

/NEXCOM ENTERPRISE

2015 ANNUAL REPORT



FROM THE CEO



*2015 was a busy year
for the enterprise*

The Navy Exchange Service Command (NEXCOM) Enterprise is comprised of 100 Navy Exchange (NEX) facilities and over 300 stores worldwide, 39 Navy Lodges, 134 ships stores, the Uniform Program Management Office (UPMO), the Navy Clothing and Textile Research Facility (NCTRF) and the Telecommunications Program Office (TPO). Our worldwide enterprise has nearly 13,000 associates, over 30 percent of whom are military affiliated as either family members or veterans.

2015 was a busy year for the enterprise. We opened five new self-service Micro Markets in Navy work spaces to provide an expanded variety of food and beverage choices for patrons. We opened a new NEX in Deveselu, Romania, we held a grand opening for our new Student Store in Charleston, S.C., completed a cyclical renovation of NEX Memphis, Tenn., and a package store at NEX Bangor, Wash. We completed 75 minor projects in every one of our districts including our mini mart at NEX Moron, Spain; an expansion and branding at NEX Singapore; a renovation at NEX China Lake, Calif.; and many more. Our UPMO completed development of several new uniforms that will be fielded in fiscal years 2016/2017 including the Lightweight NWU Type I, Navy fitness suit, female Service Dress White Chokers and the Standard Enlisted Service Dress Blues. TPO awarded a new contract to provide better and faster Wi-Fi to Sailors stationed around the world. Navy Lodge rooms can now be booked directly through the Defense Travel System (DTS) as part of generating travel orders. Our Ships Store Program continues to brand ships stores around the fleet to increase profits and sales to contribute more to Morale, Welfare and Recreation (MWR) and the ships' crew. Finally, NCTRF finished its anthropometric study as it continues to look for ways to improve the fit and durability of Navy uniforms. Many of our other noteworthy accomplishments are detailed within this report.

I'm happy to report that our annual Customer Satisfaction Index (CSI) survey showed that patrons rated us with an outstanding score of 86 - same as 2014! Scores like these place the NEX among the highest recorded for retailers in studies using the same methodology. NEXs continue to surpass some of America's most customer-focused retailers. The key drivers of customer satisfaction are consistent with the "basics" of business – pricing, merchandising, sales flyers and customer service. In addition, customer preference on product value leans towards moderately priced goods of moderate quality. Our customers continue to tell us that they value the NEX benefit!

Our total annual sales in 2015 were \$2.5 billion with a net profit of \$31 million which generated \$22.3 million in dividends for Morale, Welfare and Recreation (MWR) programs. We will also invest \$68.3 million in NEXs to improve our customers' shopping experience and to remain competitive within the retail market. Total annual sales for Navy Lodges was \$77.9 million with a net profit of \$9.6 million. Ships store sales were \$61.4 million with profits of \$10.7 million.

As we look to 2016 – our 70th year of serving the greatest customers in the world – there is still work to be done. We will continue to focus on my CEO Guidance: Delight our customers to create advocates; Take care of our associates, both today and tomorrow; Perform to our financial plan and continually improve business processes; Maximize Sailor personal readiness and strengthen our Navy family connection; and Collaborate with MWR, military resale partners and Navy commands to reduce costs and increase effectiveness. We will stay on this steady course as we continue to provide this important non-pay benefit to our military members and their families.

R. J. BIANCHI
Rear Adm., SC, USN (Ret)
Chief Executive Officer
Navy Exchange Service Command

The annual market basket survey shows that customers save on average 24 percent, not including sales tax

MISSION

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

ACCOMPLISHMENTS

NEX Romania

The newest NEX in the enterprise opened in Deveselu, Romania, in May. The 325 sq. ft. mini mart is open six days a week to serve the Sailors stationed in Romania. Located in a storage area inside a high bay warehouse, NEX Romania sells beverages, snack items, microwavable food, personal care items and stationary and mailing supplies. The NEX operation is cashless, a first for the enterprise. Sales for the first hour were over \$1,500 and \$8,600 for the first four days.



Pizza Hut Opens at Camp Lemonnier

The first Pizza Hut in the horn of Africa opened at Camp Lemonnier in Djibouti in October. First half-day sales were \$2,600.

Market Basket Survey Results

The annual market basket survey shows that customers save on average 24.15 percent, not including sales tax. By market, customers save 22.61 percent in Bethesda, Md.; 21.18 percent in Everett, Wash.; 20.19 percent in Great Lakes, Ill.; 22.58 percent in Jacksonville, Fla.; 21.30 percent in Norfolk, Va.; 24.91 percent in Pearl Harbor; 21.56 percent in Pensacola, Fla.; and 21.96 in San Diego.

NEX Charleston Student Store

A brand new NEX Student Store was opened in April at Naval Weapons Station Charleston, S.C. The new 15,000 sq. ft. store was tailored to specifically meet the needs of the 6,000 Navy Nuclear Power School students in training on the base by offering expanded departments such as electronics, sunglasses and footwear in addition to expanded hours. Students will also find free Wi-Fi, a Subway and Panda Express. The store also incorporates the NEX's latest fixture designs and visual branding elements and is a LEED Silver energy efficient building.

