BUILDING ON SUCCESS
2012 ANNUAL REPORT
ARMY & AIR FORCE EXCHANGE SERVICE

EXCHANGE








For 118 years, the Exchange's many programs and services have enabled service members to focus on core missions without concern that their fundamental needs would go unmet.

Our mission has remained the same: provide quality merchandise and services at competitive prices and generate earnings to support Morale, Welfare and Recreation programs for the armed forces. The 40,622 associates of the Army & Air Force Exchange Service, the Department of Defense's oldest and largest military retailer, remain focused on supporting 12.1 million Soldiers, Airmen, their families, and military retirees.

2012 at a Glance

january 2012

The Exchange's Facebook page continues adding to its 100,000 fans, advancing the efforts to engage with military communities through social media.

The first Exchange-operated Starbucks opens on a military installation in Europe at the United Kingdom's RAF Lakenheath.

february 2012

The Exchange reaches a .23 shrink rate, the lowest in the organization's history.

march 2012

The Exchange launches its Pinterest site, extending its reach even further into the world of social media and giving online shoppers a new way to connect, engage and build community.

Exchange Commander Maj. Gen. Bruce Casella retires.

Exchange Commander's Cups awarded to Germany's Kaiserslautern Military Community Center, Fort Drum, N.Y., and Fort Jackson/Shaw AFB, S.C., for operational excellence.

april 2012

The number of Exchange GNC stores now stands at 108 with the opening of new stores throughout the country.

Convenience Store magazine ranks the Exchange and its sister military exchanges as ninth on a list of the country's fastest growing developers of convenience stores.

In Afghanistan, the Exchange replaces a 53-foot mobile field exchange with a 3,000-square-foot facility at Camp Marmal to expand merchandise and services to the troops.

The Exchange's first direct-operated 3-D theater opens at Spangdahlem AB, Germany.

New pricing strategy for childrenswear debuts with price points of \$5, 2 for \$15, \$10, \$15 and \$20.

GETCONNECTED, an online resource that provides Internet, mobile/cellular, TV and phone services debuts at Exchanges worldwide.

may 2012

Customers and associates celebrate the grand opening of the renovated Exchange at Travis AFB, Calif.

june 2012

The Board of Directors names Tom Shull as the Exchange's first director/CEO in its 117-year history. Brig. Gen. Casey Blake becomes the Exchange's deputy director.

Fort Bragg becomes the first Exchange on an Army post to receive the new Exchange rebranded look.

The U.S. Military Academy at West Point, N.Y., celebrates the grand opening of its new Exchange.

june 2012 (con't)

Exchange associates at the U.S. Air Force Academy, Peterson AFB and Fort Carson begin providing fans, water, food and other supplies to volunteers and fire fighters battling the massive Waldo Canyon Fire in Colorado.

july 2012

The Exchange celebrates 117 years of serving America's Soldiers and Airmen wherever they go, taking care of their families back home.

august 2012

Fort Hood's Warrior Way Express energy project cut energy bills by more than 45 percent or \$17,000 a year. The project will roll out to 265 Expresses throughout the United States in 2013.

The Exchange opens Europe's largest gas station, a \$7 million, 28 gas pump facility at the Kaislerslautern Military Community Center at Ramstein AB.

Germany's Mannheim Exchange closes and a new Exchange opens at Ansbach as part of the realignment of facilities and staff to match the European Theater's troop drawdown and restationings. Simultaneously, the Exchange continues reducing its footprint in Afghanistan to match a troop drawdown.

september 2012

As of this month, the Exchange operates 30 Apple store-within-stores around the world with year-to-date sales topping nearly \$65 million.

Latina Style magazine names the Exchange among its top 50 organizations for diversity and providing the best opportunities for Hispanic females in the U.S.

october 2012

Associates at Fort Hamilton and U.S. Military Academy at West Point, N.Y. provide disaster support to 3,000 National Guard members helping New York City recover from Superstorm Sandy.

november 2012

In response to Europe troop restationing and drawdown, a new \$30 million, 112,000-square Exchange opens at Spangdahlem AB, Germany, providing more choices, convenience, added and expanded product selections, a mini-mall and concessions.

The Exchange's Retail Management Academy graduates exceed 400 associates, building future leaders with a passion for serving Soldiers and Airmen.

Black Friday sales topped more than \$6.5 million, a single-day record for the Exchange.

december 2012

Waco Distribution Center opens a \$46 million conveyor system to speed up the warehousing and delivery of merchandise.

Military Spouse magazine names the Exchange as one of the country's top in hiring military spouses.

Making lives better for Soldiers, Airmen, families, retirees

From the front lines to the home front, the Army & Air Force Exchange Service is dedicated to serving those who serve. Our associates are the organization's heartbeat. They have a passion to serve and support those who have given so much to our country. What sets us apart from other retailers is that we are "family serving family."

As I complete my first year as Director/Chief Executive Officer after years as a CEO in the private retail industry, I am excited about the Exchange's future as our associates focus on making the lives of Soldiers, Airmen and their families better in these challenging times.

As an Army "brat" and former Soldier, I am truly honored to be with such an amazing organization that is part of the fabric of military life and serving those who defend our country.

Sequestration challenges

The Exchange emerged from a challenging 2012 as a financially sound organization as a result of proactive planning and tight execution. As our military partners faced sequestration, the Department of Defense's largest and longest-running military retailer went against the tide by achieving a direct operating profit of $342 million, compared to our $299 million goal.

Historically, less than 2 percent of the Exchange's budget has come from taxpayer dollars. The organization generates in excess of $200 million in dividends annually that support quality-of-life programs, including child development centers, swimming pools and bowling alleys.

Shifting services, cutting costs

To prepare for sequestration and federal budget cuts, we partnered with the DoD to reduce costs and ensure service levels remain high. We cut $50 million in operating costs by curtailing travel, personnel transfers, promotional printing, capital expenditures, contract expenses and deferred purchases. Early retirements and voluntary separations resulted in the equivalent of 1,000 fewer full-time positions around the world.

Troop drawdowns in Afghanistan and Iraq required us to reduce our footprint in Southwest Asia and the Middle East. In Europe and the Pacific, we shifted the focus of our services to match where DoD began consolidating troops.

The earnings that resulted from these initiatives enabled the Exchange to provide nearly $224 million in dividends to Air Force Services and Army's Morale, Welfare and Recreation (MWR) programs that keep Soldiers and Airmen mission ready at all times.

Simultaneously, we provided name-brand goods and services to troops in war zones, areas devastated by nature's wrath, and in our 3,700 stores and other facilities on military installations in 30 countries, all 50 states and five U.S. territories.

The Exchange also remained flexible to respond at a moment's notice. For instance, dedicated associates at the U.S. Military Academy in West Point, N.Y., and Brooklyn's Fort Hamilton responded quickly in the aftermath of last October's Superstorm Sandy to support 2,000 National Guard troops looking after the needs of citizens.

Continue serving, ensuring long-term success

To continue helping our valued Soldiers, Airmen, retirees and their families thrive in these tough economic times, our senior leaders in 2012 formulated strategic priorities to guide the organization through this year and into the future.

Under these forward-leaning priorities, we are developing future leaders who are passionate about serving military customers; increasing shoppers' awareness of the many national brands we carry and placing them in prime store locations; and growing concessions. Our Express convenience stores are becoming one-stop shops for snacks, drinks, healthy foods and fuel for on-the-go customers.

We're extending our national brands to our online shopping site, shopmyexchange.com, and providing faster order fulfillment and no-hassle returns, offering a true shopping experience that is just one click away.

I thank our associates for all they did to sacrifice this past year for those we serve. I am truly grateful for their tremendous accomplishments. We are **Team Exchange** and we are **Team Strong!** There is no greater honor than serving those who serve!

Tom Shull

Tom Shull
Director/Chief Executive Officer

Exchange Strategic Priorities

Leadership:

- **Develop and inspire future leaders who are passionate about serving Soldiers and Airmen.** Develop leaders to guide the Exchange for five to 10 years and continue improving the lives of Soldiers and Airmen.
- **Promote an ethical, transparent and friendly workplace.** Create a work environment of trust.
- **Link performance to priorities and reward success accordingly.** Execute strategic priorities in a timely and efficient manner to guarantee future success.

Management:

- **Reduce selling, general and administrative costs.** Improve earnings, reduce costs, streamline operations.
- **Focus capital expenditure program on high return-on-investment projects.** Success equals higher earnings and payback periods, and supports the Exchange's long-term investment and growth strategies.

Merchandising:

- **Intensify national brands.** Enhance shopping experiences by improving brand recognition to customers. Give customers the merchandise selection and availability they want.
- **Reposition the main store.** Maximize the square footage. Define the best product space allotments. Improve earnings per square foot.

Selling:

- **Grow concessions.** Grow and expand existing and future concession programs to retain and attract new customers. Add new national and regional brands.

Selling (continued):

- **Grow the Express.** Create destination value to drive customer loyalty. Focus on high gross profit/turning, grab-n-go and beverage assortments.
- **Launch online store.** Enhance *shop**my**exchange.com* to provide more national-branded products online that are carried in our brick-and-mortar stores, thereby increasing assortment parity to customers.

Marketing:

- **Increase customer market share.** Develop an emotional connection with customers and retain them for life. Increase value so that more authorized customers shop with us.
- **Launch loyalty program.** Provide incentives for customers to continually shop at and buy from the Exchange.

Supply Chain:

- **Optimize the supply chain.** Improve merchandise flow, reduce costs, maximize efficiencies, and impact sales, earnings, and return on investment.
- **Improve online fulfillment.** Improve delivery times, accuracy, tracking visibility to get orders to picked, packed and shipped much quicker to online shoppers.

A mission to serve the world's best customers

Efforts in 2012 to enrich our merchandise assortment, enhance store and online shopping, optimize our supply chain and perfect our interactions with the best customers in the world resulted in several wins operationally. Further, we attribute our success in 2012 to the 40,622 Exchange associates who proudly serve our brave Soldiers, Airmen and military families.

A mission of service

Our U.S. military's allegiance and sense of duty often take them away from everyday conveniences. The Exchange's goal is first and foremost to meet their needs with products and services at competitive prices through our 3,700 retail, restaurant and services and at shop**my**exchange.com.

With 2012's overall sales at $8.6 billion, online sales climbed 4 percent with more than $265 million in purchases through shop**my**exchange.com.

The vital collaboration between associates in our headquarters and the stores, and their commitment to give service members what they want, helped us fulfill the remainder of our mission: in 2012, the Exchange paid nearly $224 million in dividends to support Morale, Welfare and Recreation programs— family, educational and athletic programs on military installations worldwide.

Stamps of approval

In 2012, we achieved the highest overall Customer Satisfaction Index (CSI) score in six years—78. W e scored high in our Military Star® and credit card programs, checkouts, store environment, and associates.

We received national and international industry recognitions for restaurant quality commitment to diversity, sustainability and service to the military.

Operating efficiently, effectively

A record low injury frequency rate, down 8 percent Exchange-wide, reduced lost and restricted work days, medical treatment cases and customer accidents.

Our efforts to maintain a proper stock assortment led to our lowest worldwide inventory rate ever—an amazing 23 percent, and kept costs for ordering, shipping and handling in check.

We've also increased our online merchandise assortment to include many preferred national brands and are synchronizing our online and traditional store offerings.

'I can't help but feel a deep sense of pride knowing that the collective efforts of our managers and associates result in outstanding service to the world's best customers—our Soldiers, Airmen, National Guard members, Reservists, their families, and military retirees.'

—Mike Howard, chief operating officer

Getting products into our customers' hands

We are ensuring that we get our products into the hands of our customers in a timely manner by optimizing our supply chain. For example, managers and associates at the Waco Distribution Center in Texas celebrated the "grand opening" of their new state-of-the art conveyor technology that will get the goods out the door, into trucks and on our shelves at a much faster rate.

Growing the benefit

In 2012, the number of Exchange Protection Plans (EPP) sold rose 51 percent over 2011 as we gave more peace of mind to customers who bought electronics, jewelry and other eligible merchandise. Meanwhile, we continued to grow the value of our credit portfolio. As of year-end 2012, more than 2.1 million customers have chosen the Military Star® credit card, making it the number one in-house retail credit card in the U.S.

Our customers appreciate and deserve value. As their tastes and needs change, we stand ready to provide the merchandise, service and unique support they need, and when they need it.

