2015 ANNUAL REPORT

ARMY & AIR FORCE EXCHANGE SERVICE

CELEBRATING 120 YEARS OF SERVICE 1895 2015

2015 was a historic year for the Exchange. In July, the Exchange celebrated 120 years of serving America's Soldiers, Airmen and their families. Few retailers have reached such a milestone.

Six months later, the Exchange completed its best fiscal year ever. 2015 was an amazing year for the Exchange with exceptional earnings (subject to dividends) of $401.6 million, surpassing the 2015 goal by $35.4 million, an all- time high. Furthermore, our operational performance improved while many retailers struggled.

These earnings are all the more impressive given the significant drawdown of military operations in Afghanistan, Iraq and active-duty Soldiers worldwide. The active-duty Army and Air Force shrank by 30,000—3.5 percent. Compounding the smaller active-duty customer base were the seismic shifts confronting the retail industry. The retail landscape of 2015 was extremely intense, causing many retailers to fail.

Record operating earnings in 2015 allowed the Exchange to distribute $237.2 million in dividends to Army and Air Force quality-of-life programs, $13 million more than last year! In the DoD's constrained budgetary environment, these funds are more important than ever to supporting services on which military communities depend.

2015's results are an important waypoint in the journey that began in 2012 to transform the Exchange. The Exchange has introduced many new national brands, relaunched shopmyexchange.com into a modern online shopping experience, increased customer satisfaction and decreased operational expenses.

Service members and families visiting main stores and food and service concepts in our malls will see we have reinvigorated the shopping experience to provide truly great customer experiences.

To better serve our customers today and into the future, in 2015 the Exchange opened modern 100,000-square foot-plus shopping centers at Fort Hood, Texas, and the U.S. Army Garrison at Wiesbaden, Germany—a far cry from tents and wooden shacks of a century ago. Our plans include constructing entertainment centers at selected Army posts, expanding MILITARY STAR credit card acceptance throughout the installations, securing approval for expanding online shopping privileges to all of America's honorably discharged veterans and launching a new approach to the convenience-store experience.

A lot has changed in 12 decades. What began on the American frontier as individual Army post exchanges is now a single global enterprise, #52 on the National Retail Federation's Top 100 Retailers list.

The Exchange has grown substantially since its humble beginnings, and yet, its mission has remained the same—to improve the lives of Soldiers, Airmen and their families, wherever they serve. Few organizations have such a noble mission.

The Exchange has accomplished a lot in its first 120 years. It is well positioned to continue that tradition for decades to come because the better we serve Soldiers, Airmen, and their families, the better prepared they are to serve.

Tom Shull

SUTLER TENT, MID-1800s

EARLY DAYS

Dating back to the French and Indian War of 1754-1763, bands of merchants called sutlers traveled among military camps, selling their wares, often at highly inflated prices.

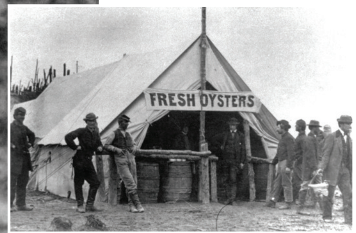
During the Civil War, their abuses became so flagrant that after the conflict, Congress abolished the sutler system and turned over the duties to the Army's Subsistence Division. A year later, Congress established the "post trader" system. However, military leaders concluded that many traders bribed officials to set up monopolies on Army posts and took advantage of Soldiers, much like the sutlers before them. In 1888, military leaders began looking for another alternative.

Meanwhile, commanders wanted to keep Soldiers on post versus them going into town to buy personal items and possibly winding up in trouble. Following the British and French armies, Col. Henry Morrow set up the first canteen in 1880 at the Pacific Northwest's Vancouver Barracks. The little room was so popular that canteens sprang up at frontier posts in the developing West. Nine years later, the War Department authorized canteens at posts that didn't have traders, but left the final decision up to local commanders. By 1892, nearly all 110 posts had canteens—and their names were changed by the War Department to "post exchanges."

On July 25, 1895, the department ordered all commanders to open post exchanges. Unlike the discretionary canteen authorization, this order made post exchanges mandatory.

However, Army regulations did not include anything about serving troops in the field or overseas, which would cause problems during the Spanish-American War and World War I.

1867



Congress establishes a post trader system for frontier installations.

1895

During the Spanish-American War, the Army's Quartermaster Department provided basic necessities to troops in the field, while units at permanent installations set up their own exchanges. The first PX in Hawaii opened in 1898 in a tent city at Camp McKinley to serve troops en route to the Philippines.

When the United States entered World War I, the War Department and post exchanges were unprepared to supply 2 million Soldiers deployed overseas. Each post exchange was independently operated by post officials. No Army-wide organization existed to open exchanges for the Army units deployed to France and elsewhere during the war.

Civilian welfare agencies, such as the American Red Cross, YMCA, Salvation Army and others took up the job of serving the doughboys overseas.

After World War I ended, military officials, such as Gen. John J. Pershing, the American commander in Europe during the war, began pushing for a more effective way to serve troops.

As war clouds loomed over Europe in the early 1940s, Army leaders were determined to be better prepared to provide Soldiers with the basic necessities should the United States enter another war.

In 1941, the Army Exchange Service was formed to set policies and provide technical and funding assistance for post exchanges. During World War II, AES also operated exchanges around the world. Hundreds of military units opened their own PXs under the purview of installation or unit commanders and AES.

1919

The War Department forms the post exchange system. At left, the exchange at Fort Keough, Mont.

After civilian agencies serve troops overseas, like the ones at left, during World War I, Army leaders say that job should belong to the Army.

1880

THE FIRST CANTEEN: AN 'HONEST EFFORT' TO SERVE SOLDIERS

Col. Henry Morrow probably didn't know his little room at Vancouver Barracks would eventually lead to a worldwide post exchange system. The 21st Infantry Regiment commander's first thoughts were instead how quickly he was tiring of his troops landing in the brig after carousing on the town.

His canteen, which opened Nov. 29, 1880, offered newspapers, magazines, writing paper, envelopes, pens, ink, billiards, cards, food and beverages. What the colonel found was exactly what he sought: more Soldiers began spending off-duty time there and disciplinary actions dropped dramatically.

Even Col. Morrow's wife, Isabella, who called the canteen an "honest effort" to serve Soldiers, knew a great idea when she saw one:

"...the dozen or two men swelled in numbers, until it was necessary to add another room, giving greater facilities for amusements of various kind," she wrote in a letter to another infantry colonel. "Beef tea, hot, was added to the drinks, and more appetizing eatables... Just when the beer was added, I do not remember."

1944, NEW CALEDONIA POST EXCHANGE

WORLD WAR II

When the United States entered World War II, the Army Exchange Service (AES), barely six months old, faced serving a rapidly rising number of installations and Soldiers. For instance, the Army Air Corps had only 17 air bases in 1940 in the United States; by 1943, there were 345 main bases—all needing exchange services.

Stateside PXs provided services up to the last possible moment before troops embarked overseas. With the induction of millions of Soldiers into the Army, installations were reactivated or built from the ground up—and the PX was one of the services in all the plans.

By late 1943, 741 post exchanges served Soldiers and their families in the United States. These unit-run PXs provided candy, ice cream, soft drinks, beer, tobacco products, toiletries, newspapers, books and magazines. Some PXs even operated grocery markets; automobile garages and service stations; laundry, tailor and barber shops; photo studios; recreation rooms; and guest houses.

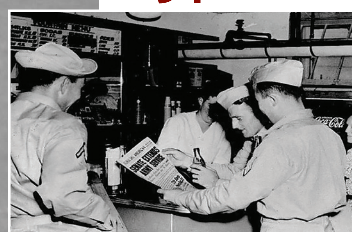
As the U.S. Army grew and began to deploy overseas, PXs sprang up across the Caribbean and South America as America defended sea lanes from Nazi submarines. Then, PXs opened in Great Britain as it became the springboard for successive military operations in North Africa, then Sicily, Italy and France.

In the Pacific, PXs opened in New Zealand and Australia as the U.S. Army began island hopping, first in New Guinea, then the Philippines and the Mariana Islands before Japan capitulated.

PXs could be found in other far-flung countries in this global war, such as Greenland, India and Iceland.

By December 1943, 786 exchanges served Soldiers overseas; by April 1944, there were more than

1940



Soldiers at the PX at Camp Shelby, Miss., keep up with news about the war.

1941

1,500. They were in brick-and-mortar buildings, tents, Quonset huts and bamboo structures, like the PXs in Guadalcanal and throughout the South Pacific.

By early 1945, forward PXs were in Germany as the Allied armies closed in on Berlin.

Regardless of the structure or location, the PXs served as the Soldier's gathering place to relax with fellow GIs, listen to music, eat food, play games, feed nickels into jukeboxes and enjoy a familial connection with employees. The PXs were stocked with merchandise that the lonely GIs remembered from home. In letters to loved ones back home, Soldiers often mentioned the fun they had at their local PX.

One little known exchange activity was POW canteens in the United States, such as the one at Fort Benning for German prisoners. The POWs operated the canteens after purchasing their goods from the nearest Army PX.

The impact of the World War II PXs is best summed up in the words of 1st Lt. Henry Kohn:

"The history of exchange service must always be more than the history of a successful business operation, for the exchange is the 'corner store,' transported to the Soldier in the evacuation hospital, on the beachhead and in his foxhole.

"What the PX and Army Exchange Service have contributed toward winning the war can never be accurately measured. Undoubtedly, they have gone a long way toward sustaining the morale and improving the fighting ability of every Soldier."

In five years, the new AES had gone from serving 270,000 Soldiers, primarily stateside, to 8.2 million around the world by the end of World War II.

1942

The Hawaiian Exchange System begins and soon features 18 PXs on six of the islands. Shown, mobile PX and mules, Oahu.

Mobile exchange on a train serves troops guarding 500 miles of Alaskan railroad.

1943

'ONLY A PACKAGE OF GUM'

Speaking before the Congressional Club in Washington D.C., midway through World War II, Lt. Gen. Brehon Somervell, commanding general of the Army Services of Supply, summed up the importance of exchanges:

"...everywhere we have men, I found post exchanges, the little military stores where a Soldier may buy chewing gum or cigarettes or chocolate, or a toothbrush or his favorite shaving cream. You can well imagine the job it is to move these stores, with their wide assortment of merchandise, from place to place, as the fluid battle fronts roll back and forth. But they are worth the trouble—the American likes to be able to buy what he needs, even if it's only a package of spearmint gum."

The Army Exchange Service moved more than a half-billion dollars worth of everyday needs to Soldiers, wherever they were located across the world. AES Chief Brig. Gen. Joseph Byron toured the war zones in 1943 and discovered exchanges wherever the Army had established a railhead or an advanced supply depot.

"I arrived in one African town shortly after the Germans had been driven out," Byron said, "and found an exchange already occupying a large house."

SOLDIERS IN PX, KOREAN WAR

COLD WAR AND KOREA

After World War II, the U.S. military transformed from combat operations to the occupation of Germany, Austria and Japan. With the occupation came families, which meant transforming PXs from serving Soldiers in the field to helping create military communities with goods and services found in typical American towns.

By 1947, the Army Exchange Service had opened 260 PXs and 1,300 snack bars, soda fountains, barber and beauty shops, breweries, gas stations and other facilities in Germany, Italy, France and elsewhere in Europe.

Two months after the surrender ceremony on board the U.S.S. Missouri, the first PX in Japan opened in Tokyo. PXs in Yokohama, Osaka and elsewhere would follow in the coming months. Some PXs were in former Japanese department stores. To serve Soldiers in rural areas, a 10-car PX train ("Rolling Store") made a 42-day circuit of Japanese islands, crossing waters by ferries to carry goods to Soldiers.

With the Air Force's creation in 1947, the AES became the Army & Air Force Exchange Service (AAFES) in 1948.

The first crisis of the Cold War occurred when the Soviet Union blockaded all access to Berlin. For 13 months, U.S. and British pilots flew in all essentials to the city's 2 million people. The Berlin exchange's trucks delivered food and drinks to pilots on the tarmacs so they could quickly return to delivering food, fuel and medical supplies.

The Cold War's first hostilities arose in 1950 with the Korean War. From its headquarters in Yokohama, the Japan Central Exchange began providing merchandise to PXs in Korea. An exchange depot in Punsan, Korea, handled

1948

The Berlin Exchange delivers sandwiches and drinks to Airmen during the Berlin Airlift.

1951

hundreds of tons of merchandise and equipment purchased through AAFES in the United States.

Stateside exchanges were as involved in serving Soldiers and Airmen as those in the Far East. Former World War II bases were reactivated to train the rapidly expanding Army and Air Force. AAFES was stretched as it ensured Soldiers and Airmen preparing for deployment to Korea had the resources they needed.

A proposal for funding the expansion would have suspended AAFES dividends to morale, welfare and recreation programs, but AAFES Chief Col. William Kendall successfully fought it. He then financed the expansion with $32 million in bank loans.

During Christmas 1950, Operation Santa Claus allowed troops in Korea to order gifts for families and friends. Volunteers in Japan wrapped and mailed the gifts. In later years, this would expand to other seasons and then to the Exchange Mail Order Catalog.

The first Pacific catalog was published in 1958, and the first Exchange catalog was published 1978. In 1979, the Defense Department directed the Navy and AAFES to consolidate their catalogs. In 1981, AAFES published the first all-services catalog.

With NATO's creation in 1951, President Truman moved four Army divisions to Germany, transitioning the U.S. role from occupation to defending Western Europe. Throughout the 1950s, exchanges expanded even more, and new ones opened to serve the influx of American forces in Europe. At the peak, there would be 300,000 troops, plus their families.

Exchanges also opened in France, Italy, Morocco, Spain, the Netherlands, Crete, Turkey, Saudi Arabia, Pakistan and other locations.

Soldiers in Korea get personal necessities airlifted to them by the exchange system.

1956

Camp Kilmer, N.J., exchange serves many of the 15,000 Hungarian refugees allowed to enter the U.S.

1960s-1970s

FROM CARS TO SCHOOL LUNCHES

Times of great change in America, the 1960s and '70s were also times of great change for AAFES.

In 1960, AAFES and American Motors began allowing customers to purchase cars tax-free for delivery in Europe. Later, AAFES would do the same with Ford, Chrysler and GM. In 1965, Congress approved expanding the program to all overseas areas and the purchase of U.S.-brand cars for delivery to the States.

Since the 1920s, a centralized service supplied movies to Army posts and later Air Force bases, with local installations operating the theaters. In 1975, responsibility for distributing movies and operating theaters was transferred to AAFES.

In 1976, the Air Force transferred responsibility of its 133 clothing sales stores to AAFES. Congress directed the Army to do the same in 1980. In 1980, Congress also directed AAFES to assume responsibility for the Class VI stores on Army and Air Force installations.

In 1980, AAFES was designated the school lunch feeding authority for the Army and Air Force. By 1994, AAFES was providing more than 30,000 meals a day to children in 133 schools in 10 countries.

In 1984, AAFES awarded a contract to Burger King, beginning the transformation of local AAFES food operations to the national brands customers wanted.

VIETNAM WAR

With the deployment of a large number of combat formations into South Vietnam in 1965, the Joint Chiefs of Staff requested that AAFES establish and operate all exchange services in Vietnam.

On the day after Christmas '65, AAFES assumed responsibility for the exchanges from the Navy, which had operated a handful of facilities for American advisors in the country since the mid-1950s but lacked the abilities for large, land-based PXs.

Beginning in January 1966, 12 U.S. civilians from AAFES, 13 third-country nationals and nearly 1,200 Vietnamese began expanding the PX system in Vietnam.

The facilities ranged in size from abandoned shipping containers with only bare necessities to PXs like those at Camp Enari, where troops could buy everything from cassettes and cameras to snuff and stereos.

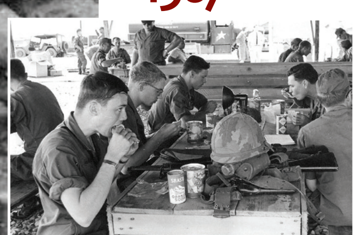
Front-line troops deployed into the thick jungles and foreboding mountains depended on helicopters and trucks to bring them badly needed necessities. (See pictures at left, below and on next page)

By 1967, as the war reached its height, AAFES' Vietnam Regional Exchange's 11,000 associates, including military workers, operated 315 major retail facilities, 1,500 concessions and 145 restaurants, snack bars and food trucks.

The Vietnam Regional Exchange served more than a half-million customers a year and sold 1.1 million cases of soft drinks a month. The most popular products were cameras, radios, tape recorders and stereo equipment, the same brands that the troops could buy back home.

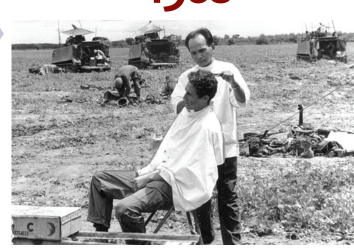
SOLDIERS, PX DELIVERY, VIETNAM WAR

1967



Troops enjoy meals from one of the dozens of exchange food trucks during the Vietnam War.

1968



The top concessions were laundries with 375 locations followed by barber shops with 371, gift shops with 236 and tailors with 220.

Under the AAFES New Car Sales program, Soldiers in Vietnam purchased nearly 2,000 vehicles a month in the late 1960s. The vehicles were delivered to the Soldiers when they returned to their stateside installations.

Like it did during the Korean War, AAFES set up a mail-a-gift program for troops in Vietnam and Thailand so they could pick out gifts and souvenirs for loved ones back home. The program, which served more than 1 million combat troops, was viewed as one of the most successful developments in troop morale in AAFES history at the time.

The end of AAFES' footprint in Vietnam began in January 1972, when President Nixon announced major troop withdrawals from Vietnam. As troops departed, exchanges began closing throughout the year, starting with the Cam Ranh Bay PX, which once served troops spread out over half the country.

For American AAFES managers, their departure was bittersweet. In April 1975, just before Saigon's fall, the last four AAFES managers were airlifted out of the country—along with thousands of Americans and Vietnamese, including about 35 local nationals who had worked in the PXs. But many Vietnamese associates were left behind, some by their own choosing.

"Our Vietnamese employees," said one of the four AAFES managers, "were very loyal up to the last minute."

1969

A Soldier grabs a quick cut from a Vietnamese barber working as an AAFES concessionaire.

Military and exchange personnel load up a chopper with merchandise for delivery to a remote camp.

1973

SERVING THE HEROES

With the war's end came the return of the 591 American prisoners of war, some held by North Vietnam as long as eight years. Airlifted out Hanoi, the POWs' first stop was Clark AB in the Philippines—and the first store they would visit was the BX.

Looking slightly bewildered and bedraggled in their pajamas and hospital robes, the Soldiers, Sailors, Airmen and Marines walked into the BX almost as if they were walking into another world. The shopping experience and wild abundance of color were returning sensations because the North Vietnamese prisoner of war camps were totally devoid of life's reds, blues, greens, yellows, purples.

One of shoppers was Lt. Col. Herschel Morgan, who was so excited about his freedom that he bought two fishing poles—one for himself, another for his 7-year-old son who he had never seen.