NEX Guam gas station/mini mart

In December, NEX Guam opened its new gas station/mini mart facility which replaced/consolidated the Barracks 20 mini mart and Subway, the B-Quick mini mart and the NEX Car Care Center. The new mini mart features a large retail sales area, a food and snack bar that offers a wide selection of Grab N' Go items and health and comfort products as well as a Subway. The gas station has six double-sided fuel dispensing islands for three grades of gasoline and diesel.



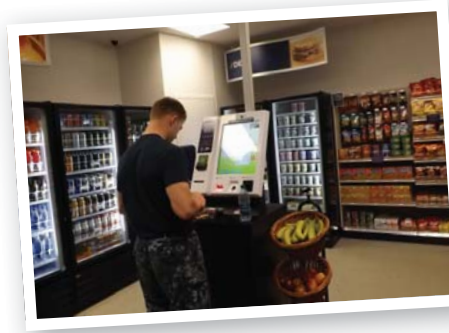
NEX Singapore Grand Reopening

NEX Singapore held a grand reopening of its newly expanded/renovated store in August. The new 7,000 sq. ft. store features more than 650 new items including food and snacks, electronics, housewares, shoes, bikes and sports nutrition. Along with new floors, ceiling and fixtures, an updated NEX branding package was installed.

Twenty-six percent of customers who shop the web store live more than 35 miles from a NEX

NEX Memphis Reopens Store

NEX Memphis, Tenn., held a ribbon cutting ceremony for its newly renovated store in November. The additional 4,200 sq. ft. increased the pets, sight and sound, women's, men's, "A Better You" and Navy Pride categories. The NEX now boasts 19 cash registers for a better flow and overall customer experience. Also, branding elements were added as well as new fixtures, lighting and flooring.



Micro Markets

Five Micro Markets opened at Naval Station Mayport, Fla., and Naval Air Station Corpus Christi, Texas, for a total sales volume of \$351,450. Micro Markets are designed to be placed in Navy facilities where there are a large number of people but not a lot of food options available or time is limited. These self-service operations are open 24-hours per day, seven days a week and take both cash and credit card payments. The NEX Micro Markets sell a variety of food including heat and serve meals,

sandwiches, pastries, muffins, coffee and cappuccino as well as many healthy choice food items such as salads, fruit and snack options.

myNavyExchange.com

For the year, total sales on the web store totaled \$37.4 million, up 29.9 percent to last year. The average order was \$172, 27.8 percent ahead of the industry average. Twenty-six percent of customers who shop the web store live more than 35 miles from a NEX.

The NEX web store, myNavyExchange.com, opened several shops online to enhance the web store experience and drive sales online. The first shop to launch was the Denim Shop followed by An American Girl, Holiday Collectibles, Fall Fashion Trends, Denim for all genders, Michael Kors, Bose, Under Armour, The North Face, Spa Finder, to support Services in store and a Seasonal Shop for cold weather apparel, boots and accessories.

Student Meal Program

The Student Meal Program (SMP) launched a new web site, myNavyExchange.com/StudentMealProgram, to allow customers unlimited access to important SMP information such as menus, meal prices, free and reduced meals program information and FAQs. Parents can also access to MyPaymentsPlus to add funds to their student's meal cards and check balances.



NEX Little Creek Vision Center

NEX Little Creek, Va., opened the first stand-alone Vision Center within the enterprise in June. Located in a vacated bank building on base across from the main store, the Vision Center has a more open floor plan to enhance the customer's shopping experience and provides more space for optometric services. The Vision Center offers many name-brand frames, premium lens options and has an optometrist onsite to provide eye and contact lens exams and purchase of contact lenses.

The Flagship car wash is a joint venture between the NEX and MWR at Naval Station Norfolk

NEX Norfolk Car Wash

In June, NEX Norfolk, Va., opened a new state-of-the-art car wash that offers two automatic bays as well as six self-serve bays. The Flagship car wash is a joint venture between the NEX and MWR at Naval Station Norfolk. Car washes are sold at every NEX gas station on base and customers get 20¢ per gallon off their gasoline purchase when a car wash is purchased.



Exclusive Navy Star Diamond

The NEX introduced its exclusive Navy Star diamond in most of its locations. The diamonds are cut and set in the United States and have 98 facets, 50 percent more than the average diamond. The Navy Star diamond features solitaire rings in ½ - 1 ct. as well as ladies' and men's diamond bands, pendants and earrings. All Navy Star diamond jewelry has an engraved star on the inside of the ring's band and a star accent on the side of solitaire diamond rings. Each Navy Star diamond purchase comes with a free International

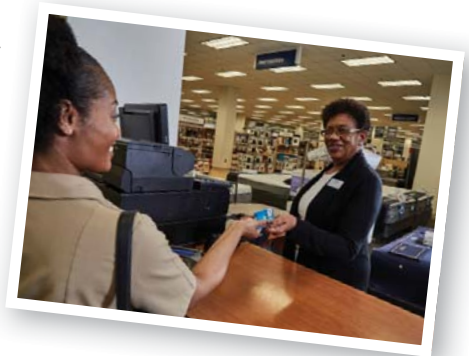
Gemological Information (IGI) certification and free GemEx light performance report.

