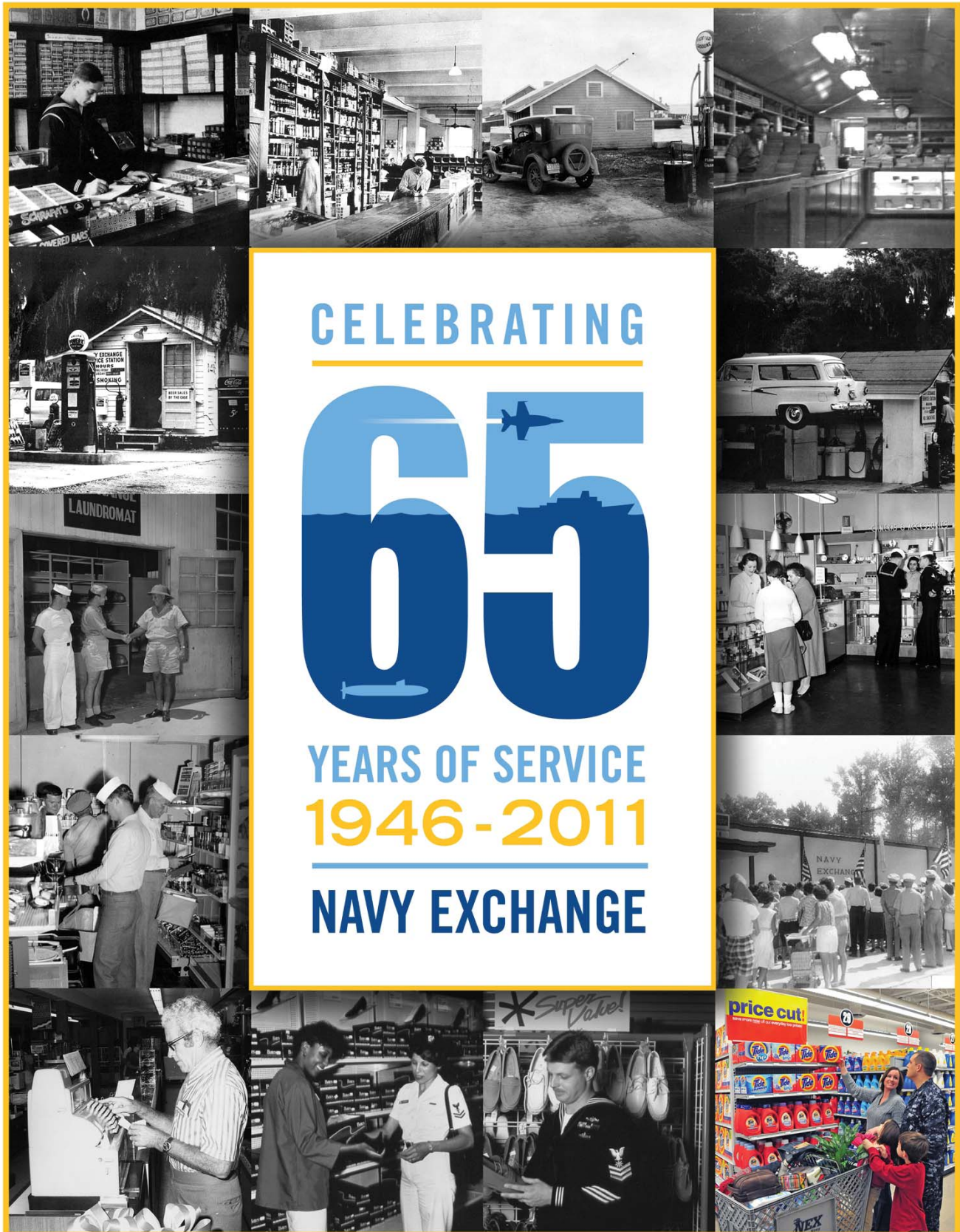


NAVY EXCHANGE SERVICE COMMAND 2011 ANNUAL REPORT



/FROM THE CEO

2011 was a milestone year as the Navy Exchange Service Command (NEXCOM) Enterprise celebrated its 65th anniversary on April 1. Over the past 65 years, we have worked diligently to support Sailors and their families around the world. Today, NEXCOM provides oversight for 100 Navy Exchange (NEX) complexes with nearly 300 stores, 40 Navy Lodges, 158 ships stores as well as the Telecommunications Program Office, the Uniform Program Management Office and the Navy Clothing Textile and Research Facility (NCTRF). Worldwide, the NEXCOM Enterprise employs 14,000 associates, 27 percent of whom are military family members.

As part of the initiative to reduce flag and general officers within the Department of Defense (DoD), NEXCOM's flag officer billet was converted to a non-appropriated senior civilian billet. I was selected as NEXCOM's first Chief Executive Officer (CEO) in January 2012. Rear Adm. Glenn Robillard, the 29th and final military commander of NEXCOM, relinquished command on August 2, 2011. His departure ended the flag level command that has been in effect since NEXCOM was established in 1946. This initiative is consistent with civilian leadership changes across other military service retail activities, such as Defense Commissary Agency (DeCA), Marine Corps Exchange, Veteran's Service Canteen and Army and Air Force Exchange Service.