Michael Howard
Chief Operating Officer

2012 Successes

38.23 percent — Increase in total sales for the Exchange Protection Plan, to nearly $17 million

8.1 percent — Drop in the number of shoplifting cases

0.23 percent — 2012 inventory shrink rate, down from .29 percent of sales

Service members find good deals while shopping on Black Friday at Camp Leatherneck, Afghanistan.

$15.9 million — Thanksgiving weekend online sales, a 35 percent increase over 2011

$6.5 million — Black Friday online sales, an Exchange record for a single day

$4.1 million — Cyber Monday online sales, a 27 percent increase over 2011

1 — Exchange ranked number 1 in the Nilsson Report, which named the MILITARY STAR® credit card as the top in-house credit card in the U.S. for the second year in a row.

$81 million — Dividends from Exchange Credit Program for Army and Air Force's Morale, Welfare and Recreation programs

$3 billion — Receivable balance for the Exchange Credit Program

18 percent — Drop in injury frequency rate for Exchange stores in Europe Region

$738,000 — Amount of purchase orders from sister federal agencies for Exchange's new business-to-business initiative

285,240 & 5,099 — Page views for the Exchange blog, salutetoyourservice.com

Comments from viewers on the blog

U.S. Military Academy at West Point

Ansbach

Travis AFB

Providing exciting, modern shopping destinations

Our valued customers were greeted in 2012 by new and renovated shopping centers and other facilities as the Exchange continued spending a healthy chunk of its earnings on providing destinations they want and deserve.

In 2012, 74 construction projects worth $287 million gave shoppers up-to-date and bright places they enjoy.

New shopping centers welcomed customers at Malmstrom AFB, Mont., and Germany's Spangdahlem AB and Ansbach, while our Exchange at McConnell AFB, Kan., was expanded.

Nearly $59 million in renovations greeted shoppers at Fort Bragg, N.C.; California's Travis AFB; Fort Stewart, Ga.; Mountain Home AFB, Idaho; the NAS Fort Worth Joint Reserve Base and Sheppard AFB in Texas; Osan AB, Korea; Michigan's Selfridge Air National Guard Base; Tyndall AFB, Fla.; and the U.S. Military Academy at West Point, N.Y.

We also improved our distribution centers. About $64 million was spent on updating the Dan Daniel Distribution Center in Newport News, Va., and the Waco Distribution Center in Texas.

The remainder of our investment in capital expenditures covered building, renovating and opening of Express convenience stores, mini-malls and restaurants around the world.

eCommerce leans forward

2012 was a year of change for eCommerce as online sales hit a record $265 million, and even more dramatic changes are on the way this year. The goal is to create an omni-channel online shopping channel with products shoppers want no matter how they shop—computer, tablet or in-store.

In September, the Exchange's team of online experts enhanced shop**my**exchange.com so that customers can view merchandise without logging in. The Exchange now shows up in search engines like Google and Bing, effectively reaching more customers who may not have thought of buying from us first.

As another initiative, Sales and eCommerce teams began expanding the already vast online product assortments by adding many national brands sold in our traditional stores.

The goal is to create an omni-channel online shopping channel with products shoppers want no matter how they shop—computer, tablet or in-store.

Their goal is to grow toward parity: providing a higher percentage of the same items both in our stores and online. In 2012, we reached a 6 percent assortment parity, which drove more than half the sales in December. Assortment parity extends the shopping benefit to customers living near smaller main stores or nowhere near one of our Exchanges.

Our customers spoke, we listened!

In 2012, the Exchange answered customers' concerns by updating the women's plus-size department with "New Look, New Fit, New You."

The special-size buyer focused on providing top trends at great prices in sizes 1x-3x and 14w-24w, including new, younger looking styles from Michael Kors, Lauren Ralph Lauren, Levi's, Skye's the Limit, Ruby Road, AGB and Robbie Bee.

We also began offering women's plus sizes from PBX, the Exchange's popular and competitively priced brand of women's sportswear.

New children's wear prices

Our simplified children's wear pricing, which debuted in 2012, communicates clearly our savings message to our customers.

In April, the Exchange introduced five price points: $5, 2 for $15, $10, $15 and $20, making our children's apparel a destination department for our budget-conscious shoppers.

Styles range from the Exchange's exclusive brands, such as Buzz Cuts and Pony Tails, to national brands, including Levi's, Carter's and Nautica, among others.

Intensify national brands, reposition the main store

Shoppers are loyal to favorite brands—and Exchange customers are no exception. To ensure they are aware of all the top brands we offer in our stores and online, we began in 2012 the quest to "Intensify National Brands," a major strategic priority.

Thirty-one bareMinerals cosmetics stations and 30 Nail Bars debuted in 2012. The unique signing and feel began highlighting the most popular national brands.

From Fossil to Samsung

During 2012, we began testing Samsung and Sony store-in-store concept shops and focused on softlines national brand concepts, such as Michael Kors, Lauren Ralph Lauren and Nike. New to our PowerZones are endcaps for Beats by Dre headphones—one of the hottest brands in consumer electronics.

Our stores see a 67 percent sales increase in a brand when adding a Hardlines concept shop and 18 percent for a Softlines shop.

This year, we will continue to expand the bareMinerals brand to additional stores and also make the products available at shop**my**exchange.com. Thirty-six Nail Bars were planned for the first half of 2013.

Shouting out to customers

"Intensify National Brands" aligns nicely with "Reposition the Main Store" and reaffirms the Exchange's commitment to grow the business and give our valued shoppers the ultimate in shopping experiences.

By "Reposition the Main Store," another strategic priority, we mean turning every inch of our stores into places that shout out to our shoppers.

Developed in 2012, the priority calls for maximizing the square footage of our main stores by putting best sellers in the most ideal locations for greater visibility and higher sales and earnings per square foot.

Grow the Express: seizing upon opportunities

Focusing on "grab and go" and "better for you" food selections, "Grow the Express," one of the strategic priorities initiated in 2012, will help the Exchange become even more relevant to customers while lifting sales and earnings.

Product assortments are being realigned to allow more room for:

- Snack Avenues
- Spirits, beer, wine and carbonated beverages
- Meat, salty and warehouse snacks
- Cookies and crackers
- Candy

Gross profit rose 27 percent above benchmark and sales rose 26 percent in the first nine Expresses with island coolers.

Island coolers

From our open air, island coolers, on-the-go customers can pick fast and fresh salads, fruit, sandwiches, wraps, cheese sticks and beverages like water and fruit juice. Just right for our busy customers who want to stop by, gas up their vehicles, grab a quick snack and drink, and then take off.

Healthy eating choices

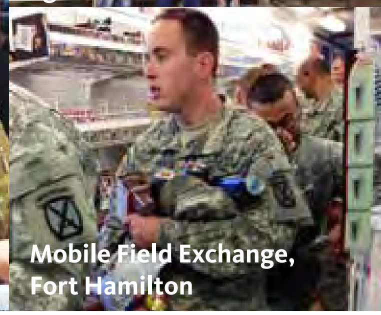
Through our Operation: BeFit program, the Exchange strives to support the healthy lifestyles of our customers and the Department of Defense's desire for fit Soldiers and Airmen.

We and brand franchisors introduced "better for you" menu items and became in 2012 the largest Burger King franchisee to post calorie counts, with other name brands following. Additionally, during "Salad Wednesdays" in Exchange restaurants, customers can get $2 off entrée salads priced at $4 or higher.

Digital reader boards advertise "better for you foods." As part of the "Grow the Express" strategic priority launched in 2012, customers are finding more healthy options in our Express convenience stores, such as ready-to-eat hot oatmeal, single-serve fresh fruit, ready-made salads and Dole fruit cups.

Bagram AB, Afghanistan

Foward Operating Base Fenty, Afghanistan


Mobile Field Exchange, Fort Hamilton

Superstorm Sandy

Serving America's heroes wherever they go

For 118 years, the Army & Air Force Exchange Service has followed America's troops into battle and into places where Mother Nature wreaked havoc.

Since the Global War on Terror began in 2001, about 4,500 associates have deployed—voluntarily—to our stores throughout southwest Asia and the Middle East to bring "a touch of home" to America's fighting heroes.

A changing footprint in Afganistan, Iraq, Eastern Europe

In 2012, we scaled back operations in Iraq and elsewhere in the Middle East and Southwest Asia to match troop reductions throughout the regions.

Today, we operate 34 retail facilities and 11 unit-run facilities in Afghanistan and seven sites in Iraq—and we still stay until nearly all Soldiers and Airmen leave.

In addition, we continue to operate facilities in Bosnia, Kosovo and Romania to serve troops and their partners in the Balkans peacekeeping mission that dates back to the mid-1990s.

Serving troops after Superstorm Sandy

Throughout Exchange history, our Mobile Field Exchanges have served Soldiers, Airmen, National Guard and Reservists on military exercises around the world, humanitarian missions in Central and South America, and where commanders requested support.

The Exchange dispatched MFEs and associates to staff them to areas of major hurricanes and tornadoes in the United States and devastating earthquakes in the Caribbean. MFEs and associates have been deployed to the Pacific Northwest numerous times to serve troops fighting forest fires.

This past October on the homeland, the Exchange supported more than 3,000 National Guard members and other emergency personnel as they helped New York City and cities along the Eastern Seaboard recover from the ravages of Superstorm Sandy at three locations.

The Exchange's mission was exemplified in true fashion when associates at the U.S. Military Academy at West Point commuted 50 miles each day to Brooklyn's Fort Hamilton to open the store because the halted New York City transit system couldn't bring their coworkers to the facility.

"Everything I asked from them, they have delivered. I am very impressed with AAFES and the leadership. They are an incredible group of professionals and will go beyond the call of duty to support our mission. Without a doubt, your motto, 'We go where you go,' is proven here. You kept us alive when we needed you the most."

Col. Elun Gines, commander,
Fort Hamilton Army Garrison,
in an email to Exchange senior managers

Other associates staffed an MFE at another military installation in Brooklyn.

Talk about selfless devotion: On the night of the storm, Fort Hamilton associate Kirill Blajievski stayed on his post at an Express convenience store to fuel emergency vehicles.

As soon after the storm as possible, they joined to keep our facilities open and operate an MFE in days after Sandy weaved her path of destruction.

As in the words of the installation commander, the Exchange was there when they needed us the most.


Exchange Director/CEO Tom Shull presents his special coins to associates for jobs well done staffing a Mobile Field Exchange in Brooklyn during aftermath of Superstorm Sandy.

Waco Distribution Center, Texas


Exchange Headquarters, Texas


Wounded Heroes Service Center, Kleber Kaserne, Germany

Serving those who serve . . . with career opportunities

Victory Media, publisher of G.I. Jobs magazine, named the Exchange in 2012 a military friendly employer for placing top priority on hiring military members.

Ten percent—slightly more than 4,200—of our global workforce—are veterans. Our goal this year is to increase the hiring of veterans into management positions by 33 percent. They are motivated, adaptive and dedicated team players and leaders—the characteristics we want in all associates.

Tops at hiring military spouses

What's more, Military Spouse magazine, for the fourth straight year, named the Exchange as a top 25 military friendly spouse employer. Nearly 6,500 military spouses work for the Exchange, 16 percent of our total workforce and 35 percent of our hires in 2012.

Military spouses, who understand the unique challenges of military life, also are our customers, so they can tell us what's important based on their experiences moving with their husbands or wives from installation to installation.

Supporting Wounded Warriors

Since 2011, the Exchange has participated in Operation Warfighter, the Department of Defense's internship program, by working through Warrior Transition Brigades to match 24 wounded, ill and injured active duty, National Guard and Reserve members with internships.

A staff sergeant from Fort Hood, Texas, who was wounded by a bomb while deployed to Iraq, checked vehicles and entered information into computers while working at the Exchange's Waco Distribution Center in Texas. Another Fort Hood staff sergeant, who was injured severely in a fall, reviewed resumes and screened potential hires at our Dallas headquarters.

"Participating in Operation Warfighter has been a fabulous opportunity for me to feel productive again," said Staff Sgt. Andrew McElroy, who injured his back. "The skills I've learned at the Exchange have opened up new horizons for me to pursue."

'Operation Warfighter has been a fabulous opportunity for me to feel productive again . . . the skills I've learned at the Exchange have opened up new horizons for me to pursue.'

Staff Sgt. Andrew McElroy, Fort Hood, Texas, former intern in the Exchange's Human Resources Directorate

A center for 'wounded heroes'

In January 2013, the Exchange and Army opened a first-of-its-kind facility for wounded Soldiers at Kleber Kaserne, Germany. The Wounded Heroes Service Center is just a short drive from Landstuhl Medical Center, the military's largest hospital outside the U.S.