5S Certification

During the year, 5S certification, a "Lean" management system that helps improve workplace efficiency by making it free of clutter, more visual and safer, was awarded to 110 NEX back rooms. Benefits to having these 5S certified back rooms include \$13 million or 18.8 percent reduction in back room inventory, over 200 or 7.8 percent savings in the number of hours to conduct back room physical inventory, elimination of 75 storage containers at an annual cost of \$54,000, back room payroll savings of \$75,000, generation of \$22,000 income from the recycle of excess equipment and an 80 percent reduction in back room accident claims for 10 stores.

ORPOS Roll Out Completed

Following a two-year roll out period, deployment of the Oracle point-of-service (ORPOS) to all NEX stores worldwide was completed. The ORPOS system, including new hardware and software, was deployed at 298 NEX selling locations with 2,232 registers installed and 11,340 associates trained. This new system offers touch screens to capture signatures on the PIN pad, a receipt bar-code that when scanned retrieves the original transaction(s) for returns, ability to refund and sell in the same transaction, 14-day price adjustment automated with receipt, ability to print gift and duplicate receipts, fast line item voiding that doesn't show on the receipt and faster scratch off card discount process.



Changes to MILITARY STAR® Card Programs

The Army Air Force Exchange Service (AAFES) discontinued the Take-it-Home Today (THT) and co-branded MILITARY STAR® Rewards MasterCard programs. New MILITARY STAR® cards with new branding were launched in September.

Plastic Bag Ban

NEX Pearl Harbor voluntarily complied with the July 1 State of Hawaii ban on plastic bags. In its place, the NEX uses a compostable shopping bag that is procured from a local on-island distributor. Customer feedback on the NEX using the compostable shopping bag has been overwhelmingly positive.

/SHIPS STORE

A-school students will now enter the fleet having seen, been exposed to and trained on branding and merchandising

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

Ships Store Sales

Ships store sales were \$61.4 million which generated a net profit of \$10.7 million. The program reinvested \$668,000 in capital expenditures and distributed profits of \$8.5 million for its individual MWR programs and \$2.2 million of its profits to central MWR for fleet-wide recreational programs.

Coffee Bars

The USS FORD (CVN 79) added a coffee bar to its ship, bringing the total number of coffee bars in the Fleet to 14. Coffee bar sales grew to equal 11 percent of total sales with over \$1.6 million in profits.

Ships Store Branding

Twenty-three ships stores were branded, bringing the total number of branded ships stores to 38. These ships included USS KEARSARGE (LHD 3), USS KIDD (DDG 100), USS BULKELEY (DDG 84), USS STOCKDALE (DDG 106), USS HIGGINS (DDG 76), USS SAN ANTONIO (LPD 17), USS MASON (DDG 87), USS ANCHORAGE (LPD 23), USS SPRUANCE (DDG 111), USS DWIGHT D EISENHOWER (CVN 69), USS ARLINGTON (LPD 24), USS OAK HILL (LSD 51), USS WAYNE E MEYER (DDG 108), PCU GERALD FORD (CVN 78), USS STOUT (DDG 55), USS NITZE (DDG 94), USS TRUXTUN (DDG 103), USS ANZIO (CG 68), USS SHOUP (DDG 86), USS MOMSEN (DDG 92), USS ARLEIGH BURKE (DDG 51) and USS PEARL HARBOR (LSD 52).



SH A-School Branded

The SH A-School in Meridian, Miss., cut the ribbon on its newly branded ships store model / training store. A-school students will now enter the fleet having seen, been exposed to and trained on branding and merchandising. NEXCOM's Ships Store Program and associates from NEX Meridian completed the reset following a complete renovation of the store. Training was also provided to the military instructors as well as students regarding merchandising philosophies and maintaining store standards for the long term.

Navy Blue Holiday Afloat Event

In conjunction with the Navy Blue Holiday events ashore, the Ships Store Program continued an afloat sales event marketed exclusively to afloat and deployed Sailors. Total sales for the event increased 31 percent over last year.

ROM 3

A total of 49 ships were implemented with the ROM 3 maintenance upgrade to ROM II. This included 10 CGs, 30 DDGs, one LCC and eight "L" decks. ROM 3 is the ships store point-of-sale program that is replacing ROM II.

/NAVY LODGE

Navy Lodge
rooms can
now be
booked
directly
through DTS as
part of
generating
travel orders

MISSION

The Navy Lodge Program provides safe, clean and affordable permanent change of station (PCS) accommodations worldwide.

ACCOMPLISHMENTS

Navy Lodge Program

The Navy Lodge Program started 2015 with 39 operations and 3,146 rooms and closed the year with 39 operations and 3,139 rooms.