Other former POW shoppers included:

Army Maj. Floyd Thompson (pictured above with an AAFES associate). Captured in 1964, he was the longest serving American POW.

Navy Capt. Jeremiah Denton, later rear admiral and U.S. senator from Alabama.

Air Force Col. Robinson Risner, later brigadier general, Korean War ace and one of only four Airmen twice awarded the Air Force Cross.

PX IN A TENT, OPERATION DESERT STORM

AFTER THE COLD WAR

Operations Desert Shield/Desert Storm

In August 1990, Iraqi Army units invaded Kuwait, quickly capturing the small nation. Within days, the United States began deploying military forces to Saudi Arabia to keep Iraqi units from moving farther south. In less than six months, the U.S. presence grew from near zero to 540,000 Soldiers, Sailors, Airmen and Marines, all of whom depended upon AAFES for support.

Back home, exchange managers prepared merchandise and mobile PXs for shipment to Saudi Arabia, while focusing on military clothing from boots and socks to desert camouflage uniforms. When troops landed at intermediate points in the Azores, Germany and Spain, AAFES greeted them. At Germany's Rhein-Main AB, the exchange provided 24-hour retail service and trucked soft drinks, coffee, hot chocolate, ice, and decks of cards to incoming troops housed in tent cities.

At the time of the invasion, AAFES operated three small stores in Saudi Arabia but successfully and quickly built an entire exchange and distribution system to support more than a half-million customers. AAFES support during the ensuing months included 17 retail stores; 152 troop-run operations with AAFES funds and merchandise; 610 movie theaters; and a distribution center.

Dozens of mobile food trucks fanned out across the country to feed hungry troops. Nearly 40 stationary food outlets, including brand-names Baskin-Robbins and Pizza Inn, served up burgers, fries and other in-demand foods.

Although hostilities ceased in February 1991, containing Saddam Hussein still remained the focus of U.S. forces. Not all U.S. forces returned home. In 1992, U.S. aircraft began Operation Southern Watch to ensure Iraq complied with the U.N. Security Council's Resolution.

1991

Troops are served at an AAFES tent during Operation Desert Storm.

1996

Preceding Iraq's invasion of Kuwait, the Berlin Wall fell; a year later, West and East Germany united. With the Cold War over and Kuwait liberated, the Army and the Air Force of the 1990s shrank by one-third, leading to major reductions for AAFES as dozens of installations closed.

AAFES continued operating exchanges in the Gulf area, notably in Saudi Arabia, Kuwait and Qatar, throughout the rest of the decade up to the U.S. invasion of Iraq in 2003.

But in the mid-1990s, that part of the world wasn't the only focus for AAFES.

The Balkans

Beginning in late 1995, AAFES associates opened hundreds of stores, restaurants, concessions and services in Bosnia, Croatia, Kosovo, Hungary and elsewhere to support a NATO force ensuring peace agreements between warring ethnic factions remained intact.

"AAFES associates have become a valuable part of the American team and have shared the good and bad of the experience with those they serve—eating the same food, sleeping in the same tents, and trading their business suits for BDUs and Kevlar," wrote Gen. Dennis Reimer, the Army's chief of staff, in 1998. "Thank you, AAFES, for being there for us."

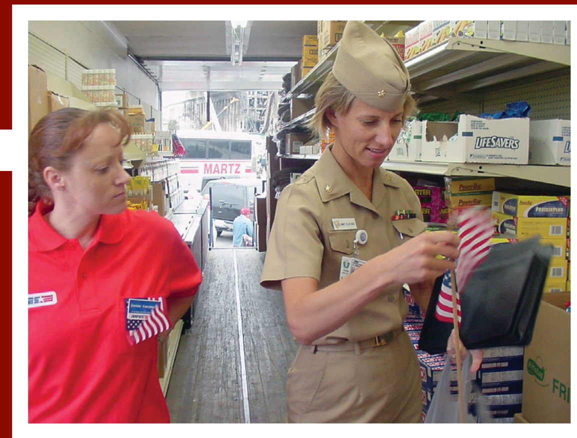
In 1999, AAFES opened a tactical field exchange in Albania, which, along with existing facilities in the Balkans, served NATO forces in Operation Allied Force, the bombing campaign meant to stop human rights abuses by the Serbs in Kosovo.

Just two years later, however, the worst terror attack on American soil would force AAFES into an unprecedented mission that endures until this very day.

2001

Associates open stores in Bosnia, Kosovo, Croatia, Hungary and other countries for NATO peacekeepers.

On 9/11, an associate serves customer at mobile exchange in Pentagon parking lot. The blackened hull of the building is visible out the door.



2001

SEPTEMBER 11

Within an hour from the time the hijacked jetliners crashed into the Pentagon and the World Trade Center, Exchange managers and associates were leaping into action.

At the Pentagon, associates from AAFES' Washington office less than two miles away and from nearby installations descended on the area to staff a 45-foot mobile exchange for more than 2,000 emergency responders needing washcloths, towels, first-aid supplies, eye-wash products, snacks, drinks, and even new boots to replace ones smoldering from the scorched ground.

More than 200 miles to the north, the same scene unfolded: associates from Brooklyn's Fort Hamilton Exchange set up mobile exchanges around New York to serve troops guarding bridges, tunnels, city hall, subways, airports and Ground Zero. The PX and shoppette operated around the clock, while AAFES' Burger King served meals to 1,500 police within the first 24 hours.

Steve Williams, then-general manager at Fort Hamilton's Exchange, summed the scene up this way:

"I could tell by the faces of the rescue workers that their spirits were lifted when, after their long shifts, when they were dirty and tired, they discovered that we had something they really needed or something as simple as a treat."

ARMY SOLDIERS IN 2009 IRAQ

OEF & OIF

When Operation Enduring Freedom (OEF) began in Afghanistan, more than 250 AAFES associates, backed up later by 2,000 third-country nationals, started opening retail facilities in 2001-2002 in Afghanistan, Bahrain, Djibouti, Kuwait, Kyrgyzstan, Oman, Qatar, the United Arab Emirates and Uzbekistan.

In support of OEF, AAFES expanded its network of large stores in Afghanistan from Kandahar Airfield in the southeast to Bagram AB in the center, from Camps Leatherneck and Bastion in the south to forward operating bases along the border with Pakistan.

AAFES opened Burger Kings, Dairy Queens, Green Beans Coffee shops, Pizza Huts, Subways, and other restaurants. Thousands of local and third-country nationals set up concessions offering haircuts, alterations, gifts, food and other products and services.

In late 2003, 450 AAFES associates voluntarily deployed to Iraq for Operation Iraqi Freedom (OIF). Six days after American and coalition forces took Baghdad, AAFES opened for business in the city, pulling in $80,000 in sales just during the first five hours. One week after opening, daily sales topped $200,000, with monthly totals hitting $3 million.

AAFES instituted a far-reaching network of retail facilities throughout Iraq, including brand-name restaurants. The Burger King at Baghdad International Airport served 5,000 patties of meat a day and, in just the first two months, took in more than $1 million in sales.

At Camp Liberty, the Burger King served 1,100 Whoppers, 450 pounds of french fries and 300 apple pies to 1,200 customers a day.

2001-2003

Associates deploy to Southwest Asia, Middle East for Operation Enduring Freedom, Operation Iraqi Freedom.

2005

In both Afghanistan and Iraq, AAFES and AT&T partnered to bring telephones and call centers to the service members. At Iraq's Camp Anaconda, AAFES opened the Sustainer Theater, the first theater in the country, where 16,000 troops enjoyed first-run movies.

In 2003, AAFES launched "Gifts from the Homefront" for Americans to send gift certificates to troops, who could redeem them in AAFES stores throughout Southwest Asia and the Middle East. In five years, $2.2 million in contributions provided certificates to lift the morale of Soldiers, Sailors, Airmen and Marines deployed to the contingency locations.

During OIF, five AAFES associates were awarded the Secretary of Defense's Defense of Freedom medals—the civilian equivalent of the Purple Heart—after they were wounded in the line of duty. They recovered from their injuries—and returned to serving the troops.

One associate was awarded the medal, unfortunately posthumously. Darren Braswell, who deployed to Iraq from AAFES' Atlanta Distribution Center, was killed in the line of duty when the Black Hawk helicopter in which he was riding crashed in a thunderstorm.

Today, AAFES remains with the troops in Afghanistan, Iraq, Kuwait and elsewhere in Southwest Asia and the Middle East. Three exchanges are located in Jordan near the Syrian border to serve deployed U.S. forces.

AAFES intends to stay by their side.

In aftermath of Hurricane Katrina, associates deploy to Mississippi and New Orleans to serve troops helping in recovery.

2015

Associates, customers worldwide celebrate the exchange system's 120th anniversary.

2003

SERVING FROM A PICKUP

The Army & Air Force Exchange Service's first retail facility in Iraq was . . .

a Toyota Land Cruiser pickup.

In 2003, two AAFES associates, armed with backpacks and a storage locker stuffed with energy drinks, protein bars, and wipes, deployed into Iraq aboard a C-130 airplane flying 300 feet above ground to avoid attack. Their mission: set up the first Exchange operations in Iraq.

Once the plane landed at Tallil AB, the associates unloaded their wares, borrowed a Land Cruiser from the Army, and drove along treacherous back roads to remote areas to reach Soldiers and Airmen badly needing Exchange support.

The war-torn looks on the troops' faces turned to smiles when they saw AAFES T-shirts, personal necessities, food and cold drinks.

Back at Tallil AB, meanwhile, within 48 hours, AAFES was open for business in a tent.

What started in a pickup would within five years morph into an AAFES operation of 56 Exchanges, 19 unit-run operations, 98 name-brand restaurants, and hundreds of services delivering a slice of Americana to troops.

"*The smells, sights and sounds that AAFES brings can instantly transport troops, however briefly, from war zones to comfort zones.*"
–Lt. Col. Debra Pressley

AIR FORCE MASTER SGT. PUMPS GAS AT HICKAM AFB

2015 YEAR IN REVIEW

Designating 2015 as "The Year of the Customer," the Exchange focused on transforming the shopping experience to ensure the organization offered the goods and services that Soldiers, Airmen, families and military retirees expect.

Areas of Focus

Our recipe for success in 2015 was growing sales by introducing new brands and a modern online shopping experience; controlling expenses; and delivering exceptional customer service.

In 2015, $179 million in capital real-estate projects brought a new 143,000-square-foot mall to Wiesbaden, Germany, a 270,000-square-foot shopping center to Fort Hood, Texas, and at least 225 upgraded retail facilities from Virginia to Japan.

The Exchange renovated 15 Express convenience stores around the world to meet the demands of a growing number of on-the-go customers.

Total capital expenditures were $252.6 million.

Intensify National Brands

The Exchange introduced 484 more name-brand concept shops, which accounted for $564 million in sales. Brands included Bobbi Brown, Columbia, Disney, Ellen Tracy, MAC, Michael Kors and Under Armour. Sixty Disney at the Exchange shops opened in FY 2015 with sales of nearly $6 million. Total sales for all 77 Disney at the Exchange shops and Disney products in general reached nearly $20 million.

The Exchange opened 71 name-brand restaurants, including Boston Market, Jack in the Box, Dickey's Barbecue Pit, Sarku, and Qdoba Mexican Eats.

Improve the Online Shopping Experience

In FY 2015, online sales rose by 21 percent from the previous year, compared to a 14.6 percent national average, because of continued improvements to shopmyexchange.com. More sizes, colors and styles of name-brand products, including Ralph Lauren, The North Face, Calvin Klein, Pioneer Woman, Ethan Allan, Vizio and Allen Edmonds, were added online. Ninety percent of the national brands on shopmyexchange.com are now available in our brick-and-mortar stores.

The Exchange Credit Program (ECP) also integrated the outsourced eCommerce call center with the MILITARY STAR® call facility to create the Customer Contact Center. The center helped to increase eCommerce orders by 34 percent.

By streamlining distribution procedures, online orders were fulfilled within three days in CONUS and 10 days overseas. These initiatives boosted our Foresee customer experience rating to 73 percent in 2015—a 27-point jump from the previous year.

Grow the Express

Our 2015 initiatives to Grow the Express resulted in more than $1 billion in sales. This success stemmed from more grab-and-go stations packed with popular products. Gasoline from our Expresses accounted for 18 percent of the Exchange's total sales.

Grow Concessions

In 2015, Exchange concessions generated $1.5 billion in sales. Twenty-nine new national brands, such as Great Clips, Sally Beauty and NAPA Auto Parts, were added to Exchange malls.

Launching Rewards Loyalty Program

In October 2015, the Exchange rebranded the all-services MILITARY STAR card with a redesigned theme reflecting the patriotism of service members. In addition, the first internally operated, all-services loyalty program (AAFES, NEX, MCX, CGX) was launched. The overall rebranding led to a 26 percent increase in new accounts and reversed declining sales into a 2 percent increase over the prior year. We issued $1.5 million in $20 rewards cards, which generated $6 million in Exchange sales through January 2016.

Greatly enhanced fraud controls implemented by the ECP team avoided nearly $1 million in losses.

Reducing SG&A

In FY 2015, the Exchange continued its multiyear initiative to reduce Sales, General & Administrative expenses. For example, the Exchange reduced its global workforce by about 7 percent through a hiring freeze, attrition, early retirements and voluntary separations. Additionally, the Logistics Directorate reduced operating costs by $19 million in 2015 by optimizing the supply chain to decrease transportation, distribution, warehouse and personnel expenses.

Focus IT investment

As the Exchange reduced operating costs, we invested $80 million in a modern point-of-sale system for stores and restaurants. The technology began providing greater inventory and layaway tracking; a centralized receipt database; PIN pads; and the ability to accept credit cards with chips.

Integral to Force Readiness

In 2015, the Exchange outfitted 1.5 million troops with combat uniforms and dress blues in 176 Military Clothing Stores, including five Marine facilities on Okinawa.

The Exchange expanded or introduced initiatives to help Soldiers and Airmen stay healthy and mission-ready. Forty new BE FIT concept shops introduced a holistic approach to fitness by leveraging name-brand athletic footwear and apparel. Athletic footwear sales increased by more than 40 percent compared to the previous year.

In our Expresses, we added 307 BE FIT wraps, fruits, salads and other healthier options, a 23 percent increase from the previous year. These items accounted for nearly 19 percent of Express sales, compared to 16 percent in 2014.

Our 200-plus Subways offered Soldiers and Airmen heart-healthy alternatives. Boston Market, which operates nine Exchange restaurants in our food courts, provides meals that match the U.S. Department of Agriculture's nutrition guidelines.

The Exchange also served 3.2 million meals to children in Department of Defense schools around the world at Army and Air Force installations.

The Exchange continued placing top priority on hiring veterans, military spouses and other family members of Soldiers and Airmen. Eighty-eight percent of our workforce is connected to the military.

Lifeline to America

The Exchange's commitment to deliver branded goods and services to troops, wherever they serve, expanded in 2015 to doughnuts and first-run movies.

During the Christmas holidays, thousands of troops in Afghanistan and Kuwait viewed "Stars Wars: The Force Awakens" simultaneously with the rest of the world. Gen. John Campbell, commander of U.S. Forces–Afghanistan, said in a letter to the Exchange that the premiere "…significantly increased morale during the holiday season."

The Exchange bakery in Germany began making Krispy Kreme doughnuts—using the same recipe Krispy Kreme does in the United States to get the same taste. From November through December, the Exchange delivered 1.4 million doughnuts to 37 Expresses throughout Europe.

MAC COSMETICS SHOP AT FORT HOOD, TEXAS

EXCHANGE SNAPSHOTS

February

The Exchange announces plans for a multimillion dollar entertainment and shopping center at Fort Bragg, N.C.

March

Diversity Journal designates the Exchange as a recipient of the Diversity Leader Award.

Popeyes Corp. presents its top awards for operational efficiency to Exchange Popeyes locations at Korea's Camps Carroll and Casey and Hawaii's Schofield Barracks.

Exchange call centers are combined and relocated to headquarters in Dallas.

April

Point-of-sale systems begin to be replaced at retail and food operations as part of $80 million in improvements.

A 143,000-square-foot Exchange opens in Wiesbaden, Germany, to serve a new concentration of U.S. troops in the area redeployed from around Europe.

The Exchange's first durable medical equipment store opens at Fort Belvoir, Va.

May

Military Times newspaper ranks the Exchange as one of the best employers of veterans in the country. Ten percent of Exchange associates are veterans.

June

U.S. Vision is awarded a contract to open vision centers at 27 Exchange locations in CONUS.

July

On July 25, the Exchange celebrates 120 years of serving troops and their families.

September

Sixty Disney at the Exchange concept shops open at Exchanges around the world.

September

The Exchange continued opening Hunt Brothers Pizza locations in Exchange Express convenience stores around the world, bringing the total number to 12. The locations generated nearly $4 million in sales.

For the seventh straight year, LATINA Style magazine names the Exchange one of the top 50 top companies for Latinas to work in the United States.

October

The Exchange opens a $47 million shopping center at Fort Hood, Texas.

The Exchange's rebrands the MILITARY STAR® credit card and debuts a customer rewards program.

The Exchange reopens stores in Iraq to serve U.S. personnel in the country.

November

The Exchange bakery at Gruenstadt, Germany, begins providing Krispy Kreme doughnuts to Soldiers, Airmen and their families throughout Europe.

The Exchange renovates facilities at Nellis AFB and Forts Carson, Campbell, Bliss and Leonard Wood, among others.

The Exchange debuts a new tagline, Our Customers are Heroes®.

The Exchange awards a contract to National Vision to open optical clinics at locations in the continental United States.

December

Nearly 11,000 service members in the Middle East watch "Star Wars: The Force Awakens," courtesy of the Exchange and Disney, at the same time the blockbuster movie premieres in civilian theaters.

January

The Exchange is ranked as a 2016 Top 100 Military Friendly Employer by Victory Media, publishers of G.I. Jobs magazine.