After being evacuated from war zones, many of the injured service members come to Landstuhl with little more than the clothes on their backs. Since 9/11, thousands of troops were bused a far distance to an Exchange warehouse to pick up clothing, footwear and other items.

The center features handicap accessible dressing rooms, bathrooms and entrances, and is for the exclusive use of Landstuhl patients seeking uniforms, gloves, hats, boots and duffel bags.

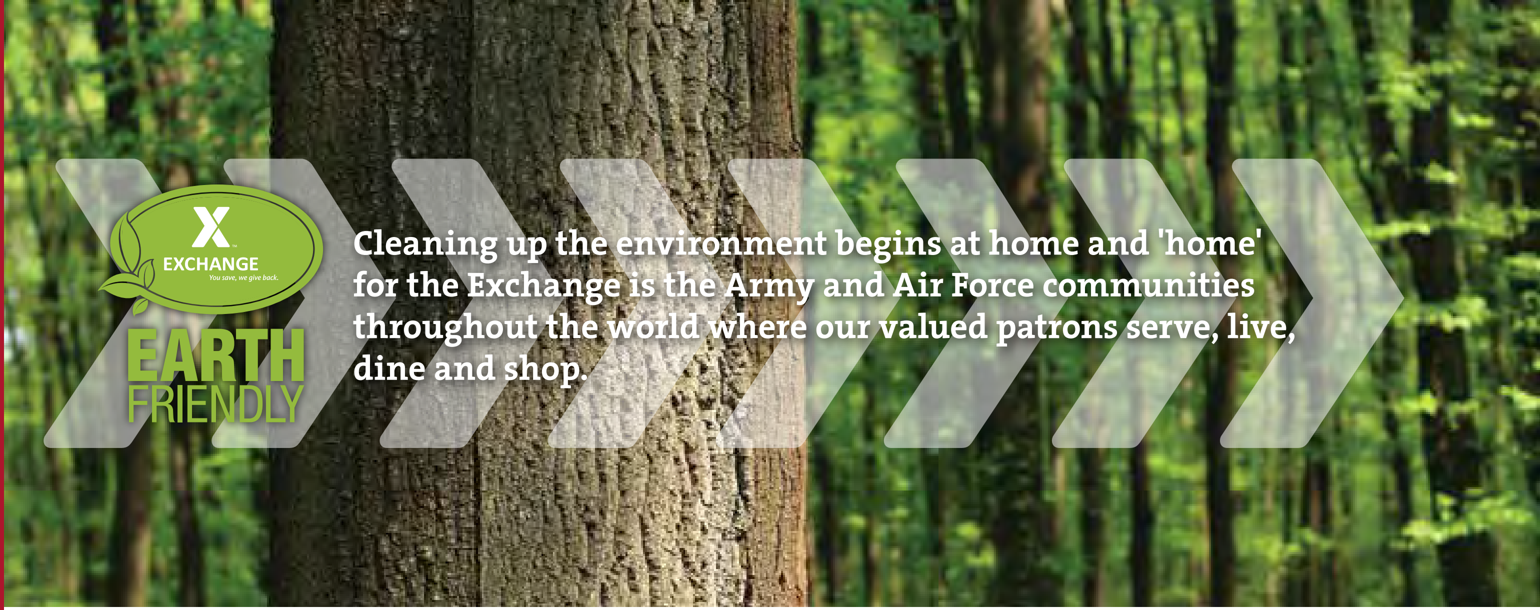
Helping warfighters 'dress for success'

Military members transitioning into civilian life can make head-to-toe business statements with the Exchange's support of the Army Career & Alumni Program/Transition Assistance Program (ACAP/TAP).

The Exchange and fashion trendsetters Billy London, Van Heusen, Haggar and others joined together to provide business fashions so Soldiers, Airmen, National Guard members and Reservists can make good first impressions and succeed in the business environment.

The Exchange also is helping with seminars at installations around the world on how to build a business wardrobe. Customers can pick up the free "Welcome Home: A Military Man's Guide to Style" at their nearest Exchange.

The potential to support many service members making the transition to civilian life is tremendous. For instance, the ACAP center at Fort Bliss, Texas, helps 4,000 Soldiers a year.



Caring for the planet

Reducing energy and the Exchange's environmental footprint

Since 2008, the Army & Air Force Exchange Service has slashed more than $6 million from its energy bills because we believe that saving energy and reducing our carbon footprint at military installations are critical.

In 2012, a pilot test of a sustainability initiative at Fort Hood's Warrior Way Express convenience store in Texas cut energy costs by nearly 49 percent and saved more than $17,000—far outpacing expectations. Sustainability experts are implementing the same measures to Expresses across the country and expect to cut energy costs by nearly $2 million a year and get a six-year payback.

In addition, a similar project for our main stores is expected to roll out in 2014.

The Warrior Way project included getting all equipment in working order, installing energy-reducing LED lights and sensor lighting controls, and upgrading walk-in coolers to reduce heat.

Monitoring controls verify savings and spot trouble immediately. When a new ice-cream freezer affected a thermostat, for instance, they were able to detect it and move quickly to correct the problem.

Winning awards, recognition

In fact, the Warrior Way project enabled the Exchange to finish second among 3,000 institutions, including several national retailers, in the U.S. Environmental Protection Agency's "battle of the buildings" for the amount of energy costs that were reduced.

Additionally, in 2012, the U.S. Green Building Council lauded the Pines Express at Fort Bragg, N.C., with a LEED Silver Certification and Plaque for its environmentally friendly design. Architects included lighting sensors and increased natural light; sealant, paint and carpets that emit low levels of chemical odors; special pollution-cutting ventilation; and sun-reflecting roof materials.

We want our valued customers to not only have exciting shopping destinations, but greener ones, too.

Need for speed drives new conveyor system upgrade

Optimizing the Supply Chain is one of the Army & Air Force Exchange Service's major strategic priorities that managers developed in 2012 to ensure we get the right products to the right people as quickly as possible, especially online.

At the Waco Distribution Center in Texas this past December, managers and associates celebrated the "grand opening" of a sophisticated conveyor system that will refine how merchandise is handled and shipped at the facility 150 miles from our Dallas headquarters.

The $46 million project replaced a 25-year-old creaky conveyor system with a wider, longer and sleeker system.

Large boxes now move along at 600 feet per minute rather than 300 feet—just one step of many that is enabling the Exchange to get goods out the door, into the trucks, on shelves and into customers' hands much quicker.

Greater return, increased efficiency

The Exchange overall is experiencing a return on investment in cost savings, increased efficiency, higher productivity and happier customers, especially those who buy merchandise from our online shopping site, shop**my**exchange.com.

We are quickly reaching our goal of picking, packing and shipping merchandise within 48 hours and delivering to customers within seven days.

Focusing processes, expanding assortment

The Exchange's other distribution centers in Virginia, California, the Pacific Region and Europe Region are upgrading equipment and processes.

For instance, by coordinating the warehousing, order processing and online shipping at the Dan Daniel Distribution Center in Newport News, Va., the Exchange focuses all processes at one location and allows the expansion of online product assortments.

Exchange recognized for excellence in many fields

Diversity, inclusion rank among tops in the country

Through the years, many organizations and publications have honored the Exchange for its diversity and inclusion initiatives, and 2012 was no exception.

- LATINA Style 50 magazine—Best Companies for Latinas
- Best of the Best Recognitions:
  - ✓ Top Government & Law Enforcement Agencies for African Americans, Women, Hispanics
  - ✓ Top Supplier Diversity Programs for Women, Hispanics, and African Americans
  - ✓ Professional Woman's Magazine
  - ✓ Hispanic Network Magazine
- Diversity Business.Com—Top 25 Government Agencies for Multicultural Business Opportunities
- Women's Business Council Southwest—Recognition of the Exchange for using women-owned businesses
- Dallas-Fort Worth Minority Supplier Development Council—Recognition of the Exchange for use of minority owned businesses for products and services
- Springboard Consulting—Disability Matters Award

Catalog wins best designed award

From thousands of entries, Graphic Design USA magazine presented the Exchange's eCommerce division with the American In-House Design Award for the Spring Fashion 2011 catalog for having one of the year's best designs. The major news magazine for creative professionals, presented the award to the Exchange in mid-2012.

Operational excellence marks Exchange restaurants in 2012

From the time the Exchange collaborated with its first major restaurant chain, Burger King, in 1984, our partners have awarded us with many accolades for operational excellence.

In early 2012, Charley's Grilled Subs named the Exchange as its Brand Ambassador for growth in locations and sales and continued operational excellence.

Charley's also recognized Exchange restaurants at Germany's Kaiserslautern Military Community Center, the United Kingdom's RAF Lakenheath, Hawaii's Schofield Barracks, Missouri's Fort Leonard Wood, Washington State's JB Lewis-McChord and Okinawa's Kadena AB for each passing $1 million in sales. Charley's at Vicenza AB, Italy, won honors for top sales increase for all the company's overseas locations.

The Exchange is Charley's largest franchise partner, operating 102 Charley's restaurants worldwide, with sales topping $60 million.

An award bestowed by the King

In December, Burger King named the Exchange its Non-Traditional North America Franchisee of the Year for customer satisfaction, sales, profit, cleanliness and service speed. With sales topping $186 million, 177 BKs operate on Army and Air Force installations around the world.

This past April, Popeyes Corporation presented the top 2012 prizes—Gold and Silver Plates—to the Exchange Popeyes in Grafenwoehr, Germany. The Popeyes at Osan AB, Korea, won the Bronze Plate. They were among the top four global restaurants recognized by the corporation.

2012 by the #s

10.3	8.6	1.3	342
$ BILLION IN REVENUE	$ BILLION IN SALES	$ BILLION SAVINGS TO GOVERNMENT	$ MILLION IN EARNINGS

224
$ MILLION IN DIVIDENDS

dividends given to support Morale, Welfare & Recreation programs

U.S. ARMY MWR
USAF SERVICES Combat Support & Community Service

127.7 million $

74.7 million $

21.5 million $

1.3 million combat uniforms outfitted in the past year

30 countries with facilities supporting contingency operations

5 million gallons of water produced for overseas customers

4.2 million school lunches served yearly

3 million loaves of bread produced to support commissaries, MWR, dining facilities, ships and embassies

36%
Exchange associates connected to the military

24% of Exchange associates are military spouses and families totaling **9,652**

10% of Exchange associates are military veterans totaling **4,219**

FINANCIAL STATEMENTS

Army and Air Force Exchange Service
Years Ended February 2, 2013 and January 28, 2012
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Army and Air Force Exchange Service

Financial Statements

Years Ended February 2, 2013 and January 28, 2012

Contents

Ernst & Young LLP
One Victory Park
Suite 2000
2323 Victory Avenue
Dallas, TX 75219

Tel: +1 214 969 8000
Fax: +1 214 969 8587
www.ey.com

Report of Independent Auditors

The Board of Directors
Army and Air Force Exchange Service
Departments of the Army and Air Force

We have audited the accompanying financial statements of Army and Air Force Exchange Service (the Exchange or the Company), which comprise the balance sheets as of February 2, 2013 and January 28, 2012, and the related statements of earnings, comprehensive income (loss), changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Army and Air Force Exchange Service at February 2, 2013 and January 28, 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 28, 2013

Army and Air Force Exchange Service

Balance Sheets

(Dollars in thousands, unless otherwise noted)

	February 2 2013	January 28 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 116,220**	$ 112,075
Trade and other accounts receivable, less allowance for uncollectible accounts (at February 2, 2013 – $47,173, at January 28, 2012 – $43,324)	**3,678,674**	3,680,316
Merchandise inventories	**1,276,273**	1,412,036
Short-term investments	**32,263**	10,300
Supplies and other current assets	**49,161**	48,423
Total current assets	**5,152,591**	5,263,150
Buildings and improvements	**3,344,817**	3,186,269
Fixtures and equipment	**1,478,875**	1,405,738
Construction-in-progress	**229,697**	279,394
	5,053,389	4,871,401
Accumulated depreciation	**(2,689,825)**	(2,499,428)
	2,363,564	2,371,973
Other assets	**14,433**	2,590
Long-term investments and Supplemental Plan assets	**15,884**	35,093
Total assets	**$ 7,546,472**	$ 7,672,806
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 439,566**	$ 550,936
Notes payable to banks	**1,665,874**	1,871,639
Accrued salaries, separation pay, and other employee benefits	**140,564**	119,368
Dividends payable	**60,861**	30,382
Other current liabilities	**258,337**	256,508
Total current liabilities	**2,565,202**	2,828,833
Notes payable to banks – long-term	**620,851**	575,725
Accrued pension and other benefits	**1,313,572**	762,881
Other noncurrent liabilities	**70,643**	65,012
Total liabilities	**4,570,268**	4,232,451
Net assets:		
Accumulated other comprehensive loss:		
Pension liability	**(2,228,683)**	(1,770,518)
Derivative instruments	**7,541**	(4,226)
Total accumulated other comprehensive loss	**(2,221,142)**	(1,774,744)
Retained earnings	**5,197,346**	5,215,099
Total net assets	**2,976,204**	3,440,355
Total liabilities and net assets	**$ 7,546,472**	$ 7,672,806

See accompanying notes.

