

WAL★MART 2000 Annual Report



Banner Year for International Expansion

Management

Q&A:

Domestic
Operations
Drive Earnings
Growth



Retailer
of the
Century

TABLE OF CONTENTS

On the Cover:

The flags of the United States, Mexico and Germany show just a few of the places where Everyday Low Prices can now be found.

2. Question & Answer Session

Wal-Mart leaders discuss the year's events and answer the questions every shareholder wants to ask.

4. Clear Vision, Through Glass

David Glass shares his view of the positive role of change.

5. Where the Elite Meet

Introducing a new era of value at SAM'S Club.

6. Wal-Mart's World

Wal-Mart's global presence shown in store counts by state and nation.

7. Welcome, Wal-Mart "Clickers"

Wal-Mart.com shifts into cyber-speed.

8. Friendly in Any Language

The acquisition of ASDA in the United Kingdom is only a sampling of fiscal year 2000's international flavors.

12. Celebration of the Century

Discount Store News bestows a once-in-a-lifetime honor upon the Wal-Mart culture.

14. Sam's Best Friend

It all started with a dog named "Ol' Roy." Today, the namesake dog food leads a pack of private-label brands at Wal-Mart.

16. The Gift is in the Giving

Community involvement and charitable giving set an all-time record.

11-Year Summary
Management's Discussion & Analysis
Financial Statements
Corporate Information



2000



DIRECTORS:

John A. Cooper, Jr
Stephen Friedman
Stanley C. Gault
David D. Glass
Roland Hernandez
Dr. Frederick S. Humphries
E. Stanley Kroenke
Elizabeth A. Sanders
H. Lee Scott
Jack C. Shewmaker
Donald G. Soderquist
Dr. Paula Stern
Jose Villarreal
John T. Walton
S. Robson Walton

OFFICERS:

S. Robson Walton
Chairman of the Board

H. Lee Scott
President & CEO

David D. Glass
Chairman, Executive Committee of the Board

Donald G. Soderquist
Senior Vice Chairman

Paul R. Carter
Executive Vice President &
President, Wal-Mart Realty

Bob Connolly
Executive Vice President, Merchandise

Thomas M. Coughlin
Executive Vice President &
President & CEO, Wal-Mart Stores Division

David Dible
Executive Vice President, Specialty Division

Michael Duke
Executive Vice President, Logistics

Thomas Grimm
Executive Vice President &
President & CEO, SAM'S Club

Don Harris
Executive Vice President, Operations

John B. Menzer
Executive Vice President &
President & CEO, International Division

Coleman Peterson
Executive Vice President, People Division

Thomas M. Schoewe
Executive Vice President & Chief Financial Officer

Robert K. Rhoads
Senior Vice President, General Counsel & Secretary

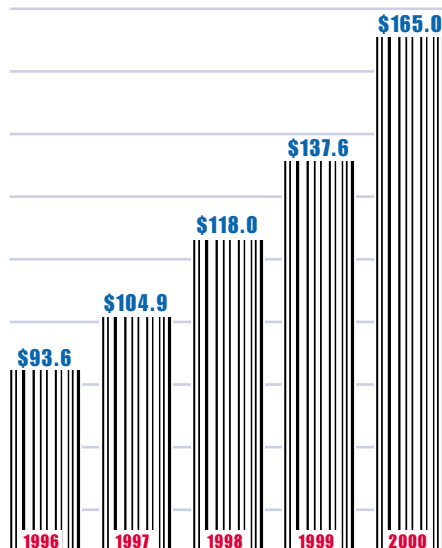
J. J. Fitzsimmons
Senior Vice President, Finance & Treasurer

WAL★MART

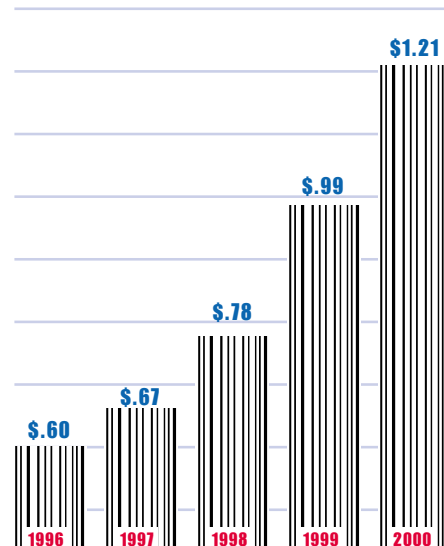
ANNUAL REPORT 2000

FINANCIAL HIGHLIGHTS

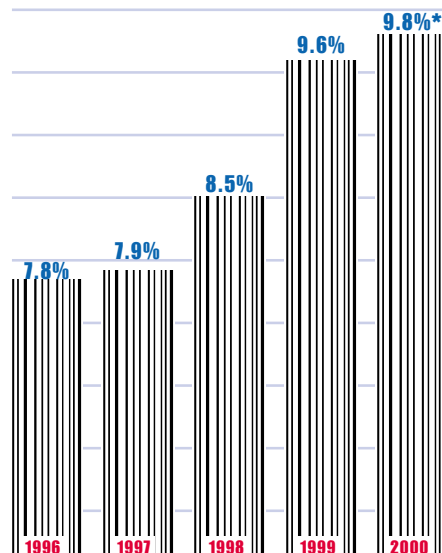
Net Sales



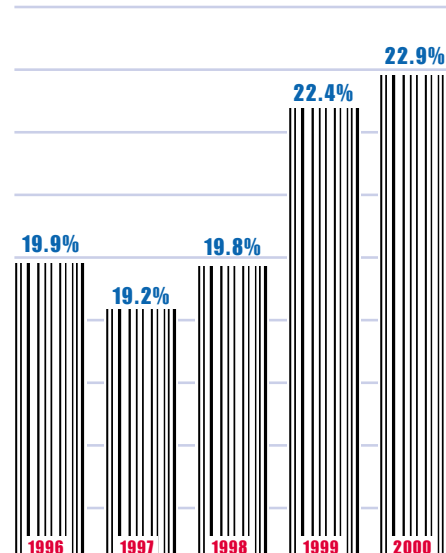
Earnings Per Share



Return On Assets



Return On Shareholders' Equity



*Reflects ASDA acquisition activities and excludes one-time litigation charge.



Q&A.

Wal-Mart Management Answers the Most Frequently Asked Shareholder Questions



Q Wal-Mart is the largest retailer in the world, with sales of \$165 billion last year. With that in mind, how will you continue to grow sales and profits into the future? Where will the growth come from?

WALTON: Over the next five years, 60 to 70 percent of our growth in sales and earnings will come from the domestic markets with our Wal-Mart stores and Supercenters, and another 10–15 percent from SAM'S Club and McLane. The remaining 20 percent of the growth will come from our planned growth in the international markets. This means we have a great opportunity to drive our growth doing the things that we do best today in the U.S. market.

Q Wal-Mart stock has been down since the beginning of the calendar year. Considering the tremendous growth in sales and earnings last year, what has created this pressure on the stock?

SODERQUIST: Our sales and earnings were up significantly this last year, but the market reacts to many macro-economic pressures, and our stock, along with that of other retailers and fellow members in the "Dow 30," is susceptible to those movements. Fortunately, if we continue to perform, we believe that the stock price ultimately will track our performance. Over the last three calendar years, Wal-Mart stock has appreciated 70, 106 and then 73 percent. This was clearly an exceptional period of stock growth and we commented in each of those years that it was probably not

sustainable. However, our objective is to deliver consistent earnings growth that allows the value of our Company to continue to grow over time.

Q David, you recently announced you were stepping down as CEO to become Chairman of the Executive Committee. After such a great year, and with great prospects for the future, why would you choose to make this move now?

GLASS: First, let me remind everyone that I'm not going anywhere; I'll be around to give everyone more help than they probably would like! Seriously, one of the greatest responsibilities of leadership is to ensure the ongoing success of an organization, and I believe that my primary duty to my fellow Associates and shareholders is to place this Company's future in the hands of the best possible leaders. In any relay race there are times when teammates run in tandem, and somewhere in that period the baton is passed. We have been working together for some time and this point appeared right to me to hand the baton to the next group of leaders and then run beside them for a while.

Q What is Lee Scott's background and why does the Company believe that he is the one to lead the Company into this new millennium?

GLASS: I first met Lee over 20 years ago when he was working for a trucking firm that serviced Wal-Mart, and

he impressed me so much that we hired him to run our truck fleet. Lee established himself as such a tremendous leader and innovator in our logistics areas that we asked him to lead our merchandising efforts for the entire buying organization. Over the last four years he has served as President and CEO of the Wal-Mart Division, and most recently, as COO and Vice Chairman of the Company, where he led all of our retail operations worldwide. The one characteristic that may best equip him as a leader is his willingness and desire to surround himself with passionate and talented people that complement each others' skills.

Q The International Division is continuing to be a growing piece of the business. What are the prospects for that division, and where are the challenges of the future?

SCOTT: The most pleasing news is that the Wal-Mart culture transcends international boundaries. Customers all over the world want and appreciate value, service and broad merchandise assortments. In less than 10 years, the International Division has grown to over 1,000 stores and should exceed \$30 billion in sales this year. The exciting thing about this division is that it is still in its infancy. We are serving customers in nine markets, but there is so much more opportunity worldwide. In fiscal year 2000, we were very pleased with the acquisition of ASDA, which gave us a major presence in the U.K.; the level of operating performance we experienced in Canada; and also

LEE SCOTT



DAVID GLASS



ROB WALTON



improvements we saw in Mexico. We still have a tremendous amount of work to do in some of our new and emerging markets, but the lessons will make us better able to serve our customers in the future.

Q Until Wal-Mart purchased ASDA, you indicated that the U.K. was not a key priority. What changed your mind, and why did you make this particular acquisition?

WALTON: ASDA was a business we had watched and admired for years. They had a great management team, a similar culture, and their philosophy on retailing was almost identical to ours. We didn't have any immediate plans to go to the U.K., but another company offered to buy ASDA in early spring. They were our logical entry point into the U.K. and we could accomplish the transaction at a price which would produce fair returns to our shareholders. Therefore, we decided it was time for us to go ahead and step into the market.

Q Is there an update on the status of the Neighborhood Markets?

SODERQUIST: We ended the year with seven Neighborhood Market stores and we plan to add five to 10 more throughout this year. We believe this complements the existing Supercenter strategy and offers extra convenience. The smaller format also gives us the flexibility to serve markets where we may not have a Supercenter due to demographic or real estate con-

straints. As with anything we do, customers will ultimately decide if this model serves their needs.

Q Why did you put Wal-Mart.com into a separate company?

SCOTT: Our opportunity to grow the online business will be improved by creating this separate company. Wal-Mart.com will be located in California, allowing us to attract the best possible Internet and technology

Over the next five years, 60 to 70 percent of our growth in sales and earnings will come from our Wal-Mart stores and Supercenters in the domestic markets.

talent to lead this effort. Under the "dotcom" business, we are establishing a dynamic team that uses the strength of the Wal-Mart brand, new technologies, our existing store base and current logistics to create a compelling shopping experience for online customers.

Q The U.S. has enjoyed one of the longest periods of economic expansion in history. How will Wal-Mart be affected if the economic environment becomes more difficult?

GLASS: Although there are no current signs the economy is slowing, a correction at some point in the future is possible. Historically, we have prospered during such periods, as our customers become more value conscious. Also, we now have a larger food and pharmacy component to our business,

which will result in less volatility in slower economic environments.

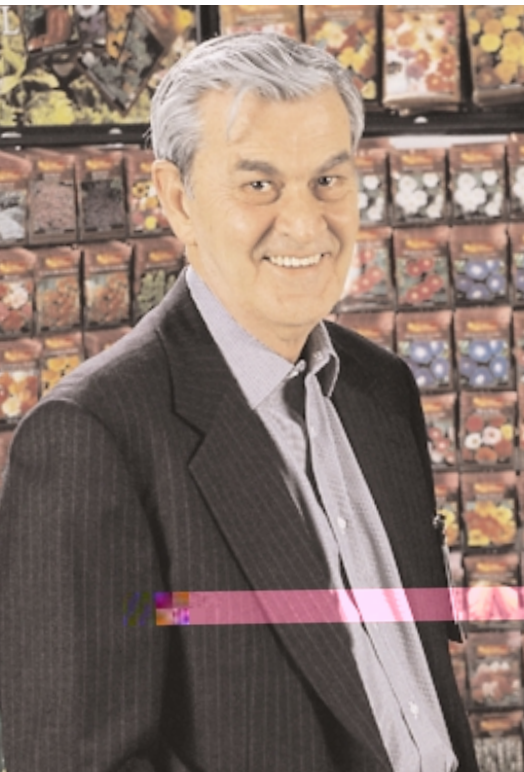
Q Why doesn't Wal-Mart pay more in dividends to the shareholders?

WALTON: Although we are not necessarily a dividend company, we have increased our dividend every year since 1974, and returned to shareholders over \$1 billion in Company profits this year. We believe it's important to pay a dividend, but we also think it's prudent and beneficial for the Company to reinvest its cash and earnings back into its growth. We have tremendous opportunities to serve new markets with our Stores and Clubs, and new growth allows us to support the valuation of our Company.

Q SAM'S Club experienced good results this last year. How can you continue to address the changing marketplace and remain an industry leader in the warehouse-club business?

SCOTT: SAM'S Club did have a good year, with same store sales increases of 6.7% and operating profits of \$759 million. But we think we can do even better with the warehouse-club business.

We believe we must continue to create excitement at the Clubs through item merchandising, and by providing such great savings and value to people that they want to become members and return frequently to shop. Our new Elite card provides SAM'S Club customers unmatched buying power in non-traditional service areas, and takes our membership services to a new level. ★



“NEVER RESIST CHANGE”

by *David Glass*

Simply put, we have a better management group today in this Company than we’ve ever had. The managers have momentum, size, resources, experience and good people on their side, and that’s exciting.

I could have changed roles later and left soon afterward, but I felt it was time to start the succession process. Actually, I’m not really going anywhere. In fact, I’ll be around to help everyone out for just about as long as they can stand to be helped.

In making changes like this, I can’t help but reflect on the years that have transpired. When I came to Wal-Mart we had just finished a year of \$340 million in sales and \$12 million in profit. Today, that’s roughly the output of a few SAM’S Clubs, but we were working very hard then to build the Company. Back then, our competitors were both bigger and better than we were. We had to catch up, change, improve and innovate or they would simply run us out of business. Sam led this charge.

By the late 1970s, everyone speculated that we couldn’t compete with the big discounters. No one took us seriously, but we worked very hard to improve. Luckily, there was little resistance to change in the Company then and there’s very little today. We studied our competitors and our strategy, and before long, we were better than the competition.

The idea we were driving in the Company was “continuous improvement.” These two words describe what this Company is all about, and

they’ve provided our principal focus since we opened our first store in 1962. It took us until 1980 to reach \$1 billion in sales. Only 16 years later, we hit *\$100 billion* in sales. That’s how fast this Company has grown.

In 1982, the investment community said we would soon run out of growth opportunities and needed an alternate growth strategy. We were studying the club concept at the time, and soon that alternate growth strategy became SAM’S Club.

Over time, we developed some of the best innovations of the wholesale-club business, including extensive apparel and frozen-food lines. But in order to compete effectively, we also had to improve continuously. No one was talking about simply managing the existing business; we wanted to keep improving so that we would be better than the competition.

When we launched the Supercenter concept, everyone said it wouldn’t work because we didn’t know anything about food. And indeed, our first Supercenter in Washington, Missouri, wasn’t as sharp as the competition when it came to food. But we learned from our competitors and made continuous improvement within the Company.

Today, as the Company faces new challenges and opportunities, the worst thing we can do is to let ourselves think we have “arrived”; for if we do, we’ll let our customers and members down. We have to be able to place a store or club side-by-side with the competition and beat them every time. That takes continuous improvement.

I say all of this just to make this point: If we’re going to reach new heights at Wal-Mart, we cannot resist change, and we must dedicate ourselves to the continuous improvement of this Company. Always. ★

David Glass Shows the Way for a New Generation of Leaders

In the entire history of Wal-Mart, we have had only three CEOs including the newly-appointed CEO, Lee Scott. Sam Walton, the Company’s founder, served as CEO until 1988 when David Glass assumed the position. During the 12 years that David held the position, sales grew from \$16 billion to \$165 billion.

In this speech to the SAM’S Club Associates at the year-beginning meeting, David recounts his memories.

This year, I decided to change my role with the Company. I’ve been with Wal-Mart since the mid 1970s and I’ve seen a great deal of change along the way. One of my principal responsibilities as CEO has been to build the next generation of management so this Company can rise to the next level of success. And that’s exactly what is happening.

Lee Scott, our new President and CEO, will take this Company to that next level, along with other talented leaders like Tom Grimm at SAM’S Club, