

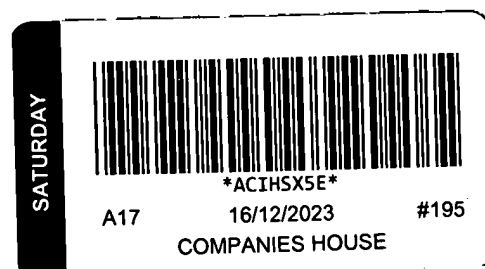
The Royal NAAFI (formerly The Navy, Army and Air Force
Institutes)

Annual report and financial statements
for the financial year ended 31 March 2023

Registered Number 00171912

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Annual report and financial statements

For the financial year ended 31st March 2023

Chair of the Royal NAAFI Board statement	3
Strategic report	4
Board of Directors	11
Service Representatives to The Royal NAAFI	12
Remuneration Committee report	13
Directors' report	14
Independent auditors' report to the members of The Royal NAAFI	16
Consolidated Profit and Loss account for the year ended 31st March 2023	19
Consolidated Statement of Comprehensive Income for the year ended 31st March 2023	19
Consolidated and Company Balance sheets as at 31st March 2023	20
Consolidated Cash Flow statement for the year ended 31st March 2022	21
Consolidated Statement of Changes in Equity for the year ended 31st March 2022	22
Statement of accounting policies	23
Notes to the financial statements for the year ended 31st March 2022	28



Chair of The Royal NAAFI Board statement

2022/23 was our first year of trading as The Royal NAAFI following the significant honour of our Royal title, bestowed by our late HM Queen Elizabeth II. This honour has made everyone in NAAFI feel very proud that our long history of serving the Armed Forces has been recognised and we are determined to ensure our high level of quality and service continues as we continue to serve His Majesty The King's Armed Forces. Throughout this report reference to NAAFI refers to The Royal NAAFI and, where relevant, its subsidiary undertaking, NAAFI UK Limited.

This was a year where we transited our business out of the COVID-19 pandemic across all our global locations, one in which NAAFI continued to adapt to meet the evolving needs of His Majesty's Armed Forces. The world is a very different place; Defence is creating a more global, enduring presence in areas not seen for decades, and this is compounded by the conflict in Ukraine which is driving significant change to NAAFI. As the Ministry of Defence's in-house provider, we have evolved to be much more than the traditional offering of Catering, Retail and Leisure services. Today, we are also a significant Soft Facilities Management service to our Armed Forces wherever they are needed. Indeed, during 2022/23 we have developed and expanded our operations in Poland and Estonia and continue to evolve our capability as an organisation. While the war in Ukraine is a tragedy for those involved, it has allowed NAAFI to showcase our speed, value for money, and agility as a priority when our Armed Forces require it, wherever they are in the world.

2022/23 was also the year when The Royal NAAFI returned to trading in the UK with the opening of our first high street coffee shops. These new facilities will provide an important link between NAAFI, the general public and providing services and support to veterans, serving communities and ensure our teams have the opportunity to work back in the UK after overseas postings. Indeed, the Prime Minister 'popped into' our first coffee shop in Catterick, in his constituency, an honour that was not expected.

Troop numbers and deployments undertaken during the year have been subject to change, however, the business has continued to adapt well, and we have been able to achieve the balance between our primary objective of 'Serving the Services' and generating surpluses. During 2022/23 we delivered £1m in welfare contributions, which were paid back to local and central Commands and the 'NAAFI Fund', as well as generating £0.3m which was paid back directly to the MOD.

The 'NAAFI Fund', launched in September 2020, continues to deliver valuable welfare grants to serving Armed Forces units and communities. The minimum ten-year commitment, to deliver at least £750k a year into our fund, continued with the third payment being made during the year. The fund will continue to award grants across the UK and overseas, supporting Armed Forces personnel and their families and other community projects. During the first three rounds (2020/21, 2021/22 & 2022/23), we delivered almost £3m in over 200 separate awards. We expect the total over the 1st decade to exceed £10m.

A triennial valuation of the NAAFI Pension Fund took place as at 31st December 2020. This showed a £17.8m surplus and that the pension fund was 103% funded on a technical basis. I am pleased to report that we have continued to support a more appropriate risk and cash generative strategy, driven by the Trustees which has enabled the fund to remain in surplus even during these most challenging of times. The next triennial valuation will be undertaken by the Trustees as at 31 December 2023 with the results expected in May 2024.

The Royal NAAFI has a clear strategy which will take us through to 2030 and is underpinned by the concept of Four Pillars: Service Quality, Value for Money, Sustainability and Giving Back. These will guide our decisions as we grow and develop as a company. The Royal NAAFI is now firmly in a period of growth as we continue to develop our capabilities and add new locations around the world.

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. It is testament to our employees that the Royal NAAFI has continued to maintain such a strong, well-regarded service underpinning good results whilst facing these challenges. With excellent future growth within the MOD as the in-house provider and on the UK high street, we look forward to a positive and prosperous future.

Lieutenant General (Retd) Richard E Nugee CB CVO CBE
Non-Executive Chair
20th June 2023

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Strategic report

The Directors present their Strategic report on The Royal NAAFI ('NAAFI') for the year ended 31st March 2023

Summary

Total turnover has increased in 2022/23 by 40.2% compared to 2021/22. 22% of the growth is due to our new trading locations of Poland and Estonia, with a further 10.7% of the growth coming from the annualisation of the new Royal Navy laundry service which commenced during 2021/22. The balance was generated across all other locations as trading returned to near pre-pandemic levels.

Our total comprehensive income showed a profit of £0.5m for the year to 31st March 2023, an increase of £0.7m from 2021/22. Cash decreased during 2022/23 by £5.6m due to a required net increase in debtors and trade creditors of £3.5m to facilitate the new trading locations of Poland and Estonia. We also returned £1.2m back to the MOD and through welfare contributions along with continuing the capital expenditure programme with a further investment of £2.3m in 2022/23. These cash outflows were offset by positive EBITDA for the year of £1.1m.

The COVID-19 pandemic lockdown protocols were removed gradually during the year across all NAAFI locations as we continued to follow the MOD and host country directives. Our management and employees ensured all necessary controls were followed, relevant to each location. We worked closely with the MOD to maintain excellent service and where possible we increased this to serve the Armed Forces communities. Throughout 2022/23, it is to the credit of our employees that we have sustained our excellent reputation and delivered quality service.

Our new long-term strategic plan was reviewed during 2022/23 and will continue to be based on four overriding principles - "Four Pillars of Strategy".

1. **Service Quality** - As the MOD's inhouse provider, we will deliver excellent service and ensure quality is at the centre of our offer.
2. **Value for Money** - We will ensure that our products and services achieve both quality and value to the MOD and our customers.
3. **Sustainability** - We will make green and sustainable considerations to every decision we make from investment to supply chain.
4. **Giving Back** - Our focus is to improve our Armed Forces lived experience by returning surpluses through investments, welfare contributions and the NAAFI Fund.

Looking forward, 2023/24 is a year where we will focus on growth in the UK, new operating locations within Defence and growing our services in our current trading locations. We will see the annualisation of the new Poland and Estonia services, with the annualised capital investment programme expected to deliver ongoing trading and customer service benefits along with the planned £4.4m capital refurbishment investment in 2023/24.

Our new internal system, 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 utilise and refine this reporting during 2023/24 using feedback from our teams. The mobile 'access anywhere' nature of this product using Office 365 ensures flexibility for all our Head Office employees to either work from the office or home. During 2023/24 we will enhance our IT capability even further by migrating our entire system to the Microsoft Cloud. This will future proof our upgrades for years to come ensuring we can provide security and service to our customers.

Company Strategy and Model

NAAFI's current business can be defined as follows:

- **Europe** - Includes:
 - Germany - where we provide a full Catering, Retail and Leisure (CRL) offer, including Soft Facilities Management Services (FMS).
 - Poland - where we provide FMS and retail services.



Strategic report (continued)

- o Estonia - where we provide FMS.
- o Gibraltar - where we provide Retail and Leisure Services
- United Kingdom – our Royal Navy service operates a wholesale and support service out of the UK and our employees provide retail, leisure, and laundry services onboard Royal Navy vessels at sea. Our UK Coffee shops provide a retail offer in the UK.
- Rest of the World – where employees serve in Brunei, the South Atlantic territories of the Falkland Islands and Ascension Island, where we provide retail and leisure offers.
- Exercise and Operational Support – we provide deployed services to operational locations and exercise support facilities management. 2022/23 was the second year in our new five-year agreement to provide Exercise support to NATO Allied Rapid Reaction Corps (ARRC.)

Trading Highlights

Key performance indicators for the period are:

	Year ended 31 st March	Year ended 31 st March	Movement %
	2023	2022	
	£'000	£'000	
Turnover	28,910	20,615	40.2
Capital spend	2,378	653	264
EBITDA	1,145	371	209
Outlet numbers at year end	76	67	13.4
Closing cash	17,773	23,395	(24)

EBITDA (earnings before interest, tax, depreciation, and amortisation) represents a profit for the financial year on trading activities of just over £1.1m. This was generated from profit in Germany £0.4m, Falkland Islands £0.3m, Poland £0.3m, Estonia £0.1m, Royal Navy £0.1m and with positive contributions in Brunei and Gibraltar. These profits were offset by the investment into the UK Coffee shops of £0.1m. (2021/22: £0.4m from: Falkland Islands £0.3m, Germany £0.2m, Exercises £0.1m, offset by losses on Royal Navy £0.2m, with minor losses across Brunei, Gibraltar, and Ascension. Poland, Estonia, and UK coffee shops were not trading in 2021/22).

The £2.3m capital spend in 2022/23 was the largest annual capital refurbishment for some time. This included £0.6m investment in two flats in Gibraltar which will be used for staff accommodation and ease the pressure on the MOD limited housing stock. Refurbishments were also undertaken during the year in UK £0.4m, Ascension £0.3m, Germany £0.3m, Gibraltar £0.2m and £0.2m on Royal Navy ships, as well as minor refurbishments in Poland, Brunei and for Exercises.

Detailed review of activities and performance

Europe

Turnover was 303.3% higher in 2022/23 when compared to 2021/22 due primarily to the new trading locations of Poland and Estonia. Germany trading recovered from the COVID-19 pandemic restrictions in 2021/22 to deliver a 17% year on year increase in turnover. Gibraltar turnover remained static year on year. We will continue to strengthen our customer relationships and contribute to the effective partnering approach with the MOD, to ensure that the business continues to perform well and that service levels continue to be maintained.



Strategic report (continued)

United Kingdom

The Royal Navy (RN) turnover was up 53.7% year on year due to the annualisation of the laundry service, which also offset the decline in sales due to fewer deployments in 2022/23 than in 2021/22 and the loss of tobacco sales. Our RN employees differentiate us from other commercial service providers, in that they are Sponsored Reserves who serve onboard RN ships, alongside RN personnel on deployment around the world and can be at sea for considerable lengths of time. During 2022/23 our RN team continued to meet the needs of a changing and expanding Royal Navy and deliver an excellent retail, leisure and laundry 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).

The first of our UK coffee shops opened in Catterick in March 2023. A further four coffee shops in Winchester, Whiteley, Scarborough, and Lancaster opened in April and May 2023.

Rest of the world

We continue to provide retail and leisure services in established locations, including the Falkland Islands, Ascension Island and Brunei. The COVID-19 restrictions implemented during the pandemic were removed during the year and resulted in an overall 13.8% year on year increase in turnover. Wholesale trading commenced during the year to Diego Garcia and there are firm plans to trade in the Middle East, Singapore, USA, and Kenya during 2023/24.

Exercise and Operational Support

The five-year contract with NATO ARRC that commenced in 2021/22 continues to build on the decade long service we have provided ARRC when they exercise. We maintain our ability to support both short- and longer-term deployments as required by the MOD to provide services to our Armed Forces when they are posted on operations anywhere in the world.

Head Office Support

During 2022/23 our Head Office relocated back to the UK, to Whiteley in Hampshire, which is geographically much closer to our customers and is now the main Head Quarters of The Royal NAAFI. The relocation has also enabled us to be closer to our suppliers, who will support our future UK growth. It is also proving valuable with the recruitment of new Head Office talent as we meet the needs of NAAFI and our customers and prepare to deliver the continuing opportunities of business expansion.

Balance Sheet

NAAFI's balance sheet shows a net asset position of £28.4m at the current period end (2021/22: net assets of £28.6m).

Fixed assets have increased during the year to £4.3m (2021/22: £2.8m). The ten-year rolling Overarching and individual location Service Level Agreements in place with the MOD since 2019/20, enable our capital expenditure programme to refurbish our establishments. This continued during 2022/23 with a further £2.3m investment, on top of the £0.7m invested in 2021/22 and the £1.9m invested in 2020/21. It is anticipated that a further £4.4m will be invested in facility refurbishments during 2023/24.

Creditors have increased to £3.5m during the year (2021/22: £2.6m) due to trading in the new locations of Poland and Estonia. Provisions for liabilities have increased during the year to £0.7m (2021/22: £0.6m) due to the requirement for employee redundancy as the remaining employees relocate back to the UK as the HQ support office in Germany closed.

Overall, we recorded a cash balance reduction of £5.6m (2021/22: £2.6m reduction), ending the period with a cash balance of £17.8m compared with £23.4m in 2021/22.

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



Strategic report (continued)

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.

Financial Risks

Pension Risk

NAAFI'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 2023, the scheme had a surplus (on an FRS 102 basis) of £60.1m (2021/22: £91.4m), 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 (2021/22: £nil). Overall, there has been a decrease in the surplus of £30.7m. This is due to the net impact of a) an increase in the discount rate, which has decreased the liabilities over the period, b) updates to the mortality assumptions, which have decreased the liability, although this has been partially offset by the adoption of new commutation factors, which have increased the liability and c) a fall in asset values in the year. As with previous years, any surplus is considered to be unrecognisable under FRS102, as such no net asset is recognised in the balance sheet.

The pension fund's most recent statutory triennial valuation was completed as at 31st December 2020, revealing a £17.8m funding surplus which resulted in 103% funding on a technical provisions basis.

Foreign Exchange Risk

Foreign exchange risk is limited to sales pricing in Germany, Brunei, and Poland. Although we are naturally hedged to some extent, we are a net generator of Euros and Brunei Dollars which 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 NAAFI 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 impacts 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.

Liquidity Risk

NAAFI has high levels of cash reserves and no liability from borrowings. The defined benefit pension funding requirements plan has been agreed with the trustees to be zero. As such the Directors consider NAAFI's exposure to liquidity risk to be low.

Credit Risk

NAAFI's revenues are primarily derived from cash and debit/credit card sales. Credit is given with credit risk mitigated by regular reviews of the aged sales ledger and pro-active follow up and collection of outstanding debts.

Price Risk

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



Strategic report (continued)

Health & Safety and Food Safety

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 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 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 accident, 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.

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.

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

Social and Environmental Responsibilities

At the heart of NAAFI's strategic intent is the welfare objective of providing services to UK Armed Forces communities and a financial welfare contribution both locally and centrally. As the MOD's in-house provider, NAAFI ensures that any profits generated are for the total benefit of our MOD stakeholders. NAAFI delivers support to UK 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 year we returned £1.6m in welfare contributions, £0.9m centrally, £0.2m locally and £0.5m to the Service branches. (2021/22: returned £1.8m in welfare contributions; £0.5m centrally, £0.6m locally and £0.7m to the Service branches).



Strategic report (continued)

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 2022/23 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 2023/24.

We undertake succession planning to ensure that the future needs of the business are considered and provided for. During 2022/23, 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 year, the actual workforce continued to increase to service the growing business. Directly employed staff numbers increased by 40 to 318 at the end of the year (2021/22: 278).

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. During 2022/23 we continued our quarterly newsletter 'Servitor Servientium', which is distributed to all employees. We also implemented annual employee surveys and reported 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.

General Data Protection Regulation 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'.

Streamlined Energy and Carbon Reporting (SECR)

NAAFI continues to have a limited presence in the UK and falls into the 'low energy user' category. However, we will review this each year as our UK footprint grows.

Environmental Policy

NAAFI remains committed to supporting the Ministry of Defence to achieve their environmental and sustainability goals. Most of our infrastructure is maintained by the MOD, and we work alongside the MOD's sustainability champions to minimise our impact. Sustainability is a core strategic pillar of NAAFI and during 2023/24 we will introduce sustainably built facilities into Singapore, Gibraltar and on operations.



Strategic report (continued)

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 11-12.

Employees

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

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. Our quarterly business conferences communicate awareness of NAAFI's performance and our quarterly newsletter, 'Servitor Servitium' provides updates to all employees. We incorporate an employee survey into our annual programme of communication which encourages all employees to feedback on every aspect of their employment, well-being 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.

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 2023 in particular, by reference to the approval of NAAFI's long-term strategic plan (2022 to 2030). This plan is designed to have a long-term beneficial impact on the company and to contribute to its success in delivering the services required by the MOD, within defined budgetary controls.

Further details as to how the Directors have had regard to the following areas are included throughout the Strategic report:

- the likely consequences of any decision in the long-term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly between members of the company.

On behalf of the Board

Steve Marshall
Chief Executive Officer
20th June 2023.



Board of Directors

Lieutenant General (Retd) Richard E Nugee CB CVO CBE

Non-Executive Chair

Joined the Board on 30th 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 recently took on an additional role as Chief Executive of The Scar Free Foundation.

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 several charitable trusts.

Richard is chair of the NAAFI Nominations Committee, a member of the NAAFI Audit Committee and attends the Remuneration Committee by invitation.

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 CBE FRAeS

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 an Inquiry Chair at the Competition and Markets Authority. Margot also serves as an independent business advisor primarily in the media and technology sectors. 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 is a member of the NAAFI Remuneration and Nomination Committees and chairs the NAAFI Audit Committee.

David Hamilton

Non-Executive Director

Joined the Board on 15th June 2022. David is a chartered accountant, who previously worked at KPMG before moving on to senior financial roles in the healthcare and retail industries. He is currently the Finance Director of BFBS, the organisation which provides TV, Radio, Cinema, Live Entertainment and Training services to the UK Armed Forces globally.

David is a member of the NAAFI Audit, Remuneration and Nomination Committees.



Service Representatives to The Royal NAAFI

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

Group Captain Dawn Murty (Nominated 1st April 2022)
Royal Air Force Representative.

Brigadier James Coote (Nominated 22nd September 2021)
Army Representative.

Commander Steve Harman (Nominated 22nd September 2021)
Royal Navy Representative.

Captain Tim Ferns RN (Nominated 22nd September 2021)
UK StratCom Representative.

To join from 2023/24
Captain Fiona Percival RN (Nominated 19th April 2023)
PJHQ Representative



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 Royal NAAFI's executives by examining external market information including benchmarking surveys.

The Committee consists of the Non-Executive Directors, excluding the Royal NAAFI Chair, and is chaired by Mr Alan Smith. The Royal 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.

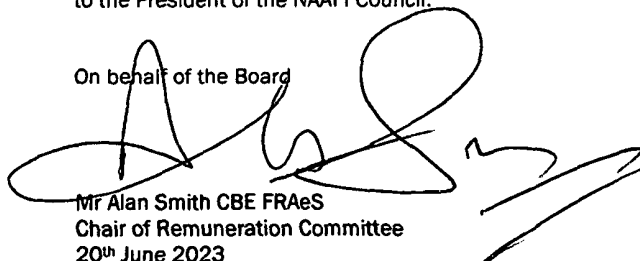
Each Executive is eligible to participate in an incentive plan which is intended to reward the achievement of pre-determined and demanding performance goals by discretionary non-pensionable cash bonuses calculated as a percentage of salary. Performance goals are set on an annual basis geared to business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

For the Executive Director, the maximum bonus payment for 2022/23 was set at 60% of annual salary and is linked directly to turnover and profit. For other members of the Executive the maximum payment was 40%, linked to similar targets. For the period 2022/23, full bonus targets and objectives were achieved by the Executive Director and other members of the Executive under the incentive plan.

The Executive Director's employment contract requires six months' notice of termination to be given by either party. The Executive Director is a member 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 Royal NAAFI Council.

Non-Executive Directors are independent of the Royal NAAFI 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 Chief Executive Officer and Royal NAAFI Chair and are reported to the President of the NAAFI Council.

On behalf of the Board



Mr Alan Smith CBE FRAeS
Chair of Remuneration Committee
20th June 2023



Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31st March 2023. This is the first year for which consolidated financial statements are presented, including the company's wholly owned subsidiary undertaking, NAAFI UK Limited. In the prior year NAAFI UK Limited was not consolidated on the grounds of materiality. The comparative figures of the consolidated financial statements include the financial results of NAAFI UK Limited for the period ended 31 March 2022.

Principal activities and future developments

The Royal NAAFI's principal activities during the year continued to be the provision of Catering, Retail, Leisure, and Soft Facilities Management Services to the UK Armed Forces in locations across the globe. The Directors expect these activities to continue for the foreseeable future. Further details are given in the Strategic report.

Results

The loss for the financial year amounted to £1,053k (2022: loss of £1,230k).

Directors

The Directors who served in the year and up to the date of approval of these financial statements are shown on page 11.

Distributions

The Directors recommended a £750k distribution to the NAAFI fund in 2022/23, which was subsequently paid across during the year. The Directors also recommend a further £750k distribution to be paid across to the NAAFI fund in 2023/24, which will be accounted for in the subsequent year's financial statements.

Financial risk management

The company's activities expose it to several financial risks including liquidity risk and foreign exchange risk. Further details of these risks and the Directors' approach to financial risk management are detailed in the Strategic report.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. 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 the 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.



Directors' report (continued)

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 Royal NAAFI's auditors in connection with preparing their report) of which the Royal NAAFI'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 Royal NAAFI's auditors are aware of that information.

Annual General Meeting

The Royal NAAFI's Annual General Meeting for 2022/23 will be held on 28th September 2023.