During the year, 963,628 room nights were sold, an 84.2 percent occupancy rate, a record high percentage. This provided annual sales of \$77.9 million and net profit of \$9.6 million. The Navy Lodge PCS scratch cards utilized by military members resulted in over 20,900 room nights discounted with a savings of over \$191,000.

Over 12,000 room nights were utilized by medical/wounded warriors and other authorized patrons at Navy Lodges worldwide.

The Department of Defense Lodging Reservation Center received over 443,000 calls. On average, calls were answered within 57 seconds or less.

Navy Lodge guest comment card rating was 4.84 out of 5.00 for 2015.

In support of its green initiatives, all mattresses and box springs are being delivered to a recycling center for repurposing. This year, over 60 tons were diverted from the landfill.

The Navy Lodge Program continued to expand its breakfast program to include healthier options and hot items such as oatmeal, fruit and yogurt.

Navy Lodge Rooms on DTS

Navy Lodge accommodations can now be booked directly through the Defense Travel System (DTS) as part of generating travel orders. This new process of booking official government travel lodging within DTS is part of the Integrated Lodging Program Pilot to provide quality Department of Defense government and commercial lodging, with greater safety and security and better services at reduced rates. The web site, navy-lodge.com, and the Department of Defense Reservation Center toll-free number, 800-628-9466, are available 24/7 for reservations and to answer any lodging questions.



Reset projects
were
completed on
620 rooms
worldwide

Navy Lodge Little Creek/Fort Story Expansion Opens

Navy Lodge Little Creek/Fort Story, Va., held a ribbon cutting ceremony for its newly expanded lodge in March. Two new wings were added to the existing 100-room Navy Lodge bringing the total number of rooms to 126. The Navy Lodge now offers one and two bedroom suites with kitchens along with the standard room that has two queen beds and a kitchen.



Navy Lodge Renovations

Reset projects were completed on 620 rooms worldwide. Family suites continued to be added as well as bathroom and kitchen upgrades and lobby remodels were done to better support PCS members and their families.

Navy Lodge Kings Bay, Ga., updated its guest rooms with new window treatments, carpet and furniture as well as the vanity areas and corridors. Guest room renovations at the Navy Lodge Atsugi, Japan, included replacement of 25 kitchens with new appliances and cabinetry, flooring, and lighting as well as new bedding package, window treatments, carpet and paint. Navy Lodge Mayport, Fla., updated its lobby with a new front desk, breakfast bar and seating area while several guest rooms received new kitchens with large refrigerators and new bathrooms. One bedroom family suites were developed at Navy Lodge Lemoore, Calif., along with a refreshed lobby. Along with one bedroom family suites, Navy Lodge Everett, Wash., guest rooms were updated with new furniture, paint, lounge chair, coverlets and window treatments while the lobby was updated with a breakfast bar, new flooring, new front desk, lobby furniture and signage package. Finally, Navy Lodge Guantanamo Bay, Cuba, renovations included a new lobby design to meet the social needs of today's Sailor and family with breakfast area and all new guest rooms with furniture, bedding, window treatments and paint.

Training

Forty-five percent of all Navy Lodge associates completed American Hotel & Lodging Association Educational Institute, the hospitality industry's certification program, professional certifications in their department or cross certified in a different department. Thirty-three percent of Navy Lodge General Managers have been awarded their Certified Lodging Manager or Certified Hotel Administrator certifications.



The global
Wi-Fi provides
consistency
throughout
the enterprise
from base to
base on safe
and reliable
networks

MISSION

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

ACCOMPLISHMENTS

Wi-Fi Contract Awarded

NEXCOM, in partnership with Commander Navy Installation Command (CNIC), added to an existing Marine Corps Community Services ViaSat contract to upgrade the Navy's personal telecommunications Wi-Fi and Voice over Internet Protocol (VoIP) services on a global scale. Through this contract, Navy Gateway Inns and Suites and Navy Lodges provide guests free phone calls and improved Wi-Fi speeds, both at no charge to the guests. The Unaccompanied Housing increased Wi-Fi speeds with pricing that is competitive with local economies. The global Wi-Fi provides consistency throughout the enterprise from base to base on safe and reliable networks.



Guantanamo Bay Personal Telecommunications Services

A Defense Information Systems Agency and NEXCOM Memorandum of Agreement (MOA) for unofficial telecommunication services support via the Guantanamo Bay Submarine Fiber Optic Cable (GTMO SFOC) was officially ratified. This MOA will enable NEXCOM's telecommunication vendors to provide unofficial voice and data connectivity to/from the continental United States at a significant savings to those living on Guantanamo Bay.

Wi-Fi Installation in Romania

Wi-Fi was installed in Unaccompanied Housing and MWR locations at Naval Support Facility Deveselu, Romania.

San Clemente Island Wi-Fi

NEXCOM vendor, ViaSat, provided basic Internet Go Wi-Fi services via satellite in the permanent party barracks on San Clemente Island, Calif. Until then, Navy personnel stationed on the island did not have any means to access Internet in their quarters.

NEX Mobile Centers

AT&T and T-Mobile in the continental United States took measures to ease the burden of qualifying for zero percent financing of new smart phones. AT&T offered Next 12 which requires a 30 percent deposit and possible down payment. T-Mobile added an active duty military credit code which should decrease the \$500 down payment required for financed phones.

Prepaid Telephone Cards

More than 40,000 AT&T prepaid phone cards were provided to holiday deployed ships during the NEXCOM Navy Blue Friday promotional event. In addition, 25 \$10 prepaid phone cards were provided to Naval Special Warfare Group Two for complementary prepaid calling cards so special operators had a means of contacting family and friends while undergoing post-mission evaluations. The prepaid phone cards were provided free to Sailors and were purchased using TPO afloat commissions.

The development and availability of the Alternate Combination Cover for E7 and above was completed

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

Improved Flame Resistant Variant (IFRV) Coverall

Wear testing was initiated for the IFRV prototype coveralls, flight suits and flame resistant fleece jackets, with 697 Sailors (559 male and 138 female) participating in the wear test onboard USS CARNEY (DDG 64), USS KEARSARGE (LHD 3) and the fast attack submarine USS NEWPORT NEWS (SSN 750). Participants are required to complete initial, mid-term and final surveys to evaluate fit, durability, comfort, serviceability and design preferences as well as one focus group at the end of the wear test.



Alternate Combination Cover (ACC)

The development and availability of the ACC for E7 and above was completed. The ACC and male combination cover are designated unisex covers for wear by female and male officers and CPOs and will replace the current female officer/CPO combination cover (bucket) with a mandatory wear date of October 2016.

Cold Weather Parka (CWP)

The CWP was rolled out to select NEX Uniform Shops and the NEX Uniform Support Center. The sharp looking, functional parka is an optional uniform item for wear with Service Uniforms and Service Dress Uniforms and is authorized for wear with civilian clothes when the rank insignia is removed. Sales of the CWP were better than expected with 95 percent of the inventory sold within the first two months. The sale of the CWP marks the first instance of using a NAVSUP Contracting Office to procure an official uniform item that was considered a low demand/ high price government item and, therefore, a poor candidate for Defense Logistics Agency (DLA) management.

Navy Working Uniform Type III

At the requests of Commander, Navy Expeditionary Combat Command and as approved by the Chief of Naval Operations, Navy Working Uniform (NWU) Type IIIs are available for purchase through the NEX Uniform Support Center as well as at NEX Rota, Spain, and NEX Guam. Only those units authorized to wear NWU Type IIIs and that use a Government Commercial Purchase Card or other government funding document are able purchase these uniforms through the NEX.



NEX NROTC/NJROTC Program

NEX NROTC/NJROTC Program continued to support over 6,010 midshipmen at 63 universities and over 90,200 cadets at 573 high schools representing \$6.7 million in sales.

Once a new sizing system and median male/female body types are developed, patterns for Navy uniforms will be modified or created

MISSION

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

ACCOMPLISHMENTS

Secretary of the Navy's Uniform Initiatives

In support of the Secretary of the Navy's vision for greater uniformity across Navy uniforms, NCTRF developed and tested Service Dress Whites (SDW), Service Dress Blues (SDB), Alternate Combination Cover (ACC) and updated Dixie Cover in 2014. In 2015, it transitioned the eight Technical Data Packages to DLA and/or NEXCOM for procurement of the uniforms.



Navy Uniform Anthropometric Study Update

The anthropometric correlation study that took body measurements of approximately 3,500 male and female Sailors was completed. Once finished, it was determined that Army and Navy data was shown to be positively correlated which means that the Army data can be used to develop a sizing system applicable to Navy personnel. Looking ahead, a sizing system will be devised to identify the median male and female as well as key dimensions and required sizes needed to outfit today's Navy population. Once a new sizing system and median male/female body types are developed, patterns for Navy uniforms will be modified, if the changes in body dimensions and proportions are minimal, or created if the changes are large.

Improved Flame Resistant Variant (IFRV) Coverall

The primary objective of the IFRV coverall effort is to identify alternative flame resistant coverall fabrics to address the deficiencies of the 100 percent flame retardant treated cotton, particularly its poor durability and comfort and lack of arc flash protection. Wear test items, coverall and flight deck designs in two different fire retardant fabrics plus a fire retardant fleece, were issued to two ships and one submarine. Data from the wear test will be collected and analyzed by NCTRF in fiscal year 2016.

Female Service Dress White (Choker) Uniform

Per the Secretary of the Navy's vision for greater uniformity across Navy uniforms, a female SDW coat was developed that mirrors the male SDW. The Choker uniform, which was field tested on 229 Midshipmen from the Class of 2015 at the Naval Academy and selected senior Navy leaders, has a female fit, a hook/eye neck closure and no front pockets. NAVADMIN 236/15 approved the introduction of the uniform for January 2016.



Navy Fitness Suit

The Navy adopted the U. S. Marine Corps' style fitness suit in fiscal year 2015. NCTRF updated the U. S. Marine Corps' technical documents to make the Navy running suit Navy-specific for the logo and colors and transitioned it to DLA-Troop Support for procurement. The Navy Fitness Suit fielding will begin at Recruit Training Center, Great Lakes, Ill., in October 2016 and will be available in NEX Uniform Shops and through the Uniform Call Center in January 2017.

NCTRF
provided
technical
support to all
of the military
services

Lightweight Navy Working Uniform Type I

Per NAVADMIN 236/15, Navy leadership authorized a running change in a size by size manner to introduce a Lightweight Navy Working Uniform Type I (LNWU). NCTRF developed the Technical Data Package for use by DLA to procure the uniform. Inventory of the LNWU will be available for purchase in NEX Uniform Shops in Guam, Pearl Harbor and the NEX Uniform Support Center for Singapore and Diego Garcia by April 2016.



Thermal Simulations in Extreme Environments

Working with the Office of Naval Research (ONR), an interactive platform was developed to predict safe exposure limits during operations on land and in cold water. A database of thermal properties of some of the current protective garments has been created using NCTRF's submersible thermal manikin, Nemo. A Graphical User Interface (GUI) of the model has also been created.

Navy Commercial Uniform Certification & Quality Assurance Program

Through the Navy Uniform Certification Program, NCTRF oversaw the quality of 243 uniform items and fabrics plus over 2,700 insignia item. At end of FY15, 97 percent of uniform certifications and 855 of the insignia certifications were current, 79 production lot inspections were conducted either on-site or in-house and 2,083 shade submissions were reviewed which represented 2,102,560 yards of piece goods.

Technical and Logistical Support to DLA

NCTRF's Philadelphia Liaison Office provided technical and logistical support for over 50,000 Clothing and Textile National Stock Numbers used by the Fleet. It processed 18 supply request packages, 50 supply support requests and 600 customer service requests as well as provided technical support for 175 engineering support requests from DLA Troop Support.

Technical Support

Provided technical support to all of the military services including design/pattern work for all USMC field and dress clothing including development of the Increment Weather Clothing System, female Dress Blue choker coat, Plate Carrier Armor and Flame Resistant Organizational Gear; biophysical, textile and flame/thermal testing for USA, USAF, and USMC; and the specifications, patterns, quality assurance and supply support as well as the development of the All Purpose Personal Protective Ensemble and the Uniform Integrated Protection Ensemble for Joint Project Manager Protection.



A new Hiring People with Disabilities Program was created to make it easier to hire qualified candidates with targeted disabilities

MISSION

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

ACCOMPLISHMENTS

Hiring People With Disabilities Program

A new Hiring People with Disabilities Program was created to make it easier to hire qualified candidates with targeted disabilities. Candidates can be hired immediately and non-competitively as long as they are qualified.

LATINA Style Magazine Award

For the fourth year in a row, *LATINA Style Magazine* named NEXCOM as one of the top 50 companies that are providing the best career opportunities for Latinas in the U.S. Companies responding to *LATINA Style*'s questionnaire are evaluated based on issues that *LATINA Style Magazine* readers identified as most important to them in the workplace. Among the principal areas of evaluation are: number of Latina executives, Latina retention, mentoring programs, educational opportunities, alternative work policies, employee benefits, women's issues, job retraining, affinity groups and Hispanic relations.



NEX Inventory Shrink

NEX locations and distribution centers achieved an overall shrink rate of .30 percent or \$2.5 million under the reserve, 78 percent below the national average of 1.38 percent according to the 2015 University of Florida National Retail Security Survey. NEX target stores reduced shrink by \$1.25 million.



Customer Satisfaction Survey

NEX stores around the world received the outstanding score of 86 on a 100 point scale on its annual Customer Satisfaction Index (CSI) survey. This annual survey shows how customers rate the NEX in a number of different areas including customer service, pricing, problem resolution and merchandise. Survey results by individual store showed that 90 percent of all NEXs had a score of 80 or above while the remaining 10 percent of the NEXs scored between 70 and 79.

Command Inspection

NEXCOM headquarters underwent its Command Inspection conducted by NAVSUP. Five areas were reviewed (mission support, financial management, military programs, operations and workforce management) which included 58 program elements. Overall, NEXCOM received a "Satisfactory" rating, the highest grade possible. There were a total of 34 inspection findings and one repeat finding as well as 13 noteworthy accomplishments.

/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR



**Marcie Burden
Services Specialist
Operations Group
NEXCOM Headquarters
Associate of the Year**



**Tamatha Moore
Department Supervisor
NEX Mayport, Fla.
NEXCOM Enterprise
Associate of the Year**



**Malerie Shipe-Meyers
Navy Lodge Annapolis, Md.
Navy Lodge Program
Manager of the Year**

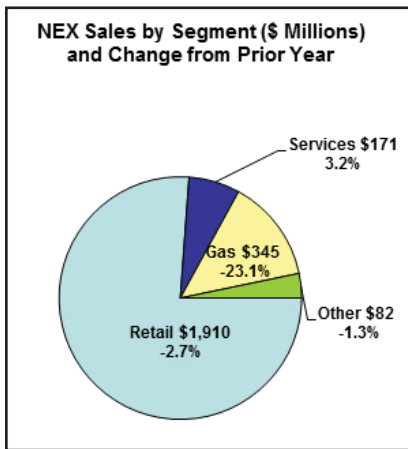
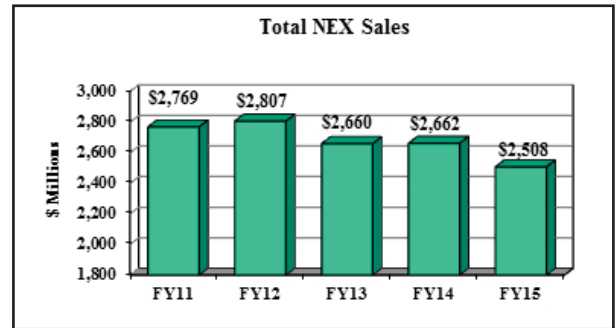


**DiaRaquel McWilliams
Navy Lodge Yokosuka, Japan
Navy Lodge Program
Associate of the Year**

2015 FINANCIAL REVIEW

NEX

Sales performance continues to be challenging in a competitive retail environment with overall sales coming in at \$2.5 billion, which were 5.7 percent lower than last year. Retail sales were under last year by 2.7 percent, service revenues were higher than last year by 3.2 percent and gas sales fell behind by 23.1 percent due to lower gas pricing. Despite the sales shortfall, strong expense controls across the enterprise mitigated the lost margin dollars and resulted in an Operating Profit of \$75.7 million. Net income for FY15 was \$31.0 million compared to \$65.9 million in FY14 and was impacted by a much larger than expected retirement expense. The retirement expense of \$44.8 million, calculated by our external actuaries, was determined based on the investment rate of return for NEXCOM's pension trust assets and the applicable discount rates as of fiscal year-end, which were at record low levels.



The biggest contributor to the total enterprise performance was the retail segment, accounting for 76 percent of total sales. Profit generated from the retail segment decreased by 1.7 percent largely due to lower sales and higher shipping and third party fulfillment expenses for e-commerce. The gross margin rate for FY15 was 24.96 percent versus 24.34 percent in FY14.

Sales from the services segment increased 3.2 percent from the prior year, primarily due to the vending program which expanded its fresh food concept. Gasoline sales fell 23.1 percent due to falling prices at the pump. The average price per gallon was \$2.71 in FY15 compared to \$3.48 in FY14.

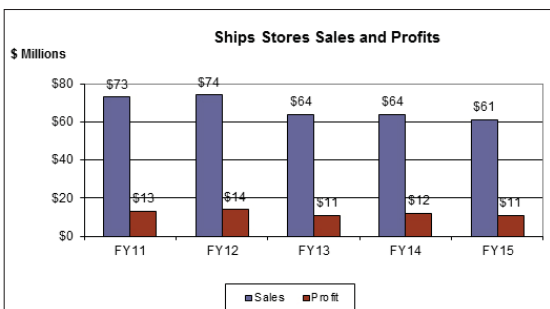
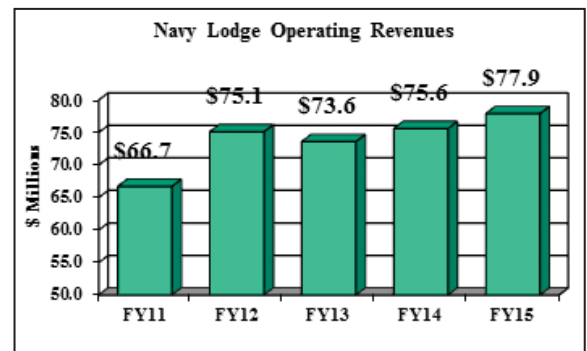
NEXCOM continues to provide savings in the form of a non-pay benefit as well as a cash dividend to the Navy's MWR funds. Based on the FY15 profits, dividends declared were \$22.3 million. From this total amount, \$15.7 million will be paid to local installation MWR funds.

The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$171.3 million this year compared to \$75.4 million last year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY15, \$68.3 million was spent on capital expenditures.

NAVY LODGE PROGRAM

The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy for 2015 increased to a record high rate of 84.2 percent as compared to 83.0 percent in the prior year. The average room rate increased to \$79.87 in FY15 compared to the average rate of \$78.79 in FY14.

The Navy Lodge Program continues to save travel dollars while generating cash flow used for remodeling existing facilities and building new facilities. A new interface with the Defense Travel System (DTS) was completed in FY15 allowing direct booking of room reservations from DTS into the Navy Lodge's Property Management System. Net income in FY15 of \$9.6 million compared favorably to \$8.5 million in FY14.



SHIPS STORE PROGRAM

Ships stores operated aboard 133 commissioned Navy ships, down from 146 ships last year. The program generated \$61.4 million in total sales and \$10.7 million in net profit for FY15. Commanding Officers use profits generated by each ships store to procure new equipment for the stores and to provide direct support to their ship's MWR programs. In FY15, ships stores generated profits of \$8.5 million for its use and \$2.2 million for Commander, Naval Installations Command (CNIC) to use in support of Fleet ships without a ships store, such as submarines.

FINANCIAL SUMMARY

For the Fiscal Years ended
January 30, 2016 January 31, 2015

In Thousands of Dollars

Navy Exchange Program

Income Statement:

Total Sales	\$2,508,405	\$2,661,709
Income from Concessions, net	41,795	45,189
Contributed Services Revenue	83,227	90,769
Other Revenue	<u>2,242</u>	<u>2,009</u>
Total revenues	2,635,669	2,799,676
Cost of Sales	1,933,402	2,082,777
Selling, General and Administrative Expenses	550,196	550,355
Contributed Services Expense	83,227	90,769
Other Income - Net	<u>6,909</u>	<u>8,561</u>
Operating Income	<u>75,753</u>	<u>84,336</u>
Retirement Expenses	44,781	18,454
Net Income	<u>\$30,972</u>	<u>\$65,882</u>

Profit Distribution:

Dividends declared	\$22,299	\$46,603
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Assets, Liabilities and Net Assets:

Assets:

Cash & Accounts Receivable	\$276,492	\$240,169
Merchandise Inventories & Other Current Assets	472,957	505,940
Property/Equipment & Other long-term Assets	<u>686,828</u>	<u>630,848</u>
Total Assets	<u>\$1,436,277</u>	<u>\$1,376,957</u>

Liabilities and Net Assets:

Trade Accounts Payable & Accrued Liabilities	\$291,135	\$269,038
Other Current Liabilities	199,465	191,831
Long-term liabilities	350,148	348,192
Net Assets	<u>595,529</u>	<u>567,896</u>
Total Liabilities & Net Assets	<u>\$1,436,277</u>	<u>\$1,376,957</u>

Navy Lodge Program

Income Statement:

Operating Revenue	\$77,885	\$75,572
Contributed Services	<u>4,776</u>	<u>5,463</u>
Total Revenue	82,661	81,035
General and Administrative Expenses	<u>73,424</u>	<u>72,636</u>
Operating Income	9,237	8,399
Other Income - Net	<u>400</u>	<u>64</u>
Net Income	<u>\$9,637</u>	<u>\$8,463</u>

Assets, Liabilities and Net Assets:

Assets:

Cash and Other Current Assets	\$147,268	\$128,463
Property and Equipment, net	<u>136,118</u>	<u>144,068</u>
Total Assets	<u>\$283,386</u>	<u>\$272,531</u>

Liabilities and Net Assets:

Accounts Payable	\$5,039	\$3,821
Net Assets	<u>278,347</u>	<u>268,710</u>
Total Liabilities & Net Assets	<u>\$283,386</u>	<u>\$272,531</u>

Ships Store Program

For the Fiscal Years ended
September 30, 2015 September 30, 2014

Ships Stores Sales	\$54,281	\$56,084
Vending Sales	<u>7,126</u>	<u>7,690</u>
Total Sales	<u>\$61,407</u>	<u>\$63,774</u>

Net Profit from Operations	<u>\$10,540</u>	<u>\$11,781</u>
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Profit Distribution:

Assessment for CNIC	\$1,339	\$1,218
Equipment for Ships Stores	\$668	\$946
Profits retained for Morale, Welfare and Recreation	\$8,533	\$9,617

OUR MISSION IS TO PROVIDE AUTHORIZED CUSTOMERS QUALITY GOODS AND SERVICES AT A SAVINGS AND TO SUPPORT NAVY QUALITY OF LIFE PROGRAMS. NEXCOM, A WORLDWIDE ORGANIZATION WITH ANNUAL REVENUES OF MORE THAN \$3 BILLION, IS HEADQUARTERED IN VIRGINIA BEACH, VA, AND OVERSEES SIX BUSINESS LINES:

/NEX

RETAIL GOODS AND SERVICES AT A SAVINGS
70% OF PROFITS GIVEN TO MWR



/NAVY LODGE

AFFORDABLE PCS ACCOMMODATIONS WORLDWIDE



/SHIPS STORE

RETAIL GOODS AND SERVICES
AFLOAT FOR FLEET SAILORS



/TPO

TELECOMMUNICATIONS PROGRAM OFFICE
PROVIDES NAVY'S UNOFFICIAL
PERSONAL TELECOMMUNICATIONS



/UPMO

UNIFORM PROGRAM MANAGEMENT OFFICE
PROVIDES UNIFORM POLICY RECOMMENDATIONS,
PRODUCT IMPROVEMENT, DESIGN CHANGE
AND FLEET INTRODUCTION



/NCTRF

NAVY CLOTHING AND TEXTILE RESEARCH
FACILITY DEVELOPS AND IMPROVES NAVY
UNIFORMS AND PROTECTIVE CLOTHING