Army and Air Force Exchange Service

Statements of Earnings

(Dollars in thousands, unless otherwise noted)

	Year Ended February 2 2013	Year Ended January 28 2012
Net sales	**$ 8,605,746**	$ 8,658,849
Finance revenue	**292,868**	281,281
Concession income	**212,682**	207,891
Other operating income	**42,941**	36,277
Total revenue	**9,154,237**	9,184,298
Cost of sales and operating expenses:		
Cost of goods sold	**6,646,290**	6,742,032
Selling, general, and administrative:		
Employee compensation and benefits	**1,328,216**	1,161,675
Depreciation and amortization	**327,509**	321,848
Other	**564,745**	576,370
Total selling, general, and administrative expenses	**2,220,470**	2,059,893
Interest expense	**49,583**	51,505
Bad debt expense	**40,831**	60,170
Total expenses	**8,957,174**	8,913,600
Operating income	**197,063**	270,698
Other income	**8,829**	7,121
Net earnings	**$ 205,892**	$ 277,819

See accompanying notes.

Army and Air Force Exchange Service

Statements of Comprehensive Income (Loss)

(Dollars in thousands, unless otherwise noted)

	Year Ended February 2 2013	Year Ended January 28 2012
Net income	**$ 205,892**	$ 277,819
Other comprehensive income (loss)		
Unrealized gain (loss) on derivative instruments	**11,767**	(4,687)
Pension and postretirement benefits adjustments	**(458,165)**	(639,470)
Total other comprehensive income (loss)	**(240,506)**	(366,338)
Comprehensive income (loss)	**$ (240,506)**	$ (366,338)

See accompanying notes.

Army and Air Force Exchange Service

Statements of Changes in Net Assets
(Dollars in thousands, unless otherwise noted)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Net Assets
Balance at January 29, 2011	$ 5,140,587	$ (1,130,587)	$ 4,010,000
Net earnings	277,819	–	277,819
Pension and postretirement benefits adjustments	–	(639,470)	(639,470)
Unrealized gain (loss) on derivative instruments	–	(4,687)	(4,687)
Comprehensive (loss)			(366,338)
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps	(203,307)	–	(203,307)
Balance at January 28, 2012	5,215,099	(1,774,744)	3,440,355
Net earnings	**205,892**	–	**205,892**
Pension and postretirement benefits adjustments	–	**(458,165)**	**(458,165)**
Unrealized gain (loss) on derivative instruments	–	**11,767**	**11,767**
Comprehensive (loss)			**(240,506)**
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps	**(223,645)**	–	**(223,645)**
Balance at February 2, 2013	**$ 5,197,346**	**$ (2,221,142)**	**$ 2,976,204**

See accompanying notes.

Army and Air Force Exchange Service

Statements of Cash Flows

(Dollars in thousands, unless otherwise noted)

	Year Ended February 2 2013	Year Ended January 28 2012
Operating activities		
Net earnings	**$ 205,892**	$ 277,819
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**350,839**	340,873
Loss on disposal of property and equipment	**2,490**	2,257
Gain on supplemental pension plan assets	**(1,310)**	(122)
Bad debt expense	**40,831**	60,170
Changes in operating assets and liabilities:		
Accounts receivable	**(39,189)**	(209,081)
Merchandise inventories	**135,763**	108,308
Supplies and other assets	**(12,582)**	(12,316)
Pension assets and liabilities	**90,096**	(23,777)
Long-term investments and supplemental plan assets	**249**	862
Accounts payable	**(103,241)**	(84,193)
Accrued salaries, separation pay, and other employee benefits	**32,295**	(457)
Other liabilities	**1,735**	26,597
Net cash provided by operating activities	**703,868**	486,940
Investing activities		
Purchases of property and equipment	**(377,073)**	(411,304)
Proceeds from the sale of property and equipment	**32,152**	10,425
Purchases of investments	**(23,992)**	(22,270)
Proceeds from the disposition of investments	**22,299**	22,548
Net cash used in investing activities	**(346,614)**	(400,601)
Financing activities		
Proceeds under line-of-credit agreements	**1,661,000**	1,717,000
Repayments under line-of-credit agreements	**(1,867,000)**	(1,596,000)
Proceeds and repayments of long-term debt	**45,361**	(4,415)
Change in cash overdraft	**695**	10,190
Payment of dividends	**(193,165)**	(201,817)
Net cash used in financing activities	**(353,109)**	(75,042)
Net increase in cash and cash equivalents	**4,145**	11,297
Cash and cash equivalents at beginning of year	**112,075**	100,778
Cash and cash equivalents at end of year	**$ 116,220**	$ 112,075

See accompanying notes.

Notes to Financial Statements

(Dollars in thousands, unless otherwise noted)

February 2, 2013

1. Description of Business and Summary of Significant Accounting Policies

General

The Army and Air Force Exchange Service (the Exchange or the Company) is a joint non-appropriated fund instrumentality (NAFI) of the United States (U.S.) organized under the Departments of the U.S. Army and the U.S. Air Force. The Exchange provides retail services to soldiers, airmen, and their families through a network of stores principally located in the U.S., Europe, the Pacific Rim, and the Middle East, substantially all of which are located on U.S. government installations. Middle East services operating in Afghanistan primarily provide support for Operation Enduring Freedom (OEF). In addition to providing merchandise and services of necessity and convenience to authorized patrons at competitively low prices, the Exchange's mission is to generate reasonable earnings to supplement appropriated funds for the support of Army and Air Force morale, welfare, and recreation programs. The Exchange maintains custody of and control over its nonappropriated funds. Funds that are not distributed as dividends are reinvested in the Exchange's operations. The Exchange is exempt from direct state taxation and from state regulatory laws, whose application would result in interference with the performance by the Exchange of its assigned federal functions. Such laws include licensing and price control statutes.

Net sales by geographic region are summarized below:

	Year Ended February 2 2013	Year Ended January 28 2012
Continental U.S.	**$ 5,863,222**	$ 5,754,855
Pacific Rim, including Alaska and Hawaii	**1,250,806**	1,218,728
Europe, primarily Germany	**776,011**	823,309
Middle East, including OEF and U.S. Mission Iraq	**452,512**	584,703
Other countries	**263,195**	277,254
Total net sales	**$ 8,605,746**	$ 8,658,849

(Dollars in thousands, unless otherwise noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Long-lived assets comprise property and equipment. Long-lived assets, net of accumulated depreciation and amortization, by geographic region are summarized below:

	Year Ended	
	February 2 2013	**January 28 2012**
Continental U.S.	**$ 1,754,031**	$ 1,755,994
Pacific Rim, including Alaska and Hawaii	**310,620**	328,070
Europe, primarily Germany	**295,943**	283,949
Middle East, including OEF and U.S. Mission Iraq	**2,970**	3,960
Total long-lived assets	**$ 2,363,564**	$ 2,371,973

The Exchange utilizes accounting principles generally accepted in the United States applicable to "for profit" organizations because of the nature of its commercial-type operations. The Exchange's financial statements include the operations of all exchanges at U.S. Army and Air Force installations throughout the world.

Appropriated Funds

In accordance with applicable U.S. Army and Air Force regulations, the Exchange is not required to pay rent for the use of properties owned by the U.S. government or utility costs associated with overseas exchanges. Permanent structures that are constructed by the Exchange and paid for from Exchange funds become the property of the U.S. government; however, the Exchange has the right to occupy and use the structures. The structures cannot be used for other than the Exchange's purposes without prior approval by the Exchange Director/Chief Executive Officer and the relevant department of the U.S. government. As such, the Exchange has included the cost of the structures on its balance sheet and depreciates the cost of the structures on a straight-line basis over their estimated useful lives. Services, such as ocean transportation of merchandise to certain locations on U.S. chartered vessels and performance of administrative and supervisory functions by military personnel, have been provided without charge to the Exchange.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Management has estimated the value of transportation costs provided by the U.S. government for Exchange materials shipped to and from overseas Exchange facilities to be approximately $130,369 and $148,698 for fiscal years 2012 and 2011, respectively. In addition, OEF and U.S. Mission Iraq transportation costs of $162,954 and $145,409 were paid by the U.S. government for fiscal years 2012 and 2011, respectively.

The Exchange receives reimbursements of certain incremental costs incurred by the Exchange in relation to OEF from the Department of the Army appropriated funds. The Exchange receives reimbursements of certain incremental costs incurred by the Exchange in relation to the U.S. Mission Iraq from the Department of State appropriated funds, and from the Department of the Air Force, Office of Security Cooperation Iraq (OSC-I). Appropriated funds (APF) reimbursements are recorded when an incremental cost that qualifies for reimbursement has been incurred and reimbursement by the Department of the Army, Department of State, or the Department of the Air Force is reasonably assured. Such APF reimbursements receivable are classified as trade and other accounts receivable in the balance sheets and are recorded as an offset to the related expenses (as described below) in the statement of earnings. In fiscal year 2012, the Exchange recorded a total of $61,340 in APF reimbursements. Of this amount, $9,804 was recognized for inventory markdowns and shortages, $16,925 was recognized for personnel costs, $30,669 was recognized for in-theater transportation, and $3,942 was recognized for other expenses. In fiscal year 2011, the Exchange recorded a total of $93,362 in APF reimbursements. Of this amount, $19,686 was recognized for inventory markdowns and shortages, $21,760 was recognized for personnel costs, $45,920 was recognized for in-theater transportation, and $5,997 was recognized for other expenses.

Base Realignment

Congress has not authorized a Base Realignment and Closure (BRAC) since 2005. In the event of closure of certain military bases around the world or a reduction in military forces, a decrease in sales at Exchange stores and a related decrease in the use of MILITARY STAR® Card due to the reduction of the customer base would likely occur.

Fiscal Year

The Exchange's fiscal year-end is the Saturday nearest January 31. References to fiscal 2012 and fiscal 2011 herein are to the fiscal years ended February 2, 2013 and January 28, 2012, respectively.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Key estimates made by Company management include the level of allowance needed for potentially uncollectible accounts receivable and discount rates used to discount the future obligations associated with pension plans and postretirement benefit plans.

In pension accounting, the most significant actuarial assumptions are the discount rate and the long-term rate of return on plan assets. In determining the long-term rate of return on plan assets, the Company considers the nature of the plans' investments, an expectation of the plans' investment strategies and the expected rate of return. Pension assets include alternative investments in limited partnerships, real estate properties, private equity, timber, agriculture, and alternative debt, which do not have readily available market values. In these instances, management reviews and takes responsibility for assessing, concluding on, and recording the fair market values for alternative investments provided by the general partner, investment manager, or appraiser, as appropriate. Management believes estimated fair values have been reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, but may differ materially from the values that would have been used had a ready market for these investments existed.

Translation of Foreign Currencies

The Exchange maintains foreign currencies only to the extent necessary to pay local current liabilities. Current liabilities are recorded daily and translated to U.S. dollars at "pegged" rates. Payments of current liabilities are recorded based on the "pegged" rate. At year-end, the current liabilities are translated from the pegged rates to the end-of-period market rates. The majority of such resulting gain or loss is recorded as foreign currency gain or loss with the remainder to the

1. Description of Business and Summary of Significant Accounting Policies (continued)

expense or asset account that gave rise to the current liability. The Company recognized a net gain on foreign currency of approximately $2,674 and a net loss of approximately $1,380 for the years ended February 2, 2013, and January 28, 2012, respectively. In addition, the noncurrent liability for local national separation pay as of February 2, 2013 and January 28, 2012, has been adjusted to end-of-period market rates as of those respective dates.

Cash and Cash Equivalents

Cash equivalents represent cash on hand in stores, deposits in banks, and third-party credit card receivables. Cash and cash equivalents are carried at cost, which approximates fair value. All book overdraft balances have been reclassified to accounts payable.

Investments in Debt Securities

Investments in debt securities have original maturities of greater than 90 days. These investments are typically held to maturity and are classified as such because the Company has the intent and ability to hold them to maturity. Held-to-maturity securities are carried at amortized cost.

Accounts Receivable, Finance Revenue, and Provisions for Credit Losses

As of February 2, 2013 and January 28, 2012, approximately $2,802,646 and $2,844,006 respectively, of the accounts receivable balance represents amounts due to the Exchange under its in-house credit program, the MILITARY STAR® Card. The MILITARY STAR® Card program extends credit to eligible Exchange customers for the purchase of retail goods at Exchange stores worldwide.

Minimum payments are calculated based on 2.777% of the unpaid balance as of the customer's last purchase. These payments are applied in accordance with the Credit CARD Act of 2009. Payments are recorded against outstanding receivable balance and debited to cash accounts.

Customer accounts receivable are classified as current assets and include some amounts that are due after one year. Concentrations of credit risk, with respect to customer receivables, are limited due to the large number of customers comprising the Company's credit card base and their dispersion throughout the world. The Company believes the carrying value of existing customer receivables is the best estimate of fair value due to the short-term nature of those receivables.

1. Description of Business and Summary of Significant Accounting Policies (continued)

The Company's accounts receivable balance includes $190,949 and $189,764 of receivables from the Marine Exchange (MCX) for Marine MILITARY STAR® Card outstanding balances and related processing fees as of February 2, 2013 and January 28, 2012, respectively.

Finance revenue is calculated based upon the customer account balance outstanding during the period after consideration of the applicable grace period, typically 30 days following the billing date. The finance rate charged is a variable interest rate calculated at a variable amount above the U.S. Prime Rate reported in *The Wall Street Journal*. The standard APR for fiscal years 2012 and 2011 was 10.24%. Beginning at 90 days past due, the delinquency rate of 18.24% applies. Finance charges are recorded unless an account balance has been outstanding for more than 150 days. Customer receivables past due 90 days or more and still accruing interest was approximately $52,096 and $54,261 as of February 2, 2013 and January 28, 2012, respectively.

Accounts past due for 30 days or more are considered delinquent. Accounts delinquent for 150 days are submitted to the Collection Department. The Exchange utilizes various means to collect past-due accounts, as well as accounts written off, including some methods not available to other retail organizations. The Exchange has agreements with other U.S. government entities that allow the Exchange to garnish wages of service personnel, as well as claim the debtors' future payments from such U.S. government entities, including U.S. Treasury income tax refunds. Personal contact, external collection agencies, and letters to service personnel superiors are also used to pursue delinquent accounts. The outstanding receivable related to accounts previously written off was $341,453 and $301,863 at February 2, 2013 and January 28, 2012, respectively. These accounts are at least 150 days past due and are generally outstanding for 1 to 5 years.

A provision for possible credit loss is recorded related to the Exchange's current credit card portfolio based on a percentage of total projected charge-offs that are considered uncollectible. Additionally, the Exchange records a net receivable related to accounts previously written off based upon estimated ultimate recoveries. The Exchange periodically evaluates the adequacy of the provision using such factors as prior account loss experience, changes in the volume of the account portfolio, changes in the estimates of anticipated recoveries on delinquent or written off balances, and changes in credit policy. These factors were considered in establishing the Exchange's allowance for doubtful accounts, and the net receivable related to accounts previously written off, as of February 2, 2013 and January 28, 2012. It is reasonably possible that

1. Description of Business and Summary of Significant Accounting Policies (continued)

the amounts the Exchange will ultimately recover on delinquent balances could differ materially in the near term from the amounts assumed in arriving at the allowance for doubtful accounts and net receivable related to accounts previously written off.

Collections on delinquent balances submitted to U.S. government entities totaled approximately $158,997 and $141,645 in fiscal years 2012 and 2011, respectively. Bad debt expense of $40,831 was recorded in 2012 compared to $37,429 in fiscal 2011. The Exchange uses a portfolio approach pooled by year to record the net receivable related to accounts previously written off, whereby finance income is no longer accrued and cash collections are applied to outstanding principal until 100% of the portfolio has been collected. Subsequent cash collections in excess of amounts previously written off are recorded as finance revenue. Finance revenue recognized in fiscal year 2012 related to accounts previously written off totaled approximately $15,711 compared to approximately $14,446 in fiscal year 2011.

Additionally, during fiscal year 2011, the Exchange recorded a $22,741 reduction in its net receivable related to accounts previously written off to cumulatively correct misstatements recorded in prior periods. This correction of prior periods resulted in $22,741 of additional bad debt expense in fiscal year 2011.

The following table sets forth the age of the Exchange's current credit card receivables that have not yet been submitted to U.S. government entities for collection.

	February 2, 2013		January 28, 2012	
	Amount	**Percent of Receivables**	**Amount**	**Percent of Receivables**
	(In Millions)		*(In Millions)*	
Current	$ 2,387	79.8%	$ 2,386	78.7%
1-29 days past due	346	11.6	374	12.3
30-59 days past due	139	4.6	150	4.9
60-89 days past due	69	2.3	69	2.3
90+days past due	52	1.7	54	1.8
Period-end gross credit card receivables	$ 2,993	100.0%	$ 3,033	100%

1. Description of Business and Summary of Significant Accounting Policies (continued)

The following table sets forth the provision for possible credit loss related to the Exchange's current credit card portfolio and does not include the net receivable related to accounts submitted to U.S. government entities for collection.

		2012		2011
		(In Millions)		
Allowance at beginning of period	**$**	**35**	$	31
Provision for bad debt		**37**		35
Write-offs (net of recoveries)		**(30)**		(31)
Allowance at end of period	$	**42**	$	35

The following table sets forth the credit card quality of the Exchange's current credit card portfolio.

		February 2 2013		January 28 2012
		(In Millions)		
Nondelinquent accounts (Current and 1-29 days past due):				
FICO score of 700 or above	**$**	**751**	$	661
FICO score of 600 to 699		**1,430**		1,492
FICO score below 600		**552**		607
Total nondelinquent accounts		**2,733**		2,760
Delinquent accounts (30+ days past due)		**260**		273
Period-end gross credit card receivables	**$**	**2,993**	$	3,033

Merchandise Inventories

The Exchange inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method of accounting (RIM), except for distribution center inventories, which are based on the first-in, first-out inventory method. Certain warehousing and distribution expenses are included in the cost of inventory. For the years ended February 2, 2013 and January 28, 2012, $12,846 and $12,830 of these expenses were included in merchandise inventory, respectively. For discussions of risk related to inventory in the Middle East, including OEF and U.S. Mission Iraq, refer to Note 10.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Inherent in the RIM calculation are certain significant management judgments and estimates, including, among others, merchandise markons, markups, markdowns, and shrinkage, which significantly impact the ending inventory valuation at cost, as well as resulting gross margins. The methodologies utilized by the Exchange in the application of the RIM are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the groupings of homogenous classes of merchandise, the development of shrinkage and obsolescence reserves, and the accounting for price changes.

Buildings and Improvements

Buildings and improvements primarily represent permanent structures constructed by the Exchange and owned by the U.S. government. These assets are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. The useful lives are governed, to a large extent, by the deployment of Army and Air Force personnel and, to some extent, by the requirements of the Departments of the Army and the Air Force with respect to space occupied by the Exchange. Buildings are generally depreciated over 30 years, and improvements are depreciated from 7 to 15 years. The Exchange loses its rights to buildings and improvements in the event of base closures and accelerates depreciation of its assets when such closures are probable.

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including property and equipment and definite-lived intangible assets, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current-period cash flow loss combined with a history of cash flow losses or a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets, or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques. The Company has not recorded any long-lived asset impairment charges during fiscal years 2012 or 2011.

(Dollars in thousands, unless otherwise noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Fixtures and Equipment

Fixtures and equipment are carried at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. Depreciable lives used are as follows:

	Depreciable Life
Asset type:	
Motor vehicles	5 to 10 years
Equipment	2 to 15 years
Software	3 to 7 years

Self-Insurance

The Exchange acts as self-insurer for property, automobile, public liability, workers' compensation, comprehensive casualty losses, ocean marine, and other casualty losses. However, the Exchange has commercial property insurance covering the buildings, contents, and inventories at certain locations. The provision for certain self-insurance losses is based on calculations performed by the Exchange's independent actuarial consultants using loss development factors to estimate ultimate loss. The Company's self-insurance reserves were $72,548 and $71,262 as of February 2, 2013 and January 28, 2012, respectively. Workers' compensation reserves were discounted at a weighted-average rate of 3.67% and 4.02% as of February 2, 2013 and January 29, 2012, respectively. Property and liability reserves were discounted at a rate of 1.62% and 2.32% as of February 2, 2013 and January 29, 2012, respectively. General liability reserves were discounted at a weighted-average rate of 1.55% for fiscal year 2012.

Separation Pay and Vacation Leave Accruals

Separation pay and vacation leave for local national employees in foreign countries are accrued as earned based upon the labor laws of host countries and upon agreements between the U.S. and foreign governments. In order to estimate this liability, the Company and its actuaries make certain assumptions, including the amounts considered recoverable from foreign governments under existing agreement terms. Actual results may vary from these assumptions (see Note 7). Additionally, the liability for vacation leave earned by U.S. citizens is accrued as earned.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed when the advertisement first occurs. Advertising expense was $68,504 and $74,925 for the years ended February 28, 2013 and January 28, 2012, respectively, and is included in selling, general, and administrative expenses. The Exchange's cooperative advertising allowances are generally accounted for as a reduction in the purchase price of inventory.

Revenue Recognition

Revenue from retail sales is recognized at the time of sale. Revenue from sales made under a layaway program is recognized upon delivery of the merchandise to the customer. With respect to sales returns, a significant portion of the Company's products are consumables or perishables and are not subject to return by customers. Additionally, sales returns of products subject to the Company's return policy represent an insignificant portion of overall sales. Finance revenue includes finance charges and administrative fees on credit sales. Concession income includes fees charged to concessionaires based on a percentage of their sales and is recognized at the time of sale. Other operating income includes fees received from sources such as Western Union, delivery services, gift card breakage, and indirect retail income.

Income Taxes

The Exchange is a nonappropriated fund instrumentality of the U.S. and, as such, is not subject to the payment of income taxes.

401(k)

The Company has a 401(k) voluntary savings and investment plan open to regular full- and part-time employees who meet certain minimum requirements. The employees can make voluntary contributions to the plan not to exceed the lesser of 99% of eligible participant compensation or the applicable 401(k) maximum deferral contribution limit for the year.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Foreign Currency Hedging

As part of an overall risk management strategy, the Company uses foreign currency exchange contracts to hedge exposures to changes in foreign currency rates on the Company's payroll and foreign vendor obligations denominated in foreign currencies. These derivative instruments are accounted for in accordance with ASC 815, *Derivatives and Hedging*. ASC 815 requires that all derivative financial instruments be recognized in the financial statements and measured at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in net assets until the hedged item is recognized in earnings. Hedged items are reclassified from accumulated other comprehensive income (loss) and into earnings using the specific identification method. The Company's policy is that it does not speculate in hedging activities. The maximum length of time over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions is one year.

Fair Value Measurements

The Exchange records financial instruments at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Under ASC 820, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under ASC 820 focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. See Note 3 for further information regarding fair value measurements.

Financial instruments that potentially subject the Exchange to concentrations of credit risk consist principally of investments held by the Supplemental Plan and derivative financial instruments. The Company uses high credit quality counterparties when executing derivative transactions.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

On May 12, 2011, the FASB ratified Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The update expands the disclosures required for fair value accounting and clarifies the measurement of fair value when used in valuing certain assets and liabilities. The Company adopted changes made by ASU 2011-04 although certain disclosures do not apply to non-public companies.

On June 16, 2011, the FASB ratified ASU 2011-05, *Presentation of Comprehensive Income*. This ASU eliminates the option to report other comprehensive income and its components in the statement of changes in equity. As permitted under ASU 2011-05, the Company elected to present items of net income and other comprehensive income in two separate consecutive statements beginning fiscal 2012.

In December 2011, FASB issued Accounting Standards Update ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which was subsequently modified in January 2013 by ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2013-01 has requirements that are disclosure-only in nature. It requires disclosures about offsetting and related arrangements for certain financial instruments and derivative instruments, including gross and net information and evaluation of the effect of netting arrangements on the statements of financial position. The provisions of ASU 2013-01 are not expected to have a material impact on the Company’s financial statements.

Subsequent Events

The Exchange has evaluated subsequent events through May 28, 2013, the date at which the financial statements were available to be issued, and determined that no additional disclosures to those presented were necessary except as disclosed in Note 11.

2. Investments in Debt Securities

As of February 2, 2013, the Company held investments carried at $11,993 (which matures April 4, 2013), in support of non-German, Local National separation pay. Investments are classified as “held-to-maturity” in accordance with ASC 320-10, *Investments – Debt and Equity Securitie*s, and are classified on the accompanying balance sheets in short-term investments.

2. Investments in Debt Securities (continued)

As of February 2, 2013, the Company held a €15,000 (approximately $20,270) German government security to support the liability for German Local National separation pay. The bond, due to mature on March 13, 2013, is valued at $20,270 as of February 2, 2013, and is classified as short-term investments on the accompanying balance sheet.

3. Fair Value Measurements

Financial Accounting Standards Board ASC 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value. The inputs used to measure fair value are prioritized based on a three-level hierarchy as follows:

> Level 1 – Quoted prices in active markets for identical assets or liabilities. The Exchange uses the unadjusted quoted prices in active markets for identical assets or liabilities to which the Exchange has access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.
>
> Level 2 – Observable inputs other than quoted prices in Level 1. The Exchange determines the value of the investment holdings by evaluating its pro rata share of investments where it does not own the underlying securities but rather a proportional share of the fund, such as mutual fund and common collective trusts. Significant inputs, other than quoted market prices included in Level 1 that are observable, impact either directly or indirectly, the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk, and default rates.

3. Fair Value Measurements (continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Inputs are unobservable for the assets or liabilities. The Exchange invests only with managers that provide financial statements that are independently audited at least once a year. The statements are accompanied by a report from the auditing firm, which discloses the accounting basis as well as an opinion regarding the reliability of the financial statements. In addition to the audited statements, the fund managers have provided the type of investments as well as the methods used to value and appraise all investments in the fund's portfolio. The Company's benefit plan Level 3 assets and liabilities are measured at fair value on a recurring basis.

Cash and cash equivalents, accounts payable, and accrued liabilities are reflected in the balance sheet at cost, which approximates fair value due to the short-term nature of these instruments. Trade and other accounts receivable are reflected in the balance sheet at cost less a provision for credit losses, which approximates market value due either to the short-term nature of the instruments or the variable market rate of interest that is charged on outstanding credit card balances. The fair value of the Company's debt is disclosed in Note 4.

(Dollars in thousands, unless otherwise noted)

3. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities that are measured at fair value as of February 2, 2013 and January 28, 2012:

	Fair Value as of February 2, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	**$ 1**	**$ 1**	**$ –**	**$ –**
Collective investment funds[1]	**15,830**	**–**	**15,830**	**–**
Due from broker	**24**	**24**	**–**	**–**
Short-term investments	**32,263**	**32,263**	**–**	**–**
Foreign currency derivatives[2]	**7,541**	**–**	**7,541**	**–**
Total assets	**$ 55,659**	**$ 32,288**	**$ 23,371**	**$ –**

	Fair Value as of January 28, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 38	$ 38	$ –	$ –
Collective investment funds[1]	14,974	–	14,974	–
Short-term investments	10,300	10,300	–	–
Due from broker	27	27	–	–
Total assets	$ 25,339	$ 10,365	$ 14,974	$ –
Liabilities:				
Foreign currency derivatives[2]	$ 4,226	$ –	$ 4,226	$ –
Total liabilities	$ 4,226	$ –	$ 4,226	$ –

[1] Holdings consist of a Blackrock equity fund (approximately 40% in fiscal 2012 and 40% in fiscal 2011), which is passive in nature and employs a strategy to closely follow the S&P 500 index, and a Blackrock U.S. Debt Index fund (approximately 60% in fiscal 2012 and 60% in fiscal 2011), which employs a strategy that seeks to match the performance of the Barclays Capital Aggregate Bond Index by investing in a diversified sample of the bonds that make up the index.

[2] Derivatives are included on the balance sheet in 2012 and 2011 in accounts payable and accrued salaries, separation pay, and other employee benefits.

(Dollars in thousands, unless otherwise noted)

3. Fair Value Measurements (continued)

The Company holds investments related to the Supplemental Plan totaling $15,856 and $15,039 at February 2, 2013 and January 28, 2012, respectively, which are included in long-term investments and Supplemental Plan assets on the balance sheet. Supplemental Plan assets are classified as trading securities since gains and losses from these investments are intended to offset the cost of the Supplemental Plan. Net income on trading securities was $1,310 and $122 in fiscal 2012 and 2011, respectively. The cost of securities sold is determined primarily on a specific identification method. (Refer to Note 7 for further discussion of the Supplemental Plan, and refer to Note 5 for further discussion of the Company's derivative positions.)

The allocation of Supplemental Plan assets at February 2, 2013 and January 28, 2012, by asset category, is as follows:

	2012	**2011**
Domestic equity securities	**41%**	41%
Investment-grade fixed income	**59**	59
Total	**100%**	100%

4. Indebtedness

Committed Lines of Credit

The Exchange maintains two committed lines of credit aggregating to $2,020,000. The first is an unsecured revolving line of credit that is facilitated by a 16 bank syndicate led by JP Morgan Chase aggregating to $1,520,000. In May 2012, the Exchange converted the Installation Management Command G-9 (IMCOM G-9) $500,000 line of credit from committed to uncommitted. As of February 2, 2013, there is $0 and $425,000 outstanding under the JP Morgan Chase Syndication and IMCOM G-9 line of credit, respectively.

Uncommitted Lines of Credit

As of February 2, 2013, the Exchange maintains a JP Morgan Chase $1,200,000 line of credit. Borrowings under this line of credit were $1,086,000 as of February 2, 2013, compared to $1,597,000 as of January 28, 2012. While this line is open-ended, the outstanding balances as of

4. Indebtedness (continued)

February 2, 2013, have various maturity dates with the latest being March, 2013. Accordingly, the Company classifies outstanding amounts on these lines of credit as current obligations. In July 2012, the borrowing under the Bank of America line of credit matured and the line was terminated.

Borrowings under all lines of credit both committed and uncommitted bear interest rates ranging from 0.85% to 1.44%. The average interest rate under these lines of credit was 0.89% for the year ended February 2, 2013.

Senior Notes

In December 2011, the Exchange completed a private placement debt offering of $200,000 in senior notes. A delayed funding option was utilized allowing the Exchange to receive funding of the senior notes in February, 2012.

In October 2009, the Exchange completed a private placement debt offering of $90,000 in senior notes (the 2024 senior notes), which comprise a 15-year amortizing principal. As of February 2, 2013, these senior notes have a total remaining obligation of $75,725.

In June 2009, the Exchange completed a $650,000 offering of debt in a private placement. This offering provided the Exchange with $650,000 in fixed-rate, committed senior notes (the Series A, B, and C senior notes), which were issued in three tranches. The Series A senior notes matured in June 2012.

(Dollars in thousands, unless otherwise noted)

4. Indebtedness (continued)

Debt obligations as of February 2, 2013 and January 28, 2012, consisted of the following:

	2012	2011
Outstanding debt principal balances:		
JP Morgan Chase revolving line of credit, expiring 2015	**$ –**	$ 120,000
JP Morgan Chase uncommitted line of credit	**1,086,000**	947,000
IMCOM G-9 committed line of credit	**425,000**	425,000
Bank of America uncommitted line of credit, terminated	**–**	225,000
5.24% Series A senior notes due 2012, matured	**–**	150,000
5.47% Series B senior notes due 2013	**150,000**	150,000
5.74% Series C senior notes due 2014	**350,000**	350,000
2.50% senior notes due 2017	**200,000**	–
4.95% senior notes due 2024	**75,725**	80,364
Total debt obligations	**2,286,725**	2,447,364
Current maturities	**(1,665,874)**	(1,871,639)
Total long-term debt obligations	**$ 620,851**	$ 575,725

Based on the short-term nature of the Company's line of credit borrowings, the Exchange believes that the carrying values of amounts outstanding under the line of credit agreements approximate fair value given the term of the debt and floating interest rates. As of February 2, 2013, the estimated value for the senior notes (B&C), 2017 senior notes, and 2024 senior notes are $521,785, $200,758, and $82,159, respectively. Fair value is calculated using a discounted cash flow analysis with estimated interest rates offered for notes with similar terms and maturities.

Cash paid for interest for fiscal years 2012 and 2011 was approximately $54,188 and $56,218, respectively. The Exchange has complied with all financial and nonfinancial covenants per loan agreements as of February 2, 2013.

4. Indebtedness (continued)

Principal maturities of debt obligations as of February 2, 2013, are as follows (in thousands):

2013	$ 1,665,874
2014	355,120
2015	5,380
2016	5,652
2017	205,938
Thereafter	48,761
	$ 2,286,725

The Company has historically regularly extended or replaced its line of credit facilities with similar short-term borrowings and on similar terms and conditions. The Company believes it has the ability and intent to renew its existing facilities coming due in 2013 or replace such facilities on substantially the same or better terms and conditions. See Note 11.

5. Derivative Financial Instruments

Forward and option collar foreign exchange contracts are used primarily to hedge the risk of the Company's euro-denominated payroll and foreign vendor obligations against adverse changes in foreign currency exchange rates. Under the foreign exchange contracts, the Company agrees to pay an amount equal to a specified exchange rate multiplied by a Euro notional principal amount, and to receive in return an amount equal to a specified monthly pegged exchange rate multiplied by the same euro notional principal amount. No other cash payments are made under the contracts, and the contracts cannot be terminated. Under the option collar contracts (effectively the simultaneous purchase of a call option and sale of a put option for the same notional amount and maturity, with the put being the floor strike rate and the call being the ceiling strike rate) the user maintains full protection against adverse movements, but gains due to favorable exchange rate moves are limited to the strike price of the sold option.

The Company has designated the forward and option collar foreign exchange contracts as cash flow hedges of its exposure to changes in its functional currency-equivalent cash flows on the associated payroll and foreign vendor obligations. Accordingly, the changes in the fair value of the Company's forward and option collar foreign exchange contracts are recorded in the Company's balance sheet as an asset or liability and in net assets (as a component of

5. Derivative Financial Instruments (continued)

accumulated other comprehensive loss). As the notional amounts and terms of each forward and option collar foreign exchange contract match those of its liability counterpart at maturity, any ineffectiveness is immaterial in the foreign exchange contracts.

Upon expiration of the hedge contracts, the amount of the hedged item that affects earnings is reclassified from accumulated other comprehensive loss.

As of February 2, 2013, the Company had various foreign exchange contracts (forwards and option collars) outstanding related to approximately $112,623 (€90,000) of its forecasted payroll and inventory purchase liabilities. As of February 2, 2013, the notional value of the outstanding forward contracts (€15,000) was $19,186 with a corresponding gain of $1,298. The notional value of outstanding option collar contracts (€75,000) was $93,437, with a corresponding gain of $6,243. The net gain of $7,541 is included in accrued salaries, separation pay, and other benefits and accounts payable on the accompanying balance sheet and is included as a component of accumulated other comprehensive loss. The balance of $7,541 in accumulated other comprehensive loss is expected to be reclassified into earnings within the next 12 months. In addition, the Company has recognized approximately $5,585 in losses on foreign currency hedge transactions settled during fiscal 2012, compared to $593 in gains during fiscal 2011.

(Dollars in thousands, unless otherwise noted)

5. Derivative Financial Instruments (continued)

Unrealized gains and losses on foreign exchange hedges that are included in accumulated other comprehensive loss are recognized into earnings as the related payroll expenses are paid or the related inventory is purchased.

	Derivative Assets (Liabilities)		
		Fair Value	
	Balance Sheet Location	**February 2 2013**	**January 28 2012**
Derivatives designated as hedging instruments			
Foreign currency exchange contracts	Accounts payable	**$ 5,656**	$ (3,170)
	Accrued salaries, separation pay, and other employee benefits	**1,885**	(1,056)
Total derivatives designated as hedging instruments		**$ 7,541**	$ (4,226)

Reclassifications from accumulated other comprehensive loss are recognized in selling, general, and administrative other expense in the statement of earnings.

