



The Navy, Army and Air Force Institutes
Annual report and financial statements
for the financial period ended 31 March 2021

Registered Number 00171912



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Annual report and financial statements

For the financial period ended 31 March 2021

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Chair of the NAAFI Board's statement

In a period where it has been difficult to physically celebrate our 100th anniversary, The Navy, Army and Air Force Institutes (NAAFI) has continued to adapt to meet the evolving needs of Her Majesty's Armed Forces. The effects from the 2021 Integrated Review of Security, Defence, Development and Foreign Policy have yet to impact fully on NAAFI. With an indication of more deployments in keeping with the Government's intent for a Global Britain, there is an expectation that the impact is likely to be positive and will provide further opportunities for NAAFI, the Ministry of Defence's in-house provider, to offer Catering, Retail, Leisure and Soft Facilities Management services to enhance the welfare of our Armed Forces during 2021/22.

There were varying impacts on turnover due to the COVID-19 pandemic across the various NAAFI trading locations. This varied from a significant negative impact on trading in the Falkland Islands with turnover being (13.8)% behind expectations, to a positive impact in Brunei where trading was 19.1% ahead of expectations. Germany and Ascension Island turnover finished ahead with the Naval Canteen Service and Gibraltar finishing behind turnover expectations. Overall annual turnover in 2020/21 has decreased £5.6m or (23.9)%, compared to the prior year, because of the annualised impact of the Germany closures that occurred in 2019/20, but is £1.8m, 11.7% ahead of turnover expectations originally targeted for the period.

Troop numbers, structures and deployments undertaken have all been subject to change during the period, resulting in adjustments to the levels of service required from NAAFI. However, the business has continued to adapt well, maintaining the fixed overhead costs and to be cash generative. Despite the impact of COVID-19, we have been able to achieve the balance between our primary objective of 'Serving the Services' and cash generation. During 2020/21 we invested £1.9m in the refurbishment of our facilities and generated £1.8m in welfare contributions, which were paid back to both Local and Central Commands.

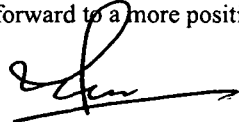
We launched our new NAAFI Fund this year which will distribute over £7.5m during the next decade as welfare grants to improve the lived experience of our Armed Forces communities in the UK and overseas. The first round of the fund delivered grants totalling £0.7m with a further £1.2m to be awarded during 2021/22.

2020/21 was the first period of the new Service Level Agreements (SLAs) which were signed in 2019/20 with each of the MOD Service branches until the end of March 2030. 2020/21 was also the first period where we aligned our financial year with that of the MOD. The 2020/21 financial period ran from 26th April 2020 to 31st March 2021 and each subsequent year will end on 31st March. The new SLAs allow NAAFI to continue to trade in all remaining locations and enable us to seek opportunities in new locations which should support business growth.

A triennial valuation of the NAAFI Pension Fund took place on 31st December 2017. This showed a £1.9m surplus and that the pension fund was 100.3% funded on a technical basis. I am pleased to report that following the excellent work by the Executive and Trustees to secure the MOD pension guarantee in 2018/19, a more appropriate risk and cash generative strategy has been adopted by the Trustees. The next triennial valuation was undertaken by the trustees in December 2020 with the results expected by the end of June 2021.

This period saw two Board changes as General Sir Redmond Watt and Sir Ian Prosser both retired. I would like to thank both for all their hard work and dedication to NAAFI over their many years of service.

Finally, on behalf of the Board, I would like to thank our employees all over the World. These last few years have been particularly challenging as they faced significant business changes and uncertainty which has only been exaggerated by the pandemic. When our employees leave NAAFI, not only do they leave their jobs, but they and in some cases their families, often must relocate back to the UK from overseas. It is testament to our employees that NAAFI has continued to maintain such a strong, well regarded service underpinning good results whilst facing these significant challenges. With the prospect of a more stable business, underpinned not only by the new SLAs, but also by the prospect of growth within the MOD as the in-house provider, we look forward to a more positive and prosperous future.



Lieutenant General Richard E Nugee CB CVO CBE
Non-Executive Chair
10 June 2021

Strategic report

Summary

Total turnover has decreased 23.9% compared to the previous year, reflective of the annualised impact of the 2019/20 drawdown in Germany to the smaller enduring training estate in 2020/21. Our total comprehensive income has decreased by £1.9m, while cash has decreased by £0.5m from prior year.

The COVID-19 pandemic impacted trading during the financial period as lockdown protocols continued across all NAAFI trading locations in-line with MOD and host country directives. Our management and employees responded swiftly and thoughtfully to implement all necessary controls imposed, relevant to each territory. We worked closely with the MOD to ensure service was maintained and, where possible, we increased services and offers to serve the Armed Forces communities.

Despite the reduced customer numbers in the Germany training estate, we continue to receive excellent feedback from British Army Germany through the pyramid meeting process and in establishment surveys that are completed by our customers. This is particularly prevalent in our catering establishments which maintains our reputation as a top-quality caterer. We continually strive to maintain and where possible improve our catering business; in March, the menu changed to the spring/summer cycle with a quarter of the dishes being completely new. We deliver nutritional information at the point of sale for every dish served that notifies customers using a 'traffic light' system for the nutritional values of their meals, as well as full allergen labelling.

The use of Microsoft Business Intelligence has enabled us to identify trends more easily and make better business decisions, which enhance the customer experience and drive efficiencies. We will continue to refine this reporting package during the next financial year, using feedback received from all areas of the business. The mobile 'access anywhere' nature of this product using Office 365 also ensured that our business continuity was realised during the COVID-19 pandemic as we enabled all office employees to work from home.

Looking forward, 2021/22 will see the largest deployment of Royal Navy ships for many years and HMS Prince of Wales, the second new aircraft carrier, is expected to start operating closer to full capacity. We also expect trading and customer service benefits to increase due to the annualised impacts of the £1.9m capital refurbishment spend in 2020/21 and the planned £1.3m capital refurbishment spend in 2021/22.

Following the successful Council endorsement of NAAFI as the MOD's in-house provider of Catering, Retail, Leisure and Soft Facilities Management services, we will continue to seek opportunities for NAAFI across current and new territories during 2021/22 and beyond. This is a significant opportunity for NAAFI following the successful pension guarantee and signing of the long-term SLAs and OSA with the MOD and the individual Services.

Throughout this period of substantial structural change, despite all the people and business challenges that it brings, it is to the credit of our employees that we have maintained our excellent reputation and delivered strong financial results.