On behalf of the Board,

Steve Marshall
Chief Executive Officer
20th June 2023



Independent auditors' report to the members of The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)

Report on the audit of the financial statements

Opinion

In our opinion, The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)'s group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 and financial statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2023; the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and company statements of changes in equity for the year 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 group 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 group's and 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 group's and 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



Independent auditors' report to the members of The Royal NAAFI (formerly The Navy, Army and Air Force Institutes) (continued)

our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 Directors' report, 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 Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

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, 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 group's and 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 group or 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 group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and 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

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Independent auditors' report to the members of The Royal NAAFI (formerly The Navy, Army and Air Force Institutes) (continued)

in significant accounting estimates and significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

discussion 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;

testing accounting estimates that we deemed to represent 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 company 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
Leeds
20th June 2023

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Consolidated profit and loss account

for the year ended 31st March 2023

	Note	Year ended 31 March	Year ended 31 March
		2023	2022
		£'000	£'000
Turnover	1	28,910	20,617
Cost of sales		(19,195)	(12,930)
Gross profit	1	9,715	7,687
Administrative expenses	2	(10,920)	(8,972)
Operating (loss)	1	(1,205)	(1,285)
Interest receivable and similar income	3	162	66
Interest payable and similar expense	16	(10)	(11)
Loss before taxation		(1,053)	(1,230)
Taxation		-	-
Loss for the financial year		(1,053)	(1,230)

Consolidated statement of comprehensive income

for the year ended 31st March 2023

	Note	Year ended 31 March	Year ended 31 March
		2023	2022
		£'000	£'000
Loss for the financial year		(1,053)	(1,230)
Actuarial (loss)/gain relating to the pension scheme	16	(33,384)	40,867
Decrease/(increase) in irrecoverable surplus not recognised	16	34,979	(39,772)
Total comprehensive income/(expense) for the financial year		542	(135)

All amounts relate to continuing operations.



Consolidated and Company balance sheets as at 31st March 2023

		Group		Company	
	Note	31 March	31 March	31 March	31 March
		2023	2022	2023	2022
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	4,379	2,757	3,884	2,757
Intangible assets	9	30	37	-	-
Investments	10	-	-	1,000	-
		4,409	2,794	4,884	2,757
Current assets					
Stocks	11	4,042	3,584	3,956	3,555
Debtors	12	6,378	2,103	6,334	2,098
Cash at bank and in hand		17,773	23,404	17,475	23,395
		28,193	29,091	27,765	29,048
Creditors: amounts falling due within one year	13	(3,461)	(2,646)	(3,338)	(2,550)
Net current assets		24,732	26,445	24,427	26,498
Total assets less current liabilities		29,141	29,239	29,311	29,255
Provisions for liabilities	15	(701)	(591)	(701)	(591)
Net assets		28,440	28,648	28,610	28,664
Capital and reserves					
Profit and loss account		28,440	28,648	28,610	28,664
Total shareholders' funds		28,440	28,648	28,610	28,664

The Company made a loss for the financial period of £899,000 (2022: loss of £1,213,000).

The financial statements on pages 19 to 41 were approved by the Board of Directors on 20th June 2023 and were signed on its behalf by:

Lieutenant General (Retd) Richard E Nugge CB CVO CBE
Non-Executive Chair
20th June 2023

Margot Daly
Non-Executive Director
20th June 2023

Registered number 00171912

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Consolidated cash flow statement for the year ended 31st March 2023

	Note	Year ended 31 March		Year ended 31 March	
		2023	2023	2022	2022
		£'000	£'000	£'000	£'000
Net cash generated from operating activities	16		(2,799)		(1,284)
Cash flow from investing activities					
Interest received		162		66	
Purchase of tangible assets		(2,380)		(653)	
Purchase of intangible assets		-		(37)	
Net cash used in investing activities			(2,218)		(624)
Cash flow from financing activities					
NAAFI Fund distribution		(750)		(750)	
Net cash used in financing activities			(750)		(750)
Decrease in cash in the year			(5,767)		(2,658)
Cash at the beginning of the year			23,404		25,958
Translation differences			136		104
Cash at the end of the year			17,773		23,404
Cash consists of:					
Cash at bank and in hand			4,523		5,654
Short term deposits			13,250		17,750
Cash at the end of the year			17,773		23,404



Consolidated statement of changes in equity for the year ended 31st March 2023

	Profit and loss account £'000
At 31 st March 2021	29,533
Loss for the financial period	(1,230)
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,095
NAAFI Fund distribution	(750)
At 31 st March 2022	28,648
Loss for the financial period	(1,053)
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,595
NAAFI Fund distribution	(750)
At 31 st March 2023	28,440

Company statement of changes in equity for the year ended 31st March 2023

	Profit and loss account £'000
At 31 st March 2021	29,532
Loss for the financial period	(1,213)
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,095
NAAFI Fund distribution	(750)
At 31 st March 2022	28,664
Loss for the financial period	(899)
Impact of movement in irrecoverable surplus in defined benefit pension scheme	1,595
NAAFI Fund distribution	(750)
At 31 st March 2023	28,610



Statement of accounting policies

Company status

The Royal NAAFI is a private company limited by guarantee, which is incorporated and registered in England, within the United Kingdom.

Statement of compliance

The financial statements of The Royal NAAFI 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. The presentation currency is GBP.

Basis of consolidation

The financial statements consolidate the results of The Royal NAAFI (the Company) and its wholly owned subsidiary, NAAFI UK Limited, company number 10930168, on a line-by-line basis. Intra-group profits are eliminated on consolidation. This is the first year for which consolidated financial statements are presented. In the prior year NAAFI UK Limited was not consolidated on the grounds of materiality. The comparative figures of the consolidated financial statements include the financial results of NAAFI UK Limited for the period ended 31 March 2022.

The Company has taken advantage of the following exemptions:

- from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS102;
- from the requirement to present a company profit and loss account under section 408 of the Companies Act 2006.