This leadership transition does not change the command's mission, operation or workforce. The NEXCOM Enterprise will continue to take care of its military members and their families by delivering exceptional goods and services as we have for the past 65 years.

One way the NEXCOM Enterprise took care of its military family in 2011 was during Operation Tomodachi in the wake of the earthquake, tsunami and nuclear disaster in Japan. NEXs in Japan worked closely with the Commander, Navy Region Japan to ensure there was enough water, batteries and fuel available to families in the weeks following the disaster. The NEXs also stayed open regular hours, despite having a decreased work staff, to ensure customers had access to the products and services they needed. Our Navy Lodges also got involved, housing families who were evacuated to the United States from Japan. Finally, our vendor partners also helped out by donating goods including prepaid phone cards, toys, school supplies and food items to those displaced families. The NEXCOM Enterprise did what it does best – pull together to support our Navy family in both good times and during a crisis.

The NEXCOM Enterprise financial position remained strong in 2011. Total annual sales were \$2.8 billion with a net profit of \$61 million which generated \$43 million in dividends for Morale, Welfare and Recreation (MWR) programs. It also generated \$18 million for reinvestments in NEXs to improve our customers' shopping experience and to remain competitive within the retail market. Total annual sales for Navy Lodges were \$66 million with a net profit of \$11 million. Ships store sales were \$73 million with profits of \$13 million.

As we look to the future, we will work towards the three overarching goals reflected in our 2015 Strategic Plan: (1) Strengthen Navy Community Readiness; (2) Deliver the Benefit to our Sailors and their Families; and (3) Grow the Benefit through Sustainability and Continuous Improvement. We will always remain laser focused on our mission of delivering quality goods and services at a savings to our Sailors and their families.

/s/

R. J. BIANCHI
Rear Adm., Supply Corps, U.S. Navy (Ret.)
Chief Executive Officer
Navy Exchange Service Command



NEX Corpus Christi, Texas

NAVY EXCHANGES

MISSION:

To provide iconic brands and quality goods and services to our customers at a savings and support Navy quality of life programs.

ACCOMPLISHMENTS:

In celebration of the NEX's 65th Anniversary, a variety of giveaways and promotions were offered throughout the year. As one of the final giveaways, a sweepstakes drawing was conducted providing 65 \$1,000 NEX Gift Cards to authorized shoppers.



NEX Belle Chasse, La.

NEX Belle Chasse, La., held the grand opening of its new 56,000 sq. ft. store on February 8. This NEX replaces NEX New Orleans, La., which was closed due to Base Realignment and Closure (BRAC) action in June 2011.

On June 29, the ribbon was cut at NEX Norfolk, Va., to open its newly expanded main store. With more than 180,000 square feet of retail space, it is now the largest NEX in the world. The \$25 million non-appropriated fund project took three years to complete.

The grand opening for the newly renovated NEX Whidbey Island, Wash., was held on October 13. The renovation added 12,000 sq. ft. to the existing 99,000 sq. ft. store.

NEX Bethesda, Md., officially closed on March 8 to make way for a bigger, more modern store. A temporary store, located in a trailer, opened on March 18. The new 150,000 sq. ft. NEX is scheduled to open in November 2012.



NEX Whidbey Island, Wash.

BRAC decisions closed several NEX locations including NEX Athens, Ga., on January 8; NEX Willow Grove, Pa., on January 29; NEX Brunswick, Maine, on October 8; and the Quarters K gas station in Washington, DC, on October 30. Due to the planned demolition of the Navy Annex, the NEX Arlington Uniform Shop was relocated into temporary trailers located at Joint Base Fort Myer/Henderson Hall, Va., on October 27.



NEX Norfolk, Va.

NEXCOM partnered with Interbrand Design Forum to launch a new brand strategy in select NEXs and in various NEXCOM marketing pieces. The rebranding included using the NEX sales flyers to reinforce key elements of the initiative. Select NEX locations also feature "Heart and Soul" graphics, colors, fonts and messaging to show the stores' connection to the military.

NEXCOM's Marketing Communications department continued to use social media to connect with NEX customers. The

number of Facebook fans increased to 115,000, up from 82,362 in 2010. NEXCOM posted 847 messages on Facebook in FY11 vs. 394 messages the previous year for 33,041,863 impressions. Response to posts on Facebook within the target time of two hours averaged 90 percent. NEXCOM had 10,000 Twitter followers.



NEX Norfolk, Va.

NEXCOM's Merchandising team launched a collaborative effort with Procter & Gamble and Interbrand Design Forum to execute an in-market test of setting separate Him, Her, Health and Home displays in Health and Beauty Aids/Personal Needs departments in NEX Norfolk, Va. Sales resulted in a 27 percent increase in overall store HBA/Household/Personal Care business versus an overall 8.7 percent increase for these departments in other locations.

NEXCOM implemented the Sears Delivery Program in 26 NEX locations in the continental United States and Pearl Harbor for a variety of merchandise including furniture and appliances. Sears performs all delivery and installations for Tier 1 - 4 NEXs. From June - October 2011, there were 14,049 deliveries performed under the contract, delivering 46,784 units of product.

During the 2010-2011 school year, NEXCOM awarded \$44,000 in savings bonds to qualified students of military families through its NEX A-OK Student Reward Program. In its 14th year, the program has awarded a total of \$589,000 in savings bonds which are fully funded by NEXCOM's business partners.

In its first full year of operational business, sales for the NEX web store, www.mynavyexchange.com, were \$7.9 million against a plan of \$8.7 million or 8.3 percent below plan. However, sales were up 165.8 percent to last year. Improvements to the web sites navigation were made with the addition of department tabs and a drop-down menu, both which helped improve conversion rates.



NEX Pearl Harbor, Hawaii

In spring 2011, NEX customers raised a record total of \$158,000 for the Navy Marine Corps Relief Society (NMCRS) through the purchase of NMCRS benefit tickets. Purchased at the NEX for \$5, the benefit ticket entitled customers to specific percent-off discounts on a one-time purchase. The money collected from the sale of each ticket was given to NMCRS to help Sailors and their families in need. NEXCOM Vending presented \$44,000 in vendor contributions to NMCRS through its partnership with the vending industry.



NEXCOM Loss Prevention and Safety Department instituted a new program in conjunction with the National Center for Missing and Exploited Children to feature posters of missing children in many NEXs worldwide.

NEXCOM's Vending Program completed the redesign of its Healthy Alternative Program, which advertised and identified healthier snack items in snack machines. The new program, called Fit Pick™, is an industry program that is now used by all three military exchange programs. For snack products to meet the Fit Pick™

35-10-35 nutrition standard the serving size must be less than 35 percent fat, less than 10 percent saturated fat and less than 35 percent of total weight from sugar (nuts and seeds excluded). Fit Pick™ nutritional criteria are based on the recommendations of the American Heart Association, 2005

USDA Dietary Guidelines for Americans and Alliance for a Healthier Generation.



NEX Whidbey Island, Wash.

The acceptance of the Health Flexible Spending Account (FSA) debit card has been implemented in 26 NEX Vision Centers in the continental United States and Pearl Harbor. The FSA debit card allows customers to make eligible prescription eyewear purchases at the NEX from their personal FSA accounts.

NEXCOM achieved a 0.30 percent inventory shrink, 80 percent below the national average of 1.49 percent according to the 2010 University of Florida National Retail Security Survey. Primary focus was on improving the

execution of the physical inventory process, developing improved information reporting and product protection.

The sixth E85 gas pump was opened at Naval Air Station Pensacola, Fla. NEXCOM continues to open E85 and other alternative fuel facilities in its effort to help DoD and Navy meet its objective of reducing the reliance on petroleum and meet the requirements under Executive Order 13514 and the Energy Independence Security Act of 2007. E85 pumps on Navy installations are available for use by federal, state and local governments, military exchange patrons and the general public.

Customer Appreciation Weekend events were held at NEX Naples, Italy, and NEX Guantanamo Bay, Cuba. NEX Naples, Italy, along with MWR and DeCA partnered to provide a fun filled weekend of entertainment, great sales and food for its 3rd Customer Appreciation Weekend. Highlights of the weekend were performances by the Vans BMX team, a concert featuring local bands, a free picnic style meal prepared by chefs from Diners, Drive-ins and Dives, a book signing by three Medal of Honor recipients and Sideswipe, a mixed martial arts team. NEX Guantanamo Bay held its 10th annual MWR/NEX Customer Appreciation Weekend. Highlights included Marine Corp cookout, shoe clinics, NEX/MWR 5K race, Kinect challenge and a Hum-vee pull.



NEX Naples, Italy



NEX Guantanamo Bay, Cuba

/SHIPS STORES PROGRAM

MISSION:

To provide quality goods at a savings; to provide quality services necessary for day to day living; and to provide funding for afloat recreation needs and promote good morale.

ACCOMPLISHMENTS:

The Navy Cashless System had a total of 150 active ships with Navy Cash; 13 of which were upgraded with the new Navy Cash Tech Refresh.

The Fleet's "special orders," sent to the Ships Stores Program for processing, amounted to 1,136 different transactions, 23.5 percent greater than 2010, worth over \$6.1 million.

The Ships Store Program processed 966 transactions for \$1.3 million of ships store retail merchandise, processed 479 transactions for over \$350,000 in vending machine repairs and minor equipment purchases and processed 13 transactions for \$10,000 in office operating supplies in support of fleet operations totaling 1,458 transactions for over \$1.7 million.

The Ships Stores Program completed its assessment of the Distance Support Resale Operations Management - Enterprise Support (ROM ES) point-of-sale software. Due to escalating costs and a shift in Navy IT requirements, the prototype was ended without moving to installation. It was decided to modernize by using an existing IT application platform that has the capability and sustainability required. The new software application, known as ROM III, is expected to be in the Fleet in 2013.

The Ships Stores Program participated in the development of a futuristic single supply application being developed by the Space and Naval Warfare Command. This project will incorporate ROM III functionality into a Chief of Naval Operations (CNO) mandated solution that will encompass ships stores and other supply functions aboard ships.



USS GEORGE H. W. BUSH (CVN 77)
photo courtesy U. S. Navy

The Ships Stores Program participated in the awards process for services needed to operate the functions of Navy Electronic Commerce Online (NECO). NECO enables ships stores to place orders utilizing Electronic Data Interchange (EDI) and for vendors to invoice using EDI to obtain the lowest rate for transaction processing, streamlining the procurement process.

The Ships Stores Program's military personnel assisted ships liquidate over \$736,000 in unmatched receipts, increasing money available to the individual ship's MWR funds. They assisted in the review and creation of over 3,200 Navy-wide Ship's Serviceman (SH) advancement test questions in collaboration with the Navy Education and Training Professional Development and Technology Center and participated in SH in-rating training manual reviews with Center for Support Service, Newport, RI. They also provided technical assistance and resolutions for over 529 ROM II software issues, portable data terminals, point-of-sale and Navy Cash and computer hardware issues to Fleet customers.



USS RONALD REAGAN (CVN 76)
photo courtesy U.S. Navy

NAVY LODGE PROGRAM

MISSION:

The Navy Lodge Program provides safe, clean and affordable PCS accommodations worldwide.

ACCOMPLISHMENTS:

The Navy Lodge Program started 2011 with 40 operations and 3,169 rooms. It closed the year with 40 operations and 3,318 rooms.

Reset projects were completed on a total of 540 rooms at Naval Air Station Oceana-Dam Neck, Va.; Naval Station Great Lakes, Ill.; Naval Support Activity Mid-South (Navy Inn Millington), Tenn.; Naval Station Newport, R.I.; Naval Air Station Pensacola and Naval Station Mayport, Fla.; Moffett Federal Airfield, Calif. and Commander, Fleet Activities Yokosuka, Japan.

Navy Lodge Bethesda, Md., provided support to wounded service members / military medical and their families. During the year, over 13,562 room nights were utilized.



Navy Lodge Great Lakes, Ill.



Navy Lodge North Island, Calif.

Navy Lodge North Island, Calif., located on Naval Base Coronado, opened a new building that added 105 guest rooms and family suites. This made it the largest Navy Lodge location with a total 305 rooms.

DoD Lodging Reservation Center booked reservations for over 90 hotels including Navy Lodges, Navy Gateway Inns and Suites (NGIS) and Army lodging. During 2011, 416,347 calls were made to the DoD Lodging Reservation Center.

The Navy Lodge Program began offering eco-friendly shampoo, conditioner and soap from the Terra Green amenity line by American Hotel Register Company in all Navy Lodges worldwide. Terra Green products are made with organic ingredients and are packaged in 100 percent recycled paper. The shampoo and conditioner containers feature eco-friendly additives which react to the combination of oxidation and biodegradation processes by completely disintegrating the plastic into organic compounds. In addition, all of the printing used on the Terra Green line consists of soy based ink.

The continental breakfast concept was developed to give guests a free breakfast in the morning when staying at a Navy Lodge. The breakfast options vary depending on location. A worldwide rollout of the concept is scheduled for 2012.

Navy Lodge Gulfport, Miss., held the groundbreaking ceremony on April 6 for its new 43,930 sq. ft., 50 room lodge.



Navy Lodge Dam Neck, Virginia Beach, Va.

The new lodge will feature one and two bedroom suites with one to two full baths as well as Internet access, flat screen TVs, playground, meeting rooms and an exercise room. The new lodge is expected to open in summer 2012.

Two Navy Lodges received awards from the American Hotel and Lodging Association Educational Institute (AHLA EI) based on exemplary achievement in the hospitality industry. The Meritorious Award, the highest award issued by the AHLA EI, was presented to Navy Lodge Bangor, Wash. The Gold Pineapple Award was presented to Navy Lodge Lemoore, Calif. The AHLA EI's other top award, the Gold Pineapple, recognizes hotels that achieve exceptional standards by placing a high value on professional development, training and continued education with the results of increased guest satisfaction and associate certification.



Navy Lodge Gulfport, Miss.

As a result of the earthquake and subsequent tsunami and nuclear disaster that hit Japan in March, many military families were evacuated. Navy Lodges throughout the continental United States housed 531 people who left Japan as part of the Voluntary Military Assisted Departure. Navy Lodge San Diego alone housed 98 families consisting of 133 adults, 183 children and three pets.



Navy Lodge San Diego, Calif.



Navy Lodge Washington, D.C.



Navy Lodge Pearl Harbor, Hawaii

TELECOMMUNICATIONS PROGRAM OFFICE

MISSION:

The Telecommunications Program Office acts as the Navy's program manager for all unofficial ashore and afloat personal telecommunications.

ACCOMPLISHMENTS:

The Telecommunications Program Office provided 32,350 \$10 AT&T phone cards to Coast Guard vessels, submarines and forward deployed forces that had AT&T Direct Ocean Service and were deployed for the December holiday season. This is the ninth holiday in a row that the Telecommunications Program Office has given free phone cards to deployed military members.



USS WASP (LHD 1)

Service members stationed at Camp Lemonnier in the Horn of Africa received WiFi service in their living areas. The Telecommunications Program Office worked with the Commander, Naval Installations Command's (CNIC) official network group at Camp Lemonnier to create a contract with the local Djiboutian phone company, Djibouti Teleco. This allowed for pay-for-service inside each container living unit, similar to the standard Internet service in the United States. Cost for the Internet service varied depending on the length of time purchased and the speed of the connection, but prices started at \$15.

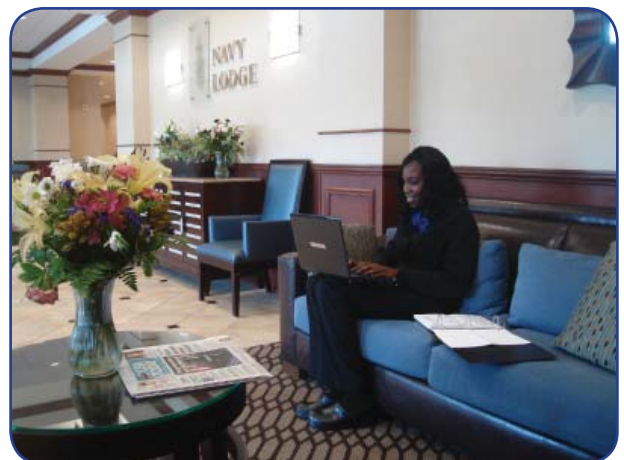
In a joint effort between MWR and the Telecommunications Program Office, Wi-Fi service was delivered to the Wounded Warrior Ward at Naval

Hospital San Diego.

Working with CNIC, Navy Gateway Inn and Suites and the Navy Lodge Program, the Telecommunications Program Office developed an internet service program to provide new and improved performance WiFi services to all locations in the continental United States as well as most overseas facilities.

The Telecommunications Program Office completed the removal of 250 nonproductive pay phones on Navy bases to reduce service providers cost and completed 15 shipboard system grooms, four system removals from decommissioning ships and three shipboard installations.

The Telecommunications Program Office provided AT&T prepaid phone cards to the winners of the Ships Store Best in Class Award.



Navy Lodge Norfolk, Va.

/UNIFORM PROGRAM MANAGEMENT OFFICE

MISSION:

To provide, in cooperation with its business partners, 100 percent availability of approved, certified, highest-quality uniforms and professional tailoring at the lowest possible price for the military customer.

ACCOMPLISHMENTS:

Designed and produced a Navy working uniform fleece retro-fit kit for adding a rank tab to facilitate using the fleece as outer wear.

Continued development of a physical fitness suit, service dress khaki, service dress white and service dress blue.

NEX NROTC/NJROTC Program continued to support over 5,500 midshipmen at 90 universities and over 80,500 cadets at 639 high schools representing \$7.4 million in sales, a 25 percent increase.



NEX Lakehurst, N. J.

Uniform Program Management Office supported 4,466 chief petty officer selectees at events at NEXs and several AAFES locations. Sales for the event were \$4.7 million.

The Uniform Support Center (USC) continued to provide uniform support for the Armed Forces Mortuary at Dover, Del., and to the service members forward deployed and away from NEX Uniform Shops.

During 2011, USC answered 112,956 phone calls, processed 313,658 orders, including 115,338 web orders, and answered 11,423 e-mails. USC generated \$20.8 million in total sales in 2011.

The new E4-E6 Insignia Convenience Kits were launched for spring advancements and were a huge hit with enlisted Sailors, with sales of 3,597 kits. The kits included all the basic rank insignia, boot band blouser and a Navy working uniform print shave bag tote.

A total of 473 new insignia items and accessories were launched which generated sales of \$455,500. The new products were the chief petty officer cutlass and sword accessories, including nylon carrying case and shadow boxes; E4-E6 insignia kits; black 100 percent cotton t-shirts; Type II and III digital insignias; polar fleece jacket conversion kit; Navy ribbon spacer guide; Ceremonial Guard service dress blue sleeve command patch and Army Combat Uniform sew-on insignia.



NEX Corry Station, Fla.