Company Strategy and Business Model

NAAFI's current business can be defined as follows:

- **Germany** – where we provide a full Catering, Retail and Leisure (CRL) offer, including Facilities Management Services (FMS).
- **United Kingdom** – our Naval Canteen Service (NCS) operates a wholesale and support service out of the UK and our employees provide retail and leisure services onboard Royal Naval vessels at sea.
- **Overseas** – where employees serve in Brunei, the South Atlantic territories of Falkland Islands and Ascension Island and Gibraltar, where we provide retail and leisure offers.
- **Exercise and Operational Support** – where we provide deployed services to operational locations and exercise support facilities management. 2021/22 is the first year in our new five-year agreement to provide Exercise support to NATO ARRC.

Strategic report (continued)

Trading Highlights

Key performance indicators for the period are:

	2020/21	2019/20	Movement %
Turnover (£'000)	£17,634	£23,186	(23.9)
Capital spend (£'000)	£1,945	£759	156.3
EBITDA (£'000)	£1,570	£3,357	(53.2)
Outlet numbers at period end	43	43	-
Closing cash (£'000)	£25,958	£26,425	(1.8)

EBITDA (earnings before interest, tax, depreciation and amortisation) represents a profit for the financial period on trading activities of £1.6m (2019/20: £3.4m).

Detailed review of activities and performance

Germany

As a result of the annualised impact of the drawdown in 2020/21, the turnover was 51.9% or £5.3m lower when compared to 2019/20. Despite this impact, Germany remained the core of NAAFI's business, accounting for 24.8% of NAAFI's global turnover (2019/20: 44.3%). We will continue to strengthen our customer relationships and contribute to the effective partnering approach with the MOD in Germany, to ensure that the business continues to perform well through the next nine years of the SLA.

United Kingdom

Our NCS employees differentiate us from other commercial service providers. NCS employees are Sponsored Reserves who serve onboard Royal Navy ships alongside Royal Navy personnel on deployment around the world and can be at sea for considerable lengths of time. During 2020/21 our NCS employee deployment only model continued to meet the needs of a changing Navy and our team continued to deliver excellent service, even in the most challenging of physical conditions. Our three main operating locations at the HMNBs in Portsmouth, Plymouth and Faslane continued to provide key retail and wholesale services to the Royal Fleet Auxiliary, Submarine fleet and smaller vessels (without staffed canteens).

Overseas

We continue to provide retail and leisure services in established locations, including the Falkland Islands, Ascension Island, Brunei and Gibraltar.

Exercise and Operational Support

We successfully bid and won a new five-year contract with NATO ARRC to build on the decade long service we have provided ARRC as they exercise each year. We continue to maintain our ability to reactivate our Expeditionary Forces Institute, Squadron 148 RLC, as required by the MOD to provide services to our Armed Forces when they are posted on operations anywhere in the world.

Support

During 2020/21 our Head Office in Paderborn, Germany was fully established following the move from Bielefeld with the central support structure now in place as we prepare to grow our team again to meet the opportunity of business expansion. Over the next year we will recruit new skills into the Head Office as we better meet the needs of NAAFI and our customers.

Strategic report (continued)

Balance Sheet

The company's balance sheet shows a net asset position of £29.5m at the current period end (2019/20: net assets of £28.0m).

Fixed assets have increased during the period to £2.7m (2019/20: £1.0m). The agreement of the ten-year Overarching and individual location Service Level Agreements with the MOD enabled these refurbishments to commence. It is anticipated that a further £1.3m will be invested in facility refurbishments during 2021/22.

Creditors have increased to £3.2m during the period (2019/20: £2.5m) due to £1.1m provision for local and central command welfare contributions. Provisions for liabilities have remained static during the period at £0.3m.

Overall, we recorded a cash outflow of £0.4m (2019/20: £0.1m outflow), ending the period with a cash balance of £26.0m compared with £26.4m in 2019/20.

Principal and Financial Risks and Uncertainties

Risk is part of doing business; however, the challenge is to identify the key risks and to develop and monitor appropriate controls. A successful risk management process balances risk with reward and relies on a sound judgement of their likelihood and consequence. The Board has overall responsibility for risk management and internal control within the context of achieving the Company's objectives.

Key risks faced by the Company are set out below:

Pension Risks

The Company's pension arrangements are an important part of our employees' overall benefits package. NAAFI closed its UK defined benefit scheme to future accrual with effect from 31st March 2011 introducing a new defined contribution pension plan, currently with Standard Life. However, the closed defined benefit pension scheme remains an important priority. FRS 102 requires NAAFI to assess the liabilities with reference to the market conditions at the balance sheet date and the Directors' best estimate of the performance expected from the scheme. The movement in the period has been influenced by changes in assumptions due to changes in market conditions and management judgement.

On 31st March 2021, the scheme had a surplus (on an FRS 102 basis) of £50.7m (2019/20: £84.4m), this has been deemed irrecoverable as NAAFI is unable to benefit from this in the future, therefore it shows as nil in the balance sheet (2019/20: nil). Overall, there has been a decrease in the surplus of £33.7m. This is due to the increase in inflation assumptions, which has increased the liabilities, and a fall in asset values over the period. These movements have been offset slightly by the increase in discount rate and changes to the longevity assumption, which have both decreased the liabilities. As with previous years, any surplus will be unrecognisable under FRS102, so there will be no net asset recognised in the balance sheet.

The Fund's most recent statutory triennial valuation fell on 31st December 2017, revealing a £1.9m funding surplus which resulted in 100.3% funding on a technical provisions basis.

Foreign Exchange Risk

Foreign exchange risk is limited due to our link to the Forces Financial Rate for pricing in Germany. Although we are naturally hedged to some extent, we are a net generator of Euros that we exchange back into GBP. Where possible and in line with our hedging policy, we use forward contracts to lock in a rate at or below our budget rate to secure our cash flow forecasts from exchange rate fluctuations.

Interest Rate Risk

NAAFI's exposure to this risk is limited to movements in the UK base rate. As the company has no external debt, its exposure to interest rate risk is considered low. However, the NAAFI Pension Fund is exposed to interest rate risk, which determines the extent of the liabilities in the fund; a fall in interest rates lowers the discount rate applied to the fund's liabilities, effectively increasing them and the funding deficit. Conversely, the opposite is true if interest rates were to rise.

Strategic report (continued)

Liquidity Risk

The company has high levels of cash reserves and no liability from borrowings. The contractual pension funding requirements in place at the period-end date are also small in comparison to available cash resources. As such the Directors consider the company's exposure to liquidity risk to be low.

Credit Risk

The company's revenues are primarily derived from cash sales. Additionally, credit is given, and credit risk is mitigated by regular reviews of the aged sales ledger, credit checks and the pro-active follow up and collection of outstanding debts.

Price Risk

The Directors do not consider the company to be exposed to commodity price risk as any commodity price increases are passed onto the customer in the form of increased retail prices.

Product Safety

The safety and quality of our products is of paramount importance to NAAFI, as well as being essential for maintaining consumer and customer trust and confidence. A breach of confidence could affect the size of our consumer base and hence financial results.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006.

The Board of Directors of NAAFI consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act), in the decisions taken during the period ended 31st March 2021. In particular, by reference to the approval of NAAFI's five-year strategic plan (2021 to 2026). This plan is designed to have a long-term beneficial impact and to contribute to the company's success in delivering the Services required by the MOD, within defined budgetary controls.

Our employees are fundamental to the delivery of the plan and to enable a common awareness, the financial and economic elements of the plan are promulgated through various employee forums including the use of our internal employee portal, which all employees have access to and through our quarterly business conferences which communicate awareness of the company's performance. We have incorporated an employee survey into our annual programme of communication which will encourage all employees to feedback on every aspect of their employment, wellbeing and how to improve. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations in the way we operate our business.

We also aim to act responsibly and fairly in how we engage with our suppliers as they are integral to the successful delivery of the plan.

Our plan was informed by extensive engagement with our customers, enabling us to gain an understanding of their views and priorities.

Our plan also considers the impact of our operations on the community and environment along with our wider societal responsibilities and how we impact the locations in which we operate. We have agreement with the MOD that in each of these locations we will provide an annual sustainability and improvement action plan which will demonstrate NAAFI's commitment to driving continuous improvement in sustainability and will include specific targets and actions for each year. As the MOD's in-house provider, we remain fully committed to supporting the MOD's long-term environment and sustainability goals.

On behalf of the Board



Steve Marshall
Chief Executive Officer
10 June 2021.

Profit and loss account five-year record

	2017	2018	2019	2020	2021
Profit and loss account	£'000	£'000	£'000	£'000	£'000
Turnover	41,781	37,169	34,324	23,186	17,634
Cost of sales	(23,644)	(23,079)	(21,554)	(13,328)	(11,287)
Gross profit	18,137	14,090	12,770	9,858	6,347
Administrative expenses	(11,347)	(9,363)	(12,459)	(7,958)	(8,522)
Other operating income	-	-	-	-	2,273
Operating profit	6,790	4,727	311	1,900	98
Interest receivable and similar income	88	75	134	204	105
Other finance income/(cost)	110	15	(22)	(16)	(11)
Profit for the financial period	6,988	4,817	423	2,088	192

Balance sheet five-year record

	2017	2018	2019	2020	2021
Balance sheet	£'000	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	522	301	335	972	2,660
	522	301	335	972	2,660
Current assets					
Stocks	2,210	2,450	2,222	2,396	3,191
Debtors	4,615	866	713	995	1,277
Cast at bank and in hand	13,792	20,734	26,528	26,425	25,958
	20,617	24,050	29,463	29,816	30,426
Creditors: amounts falling due within one year	(3,964)	(3,746)	(3,881)	(2,464)	(3,221)
Net current assets	16,653	20,304	25,582	27,352	27,205
Provisions for liabilities	(130)	(120)	(584)	(326)	(332)
Net assets	17,045	20,485	25,333	27,998	29,533
Reserves					
Profit and loss account	17,045	20,485	25,333	27,998	29,533
Total reserves	17,045	20,485	25,333	27,998	29,533

Board of Directors

Lieutenant General Richard E Nugee CB CVO CBE **Non-Executive Chair**

Joined the Board on 30 September 2020 as a Non-Executive Director and was subsequently appointed Non-Executive Chair on 31st March 2021. Richard served in the Army from 1985 to 2021. He served on numerous operational tours while at the same time focussing on personnel (HR) roles within the Army and Ministry of Defence, latterly spending 4 years as Chief of Defence People (i.e. Defence Global HR Director) responsible for central policy for all Service personnel, their families, all Defence Civil Servants and the nation's veterans. In March 2020 he took on a review of Defence's approach to climate change and is continuing as Defence's Climate Change Non-Executive Director.

He is a Fellow of the Royal Geographical Society, a Chartered Fellow of the CIPD, a Companion of the Chartered Management Institute, and is Chair and Trustee of a number of charitable trusts.

Richard is a member of the NAAFI Nomination and Audit Committees.

Steve Marshall **Chief Executive Officer**

Joined the Board in June 2011. Steve joined NAAFI in 2006 and led our Germany business prior to the post of Operations Director. He was appointed as Chief Executive Officer on 3rd May 2016. He previously held senior positions with Tesco Plc in the UK and most notably across central Europe as part of their International team. He brings with him experience in UK and International Retail Operations, Contracts and Property Services.

Steve attends meetings of the Audit and Remuneration Committees by invitation.

Alan Smith BA FRAeS CBE **Non-Executive Director**

Joined the Board in October 2006. Alan has extensive experience in the retail sector and was formerly Chairman of Robert Dyas, Chief Executive Officer of Somerfield Plc, Punch Taverns Plc, Esporta, Evans Halshaw Holdings Plc, Boddingtons Plc, B&Q Plc and Superdrug Plc. He is currently Chairman of ScS Group Plc and Chairman of Royal Air Force Charitable Trust Enterprises.

Alan is a member of the NAAFI Audit and Nominations Committees and chairs the NAAFI Remuneration Committee.

Margot Daly **Non-Executive Director**

Joined the board on 3rd March 2020. Margot is the Chair of GamCare and a panel member at the Competition and Markets Authority. Previously Margot held Chief Executive Officer and Chief Operating Officer positions in FTSE listed and privately held companies, served as a non-executive director at Sport Resolutions and as a panel member at the UK Competition Appeal Tribunal. Margot holds a Master's Degree in competition economics from King's College London with a focus on digital markets, blockchain and distributed ledger technologies.

Margot is a member of the NAAFI Remuneration and Nomination Committees and chairs the NAAFI Audit Committee.

Sir Ian Prosser resigned as Non-Executive Chair from the board on 31st March 2021.

General Sir Redmond Watt KCB KCVO CBE DL resigned as Non-Executive director from the board on 30th September 2020.

Service Representatives to The Navy, Army and Air Force Institutes

New Representative to be nominated at the September 2021 board meeting.
Royal Navy Representative.

Brigadier Alex Potts
Army Representative.

Group Captain Colin Owen (Nominated 24th February 2021)
Royal Air Force Representative.

Col. Clare Waterworth (Nominated 24th February 2021)
MOD Head Office Representative.

Gp Capt Peter Williamson
UK StratCom Representative (Nominated on 2nd December 2020).

Group Captain Ann Gibson (Released post on 2nd December 2020)
UK StratCom Representative.

Captain Simon Joll RN (Released post on 2nd December 2020)
MOD Head Office Representative.

Group Captain Jacqueline East (Released post on 2nd December 2020)
Royal Air Force Representative

Commander Karen Rees (Released post on 24th February 2021)
Royal Navy Representative.

The 101st annual report of the Board to The Navy, Army and Air Force Institutes Council

The Board submits its report and the audited financial statements of the company for the period ended 31st March 2021.

Business Review

The company is the official trading organisation of HM Armed Forces and the Ministry of Defences' in-house service provider, operating through a network of branches worldwide. Its activities are governed by the requirement of HM Armed Forces.

The review of NAAFI's operations is included in the Chair's statement and Strategic review on pages 3 – 7. Its financial affairs are set out on pages 20 – 42 of this report.

The profit for the financial period was £0.2m (2019/20: £2.1m).

Health & Safety and Food Safety Statement

Overarching Statement

We are committed to operations and practices that meet and exceed legislative requirements with regards to food safety and physical safety. Our commitment extends not only to our employees but to our partners, contractors and customers affected directly or indirectly by our actions.

Health, Safety and Welfare

All employees have a direct impact upon our relative performance and compliance with our stated policy, however, at Board level the Chief Executive Officer has overall responsibility for ensuring that suitable arrangements are in place and implemented.

We will provide and maintain a safe environment for all our theatres of operation, focusing on developing our people to enable them to deliver a first class offer in the safest means practicable. Reports regarding health, safety and welfare are regularly made to the Board, detailing incidents and initiatives pertinent to our operations.

We continue to provide Health & Safety Management courses for both supervisory and managerial staff so that they have the required knowledge to deliver high standards of health and safety in the workplace. In addition, we will facilitate an open health, safety and welfare culture, which encourages all senior management to lead by example.

Slips and trips were the most frequent cause of reported accidents and we continue to work on reducing accidents further in these areas.

Food Hygiene and Safety

Catering services in Germany are subject to strict nutritional guidelines, which ensure balanced meals and a range of healthy options are available. In retail outlets, food packaging conforms to latest guidelines through informative labelling.

We comply with relevant legislation and best practice to deliver safe, wholesome food and by continuing to develop and train staff within our catering outlets. We provide appropriate training for all catering staff so that they have the required knowledge to deliver high standards of food safety.

There are suitable and appropriate guidelines available in all outlets to provide support and assistance in maintaining our continued compliance with best practice.

We will provide and maintain safe and hygienic food for all our theatres of operation. Reports regarding food hygiene and safety will be made to the Board where necessary, detailing food incidents and initiatives pertinent to our operations.



The 101st annual report of the Board to The Navy, Army and Air Force Institutes Council (continued)

Social and Environmental Responsibilities

At the heart of NAAFI's strategic intent is the welfare objective of providing services to the British Armed Forces community and a financial welfare contribution both locally and centrally. NAAFI is a 'not for profit' organisation and as such, any profits generated are for the total benefit of our MOD stakeholders. NAAFI delivers support to Armed Forces personnel and their families in conditions and locations where few alternatives exist, providing convenience and a 'taste of home' when it is needed most. During the period we returned £1.8m welfare contributions, £0.5m centrally, £0.6m locally and £0.7m to the Service branches. (2019/20: £1.4m).

Employment Policies

We aim to create a working environment in which every current or prospective employee is given equal opportunity in selection, development and promotion.

We consider our employees our best asset. We know that by managing our people well they will in turn put all their effort into serving our consumers, in any of our operating locations. It is critical to our success to keep attracting, developing, motivating and retaining people with the right capabilities at all levels of the operation. We review our people policies regularly and are committed to investing in training, development and incentives for our employees.

Throughout 2020/21, we followed clear processes to understand and respond to employees' needs through regular performance reviews and the involvement of trade unions in relevant countries. We will continue to do this in 2021/22.

We also carry out succession planning to ensure that the future needs of the business are considered and provided for. During 2020/21, the emphasis was on ensuring we retain the skills and knowledge to support the future business as we look again to a future of growth.

During the period, the actual workforce (excluding contract staff) increased by 10 to 212 at the end of the period (2019/20: 202) with 96 employed in Germany and the remainder in our other locations. Voluntary staff turnover has slightly increased by 5.3% and is currently standing at 20 for 2020/21 (2019/20: 19).

In the UK, Germany and Gibraltar, NAAFI continues to have an excellent relationship with the union Unite, with whom a partnership agreement exists.

The NAAFI Board also continues to maintain its commitment to continuous and open communication of its strategy, with all staff engaged through announcements on our ePayslip portal and Shared Drive. From 2021/22 we have committed to administering biennial employee surveys and report these to the Board, our stakeholders and employees.

Employment of Disabled Persons

Our policy is to ensure that equal opportunities are given to applications from disabled persons applying for employment vacancies, considering the qualifications of such applicants against the requirements of the positions for which they apply. If an existing employee becomes disabled, every effort will be made to assist rehabilitation and, where necessary, to retrain for continued employment. It is our policy that the training, development and promotion of disabled persons is, as far as possible, identical to that of other employees.

The 101st annual report of the Board to The Navy, Army and Air Force Institutes Council (continued)

General Data Protection Act (GDPR)

The security of employee and customer data is very important to the NAAFI Board and we are confident that we have the appropriate policy and technological controls in place to mitigate the risk of any unauthorised access and loss of data insofar as is reasonably practicable. All our third-party data processors are assessed against GDPR requirements and binding GDPR contractual clauses are in place, which include the right to audit their processes. Privacy Notices are available where required and all employees have been trained to GDPR standards. A Data Protection Officer has been appointed to deal with any queries including Subject Access Requests. All new processes require a Privacy Impact Assessment to ensure compliance with the principle of 'Privacy by Design'.

Financial risk management

Details of the company's financial risk management and future developments are given in the strategic report.

Environmental Policy

NAAFI remains committed to supporting the Ministry of Defence to achieve their environmental and sustainability goals. All our infrastructure is maintained by the MOD and we work alongside the MOD's sustainability champions to minimise our impact. During 2020-21 NAAFI fully removed plastic carrier bags from our business and we are on target to remove all single use plastic from our retail and catering operations by the end of 2021/22.

Directors

The Directors and Service Representatives of the company who were in office during the period or at the date of signing the financial statements are shown on pages 10-11.

Employees

The Board wishes to record its appreciation of the continued loyalty of the employees of the company.

Disclosure of Information to Auditors

Each Director as at the date of this report, has confirmed that so far as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware. They have taken all the steps they are required to as Directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Annual General Meeting

The company's Annual General Meeting for 2021/22 will be held on 22 September 2021.

On behalf of the Board



Steve Marshall
Chief Executive Officer
10 June 2021

Remuneration Committee report

The Board's Remuneration Committee is responsible for determining the remuneration, benefits and terms and conditions of service for each Executive Director, members of the Executive and other senior managers, as directed by the Board (together the 'Executives'). The Committee is assisted in determining the remuneration of the company's executives by examining external market information including benchmarking surveys.

The Committee consists of the Non-Executive Directors, excluding the NAAFI Chair, and is chaired by Mr Alan Smith. The NAAFI Chair attends meetings by invitation but is not a member of the Committee. The policy in relation to the base salary of the executives is to pay at a level which is competitive against similar organisations and which reflects the responsibility, challenge and complexity of the roles, compared to external benchmarks.


Each Executive is eligible to participate in an incentive plan which is intended to reward the achievement of pre-determined and demanding performance goals by discretionary non-pensionable cash bonuses calculated as a percentage of salary. Performance goals are set on an annual basis geared to business objectives.

For Executive Directors, the maximum bonus payment in any one year is currently set at 50% of annual salary and is linked directly to turnover, profit, cash-flow, and achievement of personal objectives. For other members of the Executive the maximum payment in any one year is 40%, linked to similar targets. For the period 2020/21, full bonus targets and objectives were achieved by Executive Directors and other members of the Executive under the incentive plan.

The Executive Directors' employment contract requires six months' notice of termination to be given by either party. The Executive Directors are all members of the NAAFI Defined Contribution Pension Scheme. Non-Executive Directors do not have formal contracts – each is appointed for an initial term of three years renewable for further terms of three years with the agreement of the President of the NAAFI Council.

Non-Executive Directors are independent of the Company and are free from any business or other relationship that could materially interfere with them exercising independent judgement. The remuneration of Non-Executive Directors is determined by the Company Chair and the Chief Executive Officer and is agreed by the President of the Council.

On behalf of the Board



Alan Smith CBE FRAeS
Chair of Remuneration Committee
10 June 2021

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

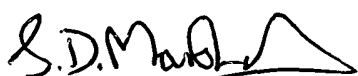
Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

On behalf of the Board



Steve Marshall
Chief Executive Officer
10 June 2021

Independent auditors' report to the members of The Navy, Army and Airforce Institutes

Report on the audit of the financial statements

Opinion

In our opinion, The Navy, Army and Airforce Institutes's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit and cash flows for the period from 26 April 2020 to 31 March 2021;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 March 2021; the Profit and loss account, the Statement of comprehensive income, the Cash flow statement and the Statement of changes in equity for the period then ended; the Statement of accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Independent auditors' report to the members of The Navy, Army and Airforce Institutes (continued)

If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and the 101st Annual Report of the Board to the Navy, Army and Air Force Institutes, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the 101st Annual Report of the Board to the Navy, Army and Air Force Institutes

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the 101st Annual Report of the Board to the Navy, Army and Air Force Institutes for the period ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the 101st Annual Report of the Board to the Navy, Army and Air Force Institutes.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, employment law and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements.

Independent auditors' report to the members of The Navy, Army and Airforce Institutes (continued)

We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations or unusual words or phrases in the journal description;
- testing accounting estimates that we deemed to present a risk of material misstatement, including assessing the data, methods and assumptions applied by management in the development of each estimate; and
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle
10 June 2021

Profit and loss account for the period from 26 April 2020 to 31 March 2021

	Note	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Turnover	1	17,634	23,186
Cost of sales		(11,287)	(13,328)
Gross profit	1	6,347	9,858
Administrative expenses	2	(8,522)	(7,958)
Other operating income	3	2,273	-
Operating profit		98	1,900
Interest receivable and similar income	4	105	204
Other finance expense	14	(11)	(16)
Profit for the financial period/year		192	2,088

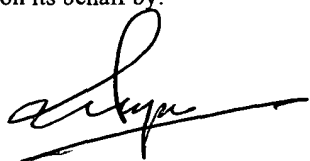
Statement of comprehensive income for the period from 26 April 2020 to 31 March 2021

	Note	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Profit for the financial period/year		192	2,088
Actuarial (loss)/gain relating to the pension scheme	14	(33,651)	25,286
Decrease/(increase) in irrecoverable surplus not recognised	14	34,994	(23,959)
Total comprehensive income		1,535	3,415

Balance sheet as at 31 March 2021

	Note	31 March 2021 £'000	25 April 2020 £'000
Fixed assets			
Tangible assets	8	2,660	972
Current assets			
Stocks	10	3,191	2,396
Debtors	11	1,277	995
Cash at bank and in hand		25,958	26,425
		30,426	29,816
Creditors: amounts falling due within one year	12	(3,221)	(2,464)
Net current assets		27,205	27,352
Total assets less current liabilities		29,865	28,324
Provisions for liabilities	13	(332)	(326)
Net assets		29,533	27,998
Capital and reserves			
Profit and loss account		29,533	27,998
Total shareholders' funds		29,533	27,998

The financial statements on pages 20 to 42 were approved by the Board of directors on 10 June 2021 and were signed on its behalf by:



Lieutenant General Richard E Nugee CB CVO CBE
Non-Executive Chair
10 June 2021



Margot Daly
Non-Executive Director
10 June 2021

Registered number 00171912

Cash flow statement for the period from 26 April 2020 to 31 March 2021

	Note	Period ended 31 March		52 weeks ended 25 April	
		2021	2021	2020	2020
		£'000	£'000	£'000	£'000
Net cash generated from operating activities	15		1,466		1,241
Cash flow from investing activities					
Interest received		105		177	
Purchase of tangible fixed assets		(1,945)		(794)	
Proceeds from sale of tangible assets		4		2	
Net cash used in investing activities			(1,836)		(615)
Cash flow from financing activities					
Dividend distribution	20	-		(750)	
Net cash used in financing activities			-		(750)
Decrease in cash in the period/year			(370)		(124)
Cash at the beginning of the period/year			26,425		26,528
Translation differences			(97)		21
Cash at the end of the period/year			25,958		26,425
Cash consists of:					
Cash at bank and in hand			3,458		2,674
Short term deposits			22,500		23,751
Cash at the end of the period/year			25,958		26,425

Statement of changes in equity for the period from 26 April 2020 to 31 March 2021

	Profit and loss account £'000
At 27 April 2019	25,333
Profit for the financial year	2,088
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,327
Dividend distribution	(750)
At 25 April 2020	27,998
Profit for the financial period	192
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,343
At 31 March 2021	29,533

Statement of accounting policies

Company status

The Navy, Army and Air Force Institutes is a private company limited by guarantee, which was incorporated and registered in England, within the United Kingdom.

Statement of compliance

The financial statements of The Navy, Army and Air Force Institutes have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the period, are set out below.

Going concern

The Directors are content with the going concern basis despite the challenges imposed by COVID-19. The healthy cash position of £26m, as detailed in note 16, provides a buffer to any significant impact on trading. While the Directors expect COVID-19 to have a detrimental impact on trading in the next financial year they are still confident that the company will be net cash generative.

Basis of accounting

Following a change in accounting reference date the financial statements have been made up to the last day in March.

Non-GAAP measures

The company assesses its operational performance using several financial measures, one of which is a 'non-GAAP measure' as this is not a measure recognised in accordance with UK GAAP. This measure is Earnings before Interest, Tax, Depreciation and Amortisation ('EBITDA') and Pension administration costs. Management believes presenting the company's performance in this way provides users of the financial statements with additional useful information on the underlying performance of the business and is consistent with how business performance is monitored internally.

Turnover

Turnover represents the amounts receivable for goods supplied and services rendered and is exclusive of value added tax. Turnover through outlets is shown net of staff discounts. Turnover is recognised at the point of sale or when the service has been provided in full. Turnover received in advance is included in deferred income until the goods or service is provided. Turnover in respect of goods or services provided but not yet invoiced by the period end is included within accrued income.

Other operating income

Other operating income represents the amounts receivable which are considered incidental to the business and are not revenue received from the course of ordinary activities.

Taxation

NAAFI is not subject to taxation and hence no current tax or deferred taxation is accrued, provided for, or recognised.

Statement of accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition or the cost of any subsequent enhancement.

Depreciation is provided to write off the cost of tangible fixed assets by equal annual instalments over their estimated useful lives, as follows:

Fixtures and fittings	Up to 7 years according to type
Motor vehicles	Up to 4 years
IT software and equipment	Up to 5 years according to type
Assets in the course of construction	Not depreciated

No depreciation is provided on freehold land. Expenditure on buildings on Ministry or Service owned land or any other land on which there is no security of tenure is charged to the profit & loss account. In the case of substantial projects where tenure can be reasonably assured for the life of the asset, these are capitalised and depreciated over a period of up to 7 years. No depreciation is provided on assets in the course of construction, which are transferred on completion to the relevant fixed asset category and depreciated accordingly.

When a review for impairment is conducted, the recoverable amount is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use. The value in use is determined from estimated discounted future cash flows. Discount rates used are based on the individual circumstances.

Leased assets

All leases are operating leases, and the rentals are charged to the profit and loss account as they arise.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is generated on a First In First Out basis. At the end of each reporting period stocks are assessed for impairment. If an item of inventory is impaired, the identified stocks are reduced to their selling price and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

Currency translation and derivatives

Operating results of overseas trading are translated into Sterling at the average rate of exchange for the period. Significant foreign currency transactions are economically hedged using forward contracts. The monetary assets and liabilities held in overseas currencies at the balance sheet date associated with these contracts are translated at the contract rate. Other monetary assets and liabilities held in overseas currencies are translated into Sterling at the rates of exchange ruling at the end of the period. Stocks and tangible fixed assets are translated at the rates ruling at the date of purchase. Differences on exchange are dealt with through the profit and loss account.

Statement of accounting policies (continued)

Pension funding

The company holds a defined benefit scheme, the assets of which are held separately from those of the company in independently administered funds. The amount recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date. Pension scheme assets are measured using market value. Pension liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high-quality corporate bond of equivalent terms and currency to the liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Other finance expense'. The pension scheme surpluses, to the extent they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet. The company has closed the fund to new members and opened a defined contribution fund for new employees. The fund closed to future accrual with effect from 31 March 2011, but no curtailment gain or loss has arisen.

The company now operates a money purchase pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund in the period.

Provisions

Provisions are recognised when the company has a present obligation because of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Financial instruments

The Group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Statement of accounting policies (continued)

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit or loss account within interest payable and similar charges. At the balance sheet date this could result in either a financial asset or liability.

The company does not currently apply hedge accounting for interest rate, foreign exchange and future derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled, or expires.

The company does not generally apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.

Critical accounting judgments and estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on several factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 14 for the disclosures relating to the defined benefit pension scheme.

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021

1 Turnover, gross profit and EBITDA

Segmental information by geographical area is as follows:

	Turnover		Gross profit	
	Period ended 31 March	52 weeks ended 25 April	Period ended 31 March	52 weeks ended 25 April
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Germany	4,937	10,264	1,644	3,396
Overseas and GB	12,697	12,922	4,703	6,462
Total	17,634	23,186	6,347	9,858

	Turnover	
	2021	2020
	£'000	£'000
Sale of goods	13,435	15,475
Rendering of services	4,199	7,711
Total	17,634	23,186

NAAFI provides goods and services to customers comprising of different elements of retail, leisure, club and entertainment services, as well as contract catering and cleaning services. NAAFI's entire customer base is considered as one business segment.

EBITDA can be reconciled to the profit and loss account as follows:

	Period ended 31 March	52 weeks ended 25 April
	2021	2020
	£'000	£'000
Gross profit	6,347	9,858
Administration expenses (excluding depreciation and pension administration costs)	(7,050)	(6,501)
Other operating income	2,273	-
EBITDA	1,570	3,357
Depreciation	(257)	(122)
Pension administration costs (note 14)	(1,215)	(1,335)
Operating profit	98	1,900

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

2 Administrative expenses

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Staff costs	3,873	4,585
Other pension costs (note 14)	1,332	1,311
	5,205	5,896
Profit on the sale of tangible assets	(4)	(2)
Foreign exchange losses/(gains)	101	(117)
Other costs	2,788	1,860
Hire charges for furnishing and equipment (including operating leases)	119	155
Depreciation of tangible fixed assets	257	122
Auditors' remuneration		
Statutory audit	56	44
Total	8,522	7,958

3 Other operating income

During the period £2.3m was received from HMRC which related to a historical gaming machine VAT legal challenge, which dates back over 10 years and which the Directors had considered was closed. The successful HMRC legal case was subsequently overturned on appeal, after the Rank Group Plc's successful legal challenge in the Upper Tribunal of Supreme Court in April 2020. This led to a re-submission of our historical claim which was on the same basis as that of Rank Group PLC and this was accepted by HMRC.

4 Interest receivable and similar income

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Income from deposits	105	204

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

5 Employees and directors

	Period ended 31 March 2021 Number	52 weeks ended 25 April 2020 Number
The average monthly number of persons (including directors) employed by the company during the period was:	207	234
By activity:		
Support staff	20	21
Trading staff	187	213
	207	234
Contract staff	-	38
Total	207	272

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
The aggregate payroll cost of these persons was:		
Wages and salaries	5,075	7,864
Social security costs	398	518
Other pension costs	84	78
Total	5,557	8,460

Wages and salaries include labour costs of £1.6m (2020: £3.5m), to provide the catering and cleaning services element of the NAAFI business which is disclosed in cost of sales.

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

6 Directors' emoluments

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Salaries and short-term benefits	337	368
Other pension costs	15	16
	352	384

The above amounts are in respect of one Executive Director and four Non-Executives, one of whom left the business at the end of September 2020 (2020: one Executive Director and five Non-Executives).

Defined benefit pension scheme contributions earned by Directors

The defined benefit pension scheme closed on 31 March 2011 and there have been no further contributions. The current NAAFI pension scheme is a defined contribution scheme.

The current directors do not hold any pension values in the defined benefit scheme.

Highest Paid Director

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Aggregate emoluments	261	280

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

7 Capital and financial commitments

Future commitments under non-cancellable operating leases:

	2021		2020	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Within one year	-	12	-	8
Between two and five years	-	75	-	19
Total	-	87	-	27

8 Tangible assets

	Fixtures and fittings	IT equipment	Motor vehicles	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 26 April 2020	2,520	2,920	357	450	6,247
Additions	1,175	182	130	458	1,945
Transfers/reallocations	50	240	88	(378)	-
Disposals	(928)	(597)	(32)	-	(1,557)
At 31 March 2021	2,817	2,745	543	530	6,635
Accumulated depreciation					
At 26 April 2020	2,127	2,909	239	-	5,275
Charge during the period	148	30	79	-	257
On disposals	(928)	(597)	(32)	-	(1,557)
At 31 March 2021	1,347	2,342	286	-	3,975
Net book value					
At 31 March 2021	1,470	403	257	530	2,660
At 25 April 2020	393	11	118	450	972

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

9 Investments

	2021	2020
	£	£
Investment in subsidiary - £1 paid up ordinary share	1	1

Subsidiary	Country of incorporation	Proportion of ordinary shares held by parent	Nature of business
NAAFI Select Limited	England	100%	Dormant entity

Company was incorporated on 23 August 2017 and has not yet traded.

10 Stocks

	2021	2020
	£'000	£'000
Goods for resale	3,191	2,396

The value of inventories recognised as an expense in the period was £7.6m (2020: £8.6m). The company recognised a charge of £124k (2020: charge of £52k) in respect of provisions for impairment.

11 Debtors

	2021	2020
	£'000	£'000
Trade debtors	1,042	797
Other debtors	23	45
Prepayments and accrued income	212	153
Total	1,277	995

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

12 Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Trade creditors	850	661
Other creditors	63	399
Taxation and social security	65	73
Accruals and deferred income	2,243	1,331
Total	3,221	2,464

13 Provisions for liabilities

	Restructuring provision	Other	Total
	£'000	£'000	£'000
At 26 April 2020	29	297	326
Utilised during the period	(23)	(15)	(38)
(Released)/charged to profit and loss account	(6)	50	44
At 31 March 2021	-	332	332

Restructuring

The provision comprises employee termination liabilities with some utilised during the current period and the balance released to the profit and loss account.

Other

Included in other provisions are the provisions for dilapidations on the old head office building in Darlington of £100k. The lease expired in July 2016, but the final costs are yet to be received.

£40k is held for office and accommodation dilapidation costs in Germany, which will materialise upon their return to the authority.

£10k is held for vehicles which will materialise upon their return at the end of their operating leases.

£182k is held for liabilities arising from past operations.

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

14 Pensions

Defined contribution pension scheme

The company contributed £0.1m (2020: £0.1m) to a qualifying workplace pension scheme, a defined contribution scheme, open to all employees. The minimum employee contribution under auto-enrolment legislation was increased in April 2019 from 3% to 5% of qualifying earnings and NAAFI contributes the legal minimum of 3% for employers. Auto-enrolment legislation applies to all employees that 'ordinarily work in the UK', which is now limited to NCS. An alternative contribution tier is available for voluntary members, in which NAAFI contributes 1.5 times that of the employee rate, subject to a maximum employer contribution cap of 10.5%. Employees are actively encouraged to move from the auto-enrolment scheme to the voluntary scheme and benefit from the 1.5 times contribution rate and only 8 members remain on the auto-enrolment rate.

Defined benefit pension fund

The company also operated a defined benefit pension fund with assets held separately in a trustee-administered fund. The fund provides retirement benefits based on members' final salary. The company has closed the fund to new members and opened a defined contribution fund for new employees. The fund closed to future accrual with effect from 31 March 2011, but no curtailment gain or loss has arisen. The latest triennial actuarial valuation was undertaken by the trustees in December 2020 with the results expected by the end of June 2021.

Contributions

The total contributions paid to the fund in 2021 amounted to £nil (2019/2020: £nil).

Following the finalisation of the triennial valuation of the pension scheme as at 31 December 2017, and the subsequent MOD pension fund guarantee, the company agreed with the pension trustees that a recovery plan was no longer required and the previous pension deficit contribution plan was rescinded.