Going concern

The Directors are content with the going concern basis despite the challenges imposed by current macroeconomic factors. The cash position of £17.8m (2022: £23.4m) provides a buffer to any significant impact on trading.

Basis of accounting

The financial statements have been made up to the last day in March.

Non-GAAP measures

NAAFI 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 NAAFI'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.



Statement of accounting policies (continued)

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

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

Tangible assets

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

The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition or the cost of any subsequent enhancement. Costs incurred in obtaining a lease are capitalised and depreciated over the lease term.

Depreciation is provided to write off the cost of tangible 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 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, excluding the purchase, 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.

Intangible assets

IT Software is amortised over its expected useful life up to 5 years.

Impairment of non-financial assets

An impairment test is carried out when there is an indication of impairment at the reporting date. 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. Impairment adjustments are recorded in the profit and loss account.

Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.



Statement of accounting policies (continued)

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 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.

Pension funding

NAAFI 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. NAAFI 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 31st March 2011, but no curtailment gain or loss has arisen.

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

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



Statement of accounting policies (continued)

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.

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.

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.

NAAFI does not generally have the need to apply hedge accounting for interest rate and future derivatives.

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

NAAFI does apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.



Statement of accounting policies (continued)

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. NAAFI 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

NAAFI 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 16 for the disclosures relating to the defined benefit pension scheme.



Notes to the financial statements for the year ended 31st March 2023

1 Turnover, gross profit and EBITDA

Segmental information by geographical area is as follows:

	Turnover		Gross profit	
	Year ended 31 March	Year ended 31 March	Year ended 31 March	Year ended 31 March
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Europe	12,704	6,010	4,189	2,619
UK	6,389	4,126	1,680	1,262
Rest of the world	9,494	9,697	3,806	3,602
Exercise and Operational support	323	784	40	204
Total	28,910	20,617	9,715	7,687

	Turnover	
	Year ended 31 March	Year ended 31 March
	2023	2022
	£'000	£'000
Sale of goods	17,194	16,153
Rendering of services	11,716	4,464
Total	28,910	20,617

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



Notes to the financial statements for the year ended 31st March 2023 (continued)

1 Turnover, gross profit and EBITDA (continued)

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Gross profit	9,715	7,687
Administration expenses (excluding depreciation and pension administration costs)	(8,570)	(7,332)
EBITDA	1,145	355
Depreciation	(764)	(556)
Pension administration costs (note 16)	(1,586)	(1,084)
Operating loss	(1,205)	(1,285)

2 Administrative expenses

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Staff costs	6,239	5,239
Other pension costs (note 16)	1,586	1,084
	7,825	6,323
Profit on the sale of tangible assets	(3)	-
Foreign exchange (gains)/ losses	(107)	(21)
Other costs	2,210	1,861
Hire charges for furnishing and equipment (including operating leases)	162	192
Depreciation of fixed assets	747	556
Auditors' remuneration - statutory audit	85	61
Total	10,920	8,972

Auditors' remuneration of £33,000 (2022: £29,000) in respect of the audit of the NAAFI Pension Fund was incurred and settled by the NAAFI Pension Fund.



Notes to the financial statements for the year ended 31st March 2023 (continued)

3 Interest receivable and similar income

	Year ended 31 March	Year ended 31 March
	2023	2022
	£'000	£'000
Income from deposits	162	66

4 Employees and Directors

	Year ended 31 March	Year ended 31 March
	2023	2022
	Number	Number
The average monthly number of persons (including Directors) employed by the company during the period was:	295	241
By activity:		
Support staff	41	21
Trading staff	254	220
	295	241
Total	295	241
	Year ended 31 March	Year ended 31 March
	2023	2022
	£'000	£'000
The aggregate payroll cost of these persons was:		
Wages and salaries	10,086	7,068
Social security costs	582	464
Other pension costs	231	100
Total	10,899	7,632

Wages and salaries include labour costs of £4.1m (2022: £2.4m), to provide the catering, cleaning and soft facilities management services element of NAAFI's business which is disclosed in cost of sales.



Notes to the financial statements for the year ended 31st March 2023 (continued)

5 Directors' emoluments

	Year ended 31 March	Year ended 31 March
	2023	2022
	£'000	£'000
Salaries and short-term benefits	438	369
Other pension costs	21	17
Total	459	386

The above amounts are in respect of one Executive and four Non-Executive Directors. (2022: one Executive and three Non-Executive Directors).

Defined benefit pension scheme contributions earned by Directors

The defined benefit pension scheme closed on 31st 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

	Year ended 31 March	Year ended 31 March
	2023	2022
	£'000	£'000
Aggregate emoluments	343	285

6 Tax on loss

The Royal NAAFI is out of scope of the UK Corporation Tax regime. There is no current or deferred tax charge for the year (2022: £nil) in respect of NAAFI UK Limited. A deferred tax asset of £29,000 has not been recognised on the grounds of uncertainty over the availability of future taxable profits.

7 Capital and financial commitments

The Group had the following future minimum lease payments under non-cancellable operating leases:

	2023			2022		
	Land and buildings £'000	Other £'000	Total £'000	Land and buildings £'000	Other £'000	Total £'000
Within one year	206	38	244	106	45	151
Between two and five years	759	3	762	517	13	530
Between five and ten years	-	-	-	644	-	644
Total	965	41	1,006	1,267	58	1,325

Land and buildings relate to the lease for the new UK headquarters in Fareham, Hampshire and new coffee shops sites in Winchester and Catterick.

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Notes to the financial statements for the year ended 31st March 2023 (continued)

8 Tangible assets

Group

	Fixtures and fittings £'000	IT equipment £'000	Motor vehicles £'000	Buildings £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 st April 2022	3,835	2,783	589	-	56	7,263
Additions	598	112	387	552	731	2,380
Transfers/reallocations	5	15	7	11	(38)	-
Disposals	(668)	(28)	(5)	-	-	(701)
At 31st March 2023	3,770	2,882	978	563	749	8,942
Accumulated depreciation						
At 1 st April 2022	1,688	2,422	396	-	-	4,506
Charge during the period	504	108	135	10	-	757
On disposals	(667)	(28)	(5)	-	-	(701)
At 31st March 2023	1,525	2,502	526	10	-	4,563
Net book value						
At 31 st March 2023	2,245	380	452	553	749	4,379
At 31 st March 2022	2,147	361	193	-	56	2,757

Company

	Fixtures and fittings £'000	IT equipment £'000	Motor vehicles £'000	Buildings £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 st April 2022	3,835	2,783	589	-	56	7,263
Additions	385	67	357	552	514	1,875
Transfers/reallocations	5	15	7	11	(38)	-
Disposals	(668)	(28)	(5)	-	-	(701)
At 31st March 2023	3,557	2,837	948	563	532	8,437
Accumulated depreciation						
At 1 st April 2022	1,688	2,422	396	-	-	4,506
Charge during the period	500	102	134	10	-	746
On disposals	(668)	(28)	(5)	-	-	(701)
At 31st March 2022	1,520	2,496	525	10	-	4,551
Net book value						
At 31 st March 2023	2,037	341	423	553	532	3,886
At 31 st March 2022	2,147	361	193	-	56	2,757

The Royal NAAFI (formerly The Navy, Army and Air Force Institutes)



Notes to the financial statements for the year ended 31st March 2023 (continued)

9 Intangible assets

Group	IT Software £'000	Total £'000
Cost		
At 31 March 2022	37	37
Additions	-	-
At 31 March 2023	37	37
Accumulated amortisation		
At 31 March 2022	-	-
Provided during the year	7	7
At 31 March 2023	7	7
Net book amount		
At 31 March 2023	30	30
At 31 March 2022	37	37

The Company holds no intangible assets.

10 Investments

Company	Proportion of ownership	
	2023	2022
	%	%
NAAFI UK Limited	100	100

Investment in NAAFI UK Limited consists of 1,000,001 allotted, called up and paid £1 Ordinary share capital (2022: dormant company. £1 allotted, called up not paid share capital).

NAAFI UK's principal activity is the sale of general merchandise and its registered office is at Forum 5, Solent Business Park Parkway, Whiteley, Fareham, England, PO15 7PA.



Notes to the financial statements for the year ended 31st March 2023 (continued)

11 Stocks

	Group		Company	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Good for resale	4,042	3,584	3,956	3,556
Total	4,042	3,584	3,956	3,556

The value of inventories recognised as an expense in the period was £9.1m (2022: £9.1m). The Company recognised a charge of £45k (2022: charge of £123k) in respect of provisions for impairment.

12 Debtors: amounts falling due within one year

	Group		Company	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Trade debtors	5,251	1,328	5,246	1,253
Other debtors	141	70	99	70
Amounts due from subsidiary undertaking	-	-	36	75
Prepayments and accrued income	986	700	953	700
Total	6,378	2,098	6,334	2,098

Trade debtors are stated after provisions for impairment of £8k (2022: £2k).

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

13 Creditors: amounts falling due within one year

	Group		Company	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Trade creditors	615	859	643	772
Other creditors	2989	78	299	78
Taxation and social security	101	84	101	84
Accruals	2,446	1,625	2,295	1,616
Total	3,461	2,646	3,338	2,550



Notes to the financial statements for the year ended 31st March 2023 (continued)

14 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 last few years with the reduction of trading in Germany, when troops relocated back to the United Kingdom. As a result, NAAFI'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. NAAFI will continue to further reduce this exchange rate risk, when a surplus of Euros is achieved, by entering into currency hedges if applicable.

At 31st March 2023, NAAFI had no forward contracts in place (2022: no forward contracts).

15 Provisions for liabilities

The Group had the following provisions during the year:

	Restructuring provision £'000	Other £'000	Total £'000
At 1 st April 2022	246	345	591
Charged / (released) to profit and loss account	(70)	180	110
At 31 st March 2023	176	525	701

Restructuring

The provision comprises employee termination liabilities.

Other

Included in other provisions are the 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 (2022: £100k).

£15k is held for office and accommodation dilapidation costs in Germany, which will materialise upon their return to the authority (2022: £15k).

£10k is held for vehicles which will materialise at the end of their operating leases (2022: £10k).

£220k is held for liabilities arising from past operations (2022: £220k).

£180k is held for liabilities arising from the removal of Gaming Machines from the Germany and Falklands estate (2022: £nil).



Notes to the financial statements for the year ended 31st March 2023 (continued)

16 Pensions

Defined contribution pension scheme

NAAFI contributed £0.2m (2022: £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'. 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.

Defined benefit pension fund

NAAFI 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. NAAFI closed the fund to new members and opened a defined contribution fund for new employees in 2011. The fund closed to future accrual with effect from 31st March 2011, but no curtailment gain or loss has arisen.

The latest triennial actuarial valuation was undertaken at 31st December 2020 which revealed a funding surplus on a technical provisions' basis of £17.8m.

Contributions

The total contributions paid to the fund in 2023 amounted to £nil (2022: £nil).

Following the finalisation of the triennial valuation of the pension scheme as at 31st December 2020 and the previous MOD pension fund guarantee, NAAFI agreed a zero contributions plan with the pension trustees as the fund is in a technical provisions surplus.