NAVY CLOTHING TEXTILE AND RESEARCH FACILITY

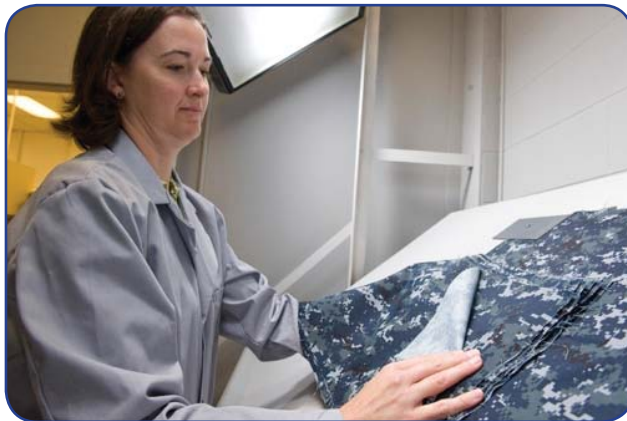
MISSION:

To perform research, development, testing, evaluation and engineering support for service/dress uniforms and protective clothing.

NCTRF, co-located at the Natick Soldier Systems Center in Natick, Mass., conducts research, development, test, evaluation and engineering support for Navy uniforms and personal protective clothing. NCTRF also provides similar support to other military services, governmental agencies, and industry partners on a reimbursable basis.

ACCOMPLISHMENTS:

To more scientifically pinpoint specific deficiencies in the quality of women's uniforms, NCTRF funded the Navy Personnel, Research, Studies and Technologies group to query female Navy personnel regarding uniforms. Several modifications were immediately implemented on female chief petty officer/officer uniforms including improving the hem finish on khaki shirts, improving the inside waistband construction on khaki slacks and improving method of button attachment on service dress blue and white coats.



Navy Clothing Textile and Research Facility

NCTRF provided technical and acquisition support to the Navy working uniform type II/III Program Manager – Naval Facility Command (NAVFAC). Support included conducting 49 quality assurance plant inspections for a total of 103 lot inspections; developing technical data packages for procurement transition to Defense Logistics Agency Troop Support; monitoring shade and near infrared reflection evaluations for all production yardage; participating in Logistics Integrated Product Teams, Program Management Reviews and vendor update meetings; fielding technical support related questions from vendors and users; and initiating a review of permethrin treatments.



NEX Belle Chasse, La.



NEX Arlington, Va.

NEXCOM ENTERPRISE

MISSION:

To provide authorized customers quality goods and services at a savings and to support quality of life programs for active duty military, retirees, reservists and their families.

ACCOMPLISHMENTS:

NEXCOM's Human Resources Department introduced Health Incentive Credit (HIC) for Aetna Health Plan participants to encourage active and retired participants to get their annual physical or take a Health Risk Assessment. A goal of 20 percent was set for participants to earn the HIC. NEXCOM achieved 40 percent.

NEXCOM's Finance Department implemented the ADP Payroll WorkCenter which eliminated paper pay stubs for NEXCOM Headquarters' associates in January 2012. Associates are now able to access the ADP website from any computer with internet access. Paper pay stubs will be eliminated throughout the rest of the Enterprise in 2012.

PREMIER Customer Service training continued to be rolled out worldwide. To date, 83 percent of customer contact associates have completed PREMIER Customer Service module #1 and 81 percent of managers have completed the Manager Observation module. Since the program was implemented in 2008, there have been continuous increases in customer service related CSI scores. A version of the first module of PREMIER Customer Service was created and given to 639 NEXCOM Headquarters' associates and managers. Working with its food industry partners, NEXCOM began offering an Introduction to PREMIER Customer Service for the managers of food operations located on Navy bases and in NEX food courts.



PREMIER Customer Service Training

NEXCOM's Merchandising Department entered into a partnership with Old Dominion University (ODU), in Norfolk, Va. The partnership brought more than 25 students together with NEXCOM planners, buyers and merchandise managers and introduced them to the many aspects of NEXCOM's retail mission and the various opportunities available to them upon graduation. The partnership also offered opportunities for additional fashion merchandising students in areas of product development, market analysis studies and semester-long internships. To date, of the five Interns NEXCOM successfully trained, two have been hired for full-time employment to Merchandiser positions.



NEX Little Creek, Va.

NEXCOM became a partner in the DoD Military Spouse Employment Partnership at a ceremony in Washington, DC, in October. The program encourages businesses to pledge support to provide career opportunities for military spouses.