SOLDIER ENJOYING 'STAR WARS' IN AFGHANISTAN

2015 Board of Directors

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Chairman

Lt Gen Gina M. Grosso
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FINANCIAL STATEMENTS

Army and Air Force Exchange Service
Years Ended January 30, 2016 and January 31, 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Army and Air Force Exchange Service

Financial Statements

Years Ended January 30, 2016 and January 31, 2015

Contents

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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, which comprise the balance sheets as of January 30, 2016 and January 31, 2015, 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 January 30, 2016 and January 31, 2015, 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 25, 2016

Army and Air Force Exchange Service

Balance Sheets

(Dollars in Thousands, Unless Otherwise Noted)

	January 30, 2016	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 84,530**	$ 107,735
Trade and other accounts receivable, less allowance for uncollectible accounts (at January 30, 2016 – $36,783, at January 31, 2015 – $43,082)	**3,176,564**	3,299,040
Merchandise inventories	**1,315,965**	1,293,807
Short-term investments	**12,978**	16,994
Supplies and other current assets	**51,261**	53,684
Total current assets	**4,641,298**	4,771,260
Buildings and improvements	**3,568,415**	3,476,862
Fixtures and equipment	**1,206,873**	1,442,122
Construction-in-progress	**187,854**	203,264
	4,963,142	5,122,248
Accumulated depreciation	**(2,922,779)**	(3,023,969)
	2,040,363	2,098,279
Other assets	**2,530**	12,847
Supplemental plan assets	**17,629**	17,700
Total assets	**$ 6,701,820**	$ 6,900,086
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 387,986**	$ 370,260
Commercial paper and current maturities of long-term debt	**732,652**	854,630
Accrued salaries and other employee benefits	**113,817**	122,473
Dividends payable	**49,732**	11,270
Other current liabilities	**209,723**	256,482
Total current liabilities	**1,493,910**	1,615,115
Long-term debt	**704,699**	710,351
Accrued pension and other benefits	**1,649,944**	2,252,156
Other noncurrent liabilities	**73,326**	79,149
Total liabilities	**3,921,879**	4,656,771
Net assets:		
Accumulated other comprehensive loss:		
Pension liability	**(2,411,584)**	(2,930,954)
Derivative instruments	**(1,147)**	(15,546)
Total accumulated other comprehensive loss	**(2,412,731)**	(2,946,500)
Retained earnings	**5,192,672**	5,189,815
Total net assets	**2,779,941**	2,243,315
Total liabilities and net assets	**$ 6,701,820**	$ 6,900,086

See accompanying notes.

Army and Air Force Exchange Service

Statements of Earnings

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 30, 2016	Year Ended January 31, 2015
Net sales	**$ 6,718,486**	$ 7,329,211
Finance revenue	**262,682**	273,380
Concession income	**194,769**	196,797
Other operating income	**29,849**	34,874
Total revenue	**7,205,786**	7,834,262
Cost of sales and operating expenses:		
Cost of goods sold	**5,018,196**	5,555,782
Selling, general and administrative:		
Employee compensation and benefits	**1,159,045**	1,158,270
Depreciation and amortization	**270,907**	311,610
Other	**491,890**	516,345
Total selling, general and administrative expenses	**1,921,842**	1,986,225
Interest expense	**10,574**	15,719
Bad debt expense	**21,794**	25,899
Total expenses	**6,972,406**	7,583,625
Operating income	**233,380**	250,637
Other income	**7,176**	8,498
Net earnings	**$ 240,556**	$ 259,135

See accompanying notes.

Army and Air Force Exchange Service

Statements of Comprehensive Income (Loss)

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 30, 2016	**Year Ended January 31, 2015**
Net income	**$ 240,556**	$ 259,135
Other comprehensive income (loss):		
Reclassification of unrealized gain (loss) on derivative instruments to earnings, net	**14,399**	(15,780)
Pension and postretirement adjustments:		
Unrealized gain (loss) arising during the period	**314,202**	(1,316,673)
Amortization of net loss	**205,168**	121,400
Other comprehensive income (loss)	**533,769**	(1,211,053)
Comprehensive income (loss)	**$ 774,325**	$ (951,918)

See accompanying notes.

Army and Air Force Exchange Service

Statements of Changes in Net Assets

(Dollars in Thousands, Unless Otherwise Noted)

Years Ended January 30, 2016 and January 31, 2015

	Retained Earnings	**Accumulated Other Comprehensive Income (Loss)**	**Net Assets**
Balance at February 1, 2014	$ 5,154,841	$ (1,735,447)	$ 3,419,394
Net earnings	259,135	–	259,135
Pension and postretirement benefits adjustments, net	–	(1,195,273)	(1,195,273)
Reclassification of unrealized loss on derivative instruments, net	–	(15,780)	(15,780)
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy and the Marine Corps	(224,161)	–	(224,161)
Balance at January 31, 2015	5,189,815	(2,946,500)	2,243,315
Net earnings	**240,556**	**–**	**240,556**
Pension and postretirement benefits adjustments, net	**–**	**519,370**	**519,370**
Reclassification of unrealized gain on derivative instruments to earnings, net	**–**	**14,399**	**14,399**
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy and the Marine Corps	**(237,699)**	**–**	**(237,699)**
Balance at January 30, 2016	**$ 5,192,672**	**$ (2,412,731)**	**$ 2,779,941**

See accompanying notes.

Army and Air Force Exchange Service

Statements of Cash Flows

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 30, 2016	Year Ended January 31, 2015
Operating activities		
Net earnings	**$ 240,556**	$ 259,135
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**302,059**	345,354
Loss on disposal of property and equipment	**2,328**	1,884
Loss (gain) on supplemental plan assets	**371**	(1,555)
Bad debt expense	**21,794**	25,899
Changes in operating assets and liabilities:		
Accounts receivable	**100,682**	215,501
Merchandise inventories	**(22,158)**	(127,496)
Supplies and other assets	**12,739**	(4,683)
Pension assets and liabilities	**(103,584)**	82,335
Supplemental plan assets	**(299)**	462
Accounts payable	**28,178**	(25,499)
Change in cash overdraft	**347**	344
Accrued salaries and other employee benefits	**(5,056)**	1,642
Other liabilities	**(31,839)**	(170)
Net cash provided by operating activities	**546,118**	773,153
Investing activities		
Purchases of property and equipment	**(252,634)**	(217,109)
Proceeds from the sale of property and equipment	**6,162**	24,842
Purchases of investments	**(12,978)**	(28,993)
Proceeds from the disposition of investments	**16,994**	33,996
Net cash used in investing activities	**(242,456)**	(187,264)
Financing activities		
Net repayments under line-of-credit agreements	**150,000**	(75,000)
Net (repayments) proceeds under commercial paper agreements	**(122,250)**	(216,750)
Proceeds from issuance of long-term debt	**(150,000)**	300,000
Repayments of long-term debt	**(5,380)**	(355,120)
Payment of dividends	**(199,237)**	(251,269)
Net cash used in financing activities	**(326,867)**	(598,139)
Net (decrease) increase in cash and cash equivalents	**(23,205)**	(12,250)
Cash and cash equivalents at beginning of year	**107,735**	119,985
Cash and cash equivalents at end of year	**$ 84,530**	$ 107,735

See accompanying notes.

(Dollars in Thousands, Unless Otherwise Noted)

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 and Iraq primarily provide support for Operation Freedom Sentinel (OFS), Operation Resource Support (ORS), and Operation Inherent Resolve (OIR), respectively. 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	
	January 30, 2016	**January 31, 2015**
Continental U.S., including Alaska and Hawaii	**$ 4,852,867**	$ 5,315,630
Pacific Rim	**728,910**	793,344
Europe, primarily Germany	**730,163**	828,679
Middle East, including Afghanistan and Iraq	**168,196**	185,631
Other countries	**238,350**	205,927
Total net sales	**$ 6,718,486**	$ 7,329,211

(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 January 30, 2016	**Year Ended January 31, 2015**
Continental U.S., including Alaska and Hawaii	**$ 1,635,199**	$ 1,682,397
Pacific Rim	**248,609**	161,248
Europe, primarily Germany	**155,608**	253,077
Middle East, including Afghanistan and Iraq	**947**	1,557
Total long-lived assets, net	**$ 2,040,363**	$ 2,098,279

The Exchange utilizes accounting principles generally accepted in the United States (U.S. GAAP) 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 \$107,008 and \$113,803 for fiscal years 2015 and 2014, respectively. In addition, Middle East transportation costs of \$31,833 and \$37,647 were paid by the U.S. government for fiscal years 2015 and 2014, respectively.

The Exchange receives reimbursements of certain incremental costs incurred by the Exchange in relation to support provided to contingency operations. Appropriated fund (APF) reimbursements are recorded when an incremental cost that qualifies for reimbursement has been incurred and reimbursement by responsible agency is reasonably assured. Such APF reimbursement receivables are classified as trade and other accounts receivable in the accompanying balance sheets and are recorded as an offset to the related expenses (as described below) in the statements of earnings. In fiscal years 2015 and 2014, the Exchange recorded APF reimbursements of \$19,406 and \$22,483, respectively. These amounts include expenses related to inventory markdowns and shortages, personnel costs, in-theater transportation and other expenses.

Fiscal Year

The Exchange's fiscal year end is the Saturday nearest January 31. References to fiscal 2015 and fiscal 2014 herein are to the fiscal years ended January 30, 2016 and January 31, 2015, respectively.

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.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying 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, the long-term rate of return on plan assets, and mortality. 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 investments in limited partnerships, real estate properties, private equity, timber, agriculture and 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 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.

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.

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.

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

Accounts Receivable, Finance Revenue and Provisions for Credit Losses

As of January 30, 2016 and January 31, 2015, approximately $2,452,602 and $2,514,191, 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.

The Company's trade and accounts receivable balance also includes $158,062 and $164,666 of receivables from the Marine Exchange (MCX) for Marine MILITARY STAR® Card outstanding balances and related processing fees as of January 30, 2016 and January 31, 2015, 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 (Annual Percentage Rate) was increased to 10.49% on December 18, 2015. Until then, the standard APR for fiscal years 2015 and 2014 had been 10.24%. Beginning at 90 days past due, the delinquency rate of 18.49 % 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 were approximately $52,027 and $46,032 as of January 30, 2016 and January 31, 2015, respectively.

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

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 (previously submitted to the Collections Department) was $326,248 and $350,237 at January 30, 2016 and January 31, 2015, respectively. These accounts are at least 150 days past due and are generally outstanding for one to five 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 January 30, 2016 and January 31, 2015. It is reasonably possible that 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 accounts previously written off and submitted to U.S. government entities totaled approximately $179,559 and $187,073 in fiscal years 2015 and 2014, respectively. Bad debt expense of $21,794 recorded in 2015 is primarily related to the Exchange's current credit card portfolio. This is compared to $25,899 in bad debt expense recorded in 2014. 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 2015 related to accounts previously written off totaled approximately $16,007 compared to approximately $16,355 in fiscal year 2014.

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

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.

	January 30, 2016		January 31, 2015	
	Amount *(In Millions)*	**Percent of Receivables**	**Amount** *(In Millions)*	**Percent of Receivables**
Current	**$ 2,132**	**81.7%**	$ 2,180	81.4%
1–29 days past due	**263**	**10.1**	268	10.0
30–59 days past due	**103**	**3.9**	117	4.3
60–89 days past due	**60**	**2.3**	68	2.6
90+ days past due	**53**	**2.0**	46	1.7
Period-end gross credit card receivables	**$ 2,611**	**100.0%**	$ 2,679	100.0%

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. In addition, this table does not include the provision for bad debt for other trade accounts receivable that are unrelated to the Exchange's credit card portfolio.

	2015	**2014**
	(In Millions)	
Allowance at beginning of period	**$ 37**	$ 39
Provision for bad debt	**21**	24
Write-offs (net of recoveries)	**(24)**	(26)
Allowance at end of period	**$ 34**	$ 37

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

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

	January 30, 2016	January 31, 2015
	(In Millions)	
Nondelinquent accounts (Current and 1–29 days past due):		
FICO score of 700 or above	**$ 719**	$ 718
FICO score of 600 to 699	**1,258**	1,295
FICO score below 600	**418**	435
Total nondelinquent accounts	**2,395**	2,448
Delinquent accounts (30+ days past due)	**216**	231
Period-end gross credit card receivables	**$ 2,611**	$ 2,679

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 January 30, 2016 and January 31, 2015, $12,375 and $12,320 of these expenses were included in merchandise inventory, respectively. For discussions of risk related to inventory in the Middle East, refer to Note 10.

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.

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

Buildings and Improvements

Buildings and improvements primarily represent permanent structures constructed and paid for 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.

As part of the Exchange's mission, "We Go Where You Go", there are facilities built to serve the military community regardless of its ability to generate a profit. With all construction projects, these service (Quality of Life) projects must go through the Board and Finance Committee for review and approval prior to construction. Projected returns of less than 7% internal rate of return are considered service projects and are segregated during the asset impairment review process. Although these facilities are segregated from the fixed asset portfolio, the Exchange closely monitors operations to ensure the highest level of efficiencies can be maintained while maximizing profits.

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 2015 or 2014.

(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 10 years

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.

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 \$76,016 and \$79,725 as of January 30, 2016 and January 31, 2015, respectively. Workers' compensation reserves were discounted at a weighted-average rate of 3.94% and 3.25% as of January 30, 2016 and January 31, 2015, respectively. Property and liability reserves were discounted at a rate of 2.30% and 1.78% as of January 30, 2016 and January 31, 2015, respectively. General liability reserves were discounted at a weighted-average rate of 2.20% and 1.69% as of January 30, 2016 and January 31, 2015, respectively.

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

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.

Advertising Costs

Advertising costs are expensed when the advertisement first occurs. Advertising expense was $46,816 and $42,941 for the years ended January 30, 2016 and January 31, 2015, 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.

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

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. Effective fiscal 2013, new hire associates will be automatically enrolled in the 401(k) savings plan after a 30 day waiting period during which they may opt out. 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.

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.

Benefit plans

Expenses related to the Company's benefit plans are determined based on a number of actuarial assumptions, which are reviewed and determined on an annual basis. These assumptions include discount rates, health care cost trend rates, compensation increase rate, benefits earned, mortality rates, number of participants, certain demographics and other factors. Actual results that differ from assumptions are accumulated and amortized to expense over future periods and, therefore

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

generally affect recognized expense in future periods. The accumulated benefit obligation is recognized on the balance sheets. Actuarial gains and losses are recognized as components of accumulated other comprehensive loss in net assets until amortized as a component of net periodic benefit cost.

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 a noncontributory supplemental deferred compensation plan (Supplemental Plan) and derivative financial instruments. The Company uses high credit quality counterparties when executing derivative transactions.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, issued as a new Topic, ASC Topic 606. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue when it transfers promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For non-public companies, this ASU is effective for reporting periods after 15 December 2018 The Company is currently assessing the impact of the adoption of ASU 2014-09 and has not determined the effect of the standard on the Company's ongoing financial reporting.

Reclassifications

Certain reclassifications have been made to the accompanying 2014 financial statements and notes to conform to the 2015 presentation.

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

Subsequent Events

The Exchange has evaluated subsequent events through May 25, 2016, the date at which the financial statements were available to be issued, and determined that no additional disclosures to those presented were necessary.

2. Investments in Debt Securities

As of January 30, 2016, the Company held an investment carried at $5,012 (Federal Home Loan Bank Bond which matures April 8, 2016), 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 Securities*, and are classified on the accompanying balance sheets in short-term investments. Additionally, as of January 30, 2016, the Company held a $8,000 Freddie Mac investment to support the liability for German Local National separation pay. The bond matured on March 11, 2016, and is classified as short-term investments on the accompanying balance sheet.

3. Fair Value Measurements

The FASB 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 occurs with sufficient frequency and volume to provide ongoing pricing information.

3. Fair Value Measurements (continued)

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.

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 accompanying balance sheets at cost, which approximates fair value due to the short-term nature of these instruments. Trade and other accounts receivable are reflected in the accompanying balance sheets 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, except for pension and post retirement assets and debt which are disclosed later, that are measured at fair value as of January 30, 2016 and January 31, 2015:

	Fair Value as of January 30, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Collective investment funds[1]	**$ 17,088**	**$ –**	**$ 17,088**	**$ –**
Due from broker	**10**	**10**	**–**	**–**
Short-term investments	**12,978**	**12,978**	**–**	**–**
Total assets	**$ 30,076**	**$ 12,988**	**$ 17,088**	**$ –**
Liabilities:				
Foreign currency derivatives[2]	**$ 1,147**	**$ 1,147**	**$ –**	**$ –**
Total liabilities	**$ 1,147**	**$ 1,147**	**$ –**	**$ –**

	Fair Value as of January 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Collective investment funds[1]	$ 17,690	$ –	$ 17,690	$ –
Due from broker	10	10	–	–
Short-term investments	16,994	16,994	–	–
Total assets	$ 34,694	$ 17,004	$ 17,690	$ –
Liabilities:				
Foreign currency derivatives[2]	$ 15,546	$ 15,546	$ –	$ –
Total liabilities	$ 15,546	$ 15,546	$	$ –

(1) Holdings consist of a Blackrock equity fund (approximately 40% in fiscal 2015 and 2014), 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 2015 and 2014), 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 accompanying balance sheet in 2015 and 2014 in accounts payable and accrued salaries and other employee benefits.

3. Fair Value Measurements (continued)

The Company holds investments related to the Supplemental Plan totaling $17,098 and $17,700 at January 30, 2016 and January 31, 2015, respectively, which are included in long-term investments and Supplemental Plan assets on the accompanying balance sheets. 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 $371 and $1,555 in fiscal 2015 and 2014, 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.)

4. Indebtedness

Committed Lines of Credit

The Exchange maintains two committed lines of credit aggregating to $2,000,000. The first is an unsecured revolving line of credit that is facilitated by a 13-bank syndicate led by Wells Fargo Bank, N.A. aggregating to $1,500,000 that was entered into on June 24, 2014, and expires on June 24, 2019. There were no borrowings made on the Wells Fargo Bank, N.A. syndication in 2015; consequently, there were no outstanding borrowings at January 30, 2016.

In addition, the Exchange has a committed line of credit for $500,000 with Installation Management Command G-9 (IMCOM G-9). This agreement was renewed on June 27, 2014, for a five-year term; however, borrowings against the line of credit cannot have repayment terms that exceed 365 days. Renewal reviews will take place 24 months prior to expiration in order to have the renewal of future agreements in place prior to the one year expiration timeframe. During fiscal 2015, daily borrowings were generally due within 30 to 260 days. As of January 30, 2016, there is $300,000 outstanding under the IMCOM G-9 line of credit; during fiscal 2015, borrowings under the IMCOM G-9 line of credit had interest rates ranging from 0.10% to 0.85% and 0.10% to 0.43% during fiscal 2014.

4. Indebtedness (continued)

Commercial Paper

In June 2013, the Exchange implemented a Commercial Paper (CP) program. Currently, the four dealers are JPMorgan, Wells Fargo, Bank of America, Williams Capital and SunTrust Bank. As of January 30, 2016, the outstanding commercial paper obligations, inclusive of original issue discount, are $727,000 and $849,250 as of January 31, 2015. This is an open-ended agreement; however, outstanding balances as of January 30, 2016, have maturity dates that range from 1 to 265 days. During fiscal 2015, borrowings under the commercial paper program had interest rates ranging from 0.09% to 0.47% and 0.07% to 0.33% during fiscal 2014.

Senior Notes

In December 2011, the Exchange completed a private placement debt offering of $200,000 in senior notes due February 2017. 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 January 30, 2016, these senior notes have a total remaining obligation of $60.4.

Term Loans

The Exchange has two term loan agreements in an aggregate amount of $150,000 as of January 30, 2016, with the following banks: (1) Branch Banking & Trust and (2) Fifth Third Bank. The Branch Banking & Trust and Fifth Third Bank have a term of three years expiring December 31, 2017, and bear interest at LIBOR plus 0.50%. The Exchange paid off the outstanding principal on two term loan agreements in an aggregate amount of $150,000 prior to January 30, 2016, with the following banks: (1) Regions Bank and (2) The Bank of Tokyo Mitsubishi.

The average interest rate for all indebtedness, including lines of credit (both committed and uncommitted), commercial paper, senior notes and term loan was 0.98% for the year ended January 30, 2016.

(Dollars in Thousands, Unless Otherwise Noted)

4. Indebtedness (continued)

Debt obligations as of January 30, 2016 and January 31, 2015, consisted of the following:

	2015	2014
Outstanding debt principal balances:		
IMCOM G-9 committed line of credit	**$ 300,000**	$ 150,000
2.50% senior notes due 2017	**200,000**	200,000
4.95% senior notes due 2024	**60,351**	65,731
Term Loan – Branch Banking & Trust	**100,000**	100,000
Term Loan – Bank of Tokyo – Mitsubishi UFJ, Ltd.	**–**	100,000
Term Loan – Regions Bank	**–**	50,000
Term Loan – Fifth Third Bank	**50,000**	50,000
Commercial Paper – Wells Fargo	**235,000**	241,250
Commercial Paper – Bank of Tokyo Mitsubishi	**188,000**	–
Commercial Paper – Williams Capital	**149,000**	307,000
Commercial Paper – SunTrust Bank	**155,000**	301,000
Total debt obligations	**1,437,351**	1,564,981
Current maturities	**(732,652)**	(854,630)
Total long-term debt obligations	**$ 704,699**	$ 710,351

The Exchange believes that the carrying values of amounts outstanding under the Company's line of credit, commercial paper, and term loan agreements approximate fair value given the term of the debt and floating interest rates. As of January 30, 2016, the estimated fair value for the 2017 senior notes and 2024 senior notes are $206,959 and $64,264, 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 2015 and 2014, was approximately $10,495 and $18,009, respectively. The Exchange has complied with all financial and nonfinancial covenants per loan agreements as of January 30, 2016.

(Dollars in Thousands, Unless Otherwise Noted)

4. Indebtedness (continued)

Principal maturities of debt obligations as of January 31, 2016, are as follows:

2016	$ 732,652
2017	355,938
2018	6,239
2019	306,555
2020	6,887
Thereafter	29,080
	$ 1,437,351

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 2016 or replace such facilities on substantially the same or better terms and conditions.

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 sheets as an asset or liability and in net assets (as a component of

(Dollars in Thousands, Unless Otherwise Noted)

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 January 30, 2016, the Company had foreign exchange option collar contracts outstanding related to approximately $32,609 (€30,000) of its forecasted payroll and inventory purchase liabilities. The related fair value of $1,147 is included in accrued salaries and other employee benefits and accounts payable on the accompanying balance sheets and is included as a component of accumulated other comprehensive loss. The balance of $1,147 in accumulated other comprehensive loss is expected to be reclassified into earnings within the next 12 months. The effects of outstanding derivatives are revalued periodically. The Company has recognized approximately $18,463 in losses on foreign currency hedge transactions settled during fiscal 2015, compared to $3,914 in gains during fiscal 2014.

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 sold.

	Derivative Assets		
		Fair Value	
	Balance Sheet Location	**January 30, 2016**	**January 31, 2015**
Derivatives designated as hedging instruments			
Foreign currency exchange contracts	Accounts payable	**$ (287)**	$ (11,660)
	Accrued salaries and other employee benefits	**(860)**	(3,886)
Total derivatives designated as hedging instruments		**$ (1,147)**	$ (15,546)

(Dollars in Thousands, Unless Otherwise Noted)

5. Derivative Financial Instruments (continued)

Reclassifications from accumulated other comprehensive loss are recognized in selling, general, and administrative other expense in the statements 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 $4,187 and $4,428 for the fiscal years ended January 30, 2016 and January 31, 2015, respectively. The following is a schedule, by year, of the future minimum rental payments required under all leases as of January 30, 2016:

2016	$	252
2017		146
2018		142
2019		146
2020		127
Thereafter		3,246
	$	4,059

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, 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.

7. Benefit Plans (continued)

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 January 30, 2016, the Company recorded a liability of approximately $24,861, which represents an estimated liability of $32,400 less trust assets of $7,540. As of January 31, 2015, the Company recorded a liability of approximately $31,911, which represents an estimated liability of $37,877 less trust assets of $5,966.

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).

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*.

7. Benefit Plans (continued)

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended January 30, 2016 and January 31, 2015. Amounts are stated in millions.

	Pension Benefits				**Other Benefits**			
	The Basic Plan		**Supplemental Plan**		**Postretirement**		**Foreign Plans**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Change in projected benefit obligations (PBO)								
PBO at prior measurement date	**$ 5,075**	$ 4,174	**$ 24**	$ 15	**$ 2,659**	$ 2,155	**$ 84**	$ 82
Service cost	**103**	84	**2**	1	**30**	22	**3**	3
Interest cost	**198**	203	**1**	1	**104**	106	**2**	3
Plan participants' contributions	**4**	4	–	–	–	–	–	–
Change in assumptions	**–**	–	–	–	–	–	**(8)**	11
Actuarial loss (gain)	**(676)**	880	**(7)**	8	**(258)**	491	**(1)**	2
Foreign exchange impact	–	–		–		–	**(3)**	(10)
Benefits paid	**(255)**	(253)	**(1)**	(1)	**(105)**	(108)	**(3)**	(12)
Administrative expenses paid	**(20)**	(17)	–	–	**(7)**	(7)	–	–
Other	–	–	–	–	–	–	**(4)**	5
PBO at current measurement date	**$ 4,429**	$ 5,075	**$ 19**	$ 24	**$ 2,423**	$ 2,659	**$ 70**	$ 84
Change in plan assets								
Fair value of assets at prior measurement date	**$ 3,866**	$ 3,803	**$ –**	$ –	**$ 1,623**	$ 1,561	**$ 47**	$ 43
Actual return on assets	**(146)**	330	–	–	**(60)**	143	**(2)**	7
Employer contributions	**250**	–	–	–	**62**	34	**3**	3
Plan participants' contributions	**4**	4	–	–	–	–	–	–
Benefits paid	**(255)**	(254)	–	–	**(105)**	(108)	**(3)**	(2)
Administrative expenses paid/foreign exchange impact	**(20)**	(17)	–	–	**(8)**	(7)	**(3)**	(4)
Fair value of assets at current measurement date	**$ 3,699**	$ 3,866	**$ –**	$ –	**$ 1,512**	$ 1,623	**$ 42**	$ 47
Funded status at fiscal year end	**$ (730)**	$ (1,209)	**$ (19)**	$ (24)	**$ (911))**	$ (1,036)	**$ (28)**	$ (37)

7. Benefit Plans (continued)

Supplemental assets do not qualify as plan assets.

The following table reflects amounts recognized in the balance sheets as of January 30, 2016 and January 31, 2015. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Amounts recognized in the balance sheets								
Other current liabilities	**$ –**	$ –	**$ 1**	$ –	**$ 54**	$ 70	**$ 2**	$ 4
Accrued pension and other benefits	**730**	1,209	**18**	24	**857**	966	**26**	33
Accumulated other comprehensive loss	**(1,439)**	(1,794)	**(5)**	(14)	**(951)**	(1,100)	**(16)**	(23)

A summary of the components of net periodic benefit cost (income) for the benefit plans is as follows for the years ended January 30, 2016 and January 31, 2015. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net periodic cost								
Service cost	**$ 102**	$ 84	**$ 2**	$ 1	**$ 30**	$ 23	**$ 2**	$ 3
Interest cost	**198**	203	**1**	1	**104**	106	**2**	3
Expected return on assets	**(303)**	(288)	–	–	**(122)**	(119)	**(3)**	(2)
Prior service cost amortization	–	–	–	–		–		–
Other Adjustments	–	–	–	–		–	1	7
Net loss amortization	**129**	72	**1**	1	**73**	48	**2**	1
Net periodic benefit cost	**$ 126**	$ 71	**$ 4**	$ 3	**$ 85**	$ 58	**$ 4**	$ 12

7. Benefit Plans (continued)

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	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Projected benefit obligation	**$ 4,429**	$ 5,075	**$ 19**	$ 24	**$ 2,423**	$ 2,659	**$ 70**	$ 84
Accumulated benefit obligation	**4,179**	4,738	**8**	9	**2,423**	2,659	**65**	73
Fair value of plan assets	**3,699**	3,866	**–**	–	**1,512**	1,623	**42**	47

Amounts included in accumulated other comprehensive income for all plans at January 30, 2016, consist of net actuarial gains of $2,411,584. Amortization of this amount expected to be recognized in fiscal year 2016 is $117,468.

Actuarial Assumptions

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

	Pension Benefits		Pension Benefits		Other Benefits	
	The Basic Plan		Supplemental Plan		Postretirement	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Assumptions used to determine expense:						
Discount rate	**3.99%**	5.01%	**3.99%**	5.01%	**4.09%**	5.10%
Long-term rate of return on assets	**8.25**	8.25	**–**	–	**8.50**	8.75
Compensation increase rate	**4.73**	4.77	**9.80**	9.74	**–**	–
Assumptions used at disclosure:						
Discount rate	**4.83**	3.99	**4.83**	3.99	**4.94**	4.09
Compensation increase rate	**4.73**	4.77	**9.80**	9.95	–	–

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

	Other Benefits UK Plan		Other Benefits Local National Plan	
	2015	**2014**	**2015**	**2014**
Assumptions used to determine expense:				
Discount rate	**3.00%**	4.30%	**0.96%**	2.31%
Long-term rate of return on assets	**6.00**	6.00	–	–
Compensation increase rate	**2.80**	3.20	**2.26**	2.49
Assumptions used at disclosure:				
Discount rate	**3.60**	3.00	**1.18**	1.14
Compensation increase rate	**2.40**	2.80	**2.35**	2.49

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 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.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

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

	Pension Benefits		Other Benefits		Other Benefits	
	The Basic Plan		Postretirement Plan		UK Plan	
	2015	2014	2015	2014	2015	2014
Domestic equity securities	**12%**	12%	**13%**	13%	**26%**	26%
International equity securities	**11**	11	**11**	11	**35**	35
Emerging market equity securities	**3**	3	**4**	4	**4**	4
Low_Vol Global Equity	**9**	9	**10**	10	**–**	–
Investment-grade fixed income	**16**	16	**12**	12	**35**	35
High-yield fixed income	**10**	10	**10**	10	**–**	–
Treasury inflation protected securities (TIPS)	**5**	5	**5**	5	**–**	–
Real estate – private	**5**	5	**5**	5	**–**	–
Real estate – public	**2**	2	**2**	2	**–**	–
Private equity	**9**	9	**10**	10	**–**	–
Commodities	**5**	5	**5**	5	**–**	–
Alternative debt	**5**	5	**5**	5	**–**	–
MLP's	**5**	5	**5**	5	**–**	–
Timber/Farmland	**3**	3	**3**	3	**–**	–
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 January 30, 2016 and January 31, 2015, by asset class category are as follows:

	Pension Benefits		Other Benefits		Other Benefits	
	The Basic Plan		Postretirement Plan		UK Plan	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Domestic equity securities	**12%**	11%	**14%**	15%	**21%**	25%
International equity securities	**10**	11	**12**	17	**38**	34
Emerging market equity securities	**3**	5	**4**	4	**5**	4
Low-Val Global Equity	**9**	9	**11**	10	**–**	–
Investment-grade fixed income	**18**	19	**16**	13	**36**	37
High-yield fixed income	**10**	11	**10**	9	**–**	–
TIPS	**5**	4	**5**	4	**–**	–
Real estate – private	**9**	9	**6**	8	**–**	–
Real estate – public	**2**	3	**2**	3	**–**	–
Private equity	**9**	9	**10**	10	**–**	–
Commodities	**7**	6	**4**	4	**–**	–
MLPs	**3**	–	**3**	–	**–**	–
Alternative debt	**3**	3	**3**	3	**–**	–
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

7. Benefit Plans (continued)

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.

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) or Master Limited Partnerships (MLPs) 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.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

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.

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 January 30, 2016:

	Benefit Plans			
		Level 1	Level 2	Level 3
	Total	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs
Assets				
Temporary investments[a]	$ 37,327	$ 37,327	$ –	$ –
Equity securities:				
Common and preferred stock[b]	678,126	678,126	–	–
Collective investment funds[c]	1,245,700	–	1,245,700	–
Limited partnerships[d]	459,220	–	–	459,220
Foreign obligations[e]	19,021	19,021	–	–
Debt securities:				
Common and preferred stock[b]	–	–	–	–
Corporate bonds[g]	542,243	–	542,243	–
U.S. government obligations[f]	288,537	288,537	–	–
Asset-backed securities[j]	1,896	–	1,896	–
Collective investment funds[h]	704,041	–	704,041	–
Short Term Investment Funds	184,961	–	184,961	–
Limited partnerships[d]	159,068	–	–	159,068
Real estate and commodities:				
Common and preferred stock[b]	206,388	206,388	–	–
Collective investment funds[i]	287,969	–	170,291	117,678
Limited partnerships[d]	443,918	–	–	443,918
Due to/from broker for sale of securities – net	(10,192)	(10,192)	–	–
Other investments	7,346	–	7,346	–
Total investments	$ 5,255,569	$ 1,219,207	$ 2,856,478	$ 1,179,884

(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 31, 2015:

	Benefit Plans			
		Level 1	Level 2	Level 3
	Total	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs
Assets				
Temporary investments[a]	$ 13,300	$ 13,300	$ –	$ –
Equity securities:				
Common and preferred stock[b]	745,011	745,011	–	–
Collective investment funds[c]	1,376,360	–	1,376,360	–
Limited partnerships[d]	480,563	–	–	480,563
Foreign obligations[e]	23,547	23,547	–	–
Debt securities:				
Common and preferred stock[b]	147	147	–	–
Corporate bonds[g]	554,185	–	554,185	–
U.S. government obligations[f]	272,331	272,331	–	–
Asset-backed securities[j]	4,103	–	4,103	–
Collective investment funds[h]	841,380	–	841,380	–
Short Term Investment Funds	79,497	–	79,497	–
Limited partnerships[d]	165,301	–	–	165,301
Real estate and commodities:				
Common and preferred stock[b]	170,358	170,358	–	–
Collective investment funds[i]	260,557	–	146,456	114,101
Limited partnerships[d]	533,091	–	–	533,091
Due to/from broker for sale of securities – net	6,952	6,952	–	–
Other investments	9,909	–	9,909	–
Total investments	$ 5,536,592	$ 1,231,646	$ 3,011,890	$ 1,293,056

7. Benefit Plans (continued)

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

(b) Holdings are diversified as a percentage of total equity as follows: Domestic Markets (47%) and Developed International Markets (53%). Domestic Markets are diversified by Large Cap (54%), Small Cap (17%), and Public Real Estate – REITS (29%). There are no significant concentrations of holdings by the Exchange.

(c) 72% of 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 remaining 28% consists of international, small cap, and low volatility investments in the form of mutual funds. The collective investment funds consist of Domestic (38%) and International (62%). Investments 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 88% and Domestic 12% 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 58% and 57% of investments in corporate high-yield debt with S&P rating of B- and below as of January 30, 2016 and January 31, 2015, respectively. The remaining investments are in investment-grade corporate bonds.

(h) The State Street Bank and Trust Company Short Term Investment Fund employ 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 63% 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 1.4% and 34.1% and other assets 98.6% and 65.9%, including student loans as of January 30, 2016 and January 31, 2015 respectively.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

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 January 30, 2016 and January 31, 2015:

	Year Ended January 30, 2016		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	**$ 480,563**	**$ 165,301**	**$ 647,192**
Realized gains and losses	**24,829**	**6,220**	**49,844**
Unrealized gains (losses) relating to instruments still held at the reporting date	**11,173**	**(21,275)**	**5,065**
Purchases	**59,560**	**21,552**	**1**
Sales	**(116,905)**	**(12,730)**	**(140,506)**
Balance, end of year	**$ 459,220**	**$ 159,068**	**$ 561,596**

	Year Ended January 31, 2015		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	$ 466,487	$ 173,324	$ 618,357
Realized gains and losses	42,857	20,547	26,489
Unrealized gains (losses) relating to instruments still held at the reporting date	14,779	(7,478)	28,763
Purchases	65,065	23,343	–
Sales	(108,625)	(44,435)	(26,417)
Balance, end of year	$ 480,563	$ 165,301	$ 647,192

Employer Contributions

The Exchange expects to contribute approximately $54,045 to the other Postretirement benefit plans in fiscal 2016.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

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
2016	$ 254,684	$ 462	$ 115,109	$ 4,263
2017	256,957	468	120,825	4,281
2018	259,489	474	126,207	4,339
2019	262,223	481	132,013	4,652
2020	265,296	487	136,910	4,268
2021–2025	1,376,526	2,648	735,673	23,258

Assumed Health Care Cost Trend Rates at the End of January

	2015	2014
Health care cost trend rate assumed for next year	**7.00%**	6.50%
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	**2026**	2022

8. Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings before performance 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. If earnings exceed the financial plan (AFP), the Exchange will retain the first 15% of the excess earnings and the remainder will be distributed in the form of dividend payments.

Under the current dividend policy, non-cash pension and employee benefit plan expenses are excluded from net earnings subject to dividends. Any other exclusion, such as employee bonuses, used in the calculation of net earnings subject to dividends must be approved by the Board of Directors.

8. Dividends (continued)

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 U.S. Missions in Afghanistan and Iraq

The Company's presence in Iraq, Qatar, Afghanistan, and Kuwait was supported by 42 and 39 stores as of January 30, 2016 and January 31, 2015, respectively. Approximately $162,244 (2.4%) and $179,294 (2.4%) of the Company's net revenues in the fiscal years 2015 and 2014, respectively, were derived from sales to U.S. troops stationed in the Middle East, including Operation Freedom's Sentinel (OFS), Operations Resources Support (ORS), and Operation Inherent Resolve (OIR). The decrease in revenue for fiscal years 2015 and 2014, was primarily due to U.S. troop withdrawal from Afghanistan. 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. Sales decreases resulting from U.S. troop withdrawal from Afghanistan have been partially offset by U.S. troops supporting military intervention against ISIS. The Company's inventory balance in this region, at cost, was $23,819 at January 30, 2016 and 26,563 at January 31, 2015. 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.

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2015 BY THE NUMBERS

$8.5 B
IN REVENUE
(INCLUDES CONCESSIONS)

$402 M
IN EARNINGS

$237 M
IN DIVIDENDS

88%
ASSOCIATES CONNECTED
TO THE MILITARY

4,468
ASSOCIATES DEPLOYED TO
COMBAT ZONES SINCE 9/11

1.3 M
KRISPY KREME DONUTS SOLD

3.2 M
SCHOOL LUNCHES SERVED EVERY YEAR

7
PLANTS PROVIDING BAKED GOODS/
BOTTLED WATER TO MILITARY OVERSEAS

1.5 M
COMBAT UNIFORMS OUTFITTED

450 M
GALLONS OF GAS SOLD ANNUALLY

107 M
CUSTOMERS SERVED AT
EXCHANGE RESTAURANTS

9 M
HAIRCUTS AT EXCHANGE
BARBERSHOPS & SALONS

843
WOUNDED WARRIORS HIRED SINCE 2010

2,500
FACILITIES WORLDWIDE

50
STATES

33
COUNTRIES