FRS 102 Section 28

A valuation of the fund as required by Section 28 of FRS 102 has been performed at 31st March 2023 by an independent qualified actuary. This actuarial valuation shows a £60.1m surplus (2021/22: £91.4m surplus) representing the fair value of fund assets at 2023 less the net present value of the pension fund liabilities.

Guaranteed Minimum Pension (GMP) Equalisation

There have been no changes to the past service cost which was charged to profit and loss in 2020/21 of £117k which related to an adjustment in respect of GMP equalisation for past transfers out of the scheme. This was broadly 4% of the original GMP equalisation impact that was recognised in 2019/20.

The major assumptions used by the actuary were:

	2023	2022	2021
	%	%	%
Rate of increase for pensions in payment	3.65	3.85	3.65
Discount rate	4.75	2.70	1.95
Inflation assumption (RPI)	3.20	3.65	3.25
Inflation assumption (CPI)	2.55	3.00	2.55
Rate of increase for deferred pensions	2.55	3.00	2.55



Notes to the financial statements for the year ended 31st March 2023 (continued)

16 Pensions (continued)

Sample life expectancies are:

	2023	2022
	Years	Years
Life expectancy for a 65-year-old		
Men	21.0	21.3
Women	23.6	23.8
Life expectancy at age 65 for someone currently aged 45		
Men	22.6	22.9
Women	25.3	25.5

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 2023 £'000	Value at 31 March 2022 £'000
Index linked securities	139,505	90,017
Corporate Bonds	223,260	390,925
Property	22,174	29,014
Cash and other assets	8,146	30,173
Total market value of assets	393,085	540,129
Present value of fund liabilities	(332,949)	(448,715)
Surplus of fund assets over fund liabilities	60,136	91,414
Irrecoverable surplus	(60,136)	(91,414)
Surplus recognised in the balance sheet	-	-



Notes to the financial statements for the year ended 31st March 2023 (continued)

16 Pensions (continued)

Reconciliation of present value of fund liabilities	2023	2022
	£'000	£'000
At the start of year	447,515	515,744
Administration costs	1,586	1,084
Interest cost	11,847	9,880
Past service cost	-	-
Benefits paid	(19,617)	(18,722)
Actuarial gains*	(108,382)	(59,271)
At the end of the year	332,949	448,715

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

Sensitivity analysis of fund liabilities to changes in the principal assumptions used	Change in assumption	Actuarial value of liabilities on 31/03/2023 £'000
Discount rate	Increase by 0.5%	312,604
Rate of CPI inflation	Increase by 0.5%	335,016
Rate of increase in pension in payment	Increase by 0.5%	350,468
Mortality	Increase life expectancy by 1 year	347,304

Reconciliation of fair value of fund assets	2023	2022
	£'000	£'000
At the start of year	540,130	566,398
Interest Income	14,338	10,857
Actual return on assets excluding amounts including in net interest	(141,766)	(18,404)
Benefits paid	(19,617)	(18,722)
At the end of the year	393,085	540,129

Notes to the financial statements for the year ended 31st March 2023 (continued)

16 Pensions (continued)

Analysis of amount charged to operating costs	2023	2022
	£'000	£'000
Past service charge	-	-
Administration costs	1,586	1,084
Net charge	1,586	1,084

Analysis of amount charged to other finance expense	2023	2022
	£'000	£'000
Interest income of fund assets	(14,338)	(10,857)
Interest on pension fund liabilities	11,847	9,880
Impact of asset ceiling on net interest	2,501	988
Net charge	10	11

Total amount charged to the profit and loss account (total operating charge less net interest): £1.6m (2022: charge of £1.1m).

Analysis of amounts recognised in the statement of other comprehensive income	2023	2022
	£'000	£'000
Actual return less expected return on pension fund assets	(141,766)	(18,404)
Gain on change in assumptions	108,382	59,271
Re-measurement (loss)/gain on fund obligations	(33,384)	40,867
Decrease/(increase) in irrecoverable surplus not recognised	34,979	(39,772)
Actuarial gains recognised in statement of other comprehensive income	1,595	1,095



Notes to the financial statements for the year ended 31st March 2023 (continued)

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

	Value at 31 March 2022 £'000	Value at 31 March 2022 £'000
Operating loss	(1,205)	(1,285)
Depreciation	764	556
Increase in stocks	(458)	(392)
Increase in debtors	(4,275)	(826)
Increase/(decrease) in creditors	815	(576)
Increase in provisions	110	259
Difference between pension charge and cash contribution	1,586	1,084
Translation differences	(136)	(104)
Net cash outflow from operating activities	(2,799)	(1,284)

18 Analysis of net cash

	At start of year £'000	Cash flow £'000	At end of year £'000
Cash at bank and in hand:			
Deposits	17,750	(4,500)	13,250
Other cash	5,654	(1,131)	4,523
Total	23,404	(5,631)	17,773



Notes to the financial statements for the year ended 31st March 2023 (continued)

19 Related party transactions

During the period/year, NAAFI had the following transactions with the MOD, being the ultimate parent and controlling party of the company and with NAAFI UK Limited, its wholly owned subsidiary:

	2023		2022	
	Sales	Debtors outstanding	Sales	Debtors outstanding
	£'000	£'000	£'000	£'000
MOD	11,716	4,916	4,464	859
NAAFI UK Limited	-	35	165	75

See Directors' emoluments in note 5 on page 30 for payments to Directors.

20 Ultimate parent company and controlling party

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

21 Subsequent events

Subsequent to the year end the company agreed to subscribe, in cash, for a further 1,000,000 £1 Ordinary shares in the share capital of its subsidiary undertaking, NAAFI UK Limited during 2023/24.