FRS 102 Section 28

A valuation of the fund as required by Section 28 of FRS 102 has been performed at 31 March 2021 by an independent qualified actuary. This actuarial valuation shows a £50.7m surplus (2019/2020: £84.4m surplus) representing the fair value of fund assets at 2021 less the net present value of the pension fund liabilities.

Guaranteed Minimum Pension (GMP) Equalisation

The past service cost charged to profit and loss in 2020/21 of £117k relates to an adjustment in respect of GMP equalisation for past transfers out of the scheme. This is broadly 4% of the original GMP equalisation impact that was recognised in 2019/20.

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

14 Pensions (continued)

The major assumptions used by the actuary were:

	2021	2020	2019
	%	%	%
Rate of increase for pensions in payment	3.65	3.35	3.65
Discount rate	1.95	1.65	2.45
Inflation assumption (RPI)	3.25	2.50	3.20
Inflation assumption (CPI)	2.55	1.60	2.20
Rate of increase for deferred pensions	2.55	1.60	3.20

Sample life expectancies are:

	2021	2020
	Years	Years
Life expectancy for a 65-year-old		
- Men	22.4	22.4
- Women	24.1	24.0
Life expectancy at age 65 for someone currently aged 45		
- Men	24.0	24.0
- Women	25.9	25.9

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

14 Pensions (continued)

The assets of the fund, their weighted average expected rate of return together with the fund's liabilities and deficit were:

	Value at 31 March 2021 £'000	Value at 25 April 2020 £'000
Index linked securities	94,074	128,013
Corporate Bonds	438,209	331,532
Property	26,793	26,846
Cash and other assets	7,322	110,452
Total market value of assets	566,398	596,843
Present value of fund liabilities	(515,744)	(512,483)
Surplus of funded Fund liabilities	50,654	84,360
Irrecoverable surplus	(50,654)	(84,360)
Surplus recognised in the balance sheet	-	-

Reconciliation of present value of fund liabilities	2021 £'000	2020 £'000
At the start of period/year	512,483	474,669
Administration costs	1,215	1,335
Interest cost	7,740	11,397
Past service cost/(credit)	117	(24)
Benefits paid	(17,064)	(20,260)
Actuarial losses*	11,253	45,366
At the end of the period/year	515,744	512,483

* Due to changes in the market assumptions over the period/year.

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

14 Pensions (continued)

Sensitivity analysis of fund liabilities to changes in the principal assumptions used	Change in assumption	Impact on fund liabilities £'000
Discount rate	Increase by 0.1%	(9,378)
Rate of CPI inflation	Increase by 0.1%	2,849
Rate of increase in pension in payment	Increase by 0.1%	6,745
Mortality	Increase life expectancy by 1 year	20,629

Reconciliation of fair value of fund assets	2021 £'000	2020 £'000
At the start of period/year	596,843	533,625
Interest income	9,017	12,826
Actual return on assets excluding amounts including in net interest	(22,398)	70,652
Benefits paid	(17,064)	(20,260)
At the end of the period/year	566,398	596,843

Analysis of amount charged to operating costs	2021 £'000	2020 £'000
Past service charge/(credit)	117	(24)
Administration costs	1,215	1,335
Net charge	1,332	1,311

Analysis of amount charged to other finance expense	2021 £'000	2020 £'000
Interest income on fund assets	(9,017)	(12,826)
Interest on pension fund liabilities	7,740	11,397
Impact of asset ceiling on net interest	1,288	1,445
Net charge	11	16

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

14 Pensions (continued)

Total amount charged to the profit and loss account (total operating charge less net interest): £1.3m (2020: charge of £1.3m).

Analysis of amounts recognised in the statement of other comprehensive income	2021 £'000	2020 £'000
Actual return less expected return on pension fund assets	(22,398)	70,652
Loss on change in assumptions	(11,253)	(45,366)
Re-measurement (loss)/gain on Fund obligations	(33,651)	25,286
Decrease/(Increase) in irrecoverable surplus not recognised	34,994	(23,959)
Net movement recognised in statement of other comprehensive income	1,343	1,327

15 Reconciliation of operating profit to net cash flow from operating activities

	Period ended 31 March 2021 £'000	52 weeks ended 25 April 2020 £'000
Operating profit	98	1,900
Depreciation	257	122
Profit from sale of fixed assets	(4)	(2)
Increase in stock	(795)	(174)
Increase in debtors	(282)	(255)
Increase/(decrease) in creditors	757	(1,417)
Increase/(decrease) in provisions	6	(223)
Difference between pension charge and cash contribution	1,332	1,311
Translation differences	97	(21)
Net cash inflow from operating activities	1,466	1,241

Notes to the financial statements for the period from 26 April 2020 to 31 March 2021 (continued)

16 Analysis of net cash

	At start of period	Cash flow	Exchange movement	At end of period
	£'000	£'000	£'000	£'000
Cash at bank and in hand:				
Deposits	23,751	(1,251)	-	22,500
Other cash	2,674	881	(97)	3,458
Total	26,425	(370)	(97)	25,958

17 Related party transactions

During the period/year, the company had the following transactions with the MOD, being the ultimate parent and controlling party of the company:

	2021		2020	
	Sales	Debtors outstanding	Sales	Debtors outstanding
	£'000	£'000	£'000	£'000
MOD	4,199	236	7,712	243

See directors' emoluments in note 6 on page 32 for payments to directors.

18 Derivative financial instruments

NAAFI's historic support cost base and supply chain were primarily denominated in Sterling, whilst most of the revenues were in Euros, necessitating repatriation. This changed during the period with the reduction of trading in Germany, where the final batch of troops relocated back to the United Kingdom. As a result, the company's reliance on Euro repatriation has significantly reduced and as such the potential impact to foreign exchange risk due to the exchange movements, between Sterling and Euros has diminished. The company will continue to further reduce this exchange rate risk, when a surplus of Euros is achieved, by entering into currency hedges if applicable.

At 31 March 2021, the company had no forward contracts in place (2020: no forward contracts).

19 Ultimate parent company and controlling party

The Directors consider that the Ministry of Defence (MOD) is the ultimate parent and controlling party of the company.

20 Dividend distribution

	2021	2020
	£'000	£'000
Distribution of welfare grants	-	750

The distribution to the MOD as per note 19, in 2020 will be repeated in April 2021 and then on an annual basis should trading allow.