6. Lease and Rental Obligations

The Company's operating lease and rental commitments primarily include real estate and information technology leases. The Company recorded rent expense of $13,545 and $22,564 for the fiscal years ended February 2, 2013 and January 28, 2012, respectively. The following is a schedule, by year, of the future minimum rental payments required under all leases as of February 2, 2013:

2013	$ 2,516
2014	1,576
2015	1,139
2016	222
2017	125
Thereafter	426
	$ 6,004

7. Benefit Plans

The Exchange has a defined benefit pension plan, the Retirement Annuity Plan (the Basic Plan), covering regular full-time civilian employees of the Company who are citizens or residents of the U.S. In addition, a noncontributory supplemental deferred compensation plan (the Supplemental Plan) provides for selected benefits to employees in the Executive Management Program. The Exchange's policy is to annually fund actuarially determined postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded even in the absence of future contributions. The benefits are based on years of service and the employees' highest three-year average compensation. Assets of the plans consist primarily of marketable debt and equity securities.

In addition to the Exchange's pension plan, certain medical and dental (health care) and life insurance benefits are also provided to retired employees through the Postretirement Medical/Dental and Life Insurance (Postretirement) plans for employees of the Exchange. All regular full-time U.S. civilian employees who are paid on the U.S. dollar payroll may become eligible for these benefits if they satisfy eligibility requirements during their working lives. The Exchange's policy is to annually fund actuarially determined Postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded, even in the absence of future contributions.

The Exchange also provides certain life insurance and other disability benefits for active employees. Benefits are paid from a Voluntary Employee Beneficiary Association (VEBA) trust maintained by the Exchange and to which the Company contributes each year. As of February 2, 2013, the Company recorded a liability of approximately $35,589, which represents an estimated liability of $42,957 less trust assets of $7,368. At January 28, 2012, the Company recorded a liability of $17,767, which represents an estimated liability of $38,481 less trust assets of $20,714.

In addition, the Company provides a noncontributory defined benefit pension plan to its employees in the United Kingdom (UK Plan). With the UK Plan, the Exchange also provides postemployment benefits (e.g., separation pay) through its Local National benefit plans to employees in Germany, Japan, Okinawa, Azores, Italy, and Turkey (collectively, referred to as Foreign Plans).

7. Benefit Plans (continued)

The Exchange measures the cost of its pension plans and other benefit plans in accordance with ASC 715, *Compensation – Retirement Benefits*. In addition, assets of the Supplemental Plan do not qualify as plan assets as defined in ASC 715 and, as a result, are accounted for in accordance with ASC 320, *Investments-Debt and Equity Securities*.

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended February 2, 2013 and January 28, 2012. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Change in projected benefit obligations (PBO)								
PBO at prior measurement date	**$ 3,608**	$ 3,186	**$ 14**	$ 9	**$ 2,009**	$ 1,837	**$ 94**	$ 110
Service cost	**87**	74	**1**	1	**26**	24	**3**	5
Interest cost	**199**	188	**1**	–	**104**	108	**4**	4
Plan participants' contributions	**4**	4	**–**	–	**–**	–	**–**	–
Change in assumptions	**–**	–	**–**	–	**–**	–	**5**	(22)
Actuarial loss (gain)	**655**	391	**3**	4	**169**	134	**(2)**	1
Curtailment	**–**	–	**–**	–	**–**	–	**1**	–
Foreign exchange impact	**–**	–	**–**	–	**–**	–	**(1)**	–
Benefits paid	**(286)**	(217)	**(1)**	–	**(93)**	(87)	**(3)**	(4)
Administrative expenses paid	**(18)**	(18)	**–**	–	**(7)**	(7)	**–**	–
Other	**–**	–	**–**	–	**–**	–	**(17)**	–
PBO at current measurement date	**$ 4,249**	$ 3,608	**$ 18**	$ 14	**$ 2,208**	$ 2,009	**$ 84**	$ 94
Change in plan assets								
Fair value of assets at prior measurement date	**$ 3,544**	$ 3,589	**$ –**	**$ –**	**$ 1,331**	$ 1,324	**$ 33**	$ 30
Actual return on assets	**472**	186	**–**	–	**175**	55	**4**	2
Employer contributions	**–**	–	**–**	–	**42**	46	**3**	3
Plan participants' contributions	**4**	4	**–**	–	**–**	–	**–**	–
Benefits paid	**(286)**	(217)	**–**	–	**(93)**	(87)	**(2)**	(2)
Administrative expenses paid/foreign exchange impact	**(18)**	(18)	**–**	–	**(7)**	(7)	**–**	–
Fair value of assets at current measurement date	**$ 3,716**	$ 3,544	**$ –**	$ –	**$ 1,448**	$ 1,331	**$ 38**	$ 33
Funded status at fiscal year-end	**$ (533)**	$ (64)	**$ (18)**	$ (14)	**$ (760)**	$ (678)	**$ (46)**	$ (61)

Supplemental assets do not qualify as plan assets.

7. Benefit Plans (continued)

The following table reflects amounts recognized in the balance sheets as of February 2, 2013 and January 28, 2012. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Amounts recognized in the balance sheets								
Prepaid pension asset	**$ –**	$ –	**$ –**	$ –	**$ –**	$ –	**$ –**	$ –
Other current liabilities	**–**	–	**–**	1	**62**	63	**7**	8
Accrued pension and other benefits liability	**533**	64	**18**	13	**698**	615	**39**	53
Accumulated other comprehensive loss	**(1,314)**	(925)	**(13)**	(11)	**(880)**	(813)	**(21)**	(21)

A summary of the components of net periodic benefit cost (income) for the benefit plans is as follows for the years ended February 2, 2013 and January 28, 2012. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Net periodic cost								
Service cost	**$ 87**	$ 74	**$ 1**	$ 1	**$ 26**	$ 23	**$ 3**	$ 5
Interest cost	**199**	188	**–**	–	**104**	108	**4**	4
Expected return on assets	**(286)**	(295)	**–**	–	**(108)**	(107)	**(2)**	(2)
Prior service cost amortization	**–**	–	**–**	–	**(4)**	(4)	**–**	–
Net loss amortization	**73**	1	**2**	2	**48**	52	**1**	1
Net periodic benefit (income) cost	**$ 73**	$ (32)	**$ 3**	$ 3	**$ 66**	$ 72	**$ 6**	$ 8

Information for benefit plans with an accumulated benefit obligation in excess of plan assets is as follows. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Projected benefit obligation	**$ 4,249**	$ 3,608	**$ 18**	$ 14	**$ 2,208**	$ 2,009	**$ 84**	$ 94
Accumulated benefit obligation	**3,972**	3,444	**9**	9	**2,208**	2,009	**71**	79
Fair value of plan assets	**3,716**	3,544	**–**	–	**1,448**	1,331	**38**	33

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

Amounts included in accumulated other comprehensive income for all plans at February 2, 2013, consist of net actuarial losses of $2,228,684. Amortization of this amount expected to be recognized in fiscal year 2013 is $173,634.

Actuarial Assumptions

Actuarial weighted-average assumptions used in determining plan liabilities are as follows:

	Pension Benefits The Basic Plan		Pension Benefits Supplemental Plan		Other Benefits Postretirement	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Assumptions used to determine expense:						
Discount rate	**5.26%**	6.00%	**5.26%**	6.00%	**5.45%**	6.00%
Long-term rate of return on assets	**8.25**	8.25	–	–	**8.75**	8.75
Compensation increase rate	**5.50**	5.50	**5.50**	5.50	**5.50**	5.50
Assumptions used at disclosure:						
Discount rate	**4.62**	5.26	**4.62**	5.260	**4.68**	5.45
Compensation increase rate	**5.50**	5.50	**5.50**	5.50	**5.50**	5.50

	Other Benefits UK Plan		Other Benefits Local National Plan	
	2012	**2011**	**2012**	**2011**
Assumptions used to determine expense:				
Discount rate	**4.80%**	5.70%	**2.81%**	3.57%
Long-term rate of return on assets	**6.50**	6.90	**–**	–
Compensation increase rate	**4.20**	4.50	**2.24**	2.51
Assumptions used at disclosure:				
Discount rate	**4.50**	4.80	**2.22**	3.13
Compensation increase rate	**3.20**	4.20	**2.24**	2.51

Actuarial assumptions are based on management's best estimates and judgment. The Exchange reassesses its benefit plan assumptions on a regular basis. The expected rate of return for the pension plans represents the average rate of return to be earned on the plan assets over the period

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

that the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Exchange considers the impact of long-term compound annualized returns on the plan assets.

Pension Plan Assets

The Exchange's investment objectives for the benefit plans are designed to generate asset returns that will enable the plans to meet their future benefit obligations. The precise amount for which these obligations will be settled depends on future events, including interest rates, salary increases, and the life expectancy of the plans' members. The obligations are estimated using actuarial assumptions, based on the current economic environment.

The benefit plans seek to achieve total returns sufficient to meet expected future obligations, as well as returns greater than their policy benchmark reflecting the target weights of the asset classes used in their targeted strategic asset allocation. The plans' targeted strategic allocation to each asset class was determined through an asset-liability modeling study.

The following table sets forth the target allocations of plan assets:

	Pension Benefits The Basic Plan		Other Benefits Postretirement Plan		Other Benefits UK Plan	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Domestic equity securities	**17%**	17%	**22%**	22%	**26%**	26%
International equity securities	**12**	12	**16**	16	**35**	35
Emerging market equity securities	**5**	5	**5**	5	**4**	4
Investment-grade fixed income	**21**	21	**12**	12	**35**	35
High-yield fixed income	**10**	10	**10**	10	–	–
Treasury inflation protected securities (TIPS)	**5**	5	**5**	5	–	–
Real estate – private	**8**	8	**8**	8	–	–
Real estate – public	**2**	2	**2**	2	–	–
Private equity	**10**	10	**10**	10	–	–
Commodities	**5**	5	**5**	5	–	–
Alternative debt	**5**	5	**5**	5	–	–
Total	**100%**	100%	**100%**	100%	**100%**	100%

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

The Exchange's benefit plan actual asset allocations at February 2, 2013 and January 28, 2012, by asset class category are as follows:

	Pension Benefits The Basic Plan		Other Benefits Postretirement Plan		Other Benefits UK Plan	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Domestic equity securities	**18%**	20%	**23%**	24%	**26%**	26%
International equity securities	**12**	11	**18**	16	**35**	35
Emerging market equity securities	**5**	4	**4**	5	**4**	4
Investment-grade fixed income	**20**	22	**11**	12	**35**	35
High-yield fixed income	**10**	10	**10**	10	–	–
TIPS	**5**	5	**5**	5	–	–
Real estate – private	**9**	8	**8**	8	–	–
Real estate – public	**3**	2	**2**	2	–	–
Private equity	**9**	9	**10**	9	–	–
Commodities	**5**	5	**5**	5	–	–
Alternative debt	**4**	4	**4**	4	–	–
Total	**100%**	100%	**100%**	100%	**100%**	100%

Equity securities are diversified across various industries and comprise common and preferred stocks of U.S. and international companies and equity positions in privately held companies controlled through limited partnerships. Common and preferred stocks are based on market quotations and are classified as Level 1 in the fair value hierarchy. The estimated fair values of the investments in the collective investment funds represent the underlying net asset values of the shares or units of such funds as determined by the issuer. Limited partnerships are valued at the plans' proportionate share of the estimated fair value of the underlying net assets as determined by the general partners. The limited partnerships are valued based on purchase price when recently acquired; valuation models such as discounted cash flows or market multiples; financial measures, such as free cash flow or earnings before interest, taxes, depreciation, and amortization (EBITDA); or market comparisons for similar assets and are classified as Level 3 investments. Foreign obligations are foreign equities traded on U.S. exchanges as American Depository Receipts (ADRs), are valued based on market quotations, and are classified as Level 1 investments.

7. Benefit Plans (continued)

Debt securities comprise corporate bonds, government securities, and asset-backed or collective investment funds and limited partnerships with underlying debt securities. U.S. Government obligations are valued at the closing price reported on the active market on which the individual securities U.S. government obligations are valued at the closing price reported on the active market on which the individual securities are traded. U.S. government agency securities are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. U.S. government obligations are valued as Level 1 investments. Corporate bonds are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Asset-backed securities are publicly traded securities with coupon payments based on the performance of the underlying assets and are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Corporate bonds and asset-backed securities are classified as Level 2 investments. Registered investment companies are valued based on the net asset value held at year-end and are classified as Level 2 investments.

Real estate and commodities comprise investments whose underlying value is based on real estate or commodities. Publicly traded securities are equity shares in Real Estate Investment Trusts (REITs) and are valued based on market quotations. Collective investment funds with underlying investments in exchange-traded positions are classified as Level 2 investments. Collective investment funds and limited partnerships with underlying investments in real estate are classified as Level 3 investments. The estimated fair value of the underlying real estate is based on the selling price of the property, income the property is expected to generate, and the market values of any commodities currently on the land.