/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR



Cynthia Lamont
Financial Systems Specialist
NEXCOM Headquarters
Associate of the Year



Irini Hatzidaki
Sales Clerk/Stocker
NEX Souda Bay, Greece
NEX Worldwide
Associate of the Year



Bill Mayhue
General Manager
Navy Lodge Norfolk, Va.
Navy Lodge Program
Manager of the Year

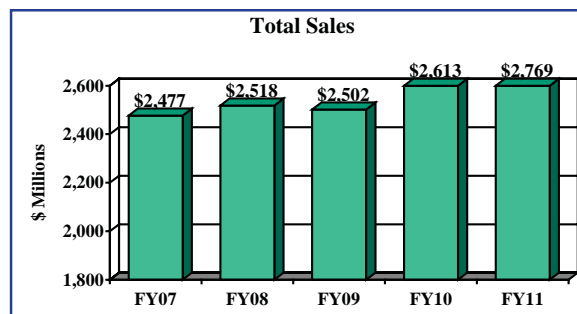


Irene Guerrero
Front Desk Supervisor
Navy Lodge Fort Worth, Texas
Navy Lodge Program
Associate of the Year

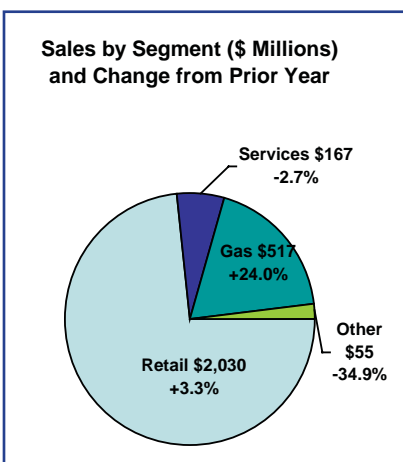
NEXCOM ENTERPRISE 2011 FINANCIAL REVIEW

NEX

During fiscal year 2011, the NEX remained focused on initiatives to drive sales growth, increase gross margin, improve expense management and spend capital funds wisely. Total sales increased by 4.9 percent when compared to the prior year. The core retail store business remains strong with sales exceeding last year by 3.3 percent. Gas sales increased by 24.0 percent compared to last year, mostly due to the higher selling price per gallon in FY11. Net income was \$61.1 million.



The biggest contributor to net income was the retail segment, accounting for 73 percent of total sales. Profit generated from the retail business increased by 2.5 percent, aided by a low inventory shortage result of 0.30 percent of retail sales. Gross profit margin on retail sales increased to 24.05 percent compared to 23.85 percent in FY10, an increase of \$19.2 million. Sales from the services segment declined 2.7 percent from the prior year, resulting from the earthquake and tsunami that affected Japan in March 2011. Gasoline sales increased significantly, 24.0 percent, due to a steady rise in the retail selling price during the year. The average price per gallon was \$3.79 in FY11, compared to \$2.99 last year.



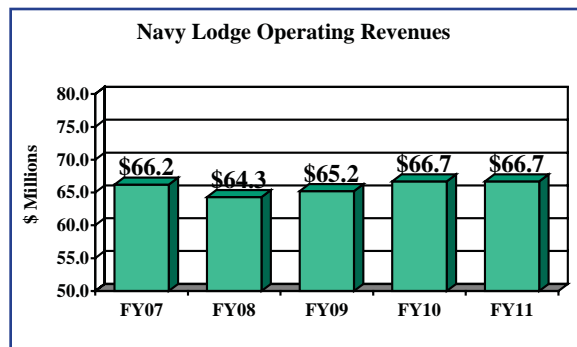
NEXCOM continued to provide a significant dividend to the Navy's MWR funds. Based on the FY11 profits, dividends declared were \$43.1 million. From this amount, \$21.0 million will be paid to local installation MWR funds.

The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$144.9 million this year. NEXCOM continues to fund its store modernization program from its operating cash flow. During FY11, \$67.2 million was spent on capital expenditures.

Navy Lodge Program

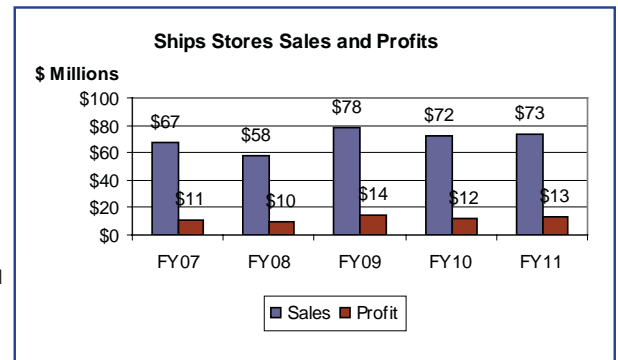
The Navy Lodge Program operates worldwide with 40 Navy Lodges. The overall occupancy rate for 2011 increased to 76.3 percent compared to 75.1 percent in the prior year. The average room rate increased slightly to \$75.04 in FY11 compared to the rate of \$74.70 in FY10.

The Navy Lodge Program continued to save travel dollars while generating increased cash flow for remodeling existing facilities and building new facilities. In FY11, it managed the challenges of the evolving economic environment with operating revenues staying consistent to the prior year level at \$66.7 million. In addition, net income of \$11.3 million was up 18 percent from last year.



Ships Store Program

Ships Stores are operated aboard 158 commissioned Navy ships. The program generated \$73.1 million in total sales and \$12.9 million in profit during FY11. Profits generated by each ships store are used by commanding officers to procure new equipment for the ships stores and to provide direct support to ships' MWR programs. In FY11, a total of \$10.7 million was distributed to local shipboard MWR funds. In addition, assessments of \$1.8 million paid to CNIC allowed for the distribution of funds for recreational purposes to ships without a ships store, such as submarines.



FINANCIAL REVIEW

For the Fiscal Years ended
January 28, 2012 January 29, 2011

In Thousands of Dollars

Navy Exchange Program

Income Statement:

Total Sales	\$2,769,468	\$2,612,897
Income from Concessions, net	42,864	41,632
Contributed Services	<u>95,640</u>	<u>94,910</u>
Total revenues	2,907,972	2,749,439
Cost of Sales	2,185,488	2,042,198
Selling, General and Administrative Expenses	<u>668,151</u>	<u>648,757</u>
Operating Income	54,333	58,484
Other Income - Net	<u>6,798</u>	<u>8,379</u>
Net Income	<u>\$61,131</u>	<u>\$66,863</u>

Profit Distribution:

Dividends declared	\$43,146	\$48,433
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Assets, Liabilities and Program Equity:

Assets:

Cash & Accounts Receivable	\$281,626	\$265,468
Merchandise Inventories & Other Current Assets	455,560	467,196
Property/Equipment & Other long-term Assets	<u>533,812</u>	<u>674,052</u>
Total Assets	<u>\$1,270,998</u>	<u>\$1,406,716</u>

Liabilities:

Trade Accounts Payable & Accrued Liabilities	\$291,903	\$299,401
Other Current Liabilities	146,986	165,987
Long-term liabilities	314,609	361,297
Program Equity	<u>517,500</u>	<u>580,031</u>
Total Liabilities & Equity	<u>\$1,270,998</u>	<u>\$1,406,716</u>

Navy Lodge Program

Income Statement:

Operating Revenue	\$66,655	\$66,729
Contributed Services	<u>5,804</u>	<u>4,588</u>
Total Revenue	72,459	71,317
General and Administrative Expenses	<u>61,240</u>	<u>61,873</u>
Operating Income	11,219	9,444
Other Income - Net	<u>82</u>	<u>106</u>
Net Income	<u>\$11,301</u>	<u>\$9,550</u>

Assets, Liabilities and Program Equity:

Assets:

Cash and Other Current Assets	\$89,841	\$104,037
Property and Equipment, net	<u>152,454</u>	<u>131,739</u>
Total Assets	<u>\$242,295</u>	<u>\$235,776</u>

Liabilities:

Accounts Payable	\$4,253	\$9,035
Program Equity	<u>238,042</u>	<u>226,741</u>
Total Liabilities & Equity	<u>\$242,295</u>	<u>\$235,776</u>

Ship's Stores Program

For the Fiscal Years ended
September 30, 2011 September 30, 2010

Ship's Stores Sales	\$62,569	\$61,313
Vending Sales	<u>10,492</u>	<u>10,571</u>
Total Sales	<u>\$73,061</u>	<u>\$71,884</u>

Net Profit from Operations	<u>\$12,854</u>	<u>\$11,861</u>
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Profit Distribution:

Assessment for CNIC	\$1,775	\$1,438
Equipment for Ships Stores	\$348	\$546
Profits retained for Morale, Welfare and Recreation	\$10,731	\$9,877

NEXCOM

The mission of Navy Exchange Service Command (NEXCOM) is to provide authorized customers with quality goods and services at a savings and to support Navy quality of life programs. NEXCOM, headquartered in Virginia Beach, VA, oversees six business lines:

NEX

- Retail goods and services
- Savings of over 20% on average
- No sales tax
- 70% of profits are given to MWR
- Over \$2.3 billion to MWR since 1946

NAVY LODGE

- Affordable PCS accommodations worldwide
- Clean, comfortable, convenient
- Family oriented, safe and secure environment

NCTRF

- Navy Clothing And Textile Research Facility
- Develops and improves Navy uniforms and protective clothing
- Conducts testing and evaluation of uniforms
- Maintains and enforces Navy quality standards
- Located in Natick, MA

TPO

- Telecommunications Program Office
- Navy's program manager for unofficial personal telecommunications
- Worldwide services including calling cards, prepaid cards, Navy Lodge and Bachelor Quarters in-room service, Wi-Fi service
- Personal calling on Navy Ships via satellite

SHIPS STORES

- 155 ships stores afloat supporting deployed forces worldwide
- Profits provide funding for afloat MWR programs
- Responsible for afloat vending machines, barber shops and laundry services

UPMO

- Uniform Program Management Office
- Provides uniform policy recommendations, product improvement, design change and Fleet introduction
- Oversees all uniform items sold in NEXs worldwide