long the NZDF has from when it is directed to deploy to when the unit needs to be deployed.

The key measurement areas are centred on the capacity of the Defence Force to:

- maintain personnel at the required strength and training levels to meet directed readiness levels,
- retain adequate levels of equipment for training, current operations and contingencies,
- complete stipulated training activities that enable force elements to operate effectively as a collective force to achieve the specified tasks; and
- maintain the ability to sustain the deployment as required.

As high levels of readiness are resource intensive to maintain, it is not efficient to hold all units at high readiness levels. Each year, the NZDF agrees with the government the level of readiness for each unit or formation based on how quickly they may be required.

Readiness levels are set in the Output Plan.

Setting NZDF's long-term direction through support for the Defence White Paper

Led by the Ministry of Defence, the Defence White Paper sets the Government's defence policy objectives and how NZDF will be funded and equipped to deliver them. The White Paper sets out the Government's commitment to invest in the updated capabilities out to 2040.

Working with the Ministry of Defence on Defence Capability

The NZDF works in conjunction with the Ministry of Defence to develop its military capabilities (see figure 1). The Ministry is responsible for the development of defence policy, international defence relationships and engagements, advice on potential military deployments, systemic reviews on behalf of the Minister of Defence, and the development and delivery of capability projects. In this context, capability means platforms, equipment systems, technologies and materiel with a whole of life capital and operating cost of more than \$15 million.

By 2030, Defence will have replaced most of its current major military platforms.

Changes to defence capability management are being delivered through the Defence Capability Change Action Programme. The Programme has now been in place for two years and is at a stage where the key activities needed to build the essential aspects of a contemporary capability management system are in place or in development.

At the core of the Programme is the enrichment of collaboration between the two agencies to draw on expertise from both. The Programme involves joint leads from both the Ministry and Defence Force.

One of the key components of the changes to the Defence Capability Management Systems is the establishment of Integrated Project Teams (IPTs). In February 2017, the Defence agencies introduced six IPTs for major capability projects. IPTs bring Ministry and Defence Force staff together into a single team that spans capability definition and selection, and acquisition (for which the Secretary of Defence is primarily responsible) and Introduction into Service (for which the Chief of Defence Force is primarily responsible) phases of each capability project (see figure 2).

¹ Also referred to as 'Response Time' – the time period for assigned forces to transition from the directed peacetime readiness level to full operational capability and a very short Notice to Move.

The six IPTs that have been established will deliver the following projects: Future Air Surveillance Capability, Future Air Mobility Capability, Frigate System Upgrade/ ANZAC Communications, Littoral Operations Support Capability/Littoral Warfare Systems, Maritime Sustainment Capability, and Network Enabled Army.

In addition, we have established eight dedicated Project Boards to provide oversight of particularly large and complex capability projects and programmes: Frigate Systems Upgrade, Network Enabled Army, Maritime Sustainment Capability, Individual Weapons Replacement, Underwater Intelligence, Surveillance and Reconnaissance, Littoral Operations Support Capability, Future Air Surveillance Capability, and the Consolidated Logistics Project. The role of these boards is to provide enhanced assurance that the project will successfully deliver expected outcomes and benefits.

The work of each IPT will be guided by a refreshed Capability Management Framework that is well underway. This Framework is owned by the Capability

Management Board, which is co-chaired by the Secretary of Defence and the Chief of Defence Force. Enhancements to the Framework include clarification of roles, and policies, procedures and guidelines based on international best practice. It is being developed through a co-design process with staff from both organisations.

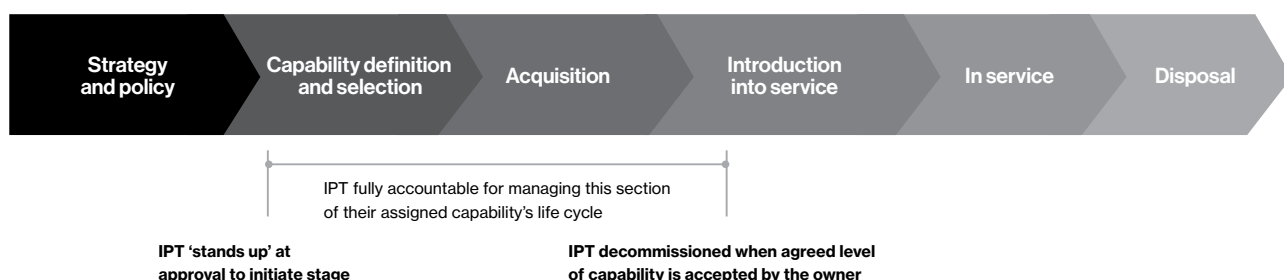
As part of the Programme, during 2016/17 Defence implemented a Whole of Life Costing model for major projects that strengthens costing advice for projects at each stage of their lifecycle. It has also implemented a Benefit Management Framework to ensure benefits expected from Defence's investments are agreed, understood, and ultimately realised. We have enhanced the planning process used to define the capability needed to meet policy goals, and have developed a collection of standard tools to support the definition and selection of military capability.

The next phase of the Programme is to embed the improvements that have been developed and introduced.

Figure 1: Respective roles of the Ministry of Defence and New Zealand Defence Force.



Figure 2: How NZDF and the Ministry of Defence work together through Integrated Project Teams across the lifecycle of a defence capability.



The Defence White Papers of 2010 and 2016 set out a vision for the modernisation of the NZDF to meet current and future defence and security challenges. The following section sets out the key investments being made in the modernisation programme.

Maritime Helicopter Capability:

Enhanced readiness for surveillance, search and rescue, force protection, utility lift.

In April 2013, Cabinet approved the purchase of a replacement fleet of eight Seasprite helicopters and associated facilities and spares. These will perform a range of tasks, including maritime surveillance, search and rescue, force protection, and utility lift. All Seasprite helicopters, spares, support equipment, publications, and training have been delivered and the capability is being released into service. The second NZDF Interim Type Certificate was issued in November 2016 to update the SH-2G(I) airworthiness certification and the roles and tasks released to service.

C-130 Hercules And P-3K2 Orion Upgrades:

Enhanced readiness and capability in international and New Zealand deployment, surveillance, search and rescue, force protection, transport, goods lift.

Five upgraded C-130 Hercules aircraft have been operationally released, with the last completed in April 2017. This project has replaced mechanical, structural and avionics components, installed new flight deck communications and improved navigation systems. Six upgraded Orion aircraft have been operationally released to the Air Force. The upgrade includes a glass cockpit and state-of-the-art missions and flight management systems.

The C-130 and P-3K2 upgrades will allow both fleets to continue to operate until their planned withdrawal dates.

NH90 Helicopters:

Enhanced readiness and capability for troop deployment, force protection, search and rescue.

All NH90 helicopters have been delivered and have been given interim release of capability, with operational test and evaluation being progressed over the next two years by the Air Force. The predecessor to the NH90, the UH-1H Iroquois, was formally removed from service in June 2015. Throughout 2016 and 2017 the NH90 has carried out various activities and exercises with the Royal New Zealand Navy to develop the NH90 embarked Amphibious Capability. Exercise Southern Katipo 17 will be utilised to demonstrate this Capability.

Pilot Training Capability:

Enhanced training delivery.

The pilot training capability includes 11 new training aircraft, the T6 Texan II. These incorporate instruments and systems that share a similar level of technology to the A109, NH90 and Seasprite helicopters, as well as the upgraded Hercules and Orions. This capability helps prepare pilots for the aircraft they will operate in the future. All 11 aircraft have been successfully delivered and formally accepted into service. Two simulators are installed and functional and all infrastructure is complete.

Project Protector Remediation:

Ensuring a credible capability that can operate in the South Pacific and wider Asia-Pacific region. Also enhancing troop and equipment deployment, fisheries protection, surveillance, vessel inspection.

This project rectifies a number of deficiencies identified in the seven vessels delivered under Project Protector. Most of the overall remediation programme has now been completed. All physical work to HMNZS *Canterbury* and the two Offshore Patrol Vessels is now complete; some elements of Introduction Into Service remain. The Protector vessels were operationally released in August 2016.

Anzac Platform Systems Upgrade:

Ensuring a credible capability that can operate in the South Pacific and wider Asia-Pacific region. Also enhancing troop and equipment deployment, fisheries protection, surveillance, vessel inspection.

This project is about upgrading the platform systems on the Anzac frigates, HMNZS *Te Kaha* and HMNZS *Te Mana*. Work included upgrading propulsion, heating, ventilation, and air conditioning systems, and has been progressed in two phases. Phase 1 provided propulsion and stability improvements, Phase 2 improved the heating, ventilation, and air conditioning systems. This project will ensure the Anzac class frigates' platform systems (that enable the ships to move, generate power, recover from damage and accommodate people) remain viable. Both Anzac ships have completed this upgrade. Operational release of the Anzac frigates occurred in October 2016.

Anzac Frigate Systems Upgrade:

Ensuring a credible capability that can operate in the South Pacific and wider Asia-Pacific region. Also enhancing troop and equipment deployment, fisheries protection, surveillance, vessel inspection.

This project is about updating the Combat Management System and most of the major weapons and sensor system components on the Anzac frigates, HMNZS *Te Kaha* and HMNZS *Te Mana*. The project has completed detailed Design Review.

As at the end of the reporting period, the upgrade will take place in the Sea Span shipyard in Victoria, Canada, with the first frigate forecast to commence upgrade in early 2018. The upgrade will take approximately 18 months to complete, including acceptance testing and evaluation. The ship will then return to New Zealand to conduct approximately 10 months of operational testing, evaluation, and training, prior to operational release. The upgrade of the second frigate is anticipated to commence first quarter 2019.

Maritime Sustainment Capability:

Vital support for sea, land and air operations from Antarctica to the wider Asia-Pacific region.

This project is to replace HMNZS *Endeavour* with an enhanced naval tanker that undertakes replenishment at sea, and supports air and land forces with fuel, fresh water, ammunition and other supplies. It will also be Polar Code compliant, which will enable it to contribute to the combined logistics effort in support of Antarctic operations. The Project is at the Preliminary Design Review stage which is expected to be completed in July 2017. The ship will be named HMNZS *Aotearoa* and is scheduled to be delivered in 2020.

Network Enabled Army Programme:

Ensuring troops on the ground have the latest technology to fulfil their mission, keep them safe, and communicate with partner militaries.

The Network Enabled Army Programme sets out to advance how New Zealand land Forces command, control, communication, computing, intelligence, surveillance, and reconnaissance capabilities will operate either independently or with partners in a modern operational environment. The first tranche of the programme is well developed and its workstreams are currently in the acquisition phase. The programme demonstrated the first Task Group Headquarters command post set on Exercise Kiwi Koru 16 and further acquisition action is underway to provide tailored power and climate control systems. Initial consignments of communications systems for the New Zealand Special Air Service have been received and are being integrated and evaluated in line with the incremental delivery strategy. The tactical satellite communications system has been procured and 12 terminal sets are due to arrive in New Zealand during 2017, at which time work will commence to train operators and to integrate them into the Defence Satellite Communications System.

Medium And Heavy Operational Vehicles:

Enhanced medium and heavy transport for operations.

This project replaced the ageing operational Unimog and other Mercedes trucks which have been in service for the past 30 years. All vehicles (excluding Recovery) have been accepted by the Crown and NZDF. Project delivery focus is transitioning from Acquisition and Introduction into Service activities into Operational Testing and Evaluation of the new capability, with Full Operating Capability set to be achieved by December 2017. The Medium Heavy Operational Vehicle successfully deployed on its first international operation to Fiji in support of NZDF's humanitarian and disaster relief response to the devastation caused by Tropical Cyclone Winston in February 2016.

Individual Weapon Replacement:

Enhanced combat capability for all three Services.

In December 2015, the Modular Assault Rifle System-Light (MARS-L) was selected to replace the Steyr rifle. This is part of a wider in-service weapon replacement and upgrade programme and the continual improvement of NZDF equipment to enable effective responses to future operational contingencies. Over 9,000 new weapons, along with new optics and a range of ancillaries, will be purchased. Delivery commenced in late 2016, with introduction into service across the NZDF throughout 2017/18.

Strategic Bearer Network:

Enhancing the quality, reach and availability of satellite communication links with NZDF forces worldwide.

This project produces a common family of satellite communication terminals which enable deployed forces to communicate with systems in New Zealand. Deployable terminals will be established on land or mounted on-board ships and will link with a pair of anchor stations in North Island New Zealand.

Defence Command and Control System:

Lifting the efficiency and effectiveness of the NZDF workforce, improving international interoperability, and enhancing joint force cohesion.

This enables command and control of New Zealand forces worldwide through a single software suite. It is interoperable with our key defence partners and includes powerful software for the management and sharing of imagery. The acquisition-and-build phase of the project is now drawing to a close, and transition into service activity is ramping up with progressive segments of the NZDF already using the system on a routine basis.

Secret Information Environment:

Enhancing security of communications and command and control data.

The Secret Information Environment will refresh and extend the capability of the NZDF's current classified data network and provide a single sophisticated platform on which applications, including the Network Enabled Army and Defence Command and Control System, will operate to full potential. Much of the technical build is complete and planning for transition into service is at an advanced stage.

Case Study: New Weapon for NZDF

ENHANCED COMBAT CAPABILITY

The MARS-L, or Modular Assault Rifle System – Light, manufactured by Lewis Machine and Tool Company, has been rolled out across all three Services of the New Zealand Defence Force.

Four tranches of the weapons are being rolled out to New Zealand Defence Force personnel.

Soldiers in Linton, Waiouru and Burnham Military Camps were introduced to the new weapons in a series of roadshows around NZDF's camps and bases, and the weapons are being toured around to Navy and Air Force personnel. In total, NZDF will have 5,568 weapons across the three Services plus 3,472 in a pool for spares and repairs and deployments.

Major John Lawrey, the Programme Manager for the In-Service Weapons Replacement and Upgrade Programme, says the feedback from personnel during the roadshows has been very positive.

“Everyone who has had the opportunity to handle the weapon so far has really liked what they've seen, and they're really looking forward to being issued a weapon of this quality,” MAJ Lawrey says.

The MARS-L was selected as the NZDF's new individual weapon after the Ministry of Defence led a tender process on behalf of NZDF to determine a weapons system to replace the Steyr rifles, which had been in service since 1987 and had reached their end of life of type.

Eight of the world's leading arms manufacturers were selected to submit rifles. From there, NZDF carried out an evaluation trial before a final recommendation was put forward.

At the end of 2015, the Government announced the \$59 million purchase of the new weapons system and associated equipment. At the heart of the system is the new rifle but the whole package includes advanced day optics, a detachable grenade launcher that can be used independently of the rifle if required, and other ancillaries such as combat torches and sound suppressors. The MARS-L is a modern, modular weapon that came out on top after a rigorous period of testing.



There are several features of the MARS-L which made it the best choice of weapon to replace the Steyr rifles, which had reached their end of life type.

The upper receiver is made of one piece of aluminium, so the hand guard is not attached to the barrel. With the barrel essentially “free floating”, it makes for a very accurate assault rifle.

The safety catch, bolt catch and magazine release are on both sides of the rifle which means it can be operated effectively by left-handed and right-handed shooters.

The optics are also key to the capability of the weapon, and every rifle is being fitted with a four power day sight, and a red dot zero magnification sight for close-quarter battle work. Back-up iron sights are also fitted to the rifle.

With the combination of the optics, the weapon's accuracy and the ammunition used with it, the effective range has been increased from the Steyr's 300m range to 600m.

Outcomes

New Zealand's national interests are secured

Outputs

1. Navy capabilities prepared for joint operations and other tasks
2. Army capabilities prepared for joint operations and other tasks
3. Air Force capabilities prepared for joint operations and other tasks
- 5.1. Military operations in support of a rules-based international order

IMPROVING OUR ORGANISATIONAL CAPABILITY

Alongside our military capabilities, the NZDF is working to enhance its organisational capabilities.

The following section sets out the progress of the key organisational change initiatives in 2016/17.

| Focus Area | Completed In 2016/17 |
|---|---|
| Capability Management (together with the Ministry of Defence). | Implementation of the new Integrated Project Teams for major capability projects. |
| Defence Estate. | Joint Ministerial approval of the first tranche (to 2020) of the Defence Estate Regeneration Programme |
| People. | <p>Improved services to serving personnel and their families including financial literacy training and the establishment of an Operating Enabling Allowance.</p> <p>Designed and delivered a workforce costing model to cost the NZDF workforce required to deliver the capabilities described in the Defence White Paper 2016.</p> |
| Health and Safety. | <p>Working with the New Zealand Drug Foundation, the NZDF has adopted the Harm Minimisation Framework, which takes a multi-pronged approach to minimising the potential for alcohol or drug related harm. This has resulted in the NZDF being awarded Secondary Tier Accreditation for the first time.</p> <p>Improved management of identified risk through assurance forums, enhanced investigation, safety and risk training across the NZDF.</p> <p>Increased capability in injury management and health and safety representation.</p> <p>Progress to design phase for the new Safety Event Management Tool with implementation due in 2018.</p> |
| ICT and information management. | New enterprise-wide document management system implemented. |
| Governance. | <p>Establish the ICT Governance Committee and the Estate Investment Committee to oversee two major investment areas.</p> <p>Establishment of a temporary headquarters following the earthquake, which made Defence House uninhabitable.</p> <p>Refresh of the NZDF organisational strategy to ensure alignment to the Defence White Paper 2016.</p> <p>Embedding of new governance structure completed including: Defence Force Board, Executive Committee, Outputs Committee, and Organisation Committee.</p> |

Improving Interaction with Government

Under the Government's Better Public Services programme of improving interaction with Government in a digital environment, the NZDF has an internet-based website to make it easier for the public to contact the Defence Force for information, including vacancies, corporate publications, historical records and public affairs. Veterans' Affairs also has an internet site for support information and assistance for veterans. The NZDF has also implemented an electronic document management system to improve the management of information and is also implementing the use of its New Zealand Business Number to make it easier for businesses to transact with the NZDF.

Towards a more diverse and inclusive organisation

The NZDF strives to reflect the diversity of New Zealand society, as well as the openness and respect that New Zealanders have for people of different backgrounds regardless of gender, ethnicity, disability, sexual orientation, age, beliefs, opinions, or family circumstances. It is important that all members of NZDF and their whānau or families feel they belong, are valued and are encouraged to participate in NZDF life.

As a large organisation, the NZDF prides itself on being an equal opportunity employer, which values diversity and inclusion in the workplace. The NZDF has made substantial progress towards gender equity over the past decade, particularly in its family-friendly policies and in opening up all trades to women. In 2014, an international study by the Hague Centre for Strategic Studies on the integration of lesbian, gay, bisexual and transgender Service personnel into the armed forces ranked the NZDF as number one.

This year saw the continuation of Operation RESPECT, the culmination of two years' work that looks at improving our culture of dignity and respect for all personnel, by confronting any inappropriate and harmful behaviours (including sexual violence) in the organisation. Operation RESPECT is about getting the basics right, and ensuring the success and safety of all personnel. Everyone in the organisation has a role to play in Operation RESPECT in order to continue to build a community consistent with our values of courage, commitment and comradeship, and to support operational readiness. The NZDF also has its own White Ribbon Campaign aimed at ending men's violence towards women.

The NZDF is a multi cultural organisation with a strong history of bi-culturalism. NZDF recognises Māori cultural interests as a key part of the organisation. Each Service has Māori cultural advisors to support and provide advice to command and personnel.

This year we published *Gender Transition: A Handbook for Commanders/Managers and Transitioning Personnel*. These guidelines are intended for three audiences – the individual undergoing transition, their colleagues and their commanders/managers – and show how to get and give the best possible support for gender transition.

A Force for Families

The NZDF is committed to developing strong connected families and recognising the support they provide for Service members.

The Force 4 Families project group was developed to improve support and communications with NZDF families and whānau, and to build a stronger sense of community. A range of family and community services support staff are available at each camp and base, offering a wide spectrum of family support measures and resources that range from financial advice, to pastoral care, to discounts on goods and services. There is a section on the NZDF website dedicated to the services available to all personnel and their families and whānau.

Part Two

DELIVERING DEFENCE

This section explains how we deliver the business of defence. It explains the outcomes we are trying to achieve, the outputs we deliver, what the results of these outputs look like, what effects we achieved, and how our output delivery contributes to NZDF outcomes.



2

WHAT OUTCOMES WE ARE TRYING TO ACHIEVE

The Government's primary security objective is to ensure the security and territorial integrity of New Zealand, including protecting the institutions that sustain confidence, good governance, and prosperity. It encompasses the preparedness, protection and preservation of people, property, and information.

This is underpinned by the defence strategic objective, which is to ensure that New Zealand is secure and that the nation's strategic interests are advanced through the conduct of military operations and other tasks. The output framework of the NZDF establishes three defence – related outcomes to the Government.

Outcome 1:

NEW ZEALAND'S NATIONAL INTERESTS ARE SECURED

A secure New Zealand, including its people, land, territorial waters, exclusive economic zone, natural resources and critical infrastructure

How do we do this?

The NZDF contributes to the security of New Zealand's interests through:

- Deterrence of military threats to New Zealand's sovereign territory and areas under New Zealand's responsibility.
- More active government awareness of activities in our territorial waters and the wider maritime domain. Improved response by civil authorities to illegal and unauthorised activities in and around New Zealand's maritime zones.
- Maintaining dynamic awareness of activities of strategic interest and foreign defence relevance to New Zealand to support responsive, conversant and cognisant government.
- Supporting civil authorities fulfilling their mandated national security responsibilities to save lives, prevent human suffering or mitigate property damage, and all-of-government efforts to secure the safety of New Zealand citizens and residents.
- Effective assistance to civil authorities in non-emergency situations.
- Effectively managing support to the community.

Outcome 2:

INTERNATIONAL ORDER IS SUPPORTED

New Zealand's military contributions to prevent, manage, resolve conflict, and maintain international order are valued.

How do we do this?

The NZDF contributes to international order through:

- Reducing instability in conflict-affected states resulting from breakdowns in law and order, insurgency, and other irregular activity.
- Mitigating future security events that challenge global security.
- Enhancing the resilience of New Zealand's offshore interests and improving the levels of social and environmental wellbeing for regional nations.
- The New Zealand Government promoting global stability through conflict resolution and preservation of rules-based international order.

Outcome 3:

VETERANS' SERVICE IS HONOURED

The service of our people is recognised, respected and honoured.

How do we do this?

Veterans' Affairs New Zealand, which is part of the NZDF, contributes to honouring veterans' service through:

- Acknowledging and recognising veterans for their service and sacrifice, and making the community aware of the role veterans have played and continue to play in developing New Zealand.
- Monitoring the impacts of service on eligible veterans and their dependants, and ensuring they have information about, and access to, services and support that promote wellbeing.
- Ensuring veterans' perspectives are being considered as part of government decision-making on issues that impact their lives.

WHAT DO WE DELIVER?

The work of the NZDF is broken down into seven outputs. These are:

| | |
|-------------------|--|
| PREPARE | Output 1: Navy capabilities prepared for joint operations |
| | Output 2: Army capabilities prepared for joint operations |
| | Output 3: Air Force capabilities prepared for joint operations |
| PROTECT | Output 4: Operations to protect New Zealand and New Zealanders |
| PROJECT | Output 5: Operations contributing to New Zealand's security, stability and interests |
| INFORM | Output 6: Advice to the Government |
| VETERANS' AFFAIRS | Output 7: Supporting our Veterans |

PREPARE

Outputs 1, 2 and 3

The NZDF aims to maintain maritime, land, and air capabilities at the Government's directed level of readiness, and to prepare for joint operations and other responsibilities. The reason we have these military capabilities is not only to deter military threats to New Zealand, but also to be prepared for any other tasks that align with the Government's strategic objectives. The result is that the NZDF is ready to protect the sovereign territory of New Zealand and any areas under our responsibility, and ready to support other agencies and defence partners.

Outputs 1:

NAVY CAPABILITIES PREPARED FOR JOINT OPERATIONS

The purpose of this output is to generate Navy capabilities that achieve the levels of readiness for military operations and other tasks that are directed by the Government. These capabilities include naval combat, projection and sustainment, and maritime trade operations.

The NZDF manages the generation and sustainment of these capabilities so they can be called on to contribute to the protection and security of New Zealand, our people, and our interests at home and abroad. The following section provides an overview of the major activities that supported the generation of each capability during the 2016/17 year.

Naval Combat Force

- Sea Control Operations
- Maritime Interdiction Operations

The Navy has generated the naval combat capability with ships and the means to operate embarked aircraft. It is prepared to conduct sea control operations within a coalition naval task group, protect military and commercial shipping and related operations to enforce international law, and prohibit the movement of specified items, people, or vessels. The Naval Combat Force achieved the required preparation for this output through participation in readiness training activities validated by internal and external assessment. Specifically, HMNZS

Te Kaha participated in Exercise RIMPAC (Hawaii), RNZN International Naval Review, Ocean Explorer (Australia), Bersama Shield (Singapore) and Pacific Guardian (Japan) through the year. Naval Combat also completed deployments to Australia, South-East Asia, and Hawaii to undertake force generation and assessment activities, including sea control training with the Royal Australian Navy, Five Power Defence Arrangements Navies, Japanese Maritime Self Defence Force, United States Navy and other regional navies. The utility range of this combat force capability was demonstrated through HMNZS Te Kaha leading the initial maritime response in support of Civil Defence following the November Kaikoura earthquake as well as fulfilling short notice escort duties to the USN 7th Fleet Nimitz Carrier Strike Group following the USS Fitzgerald incident.

For the majority of the financial year, HMNZS *Te Mana* provided a valuable training platform for the RNZN, which enabled an increase in force generation and training capacity, and assisted with the ongoing personnel regeneration strategy.

Projection and Sustainment

Amphibious Sealift

HMNZS *Canterbury* provides amphibious sealift capabilities to project forces from the sea and sustain deployed forces at the directed level of readiness and availability throughout the year. HMNZS *Canterbury* also undertook a number of readiness generation and validation activities. These included support to the deployment and recovery of NZDF personnel and equipment from Exercise Talisman Sabre, as well as focused readiness development and validation in exercises Joint Waka. HMNZS *Canterbury* made a significant contribution to New Zealand's response to the Kaikoura earthquake in November 2016, demonstrating the value and flexibility it provides from the sea.

Replenishment

HMNZS *Endeavour* delivered its readiness requirements, providing specialised capabilities to conduct replenishment of fuels, cargo and personnel for naval forces in a mid-intensity environment. HMNZS *Endeavour* deployed to Australia, south east Asia and around New Zealand to provide key support to fleet readiness training activities in consort with Royal New Zealand Navy and Royal Australian Navy units. The forecast decommissioning date in December 2017 signals this will be the last full reporting year for this vessel with a capability gap forecast until HMNZS *Aotearoa* is delivered in FY20/21.

Littoral Warfare Support

The combined Littoral Warfare Support capabilities provide specialised naval forces that conduct short-notice, short-duration, rapid environmental assessment missions to prepare regional ports, inshore waters and beachheads for maritime and amphibious operations in a national or allied task force. The Littoral Warfare Unit was renamed to HMNZS *Matataua* this year in an important step to establishing the unit identity.

An operational pause in diving capabilities was enacted during the period to achieve a thorough technical compliance and assurance review. This important piece of work will place diving across the NZDF in a safer seaworthy state for the future.

The Littoral Warfare Support capability undertook a number of domestic and international training activities to maintain capabilities at readiness. Exercises Fulcrum, Cluso, Bersama Lima, Bushnell, Nautilus, and Operation Orion contributed to the maintenance of this capability.

Maritime Trade Operations

Naval Guidance and Naval Supervision of Shipping

The purpose of the Maritime Trade Operations capability is to provide a shore-based capability able to implement naval cooperation and guidance for shipping, and provide for the naval supervision of shipping in a crisis.

An extensive domestic and overseas training programme was conducted to ensure the ongoing maintenance of the readiness requirements of this capability. Additionally, New Zealand is the Chair of the Pacific and Indian Oceans Shipping Working Group, which consists of nine navies. This relationship focuses on improving interoperability between the member nations, and works to ensure the safe and efficient delivery of maritime trade capabilities.

Maritime Trade Operations capabilities were deployed operationally during the year, collaborating with the Royal Navy Maritime Trade Organisation in Dubai and the Republic of Singapore Navy Intelligence Fusion Centre to contribute to the safety and security of merchant maritime operations in the Middle East and south east Asia.

Naval Patrol

Naval Patrol Forces carry out surveillance, deter unlawful activity and interdict vessels of interest. They contribute to government efforts to secure borders, protect resources and enable New Zealand law to be enforced at sea and assist regional nations in ensuring the security of their respective maritime domains.

Naval Patrol Forces achieved the required preparation for this Output through a combination of important readiness training activities in New Zealand and abroad. These included collaborative agency work-up activities for the offshore and inshore patrol vessels in preparation for Output 4 activities including Operation CASTLE (Southern Ocean Patrol), Operation WASAWASA (in support of Fiji), Operation CALYPSO (south-west Pacific), Operation HARVE (in support of the Department of Conservation), Operations KAWAI and RAPUA (support to Ministry for Primary Industries) and Operation AWHINA (Kaikoura earthquake response).

Case Study: Protecting Fisheries

OPERATION CALYPSO

Operation CALYPSO assists New Zealand's Pacific Island neighbours by embarking local Fisheries Officers and patrolling their Exclusive Economic Zones.

The Offshore Patrol Vessel's ability to conduct boarding operations in higher sea states, with a larger effective range than the local patrol vessels, ensures that these Pacific Island nations can patrol to the edges of their Exclusive Economic Zones. In the second half of the deployment, the focus switched from Pacific Island nations to international waters, or high seas pockets to the north of New Zealand. Here, HMNZS *Otago's* boarding team joined with Fisheries Officers from the Ministry for Primary Industries (MPI) and boarded a record 37 vessels to both the east and west of the Kermadec Islands.

After a port visit to Nuku'alofa, HMNZS *Otago* set sail for the high seas. MPI Fisheries Officers were embarked and the ship wasted no time in heading to international waters. The ship's company was eager to get back to boarding operations, and keen to eclipse the previous record of 21 boardings. They were quickly into a target-rich environment.

"We settled into an efficient boarding routine, which commenced at first light and continued to sunset. Whilst at times quite tiring, this routine ensured we could board up to six vessels a day. As a result of these boardings, a large number of minor breaches and a few major breaches of licence conditions were found," said the ship's Executive Officer.

"These breaches were reported back to the vessel's flag states, which ordered the vessels out of the area and now the breaches will be further investigated."

The boarding teams and MPI Fisheries Officers were pleased that their work was having an immediate impact on ensuring the sustainability of the fish stocks in this area.

Outcomes

New Zealand's national interests are secured

Outputs

1. Navy capabilities prepared for joint operations and other tasks
- 4.1. Resource and Border Protection Operations
- 5.2. Military Operations that contribute to Regional Security



Output 2:

ARMY CAPABILITIES PREPARED FOR JOINT OPERATIONS

The purpose of this output is to generate Army capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

The New Zealand Army generates and prepares multi-purpose, combat-capable land forces and special operations forces that are optimised for joint land combat, but can also respond to a wide range of security events, such as regional crises and non-combat interagency operations and tasks in New Zealand.

The NZ Army's multi-purpose land forces are prepared to conduct complex warfighting in a mid-intensity setting. The Army does this by combining the effects of its command, command support, combat, combat support and combat service support capabilities as well as joint enabling capabilities. This combined arms approach enables land forces to be task organised to suit the requirements of different contingencies as they arise across a range of security events.

New Zealand special operations forces are prepared to operate in high-intensity environments. New Zealand special operations forces are internationally benchmarked and expand the government's options to achieve strategic goals.

The NZ Army maintains the capacity to deploy at Task Group level and contributes to New Zealand or coalition Joint Task Forces. As part of the joint approach, the Army generates the capability to integrate joint units and to command landing force(s) as part of a Joint Amphibious Task Force, in order to conduct national or coalition operations and exercises. Additionally, NZ Army maintains a high readiness capability that can quickly react to a regional crisis or disaster. This capability is generated through both Special Operations Forces and combined arms, task organised, land forces.

The NZ Army balances readiness for future contingencies with concurrent operational commitments as well as assisting the civil powers or other government agencies for non-combat operations. The following section provides an overview of the major activities that supported the generation of Army capabilities in the 2016/17 year.

Joint Land Combat Operational Responses

Within directed readiness levels, NZ Army maintained the ability to generate a Combined Arms Task Group (CATG) for joint land combat operations and a Special Operations Task Group for special operations globally and regionally.

NZ Army generated the directed land combat capability while sustaining multiple concurrent operations, including; Iraq (Operation MANAWA), Sinai (Operation FARAD), Antarctica (Operation ANTARCTICA) and others.

The largest NZ Army operational commitment was the generation and sustainment of Operation MANAWA, a training-focused, Building Partner Capacity Task Unit in Iraq. The Task Unit's purpose is to train the Iraqi Security Forces so they are able to create an independent self-sustaining military capability for the Government of Iraq and defend their population over the long term. The Task Unit is deployed alongside the Australian Defence Force and as part of the international coalition support to the Government of Iraq.

In addition, the Army also provided staff officers to the coalition headquarters in Baghdad and Kuwait, trainers to the Afghan Officer Academy, United Nations Observers to South Sudan and an engineering team to the Sinai Peninsula on a construction task to enhance security at the Multinational Force & Observers' South Camp.

New Zealand Operations and Tasks

The NZ Army maintained the ability to generate emergency response groups in the North and South Islands. Special operations forces maintained a counter terrorist task group (including Explosive Ordnance Disposal) on very short degrees of notice to support the NZ Police counter terrorism response.

During the period, land forces contributed to NZDF's earthquake response operations in North Canterbury and Kaikoura (Operation AWHINA) and the rural fires in Hawke's Bay and Christchurch (Operation VULCAN). In addition to normal Antarctic support the NZ Army also provided a building team for renovation and deconstruction tasks.

Force Generation

An Army is a large and complex organisation. Generating the force is a comprehensive management task. Three areas are highlighted; capability modernisation, training and interoperability.

Capability modernisation continued throughout the period to meet the Army 2020 strategy objective of *Enhanced Combat Capability*. This included the publishing of an updated future land operating concept, the establishment of a mission command training center to support the digitisation of the Army's tactical communications and the introduction of new capabilities to better equip New Zealand's soldiers. Specifically, new modular assault rifles and new Glock 17 pistols have been acquired and are replacing the Steyr rifle and SIG P226 Pistol. Weapon allocation and training has commenced with initial priority to units with the shortest response times.

Training takes two forms, individual and collective (team) training. The NZ Army's Training and Doctrine Command qualified individuals from their ab-initio training to advanced skills in all of Army's 42 trades. The 1st (NZ) Brigade and the Special Air Service Regiment conducted collective training to generate the land and special operations forces required to meet directed outputs.

Key New Zealand training activities included Exercises Sari Bair 16, Kiwi Koru 16, and pre-deployment training for Exercise Talisman Sabre 17 (Australia). Live field firing activities certified Combined Arms Task Group elements ability to conduct operations at the mid intensity level.

Land forces also participated in a number of multinational exercises throughout the year to enhance their capabilities and support NZDF's international engagement priorities. Activities included; High Readiness Company (with supporting enablers) participation in Exercise Hamel (Australia), elements of a Light Armoured Squadron exercising with the US Marine Corps on Exercise Steel Knight (US), as well as a reciprocal exercise, Jasco Black, in New Zealand. Exercises Taiaha Tombak (Malaysia) and Kiwi Walk (Singapore) supported the Five Power Defence Arrangements (FPDA).

In addition to multinational training, interoperability was enhanced with FPDA nations and with the American, British, Canadian and Australian Armies. As an effect-multiplier, interoperability mechanisms included a comprehensive collaboration program to leverage each nation's lessons, technological developments and the continued standardisation of procedures and digital protocols.

Regional Stabilisation Operations

During the reporting period, Land Combat forces remained prepared for regional stabilisation operations within directed readiness levels. Personnel continued to focus on building partner capacity across the region, including activities such as Exercise Tropic Castor, a deployment of a construction team into Vanuatu with the French Army New Caledonia to undertake Pacific resilience building tasks.

Case Study: Combat Preparedness



UNITS COMBINE TO HONE SKILLS IN SARI BAIR

Exercise Sari Bair saw units of 1 (NZ) Brigade come together under the lead of Queen Alexandra's Mounted Rifles (QAMR).

Sari Bair 16 was a Live Field Firing (LFF) exercise designed to conduct Combat Team (CT) LFF by day and night in preparation for Exercise Kiwi Koru 16. It consisted of a CT LFF attack by day and night, a CT LFF air mobile operation by day, a Combat Logistic Patrol and A Echelon LFF.

It also included all arms infantry minor tactics LFF for non combat troops, and Task Group Head Quarters practice command and control prior to Exercise Kiwi Koru 16.

Ex Sari Bair was synchronised with Land Operations Training Centre field training courses: the Royal New Zealand Army Logistics Regiment Platoon Command Course, Royal New Zealand Signals Detachment Command Course, and Combat Advance Course. 16 Field Regiment also incorporated Exercise Jasco Black 16-2, including United States Marine Corps personnel, into and around Sari Bair.

Canadian personnel on the Canada/ NZ Exchange Program (CANZEX), and one UK officer on Exercise Longlook were also part of the exercise. The task group headquarters, originally located in the Argo Valley of the Waiouru training area, then later from Helwan Camp, provided command and control for the operations being conducted by the CT and wider Combined Arms Task Group (CATG). Military Police supported the initial move to Waiouru.

The CATG was made up of elements from 16 Fd Regt, QAMR, 1 RNZIR, 2/1 RNZIR and 2 ER, supported by 1 NZ Sigs Regt, 2 and 3 CSS Battalions and Joint Operational Health Group, with further support from the RNZAF and members of the USMC, in New Zealand for Exercise Jasco Black.

Outcomes

New Zealand's national interests are secured

Outputs

1. Army capabilities prepared for joint operations

Output 3:

AIR FORCE CAPABILITIES PREPARED FOR JOINT OPERATIONS

The purpose of this output is to generate Air Force capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government. These capabilities include air surveillance and response, naval operations, security and stability operations, and projection and sustainment.

The NZDF manages the generation and sustainment of these capabilities so they can be called on to contribute to the protection and security of New Zealand and its people and interests at home and abroad. The following section provides an overview of the major activities that supported the generation of each capability during the 2016/17 year.

Air Surveillance and Response

- Sea Control Operations
- Surveillance and Response Operations

Orion aircraft and crews were prepared for sea control and surveillance operations. The capability was generated by conducting bombing training at Kaipara and participating in Exercises RIMPAC in Hawai'i and Bersama Shield 16 in Malaysia. These exercises focused on the sea control role. The air surveillance and response capability also supported the RNZN's Operation NEPTUNE, marking the 75th anniversary and Air Tattoo 17, marking the RNZAF's 80th. Surveillance missions were undertaken during Operation AWHINA to assist civil authorities in assessing damage from the Kaikoura earthquake. No. 5 Squadron participated in Exercise Bersama Shield 17 in May 2017 order to maintain sea control skills.

Naval Operations

Naval Air Operations

Seasprite helicopters and crews were prepared to conduct embarked operations from our aviation-capable Navy ships. The capability provides a range of roles from logistic support to combat operations as a weapons system of the Anzac Class frigate.

The capability was provided for three ships for the first time, with embarked flights on HMNZ Ships *Te Kaha*, *Canterbury* and *Otago*. This greatly improves NZDF's ability to provide Naval Aviation support to operations, although it is not expected that three flights will be embarked concurrently as a matter of routine, at least

in the near future. Air logistics support was provided during Operation AWHINA. No. 6 Squadron conducted Exercise Bluebird to develop mountain flying skills and a supply mission to Raoul Island to prove the second embarked flight.

Security and Stability Operations

Tactical Airlift

C-130 Hercules aircraft and crews were prepared for projection and sustainment of deployed forces, aeromedical evacuation, special operations, search and survivor assistance, and support to civilian organisations in stabilisation operations. Readiness training activities included Exercises Tacex and Skytrain in New Zealand and Exercise Red Flag to qualify crews in airborne operations. In addition, the last Hercules in the Life Extension Project returned to service, after four years, restoring the fleet to five. No. 40 Squadron Hercules Flight air-dropped supplies to Kaikoura for Operation AWHINA and featured in Air Tattoo 17, as well as conducting Operation ANTARCTICA.

Tactical Air Mobility

NH90 helicopters and crews were prepared to conduct air logistics, battlefield support, aero-medical evacuation and search and rescue missions. During Operation AWHINA, four aircraft deployed and the first step in operating from HMNZS *Canterbury* was proved. Light Utility Flight (A109) and Medium Utility Flight (NH90) both supported Operation AWHINA, while Exercise Blackbird provided mountain flying experience and Exercise Joint Waka continued development of amphibious capability. No. 3 Squadron Light and Medium Utility Flights featured in several demonstrations at Air Tattoo 17.

Projection and Sustainment

Strategic Airlift

Boeing 757 aircraft and crews, augmented by the C-130 Hercules, maintained a high level of availability. The Boeing Flight contributes to this Output by transporting personnel and freight to and from exercises and operations. No. 40 Squadron Boeing flight supported Operation ANTARCTICA and represented New Zealand at the Royal International Air Tattoo in London. The flight also provided VIP transport.





PROTECT AND PROJECT

Outputs 4 and 5

The NZDF aims to protect the sovereignty of New Zealand, and provide security and other services for New Zealanders. The result can be seen not only in military operations, but in other activities conducted to protect the country and support New Zealanders. The NZDF also contributes to New Zealand's security, stability and interests through regional and international operations that project our armed forces under the direction of the Government.

PROTECT

Output 4:

PROTECTION OF NEW ZEALAND AND NEW ZEALANDERS

The purpose of this output is to protect New Zealand's sovereignty and provide security and other services to New Zealanders. The NZDF does this in a number of ways, through resource and border protection operations, engagement with international partners and agencies, assisting the civil power and providing a public service, military assistance to the civil authorities, and supporting the community. The following section provides an overview of the major activities that supported the protection and security of New Zealand and its people and interests at home and abroad during the 2016/17 year.

Output 4.1

RESOURCE AND BORDER PROTECTION OPERATIONS

Having resource and border protection operations in place allows for two main effects: First, active awareness of the Government through monitoring New Zealand's territorial waters and maritime domain, and secondly, an improved ability for New Zealand civil authorities to respond to any illegal or unauthorised maritime activities.

The NZDF contributes to all-of-government efforts to secure New Zealand's sovereign and economic borders, detecting, reporting and responding to unlawful activities in the offshore maritime zones in accordance with the Government's direction.

The NZDF is the major contributor to the National Maritime Coordination Centre (the NMCC) for domestic security operations that protect the nation's sovereign and economic borders. The Government's area of interest also covers those nations for which New Zealand has constitutional obligations (Cook Islands, Niue and Tokelau), and the Southern Ocean and the Ross Dependency.

Headquarters Joint Forces New Zealand collaborated effectively with the NMCC - using information from our intelligence surveillance and reconnaissance assets and the Automatic Identification System - to enhance the compilation of New Zealand's maritime picture. This information enabled the NMCC to plan and coordinate patrol and surveillance missions to support the requirements of the Ministry for Primary Industries (MPI), the New Zealand Customs Service, Department of Conservation, Ministry of Foreign Affairs and Trade, the Meteorological Service, and GNS Science. Some 118 pre-planned air and maritime tasks were conducted, each contributing to the protection of New Zealand's borders and off-shore maritime interests.

A range of NZDF assets contributed to this output. Our Inshore Patrol Vessels worked with Customs to monitor pleasure craft arriving off the Northland coastline and supporting MPI through patrols of our inshore fisheries. Our A109 helicopters supported MPI patrols along the Wellington and the West Coast fisheries regions, particularly interested in paua fisheries. The maritime surveillance capabilities of the P-3K2 Orion and the Offshore Patrol Vessel fleet worked both together and alone to support MPI and our South Pacific partners in fisheries patrols around New Zealand, the South Pacific and the Southern Ocean. These patrols help to detect and deter illegal, unregulated and unreported fishing activities. The sealift and airlift capabilities of our Offshore Patrol Vessels and C-130 Hercules provided logistical support to the Department of Conservation for their domestic and offshore island operations.

In June 2016, the offshore patrol vessel HMNZS Otago sailed for a two-month fisheries patrol with port visits to Fiji, Tuvalu, Samoa and Tonga. HMNZS Otago was supported by a P-3K2 Orion during the operation.

The NZDF provides assistance to the New Zealand Antarctic Programme, supporting New Zealand's right of sovereignty over the Ross Dependency and providing a continuous presence on the Antarctic continent. This year the NZDF provided logistics personnel to staff the air cargo yards of the Joint Logistics Pool, and a 57-person-strong Army ship offload team to support the download of a US fuel resupply ship and the unloading

and loading of a container resupply ship. The Army conducted engineering tasks to improve infrastructure, including a major renovation of the vehicle maintenance facility at the United States McMurdo Station. Our C-130 Hercules and B757 aircraft conducted six airlift missions to Antarctica and provided standby medical evacuation support pre-positioned in Christchurch as a backup to the primary US-led evacuation option.

To support the Ministry of Foreign Affairs and Trade and New Zealand's obligation as a member of the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR), the NZDF makes the surveillance capabilities of the P-3K2 Orion and Offshore Patrol Vessels available to conduct patrols in the Southern Ocean to conduct compliance checks on licensed fishing vessels and to monitor for illegal, unreported and unregulated fishing.

During Operation Castle in November 2016 to January 2017, HMNZS Wellington conducted 13 boardings reporting minor breaches. Wellington returned to Auckland, but remained on standby to respond to incidents in the Southern Ocean during the season. A P-3K2 Orion and crew also conducted a surveillance and monitoring patrol during the reporting period.

Case Study: protecting national interests, conservation

ARMY ENGINEERS ON THE ICE

Fourteen engineers and three maintenance fitters deployed to McMurdo Station in Antarctica for six weeks earlier this year. Their primary tasks included raising the floor of the Vehicle Maintenance Facility, replacing the grout on the floor, demolishing three buildings, repairing an accommodation block and removing a steel water tank from the top of one of the buildings.

At the Vehicle Maintenance Facility, Army engineers and maintenance fitters cut welds under the floor on the support beams, using 75kg hydraulic jacks to raise the floor to the desired height and welded steel shims to hold it in place. They then removed more than 600m of grout on the floor with hand chisels and mechanical equipment and replaced it with a waterproof sealant.

“This task was our main effort as water would pool in the sunken surface of the workshop, creating a hazard once it freezes. It was quite a challenge for our personnel as the area under the floor is quite tight, with a maximum height of only 1.2 metres,” Lieutenant Gurney said.

“We have integrated well with the community here. The morale amongst the contingent has been high. Our members are happy to put in long hours when required and are keen to explore during their downtime.”

“Every task we undertake has been an opportunity to showcase our work ethic and professionalism. For example, we completed one of the tasks almost two weeks ahead of schedule. What’s most rewarding is the gratitude shown for the work of our personnel,” Lieutenant Gurney said.

Outcomes

New Zealand’s national interests are secured

Outputs

1. Navy capabilities prepared for joint operations and other tasks
- 4.1. Resource and border protection operations



Output 4.2

DEFENCE INTERNATIONAL ENGAGEMENT

Defence international engagement supports the Government's foreign policy objectives and maintains important relationships that bolster international peace and security, contributing to a rules-based international order.

Engaging with our partners builds confidence between nations, fostering alliances and partnerships to ensure co-operation, burden sharing, interoperability and information sharing, as well as access to equipment, technology, and training opportunities.

Regional engagement, often on a joint interagency or multinational basis, assists with capacity building, aid, and assistance programmes. This in turn helps shape the security environment, resulting in stability and resilience, economic growth and social wellbeing.

NZDF international engagement plays an important role in:

- Strengthening international relationships by maintaining formal and informal military-to-military engagement.
- Enhancing bilateral and multilateral alliances through participation in military exercises.
- Building relationships and enhancing transparency through senior officer visits to other nations.
- Developing confidence and building security through ship visits and military exercises.
- Contributing to all-of-government development and capacity building efforts, including support to regional nations' efforts to manage marine resources.
- Managing the Mutual Assistance Programme to enhance the defence and security capabilities of regional nations.
- Belonging to military and defence-related technology organisations, including AUSCANZUKUS², ABCA³, ASIC⁴, TTCP⁵, WPNS⁶, and MIC⁷.
- Providing in-country representation through Defence Attachés, defence advisors, and resident staff in operational headquarters.

International engagement achieves a number of effects:

- Military relationships provide for professional development and improved interoperability between the NZDF and the armed forces of other countries.
- Participation in exercises and related activities support the Government's foreign policy objectives, and maintain New Zealand's membership in key partnerships and arrangements.
- Visits by senior military officers help preserve our strong network of professional relationships and complement the Government's broader foreign policy objectives.
- Maritime deployments and ship visits help enhance New Zealand's reputation in line with Government's foreign policy and defence engagement priorities.
- The NZDF's regional engagement helps improve the resilience, economic and social wellbeing of Pacific Island nations.
- Through international engagement, our contribution to multilateral and bilateral confidence and security-building activities is highlighted.
- Contributes to the maintenance of peace and security through the assignment of Defence Attachés and defence advisors.
- Active participation in military fora, and relationships with scientific and technology organisations help support the provision of military capability and promotion of security.

NZDF's international engagement for the reporting period was dominated by the commemorations of the First World War and the 100th anniversary of the Battle of Messines, which was commemorated in Europe and in New Zealand. These events allowed all ranks of the NZDF to interact with a broad range of nations and Service personnel, developing professional links and understanding. This programme was heavily supported by the Defence Attaché and foreign affairs communities.

² Naval Command, Control, Communications and Computers (C4) interoperability organisation involving Australia, Canada, New Zealand, the United Kingdom and the United States.

³ American, British, Canadian, Australian, and New Zealand Armies Programme.

⁴ Air and Space Interoperability Council.

⁵ The Technical Cooperation Programme.

⁶ Western Pacific Naval Symposium.

⁷ Multinational Interoperability Council.

Output 4.3

ASSISTANCE TO THE CIVIL POWER AND PROVISION OF A PUBLIC SERVICE IN EMERGENCY SITUATIONS

In an emergency situation, specialist military capabilities and NZDF resources are available to save lives, prevent human suffering, and mitigate exceptional property damage. Similarly, the NZDF also aims to provide assistance for search and rescue, recovery operations, and maritime incidents. The effect of this output is that civil authorities are better positioned to maintain essential services, mitigate effects of disaster, and keep the public safe.

In addition to natural disasters and civil emergencies, NZDF high-readiness capabilities need to be on hand in case of asymmetric threats or other incidents that could impact on national services and public safety.

The NZDF is able to provide military assistance to national and local government and agencies by using its specialist military capabilities or equipment in situations that are beyond the capacity of those organisations to deal with, and where the NZDF is able to provide specialist capabilities not available elsewhere.

The NZDF holds counter-terrorist capabilities at very high readiness. This enables it to respond rapidly to requests to support the Police. This response includes the specialist NZDF Explosive Ordnance Squadron that can help Police when chemical, biological, radiological or improvised explosive device incidents threaten public safety or New Zealand's national interests. The NZDF responded to 151 requests for this capability during the year.

NZDF's Littoral Warfare Forces provided specialist capabilities, including side-scan sonar searches and diving operations, to augment the Police Dive Squad during challenging search and recovery operations.

The NZDF remained committed to the national search and rescue role throughout 2016/17 with on-call search and rescue coverage for maritime and land environments by both the Navy and Air Force. The New Zealand search and rescue area covers 30 million square kilometres and 15,134 kilometres of coastline. To meet this commitment, the NZDF maintained fixed-wing aircraft, rotary-wing aircraft, and ships on call 24/7, 365 days a year, to respond to requests from the Rescue Coordination Centre. The NZDF maintained the capacity to conduct land search and rescue activities with response groups in the North and South Islands.

Search and rescue activities by Air Force helicopters of No. 3 Squadron included two missions in the Mt Taranaki region. A Dutch tourist trapped at Syme Hut on Mt Taranaki in October 16 was rescued and flown to safety. In February 17 NH90s inserted search teams to locate and rescue a tourist reported missing in the region.

The fixed-wing search and rescue response remained primarily with the P-3K2 Orion with short periods of coverage by the C-130 Hercules fleet. Search and rescue activities by No. 5 Squadron P-3K2 Orions included searching for missing people in Tonga, Tarawa and the Chatham Islands. In July 2016, during Exercise RIMPAC in Hawaii, one P-3K2 was diverted from exercise tasks to support a search for a downed light aircraft with two personnel on board. The aircraft and survivors were located and recovered by a local helicopter.

The NZDF participated in 'table top' and preparedness exercises with other agencies to confirm the relevance of contingency plans to support civil authorities' lead response to major disasters or incidents, including responses to maritime mass rescue and oil spills.

Output 4.4

MILITARY ASSISTANCE TO CIVIL AUTHORITIES IN NON-EMERGENCY SITUATIONS

The NZDF provides short-term assistance to the Government and civil authorities in non-emergency situations for specific events or occasions. Requests for NZDF services may involve formal, pre-planned support to individual government departments and agencies, or one-off special occasions such as:

- Ceremonial activities for State events (e.g. ceremonial guards, military bands).
- Significant military anniversaries and nationally recognised commemorative events.
- Support for the Vice-Regal Household (the Governor-General's official residence in Wellington) through the provision of Aides-de-Camp.
- Air, sea and land transport for members of the Government and guests of the State.
- Support for significant commemorative events offshore.

The provisions of these military capabilities are balanced against the requirements of sustaining current military operations and deployment preparations for future missions and availability.

The NZDF, in conjunction with the Ministry of Culture and Heritage, provides personnel from the three Services to perform the duties of flag orderlies, ode readers, bugler and command for the daily Last Post ceremony at the National War Memorial in Wellington. The ceremony is in line with similar ceremonies at the Menin Gate, Belgium, and at the Arc de Triomphe, Paris, both of which have been held almost continuously since the 1920s, and at the Australian War Memorial, Canberra. This ceremony is performed daily at 1,700 hours since Anzac Day 2015 and will continue until 11 November 2018, the 100th anniversary of the end of the First World War. Members of the public can also read the Ode of Remembrance in Te Reo Māori and in English, and competent buglers can play the Last Post as the flag is lowered for the day.

Providing transport for members of the Government is an example of how this output supports Outcome One, 'New Zealand's Interests are Secured'. In September 2016, the NZDF provided airlift support, using both the Boeing 757 and C-130 Hercules aircraft, to transport the Prime Minister and his delegation to attend the East Asia Summit in Vientiane and then on to the Pacific Island Forum in Pohnpei. The provision of military airlift enabled the delegation to conduct their business in a timely manner. The aircraft returned to NZ carrying 75 passengers.

Output 4.5

DEFENCE SUPPORT TO THE COMMUNITY

NZDF support to the community promotes national identity, improves civil-military relations, provides visibility of the role of the armed forces, improves recruitment, enhances the community's trust in the NZDF, and preserves New Zealand's military history for future generations to enjoy. The Reserve Forces play a key role in delivering support to the community. With their local base and municipal engagement, the Reserve Forces offer an ideal means of representing the NZDF in the wider community, encouraging enlistment and supporting local government and civil contingencies.

The NZDF also provides support for the community through various youth development programmes, including:

- The Limited Service Volunteer programme.
- The Youth Life Skills programme, which provides support to over 20 Service Academies throughout New Zealand.
- Military-Style Activity Camps.
- Police community support programmes (e.g. Blue Light Trust activities).
- The New Zealand Cadet Force.

Additional community support is through:

- Support to the management of Service museums.
- Support for hui of significance.
- Support for significant national and community events.

PROJECT

Output 5:

The purpose of this output is to allow for operations that contribute to New Zealand's security, stability and interests through the employment of the armed forces at the direction of the Government.

The NZDF does this through conducting military operations that support rules-based international order and operations that contribute to regional security.

The following section provides an overview of the major operations that supported New Zealand's security, stability and interests during the 2016/17 year.

Output 5.1

MILITARY OPERATIONS IN SUPPORT OF A RULES-BASED INTERNATIONAL ORDER

This output represents the main use of Outputs 1–3. It provides for the employment of forces on operations, both independently and in conjunction with security partners, whether on an enduring basis, selected ongoing operations or for one-off named international operations.

When directed by the Government, this output contributes to global peace and security through military operations across the spectrum of conflict, from humanitarian assistance to combat, in conjunction with national and international partners, to achieve timely and decisive results in support of New Zealand's national interests.

New Zealand has been a member of the Multinational Force and Observers (MFO) in Sinai since its inception on 25 April 1982. The MFO supervises the implementation of the security provisions of the Egyptian-Israeli Treaty of Peace to prevent any violation of its terms. The primary tasks of the New Zealand contingent are to provide a transport section to operate and drive vehicles required by the force, and to provide a training and advisory team.

The NZDF has a long history of supporting United Nations missions around the world. The NZDF currently supports the United Nations Truce Supervision Organisation (UNTSO) which covers the five Middle Eastern countries of Israel, Lebanon, Syria, Jordan and Egypt. UNTSO seeks to ensure peace agreements or ceasefires are observed and to report any activities which violate these agreements or could threaten international peace and security in the region. Our personnel are also serving in Africa, contributing to the United Nations Mission in the Republic of South Sudan. This mission seeks to consolidate peace and security and strengthen the capacity of the Government of South Sudan to govern effectively and democratically and establish good relations with its neighbours.

NZDF personnel are involved in monitoring compliance and providing education about the Armistice Agreement between North and South Korea, and contribute to the 16-country United Nations Command and the Military Armistice Commission (UNCMAC). Monitoring compliance with the Armistice requires NZDF personnel to maintain an awareness of what is happening in their area of operations, and to know if activities breach the rules agreed between the two warring sides as laid out in the Armistice. Where it is identified that breaches occur by either side, NZDF personnel investigate them and report findings and recommendations to UNCMAC.

NZDF personnel are currently deployed to Taji Military Complex in Iraq, working alongside the Australian Defence Force as part of a Building Partner Capacity mission. The purpose of the mission is to train Iraqi Security Forces to be able to conduct combat operations at a trained level, as agreed by both the Iraqis and coalition trainers. It also aims to train them to a state where they are considered a self-sustaining capability for the Iraqi Government.

Training of the Iraqis covers a broad range of individual and organisational military skills, including basic weapons skills, individual and unit military skills to prepare for combat operations, as well as other skills such as medical support and logistics.

Operation TAKAPU is New Zealand's contribution to the 30-nation Combined Maritime Force and Naval Command. The objective is to conduct maritime security operations to combat piracy and the trafficking of people and drugs. A P-3K2 Orion and mission support staff are currently contributing to the protection of vital trading routes from the Arabian Gulf to the Republic of Seychelles.

The NZDF deployed a C-130 Hercules and personnel to the Middle East in June 2016. The six-month deployment will work as part of an Australian-led air mobility task group supporting coalition operations. The sustainment flights transport freight and personnel primarily to Iraq and Afghanistan. This mission contributes to the New Zealand and the international community's resolve to preserve security and stability in the region.

The NZDF continues to contribute to the security of Afghanistan by supporting their Government in developing the next generation of leaders in the national army (Operation RUA II). NZDF mentors provide support to the Afghan National Army Officer Academy. The training programme, which is led by the United Kingdom, includes both conventional warfighting skills and counter-insurgency training. It comprises 10 field training exercises, English language training, tactics, war studies, signals and information and communications technology training, and communication skills.

To support New Zealand's contribution to operations throughout the Middle East region, the NZDF maintains a National Support Element in the region to provide logistical support (Operation TROY). The NZDF also has staff deployed to various coalition headquarters in planning and liaison roles. These include: Headquarters Combined Maritime Force in Bahrain (Operation PUKEKO), Coalition Joint Forces Land Component Command in Iraq and Combined Joint Task Force Headquarters for the US-lead Operation INHERENT RESOLVE in Kuwait (Operation MOHUA) and the US Central Command.

Output 5.2

MILITARY OPERATIONS THAT CONTRIBUTE TO REGIONAL SECURITY

The NZDF has a role to play in enhancing the resilience of New Zealand's offshore interests, improving the levels of social and environmental wellbeing of regional nations. This can be military operations in response to regional security events, particularly those demanding humanitarian assistance and disaster relief, but also to evacuate New Zealand citizens from high-risk areas. The NZDF has a range of maritime, land and air capabilities available which enable New Zealand to act alone or in a combined response with regional partners.

The NZDF has continued to demonstrate the ability to respond urgently in support of our neighbours following natural disasters. Fortunately, there have not been any major tropical cyclones or other natural disasters to contend with in this reporting period. NZDF was able to establish its south west Pacific Campaign Plan while continuing to promote confidence building through activities like Exercise Tropic Castor, an Engineer led reconstruction exercise in Vanuatu. In April 2017, the inshore patrol vessel, HMNZS *Hawea* deployed to Fiji on a six month operation (Operation Wasawasa). HMNZS *Hawea* will reinforce the Republic of Fiji Military Force's (RFMF's) resource and border protection operations of the Fijian Exclusive Economic Zone and territorial waters, demonstrating New Zealand's continued engagement with the RFMF and support to the Republic of Fiji.

Case Study: Enhancing Maritime Security



OPERATION TAKAPU

The New Zealand Defence Force (NZDF) sent a 55-member contingent and an Air Force P-3K2 Orion surveillance aircraft to the Middle East as part of an international partnership against piracy and people and drug trafficking.

The team is helping patrol 3.2 million square miles of international water's in the Middle East to support the US-led Combined Maritime Forces (CMF).

"Through this mission, we will help protect vital trade routes around the Arabian Sea and the Indian Ocean and demonstrate once again our government's longstanding commitment to global security," Joint Forces New Zealand Commander Major General Tim Gall said.

The first rotation of personnel left for the Middle East on February 7, with the Orion following three days later.

The CMF is a 31-nation naval partnership that promotes maritime security and seeks to defeat terrorism and prevent piracy, and people and drug trafficking.

Mission Commander Wing Commander Daniel Hunt said the contingent was looking forward to working with New Zealand's CMF partners to keep the middle east seas safe.

"Everyone is upbeat, and with the world-class skills of our people I am confident we will be able to make a significant contribution," WGCDR Hunt said.

The contingent aimed to represent New Zealand in a positive light and provide a meaningful contribution to security in the Middle East, he said.

"We were valued because of our high mission success rate in 2015 and the unique capabilities of our Orion, so we will be striving to achieve that again."

The last NZDF Orion mission to support the CMF conducted 174 maritime surveillance flights involving about 1400 flying hours over 16 months to December 2015. It also helped the CMF locate and intercept vessels attempting to smuggle drugs worth nearly NZ\$500 million.

Outcomes

International order is supported

Outputs

5.1 Military operations in support of a rules- based international order

Case Study: Assisting Neighbours

OPERATION WASAWASA

Fijian Navy sailors gained valuable training on board Inshore Patrol Vessel HMNZS *Hawea*, when it was in Fiji to support the Government of Fiji. Patrol efforts targeted enforcement of the Fijian Exclusive Economic Zone as well as the Government of New Zealand continued engagement with Republic of Fiji Military Force and support of the Republic of Fiji.

Ensign Josefa Navakaroko, who was assigned to be the assistant Officer of the Watch during the recent patrol, said he would share what he has learnt with his colleagues in the Republic of Fiji Navy (RFN).

“I have gained so much knowledge and experience, especially in navigation. Technology on board is more advanced than we are familiar with but with more hands-on experience and time, we will surely be familiar with everything.”

He said HMNZS *Hawea*’s crew had been welcoming and shared their knowledge with RFN sailors.

Ordinary Seaman Jesoni Viliviliyama, a Seaman Gunner, helped board and inspect vessels during the patrol.

“I learnt the role of being a helmsman on board, driving the ship as it transited around Fiji. I also gained more specific trade training such as launching the sea boats and being a member of the boarding team,” he said.

“Compared to our ships, we do not carry out the same procedures so I have been learning a lot in this area.”

“The training is valuable and will help me in my career. I will take back to my Navy all that I have learnt and help improve how we do some evolutions because of the knowledge I gained.

Lieutenant Dave Luhrs, the Commanding Officer of *Hawea*, said up to four Fijian Navy sailors joined the ship for training every time patrols were conducted.

“The best way to learn skills in a maritime environment is through personal experience. That is why we have integrated the Fijian Navy sailors into the crew for all patrols. They have been involved with the boardings being conducted as part of a fully integrated team comprised of personnel from the Royal New Zealand Navy, RFN, Fiji Revenue and Customs Authority, Fiji’s Ministry of Fisheries and New Zealand’s Ministry for Primary Industries.”

Outcomes

International order is supported

Outputs

4.2 Defence International Engagement

5.2 Military operations that contribute to regional security



INFORM

OUTPUT 6

The NZDF has an obligation to inform the Government and provide advice in order to support decision-making on policy matters relating to defence. This needs to have a set purpose, be accurate, well presented, and be produced with consultation and in a timely manner.

The NZDF aims to provide the Government with situational awareness. Strategic military intelligence relating to areas of interest to New Zealand is collected, analysed, and disseminated. This is done in conjunction with other security sector agencies, to support their decision-making, and assist with planning and conducting military operations.

In addition, the NZDF offers ministerial support, providing services that enable ministers to fulfil their portfolio responsibilities. Services can take the form of reports, responses to ministerial or parliamentary questions, Official Information Act requests, and responses to requests from the Office of the Ombudsman.

VETERANS' AFFAIRS

OUTPUT 7

It is important to respect and honour our veterans by recognising their service to the nation, their sacrifices, their diversity, and their individual needs. The NZDF does this through Veterans' Affairs New Zealand, which provides professional services for veterans and their families. A variety of support is available, if and when it is required. It includes health and rehabilitation support, financial entitlements, and services to help veterans maintain their independence. Veterans' Affairs also maintains services cemeteries and provides policy advice to the Minister of Veterans' Affairs.

Supporting our Veterans through Veterans' Affairs

The Minister of Veterans' Affairs is responsible for decisions on policy relating to veterans.

The Chief of Defence Force, through Veterans' Affairs, provides veterans and their families with professional services and support.

The main departmental output Policy Advice and Other Services for Veterans, comprises three discrete outputs; Administration Services, Policy Advice, and Services and Payments to Veterans.

Collectively, these deliver:

- Services to the Minister of Veterans' Affairs, administration services to independent statutory boards and panels, and the administration of contracts for service for maintenance and development work carried out in Services cemeteries.
- Policy advice to support decision-making by Ministers on government policy matters relating to Veterans' Affairs; assessment, review and payment of veteran entitlements and benefits; the installation of ex-service memorials; and support through case management for veterans and their families.

The Non-Departmental Output comprises Development and Maintenance of Services Cemeteries.

The Non-Departmental Other Expenses include assistance to veterans to attend commemorations and revisit battlefields; and also ex-gratia payments and comprehensive medical assessments for Vietnam veterans.

Non-Departmental Benefits or Related Expenses cover veterans' support entitlements, assessments, treatment and rehabilitation, services provided by the Veterans' Independence Programme, and special annuities.

During 2016/17, Veterans' Affairs was bedding in a new IT system and operating model. This, and the Kaikoura earthquake in November 2016, had significant impact on service delivery.

Case Study: Supporting our Veterans

Veterans' Affairs deals with many cases over the course of each year. Some may be simple and straightforward, but others may be complex – and can be distressing. The stories below describe the sorts of situations where Veterans Affairs can provide help and support. Names in the case studies have been changed so clients are not identified.

Case 1:

Making life easier for an older veteran

David is a Second World War veteran, who lives with his wife in his own home.

He has a number of medical conditions – osteoarthritis in his hips and knees; noise-induced hearing loss and tinnitus; and also chronic obstructive pulmonary disease. All were related to his time in the armed forces.

David has received a disablement pension for a number of years. As he grew more frail, however, he needed a different sort of help – assistance with everyday living to make it possible for him to stay in his own home.

Veterans' Affairs was able to offer David a number of services through its Veterans' Independence Programme. He has been provided with a medical alarm so he can call for help if he should fall or become ill. Lawn mowing and gardening services help with the upkeep of his section. His house and gutters get cleaned regularly and he has help with housework. David also qualifies for podiatry services.

If David passes away before his wife, Veterans' Affairs is able to continue these services for up to 12 months after his death. His wife will also be entitled to a Surviving Spouses Pension.

Case 2:

Helping a younger veteran cope with post traumatic stress

Chris served in several peacekeeping missions. When he came to the attention of Veterans' Affairs, he was unemployed and struggling financially. He had a number of medical conditions, including post traumatic stress disorder (PTSD).

The Veterans' Support Act 2014 makes weekly income compensation available to those who qualify, and Chris

was encouraged to apply. Veterans Affairs' initially declined his application, as his GP had cleared him medically to work. The GP didn't know Chris suffered from PTSD as he never talked about it with anyone outside the NZDF.

His Veterans' Affairs case manager suggested it might help Chris to speak to No Duff, an organisation of younger veterans set up to support each other. This proved to be a good move and Chris had regular catch-ups with people in the organisation. They had shared the sorts of experiences he had been through during his service.

When Chris was able to provide some new information to Veterans' Affairs about his condition, his application for income compensation was reviewed. A decision was made to grant it.

Chris was overwhelmed when his case manager phoned to give him the good news. The regular payment allowed him to become more financially stable, and less stressed.

Chris initially felt guilty about receiving what he saw as a "hand out", but his case manager explained that it was being offered along with a rehabilitation plan. He needed to work towards goals set out in the plan. This suited him well, as he was keen to get back to work. It gave him breathing space, and encouragement and support to take the time to find a career that would be sustainable and that he would be able to manage.

Chris also agreed to seek the medical help he needed to deal with his PTSD. He was reluctant at first, but his case manager explained that he would be working with a psychologist who had experience in dealing with veterans like him, including some who had deployed to the same areas as he had.

An initial session was arranged, and these continued on a weekly basis. They have gone well and Chris is finding them helpful.

Veterans' Affairs has also funded an appointment for him with a careers specialist to help him to identify his career aspirations. This is motivating him to do more study, and to work in a role in which he can help people. He is now feeling positive about the future. There is more still to be done, and Veterans' Affairs is looking into what vocational rehabilitation can be funded to help him take the next steps in rebuilding his life.

HOW DO OUR PARTNERS RATE OUR PERFORMANCE?

What our partners think is important to us. We deliver a range of services that support New Zealanders through a number of government agencies. Effective working relationships help ensure that the right services are provided at the right time. The NZDF sends out a satisfaction survey questionnaire in order to assess the satisfaction of our governmental and other agency partners.

The survey examines agencies' expectations around performance, various measures of performance itself, and their general satisfaction concerning the service provided by NZDF.

RESULT: AGENCY SATISFACTION WITH NZDF WAS 88%.

In addition to the agency satisfaction surveys, the NZDF sends out ministerial satisfaction surveys to the Minister of Defence and the Minister of Veterans' Affairs. These surveys seek feedback to understand what works well, to drive improvements, and are also necessary for reporting purposes.

Overall, the performance of the NZDF concerning the quality of defence policy advice and support was rated 7 out of 10 by the Minister of Defence, and the quality of veterans policy advice and support was rated 9 out of 10 by the Minister of Veterans' Affairs.

In addition, the following acknowledgments were reported during the reporting period:

- Transparency International's Corruption Perceptions Survey quoted the New Zealand chair Suzanne Snively as praising the 'amazing' performance of the Defence Force, which was rated as least corrupt.
- Afghan Defence Minister Abdullah Habibi acknowledged the NZDF's contribution to the year-long training programme at the Afghan National Army Officer Academy graduation ceremony in 2016, and two NZDF personnel were awarded Chief Mentor Commendations for their work.
- On the fifth rotation of Task Group Taji, the combined New Zealand – Australia training force based in Iraq's Camp Taji, the Defence Minister, the Hon Mark Mitchell, said that New Zealanders can be proud of the achievements of the NZDF in the fight against ISIS. "We're a highly regarded part of the Coalition to defeat ISIS, and I am certain this latest rotation will build on that reputation", the Minister said.
- In relation to fisheries patrols conducted by the NZDF together with the Ministry for Primary Industries (MPI) and Pacific Islands countries, the Chief Operations Officer MPI, Andrew Coleman said "The operation is significant in terms of raising compliance levels within the Pacific region and also for the direct support that the Pacific nations receive. Although the number of breaches detected was disappointingly high, it showed the importance of 'at sea' boarding and inspection as a tool for raising compliance levels and of implementing measures that ultimately support the effective management of Pacific tuna fisheries."
- As patron of a Limited Service Volunteer (LSV) course in August 2016, the NZ Police Commissioner, Mike Bush said "Since it began, LSV has helped many young people increase their confidence and improve their job prospects. Police have enjoyed a long and positive relationship with LSV over the years, including the involvement of a Police mentor in each course since the programme began. We've even had some LSV participants go on to join Police after the course and I hope to see more from a diverse range of backgrounds join us in future." The LSV course is run by NZDF in conjunction with Work and Income New Zealand.

Part Three

ACCOUNTABILITY REPORTING

This section reports against NZDF's formal accountabilities as set out in 'Vote Defence Force' The Estimates Of Appropriations 2016/17. Links to this document can be found on the www.budget.govt.nz website.



3

DEFENCE FORCE OPERATIONS

PREPARED – PREPARED FOR MILITARY OPERATIONS AND OTHER TASKS

The generation of combat forces that can be deployed, sustained, recovered and regenerated at the scales of effort required to meet Government's strategic objectives.

Output 1:

NAVY CAPABILITIES PREPARED FOR JOINT OPERATIONS AND OTHER TASKS

This appropriation is limited to the generation of Naval capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 458,386 | Crown | 442,620 | 442,620 | 457,384 |
| 1,823 | Other | 1,869 | 1,323 | 1,323 |
| 460,209 | Total Revenue | 444,489 | 443,943 | 458,707 |
| | Expenses | | | |
| 459,495 | Excluding Re-measurements | 441,766 | 443,943 | 458,707 |
| 6,124 | Re-measurements | 4,049 | - | - |
| 465,619 | Total Expenses | 445,815 | 443,943 | 458,707 |
| (5,410) | Surplus/(Deficit) | (1,326) | - | - |

Performance Summary Output 1

| Capability | Role | Target for FY 16/17 | Actual 30 Jun 17 | Actual 30 Jun 16 |
|------------------------------------|---|---|------------------|------------------|
| Naval Combat. | Sea Control Operations. | 100% of Government directed readiness levels achieved and maintained. | 100% | 100% |
| | Maritime Interdiction Operations. | | 100% | 100% |
| Projection and Sustainment. | Amphibious Sealift. | | 100% | 100% |
| | Replenishment. | | 100% | 100% |
| | Littoral Warfare Support. | | 73% | 98% |
| Maritime Trade Operations. | Naval Guidance and Naval Supervision of Shipping. | | 100% | 100% |

Variance Reporting

Littoral Warfare Support

The majority of the Littoral Warfare Support capabilities remained available for employment at directed levels of readiness during the year. However, Quarter 4 saw an operational pause being enforced by the Seaworthiness Authority in order to ensure regulatory standards for management and certification of diving equipment were robust enough to support all NZDF

diving training and operations. The cessation of diving activities and subsequent review of the maintenance and certification process has resulted in a better understanding of the systemic capability challenges and enabled the development of short, medium and longer term solution options which are able to strengthen the sustainability of this Output into the future. The fragility of Mine Counter Measure capability set with the forecast de-commissioning of HMNZS Manawanui and the subsequent capability gap will be mitigated in the 2017/18 financial year.

Output 2:

ARMY CAPABILITIES PREPARED FOR JOINT OPERATIONS AND OTHER TASKS

This appropriation is limited to the generation of Army capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|------------|---------------------------|--------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 749,901 | Crown | 791,477 | 791,477 | 807,950 |
| 3,918 | Other | 1,785 | 883 | 883 |
| 753,819 | Total Revenue | 793,262 | 792,360 | 808,833 |
| | Expenses | | | |
| 738,582 | Excluding Re-measurements | 778,690 | 792,360 | 808,833 |
| 14,459 | Re-measurements | 9,900 | - | - |
| 753,041 | Total Expenses | 788,590 | 792,360 | 808,833 |
| 778 | Surplus/(Deficit) | 4,672 | - | - |

Performance Summary Output 2

| Capability | Role | Target for FY 16/17 | Actual 30 Jun 17 | Actual 30 Jun 16 |
|--------------|------------------------------------|---|------------------|------------------|
| Land Combat. | Special Operations. | 100% of Government directed readiness levels achieved and maintained. | 100% | 100% |
| | Regional Stabilisation Operations. | | 88% | 100% |
| | Land Combat Operations. | | 85% | 81% |

Variance Reporting

Regional Stabilisation Operations

Regional Stabilisation Operations achieved an overall readiness of 88% reduced from 100% reported last year. The variance recorded is due to NZ Army needing more time to prepare a sustained Light Task Group to the Directed Peacetime State of Readiness, while sustaining current operations, including Operations MANAWA (Iraq) and FARAD (Sinai). Quarter 3 also saw the High Readiness Task Unit (HRTU) reporting issues with personal protective equipment. This was immediately addressed and the HRTU returned to full capability.

Land Combat Operations

Land Combat Operations achieved an overall readiness of 85%, an increase of 4% over last reporting period. Shortage of staff and experience in some trades continue to impact on NZ Army's outputs. The NZ Army contribution to Operation MANAWA is to train Iraqi Security Forces. The task force is comprised of training teams delivering combat training, leadership and the law of armed conflict. The Army's commitment to the training-focused operation in Iraq and the generation of follow-on rotations in New Zealand means there is a heavier than usual requirement for senior instructors to both conduct and sustain the operation. In addition, the NZ Army continues to provide senior officers and non commissioned officers to support a variety of operations world-wide, increasing the risk due to the commitment of key rank and trades.

Output 3:

AIR FORCE CAPABILITIES PREPARED FOR JOINT OPERATIONS AND OTHER TASKS

This appropriation is limited to the generation of Air Force capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 734,960 | Crown | 741,979 | 741,979 | 768,322 |
| 4,550 | Other | 3,681 | 1,974 | 1,974 |
| 739,510 | Total Revenue | 745,660 | 743,953 | 770,296 |
| | Expenses | | | |
| 736,354 | Excluding Re-measurements | 742,601 | 743,953 | 770,296 |
| 7,060 | Re-measurements | 4,752 | - | - |
| 743,414 | Total Expenses | 747,353 | 743,953 | 770,296 |
| (3,904) | Surplus/(Deficit) | (1,693) | - | - |

Performance Summary Output 3

| Capability | Role | Target for FY 16/17 | Actual 30 Jun 17 | Actual 30 Jun 16 |
|------------------------------------|---------------------------------------|---|------------------|------------------|
| Air Surveillance and Response. | Sea Control Operations. | 100% of Government directed readiness levels achieved and maintained. | 75% | 70% |
| | Surveillance and Response Operations. | | 75% | 100% |
| Naval Operations. | Naval Air Operations. | | 100% | 92% |
| Security and Stability Operations. | Tactical Airlift. | | 90% | 100% |
| | Tactical Air Mobility. | | 100% | 95% |
| Projection and Sustainment. | Strategic Airlift. | | 100% | 100% |

Variance Reporting

Air Surveillance and Response Force

The Air Surveillance and Response Force commenced their 12-month commitment to Operation TAKAPU in March 2017. To sustain Operation TAKAPU, the number of crews maintained at the optimum trained state for sea control operations was reduced. The performance assessment of 75% demonstrates the capability remained available throughout the commitment to operation. A regeneration plan was implemented, culminating in Exercise RIMPAC 18, which will restore the capability to meet the performance target at the commencement of the new financial year. Surveillance capability in regional operations was limited similarly.

Tactical Airlift

A Hercules aircraft was deployed to the Middle East on Operation TAKAHE, which reduced the ability to maintain readiness for other deployments. There was no degradation in skills as the deployment experience maintained the capability, however, there would have been insufficient aircraft and crews to generate a second deployment. The performance assessment of 90% shows the effect of the deployment.

Output 4:

PROTECT – PROTECTION OF NEW ZEALAND AND NEW ZEALANDERS

The overarching purpose of this appropriation is to protect New Zealand's sovereignty and provide security and other services for New Zealanders.

Performance Summary Output 4 (2015/16 performance results in brackets)

| Deliverable | Target | Result |
|--|--------|---|
| The degree of satisfaction expressed by authorities requesting assistance in accordance with their actual programmes. | 100%. | 88% as measured by the common satisfaction survey (see page 56 for details). (88%) |
| Regular evaluation of significant issues, the capacity to react to requests for assistance and the provision of adequate support from the limited resources available. | Meet. | Met. (Met) Variance Note: Any issues regarding the capacity of NZDF to respond to requests for assistance are dealt with as they arise. No issues were noted in the 2016/17 year. |

Output 4.1**RESOURCE AND BORDER PROTECTION OPERATIONS**

This category is intended to provide sharing of information and provision of resources to support all-of-government efforts to protect New Zealand's borders and offshore maritime interests.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|--------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 182,790 | Crown | 182,308 | 182,308 | 188,651 |
| 897 | Other | 783 | 547 | 547 |
| 183,687 | Total Revenue | 183,091 | 182,855 | 189,198 |
| | Expenses | | | |
| 182,181 | Excluding Re-measurements | 178,861 | 182,855 | 189,198 |
| 3,010 | Re-measurements | 2,221 | - | - |
| 185,191 | Total Expenses | 181,082 | 182,855 | 189,198 |
| (1,504) | Surplus/(Deficit) | 2,009 | - | - |

Performance Summary Output 4.1 (2016 performance results in brackets)

| Deliverable | | Target | Performance |
|---------------------------------------|--|---|---|
| Information Sharing. | Government agencies are informed of activities occurring in the maritime zones of national interest to New Zealand. | 100% of information on maritime traffic, suitably adapted for civil needs, is passed to National Maritime Coordination Centre in an actionable timeframe so that government agencies are informed of activities going on in the maritime zones of national interest to New Zealand. | 100%. (100%) |
| Air Surveillance and Response. | Air surveillance capabilities are available for conduct of pre-planned missions in support of the National Maritime Coordination Centre. | Not less than 90% of the total agreed pre-planned air surveillance tasks requested by the National Maritime Coordination Centre met. | 96% of tasks achieved. (84%) Variance Note: Airframe serviceability affected the ability to meet all task requests. |

| Deliverable | Target | Performance |
|---|---|--|
| Air Surveillance and Response. | Air surveillance capabilities are available to meet the National Maritime Coordination Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand legislation. | Not less than 90% of the total air surveillance response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement (to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation) met. |
| 96% of tasks achieved. (100%) Variance Note: Airframe serviceability affected the ability to meet all task requests. | Naval Patrol and Response. | Naval patrol and surveillance capabilities are available for the conduct of pre-planned missions in support of the National Maritime Coordination Centre. |
| Not less than 90% of the total agreed pre-planned maritime tasks requested by the National Maritime Coordination Centre met. | 100% of pre-planned tasks achieved. (86%) | Naval Patrol and Response. |
| Naval patrol capabilities are available to meet National Maritime Control Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand legislation. | Not less than 90% of the total response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation met. | 100% of requested tasks achieved. (Not applicable – no response tasks requested). |

| Deliverable | | Target | Performance |
|---|--|--|---|
| <p>Exercising the right of sovereignty and the servicing of offshore island territories.</p> | <p>Support New Zealand's right of sovereignty over the Ross Dependency and continuous presence on the Antarctic continent.</p> | <p>Not less than 90% satisfaction of the NZDF's specialised military capabilities to support Antarctica New Zealand's operations in New Zealand and on the Antarctic continent, including contributions to the joint United States/New Zealand logistics pool to support New Zealand's right to sovereignty over the Ross Dependency and continuous presence on the Antarctic Continent.</p> | <p>100% of land based tasks were achieved. (100%)</p> <p>70% of flights tasked, seven out of eleven, were achieved. (55%)</p> <p>Variance Note: Two flights were cancelled due to weather conditions. One flight was cancelled due to aircraft having a higher priority task.</p> <p>Supporting information: To support Antarctic New Zealand's operations the following resources were provided:</p> <p>Flying hours:</p> <p>C-130: 108.8 hours.</p> <p>B757: 10.9 hours.</p> <p>Personnel days: 5,160 days.</p> <p>Cargo transported: 41,320 kgs South, 14,222 kgs North.</p> <p>Personnel transported: 147 passengers South, 109 passengers North.</p> |

| Deliverable | Target | Performance |
|-------------|--|--|
| | <p>Contribute to New Zealand's efforts to manage Antarctic marine living resources.</p> | <p>Not less than 90% satisfaction of the Ministry of Foreign Affairs and Trade for the NZDF's provision of specialised military capabilities to support New Zealand's efforts to manage marine living resources on and about the Antarctic continent.</p> |
| | | <p>100% as measured by the common satisfaction survey (see page 48 also for details). (88%)</p> <p>Supporting information: 100% of tasks achieved.</p> <ul style="list-style-type: none"> • 30 Nov 16: 1 X P-3K2 conducted a Southern Oceans patrol in the Convention of the Conservation of Antarctic Marine Living Resources (CCAMLR) areas from Invercargill to detect any illegal fishing activity prior to the season start on 1 Dec 16. Two vessels of interest were located and a further six vessels were identified in the area. • 28 Nov 16 - 29 Jan 17: HMNZS <i>Wellington</i> completed phase one of Operation CASTLE in the Southern Ocean in support of New Zealand's assurance as a signatory to CCAMLR. HMNZS <i>Wellington</i> conducted 13 boardings in the CCAMLR area of interest with minor breaches discovered. HMNZS <i>Wellington</i> returned alongside Devonport Naval Base on 21 Dec 16 and remained at 48 hours notice to move for the Southern Ocean response period through until 29 Jan 17. |
| | <p>Naval and air capabilities are available to conduct pre-planned missions to service the offshore islands and demonstrate New Zealand's sovereignty.</p> | <p>Not less than 90% of total pre-planned tasks requested by the National Maritime Coordination Centre to conduct pre-planned missions to service the offshore islands and demonstrate New Zealand's sovereignty met.</p> |
| | | <p>100% of pre-planned tasks achieved. (79%)</p> |

Output 4.2**DEFENCE INTERNATIONAL ENGAGEMENT**

This category is intended to support foreign policy objectives that strengthen security and avert conflict.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 94,256 | Crown | 97,324 | 97,324 | 97,886 |
| 351 | Other | 50 | 2,643 | 2,643 |
| 94,607 | Total Revenue | 97,374 | 99,967 | 100,529 |
| | Expenses | | | |
| 94,660 | Excluding Re-measurements | 97,499 | 99,967 | 100,529 |
| 3,163 | Re-measurements | 2,211 | - | - |
| 97,823 | Total Expenses | 99,710 | 99,967 | 100,529 |
| (3,216) | Surplus/(Deficit) | (2,336) | - | - |

Performance Summary Output 4.2 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|---|---|--|
| Capacity and Confidence Building Activities. | Maintain a contemporary network of multilateral and bilateral military relationships that advances the professional capacity of the NZDF. | <p>Ensure the programme of military engagement through a network of multilateral and bilateral military relationships provides for a range of interactions that informs Defence of emerging advances in military operations, provides for professional development, fosters interoperability and enhances the reputation of New Zealand and the NZDF.</p> <p>Met. (Met)</p> <p>Supporting information: The NZDF's commitments to Australia were met by maintaining a close defence partnership under the mechanism of Closer Defence Relations. The capacity of the two countries to act together was enhanced by combined activities such as Exercise Talisman Sabre, the Australian Army Skill at Arms Meeting (an international shooting competition), personnel exchanges, and professional training courses. The NZDF also continued to support the Five Power Defence Arrangements relationship with Australia, Singapore, Malaysia and the United Kingdom. The NZDF also provided support to regional fora, such as the Association of South-East Asian Nations (ASEAN) Defence Ministers Meeting-Plus and the Shangri-La Dialogue. The NZDF maintained close relationships with the United States and NATO alliance.</p> <p>The NZDF also completed an overseas visit and training programme that enhanced military-to-military relationships with security partners, provided for professional development and improved interoperability between the NZDF and the other armed forces of other countries.</p> |

| Deliverable | Target | Performance |
|---|--|---|
| | Support recognised alliance and other arrangements that foster peace and security. | 100% of exercises and related activities participated in that support the Government's foreign policy objectives through recognised alliance and other arrangements that foster peace and security. |
| Capacity and Confidence Building Activities. | The visit schedule for senior military officers maintains a strong network of professional relationships and complements the Government's broader foreign policy objectives. | 100% of approved Senior Officer visit programme that maintains a strong network of professional relationships and complements the Government's broader foreign policy objectives, completed. |
| | Maritime deployments and ship visits satisfies all-of-government efforts to enhance New Zealand's reputation. | 100% of maritime deployments, exercises with security partners and ship visits to selected nations completed that are cognisant of the Government's foreign policy and defence engagement priorities and satisfies all-of-government efforts to enhance New Zealand's reputation. |

100%. (100%)

Supporting information: The Master Activity Schedule includes participation in multinational readiness training activities that maintain New Zealand's membership of key alliances and arrangements (e.g. FPDA, RIMPAC 16 etc.) and enhance interoperability between military forces, and generated and maintained the required levels of capability to support the Government's foreign policy objectives.

100%. (100%)

Supporting information: The NZDF completed an overseas visit and training programme that enhanced military-to-military relationships with security partners, provided for professional development and improved interoperability between the NZDF and the armed forces of other countries. Visits included: Chief of Defence Force to the Philippines, France, Singapore, the United States, the Netherlands, Australia, Timor-Leste, the United Arab Emirates, the United Kingdom and Ireland; Chief of Navy to Tonga, the United States, Germany, Singapore, Indonesia, Turkey, China and Australia; Chief of Army to France, the United Kingdom, Australia, the United States, Vietnam, Belgium, Denmark and Fiji; Chief of Air Force to the United States, Australia, the United China, Malaysia, the Cook Islands and Singapore; and Commander Joint Forces New Zealand, to the United States, the Republic of Korea, New Caledonia, Antarctica, the United Kingdom, the United Arab Emirates, the Philippines, France and Japan.

100% (100%)

Supporting information: Maritime exercises undertaken in the period included Exercise Talisman Sabre (Australia) Crucible, Ocean Explorer, Bersama Shield, Operations TUI MOANA, ZODIAC, CALYPSO, RENDERSAFE and WASAWASA.

Ships' visits included Apia, Rarotonga, Brunei, Sihanoukville, Singapore, Jakarta, Manila, Da Nang, Sembawang, Melbourne, Hobart, Freemantle, Darwin, Cairns, Honiara, Nuku'alofa, Port Vila, Noumea, Hawaii, Sydney, Suva, Qingdao, Busan, Tokyo and Guam.

| Deliverable | Target | Performance |
|----------------------|---|---|
| Regional engagement. | 100% of regional activities participated in that contribute to the Government's foreign policy objectives to improve the resilience, economic and social wellbeing of Pacific Island nations. | <p>100%. (100%)</p> <p>Supporting information: The NZDF contributed to regional engagement by participating in security co-operative and confidence-building measures such as visits to, and exercises and activities with, and within, South Pacific countries. This included the provision of training and professional development of indigenous defence and security forces throughout the region, through the Mutual Assistance Programme (MAP).</p> <p>For example:</p> <ul style="list-style-type: none"> • Two MAP teams visiting Papua New Guinea. • One MAP team visiting the Cook Islands. • Two MAP sponsored activities in Tonga. • MAP talks conducted in Cook Islands, Fiji, Papua New Guinea, Tonga, Vanuatu, Indonesia, Timor-Leste and Vietnam. |

| Deliverable | Target | Performance |
|---|--|--|
| Capacity and Confidence Building Activities. | Contribute to confidence and security building measures. | <p>100% of multilateral and bilateral confidence and security building activities participated in that contribute to initiatives that prevent the proliferation of weapons of mass destruction and further New Zealand's foreign policy objectives, as directed by the Government.</p> <p>100%. (100%)</p> <p>Supporting information: Over the period 27 June – 08 July 2016, one NZDF officer attended the UN Woman Female Military Officers Course in the Ministry of National Defence Peacekeeping Centre, Beijing, China.</p> <p>Over the period 12 – 19 September 2016, one NZDF officer attended the United Nations Military Observers Course, in the Peacekeeping Centre, Beijing, China.</p> <p>Over the period 7 – 25 November 2016, one NZDF Officer attended a United Nations Military Expert on Mission course at the Humanitarian Peace Support School in Nairobi, Kenya.</p> <p>Over the period 14 – 25 November 2016, one NZDF representative attended the United Nations Staff Officers Course in the Peacekeeping Centre, Beijing, China.</p> <p>Over the period 20 – 25 November 2016, one NZDF Officer attended the UN Humanitarian Civil-Military Coord Course in Fiji.</p> <p>Over the period 1 – 16 December 2016, two training officers attended the Global Peace Operations Initiative (GPOI) Multi-National Planning meetings for Exercise Shanti Prayas III.</p> <p>Over the period 23 – 25 January 2017, one NZDF instructor attended the Multinational Humanitarian and Disaster Relief, table-top exercise conducted in Singapore at the Changi Command and Control Centre.</p> <p>Over the period 6 – 10 February 2017, three NZDF officers attended the Multi-National Maritime Information Systems Interoperability Meeting in San Diego, USA.</p> <p>Over the period 07 – 10 March 2017, one officer attended the GPOI Regional Peacekeeping Operations Capacity Building Working Group Meeting in Tokyo, Japan.</p> <p>Over the period of 17 March – 04 April 2017, three personnel attended the GPOI Multi-National Planning Exercise, Exercise Shanti Prayas III, at the Birendra Peace Operations Training Centre, Panchkhal, Nepal.</p> <p>Over the period 3 – 14 April 2017, one officer attended the United Nations Female Military Officers Course in New Delhi, India.</p> |

| Deliverable | Target | Performance |
|-------------|---|---|
| | | <p>Over the period 15-19 May 2017, one officer attended the Five Power Defence Arrangements (FPDA) Communications Working Group and Military Satellite Communications Conference in Singapore.</p> <p>Over the period 22 – 25 May 2017, one person attended the ASEAN Defence Minister’s Meeting-Plus (ADMM-Plus) Expert’s Working Group meeting in Lao, South east Asia.</p> |
| | <p>Contribute to the maintenance of peace and security through the assignment of Defence Attachés and Advisors.</p> | <p>100% of resident and non-resident Defence representation maintained through the assignment of Defence Attachés and Advisors in host nations and in accordance with the Government’s direction.</p> |
| | | <p>100%. (100%)</p> <p>Supporting information: See map on pages 18–19 for all Defence Attachés and Advisor posts.</p> |

| Deliverable | | Target | Performance |
|---|---|---|---|
| Defence Doctrine and Advances in Defence-Related Technology. | The NZDF remains well informed about defence doctrine and advances in defence-related technology. | 1. Maintaining active participation in specific military fora to enable the NZDF to remain well- informed about military doctrine, current military operations and future changes and exchanges of information related to the profession-of-arms. | <p>Met. (Met)</p> <p>Supporting information: Active participation in military fora is important for the Defence Force in ensuring interoperability, commonality, and standardisation with prospective coalition partners undertaking operations as part of a multinational force. The principal standardisation agreements the Defence Force participated in over the period were:</p> <ul style="list-style-type: none"> • Joint Forces – Multinational Interoperability Council to which New Zealand has been admitted as a full member and has attended Principals Meeting. • Air Force – Air and Space Interoperability Council, including the RNZAF chairing and hosting this year’s National Directors meeting. • Army – American, British, Canadian, Australian and New Zealand Interoperability Program. • Navy – Australia, Canada, New Zealand, United Kingdom, United States Agreement; Naval Command Control and Communications Board. • Defence Research and Development – The Technical Cooperation Program. • Command and Control – Australia/ New Zealand Command and Control Interoperability Board. • Logistics – Australia/New Zealand Operational Working Party. • Communications – Australia/New Zealand Communications Forum and Military Communications and Electronics Board. <p>Other joint multinational interoperability forums in which the Defence Force participates are: the Multinational Interoperability Programme, Quinquartite Combined Joint Warfare Conference, and the North Atlantic Treaty Organisation Allied Joint Operations Doctrine Working Group.</p> |

| Deliverable | Target | Performance |
|-------------|---|--|
| | <p>2. Maintaining a network of relationships with external scientific and technology organisations that contribute to the development of solutions for the Government, the Defence Force and New Zealand's national security agencies, and supports the provision of military capability and promotion of security.</p> | <p>Met. (Met)</p> <p>Supporting information: The NZDF Defence Technology Agency (DTA) provides support to NZDF by:</p> <ul style="list-style-type: none"> • Identifying and assessing future technologies that will enhance NZDF capability. • Providing scientific advice to support acquisitions and operations. • Developing technologies that provide new capabilities. • Enhancing and/or extending the lifespan of current capabilities. • Providing solutions to technical problems as they arise. <p>This work significantly leverages approximately 150 specific and identifiable collaborations (currently 143) in which DTA is engaged at any given time. These are mostly international and include industry, defence organisations, and non-defence organisations such as universities, Crown Research Institutes, and government laboratories.</p> |

Output 4.3:**ASSISTANCE TO THE CIVIL POWER AND PROVISION OF A PUBLIC SERVICE IN EMERGENCY SITUATIONS**

This category is intended to achieve the contribution to all-of-government efforts that provide for public safety, protection of national infrastructure, emergency response and recovery operations in order to satisfy critical humanitarian needs.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 69,362 | Crown | 70,008 | 70,008 | 71,338 |
| 349 | Other | 117 | 62 | 62 |
| 69,711 | Total Revenue | 70,125 | 70,070 | 71,400 |
| | Expenses | | | |
| 69,721 | Excluding Re-measurements | 73,978 | 70,070 | 71,400 |
| 1,581 | Re-measurements | 998 | - | - |
| 71,302 | Total Expenses | 74,976 | 70,070 | 71,400 |
| (1,591) | Surplus/(Deficit) | (4,851) | - | - |

Performance Summary Output 4.3 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|---|--|
| Conduct capability generation activities and inter-agency training to maintain the readiness of a national counter-terrorist capability. | 100% of the levels of operational capability and readiness as directed met to maintain the national counterterrorist capability. | 100%. (100%) Supporting information: Queen Alexandra's Mounted Rifles conducted inter-operability communications and mobility activities with NZ Police Special Tactics Group and Armed Offenders Squad. <ul style="list-style-type: none"> • Exercise Peka Peka – collective training activity. • Multiple EOD joint training activities with NZ Police. • Multiple Command and Control, skill based interoperability joint training activities with NZ Police. |
| Generate the necessary capabilities to deal with complex chemical, biological, radiological, explosives and improvised explosive device incidents, and maintain the readiness of the national response capability in support of the Police. | 100% of the levels of operational capability and readiness as directed met to generate the necessary capabilities to deal with complex chemical, biological, radiological, explosives and improvised explosive devices and maintain the readiness of the national response capability in support of the New Zealand Police. | 100%. (100%) Supporting information: Multiple Counter Improvised Explosive Device and Chemical, Biological, Radiological, Nuclear and Explosive training activities with international partners and NZ Police. |

| Deliverable | Target | Performance |
|--|---|--|
| Assist the Police maintain security when asymmetric incidents in the land and maritime environment threaten public safety or national interests. | 100% of agreed notice to move met for the specialised Counter-Terrorist Group to respond to New Zealand Police requests for assistance. | 100%. (No requests for assistance) NZDF supported NZ Police during major events in NZ. |
| Assist the Police to maintain security when chemical, biological, radiological, explosive and improvised explosive device incidents threaten public safety or national interests. | 100% of agreed notice to move met for the specialised Explosive Ordnance Disposal Squadron to respond to requests to assist New Zealand Police operations. | 100% of requests were responded to. (100%) Supporting information: 150 callouts and requests were undertaken on behalf of the NZ Police. |
| Provide specialised and complementary military capabilities to assist Police law enforcement operations. | Subject to the availability of resources, 100% of requests to assist New Zealand Police law enforcement operations is met. | 100% of requests were responded to. (100%) Supporting information: Operation RENOVATION – direct support provided to NZ Police search for items of interest at Kate Valley Landfill. Supplemented NZ Police in search and rescue activities on four occasions in Auckland (North Shore and Waitemata Harbour), Rotorua (Lake Rotoiti) and Tauranga Harbour. |
| Maintain contingency forces at camps and bases with the capacity to assist the civil power deal with major disasters. | 100% of contingency forces and specialised military capabilities available to assist the civil power deal with major disasters when not deployed on operations. | 100%. (100%) Supporting information: NZDF maintained an agreed level of personnel on camps/bases at all times as part of Contingency Plan Awhina. NZDF responded to requests for support in domestic disaster and emergency events as follows: Operation AWHINA 01/16 – support to Kaikoura earthquake. Operation AWHINA 01/17 – support to Canterbury Port Hill Fires. Operation AWHINA 02/17 – support to Auckland and Coromandel Floods (Tropical Cyclone Donna). Operation AWHINA 03/17 – Whanganui/Manawatu region (Tropical Cyclone Debbie). Operation AWHINA – support to Edgecombe flooding (Tropical Cyclone Cook). Completed preparedness exercises with Maritime New Zealand, New Zealand Search and Rescue, the Rescue Coordination Centre New Zealand, and the NZ Police as part of Exercise Rauora 2017 series of exercises. |

| Deliverable | Target | Performance |
|---|---|---|
| | | NZDF Explosive Ordnance Disposal has utilised numerous specialist detection capabilities and diagnostic tools in regarding threats made to MPs at Parliament over this period. |
| Availability of specialised military capabilities to assist the civil power to conduct search and rescue and recovery operations within New Zealand, the New Zealand Search and Rescue Region and adjacent regional search and rescue areas. | 100% of agreed notice to move met for specialised military capabilities to assist the civil power to conduct search and rescue and recovery operations within New Zealand and the maritime search and rescue and regional rescue coordination centre areas. | <p>Variance Note: NH90 Fleet was placed under a precautionary flight notice for 19 Days in April-May 2017 as a result of an engine failure on one airframe. Two requests for NH90 assistance were declined on the basis of their relative priority and availability of other assets to complete the tasking. Despite the precautionary notice, procedures were in place to enable an NH90 response for high priority tasking.</p> <p>All other platforms were available at 100%.</p> <p>Fixed Wing: 98.9%. (99.5%)</p> <p>Variance Note: This loss of cover comprises four days without an available aircraft over the period 10-14 October 2016 due to maintenance faults on P3K2 and C130.</p> |
| Availability of specialised military capabilities to assist the civil power to evacuate persons from high-risk environments in New Zealand. | 100% of contingency plans in place to assist the civil power to evacuate persons from high-risk environments in New Zealand. | 100%. (100%) |
| The NZDF has the capacity to assist the New Zealand Fire Service and Rural Fire Authority when incidents exceed the capabilities of the local resources. | 100% of requests met to augment the capacity of Fire and Emergency ⁸ to deal with a wide range of incidents involving safety of life, protection of property and related actions to mitigate the effects of fire. | <p>100% of requests were responded to. (100%)</p> <p>Supporting information: 236 requests were received where NZDF appliances attended a variety of incidents, including the following three requests of significance:</p> <p>Operation VULCAN – Hawkes Bay.</p> <p>Operation VULCAN/AWHINA – Port Hill fires.</p> <p>Operation VULCAN – Coromandel.</p> |
| Availability of specialised military capabilities to assist the civil power in response to a maritime disaster and mitigate the effects of degradation of the marine environment. | 100% of contingency plans in place to assist the civil power mitigate the effects of a maritime disaster and degradation of the marine environment. | <p>100%. (100%)</p> <p>Contingency Plan Awhina – supported New Zealand Search and Rescue and Regional Rescue Coordination Centre (NZSAR RCC) areas and NZ Police request for NZDF support to a maritime table-top exercise in Dunedin and Palmerston North.</p> |

8 Formerly NZ Fire Service and Rural Fire Authority

| Deliverable | Target | Performance |
|---|---|---|
| Availability of specialised military capabilities to conduct aeromedical evacuation and medical rescue at sea at the Government's direction. | 100% of contingency plans in place to assist the civil power within the agreed notice to move to conduct aeromedical evacuation and medical rescue at sea at the Government's direction. | 95% Aircraft availability. (100%) Variance note: The NH90 fleet was placed under a precautionary flight notice for 19 days in April - May 2017, as a result of an engine failure on one airframe. Despite the precautionary notice, procedures were in place to enable an NH90 response for high priority tasking. |
| The provision of specialised capabilities that augment the capacity of the Police to maintain law and order and public safety. | Subject to availability of resources, 100% of requests met for specialised military capabilities to assist New Zealand Police operations to maintain law and order and public safety. | 100%. (100%) |
| Assist the Department of Corrections maintain the integrity of prisons when normal custodial arrangements fail. | 100% of contingency plans in place to mobilise the Armed Forces to assist the Department of Corrections to maintain the integrity of prisons when normal custodial arrangements fail. | 100%. (100%) Nil response requested. |
| Enhance central and local governments' preparedness for responses to crises. | 100% of NZDF participation in central and local governments' planning and multi- agency training exercises to enhance the all-of-government preparedness for responses to community-scale crises. | 100%. (100%) Supporting information: Provided support to the following government agency preparedness exercises as part of Headquarters Joint Force New Zealand building agency capacity: Contingency Plan Pacific Relief: Supported the Ministry of Foreign Affairs and Trade annual pre-cyclone season training exercise. Contingency Plan Awhina: Supported NZSAR RCC and NZ Police. |

Output 4.4:**MILITARY ASSISTANCE TO CIVIL AUTHORITIES IN NON-EMERGENCY SITUATIONS**

This category is intended to provide periodic Defence Force resources, services and non-emergency assistance to the Government and civil authorities.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 34,549 | Crown | 33,752 | 33,752 | 34,453 |
| 169 | Other | 40 | - | - |
| 34,718 | Total Revenue | 33,792 | 33,752 | 34,453 |
| | Expenses | | | |
| 35,029 | Excluding Re-measurements | 35,591 | 33,752 | 34,453 |
| 1,508 | Re-measurements | 943 | - | - |
| 35,537 | Total Expenses | 36,534 | 33,752 | 34,453 |
| (1,819) | Surplus/(Deficit) | (2,742) | - | - |

Performance Summary Output 4.4 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|---|---|--|
| Support State ceremonial activities that represent the nation and meet the Government's direction. | 100% of requests met to provide military guards, suitably tailored for the occasion, military bands and associated support for State ceremonial activities that represent the nation and meet the Government's direction. | 100%. (100%) Supporting information: Military support (military guards, bands, gun saluting batteries and Māori cultural elements) for 10 state welcomes/wreath-layings for official Guest of Government visits to New Zealand, including visits by the Vice President of the United States, King and Queen of the Netherlands and the King of Jordan. Note: A Royal Guard of Honour was trained and ready for the President of Hungary's Ceremony of Welcome and wreath-laying but, due to the Kaikoura earthquake, these ceremonial events were cancelled. |

| Deliverable | Target | Performance |
|---|--|---|
| Support significant military anniversaries and nationally recognised commemorative events. | 100% of requests met to provide military guards, suitably tailored for the occasion, military bands and associated support for significant military anniversaries, nationally recognised commemorative events and significant commemorative events overseas. | <p>100%</p> <p>Supporting information: Military support to 10 domestic national commemorations and wreath-laying ceremonies.</p> <p>Military support to and delivery of, five major overseas commemorative events in four different countries. Some events included activities across multiple days.</p> <p>Battle of the Somme (France).</p> <p>Battle of Messines (Belgium).</p> <p>Bastille Day (Paris).</p> <p>Gallipoli (Turkey).</p> <p>Gallipoli (Belgium and France).</p> |
| Support the Vice-regal Household (The Governor General's Official Residence). | 100% of requests met to provide representational staff for the Vice-regal House, military guards, suitably tailored for the occasion, military bands, air, land and sea transport and associated support for Vice-regal activities. | <p>100%. (100%)</p> <p>Supporting information: Military support (Māori Culture Groups, military guards, and band) provided for six Credential Ceremonies at Government House.</p> |
| Support the Government's internal and external transportation requirements. | 100% of requests met to provide air, land and sea transport for members of the Government and guests of the State to support the Government's internal and external transportation requirements. | <p>Rotary Wing: 95%. (100%)</p> <p>Variance Note: NH90 Fleet was placed under a precautionary flight notice for 19 Days in April-May 2017 as a result of an engine failure on one airframe. Two requests for NH90 assistance were declined on the basis of their relative priority and availability of other assets to complete the tasking. Despite the precautionary notice procedures were in place to enable an NH90 response for high priority tasks.</p> <p>All other assets were available for 100% tasking.</p> |

Output 4.5:**DEFENCE SUPPORT TO THE COMMUNITY**

This category is intended to provide Defence Force resources for the betterment of the community at large and to inform the public's awareness of the proficiency and practice of the Armed Forces.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|--------------|---------------------------|------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 39,869 | Crown | 42,110 | 42,110 | 43,049 |
| 6,752 | Other | 7,060 | 2,187 | 21 |
| 46,621 | Total Revenue | 49,170 | 44,297 | 43,070 |
| | Expenses | | | |
| 42,797 | Excluding Re-measurements | 47,715 | 50,610 | 49,383 |
| 1,448 | Re-measurements | 853 | - | - |
| 44,245 | Total Expenses | 48,568 | 50,610 | 49,383 |
| 2,376 | Surplus/(Deficit) | 602 | (6,313) | (6,313) |

Performance Summary Output 4.5 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|---|---|
| The provision of leadership and skills training for the New Zealand Cadet Forces. | Not less than 90% satisfaction with the NZDF's provision of leadership and skills training for the New Zealand Cadet Forces to develop confident, responsible young citizens who are valued in their community, by providing them with safe, enjoyable and challenging opportunities. | Satisfaction with the provision of leadership and skills training for NZ Cadet Forces delivered during FY2016/17 was not measured. (Not measured) The following courses and activities were supported by the NZDF: <ul style="list-style-type: none"> • 19 officer and 21 cadet courses. • Eight regional or national competitions. • Four international exchanges. |
| The provision of support to government initiated youth development schemes and contributions to other sponsored youth life skills programmes. | Not less than 90% satisfaction of the Ministry of Social Development requirements for trainees selected for Limited Service Volunteer courses to gain life skills, develop core values, teamwork and trust, which boost self esteem and confidence. | 100%. (Not measured) Supporting information: Eight Limited Service Volunteer Courses: 797 enrolled, 81% completion rate. |
| | Not less than 90% satisfaction of the Ministry of Education Youth Life Skills programme requirements for Service Academies and the provision of leadership development and outdoors adventure-based training opportunities within high schools. | 100%. (Not measured) Supporting information: 21 Service Academies Courses: 1,377 entrants commenced, 98% completion rate. |

| Deliverable | Target | Performance |
|--|--|--|
| | Not less than 90% satisfaction of the Justice sector (Child, Youth and Family) to deliver the physical aspects of Military-Style Activity Camps and the development of discipline, routine and a sense of self-respect amongst the participants. | Not applicable – NZDF ceased contributing to this activity in January 2017. (Not measured) |
| | Not less than 90% satisfaction of the Police Blue Light Trust with NZDF services to enhance the Trust's youth development programmes nationwide. | 100%. (Not measured) Supporting information: 15 Life Skills activities for the Blue Light Trust – 274 enrolled, 97% completion rate. |
| Promotion of New Zealand's identity through the preservation of New Zealand's military history and culture for the enjoyment of future generations. | Not less than 90% satisfaction of Service Museum Trust Boards with NZDF support to Service Museums and the development, management and display of New Zealand's military history collections for the preservation of New Zealand's military history and culture for the enjoyment of future generations. | 73.3%. (66.7%) Variance Note: While an improvement from the 2015/16 result, more work is needed to achieve its targeted level of satisfaction. Supporting information: Facilities and services were provided to the National Army Museum at Waiouru, the Navy Museum at Devonport and the Air Force Museum at Wigram. |
| Support significant national and local events that benefit the community. | Not less than 90% satisfaction to support significant national and local events that benefit the community through the provision of services at hui of national significance, national and local events, including ceremonial and military displays that contribute to the success of the occasion, and enhances the identity and professional reputation of the NZDF. | Historically, the NZDF provides a wide range of support to communities, organisations and iwi across New Zealand, such as schools, the Breast Cancer Foundation, White Ribbon Campaign, Service Clubs, local and national events involving displays and parades. The NZDF maintains a close relationship with the Returned Services Association and supports ex-service personnel and their families. (Not measured) |

Output 5:**PROJECT – OPERATIONS CONTRIBUTING TO NEW ZEALAND'S SECURITY, STABILITY AND INTERESTS**

The overarching purpose of this appropriation is the employment of New Zealand's Armed Forces overseas at the Government's direction.

| Deliverable | Target | Result |
|--|---------------|---------------|
| Achieve the conduct of military operations and other tasks that support the Government's strategic interests. | Meet | Met. (Met) |
| Enhance all-of-government capacity to respond to regional crises. | Meet | Met. (Met) |

Output 5.1**MILITARY OPERATIONS IN SUPPORT OF A RULES-BASED INTERNATIONAL ORDER**

This category is intended to achieve the provision of operations that contribute to New Zealand's security, stability and interests.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|--------------------------------|-----------------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 40,983 | Crown | 55,030 | 55,030 | 39,674 |
| 386 | Other | - | 267 | 482 |
| 41,369 | Total Revenue | 55,030 | 55,297 | 40,156 |
| | Expenses | | | |
| 37,543 | Excluding Re-measurements | 52,316 | 55,297 | 40,156 |
| 1 | Re-measurements | - | - | - |
| 37,544 | Total Expenses | 52,316 | 55,297 | 40,156 |
| 3,825 | Surplus/(Deficit) | 2,714 | - | - |

Performance Summary Output 5.1 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|--|---|
| Contribute to United Nations Missions. | <p>Maintain the Government's military commitment to the following missions:</p> <p>United Nations Truce Supervision Organization (UNTSO) – Middle East.</p> <p>United Nations Mission in the Republic of South Sudan (UNMISS) – South Sudan.</p> | Met. (Met) |
| Lead and contribute to regional contingency military operations, as listed. | <p>Maintain the Government's military commitment to the following operations:</p> <p>No mandated operations.</p> | Not applicable, as no mandated operations. (Not applicable, as no mandated operations.) |
| Contribute military forces for contingencies in the rest of the world. | <p>Maintain the Government's military commitment to the following operations:</p> <p>Multinational Force and Observers*(MFO) (Sinai) United Nations Command Military Armistice Commission (UNCMAC) – (Republic of Korea).</p> <p>Operation SPEAK (CENTCOM, Florida, USA).</p> <p>Operation RUA II (Afghanistan).</p> <p>Operation TROY (Middle East) Operation TAKAPU (Gulf of Aden) Operation PUKEKO (Middle East) Operation MOHUA (Middle East) Operation MANAWA (Iraq) Operation TEAL (Middle East).</p> <p>Operation TAKEHE** (Middle East).</p> | Met. (Met) |

* NZDF deployed 35 additional personnel to the Sinai for six months to support construction of additional security fencing at MFO South Camp, Sharm El Sheik.

** NZDF deployed a C130 Hercules and 26 personnel to the Middle East for six weeks in support of the 633 Air Mobility Task Group.

Output 5.2

MILITARY OPERATIONS THAT CONTRIBUTE TO REGIONAL SECURITY

This category is intended to achieve the provision of operations that contribute to New Zealand's security, stability and interests.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|---------|---------------------------|---------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 8,455 | Crown | 458 | 458 | 458 |
| - | Other | 180 | 45 | 45 |
| 8,455 | Total Revenue | 638 | 503 | 503 |
| | Expenses | | | |
| 8,482 | Excluding Re-measurements | 174 | 503 | 503 |
| 330 | Re-measurements | - | - | - |
| 8,812 | Total Expenses | 174 | 503 | 503 |
| (357) | Surplus/(Deficit) | 464 | - | - |

Performance Summary Output 5.2 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|---|---|---|
| Contribute to the Government's response capacity to regional and major crisis. | 100% of the agreed notice to move met for a Joint Task Force comprising relevant force elements and military capabilities to assist with regional humanitarian assistance and disaster relief missions when directed. | 100%. (100%) Supporting information: South West Pacific Campaign Plan – range of confidence building measures undertaken with partners in the Pacific to support national resilience, e.g., Exercise Tropic Castor. |
| Support all-of-government efforts to secure the safety of New Zealand citizens and approved nationals and assist with the evacuation of persons from high-risk areas in times of crisis. | 100% of the agreed notice to move met for strategic airlift and sealift capabilities to assist with regional non-combatant evacuation operations when not deployed on military operations elsewhere. | 100%. (100%) Supporting information: Participated in a range of New Zealand government planning activities to support whole of government response to regional contingencies. NZDF Force elements conducted a range of Force generation activities to maintain military capacity to respond to regional contingencies, e.g., Exercises RIMPAC, Talisman Sabre, and Croix Du Sud. |

| Deliverable | Target | Performance |
|---|---|--------------|
| Support all-of-government efforts to assist a host nation to restore law and order and provide for the immediate humanitarian needs of the population. | 100% of the agreed notice to move met for a specialised, high readiness task group, with integral airlift and/or sealift capabilities available to act independently or with regional security partners to assist regional nations restore law and order and provide immediate aid to the population. | 100%. (100%) |

Output 6:

INFORM – ADVICE TO THE GOVERNMENT

The overarching purpose of this appropriation is to support Ministers in discharging their portfolio responsibilities.

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the provision of policy advice, situational awareness and support to Ministers in discharging their portfolio responsibilities.

Performance Summary Output 6 (2016 performance results in brackets)

| Deliverable | Target | Result |
|--|--------|------------|
| The supply of high quality individual products, as shown in the tables below. | Meet. | Met. (Met) |

Output 6.1:

POLICY ADVICE

This category is intended to achieve the provision of accurate, timely and responsive policy advice.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|---------|---------------------------|------------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 3,520 | Crown | 3,657 | 3,657 | 3,664 |
| 26 | Other | 4 | - | - |
| 3,546 | Total Revenue | 3,661 | 3,657 | 3,664 |
| | Expenses | | | |
| 3,616 | Excluding Re-measurements | 3,507 | 3,657 | 3,664 |
| 37 | Re-measurements | 26 | - | - |
| 3,653 | Total Expenses | 3,533 | 3,657 | 3,664 |
| (107) | Surplus/(Deficit) | 128 | - | - |

Performance Summary Output 6.1 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|-----------------------------|---|
| The provision of policy advice to the Government and contribution to policy advice led by other agencies is accurate, timely and offers practical and cost-effective approaches to fulfil the Government's defence priorities. | Meet. | Met. (Met) Supporting information: 30 Submissions to Cabinet (seven NZDF only, 15 MoD/NZDF). 391 reports and briefings to Ministers (226 NZDF only, 30 VANZ, 135 MoD/NZDF). |
| The satisfaction of the Minister of Defence with the policy advice service, as per the common satisfaction survey. | At least 90%. | The Minister of Defence provided a satisfaction rating of 70% for the provision of policy advice and policy support from defence agencies. (70%) |
| Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90%. (The higher the robustness score, the stronger the methodical quality of the completed assessment.) | At least an average of 70%. | NZIER conducted an independent review of 23 papers from NZDF and the Ministry of Defence using a standardised policy advice quality framework. NZDF and the Ministry of Defence received a collective rating of 76.1%. Whilst this is a similar score to the previous year, there was a marked improvement in the number of papers that scored above 7.5/10 (39%), compared to 25% in 2016. This is equal to the best performing of the other large government agencies (75%). |
| The total cost per hour of producing policy advice outputs. | At most \$150. | \$76. (\$86) |

Output 6.2:

SITUATIONAL AWARENESS

This category is intended to achieve the provision of timely, accurate and high-quality intelligence support.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|---------|---------------------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 3,795 | Crown | 4,004 | 4,004 | 4,020 |
| 19 | Other | 7 | - | - |
| 3,814 | Total Revenue | 4,011 | 4,004 | 4,020 |
| | Expenses | | | |
| 3,589 | Excluding Re-measurements | 3,983 | 4,004 | 4,020 |
| 78 | Re-measurements | 49 | - | - |
| 3,667 | Total Expenses | 4,032 | 4,004 | 4,020 |
| 147 | Surplus/(Deficit) | (21) | - | - |

Performance Summary Output 6.2 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|---|--|
| Situational Awareness. Ensure that the national intelligence community is provided with timely, accurate and high quality intelligence support and advice on matters of foreign defence interest, in accordance with the Government's priorities to support the NZDF, policy and wider security operations. | Not less than 90% of timely and high-quality reports that meet expectations to inform the Government of matters of foreign defence interest and support the Government's decision-making processes. | 80%. (100%) Supporting information: 15 Military Threat Assessments. 112 other reports and assessments. |

Output 6.3:**SUPPORTING MINISTERS**

This category is intended to achieve the provision of quality and timely support to Ministers.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|--------------------------------|-----------------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| | Revenue | | | |
| 1,810 | Crown | 1,918 | 1,918 | 1,921 |
| 7 | Other | 3 | - | - |
| 1,817 | Total Revenue | 1,921 | 1,918 | 1,921 |
| | Expenses | | | |
| 1,861 | Excluding Re-measurements | 1,828 | 1,918 | 1,921 |
| 30 | Re-measurements | 20 | - | - |
| 1,891 | Total Expenses | 1,848 | 1,918 | 1,921 |
| (74) | Surplus/(Deficit) | 73 | - | - |

Performance Summary Output 6.3 (2016 performance results in brackets)

| Deliverable | Target | Performance |
|--|---|---|
| Ensure that Ministers are provided with quality and timely advice and support that enable them to lead the Defence Force and Veterans' Affairs New Zealand. | Not less than 90% of timely, accurate and high-quality advice that meets expectations to support Ministers of Defence and Veterans' Affairs portfolios and meets legislative obligations. | *100% of required time frames met. (100%) One statutory report to Parliament (Annual Report for 2015/16 financial year). 361 select committee questions (responses to all questions provided). 121 Ministerials (responses to all questions provided. See below for timeliness measurement). 98 (including five Oral) Parliamentary Questions (responses to all questions provided. See below for timeliness measurement). 1,112 Official Information Act requests (responses to all requests provided). |

As noted under Output 6.1, the Minister's assessment of the quality of the advice provided was 70%.

*This includes any pieces of work that were delivered within a formally agreed time extension.

NZDF – Capital Expenditure Permanent Legislation Authority (PLA)

| 2016 | | 2017 | | |
|----------------|-------------------------------|----------------|----------------------|------------------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| 1,632 | Land | 406 | - | - |
| 322,917 | Property, Plant and Equipment | 397,308 | 511,374 | 745,954 |
| 10,369 | Intangibles | 10,632 | 8,626 | 1,000 |
| 334,918 | Appropriation total | 408,346 | 520,000 | 746,954 |

The approval of the 2016 Defence White Paper and the Defence Capability Plan 2016 provided an updated indicative Defence Force capital expenditure track. The original budget of \$747m for the delivery of Defence capability projects anticipated significant expenditure in respect of:

- Anzac Frigate Systems Upgrade Project – part of the mid-life upgrade of the NZDF frigates to maintain their surveillance, combat and self-defence capabilities.
- Maritime Sustainment Capability – Replacement of the HMNZS *Endeavour* naval tanker with a new ice-strengthened and winterised, tanker.
- Network Enabled Army – 12 year, four tranche programme of work encompassing a number of information and communication technologies and business change initiatives.
- Estate and infrastructure - Investment in the regeneration of Defence estate and infrastructure.

Performance Summary Capital Expenditure Permanent Legislation Authority (PLA)

| Deliverable | Target | Performance |
|---|---------------|--------------------|
| Expenditure supports the delivery of the department's output performance measures in accordance with the Defence Mid-Point Rebalancing Review for 2016/17. | Achieve. | Achieved. |

Defence has experienced some delays in delivery of a number of capital projects and actual expenditure for the 2016/17 year is \$408m. These delays are predominately driven by the robust approval and due diligence process Defence projects are subject to, and the complexity associated with interdependencies.

DEPARTMENTAL OTHER EXPENSES

RECOVERY FROM THE NOVEMBER 2016 HURUNUI/KAIKOURA EARTHQUAKES

This appropriation is limited to writing off, or making good, damage to departmental assets and re-establishing departmental operations following the 14 November 2016 Hurunui/Kaikoura earthquakes and aftershocks.

| 2016 | | 2017 | | |
|---------|---------------|---------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| - | Appropriation | 16,154 | 16,524 | - |

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the writing off, or making good, damage of departmental assets affected by the 14 November 2016 Hurunui/Kaikoura earthquakes and aftershocks.

Performance Summary

| Deliverable | Target | Result |
|---|----------|-----------|
| Expenditure reflects the cost of writing off, or making good, damage to departmental assets following the November 2016 Hurunui/Kaikoura earthquakes. | Achieve. | Achieved. |

Output 7:

VETERANS' AFFAIRS

The overarching purpose of this appropriation is to provide policy advice and other support to Ministers in discharging their policy decision-making and other portfolio responsibilities, and the provision of services and payments to veterans.

Performance Summary Output 7 (2016 performance results in brackets)

| Deliverable | Target | Result |
|--|--------|---|
| The degree of satisfaction expressed by veterans requesting assistance. | Meet. | Met. (Met) The results of the annual Veterans Survey showed a 93% satisfactory rating by veterans. |
| Regular evaluation of significant issues, the capacity to react to requests for assistance and the provision of adequate support from the resources available. | Meet. | Met. (Achieved) Supplementary information: This result cannot be expressed as a percentage. The assessment that it has been achieved is based on an aggregation of the following metrics: <ul style="list-style-type: none"> A rating of 9 out of 10 from the Minister for Veterans' Affairs on policy advice to support decision making; 100% achievement of fortnightly and monthly pension payments to around 12,000 veterans and their spouses, partners, dependents, and children; and A 33% increase in the number of Veterans' Independence Programme recipients in the reporting year. |

DEPARTMENTAL OUTPUT EXPENSES

Output 7.1:

ADMINISTRATION SERVICES

This category is intended to achieve the provision of services to Ministers to enable them to discharge their portfolio (other than policy decision making) responsibilities, the coordination of commemorations, the provision of administration services to relevant boards and committees and the administration of contracts for service for maintenance and development work carried out in Services Cemeteries.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|---------|---------------------------|---------|---------------|-----------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 3,104 | Crown | 2,812 | 2,812 | 2,812 |
| - | Other | 1 | - | - |
| 3,104 | Total Revenue | 2,813 | 2,812 | 2,812 |
| | Expenses | | | |
| 3,203 | Excluding Re-measurements | 1,445 | 2,812 | 2,812 |
| - | Re-measurements | - | - | - |
| 3,203 | Total Expenses | 1,445 | 2,812 | 2,812 |
| (99) | Surplus/(Deficit) | 1,368 | - | - |

Performance Summary Output 7.1 (2016 performance results in brackets)

| Policy Advice and Other Services to Veterans | | |
|--|--|--------------|
| Deliverable | Target | Performance |
| Provide Ministerial Servicing and Support. | 95% of replies to requests within 20 days of receipt of requests, if not otherwise agreed. | 95%. (93%) |
| | 95% of responses accepted without substantive amendment. | 98%. (100%) |
| Provide Administration to Boards and Panels as set out in the Veterans' Support Act 2014. | 100% of arrangements and actions meet Board/ Panel requirements. | 100%. (100%) |
| Administration of maintenance and development agreements and contracts for Services Cemeteries. | 100% of contracts to be current, legally correct and clearly specify maintenance and development requirements. | 100%. (100%) |

| Policy Advice and Other Services to Veterans | | |
|--|---|---|
| Deliverable | Target | Performance |
| | 100% of Services Cemeteries will have maintenance agreements specifying the maintenance standards in place. | Maintenance agreements were sent to 100% of those responsible for services cemeteries (91% had confirmed the agreements by the end of the reporting year). (100%) |
| Assist with the coordination of New Zealand's participation in commemoration's of significant military anniversaries. | Participation will be delivered in accordance with agreed parameters and budget. | Met. (100%) |

Output 7.2:

POLICY ADVICE

This category is intended to achieve the provision of policy to the Minister on Government policy matters relating to Veterans' Affairs.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|-----------|---------------------------|-------------|---------------|------------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 221 | Crown | 222 | 222 | 222 |
| - | Other | 1 | - | - |
| 221 | Total Revenue | 223 | 222 | 222 |
| | Expenses | | | |
| 182 | Excluding Re-measurements | 249 | 222 | 222 |
| - | Re-measurements | - | - | - |
| 182 | Total Expenses | 249 | 222 | 222 |
| 39 | Surplus/(Deficit) | (26) | - | - |

Performance Summary Output 7.2 (2016 performance results in brackets)

| Policy Advice and Other Services to Veterans | | |
|--|--|--------------------|
| Deliverable | Target | Performance |
| Policy Advice. This category is intended to achieve the provision of policy advice to the Minister to support decision making by the Minister on government policy matters relating to Veterans' Affairs. | 95% of replies to requests within 20 days of receipt of requests, if not otherwise specified. | 100%. (97%) |
| | 95% of first drafts of all policy products presented to the Minister will be accepted. | 100%. (100%) |
| | 80% satisfaction of the Minister of Veterans' Affairs with the policy advice service, as per the common satisfaction survey. | 90%. (90%) |

Output 7.3:**SERVICES AND PAYMENTS TO VETERANS**

This category is intended to achieve the assessment, determination, review and appeal of entitlements and services to veterans and their spouses, children and dependants, provided for under the Veterans' Support Act 2014 (including grand-parented entitlements and services under the repealed War Pensions Act 1954 where claims were lodged before 7 December 2014), the assessment and review of eligibility of burial in Service Cemeteries for eligible veterans and their families.

Revenue and Expenditure Summary

| 2016 | | 2017 | | |
|----------------|---------------------------|----------------|----------------------|------------------|
| Actual | | Actual | Supplementary | Main |
| (\$000) | | (\$000) | Estimates | Estimates |
| | | | (\$000) | (\$000) |
| | Revenue | | | |
| 6,609 | Crown | 6,147 | 6,147 | 6,147 |
| 293 | Other | 12 | - | - |
| 6,902 | Total Revenue | 6,159 | 6,147 | 6,147 |
| | Expenses | | | |
| 6,762 | Excluding Re-measurements | 6,516 | 6,147 | 6,147 |
| - | Re-measurements | - | - | - |
| 6,762 | Total Expenses | 6,516 | 6,147 | 6,147 |
| 140 | Surplus/(Deficit) | (357) | - | - |

Performance Summary Output 7.3 (2016 performance results in brackets)

| Policy Advice and Other Services to Veterans | | |
|--|--|---|
| Deliverable | Target | Performance |
| Services and Payments to Veterans – Assessments and Reviews. This category is intended to achieve the provision of assessment and review of entitlements and services under the Veterans' Support Act 2014. | In 100% of cases, where all information is provided, Veterans' Affairs will make a decision on the claim within 30 working days of it being received. | The percentage of claims which met the 30-day target was in the range of 88 - 92%. (99%) Given the impact on business of a changed IT system & associated new operating model, and the effect of the Kaikoura earthquake, this figure is an estimate only. |
| | 100% of all amendments to and replacement of Statements of Principles are reported to the Veterans' Health Advisory Panel for consideration and decisions by the Minister of Veterans' Affairs regarding adoption. | 100%. (100%) |
| | 100% of reviews will be completed within three months of receipt. | 59%. (100%) Factors which impacted on performance included a changed IT system and associated new operating model, and the effect of the Kaikoura earthquake. |
| Provide Ex-Service Memorial Plaques and Headstones for Eligible Veterans. | 99% of ex-service memorials will be factually correct, meet technical specifications as contracted and be correctly installed. | 100%. (100%) |
| | In 90% of cases, where correct documentation has been supplied with the application, an ex-service memorial will be manufactured and installed within four months of receipt of the order. | 94%. (91%) |
| Provide Case Management. | Within five working days of accepting a veteran's claim for entitlements Veterans' Affairs must appoint a Case Manager in 95% of cases. | 87%. (98%) Factors which impacted on performance included a changed IT system and associated new operating model, and the affect of the Kaikoura earthquake. |
| | Combined annual Veteran Survey rating of Case Management interaction either excellent, very good or good is at least 70%. | 95%. (97%) |
| | Within 13 weeks after Veterans' Affairs accepts a veteran's claim for entitlements under Scheme One or Two, Veterans' Affairs in association with the Rehabilitation Advisor must determine whether the veteran is likely to need social or vocational rehabilitation and if so prepare a rehabilitation plan in consultation with the veteran in 100% of cases. | 100%. (97%) |

| Policy Advice and Other Services to Veterans | | |
|--|--|-------------------------------|
| Deliverable | Target | Performance |
| Deal with Enquiries: | 80% of calls will be resolved on first contact. | 92% over nine months. (85%) |
| | 100% of calls will be resolved within five working days. | 100% over nine months. (100%) |

Further Reporting Requirements

Section 211 of the Veterans' Support Act 2014 requires that NZDF report on the timeliness of its decision making and the implementation of systems and procedures.

- All systems and processes are in place to enable Veterans' Affairs, the Defence Force and the Accident Compensation Commission to exercise their respective responsibilities under the Act.
- The period of time on average that Veterans' Affairs took to make decisions in the 2016/17 financial year was 31.8 days.

NON-DEPARTMENTAL OUTPUT EXPENSES

Output 7.4

DEVELOPMENT AND MAINTENANCE OF SERVICES CEMETERIES

This appropriation is limited to the development and maintenance of Services Cemeteries.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 401 | Appropriation | 643 | 746 | 746 |

What is intended to be achieved with this appropriation

This appropriation is intended to develop and maintain Services Cemeteries.

Performance Summary Output 7.4 (2016 performance results in brackets)

| Development and Maintenance of Services Cemeteries | | |
|---|--|---|
| Deliverable | Target | Performance |
| The annual maintenance and development works plan outcomes are achieved. | 95% of annual maintenance and development works plan outcomes are achieved. | 99%. (61%) |
| Services Cemeteries will be maintained to the satisfaction of Local Authorities, the RSA and veterans' representative organisations. | Services Cemeteries will be maintained to the satisfaction of Local Authorities, the RSA and veterans' representative organisations. | Met. (a formal audit of service cemeteries was not conducted in 2015/2016). 90 cemeteries have been visited over the last 12 months by representatives of the RNZRSA, the Veterans' Affairs contracted installer and VA Staff. |

NON-DEPARTMENTAL OTHER EXPENSES**Output 7.5****DEBT WRITE-DOWN FOR BENEFITS AND OTHER UNREQUITED EXPENSES**

This appropriation is limited to the write-down of Crown debtors administered by the NZDF due to the requirement to comply with Crown accounting policies and generally accepted accounting principles.

| 2016 | | 2017 | | |
|----------------|---------------|----------------|--------------------------------|-----------------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 247 | Appropriation | 9 | 250 | 250 |

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the write-down of Crown debtors by the NZDF.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

Output 7.6

EX GRATIA PAYMENTS AND COMPREHENSIVE MEDICAL ASSESSMENTS FOR VIETNAM VETERANS

This appropriation is limited to the ex-gratia payments to Vietnam veterans and/or members of their family with accepted conditions and for the annual comprehensive medical assessments for Vietnam veterans.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 82 | Appropriation | 63 | 925 | 1,100 |

What is intended to be achieved with this appropriation

As well as achieving the payment of ex gratia payments and annual comprehensive medical assessments to eligible Vietnam veterans, it is intended that this appropriation will also allow for the monitoring of trends in the health and wellbeing of up to 3,000 Vietnam veterans and their families with the associated provision of this information to veterans.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation is less than \$5 million.

Output 7.7

FAIR VALUE WRITE DOWN ON VETERAN TRUST LOANS AND THIRTY-YEAR ENDOWMENT

This appropriation is limited to providing for the fair value write down on the Veteran Trust loans and the thirty-year endowment to the Vietnam Veterans and their Families Trust.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| - | Appropriation | - | 203 | 203 |

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the fair value write down on the thirty-year endowment of the Vietnam Veterans and their Families Trust.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

Output 7.8**VETERAN ASSISTANCE TO ATTEND COMMEMORATIONS OR REVISIT BATTLEFIELDS**

This appropriation is limited to providing assistance to veterans to enable them to attend official commemorations or revisit battlefields.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| - | Appropriation | 95 | 400 | 400 |

What is intended to be achieved with this appropriation

This appropriation was established in 2016/17 and is intended to achieve increased support for veterans to attend commemorations and revisit battlefields over the Vietnam 50th anniversary commemoration period and beyond.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation for a non-departmental other expense is less than \$5 million.

Output 7.9**GRANT PAYMENTS TO NON-GOVERNMENT ORGANISATIONS**

This appropriation is limited to grant payments to Non-Government Organisations in support of veterans and their families.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| - | Appropriation | 175 | 175 | - |

What is intended to be achieved with this appropriation

This appropriation is intended to grant payments to Non-Government Organisations to support veterans and their families.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation for a non-departmental other expense is less than \$5 million.

NON-DEPARTMENTAL BENEFITS OR RELATED EXPENSES

Output 7.10

ASSESSMENTS, TREATMENT AND REHABILITATION

This appropriation is limited to the payment of the costs of assessments, treatment (including associated aids and appliances), and social and vocational rehabilitation provided for under the Veterans' Support Act 2014 and associated regulations.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 7,801 | Appropriation | 9,678 | 13,050 | 15,125 |

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the on-going payment of veteran assessments, treatment and rehabilitation with a strong focus on social and vocational rehabilitation to help younger veterans remain in or return to employment if they are able to do so.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

Output 7.11

SPECIAL ANNUITIES

This appropriation is limited to the payment of the costs of assessments, treatment (including associated aids and appliances), and social and vocational rehabilitation provided for under the Veterans' Support Act 2014 and associated regulations.

This appropriation is exempt from performance reporting due to an exemption under 15D(2)(b) (ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

This appropriation is limited to paying annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 37 | Appropriation | 88 | 89 | 38 |

What is intended to be achieved with this appropriation

This appropriation currently recognises a special contribution by the recipients to New Zealand society.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

Output 7.12**VETERANS' INDEPENDENCE PROGRAMME**

This appropriation is limited to provision of services and support to assist eligible veterans and their families. This appropriation commenced on 7 December 2015.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 3,909 | Appropriation | 7,458 | 9,191 | 11,763 |

What is Intended to be Achieved with this Appropriation

This appropriation currently supports over 2,000 veterans to allow them to live independently in their homes.

Performance Summary Output 7.12 (2016 performance results in brackets)

| Veterans' Independence Programme | | |
|--|---|--|
| Deliverable | Target | Performance |
| Services and support provided will be to the satisfaction of the veteran and/or the veteran's family. | 100% of the services provided will be to the satisfaction of the veteran and/or the veteran's family. | The satisfaction of veterans and/or their families with the services and support provided through the Veterans' Independence Programme (VIP) was included in the Veterans satisfaction survey in 2016/17. 94% of Veterans rated satisfaction with VIP services as excellent or good. (97%) |
| Contracted services and support complies with agreed contract standards. | 100% of contracted services and support complies with agreed contract standards. | 100%. (100%) |

Output 7.13**VETERANS' SUPPORT ENTITLEMENT**

This appropriation is limited to the payment of entitlements (in respect of the impairment or death of veterans determined to be related to qualifying operational service occurring at any time, or qualifying routine service occurring prior to 1 April 1974) to veterans and their spouses, partners, children and dependents under the Veterans' Support Act 2014 and associated regulations and to the provision for grand-parented loans of the differential between 3% or 5% Rehabilitation Loan rate and the current market rate as set out in the Rehabilitation Act 1941 for interest concessions on land and buildings.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 106,698 | Appropriation | 97,824 | 99,440 | 97,856 |

What is intended to be achieved with this appropriation

This appropriation currently supports over 13,000 veterans, surviving spouses, partners and children through the on going payment of entitlements under the Veterans' Support Act 2014 and associated regulations.

End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

APPROPRIATIONS CEASED**NON DEPARTMENTAL OUTPUT EXPENSES SUPPORT FOR VETERANS AND THEIR FAMILIES**

This appropriation is limited to providing for the support of veterans and their families. This includes: the provision of counselling for veterans' families; the reimbursement of out of pocket expenses for veterans' children with specified conditions; additional support for veterans to facilitate them remaining in their own homes for as long as possible; additional support to facilitate veterans' rehabilitation; support for the surviving partner after the death of the veteran and for the provision of grants to Non-Government Organisations for the support of veterans and their families.

| 2016 | | 2017 | | |
|---------|---------------|---------|-------------------------|----------------|
| Actual | | Actual | Supplementary Estimates | Main Estimates |
| (\$000) | | (\$000) | (\$000) | (\$000) |
| 540 | Appropriation | - | - | - |

Part Four

NZDF STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE



4

Statement of Expenses and Capital Expenditure against Appropriations for the year ended 30 June 2017

| | | 2017 | | | | | |
|---|--------------|------------------------|---------------------------------|--|-------------------------|--|--|
| Actual Expenditure Including Re-measurements (\$000) | Output Class | Main Estimates (\$000) | Supplementary Estimates (\$000) | Actual Expenditure Excluding Re-measurements (\$000) | Re-measurements (\$000) | Actual Expenditure Including Re-measurements (\$000) | |
| Departmental Output Appropriations | | | | | | | |
| 465,619 | 1 | 458,707 | 443,943 | 441,766 | 4,049 | 445,815 | |
| | | | | | | | |
| 753,041 | 2 | 808,833 | 792,360 | 778,690 | 9,900 | 788,590 | |
| | | | | | | | |
| 743,414 | 3 | 770,296 | 743,953 | 742,601 | 4,752 | 747,353 | |
| | | | | | | | |
| 1,962,074 | | 2,037,836 | 1,980,256 | 1,963,057 | 18,701 | 1,981,758 | |
| Multi-Category Appropriations Protection of New Zealand and New Zealanders MCA | | | | | | | |
| 185,191 | 4.1 | 189,198 | 182,855 | 178,861 | 2,221 | 181,082 | |
| 97,823 | 4.2 | 100,529 | 99,967 | 97,499 | 2,211 | 99,710 | |
| 71,302 | 4.3 | 71,400 | 70,070 | 73,978 | 998 | 74,976 | |
| 36,537 | 4.4 | 34,453 | 33,752 | 35,591 | 943 | 36,534 | |
| 44,245 | 4.5 | 49,383 | 50,610 | 47,715 | 853 | 48,568 | |
| 435,098 | | 444,963 | 437,254 | 433,644 | 7,226 | 440,870 | |
| Operations Contributing to New Zealand's Security, Stability and Interests MCA | | | | | | | |
| 37,544 | 5.1 | 40,156 | 55,297 | 52,316 | - | 52,316 | |
| 8,812 | 5.2 | 503 | 503 | 174 | - | 174 | |
| 46,356 | | 40,659 | 55,800 | 52,490 | - | 52,490 | |

| 2016 | | 2017 | | | | |
|--|--|------------------------|---------------------------------|--|-------------------------|--|
| Actual Expenditure Including Re-measurements (\$000) | Output Class | Main Estimates (\$000) | Supplementary Estimates (\$000) | Actual Expenditure Excluding Re-measurements (\$000) | Re-measurements (\$000) | Actual Expenditure Including Re-measurements (\$000) |
| Advice to the Government MCA | | | | | | |
| 3,653 | 6.1 Policy Advice | 3,664 | 3,657 | 3,507 | 26 | 3,533 |
| 3,667 | 6.2 Situational Awareness | 4,020 | 4,004 | 3,983 | 49 | 4,032 |
| 1,891 | 6.3 Supporting Ministers | 1,921 | 1,918 | 1,828 | 20 | 1,848 |
| 9,211 | Appropriation total | 9,605 | 9,579 | 9,318 | 95 | 9,413 |
| Policy Advice and Other Services for Veterans MCA | | | | | | |
| 3,203 | 7.1 Administration Services | 2,812 | 2,812 | 1,445 | - | 1,445 |
| 182 | 7.2 Policy Advice | 222 | 222 | 249 | - | 249 |
| 6,762 | 7.3 Services and Payments to Veterans | 6,147 | 6,147 | 6,516 | - | 6,516 |
| 10,147 | Appropriation total | 9,181 | 9,181 | 8,210 | - | 8,210 |
| - | Recovery from the November 2016 Hurunui/Kaikoura Earthquakes | - | 16,524 | 16,154 | - | 16,154 |
| - | Total Departmental Other Expenditure | - | 16,524 | 16,154 | - | 16,154 |
| 2,462,886 | Total Departmental Appropriations | 2,542,244 | 2,508,594 | 2,482,873 | 26,022 | 2,508,895 |
| Capital Expenditure – PLA New Zealand Defence Force | | | | | | |
| 1,632 | Land | - | - | 406 | - | 406 |
| 322,917 | Property, Plant and Equipment | 745,954 | 511,374 | 397,308 | - | 397,308 |
| 10,369 | Intangibles | 1,000 | 8,626 | 10,632 | - | 10,632 |
| 334,918 | Total Departmental Capital Expenditure | 746,954 | 520,000 | 408,346 | - | 408,346 |
| Non-Departmental Output Classes | | | | | | |
| 401 | 7.4 Development & Maintenance of Services Cemeteries | 746 | 746 | 643 | - | 643 |
| 540 | Support for Veterans and their Families | - | - | - | - | - |
| 941 | Total Non-Departmental Expenses | 746 | 746 | 643 | - | 643 |

| 2016 | | 2017 | | | | |
|---|---|------------------------|---------------------------------|--|-------------------------|--|
| Actual Expenditure Including Re-measurements (\$000) | Output Class | Main Estimates (\$000) | Supplementary Estimates (\$000) | Actual Expenditure Excluding Re-measurements (\$000) | Re-measurements (\$000) | Actual Expenditure Including Re-measurements (\$000) |
| Other Expenses to be Incurred by the Crown | | | | | | |
| 247 | 7.5 | 250 | 250 | 9 | - | 9 |
| | | | | | | |
| 82 | 7.6 | 1,100 | 925 | 63 | - | 63 |
| - | 7.7 | 203 | 203 | - | - | - |
| - | 7.8 | 400 | 400 | 95 | - | 95 |
| - | 7.9 | - | 175 | 175 | - | 175 |
| 329 | | 1,953 | 1,953 | 342 | - | 342 |
| Benefits and Other Unrequited Expenses to be Incurred by the Crown | | | | | | |
| 7,801 | 7.10 | 15,125 | 13,050 | 9,678 | - | 9,678 |
| 37 | 7.11 | 38 | 89 | 88 | - | 88 |
| 3,909 | 7.12 | 11,763 | 9,191 | 7,458 | - | 7,458 |
| 106,698 | 7.13 | 97,856 | 99,440 | 97,824 | - | 97,824 |
| 118,445 | | 124,782 | 121,770 | 115,048 | - | 115,048 |
| 119,715 | Total Non-Departmental Expenditure | 127,481 | 124,469 | 116,033 | - | 116,033 |

The performance reporting for the above Statement of Expenses and Capital expenditure can be found* in the NZDF's annual report. *except where exempt under the Public Finance Act 1989

- Output 7.5 – Debt write-down for Benefits and Other Unrequited Expenses
- Output 7.6 – Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans
- Output 7.7 – Fair value Write-down on Veteran Trust Loans and Thirty Year Endowment.
- Output 7.8 – Veteran Assistance to Attend Commemorations and Revisit Battlefields
- Output 7.9 – Grant Payments to Non-Government Organisations
- Output 7.10 – Assessments, Treatments and Rehabilitation
- Output 7.11 – Special Annuities
- Output 7.13 – Veterans Support Entitlement

| 2016 | | 2017 | |
|---------|-------------------|--------------------------|------------------------|
| Actuals | | Actual Capital Injection | Approved Appropriation |
| (\$000) | | (\$000) | (\$000) |
| 1,000 | Capital injection | 81,072 | 81,072 |

Statement of Capital Injections without, or in excess of, authority for the year ended 30 June 2017

The NZDF has not received any capital injections during the year without, or in excess of, authority. (2016 : Nil)

Statement of Expenses and Capital Expenditure incurred without, or in excess of, appropriation or other authority

The NZDF has not incurred any expenses or capital expenditure during the year without, or in excess of, authority. (2016 : Nil)

Part Five

NZDF FINANCIAL STATEMENTS



5

STATEMENT OF RESPONSIBILITY

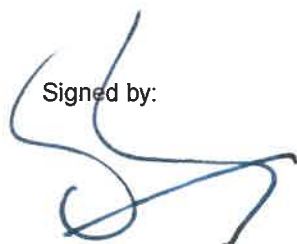
I am responsible, as Chief Executive of the New Zealand Defence Force, for:

- the preparation of the New Zealand Defence Force'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 New Zealand Defence Force 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 New Zealand Defence Force, whether or not that information is included in the annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the New Zealand Defence Force as at 30 June 2017 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the New Zealand Defence Force as at 30 June 2018 and its operations for the year ending on that date.

Signed by:



T.J. Keating
Lieutenant General
Chief of Defence Force

2 October 2017

INDEPENDENT AUDITOR'S REPORT

To the readers of the New Zealand Defence Force's annual report for the year ended 30 June 2017

The Auditor-General is the auditor of the New Zealand Defence Force (the Defence Force) and group. The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Defence Force and group on pages 112 to 159, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and statement of contingent assets as at 30 June 2017, the statement of comprehensive revenue and expense, 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;
- the performance information prepared by the Defence Force for the year ended 30 June 2017 on pages 33 to 99;
- the statements of expenses and capital expenditure of the Defence Force for the year ended 30 June 2017 on pages 102 to 105; and
- the schedules of non-departmental activities which are managed by the Defence Force on behalf of the Crown on pages 160 to 166 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017;
 - the schedules of expenses; and revenue for the year ended 30 June 2017; and
 - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Defence Force and group on pages 112 to 159:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Defence Force on pages 33 to 99:
 - presents fairly, in all material respects, for the year ended 30 June 2017:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Defence Force on pages 102 to 105 are presented fairly, 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 Defence Force on behalf of the Crown on pages 160 to 166 present fairly, in all material respects, in accordance with the Treasury Instructions:
 - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017; and
 - expenses; and revenue for the year ended 30 June 2017.

Our audit was completed on 2 October 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief of Defence Force and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

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 and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor 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 Chief of Defence Force for the information to be audited

The Chief of Defence Force is responsible on behalf of the Defence Force and group for preparing:

- financial statements that present fairly the Defence Force and group's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the Defence Force, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Defence Force on behalf of the Crown.

The Chief of Defence Force 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 Chief of Defence Force is responsible on behalf of the Defence Force and group for assessing the Defence Force and group's ability to continue as a going concern. The Chief of Defence Force 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 Defence Force and group, or there is no realistic alternative but to do so.

The Chief of Defence Force'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 audited, our procedures were limited to checking that the information agreed to the Defence Force's information on strategic intentions.

We did not evaluate the security and controls over the electronic publication of the information we audited.

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 Defence Force and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief of Defence Force.
- We evaluate the appropriateness of the reported performance information within the Defence Force's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief of Defence Force and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Force and group'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 Defence Force and group 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 Chief of Defence Force 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 Chief of Defence Force is responsible for the other information. The other information comprises the information included on pages 6 to 173, but does not include 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 Defence Force and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Defence Force and group.



Karen Young

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

NZDF FINANCIAL STATEMENTS

Statement of Comprehensive Revenue and Expense for the year ended 30 June 2017

| 2016 | | | | | | | 2017 |
|--|-------------------|--|------------------|-------------------|-------------------------------|--------------------------------|------|
| Group Actuals | Parent Actuals | Note | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast | |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) | |
| Revenue from non-exchange transactions | | | | | | | |
| 2,432,570 | 2,432,570 | Crown | 2,475,826 | 2,475,826 | 2,527,951 | 2,475,826 | |
| 1,149 | - | Other revenue | 1,821 | - | - | - | |
| Revenue from exchange transactions | | | | | | | |
| 6,293 | 6,293 | Departmental revenue | B1 | 6,305 | 6,305 | 6,313 | |
| 15,932 | 13,247 | Other revenue | | 12,601 | 9,740 | 9,931 | |
| 26,515 | 26,515 | Gain on financial instruments | B2 | 20,874 | 20,874 | - | |
| 1,304 | 31 | Interest revenue | | 1,131 | 7 | 20 | |
| - | - | Dividend revenue | | 15 | - | - | |
| 2,483,763 | 2,478,656 | Total Revenue | | 2,518,573 | 2,512,752 | 2,542,264 | |
| Expense | | | | | | | |
| 921,342 | 920,614 | Personnel costs | B3 | 945,676 | 945,030 | 970,472 | |
| 730,431 | 727,284 | Operating costs | B4 | 792,674 | 790,108 | 754,560 | |
| 620 | 182 | Finance costs | | 526 | 121 | 181 | |
| 378,058 | 377,204 | Depreciation, amortisation and impairment | C1, C3 | 386,389 | 385,409 | 374,875 | |
| 437,602 | 437,602 | Capital charge | B5 | 388,227 | 388,227 | 442,156 | |
| 2,468,053 | 2,462,886 | Total Output Expense | | 2,513,492 | 2,508,895 | 2,542,244 | |
| 15,710 | 15,770 | Net Surplus/(Deficit) | | 5,081 | 3,857 | 20 | |
| Items that will not be reclassified to Net Surplus/ (Deficit) | | | | | | | |
| Other Comprehensive Revenue and Expense | | | | | | | |
| 511,893 | 511,913 | Gain/(Loss) on property, plant, and equipment | D2 | 372,420 | 366,217 | - | |
| 511,893 | 511,913 | Total Other Comprehensive Revenue and Expense | | 372,420 | 366,217 | - | |
| 527,603 | 527,683 | Total Comprehensive Revenue and Expense | | 377,501 | 370,074 | 20 | |

Explanations of major variances against the main estimates are provided in note F2.
The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2017

| 2016 | | 2017 | | | | |
|--------------------------------|------------------|------|------------------|------------------|-------------------------|--------------------------|
| Group Actuals | Parent Actuals | Note | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) |
| Assets | | | | | | |
| Current Assets | | | | | | |
| 65,420 | 62,121 | | 55,385 | 52,085 | 19,736 | 50,000 |
| 16,743 | 16,275 | E1 | 10,825 | 10,225 | 15,513 | 31,705 |
| | | | | | | |
| 354,767 | 354,767 | E1 | 441,954 | 441,898 | 7,534 | 394,103 |
| | | | | | | |
| 50,520 | 50,489 | | 47,910 | 47,909 | 44,122 | 50,489 |
| 97,359 | 97,244 | E2 | 91,871 | 91,769 | 83,032 | 97,244 |
| 23,661 | 1,392 | E3 | 22,277 | 1,035 | 11,007 | 1,620 |
| 500 | 500 | C4 | - | - | - | 500 |
| 608,970 | 582,788 | | 670,222 | 644,921 | 180,944 | 625,661 |
| Non-Current Assets | | | | | | |
| 5,594,675 | 5,546,093 | C1 | 5,990,600 | 5,933,613 | 5,362,494 | 5,697,807 |
| 41,191 | 41,191 | C3 | 41,565 | 41,565 | 28,368 | 43,636 |
| 257,546 | 257,546 | E2 | 257,585 | 257,585 | 249,788 | 257,546 |
| 3,592 | 228 | E3 | 5,506 | 172 | - | - |
| 5,897,004 | 5,845,058 | | 6,295,256 | 6,232,935 | 5,640,650 | 5,998,989 |
| 6,505,974 | 6,427,846 | | 6,965,478 | 6,877,856 | 5,821,594 | 6,624,650 |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| 341,325 | 338,013 | E4 | 391,795 | 387,651 | 273,123 | 421,274 |
| 666 | 694 | E4 | - | - | - | 694 |
| 31,306 | 31,306 | E5 | 1,988 | 1,988 | 20 | (6,104) |
| 10,766 | 10,766 | E6 | 10,866 | 10,866 | 11,233 | 10,751 |
| 57,187 | 57,169 | E7 | 55,944 | 55,922 | 52,640 | 56,224 |
| 466 | 466 | E8 | 362 | 358 | 323 | 466 |
| 5,001 | 5,001 | E9 | 3,628 | 3,628 | 225 | 6,374 |
| 446,717 | 443,415 | | 464,583 | 460,413 | 337,564 | 489,679 |
| Non-Current Liabilities | | | | | | |
| 7,437 | 7,437 | E7 | 6,072 | 6,072 | 9,672 | 8,382 |
| 1,095 | 1,095 | E8 | 737 | 737 | 745 | 745 |
| 1,373 | 1,373 | E9 | 464 | 464 | - | - |
| 9,905 | 9,905 | | 7,273 | 7,273 | 10,417 | 9,127 |
| 456,622 | 453,320 | | 471,856 | 467,686 | 347,981 | 498,806 |
| 6,049,352 | 5,974,526 | | 6,493,622 | 6,410,170 | 5,473,613 | 6,125,844 |

Statement of Financial Position as at 30 June 2017 (Continued)

| 2016 | | 2017 | | | | | |
|------------------|------------------|---|---------------|------------------|-------------------------|--------------------------|------------------|
| Group Actuals | Parent Actuals | Note | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast | |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) | |
| Equity | | | | | | | |
| 3,738,632 | 3,738,632 | Taxpayers' funds | D1 | 3,798,383 | 3,798,383 | 3,772,110 | 3,823,834 |
| 2,257,967 | 2,235,894 | Revaluation reserve | D2 | 2,640,063 | 2,611,787 | 1,701,503 | 2,249,257 |
| 50,063 | - | - Non-taxpayers' funds | D3 | 52,507 | - | - | 50,063 |
| 2,690 | - | - Restricted funds | D4 | 2,669 | - | - | 2,690 |
| 6,049,352 | 5,974,526 | Total Equity | | 6,493,622 | 6,410,170 | 5,473,613 | 6,125,844 |
| 6,505,974 | 6,427,846 | Total Liabilities and Taxpayers' Funds | | 6,965,478 | 6,877,856 | 5,821,594 | 6,624,650 |

Explanations of major variances against the main estimates are provided in note F2.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2017

| 2016 | | | 2017 | | | |
|---------------------------|------------------|--|------------------|------------------|-------------------------|--------------------------|
| Group Actuals | Parent Actuals | Note | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) |
| Balance at 1 July | | | | | | |
| 3,771,995 | 3,771,995 | Taxpayers' funds | 3,738,632 | 3,738,632 | 3,766,110 | 3,738,632 |
| 1,723,190 | 1,701,096 | Revaluation reserve | 2,257,967 | 2,235,894 | 1,701,503 | 2,257,967 |
| 49,694 | - | Non-taxpayers' funds | 50,063 | - | - | 50,063 |
| 2,753 | - | Restricted funds | 2,690 | - | - | 2,690 |
| 5,547,632 | 5,473,091 | | 6,049,352 | 5,974,526 | 5,467,613 | 6,049,352 |
| 15,710 | 15,770 | Net surplus for the year | 5,081 | 3,857 | 20 | (6,104) |
| 511,893 | 511,913 | Total gain/(loss) on property, plant and equipment revaluation | 372,420 | 366,217 | - | - |
| 527,603 | 527,683 | Total Comprehensive Revenue and Expense for the Year | 377,501 | 370,074 | 20 | (6,104) |
| Owner Transactions | | | | | | |
| (31,306) | (31,306) | Repayment of surplus | E5 (1,988) | (1,988) | (20) | 6,104 |
| (197) | - | Capital withdrawal | (4,650) | (4,581) | - | (4,580) |
| 1,000 | 1,000 | Capital injection | 81,072 | 81,072 | 6,000 | 81,072 |
| 562 | - | Owners contributions | 1,268 | - | - | - |
| - | - | Transfer of property to LINZ | (8,933) | (8,933) | - | - |
| 4,058 | 4,058 | Transfer of equity | - | - | - | - |
| 6,049,352 | 5,974,526 | Balance as at 30 June | 6,493,622 | 6,410,170 | 5,473,613 | 6,125,844 |
| 3,738,632 | 3,738,632 | Taxpayers' funds | D1 3,798,383 | 3,798,383 | 3,772,110 | 3,823,834 |
| 2,257,967 | 2,235,894 | Revaluation reserve | D2 2,640,063 | 2,611,787 | 1,701,503 | 2,249,257 |
| 50,063 | - | Non-taxpayers' funds | D3 52,507 | - | - | 50,063 |
| 2,690 | - | Restricted funds | D4 2,669 | - | - | 2,690 |

Explanations of major variances against the main estimates are provided in note F2.

The accompanying notes form part of these financial statements.

Statement of Cash Flow for the year ended 30 June 2017

| 2016 | | | 2017 | | | |
|---|----------------|---|---------------|----------------|-------------------------|--------------------------|
| Group Actuals | Parent Actuals | | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) |
| Cash Flow - Operating Activities | | | | | | |
| 2,484,989 | 2,484,989 | Non-exchange receipts from Crown | 2,393,626 | 2,393,626 | 2,797,951 | 2,436,490 |
| 1,150 | - | Non-exchange receipts from other revenue | 872 | - | - | - |
| 28,119 | 25,532 | Exchange receipts from departmental and other revenue | 25,024 | 21,262 | 14,293 | 16,244 |
| 82 | - | Dividends received from operating activities | 3 | - | - | - |
| 1,158 | - | Interest revenue from operating activities | 1,062 | - | - | - |
| (909,371) | (908,636) | Payments to employees | (944,570) | (943,928) | (965,049) | (957,085) |
| (726,239) | (724,509) | Payments to suppliers | (730,326) | (728,629) | (803,954) | (666,097) |
| (1,611) | - | Grants paid | (265) | - | - | - |
| (433) | - | Interest paid to members | (396) | - | - | - |
| (437,602) | (437,602) | Payments for capital charge | (388,227) | (388,227) | (442,156) | (388,177) |
| 8,195 | 8,228 | Goods and services tax (net) | (5,651) | (5,625) | - | - |
| 448,437 | 448,002 | Net Cash Flow from Operating Activities | 351,152 | 348,479 | 601,085 | 441,375 |
| Cash Flow - Investing Activities | | | | | | |
| 12,921 | 12,812 | Receipts from sale of property, plant and equipment | 26,080 | 25,716 | - | 18,000 |
| 31 | 31 | Interest revenue and expense | 135 | (114) | 20 | 20 |
| 903 | - | Sale of investments | 143 | - | - | - |
| (5,015) | - | Purchase of investments | (1,089) | - | - | - |
| (8) | - | Issue of advances | - | - | - | - |
| 131 | - | Repayment of advances | 17 | - | - | - |
| (409,164) | (408,381) | Purchase of property, plant and equipment | (418,627) | (415,072) | (745,954) | (511,374) |
| (10,370) | (10,370) | Purchase of intangible assets | (7,213) | (7,213) | (1,000) | (8,626) |
| (410,571) | (405,908) | Net Cash Flow from Investing Activities | (400,554) | (396,683) | (746,934) | (501,980) |
| Cash Flow - Financing Activities | | | | | | |
| 1,559 | 1,000 | Capital injection | 82,340 | 81,072 | 6,000 | 81,072 |
| (195) | - | Capital withdrawal | (4,650) | (4,581) | - | (4,581) |
| (13) | - | Repayment of loans | - | - | - | - |
| (22,669) | (22,669) | Repayment of surplus | (31,306) | (31,306) | (15,578) | (31,306) |
| (21,318) | (21,669) | Net Cash Flow from Financing Activities | 46,384 | 45,185 | (9,578) | 45,185 |

Statement of Cash Flow for the year ended 30 June 2017 (Continued)

| 2016 | | | 2017 | | | |
|---------------|----------------|---|---------------|----------------|-------------------------|--------------------------|
| Group Actuals | Parent Actuals | | Group Actuals | Parent Actuals | Parent Unaudited Budget | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) |
| 16,548 | 20,425 | Net increase/(decrease) in cash | (3,018) | (3,019) | (155,427) | (15,420) |
| 45,650 | 38,474 | Cash at the beginning of the year | 65,420 | 62,121 | 175,163 | 65,420 |
| 3,222 | 3,222 | Effect of foreign exchange rates on cash and cash equivalents | (7,017) | (7,017) | - | - |
| 65,420 | 62,121 | Cash and Cash Equivalents at the End of the Year | 55,385 | 52,085 | 19,736 | 50,000 |

Explanations of major variances against the main estimates are provided in note F2.

The accompanying notes form part of these financial statements.

Statement of Commitments as at 30 June 2017

| 2016 | | | 2017 | |
|--|-------------------|---|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| Capital Commitments | | | | |
| 6,996 | 6,996 | Building | 10,332 | 10,332 |
| 469,241 | 469,241 | Specialist Military Equipment | 671,238 | 671,238 |
| 4,857 | 4,857 | Plant & Equipment | 6,760 | 6,760 |
| 481,094 | 481,094 | Total Capital Commitments | 688,330 | 688,330 |
| Non-Cancellable Operating Lease Commitments | | | | |
| 38,504 | 38,504 | Not later than one year | 18,256 | 18,256 |
| 86,160 | 86,160 | Later than one year and not later than five years | 17,630 | 17,630 |
| 60,978 | 60,978 | Later than five years | 23,717 | 23,717 |
| 185,642 | 185,642 | Total Non-Cancellable Operating Lease Commitments | 59,603 | 59,603 |
| 666,736 | 666,736 | Total Commitments | 747,933 | 747,933 |

Capital Commitments

The majority of the capital commitments are with the Ministry of Defence who manage the procurement of major military assets on behalf of the NZDF. The value of the capital commitments with the Ministry of Defence this year is \$634.4 million (2016: \$416.8 million).

Under the Memorandum of Understanding (MOU) the Ministry of Defence manages for the NZDF, the acquisition process of Specialist Military Equipment costing in excess of \$15 million.

Non-Cancellable Operating Lease Commitments

The lease commitments for premises, aircraft and simulators are based on lease review dates that range from 2 months to 22 years. The drop in lease commitments largely relates to building leases ceased following the November earthquake as per Note F3. These are expected to increase again in the year ending 30 June 2018.

The accompanying notes form part of these financial statements.

Statement of Contingent Liabilities as at 30 June 2017

| 2016 | | | 2017 | |
|--------------------------|---------------------------|--|--------------------------|---------------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 11,978 | 11,978 | Potential claims from legal proceedings and disputes | 1,220 | 1,220 |
| 1,922 | 1,922 | Restructuring cost | 1,203 | 1,203 |
| 13,900 | 13,900 | Total quantifiable contingent liabilities | 2,423 | 2,423 |

The potential claims from legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the NZDF's statutory role and the expected legal costs. The NZDF is currently disputing these claims. The NZDF is jointly responsible for redundancy compensation payments if a restructuring of the dockyard contract occurs.

There were no unquantifiable contingent liabilities as at 30 June 2017 (2016 : nil)

Statement of Contingent Assets as at 30 June 2017

There were no quantifiable contingent assets as at 30 June 2017 (2016 : nil).

As at 30 June 2017, there are unquantifiable contingent assets in relation to claims with NZDF insurers for business interruption and loss of the fixtures and fittings in Defence House following the November Earthquake. A further contingent asset relates to a claim with the Defence House landlord for historical contributions to the landlord for build costs (2016 : nil).

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

The notes to the financial statements include information that is considered relevant and material to assist the reader in understanding changes in The New Zealand Defence Force (NZDF) financial position or performance.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding NZDF's results;
- it helps to explain changes in NZDF; or
- it relates to an aspect of NZDF's operations that is important to future performance.

A Statement Of Accounting Policies for the year ended 30 June 2017

REPORTING ENTITY

The New Zealand Defence Force (NZDF) is a government department as defined by Section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. The relevant legislation governing the NZDF's operations include the Defence Act 1990. The NZDF's ultimate parent is the New Zealand Crown.

The NZDF Group (the Group) consists of the NZDF (controlling entity) and its controlled entities being the Service Museums (Airforce Museum of New Zealand, Queen Elizabeth II Army Memorial Museum, Royal New Zealand Navy Museum Trust) and the Non-Public Funds (RNZAF Central Fund, RNZAF Sports Association, RNZAF Air Bank, Army Central Welfare Fund, Army Non Public Funds, Army Kippenberger Library, Army Singapore Fund, RNZN Benevolent Fund, RNZN Officers' Benevolent Trust, RNZN Central Fund, RNZN Ngatiranga Bay Naval Sports Complex). The Service Museums are independent entities established by Trust Deed and hold various heritage collections. The Non-Public Funds have been established under Section 58 of the Defence Act 1990. These funds are established for the benefit of service personnel and are specifically defined as not being public money under the Public Finance Act 1989.

The primary objective of the NZDF is to provide services to the public rather than making a financial return. Accordingly, the NZDF has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the NZDF are for the 12 months ended 30 June 2017. The financial statements were authorised for issue by the Chief of Defence Force on 2 October 2017.

BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of the NZDF 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 practices (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with Tier 1 PBE Accounting Standards.

These financial statements comply with PBE Accounting Standards.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars, which is the NZDF's functional currency and all values are rounded to the nearest thousand dollars (\$000).

Changes in Accounting Policies

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notices as a consequence of XRB A1 and Other Amendments. These amendments apply to PBEs with reporting periods on or after 1 January 2016. NZDF has applied these amendments in preparing its 30 June 2017 financial statements. There is no effect in applying these amendments.

Use of Accounting Estimates and Judgements

The preparation of financial statements requires the use of certain accounting estimates. It also requires the NZDF to exercise judgement in the process of applying the NZDF's accounting policies. Accounting estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Any area involving a high degree of judgement or complexity or where accounting estimates are significant to the financial statements, are disclosed under the applicable accounting policies outlined.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the NZDF and its controlled entities as at 30 June 2017.

Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities. The controlled entities have been fully consolidated from the date on which control has been obtained. Assets, liabilities, income and expenses of the controlled entities are included in the financial statements from the date the Group gains control until the date the Group ceases to control the controlled entity.

The financial statements of the controlled entities have been prepared for either a balance date of 31 March or 30 June. Where the financial statements prepared of the controlled entities do not match the reporting period of NZDF, and the compliance cost outweighs the benefit of having these prepared again at 30 June, adjustments have been made to account for any significant transactions that may have occurred in the same reporting period as the Group.

In preparing the consolidated financial statements, uniform accounting policies have been applied. Where the financial statements of the controlled entities have not been prepared using the same accounting policies of the NZDF, and it has resulted in material differences, adjustments have been made to the applicable items as if a uniform accounting policy had been applied.

All intercompany balances resulting from intra-group transactions have been eliminated in full.

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.

Budget Figures

The budget figures are the Main Estimates presented in the forecast financial statements from the 2015/16 Annual Report. These are for NZDF and do not include its controlled entities.

The forecast reflects the estimated actuals contained in the Supplementary Estimates as at 30 June 2017. The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

The Supplementary Estimates include NZDF and its controlled entities as at 30 June 2017. Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Foreign Currency

Foreign currency transactions are converted to New Zealand currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities in foreign currencies at reporting date are translated at the closing mid-point exchange rate prevailing at that date.

Gains and losses resulting from foreign currency transactions are recognised in the Statement of Comprehensive Revenue and Expense.

Goods and Services Tax (GST)

The financial statements and schedules are prepared on a GST exclusive basis except for Debtors and Other Receivables and Creditors and Other Payables in the Statement of Financial Position, which are GST inclusive.

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

The net GST paid to, 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.

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

Government departments are exempt from income tax as public authorities. Accordingly no charge for income tax has been provided for.

Capital Management Programme

The NZDF's capital is its equity, which comprises Taxpayers' Funds and Revaluation Reserves. Equity is represented by net assets.

The NZDF manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The NZDF's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and in compliance with Government Budget processes and with Treasury Instructions.

Although the NZDF is more asset intensive than most Government departments, this is managed using robust systems, policies, the Capability Management Framework and the resultant NZDF Capital Programme.

The objective of managing the NZDF's equity is to ensure the NZDF effectively achieves its strategic goals and objectives for which it has been established, whilst remaining a going concern.

Commitments

Future expenses to be incurred on contracts that have been entered into at reporting date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have a penalty or exit cost explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below:

- Useful lives and residual values of property, plant and equipment - refer to Section C
- Fair value of land and buildings - refer to Section C
- Useful lives of software assets - refer to Section C

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Management has exercised the following critical judgements in applying accounting policies:

- Leases classification - refer to Note E8

COST ALLOCATION

NZDF has determined the cost of outputs using the cost allocation system outlined below:

- Direct variable costs of a force element (for example, a squadron, a frigate, a battalion) are attributed directly to an appropriate output.
- Direct fixed costs of a force element are attributed to outputs based on their predominant purpose.
- Support unit costs are charged to outputs in proportion to the total direct costs of the force elements they support.
- Overhead costs are charged to outputs in proportion to the total force elements including their support unit costs.

The allocation rules are reviewed if there is significant organisational change to alter the continued appropriateness of the rules. There has been no change to the cost allocation method since the date of the last audited financial statements.

Notes to the Financial Statements

B Financial Performance

REVENUE

Accounting Policy

Revenue

The NZDF derives revenue through the provision of outputs to the Crown and for services to third parties. Revenue is measured at the fair value of consideration received.

Revenue from Exchange Transactions

Other revenue from exchange transactions are made on a normal commercial basis and largely comprise the miscellaneous provision of rentals, goods and services to third parties not in the main line of operation for the NZDF Group. Revenue from exchange transactions is recognised when earned and is reported in the financial period to which it relates.

Revenue from Non-Exchange Transactions

Revenue Crown Recognition Policy

Revenue from the Crown is measured based on NZDF'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 NZDF can incur expenses only 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

Other revenue from non-exchange transactions are made on a no obligation basis, and are largely made up of transfer revenue from donations and grants received by the various Service Museums and Non-Public Funds controlled by NZDF. These are recognised on receipt if they result in an increase in an asset without a corresponding increase in a liability. Any grant or donation revenue with conditions attached where the future economic benefits or service potential will be returned to the transferor is not recorded as income until the liability is satisfied.

Interest

The NZDF derives interest income on funds held in overseas bank accounts. Interest received on overseas bank accounts is recognised when received. Interest on loans and other receivables is recognised using the effective interest method.

B1 Departmental Revenue

| 2016 | | | 2017 | | |
|--------------|--------------|-----------------------------------|--------------|--------------|--------------------------|
| Group | Parent | | Group | Parent | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) |
| 5,195 | 5,195 | Ministry of Social Development | 5,542 | 5,542 | 6,313 |
| 1,098 | 1,098 | Other departments | 763 | 763 | - |
| 6,293 | 6,293 | Total Departmental Revenue | 6,305 | 6,305 | 6,313 |

B2 Gain on Financial Instruments

| 2016 | | | 2017 | | |
|---------------|---------------|--|---------------|---------------|--------------------------|
| Group | Parent | | Group | Parent | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) |
| 16,067 | 16,067 | Realised gain on foreign exchange | 14,840 | 14,840 | 15,000 |
| 10,448 | 10,448 | Unrealised gain on foreign exchange | 6,034 | 6,034 | 5,000 |
| 26,515 | 26,515 | Total Gain on Financial Instruments | 20,874 | 20,874 | 20,000 |

EXPENSES**B3 Personnel Costs****Accounting Policy****Superannuation schemes**

Superannuation contributions to defined contribution schemes include contributions to the State Sector Retirement Savings Scheme, Government Superannuation Fund, Armed Forces Superannuation Scheme and Civil Staff Superannuation.

| 2016 | | | 2017 | | |
|----------------|----------------|--|----------------|----------------|--------------------------|
| Group | Parent | | Group | Parent | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) |
| 866,396 | 865,668 | Salaries and wages | 901,832 | 901,186 | 904,594 |
| 47,290 | 47,290 | Superannuation contributions to defined contribution schemes | 48,967 | 48,967 | 49,786 |
| 2,294 | 2,294 | Retirement and accumulated leave adjustment | (2,612) | (2,612) | 2,705 |
| 5,362 | 5,362 | Accident Compensation Corporation (ACC) levies | (2,511) | (2,511) | 690 |
| 921,342 | 920,614 | Total Personnel Costs | 945,676 | 945,030 | 957,775 |

Remuneration of NZDF Regular Force and Civilian staff by salary bands

The figures in the table cover Regular Force and civilian staff, including locally-employed civilian staff. Figures for Reserve Forces personnel, casual employees and civilian contractors are not included. Pay band figures apply to an individual's total remuneration, including employer superannuation contributions and the 'Military Factor' component where applicable.

| 2016 | | 2017 |
|---------------|-----------------------|---------------|
| Parent | Salary Band | Parent |
| 355 | \$30,000 - \$40,000 | 552 |
| 2,060 | \$40,000 - \$50,000 | 1,817 |
| 2,898 | \$50,000 - \$60,000 | 2,654 |
| 1,523 | \$60,000 - \$70,000 | 1,617 |
| 1,490 | \$70,000 - \$80,000 | 1,567 |
| 1,058 | \$80,000 - \$90,000 | 1,039 |
| 899 | \$90,000 - \$100,000 | 922 |
| 508 | \$100,000 - \$110,000 | 694 |
| 368 | \$110,000 - \$120,000 | 392 |
| 186 | \$120,000 - \$130,000 | 228 |
| 91 | \$130,000 - \$140,000 | 69 |
| 160 | \$140,000 - \$150,000 | 193 |
| 65 | \$150,000 - \$160,000 | 75 |
| 61 | \$160,000 - \$170,000 | 74 |
| 40 | \$170,000 - \$180,000 | 36 |
| 34 | \$180,000 - \$190,000 | 32 |
| 28 | \$190,000 - \$200,000 | 42 |
| 66 | Over \$200,000 | 71 |
| 11,890 | Total | 12,074 |

B4 Operating Costs

Accounting Policy

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

The NZDF leases training aircraft, office premises and office equipment (mainly multi-functional reprographic equipment). As the lessor retains all the risks of ownership, these leases are classified as operating leases.

Maintenance Costs

The cost of major platform restoration of airframe engines and ship overhauls are capitalised and depreciated over the shorter of the period between major overhauls or the remaining useful life of the principal asset to which they relate.

All other maintenance costs are expensed as incurred.

| 2016 | | | 2017 | | |
|----------------|----------------|---|----------------|----------------|--------------------------------|
| Group | Parent | | Group | Parent | Group Unaudited Forecast |
| (\$000) | (\$000) | | (\$000) | (\$000) | (\$000) |
| 164,016 | 164,016 | Materials | 186,512 | 186,514 | 171,985 |
| 96,523 | 96,289 | Premises cost | 128,217 | 128,043 | 127,634 |
| 109,884 | 109,813 | Repairs and maintenance | 119,784 | 119,700 | 112,905 |
| 75,329 | 75,161 | Training and travel | 82,664 | 82,493 | 80,036 |
| 67,493 | 67,491 | Operating lease rentals and other licence charges | 68,559 | 68,552 | 71,391 |
| 3,089 | 3,063 | Consultancy | 4,971 | 4,944 | 6,537 |
| 399 | 399 | Audit Fees: Audit New Zealand | 409 | 409 | 444 |
| 101 | 21 | Fees to auditors other than Audit New Zealand | 106 | 19 | 5 |
| (147) | (148) | Increase in provision for doubtful debts | 482 | 483 | - |
| 12,856 | 12,856 | Realised foreign exchange losses | 21,847 | 21,847 | 15,000 |
| 25,973 | 25,973 | Unrealised foreign exchange losses | 4,175 | 4,175 | 5,000 |
| 1,134 | 1,135 | Loss on sale of property, plant, and equipment | - | - | (30) |
| 173,781 | 171,215 | Other operating costs | 174,948 | 172,929 | 184,797 |
| 730,431 | 727,284 | Total Operating Costs | 792,674 | 790,108 | 775,704 |

B5 Capital Charge

Accounting Policy

The capital charge is expensed in the year to which the charge relates.

Further information

The NZDF pays a capital charge to the Crown on its average equity as at 30 June and 31 December each year. The capital charge rate moved from 8% in the previous year to 7% and 6% during the year ended 30 June 2017 (2016: 8.0%).

| | |
|---------------------------------|----|
| 1 July 2016 to 31 December 2016 | 7% |
| 1 January 2017 to 30 June 2017 | 6% |

Notes to the Financial Statements

C Property, Plant and Equipment

Accounting Policy

Property, Plant, and Equipment

Property, plant and equipment consists of land, buildings, leasehold improvements, specialist military equipment, plant and equipment, office and computer (hardware) equipment, and Contingency Reserve Stock of missile ammunition.

Property, plant and equipment is shown at cost or valuation less accumulated depreciation, accumulated impairment losses, and loss of service potential.

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 will flow to the NZDF and the cost of the item can be measured reliably.

Part of the cost of a purchased aircraft and ship is linked to its service potential that reflects the maintenance condition of the main components. The cost of the major aircraft engine and ship overhauls are capitalised and depreciated over the shorter of the period between major overhauls or the remaining useful life of the asset.

Capitalisation

A de minimis of \$5,000 applies for capitalisation below which individual items are expensed on purchase or treated as inventory for future consumption. Grouped assets are capitalised if their total acquisition cost is greater than \$5,000.

The initial cost of a self-constructed item of property, plant and equipment is determined using the same principles as for acquired assets, i.e., only costs directly attributable to bringing the asset to working condition for its intended use are treated as capital expenditure.

Capitalisation commences once a decision has been made on what asset is to be acquired or constructed and capitalisation ceases when substantially all the activities necessary to bring an item of property, plant and equipment to working condition for its intended use are complete.

Personnel costs are capitalised only when the cost is incremental as a result of a construction of an asset. For instance when overtime is paid or labour is acquired for the purpose of the construction of the asset.

Work in progress

Work in progress is recognised at cost less impairment and is not depreciated. Capital costs incurred in the acquisition of an asset are charged to Capital Work in Progress until the asset is delivered. On delivery the asset is transferred to the Fixed Asset Register.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Revenue and Expense. When a revalued asset is sold, the amount included in the property, plant and equipment revaluation reserve in respect of the asset is transferred to taxpayers' funds.

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 NZDF and the cost of the item can be measured reliably.

Revaluation

Land, buildings (including housing and infrastructure) and specialist military equipment asset classes are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from fair value, and at least once every five years.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Valuations use a market based approach except where reliable market evidence is unavailable and then optimised depreciated replacement cost is used to calculate fair value. The carrying values of revalued items are reviewed at each reporting date to ensure that those values are not materially different to fair value.

Buildings with a net book value greater than or equal to \$250,000 are individually revalued. Buildings with a net book value of less than \$250,000 are revalued using an appropriate market or construction cost based index.

The Land and Buildings asset classes were revalued by independent registered valuers from Opus International Limited as at 30 June 2017. The revaluation has resulted in a fair value adjustment that increased the value of Land and Building assets by \$366.2M. This fair value adjustment is additional to the \$511.8M that was identified as at 30 June 2016, when several major facilities within the Land and Buildings asset classes were reviewed by an independent registered valuer from Beca Projects NZ Limited. The majority of these adjustments relate to the strengthening of the New Zealand property market.

Land is valued at fair value using market based evidence on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value for certain situations (e.g. historic designations, Treaty of Waitangi, Offer Back Obligations or Reserve Status). In these situations a deduction has been made from the assessed unencumbered market value of the land. Any specific restrictions on sale have been identified and included in the market value assessed for the land component. Camps and bases located in a rural environment have utilised a market comparison approach having regard to sales of rural holdings in the general location, and considered the potential for more intensive development where appropriate. Camps and bases in urban locations have been valued with regard to block land sales. Having established the value under the highest and best use scenario, an allowance has been made for costs of rezoning, holding period and the probability of a zoning change.

Restrictions on NZDF's ability to sell land would normally not impair the value of the land because NZDF has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

The valuation approach for Buildings depends on the internal NZDF classification of either on-base or off-base.

Off-base non-specialised buildings (for example, residential properties) have been valued on a market comparison approach having regard to market transactions for similar properties. Adjustments are made to reflect the assets condition and any restriction on sale. Recent transactions of residential properties in the immediate surrounding area have been considered to arrive at a benchmark value.

On-base and specialised buildings are valued at fair value using optimised depreciated replacement cost (ODRC) because no reliable market data is available for such buildings. Due to the size of the NZDF Estate, the valuers established a number of building typologies based on building size, structure, services and fit-out. The building typology allowed for the same assumptions to be applied across the Estate, for 'like' buildings.

Heritage assets held by the various controlled entities have been recorded at fair value where readily obtainable market values are present. The collection held by the Army Museum was independently revalued at fair value as at 30 June 2015 by Dr. Robin J. Watt MA, PhD. The heritage and working collection held by the Kippenberger Library was independently revalued at fair value as at 30 June 2010 by antiquarian bookseller Rowan Gibbs. The heritage collection held by the Navy Museum was independently revalued at 30 June 2016 by Ashley Associates. The collections held by the Air Force Museum have not been recognised as there are no readily obtainable fair values for the types of collections held. Insurance valuations have been performed and suggest that the value of these collections is \$8.4M. The current valuations are the best representation of fair value and it has been assessed that there are no significant changes in fair value of the museum working collections.

Specialist Military Equipment (SME) is manufactured overseas and recent cost comparisons of similar capability equipment are required under the ODRC valuation principle. Owing to the nature of the military environment and the unique specifications of the SME manufactured for the NZDF, comparable capability and equipment type is difficult to determine. Similar military variants were used for the valuation of SME based on recommendations and information sourced by NZDF Capability Subject Matter Experts, where available. The recent cost of similar SME is based in overseas currencies and movements in foreign exchange will directly impact the valuation as well as market values.

For 2017, NZDF have reviewed SME, and determined that no revaluation is necessary (2016: No revaluation).

Defence Major Platform Restoration

The Defence Major Platform Restoration (DMPR) is an ongoing restoration plan for the Air Force and Navy to ensure the major servicing and replacement of key components of Specialist Military Equipment are made at regular intervals. As these assets are typically subject to reductions in service potential during normal business use, a reduction in value is recorded in addition to depreciation to reflect this. As the servicing or replacements are performed, the service potential is gradually restored for the applicable assets and the major servicing and replacement costs for the component parts that will provide economic benefits in future reporting periods are capitalised to reverse the initial reduction in value made.

Depreciation

Depreciation is provided on a straight line basis on all property, plant & equipment except freehold land and capital work in progress so as to allocate the cost, or valuation, of the assets, less any estimated residual value, over their estimated useful lives. The estimated useful lives are within the following ranges:

| | Parent | Group |
|-------------------------------|---------------|---------------------|
| Buildings | 5 - 100 years | 5 - 100 years |
| Leasehold improvements | 2 - 20 years | 2 - 25 years |
| Specialist Military Equipment | 5 - 55 years | 5 - 55 years |
| Plant and Equipment | 3 - 50 years | 2 - 50 years |
| Office and Computer Equipment | 2 - 20 years | 2 - 20 years |
| Heritage assets | Infinite | 10 years - infinite |

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful life of the improvements, whichever is shorter.

Heritage Assets

Heritage assets comprise archive holdings and military collections. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.

Where the asset has been provided from a non-exchange transaction, the asset will be initially recorded at fair value.

Intangibles Assets

Computer application software with a finite useful life costing more than \$50,000 is capitalised and recorded at cost less accumulated amortisation. Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation is charged to the Statement of Comprehensive Revenue and Expense on a straight-line basis over the useful life of the asset. The estimated economic useful life for computer application software is 3 – 20 years.

Impairment

Cash Generating Assets

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

Non-Cash Generating Assets

For Non-cash generating assets except for those that are valued using the revaluation model, the Group reviews at every reporting date whether there are any indicators that the carrying amount may not be recoverable. If indicators do exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. In assessing value in use, the risks specific to the asset are considered.

An impairment gain or loss is recognised in the Statement of Comprehensive Revenue and Expense as the amount by which the asset's carrying amount exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount.

Status of Buildings and Land

There is contamination and potential contamination of some NZDF sites as a result of occupation over many years. Where contamination has been confirmed, and associated restoration costs can be reliably estimated, the value of the land has been adjusted. Where contamination is presumed and restoration costs have not been quantified, NZDF has valued those properties on a consistent basis with the adjacent land. In the event of any land being proposed for sale under the Government sale processes, potentially contaminated sites will be subject to specific valuation and negotiation at that point in time.

The NZDF has an established programme to assess the seismic integrity of the NZDF estate. At this time, assessments have confirmed that the NZDF has 44 buildings that are potentially earthquake prone (less than 34% of the National Building Standard). Detailed Engineering Evaluations have been undertaken to confirm whether these assets are indeed earthquake prone and the potential costs of remediation. The outcome is that:

- Within the 44, there remain six buildings that needed adjustments immediately and these have been vacated.
- The remaining 38 have been deemed safe to occupy by engineers although they will require some strengthening work in the future and some have restrictions on occupancy.
- For many buildings, the strengthening work is relatively minor (e.g. removing a concrete chimney). Strengthening will achieve greater than 34% of code compliance and where practicable, over 67%.

Under legislation passed into law in 2017, NZDF has from 15 to 35 years to either complete strengthening work on the buildings or demolish them; the variation is due to building location and therefore earthquake risk, within seismic regions of New Zealand. There will be a liability for seismic remediation work as a result of the seismic assessment programme, however, it remains too early to be able to articulate the extent of that liability or when that liability is likely to materialise. This information will become clear in early 2018 as the need for strengthening or demolishing buildings will be included in the Estate Regeneration Programme. Defence Estate and Infrastructure has, in the meantime, addressed the highest priority buildings to reduce immediate risk to buildings and occupants.

Given the current level of uncertainty of both remedial works costs and future estate planning in relation to retention or demolition of these assets, the NZDF has chosen not to book an impairment on current building values. However, given the size of the potential remedial and regeneration work the NZDF is disclosing the situation.

C1 Property, Plant and Equipment

| Group 2016 | | | | | | | |
|-------------------------------------|----------------|------------------|--|----------------------------------|--|----------------------------|------------------------|
| | Land | Buildings | Specialist Military Equipment | Plant & Equipment | Office & Computer Equipment | Heritage assets | Total group |
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Cost or Valuation | | | | | | | |
| Balance as at 1 July 2015 | 627,050 | 1,310,619 | 3,483,551 | 276,145 | 113,157 | 16,143 | 5,826,665 |
| Additions | 1,632 | 76,396 | 247,594 | 6,264 | 17,766 | 104 | 349,756 |
| Revaluation | 318,271 | 86,215 | - | - | - | - | 404,486 |
| Disposal | (898) | (1,894) | (2,216) | (4,671) | (1,294) | - | (10,973) |
| Work in progress movement | - | (34,559) | 11,182 | 955 | (2,023) | - | (24,445) |
| Other asset movements | - | 50 | - | - | (17) | - | 33 |
| as at 30 June 2016 | 946,055 | 1,436,827 | 3,740,111 | 278,693 | 127,589 | 16,247 | 6,545,522 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 1 July 2015 | - | (72,396) | (403,505) | (180,649) | (78,445) | - | (734,995) |
| Depreciation expense | - | (47,023) | (302,868) | (12,224) | (10,509) | (8) | (372,632) |
| Eliminated on disposal | - | 683 | 1,032 | 4,271 | 1,284 | - | 7,270 |
| Eliminated on Revaluation | - | 113,905 | - | - | - | - | 113,905 |
| Reverse accumulated impairment loss | - | - | 35,383 | - | - | - | 35,383 |
| Other asset movements | - | (8) | - | 18 | 212 | - | 222 |
| as at 30 June 2016 | - | (4,839) | (669,958) | (188,584) | (87,458) | (8) | (950,847) |
| as at 30 June 2016 | 946,055 | 1,431,988 | 3,070,153 | 90,109 | 40,131 | 16,239 | 5,594,675 |

C1 Property, Plant and Equipment (Continued)**Group 2017**

| | Land | Buildings | Specialist Military Equipment | Plant & Equipment | Office & Computer Equipment | Heritage assets | Total group |
|--|----------------|------------------|-------------------------------------|----------------------|-----------------------------------|--------------------|------------------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Cost or Valuation | | | | | | | |
| Balance as at 1 July 2016 | 946,055 | 1,436,827 | 3,740,111 | 278,693 | 127,589 | 16,247 | 6,545,522 |
| Additions | 384 | 35,171 | 368,114 | 12,157 | 22,950 | 1,446 | 440,222 |
| Revaluation | 44,474 | 270,685 | - | - | - | 6,203 | 321,362 |
| Disposal | (8,986) | (9,110) | (23,868) | (19,242) | (12,210) | - | (73,416) |
| Work in progress movement | - | 619 | (39,325) | 3,769 | (4,033) | - | (38,970) |
| as at 30 June 2017 | 981,927 | 1,734,192 | 4,045,032 | 275,377 | 134,296 | 23,896 | 7,194,720 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 1 July 2016 | - | (4,839) | (669,958) | (188,584) | (87,458) | (8) | (950,847) |
| Depreciation expense | - | (51,761) | (292,570) | (8,901) | (10,115) | (49) | (363,396) |
| Impairment | - | (7,753) | (19) | (7,586) | (796) | - | (16,154) |
| Eliminated on disposal | - | 43 | 8,925 | 11,846 | 11,396 | - | 32,210 |
| Eliminated on Revaluation | - | 51,058 | - | - | - | - | 51,058 |
| Reverse accumulated impairment loss | - | - | 30,522 | 3,601 | 1,202 | - | 35,325 |
| Other asset movements | - | 7,676 | - | - | - | 8 | 7,684 |
| as at 30 June 2017 | - | (5,576) | (923,100) | (189,624) | (85,771) | (49) | (1,204,120) |
| as at 30 June 2017 | 981,927 | 1,728,616 | 3,121,932 | 85,753 | 48,525 | 23,847 | 5,990,600 |

C1 Property, Plant and Equipment (Continued)

| Parent 2016 | | | | | | | |
|--|----------------|------------------|-------------------------------------|----------------------|-----------------------------------|--------------------|------------------|
| | Land | Buildings | Specialist Military Equipment | Plant & Equipment | Office & Computer Equipment | Heritage assets | Total group |
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Cost or Valuation | | | | | | | |
| Balance as at 1 July 2015 | 619,649 | 1,282,019 | 3,483,551 | 273,979 | 112,999 | - | 5,772,197 |
| Additions | 1,632 | 75,848 | 247,594 | 6,151 | 17,766 | - | 348,991 |
| Revaluation | 318,271 | 86,215 | - | - | - | - | 404,486 |
| Disposal | (823) | (1,820) | (2,216) | (4,663) | (1,294) | - | (10,816) |
| Work in progress movement | - | (34,554) | 11,182 | 955 | (2,023) | - | (24,440) |
| Other asset movements | - | 50 | - | - | (17) | - | 33 |
| as at 30 June 2016 | 938,729 | 1,407,758 | 3,740,111 | 276,422 | 127,431 | - | 6,490,451 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 1 July 2015 | - | (68,286) | (403,505) | (179,280) | (78,289) | - | (729,360) |
| Depreciation expense | - | (46,294) | (302,868) | (12,107) | (10,508) | - | (371,777) |
| Eliminated on disposal | - | 683 | 1,032 | 4,271 | 1,284 | - | 7,270 |
| Eliminated on Revaluation | - | 113,905 | - | - | - | - | 113,905 |
| Reverse accumulated impairment loss | - | - | 35,383 | - | - | - | 35,383 |
| Other asset movements | - | (8) | - | 17 | 212 | - | 221 |
| as at 30 June 2016 | - | - | (669,958) | (187,099) | (87,301) | - | (944,358) |
| as at 30 June 2016 | 938,729 | 1,407,758 | 3,070,153 | 89,323 | 40,130 | - | 5,546,093 |

C1 Property, Plant and Equipment (Continued)**Parent 2017**

| | Land | Buildings | Specialist Military Equipment | Plant & Equipment | Office & Computer Equipment | Heritage assets | Total group |
|--|----------------|------------------|-------------------------------------|----------------------|-----------------------------------|--------------------|------------------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Cost or Valuation | | | | | | | |
| Balance as at 1 July 2016 | 938,729 | 1,407,758 | 3,740,111 | 276,422 | 127,431 | - | 6,490,451 |
| Additions | 406 | 35,133 | 368,114 | 11,894 | 22,922 | - | 438,469 |
| Revaluation | 44,474 | 270,685 | - | - | - | - | 315,159 |
| Disposal | (8,986) | (8,705) | (23,868) | (19,283) | (12,210) | - | (73,052) |
| Work in progress movement | - | (1,166) | (39,325) | 3,769 | (4,033) | - | (40,755) |
| as at 30 June 2017 | 974,623 | 1,703,705 | 4,045,032 | 272,802 | 134,110 | - | 7,130,272 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 1 July 2016 | - | - | (669,958) | (187,099) | (87,301) | - | (944,358) |
| Depreciation expense | - | (51,024) | (292,570) | (8,731) | (10,091) | - | (362,416) |
| Impairment | - | (7,753) | (19) | (7,586) | (796) | - | (16,154) |
| Eliminated on disposal | - | 43 | 8,925 | 11,846 | 11,396 | - | 32,210 |
| Eliminated on Revaluation | - | 51,058 | - | - | - | - | 51,058 |
| Reverse accumulated impairment loss | - | - | 30,522 | 3,601 | 1,202 | - | 35,325 |
| Other asset movements | - | 7,676 | - | - | - | - | 7,676 |
| as at 30 June 2017 | - | - | (923,100) | (187,969) | (85,590) | - | (1,196,659) |
| as at 30 June 2017 | 974,623 | 1,703,705 | 3,121,932 | 84,833 | 48,520 | - | 5,933,613 |

Restrictions

The NZDF has finance leases on computer equipment with a net carrying amount of \$0.8 million (2016: \$1.2 million). Except for the finance leases, there are no restrictions over the title of the NZDF's property, plant and equipment, nor is any item of property, plant and equipment pledged as security for liabilities.

C2 Work in progress

Work in Progress

The NZDF reimburses the Ministry of Defence twice annually for costs incurred on capital projects. This has the effect of transferring non-departmental capital expenditure from the Ministry of Defence to the NZDF Statement of Financial Position.

Total work in progress as at 30 June 2016 was \$661.0 million (2016: \$701.7 million). This included \$551.0 million for work in progress for capital projects managed by the Ministry of Defence (2016: \$578.7 million).

| 2016 | | | 2017 | |
|------------------|-------------------|-------------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 17,446 | 17,446 | Buildings | 16,280 | 16,280 |
| 671,291 | 671,291 | Specialist military equipment | 631,966 | 631,966 |
| 2,029 | 2,029 | Plant and equipment | 5,798 | 5,798 |
| 10,939 | 10,939 | Office and computer equipment | 6,906 | 6,906 |
| 701,705 | 701,705 | Total Work in Progress | 660,950 | 660,950 |

C3 Intangibles

| 2016 | | | 2017 | |
|---------------------------------|-------------------|------------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| Cost or Valuation | | | | |
| 77,116 | 77,116 | Opening balance | 87,486 | 87,486 |
| 10,353 | 10,353 | Additions purchased | 10,632 | 10,632 |
| - | - | Disposals | (6,492) | (6,492) |
| 17 | 17 | Transfers | - | - |
| 87,486 | 87,486 | Closing Balance | 91,626 | 91,626 |
| Accumulated Amortisation | | | | |
| (40,868) | (40,868) | Opening balance | (46,295) | (46,295) |
| (5,427) | (5,427) | Less amortisation | (6,839) | (6,839) |
| - | - | Eliminated on disposal | 3,073 | 3,073 |
| (46,295) | (46,295) | Closing Balance | (50,061) | (50,061) |
| 41,191 | 41,191 | Net Intangible Assets | 41,565 | 41,565 |

There are no restrictions under the title of the NZDF's intangibles. No intangible assets are pledged as security for liabilities.

C4 Non - Current assets held for sale

Non - Current assets held for sale

The Group classifies non - current assets as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non - current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for distribution. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the Statement of Financial Position.

| 2016 | | 2017 | |
|---|--------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| Non-Current assets held for sale are made up of: | | | |
| 500 | 500 | - | - |
| | | | |
| 500 | 500 | - | - |
| | Total Inventories | | |

The NZDF owned fleet of Iroquois helicopters have been gradually retired as the NZDF has begun a modernisation programme to upgrade its fleet of helicopters. Iroquois engines, previously classified as held for sale, were sold during the year.

Notes to the Financial Statements

D Equity

Accounting Policy

Equity

Equity is the Crown's investment in the NZDF and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the NZDF and the Group. The components of equity are Taxpayers' funds, property, plant and equipment revaluation reserves, non-taxpayers' funds and restricted funds.

The non-taxpayers' funds and restricted funds are the equity in the various Service Museums and Non-Public Funds that are not public money. The restricted funds are those reserves in the NZDF controlled entities that are subject to specific conditions of use, whether under statute or accepted as binding by the NZDF. Transfers from these reserves may be made only for specified purposes or when certain specified conditions are met.

D1 Taxpayers' Funds

| 2016 | | | 2017 | |
|------------------|-------------------|--|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 3,771,995 | 3,771,995 | Opening Balance as at 1 July | 3,738,632 | 3,738,632 |
| 15,710 | 15,770 | Net surplus for the year | 5,081 | 3,857 |
| (22,885) | (22,885) | Transfers from revaluation reserve on disposal of assets | (9,676) | (9,676) |
| (305) | - | Transfers to non-taxpayers' funds | (2,423) | - |
| 4,058 | 4,058 | Transfer of equity | - | - |
| 1,000 | 1,000 | Capital injection | 81,072 | 81,072 |
| 562 | - | Owners contributions | 1,268 | - |
| (197) | - | Capital withdrawal | (4,650) | (4,581) |
| - | - | Transfer of property to LINZ | (8,933) | (8,933) |
| (31,306) | (31,306) | Repayment of surplus | (1,988) | (1,988) |
| 3,738,632 | 3,738,632 | Closing Balance as at 30 June | 3,798,383 | 3,798,383 |

D2 Revaluation Reserve for Property, Plant and Equipment

| Group | | Land | Buildings | Specialist Military Equipment | Plant & Equip- ment | Heritage assets | Total group |
|------------------|--|----------------|------------------|-------------------------------------|---------------------------|--------------------|------------------|
| (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| 1,723,189 | Opening Balance as at 1 July | 912,070 | 1,005,885 | 325,230 | (200) | 14,982 | 2,257,967 |
| 511,893 | Revaluation gains/(losses) | 44,474 | 321,743 | - | - | 6,203 | 372,420 |
| 22,885 | (Gains)/losses transferred to Taxpayers' funds for disposals | 5,625 | 1,239 | 2,812 | - | - | 9,676 |
| 2,257,967 | Closing Balance as at 30 June | 962,169 | 1,328,867 | 328,042 | (200) | 21,185 | 2,640,063 |

| Parent | | Land | Buildings | Specialist Military Equipment | Plant & Equip- ment | Heritage assets | Total group |
|------------------|---|----------------|------------------|--|--|----------------------------|------------------------|
| (\$000) | | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| 1,701,096 | Opening Balance as at 1 July | 907,328 | 1,003,336 | 325,230 | - | - | 2,235,894 |
| 511,913 | Revaluation gains/(losses) | 44,474 | 321,743 | - | - | - | 366,217 |
| 22,885 | (Gains)/losses transferred to Taxpayers' funds for disposals | 5,625 | 1,239 | 2,812 | - | - | 9,676 |
| 2,235,894 | Closing Balance as at 30 June | 957,427 | 1,326,318 | 328,042 | - | - | 2,611,787 |

This reserve reflects revaluation changes of asset classes carried at current valuation.

D3 Non-Taxpayers' Funds

| 2016 | | 2017 | |
|--------------------------|---------------------------|--------------------------|---------------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| 49,694 | - | 50,063 | - |
| 502 | - | 2,492 | - |
| (197) | - | (69) | - |
| 64 | - | 21 | - |
| 50,063 | - | 52,507 | - |

D4 Restricted Funds

| 2016 | | 2017 | |
|--------------------------|---------------------------|--------------------------|---------------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| 2,753 | - | 2,690 | - |
| (63) | - | (21) | - |
| 2,690 | - | 2,669 | - |

The restricted funds of the controlled entities relate to various funds held by the Service Museums and Non-Public Funds including:

- Capital and Museum collection reserves
- Fiduciary funds held for specific purposes of the applicable Non-Public Funds
- Funds held to benefit the members of the Non-Public Funds

Notes to the Financial Statements

E Other Assets and Liabilities

E1 Debtors and Other Receivables

Accounting Policy

Debtors and Other Receivables

Debtors and other receivables are initially recorded at fair value and subsequently at amortised cost after providing for impairment. Impairment of a receivable is established when there is objective evidence that the NZDF will not be able to collect amounts due according to the original terms of the receivable.

| 2016 | | | 2017 | |
|------------------------------------|-------------------|--|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 16,893 | 16,425 | Trade Debtors (gross) | 10,971 | 10,371 |
| (150) | (150) | Less provision for doubtful debts | (146) | (146) |
| 16,743 | 16,275 | Net Debtors | 10,825 | 10,225 |
| - | - | GST Receivable | 4,987 | 4,931 |
| 354,767 | 354,767 | Debtor Crown | 436,967 | 436,967 |
| 371,510 | 371,042 | Total Receivables | 452,779 | 452,123 |
| Total Receivables comprise: | | | | |
| 16,743 | 16,275 | Receivables from exchange transactions | 10,825 | 10,225 |
| 354,767 | 354,767 | Receivables from non-exchange transactions | 441,954 | 441,898 |
| 371,510 | 371,042 | Total Debtors and Other Receivables | 452,779 | 452,123 |

As at 30 June 2017, all overdue receivables have been assessed for impairment and appropriate provisions have been applied, as detailed below.

| Group | | | | | | |
|------------------|-----------------------|----------------|-----------------------|------------------|-----------------------|----------------|
| Gross (\$000) | Impairment (\$000) | Net (\$000) | | Gross (\$000) | Impairment (\$000) | Net (\$000) |
| 355,236 | - | 355,236 | Not past due | 449,740 | - | 449,740 |
| 12,303 | - | 12,303 | Past due to 30 days | 512 | - | 512 |
| 268 | - | 268 | Past due 31 - 60 days | 807 | - | 807 |
| 96 | - | 96 | Past due 61 - 90 days | 86 | - | 86 |
| 3,757 | (150) | 3,607 | Past due > 91 days | 1,780 | (146) | 1,634 |
| 371,660 | (150) | 371,510 | Total | 452,925 | (146) | 452,779 |

| Parent | | | | | | |
|--------------------------|-------------------------------|------------------------|-----------------------|--------------------------|-------------------------------|------------------------|
| Gross (\$000) | Impairment (\$000) | Net (\$000) | | Gross (\$000) | Impairment (\$000) | Net (\$000) |
| 354,767 | - | 354,767 | Not past due | 449,084 | - | 449,084 |
| 12,303 | - | 12,303 | Past due to 30 days | 512 | - | 512 |
| 268 | - | 268 | Past due 31 - 60 days | 807 | - | 807 |
| 96 | - | 96 | Past due 61 - 90 days | 86 | - | 86 |
| 3,758 | (150) | 3,608 | Past due >91 days | 1,780 | (146) | 1,634 |
| 371,192 | (150) | 371,042 | Total | 452,269 | (146) | 452,123 |

Movements in the Provision for Doubtful Debts

| 2016 | | | 2017 | |
|--------------------------|---------------------------|--|--------------------------|---------------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 301 | 301 | Opening Balance | 150 | 150 |
| 16 | 16 | Additional provisions made during the year | 48 | 48 |
| (167) | (167) | Charged against provisions for the year | (52) | (52) |
| 150 | 150 | Closing Doubtful Debt Provision | 146 | 146 |

E2 Inventories

Accounting Policy

Inventories

Inventories are held for distribution or consumption in the provision of services and comprise munitions, technical spares and consumable items.

Inventory intended to be kept for more than one year has been classified as non-current inventory. No inventory is pledged as security for liabilities.

Inventories are recorded at weighted average cost and the total value of inventory reflects any obsolescence or other impairment.

The obsolescence provision is calculated by identifying specific obsolete inventory items and slow moving inventory lines.

| 2016 | | | 2017 | |
|--------------------------|---------------------------|---------------------------------|--------------------------|---------------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 97,359 | 97,244 | Total Current Inventories | 91,871 | 91,769 |
| 257,546 | 257,546 | Total Non - Current Inventories | 257,585 | 257,585 |
| 354,905 | 354,790 | Total Inventories | 349,456 | 349,354 |

The carrying amount of inventory held for distribution is at weighted average cost. The write-down of inventory held for distribution was nil (2016: nil). There have been no reversals of write-downs. The total amount of inventories recognised as an expense during the period was \$160.1 million (2016: 158.4 million).

The loss in service potential of inventory held for distribution is determined on the basis of obsolescence. Inventories were reviewed for obsolete items during 2017. Inventories were determined obsolete, adding \$10.7 million of obsolescence provision (2016: \$16.2 million reduction in provision). Total inventories are net of obsolescence.

No inventory has been pledged as security for liabilities (2016: nil). Some inventory is subject to retention of title clauses.

Inventories by Category

| 2016 | | | 2017 | |
|------------------|-------------------|--------------------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 175,815 | 175,815 | Equipment and spares | 193,481 | 193,481 |
| 108,074 | 108,074 | Ammunition | 96,635 | 96,635 |
| 42,034 | 41,919 | General materials and consumables | 41,119 | 41,017 |
| 22,258 | 22,258 | Stock on board ships | 22,317 | 22,317 |
| 12,177 | 12,177 | Fuel, clothing and other inventories | 12,054 | 12,054 |
| (5,453) | (5,453) | Obsolescence | (16,150) | (16,150) |
| 354,905 | 354,790 | Total Inventories | 349,456 | 349,354 |

E3 Other Financial Assets

| 2016 | | | 2017 | |
|---|-------------------|----------------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| Financial assets at fair value through surplus and deficit | | | | |
| - Held for Trading | | | | |
| 1,620 | 1,620 | Derivative financial instruments | 1,207 | 1,207 |
| 1,392 | 1,392 | Current asset | 1,035 | 1,035 |
| 228 | 228 | Non - Current asset | 172 | 172 |
| 1,620 | 1,620 | | 1,207 | 1,207 |

Financial assets through surplus or deficit reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

| Held-to-maturity investments at amortised cost | | | | |
|---|---|--|---------------|---|
| 25,028 | - | Fixed term deposits and fixed interest bonds | 26,030 | - |
| 21,909 | - | Current asset | 20,948 | - |
| 3,119 | - | Non - Current asset | 5,082 | - |
| 25,028 | | | 26,030 | |

Held-to-maturity investments are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

| Loans and receivables (excluding Debtors and other receivables) | | | | |
|--|--------------|-------------------------------------|---------------|--------------|
| 605 | - | Concessionary loans | 546 | - |
| 360 | - | Current asset | 294 | - |
| 245 | - | Non - Current asset | 252 | - |
| 605 | - | | 546 | - |
| Total other financial assets classified as follows: | | | | |
| 23,661 | 1,392 | Current asset | 22,277 | 1,035 |
| 3,592 | 228 | Non - Current asset | 5,506 | 172 |
| 27,253 | 1,620 | Total Other Financial Assets | 27,783 | 1,207 |

Concessionary loans

| 2016 | | 2017 | |
|--|----------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| 730 | - | 605 | - |
| | Opening balance | | |
| 9 | - | - | - |
| | New loans at nominal value | | |
| (132) | - | (57) | - |
| | Repayments | | |
| (2) | - | (2) | - |
| | Impairment | | |
| 605 | - | 546 | - |
| | Closing Balance | | |
| Total Concessionary loans classified as follows | | | |
| 360 | - | 294 | - |
| | Current assets | | |
| 245 | - | 252 | - |
| | Non - Current assets | | |
| 605 | - | 546 | - |
| | Closing Balance | | |

Concessionary loans are advances that have been made at lower than market terms. NZDF has not received or made any concessionary loans. The loans detailed above relate only to the Group and comprise the following:

The Army Non Public Fund operates a personal loan scheme whereby it provides personal loans up to \$15,000 for army personnel. Personal loans in excess of \$10,000 are secured by the applicant. The personal loans become callable once an employee ceases employment with the Army. A provision of 1% of outstanding loans has been made in line with the Fund's assessment of doubtful debts.

The Royal New Zealand Air Force Central Fund has made advances to Air Force personnel to assist their families with relief from poverty and hardship. In addition, an advance has been made to the RNZAF Base Woodbourne Base Fund.

The Royal New Zealand Naval Benevolent Fund and the Royal New Zealand Naval Officers Benevolent Trust offer home purchase, home improvements and personal loans to Navy personnel.

E4 Creditors and Other Payables

| 2016 | | 2017 | |
|--|-------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| Payables and Deferred Revenue under Exchange Transactions | | | |
| 57,677 | 54,417 | 52,178 | 48,098 |
| - | - | 2,689 | 2,689 |
| 260,236 | 260,184 | 309,453 | 309,389 |
| 23,412 | 23,412 | 27,126 | 27,126 |
| - | - | 349 | 349 |
| 341,325 | 338,013 | 391,795 | 387,651 |
| Payables under Non-Exchange Transactions | | | |
| 666 | 694 | - | - |
| 341,991 | 338,707 | 391,795 | 387,651 |

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

E5 Surplus Repayable to the Crown

| 2016 | | 2017 | |
|------------------|-------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| 15,770 | 15,770 | 3,857 | 3,857 |
| 15,536 | 15,536 | (1,869) | (1,869) |
| 31,306 | 31,306 | 1,988 | 1,988 |
| 31,306 | 31,306 | 1,988 | 1,988 |

The repayment of surplus is required to be paid by the 31st October of each year. There is no difference between the Parent and Group amounts as the other entities making up the Group are not required to make a repayment of surplus.

E6 Provisions**Accounting Policy**

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

| 2016 | | | 2017 | |
|------------------|-------------------|-----------------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| 7 | 7 | Foreign Military Sales | 7 | 7 |
| 452 | 452 | Narrow Neck Lease | 584 | 584 |
| 9,910 | 9,910 | Range Remediation | 9,909 | 9,909 |
| 397 | 397 | Reconstitution of Equipment | 366 | 366 |
| 10,766 | 10,766 | Total Provisions | 10,866 | 10,866 |

| 2016 | | | | | |
|--|---|------------------------------------|----------------------------------|---|-----------------------------|
| | Foreign Military Sales (\$000) | Narrow Neck Lease (\$000) | Range Re-mediation (\$000) | Reconstitution of Equipment (\$000) | Group/ Parent (\$000) |
| Opening balance 1 July 2015 | 7 | 187 | 10,000 | 1,039 | 11,233 |
| Additional provisions made during the year | - | 264 | - | - | 264 |
| Changes against provisions during the year | - | - | (90) | (641) | (731) |
| Closing Balance as at 30 June 2016 | 7 | 451 | 9,910 | 398 | 10,766 |

| 2017 | | | | | |
|--|---|------------------------------------|----------------------------------|---|-----------------------------|
| | Foreign Military Sales (\$000) | Narrow Neck Lease (\$000) | Range Re-mediation (\$000) | Reconstitution of Equipment (\$000) | Group/ Parent (\$000) |
| Opening balance 1 July 2016 | 7 | 451 | 9,910 | 398 | 10,766 |
| Changes against provisions during the year | - | 133 | (1) | (32) | 100 |
| Closing Balance as at 30 June 2017 | 7 | 584 | 9,909 | 366 | 10,866 |

Foreign Military Sales Provision

This provision is an estimate of New Zealand Defence Force's liabilities for Foreign Military Sale Cases that are in the process of being finalised at balance date.

Narrow Neck Lease Provision

This provision is the spreading of lease payments on the Narrow Neck sale and lease back that is subject to a 15 year put option. This provision will start to reverse in 2020.

Range Remediation

This provision is an estimate of New Zealand Defence Force's liability to remediate operational ranges that have been used in overseas deployments.

Reconstitution of Equipment

This is an estimate of the costs to reconstitute equipment in use on deployment.

E7 Employee Entitlements

Accounting Policy

Employee Entitlements

A provision is made in respect of the NZDF's liability for annual, long service, incentive leave and retirement benefits. Annual leave has been calculated on an actual entitlement basis at current rates of pay. Long service, incentive leave and retirement benefits have been calculated on an actuarial basis, by the NZDF based on the estimated present value of future entitlements and inflation and discount rates advised by The Treasury. The actuarial gains and losses on the provision of employee entitlements are recorded through the Statement of Comprehensive Revenue and Expense.

ACC Partnership Programme

The NZDF is an ACC Accredited Employer under the ACC Partnership Programme whereby NZDF accepts the management and financial responsibility for work related illnesses and accidents of employees. Under the ACC Partnership Programme, the NZDF is effectively providing accident insurance to employees and this is accounted for as an insurance contract.

The NZDF manages ACC claims for work related injuries until the claim is closed or for a period of 48 months following the year in which the claim was registered. At the end of this period, any open claims still requiring entitlements are handed back to ACC for management together with the lifetime cost of these claims. ACC calculates the lifetime cost of open claims at hand back. The NZDF liability for these claims ceases at the point of setting the lifetime costs.

The value of the liability for ACC claims is measured as the expected future payments to be made for claims already registered up to the reporting date for which the NZDF has responsibility under the terms of the Accredited Employer Programme.

Superannuation

Obligations for contributions to the Defence Force Superannuation Schemes, State Sector Retirement Savings Scheme, NZDF Kiwi Saver Scheme, Other Kiwisaver Schemes, Government Superannuation Fund Schemes, and National Provident Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

| 2016 | | 2017 | |
|----------------------------------|-------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| Current Entitlement | | | |
| 2,365 | 2,365 | 2,271 | 2,271 |
| 53,877 | 53,859 | 52,906 | 52,884 |
| 945 | 945 | 767 | 767 |
| 57,187 | 57,169 | 55,944 | 55,922 |
| Non – Current Entitlement | | | |
| 4,200 | 4,200 | 4,109 | 4,109 |
| 659 | 659 | 525 | 525 |
| 2,578 | 2,578 | 1,438 | 1,438 |
| 7,437 | 7,437 | 6,072 | 6,072 |
| 64,624 | 64,606 | 62,016 | 61,994 |

Annual leave is calculated using the number of days owing as at the end of June 2017. Incentive and long service leave are actuarially calculated by the NZDF based on inflation and discount rates advised by Treasury to reflect the likelihood of a liability being incurred. Accumulated leave and terminal benefits are paid out on release and their values are actuarially calculated using predicted terminal dates. The provision for the cost of sick leave is calculated based on the additional amount that the NZDF expects to pay as a result of the unused entitlement that has accumulated at the reporting date, in excess of the annual sick leave entitlement.

Inflation has been assumed to be 2.0% and a discount rate between 1.97% and 4.75% percent has been used for future years.

ACC Accredited Employer Programme

The liability for the ACC Accredited Employer Programme has been actuarially calculated by the NZDF based on expected treatment costs, rehabilitation entitlements, income compensation and historical claims information. Claims management practices focus on limiting liability without compromising care and entitlements.

Inflation has been assumed to be 2.0% and a discount rate between 1.97% and 4.75% percent has been used for future years.

The claims management provision allows for the future cost of managing claims applying the ACC standard basis of 8.0% of the total liability.

The value of the liability is not material for the NZDF's financial statements, therefore any changes in assumptions will not have a material impact on the financial statements.

The NZDF has purchased high cost claim cover to limit liability for any one event to \$2.5 million. The NZDF has a stop loss limit since joining the Accredited Employer Programme set at \$11.2 million, which is 160% of the risk.

E8 Finance Leases

Accounting Policy

Finance Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, whether or not the title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance costs are charged to the Statement of Comprehensive Revenue and Expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the NZDF will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Determining lease classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risk and rewards of ownership to the NZDF. Judgement is required on various aspects that include, but are not limited to, the fair value of the lease asset, the economic life of the leased asset, whether or not to include the renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas with an operating lease no such asset is recognised.

The NZDF has exercised its judgement on the appropriate classification of equipment leases and has determined a number of lease arrangements to be finance leases.

| 2016 | | | 2017 | |
|--|-------------------|---|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| Total Minimum Lease Payments Payable | | | | |
| 576 | 576 | Not later than one year | 442 | 438 |
| 1,239 | 1,239 | Later than one year and not later than five years | 802 | 802 |
| - | - | Later than five years | - | - |
| 1,815 | 1,815 | Total Minimum Lease Payments | 1,244 | 1,240 |
| (254) | (254) | Less future finance charges | (145) | (145) |
| 1,561 | 1,561 | Present Value of Minimum Lease Payments | 1,099 | 1,095 |
| Present Value of Minimum Lease Payments Payable | | | | |
| 466 | 466 | Not later than one year PV | 362 | 358 |
| 1,095 | 1,095 | Later than one year and not later than five years PV | 737 | 737 |
| - | - | Later than five years PV | - | - |
| 1,561 | 1,561 | Total Present Value of Minimum Lease Payments Payable | 1,099 | 1,095 |
| Represented by: | | | | |
| 466 | 466 | Current finance lease liabilities | 362 | 358 |
| 1,095 | 1,095 | Non - Current finance lease liabilities | 737 | 737 |
| 1,561 | 1,561 | Total Finance Lease Liabilities | 1,099 | 1,095 |

Description of Leasing Arrangements

The NZDF has entered into finance leases for computer equipment. The net carrying amount of the leased items is shown in the office and computer equipment class of property, plant and equipment in note C1.

The finance leases can be extended at NZDF's option. The NZDF does not have the option to purchase the assets at the end of the lease term. There are no restrictions placed on the NZDF by the finance lease arrangements. Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default in payment.

E9 Other Financial Liabilities

| 2016 | | 2017 | |
|---|-------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| Financial liabilities at fair value through surplus and deficit - held for trading | | | |
| 6,374 | 6,374 | 4,092 | 4,092 |
| Total other financial liabilities classified as follows: | | | |
| 5,001 | 5,001 | 3,628 | 3,628 |
| 1,373 | 1,373 | 464 | 464 |
| 6,374 | 6,374 | 4,092 | 4,092 |

Financial liabilities through surplus or deficit reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

E10 Categories of Financial Instruments**Accounting Policy****Financial Instruments**

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables, payables, held-to-maturity investments, and foreign currency forward exchange contracts or derivatives.

All financial instruments are recognised in the Statement of Financial Position. All revenue and expenses in relation to all financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

Cash and Cash Equivalents

Cash means cash balances on hand and funds on deposit with banks and is measured at its face value. The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Group intends and is able to hold to maturity and that do not meet the definition of debtors and other receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. The held-to-maturity investments are measured at amortised cost.

Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and then restated at their fair value every reporting date. Movements in the fair value of derivatives are recognised in the Statement of Comprehensive Revenue and Expense.

| 2016 | | | 2017 | |
|--|-------------------|---|------------------|-------------------|
| Group (\$000) | Parent (\$000) | | Group (\$000) | Parent (\$000) |
| Loans and Receivables | | | | |
| 65,420 | 62,121 | Cash and cash equivalents | 55,385 | 52,085 |
| 371,510 | 371,042 | Debtors and other receivables | 452,779 | 452,123 |
| 605 | - | Concessionary loans | 546 | - |
| 437,535 | 433,163 | Total Loans and Receivables | 508,710 | 504,208 |
| Fair Value through Surplus and Deficit - Held for Trading | | | | |
| 1,620 | 1,620 | Derivative financial instrument assets | 1,207 | 1,207 |
| (6,374) | (6,374) | Derivative financial instrument liabilities | (4,092) | (4,092) |
| (4,754) | (4,754) | Total Fair Value through Surplus and Deficit | (2,885) | (2,885) |
| Held-to-Maturity Investments | | | | |
| 25,028 | - | Fixed term deposits and fixed interest bonds | 26,030 | - |
| 25,028 | - | Total Held-to-Maturity Investments through Surplus and Deficit | 26,030 | - |
| Financial Liabilities Measured at Amortised Cost | | | | |
| 341,991 | 338,707 | Creditors and other payables | 391,795 | 387,651 |
| 1,561 | 1,561 | Finance leases | 1,099 | 1,095 |
| 343,552 | 340,268 | Total Financial Liabilities Measured at Amortised Cost | 392,894 | 388,746 |

E11 Financial Instrument Risks

The NZDF's activities expose it to a variety of financial instrument risks. The NZDF has a series of policies to manage the associated risks and seeks to minimise exposure from financial instruments.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the NZDF, causing the NZDF to incur a loss.

In the normal course of its business, the NZDF incurs credit risk from trade debtors, and transactions with various approved financial institutions and the New Zealand Debt Management Office (NZDMO). The NZDF does not have significant concentrations of credit in financial instruments.

The Group's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash and cash equivalents, net debtors, held-to-maturity investments and derivative financial instrument assets.

The Group does not require any collateral or security to support financial instruments with either the financial institutions that it deals with, or with the NZDMO, as these entities have high credit ratings.

The Group has risk management policies in place to limit the risk of default of any concessionary loans. These include such policies as having to meet commercial lending eligibility criteria, credit checks, requiring security for loans over certain thresholds, and the establishment of a loan redemption fund collected through levies charged on new loans.

The Group's held to maturity investments consist of term deposits made with various financial institutions and fixed interest stock with various companies or local Government organisations.

Market Risk

Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. The NZDF has a Treasury Management Policy that was approved by the Treasury.

The NZDF uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$138.3 million (2016: \$82.8 million).

Sensitivity Analysis - Cash and Cash Equivalents

At 30 June 2017, if the NZ dollar strengthened by 5% against the major currencies with all other variables held constant, the unrealised gain for the year would have been \$0.82 million lower (2016: \$0.76 million lower).

Conversely, if the NZ dollar weakened by 5% against all the major currencies with all other variables held constant, the unrealised gain for the year would have been \$0.90 million higher (2016: \$0.79 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

Sensitivity Analysis - Derivative Financial Instruments

At 30 June 2017, if the NZ dollar strengthened by 5% against all the hedged currencies with all other variables held constant, the unrealised gain for the year would have been \$7.1 million lower (2016: \$3.7 million lower).

Conversely, if the NZ dollar weakened by 5% against all the hedged currencies with all other variables held constant, the unrealised gain for the year would have been \$7.8 million higher (2016: \$4.1 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

| Sensitivity Analysis - Cash and Cash Equivalents and Derivative Financial Instruments | | |
|--|---|---|
| Currency | If the NZD dollar strengthened by 5% against all significant hedged currencies | If the NZD dollar weakened by 5% against all significant hedged currencies |
| | (\$000) | (\$000) |
| Australian Dollars (AUD) | (1,896) | 2,096 |
| Canadian Dollars (CAD) | (141) | 155 |
| Euro (EUR) | (1,848) | 2,042 |
| Great British Pounds (GBP) | (824) | 911 |
| Norwegian Krone (NOK) | (4) | 4 |
| Swedish Krona (SEK) | (149) | 165 |
| United States Dollar (USD) | (3,050) | 3,371 |
| Other | (26) | 29 |
| Total Currency Impact | (7,938) | 8,773 |

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or the cash flows from a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its cashflow from its interest earning financial assets. The Group holds \$27.8 million of financial assets that are mostly interest bearing with interest revenue generated of \$1.1 million during the year. As the Group does not have a significant concentration of credit in financial instruments, the exposure to interest rate risk is minor and not material to the Group.

Liquidity Risk

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

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash drawdowns from the NZDMO. The NZDF maintains a target level of available cash to meet liquidity requirements.

The following tables analyse the NZDF's financial instruments that will be settled based on the remaining period from reporting date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

| | Carrying amount | Contractual cash flows | Less than 6 Months | Between 6 Months and 1 Year | Between 1 Year and 5 Years | Over 5 Years |
|----------------|-----------------|------------------------|--------------------|-----------------------------|----------------------------|--------------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| 2017 | | | | | | |
| Group | | | | | | |
| Payables | 391,795 | 391,795 | 391,795 | - | - | - |
| Finance Leases | 1,099 | 1,244 | - | 442 | 802 | - |
| Parent | | | | | | |
| Payables | 387,651 | 387,651 | 387,651 | - | - | - |
| Finance Leases | 1,095 | 1,240 | - | 438 | 802 | - |
| 2016 | | | | | | |
| Group | | | | | | |
| Payables | 341,991 | 341,991 | 341,991 | - | - | - |
| Finance Leases | 1,561 | 1,815 | - | 576 | 1,239 | - |
| Parent | | | | | | |
| Payables | 338,707 | 338,707 | 338,707 | - | - | - |
| Finance Leases | 1,561 | 1,815 | - | 576 | 1,239 | - |

| | Liability carrying amount | Asset carrying amount | Contractual cash flows | Less than 6 months | 6-12 months | 1-5 years |
|--|---------------------------------|-----------------------------|---------------------------|-----------------------|----------------|-----------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| 2017 | | | | | | |
| Group/Parent | | | | | | |
| Gross settled forward foreign exchange contracts: | 4,092 | 1,207 | | | | |
| - Outflow | | | 138,295 | 80,065 | 30,240 | 27,990 |
| - Inflow | | | 135,408 | 77,921 | 29,722 | 27,765 |
| 2016 | | | | | | |
| Group/Parent | | | | | | |
| Gross settled forward foreign exchange contracts: | 6,374 | 1,620 | | | | |
| - Outflow | | | 82,775 | 51,875 | 13,053 | 17,846 |
| - Inflow | | | 78,021 | 50,040 | 11,280 | 16,702 |

E12 Fair Value Hierarchy Disclosures

For those financial 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 techniques 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; and
- 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 tables analyse the basis of the value of classes of NZDF's financial instruments measured at fair value in the Statement of Financial Position:

| Group/Parent 2017 | | | | | |
|----------------------------------|------------------------|----------------------|---|------------------|--|
| | Quoted market price | Observable inputs | Significant non observable inputs | Group/ Parent | |
| Actual | (\$000) | (\$000) | (\$000) | (\$000) | |
| Assets | | | | | |
| Derivative financial instruments | - | 1,207 | - | 1,207 | |
| Liabilities | | | | | |
| Derivative financial instruments | - | 4,092 | - | 4,092 | |

| Group/Parent 2016 | | | | |
|----------------------------------|------------------------|----------------------|---|------------------|
| | Quoted market price | Observable inputs | Significant non observable inputs | Group/ Parent |
| Actual | (\$000) | (\$000) | (\$000) | (\$000) |
| Assets | | | | |
| Derivative financial instruments | - | 1,620 | - | 1,620 |
| Liabilities | | | | |
| Derivative financial instruments | - | 6,374 | - | 6,374 |

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

E13 Derivative Financial Instruments

The notional principal amounts of outstanding forward exchange contracts as at 30 June 2016 and 30 June 2017 are noted below. The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on quoted market rates.

| 2016 | | 2017 |
|---------------------|---|---------------------|
| Group/Parent | | Group/Parent |
| (\$000) | | (\$000) |
| Currency | | |
| 14,134 | Australian Dollars (AUD) | 24,468 |
| 2,670 | Canadian Dollars (CAD) | 2,374 |
| 14,630 | Euro (EUR) | 37,390 |
| 16,500 | Great British Pounds (GBP) | 15,402 |
| 454 | Swedish Krona (SEK) | 659 |
| 34,387 | United States Dollar (USD) | 58,002 |
| 82,775 | Total Derivative Financial Instruments | 138,295 |

Notes to the Financial Statements

F Other Key Disclosure And Information

F1 Related Party Information

The NZDF is a wholly owned entity of the Crown. The Government significantly influences the roles of the NZDF as well as being its major source of revenue.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the NZDF would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Key Management Personnel

| 2016 | | 2017 | |
|---|-------------------|------------------|-------------------|
| Group (\$000) | Parent (\$000) | Group (\$000) | Parent (\$000) |
| Executive Group, including the Chief of Defence Force | | | |
| 4,737 | 4,737 | 4,323 | 4,323 |
| 12.0 | 12.0 | 12.0 | 12.0 |

The Defence Act 1990 sets out the statutory military operational responsibilities for the Chief of Defence Force and the Chief of Navy, Chief of Army, Chief of Air Force and Commander of Joint Forces. Civilian members of the New Zealand Defence Force Executive Group do not have military operational responsibilities. No other remuneration or compensation is received other than in their capacity as key management personnel. No remuneration or loans have been made to either key management personnel or close family members of the key management personnel. All key management personnel are within the parent entity.

F2 Explanation of major variances against budget

Explanations of major variances from the NZDF's actuals to Main Estimates/original 2016/17 budget are as follows:

Statement of Comprehensive Revenue and Expense

Revenue crown

Revenue crown was \$52.1 million lower than budgeted as funding required in relation to capital charge payments was lower than originally budgeted. Capital Charge was lower than budgeted due to reductions in the capital charge rate during the year.

Gain on financial instruments

Gains on financial instruments were \$20.9 million higher than budget. Gains on financial instruments are not forecasted in the Main Estimates.

Personnel costs

Personnel costs were forecasted on the basis that any vacant roles would be filled immediately. However, delays in filling vacancies lead to actual costs being lower than budgeted by \$25.4 million. This was partially offset by higher consultancy and professional fees to meet personnel requirements.

Operating costs

Operating costs were \$35.5 million higher than budgeted.

Losses on financial instruments were \$26.0 million higher than budgeted as losses on financial instruments are not forecasted in the Main Estimates.

Inventory obsolescence was \$10.7 million higher than budgeted. A review of inventory during the year identified obsolete inventory which was not included in the budget.

Other movements in operating expenditure included higher than budgeted aircraft maintenance costs due to NZDF's aging fleet. Limitations on the availability of NZDF personnel have contributed to increased costs for dockyard maintenance, consultancy and professional fees. Additionally, delays in the estate regeneration plan have resulted in lower than budgeted planned maintenance. These projects began to catch up at year end. Finally, following the November earthquake some occupied buildings were identified as not fit for purpose, resulting in lower than budgeted rental expenses. This was partially offset by increased unplanned maintenance costs as a result of the earthquake.

Capital charge

Capital charge costs were \$53.9 million lower than budgeted due to reductions in the capital charge rate during the year.

Gain on property, plant, and equipment revaluations

Gains on property valuations were \$366.2 million higher than budgeted. These gains were identified after the 2016/17 budget was completed, in the valuations as at 30 June 2017, and were not included in the budget.

Statement of Financial Position

Cash and cash equivalents

Cash and cash equivalents were \$32.3 million higher than budgeted. During the year, the guideline for cash balances held was amended to between \$20 - \$60 million with a targeted balance of \$50 million.

Debtors and other receivables from non-exchange transactions

Debtors and receivables from non-exchange transactions was \$434.3 million higher than budgeted. This is in relation to lower than forecasted capital expenditure, higher than forecasted capital injections and a higher accrual balance at 30 June.

Property, plant and equipment

Property, plant and equipment was \$571.1 million higher than budgeted. This was primarily due to the gain on property valuations for 2016 of \$511.9 million and for 2017 \$366.2 million. These gains were identified after the 2016/17 budget was completed, in valuations as at 30 June 2016 and 2017, and were not included in the budget. This has been offset by capital expenditure being \$348.2 million lower than budgeted and disposal of assets being \$40.8 million higher than budgeted. The reduction in capital expenditure relates to the timing of capital projects following the adoption of the 2016 Defence White Paper.

Creditors and other payables under exchange transactions

Creditors and other payables under exchange transactions are \$114.5 million higher than budgeted. This is largely due to Ministry of Defence accruals and payables being higher than forecasted.

Statement of Cash Flows

Cash flow from Operating Activities

Cash flow from Operating Activities was \$252.6 million lower than budgeted. Receipts from the Crown were \$404.3 million lower than budgeted. This is due to the lower than budgeted revenue from the Crown and higher than budgeted Debtor Crown. Payments to employees are \$21.1 million lower than budgeted due to unfilled positions. Payments to suppliers are \$75.3 million lower than budgeted. This is largely in relation to creditors and other payables being \$139.4 million higher than budgeted at 30 June. Payments for capital charge is \$53.9 million lower than budgeted due to a decrease in the capital charge rate during the year.

Cash flow from Investing Activities

Cash flow from Investing Activities was \$350.2 million lower than expected due to higher than budgeted receipts from the sale of, and lower than budgeted purchases of, property plant and equipment. Receipts from the sale of property, plant and equipment was \$28 million higher than budget due to unbudgeted sales. Purchases of property, plant and equipment was \$331.9 million lower than budgeted due to reduced capital expenditure. The reduction in capital expenditure relates to the timing of capital projects following the adoption of the 2016 Defence White Paper.

Cash flow from Financing Activities

Cash flow from Financing Activities was \$54.8 million higher than budgeted. Capital injections were \$75.0 million higher than budgeted due to cabinet approvals to implement capital projects. Repayment of surplus was \$14.8 million higher than budgeted as the surplus in 2016 was higher than expected increasing the repayment of surplus required.

F3 Effects of Earthquake

The Event

A magnitude 7.8 earthquake hit the Hurunui/Kaikoura region on 14 November 2016. This event and its aftershocks have caused damage to some NZDF owned or occupied buildings and assets.

The below note outlines the effect of the above event on NZDF owned or occupied buildings and other assets.

Nature of Assets Affected

Buildings

Three buildings leased by NZDF in the Wellington region were deemed unsafe by NZDF and subsequently two have been marked for demolition or are currently being demolished. Discussions are underway with the landlord in regard to one. Fit-out costs for the uninhabitable buildings have been written off or were impaired following the earthquake on 14 November 2016.

Any minor structural damage to buildings owned by NZDF will be incorporated into NZDF maintenance programmes.

Plant & Equipment and Office & Computer Equipment

The earthquake has also meant that some assets such as plant and equipment, and office & and computer equipment were either damaged or are no longer available for use. The assets damaged or unavailable for use were impaired following the earthquake on 14 November 2016. The recoverable amount has been estimated to be nil, based on fair value less costs to sell.

The net book value of assets impaired due to the earthquake is \$16.2 million (2016: nil). The impairment is recorded under depreciation, amortisation and impairment on the Statement of Comprehensive Revenue and Expenses and under impairment expense in the Property, Plant and Equipment note (C1).

Estimated Costs to Repair Damage

Insurance

The NZDF has a Material Damage and Business Interruption Insurance Policy which provides cover for the damage/loss sustained in the 14 November 2016 earthquake. The maximum cover for business interruption is \$25 million. The material damage claim has not yet been quantified. The claim will be offset by a \$10 million deductible and any net operating savings over the business interruption period.

Financial Treatment

Expenditure incurred to 30 June 2017 of \$17.4 million (2016: nil) relating to the costs arising from the earthquake is recorded as \$13.1 million capital and \$4.3 million operating.

F4 Events after Balance Date

There have been no significant events after the balance date.

NON-DEPARTMENTAL SCHEDULES

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

Schedule of Non-Departmental Revenue for the year ended 30 June 2017

| 2016 | | 2017 |
|----------------|---------------------------------------|------------|
| Actual | | Actual |
| (\$000) | | (\$000) |
| Revenue | | |
| 111 | Interest revenue | 119 |
| 5 | Gain on financial instruments | 685 |
| 116 | Total Non-Departmental Revenue | 804 |

Schedule of Non-Departmental Expenditure for the year ended 30 June 2017

| 2016 | | 2017 |
|----------------|--|----------------|
| Actual | | Actual |
| (\$000) | | (\$000) |
| 106,698 | Payment of Veterans Support Entitlement | 97,824 |
| 7,801 | Payment of Assessments, Treatment & Rehabilitation | 9,678 |
| 3,909 | Veterans Independence Programme | 7,458 |
| - | Attendance at Commemorations | 95 |
| 540 | Case Management Expenses | - |
| - | Grants Subsidies | 175 |
| 401 | Works Maintenance | 643 |
| 82 | Non-Recurring Expenses | 63 |
| 1,238 | Non-Deductible GST | 2,011 |
| 247 | Debt Write-Down for Benefits | 9 |
| 37 | Special Annuities | 88 |
| 447 | Losses on financial instruments | 496 |
| 121,400 | Total Non-Departmental Expenditure | 118,540 |

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Schedule of Non-Departmental Assets for the year ended 30 June 2017

| 2016 | | | 2017 |
|--|---|------|--------------|
| Actual | | Note | Actual |
| (\$000) | | | (\$000) |
| Current Non-Departmental Assets | | | |
| 10,976 | Cash and cash equivalents | 2 | 4,572 |
| 77 | Debtors and other receivables | 3 | 281 |
| 1,398 | Prepayments | 3 | 1,033 |
| - | Derivative financial instruments | | 3 |
| 12,451 | Total Current Non-Departmental Assets | | 5,889 |
| Non-Current Non-Departmental Assets | | | |
| 1,819 | Debtors and other receivables | 3 | 1,819 |
| - | Derivative financial instruments | | - |
| 1,819 | Total Non-Current Non-Departmental Assets | | 1,819 |
| 14,270 | Total Non-Departmental Assets | | 7,708 |

Schedule of Non-Departmental Liabilities for the year ended 30 June 2017

| 2016 | | | 2017 |
|---|--|--|--------------|
| Actual | | | Actual |
| (\$000) | | | (\$000) |
| Current Non-Departmental Liabilities | | | |
| 151 | Trade creditors | | 98 |
| 228 | Derivative financial instruments | | 210 |
| 5,100 | Other short term liabilities | | 1,279 |
| 5,479 | Total Current Non-Departmental Liabilities | | 1,587 |
| Non-Current Non-Departmental Liabilities | | | |
| 196 | Derivative financial instruments | | 97 |
| 196 | Total Non-Current Non-Departmental Liabilities | | 97 |
| 5,675 | Total Non-Departmental Liabilities | | 1,684 |

Schedule of Non-Departmental Commitments for the year ended

There are no non-departmental non cancellable capital or lease commitments at 30 June 2017 (2016: nil).

Schedule of Non-Departmental Contingent Assets & Liabilities for the year ended 30 June 2017

There are no non-departmental contingent assets or contingent liabilities at 30 June 2017 (2016: nil).

The accompanying notes form part of these financial statements.

Actual expenditure against the non-departmental appropriations can be found on page 103 - 104.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

NOTES TO THE NON-DEPARTMENTAL SCHEDULES

1 Statement of Accounting Policies for the year ended 30 June 2017

Reporting Entity

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

These non-departmental balances are administered by appropriation, and are consolidated into the Financial Statements of the Government for the year ended 30 June 2017. For a full understanding of the Crown's financial position, financial performance and cash flows for the year, refer to the Financial Statements of the Government.

Section 262(5) of the Veterans' Support Act 2014 requires the Defence Force to incorporate the Veterans' Medical Research Trust Fund's annual report in NZDF's annual report. As at the date of NZDF's annual report, annual reports completed for the Fund for the years ended 31 March 2014 - 2017 have to be audited. Therefore they have not been included. The Fund predominately comprises of cash and investments, which have been included in Note 2.

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 schedules and statements are consistent with New Zealand generally accepted accounting practice and Tier 1 PBE Accounting Standards as appropriate for public benefit entities.

Goods and Services Tax (GST)

The financial statements and schedules are prepared on a GST exclusive basis except for Debtors and Receivables, and Creditors and Payables in the Schedules of Non-Departmental Assets and Liabilities, which are GST inclusive.

The GST content of the individual appropriations is reported as an expense item and not claimed back from the Inland Revenue Department (IRD).

Foreign Currency

Foreign currency transactions are converted to New Zealand currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities in foreign currencies at reporting date are translated at the closing mid-point exchange rate prevailing at that date.

Gains and losses resulting from foreign currency transactions are recognised in the Schedule of Non-Departmental Expenditure.

2 Cash and Cash Equivalents

Accounting Policy

Cash and Cash Equivalents

Cash means cash balances on hand and funds on deposit with banks. The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

| 2016 | | 2017 |
|----------------------------------|---|--------------|
| Actual | | Actual |
| (\$000) | | (\$000) |
| Cash and cash equivalents | | |
| 10,097 | Administered by the NZDF | 3,672 |
| 879 | Administered by the Veterans' Medical Research Trust Fund | 900 |
| 10,976 | Total Cash and Cash Equivalents | 4,572 |

3 Debtors and Other Receivables

Accounting Policy

Debtors and Receivables

Debtors and other receivables are recorded at their fair value after providing for impairment. Impairment of a receivable is established when there is objective evidence that the NZDF will not be able to collect amounts due according to the original terms of the receivable.

| 2016 | | 2017 |
|--------------|--|--------------|
| Actual | | Actual |
| (\$000) | | (\$000) |
| 77 | Debtors and other receivables | 281 |
| 1,398 | Prepayments | 1,033 |
| 1,475 | Total Current Debtors and Other Receivables | 1,314 |
| 1,819 | Loan to Vietnam Veterans' and their Families Trust | 1,819 |
| 1,819 | Total Non - Current Debtors and Other Receivables | 1,819 |
| 3,294 | Total Debtors and Other Receivables | 3,133 |

As at 30 June 2017, all receivables have been assessed for impairment.

Concessionary loans

| 2016 | | 2017 |
|--|--|--------------|
| Actual | | Actual |
| (\$000) | | (\$000) |
| Vietnam Veterans' and their Families Trust Loan | | |
| 1,589 | Opening balance | 1,700 |
| 111 | Interest Unwind | 119 |
| 1,700 | Closing balance at 30 June 2017 | 1,819 |

The Vietnam Veterans' and their Families Trust Loan was provided for the purpose of assisting veterans and their families with relief from poverty and/or hardship. The loan was granted for a 30 year period. A discount rate of 7% has been used to present value the loan.

4 Financial Instruments

Accounting Policy

Financial Instruments

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables and payables, and derivative financial instruments.

All financial instruments are recognised in the Schedule of Non-Departmental Assets and Liabilities. All revenue and expenses in relation to all financial instruments are recognised in the Statement of Non-Departmental Expenditure and Appropriations.

Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and then restated at their fair value every reporting date. Movements in the fair value of derivatives are recognised in the Statement of Comprehensive Revenue and Expense.

Credit Risk

Credit risk is the risk that a third party will default on its obligations, causing the Crown to incur a loss. Credit risk arises from debtors and deposits with banks.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. The NZDF is only permitted to deposit funds with Westpac, a registered bank.

Liquidity Risk

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

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash draw downs from the NZDMO. The NZDF maintains a target level of available cash to meet liquidity requirements.

Market Risk

Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. VANZ has a Treasury Management Policy that was approved by the Treasury and which is administered by the NZDF.

VANZ uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$11 million (2016: \$12 million). As VANZ does not hold a significant amount of forward contracts or foreign currency, the exposure to currency risk from fluctuations in foreign exchange rates is minor and is not considered material.

| 5 Categories of Financial Instruments | | |
|--|--|----------------|
| 2016 | | 2017 |
| Actual | | Actual |
| (\$000) | | (\$000) |
| | Loans and Receivables | |
| 10,976 | Cash and cash equivalents | 4,572 |
| 3,294 | Debtors and other receivables | 3,133 |
| 14,270 | Total Loans and Receivables | 7,705 |
| | Fair Value through Surplus and Deficit - Held for Trading | |
| - | Derivative financial instrument assets | 3 |
| (424) | Derivative financial instrument liabilities | (307) |
| (424) | Total Fair Value through Surplus and Deficit | (304) |
| | Financial Liabilities Measured at Amortised Cost | |
| 5,251 | Creditors and other payables | 1,377 |
| 5,251 | Total Financial Liabilities Measured at Amortised Cost | 1,377 |

6 Fair Value Hierarchy Disclosures

For those financial 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 techniques 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; and
- 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 tables analyse the basis of the value of classes of NZDF's financial instruments measured at fair value in the Statement of Financial Position:

| | Quoted market price (\$000) | Observable inputs (\$000) | Significant non observable inputs (\$000) | Group/ Parent (\$000) |
|----------------------------------|--------------------------------------|---------------------------------|--|-----------------------------|
| Actual | | | | |
| Assets | | | | |
| Derivative financial instruments | - | 3 | - | 3 |
| Liabilities | | | | |
| Derivative financial instruments | - | (307) | - | (307) |

2018 FORECAST FINANCIAL STATEMENTS

Forecasted Statement of Comprehensive Revenue and Expense

| | 2018 |
|---|---------------------------------|
| | Group Unaudited Forecast |
| | (\$'000) |
| Revenue from non-exchange transactions | |
| Crown | 2,543,966 |
| Revenue from exchange transactions | |
| Departmental revenue | 6,313 |
| Other revenue | 7,762 |
| Interest revenue | 20 |
| Total Revenue | 2,558,061 |
| Expense | |
| Personnel costs | 966,429 |
| Operating costs | 841,671 |
| Finance costs | 181 |
| Depreciation and amortisation | 391,893 |
| Capital charge | 362,727 |
| Total Expense | 2,562,901 |
| Net Surplus/(Deficit) | (4,840) |
| <i>Items that will not be reclassified to Net Surplus/(deficit)</i> | |
| Other Comprehensive Revenue and Expense | |
| Gain/(Loss) on property, plant, and equipment revaluations | - |
| Other revaluation movements | - |
| Total Other Comprehensive Revenue and Expense | - |
| Total Comprehensive Revenue and Expense | (4,840) |

Forecasted Statement of Financial Position as at 30 June 2018

| | 2018 |
|--|---------------------------------|
| | Group Unaudited Forecast |
| | (\$'000) |
| Assets | |
| Current Assets | |
| Cash and cash equivalents | 50,000 |
| Debtors and other receivables from exchange transactions | 31,705 |
| Debtors and other receivables from non-exchange transactions | 146,657 |
| Prepayments | 50,489 |
| Inventories | 99,189 |
| Derivative financial instruments | 1,620 |
| Total Current Assets | 379,660 |
| Non - Current Assets | |
| Property, plant and equipment | 6,014,873 |
| Intangible assets | 42,896 |
| Inventories | 262,697 |
| Total Non-Current Assets | 6,320,466 |
| Total Assets | 6,700,126 |
| Liabilities | |
| Current Liabilities | |
| Creditors and other payables under exchange transactions | 276,346 |
| Creditors and other payables under non-exchange transactions | 694 |
| Surplus repayable to the Crown | (4,840) |
| Provisions | 10,751 |
| Employee entitlements | 79,636 |
| Finance leases | 466 |
| Derivative financial instruments | 6,374 |
| Total Current Liabilities | 369,427 |
| Non - Current Liabilities | |
| Employee entitlements | 8,382 |
| Finance leases | 395 |
| Total Non - Current Liabilities | 8,777 |
| Total Liabilities | 378,204 |
| Net Assets | 6,321,922 |
| Equity | |
| Taxpayers' funds | 4,019,912 |
| Revaluation reserve | 2,249,257 |
| Non-taxpayers' funds | 50,063 |
| Restricted funds | 2,690 |
| Total Equity | 6,321,922 |
| Total Liabilities and Taxpayers' Funds | 6,700,126 |

Forecasted Statement of Changes in Equity for the year ended 30 June 2018

| 2018 | |
|---|------------------|
| Group Unaudited Forecast | |
| (\$000) | |
| Balance at 1 July | |
| Taxpayers' funds | 3,823,834 |
| Revaluation reserve | 2,249,257 |
| Non-taxpayers' funds | 50,063 |
| Restricted funds | 2,690 |
| | 6,125,844 |
| Net surplus for the year | (4,840) |
| Total Comprehensive Revenue and Expense for the Year | (4,840) |
| Owner Transactions | |
| Repayment of surplus | 4,840 |
| Capital injection | 196,078 |
| Balance as at 30 June | 6,321,922 |
| Taxpayers' funds | 4,019,912 |
| Revaluation reserve | 2,249,257 |
| Non-taxpayers' funds | 50,063 |
| Restricted funds | 2,690 |

Forecasted Statement of Cash Flow for the year ended 30 June 2018

| 2018 | |
|---|------------------|
| Group Unaudited Forecast | |
| (\$000) | |
| Cash Flow - Operating Activities | |
| Non-exchange receipts from Crown | 2,791,412 |
| Exchange receipts from departmental and other revenue | 14,075 |
| Payments to employees | (965,029) |
| Payments to suppliers | (971,714) |
| Payments for capital charge | (362,727) |
| Goods and services tax (net) | - |
| Net Cash Flow from Operating Activities | 506,017 |
| Cash Flow - Investing Activities | |
| Interest revenue | 20 |
| Purchase of property, plant and equipment | (700,608) |
| Purchase of intangible assets | (7,611) |
| Net Cash Flow from Investing Activities | (708,199) |
| Cash Flow - Financing Activities | |
| Capital injection | 196,078 |
| Repayment of surplus | 6,104 |
| Net Cash Flow from Financing Activities | 202,182 |
| Net increase/(decrease) in cash | - |
| Cash at the beginning of the year | 50,000 |
| Cash and Cash Equivalents at the End of the Year | 50,000 |

NOTES TO THE 2018 FORECAST FINANCIAL STATEMENTS

1 Statement of Significant Assumptions

Statement of Significant Assumptions

These statements have been compiled on the basis of government policies and the New Zealand Defence Force (NZDF) Output Plan agreements with the Minister for Defence at the time the statements were finalised.

The 2016/17 budgeted figures are based on management's judgments, estimates and assumptions of the final 2016/17 outcome and are used as the opening position for 2017/18 forecasts.

Key assumptions underlying this forecast are:

- The department's activities will remain substantially the same as for the previous year.
- There will be no significant change in government policies or the New Zealand Defence Force's Output Plan agreement with the Minister of Defence.
- Ministry of Defence payments reflect the forecast payments for acquisition projects which have been approved by Cabinet. Should additional projects be approved during the year, there may be payments for these projects during the year.
- There will be no major changes in exchange rates.
- The capital charge rate for the year ending 30 June 2018 is assumed to be 6.0% per annum.
- Operating costs are based on historical experience. The general historical pattern is expected to continue.

2 Statement of Entity - Specific Accounting Policies

Basis of preparation

These forecast financial statements have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS). They comply with PBE FRS 42 Prospective Financial Statements.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of the NZDF.

Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

The NZDF has applied the accounting policies set out in the Statement of Accounting Policies included in the financial statements, except as stated below.

Reporting Entity

These are the prospective financial statements of the NZDF, prepared in accordance with section 38 of the Public Finance Act 1989.

The NZDF is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting the NZDF is a public benefit entity.

The prospective financial statements are prepared for NZDF and its controlled entities. Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The other entities forming the Group are non-public funds and do not have the same reporting requirements as the parent.

Authorisation Statement

These forecast financial statements were authorised for issue by the update date to 2 May 2017. The Chief of Defence Force as the Chief Executive of the NZDF is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosures.

While the NZDF regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2018 will not be published.

3 Specific Accounting Policies

Property, Plant and Equipment

Capitalisation thresholds applied are set out below:

| | | |
|---|--|---------|
| IT Equipment/Hardware | | \$5,000 |
| All other property, plant and equipment | | \$5,000 |

Depreciation

The estimated useful lives of property, plant and equipment are set out below:

| | | |
|--------------------------------|--|---------------|
| Buildings | | 5 - 100 years |
| Leasehold improvements | | 2 - 25 years |
| IT Equipment/Hardware | | 2 - 5 years |
| Motor vehicles | | 10 - 15 years |
| Furniture and office equipment | | 2 - 20 years |
| Specialist Military Equipment | | 5 - 55 years |
| Other Plant and Equipment | | 2 - 50 years |

Revaluation

Land, Building and Specialist Military Equipment asset classes are subject to revaluation every 5 years. Valuations use a market-based approach where possible. Where reliable market evidence is unavailable optimised depreciated replacement cost (ODRC) is used to calculate fair value.

Intangible assets

Capitalisation thresholds applied are:

| | | |
|-------------------------------|--|---------|
| Purchased software | | \$5,000 |
| Internally developed software | | \$5,000 |

The estimated useful lives of intangible assets are set out below:

| | | |
|-------------------------------|--|--------------|
| Purchased software | | 3 - 20 years |
| Internally developed software | | 3 - 20 years |

Inventories

Inventories are held for distribution or consumption in the provision of services and are comprised of munitions, technical spares and consumable items. Inventory intended to be kept for more than one year has been classified as non-current inventory. Inventories are recorded at weighted average cost and the cost of inventory reflects any obsolescence or other impairment.