Other investments consist primarily of investment contracts and are valued at the quoted price as determined by the issuer. Contracts are classified as Level 2 investments.

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

The fair value hierarchy discussed in Note 3 is not only applicable to assets and liabilities that are included in the Company's consolidated balance sheets but is also applied to certain other assets that indirectly impact the consolidated financial statements. The Company uses the fair value hierarchy to measure the fair value of assets held by pension and postretirement benefit plans. The following table sets forth by level, within the fair value hierarchy, the Company's benefit plan assets and liabilities that are measured at fair value as of February 2, 2013:

	Benefit Plans			
	Total	Level 1 Quoted Prices in Active Markets	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
Temporary investments[(a)]	$ 5,353	$ 5,353	$ –	$ –
Equity securities:				
Common and preferred stock[(b)]	**838,390**	**838,390**	–	–
Collective investment funds[(c)]	**1,162,107**	–	**1,162,107**	–
Limited partnerships[(d)]	**443,434**	–	–	**443,434**
Foreign obligations[(e)]	**27,100**	**27,100**	–	–
Debt securities:				
U.S. government obligations[(f)]	**317,139**	**317,139**	–	–
Corporate bonds[(g)]	**505,328**	–	**505,328**	–
Asset-backed securities[(j)]	**49,761**	–	**49,761**	–
Collective investment funds[(h)]	**814,220**	–	**814,220**	–
Limited partnerships[(d)]	**185,038**	–	–	**185,038**
Registered investment companies	**21,608**	–	**21,608**	–
Real estate and commodities:				
Common and preferred stock[(b)]	**131,498**	**131,498**	–	–
Collective investment funds[(i)]	**586,028**	–	**84,005**	**502,023**
Limited partnerships[(d)]	**90,692**	–	–	**90,692**
Due to/from broker for sale of securities – net	**13,032**	**13,032**	–	–
Other investments	**11,243**	–	**11,243**	–
Total investments	**$ 5,201,971**	**$ 1,332,512**	**$ 2,648,272**	**$ 1,221,187**

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's benefit plan assets and liabilities that are measured at fair value as of January 28, 2012:

	Benefit Plans			
	Total	Level 1 Quoted Prices in Active Markets	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
Temporary investments[a]	$ 4,286	$ 4,286	$ –	$ –
Equity securities:				
Common and preferred stock[b]	848,612	848,612	–	–
Collective investment funds[c]	893,796	–	893,796	–
Limited partnerships[d]	428,425	–	–	428,425
Foreign obligations[e]	87,163	87,163	–	–
Debt securities:				
U.S. government obligations[f]	344,246	344,246	–	–
Corporate bonds[g]	457,286	–	457,286	–
Asset-backed securities[j]	44,033	–	44,033	–
Collective investment funds[h]	797,613	–	797,613	–
Limited partnerships[d]	209,383	–	–	209,383
Registered investment companies	14,206	–	14,206	–
Real estate and commodities:				
Common and preferred stock[b]	117,663	117,663	–	–
Collective investment funds[i]	555,085	–	83,513	471,572
Limited partnerships[d]	104,971	–	–	104,971
Due to/from broker for sale of securities – net	(10,943)	(10,943)	–	–
Other investments	12,495	–	12,495	–
Total investments	$ 4,908,320	$ 1,391,027	$ 2,302,942	$ 1,214,351

7. Benefit Plans (continued)

(a) Primarily consist of cash held in foreign currencies.

(b) Holdings are diversified as a percentage of total equity with the following breakout and allocation percentages: Domestic Markets (51%); Developed International Markets (37%); International Emerging Markets (12%). Domestic Markets are diversified by Large Cap Value (40%), Large Cap Growth (40%), and Small Cap (20%).

(c) Holdings consist of Blackrock index funds, which are passive in nature and employ a strategy of investing in securities that provide beta (market) exposure to a specific index including the S&P 500 and MSCI EAFE. The collective investment funds consist of domestic 71% and International 29% investments that have a required notice of three days for any sales or liquidation. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. There are no restrictions on withdrawals.

(d) Includes limited partnerships that invest primarily in U.S. buyout opportunities as well as opportunistic debt of a range of privately held companies. The fund does not have to redeem its limited partnership investment at its net asset value. Instead, the fund receives distributions as the underlying assets of the fund are liquidated. It is estimated that the underlying assets of these funds will be gradually liquidated over the next 1 to 10 years.

(e) Holdings include International 73% and Domestic 27% securities in the form of American Depository Receipts which represent underlying securities, traded on non-U.S. exchanges.

(f) Fixed-income treasury securities backed by the full faith and credit of the U.S. government. There are no significant foreign currency risks within this segment.

(g) Includes 15% and 13% of investments in corporate high-yield debt with S&P rating of B- and below as of February 2, 2013 and January 28, 2012, respectively. The remaining investments are in investment-grade corporate bonds.

(h) The State Street Bank and Trust Company Short Term Investment Fund employs a strategy to provide safety of principal, daily liquidity, and a competitive yield by investing in high-quality money market instruments. Issuances and redemptions are made on each business day. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the discretion of the funds' trustee.

(i) Investments include both commodities and real estate, which provide diversified returns relative to stocks and bonds. The underlying commodity investments are actively traded futures, which have full pricing transparency and daily liquidity and are reported as Level 2 investments. Real estate holdings include direct real estate investments in properties that are valued by appraisal and reported as Level 3. The investments are diversified by core 64% and value-added or opportunistic 10% investments. Commodity investments include farmland and timber, which represent 26% of the allocation. There is quarterly redemption available for the real estate investments with a 60-day notice.

(j) Holdings consist primarily of publicly traded fixed-income securities whose payments are based on the performance of an underlying asset. The underlying assets are allocated as follows: collateralized mortgage obligations 51%, credit card receivables 16%, and other assets 33%, including student loans.

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

The Plan previously classified asset-backed securities and corporate bonds as using Level 1 inputs. The Plan has determined that the pricing methods for certain of these investments use significant other observable inputs. Accordingly, such investments held by the plan in prior periods have been reclassified to Level 2 to correct the prior-year presentation. The reclassification had no impact on the fair value of investments in any of the periods presented.

Level 3 Gains and Losses

The tables below set forth a summary of changes in the fair value of the Plan Level 3 assets for the years ended February 2, 2013 and January 28, 2012:

	Year Ended February 2, 2013		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	**$ 428,425**	**$ 209,383**	**$ 576,542**
Realized gains	**19,376**	**23,972**	**16,467**
Unrealized gains relating to instruments still held at the reporting date	**11,173**	**7,831**	**35,684**
Purchases	**47,208**	**16,200**	**1,119**
Sales	**(62,748)**	**(72,348)**	**(37,097)**
Balance, end of year	**$ 443,434**	**$ 185,038**	**$ 592,715**

	Year Ended January 28, 2012		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	$ 336,565	$ 214,772	$ 528,715
Realized gains	13,464	6,092	16,047
Unrealized gains relating to instruments still held at the reporting date	46,298	5,567	41,072
Purchases	79,108	29,546	33,667
Sales	(47,010)	(46,594)	(42,959)
Balance, end of year	$ 428,425	$ 209,383	$ 576,542

(Dollars in thousands, unless otherwise noted)

7. Benefit Plans (continued)

Employer Contributions

The Exchange expects to contribute approximately $61,688 to the other Postretirement benefit plans in fiscal 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Years	Basic Plan	Supplemental Plan	Postretirement	Foreign Plans
2013	$ 231,125	$ 463	$ 97,287	$ 5,343
2014	235,907	471	103,667	5,678
2015	241,797	492	109,073	6,870
2016	247,672	514	114,120	5,039
2017	253,314	526	119,169	5,077
2018–2022	1,341,416	2,836	652,496	25,818

Assumed Health Care Cost Trend Rates at the End of January

	2012	2011
Health care cost trend rate assumed for next year	**7.00%**	7.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate	**2017**	2016

8. Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings before bonuses in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps.

8. Dividends (continued)

If dividends were paid on the pension income and realized and unrealized gains and losses recorded in accordance with ASC 715 and ASC 320, the Exchange would be paying dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps on noncash amounts, which would impact cash reserves used in the normal operation of the business. Accordingly, under the current dividend policy, these items are excluded from net earnings subject to dividends. Any other exclusion used in the calculation of net earnings subject to dividends must be approved by the Board of Directors.

The Exchange's policy is to annually fund actuarially determined postretirement expense unless the plan is fully funded or unless an asset-liability model has shown the plan will likely become fully funded, even in the absence of future contributions. Therefore, each year, pension expense generally reduces the net earnings subject to dividends to the extent cash contributions have actually been made.

9. Commitments and Contingencies

The Company is a defendant in various lawsuits and claims. In the opinion of management, the amounts, if any, which might ultimately be paid in connection with settlement of the litigation would not have a material effect on the financial condition, results of operations, or cash flows of the Company.

10. Middle East, Including Operation Enduring Freedom and U.S. Mission Iraq

The Company's presence in Iraq, Qatar, Afghanistan, and Kuwait was supported by 92 stores as of February 2, 2013. Approximately $452,512 (5.3%) and $584,703 (6.8%) of the Company's net revenues in the fiscal years 2012 and 2011, respectively, were derived from sales to U.S. troops stationed in the Middle East, including OEF and U.S. Mission Iraq. The decrease in revenue for fiscal years 2012 and 2011 was primarily due to U.S. troop withdrawal from Iraq. The drawdown in troop levels initiated a closure of military bases and leaves limited Exchange operations. Any continued or significant disruption or retreat from the locale directed by the United States military could have an adverse impact on the results of operations. The Company's OEF and U.S. Mission Iraq physical inventory balance, at cost, was $68,366 at February 2, 2013, and $57,697 at January 28, 2012, respectively. It is difficult to estimate the potential inventory that may be forfeited if the United States must quickly exit a country. Any related loss on inventory could adversely affect the Company's results of operations unless such losses are eligible for appropriations that are reasonably assured of collection.

11. Subsequent Events

On May 23, 2013, the Company entered into a $1.5 billion commercial paper facility with a consortium of banks. The facility is expected to close the week of May 27, 2013 subject to finalization of rating agency procedures and other conditions to closing typical for such arrangements. The Company currently intends to begin issuing commercial paper under the facility in June 2013 and use the proceeds to repay short-term obligations currently outstanding under the Company's uncommitted line of credit. Amounts borrowed under the commercial paper facility will bear interest at market rates at the time of borrowing with maturity of such borrowings expected to range between 1 and 270 days. The commercial paper facility will be subject to certain loan covenants and restrictions similar to those in existence for the Company's uncommitted line of credit.

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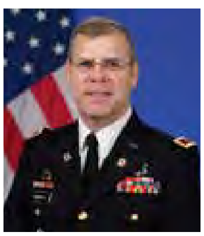

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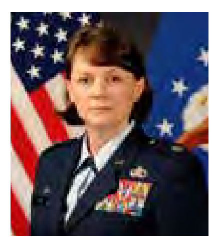

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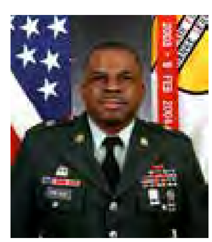

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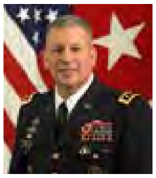

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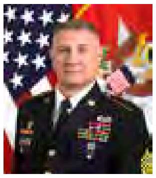

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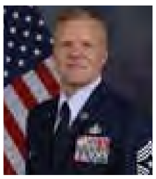

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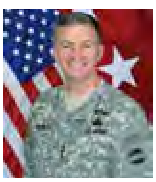

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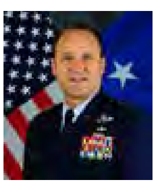
DCG/CS U.S. Army Forces Command



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SES
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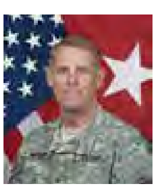

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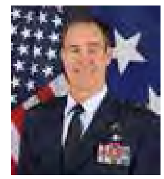

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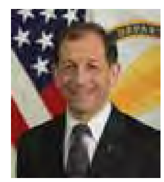

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SES
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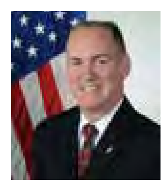

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SES
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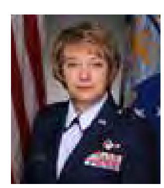

Brig. Gen.
James F. Martin
USAF
Director, Budget Operations and Personnel, SAF/FMBO

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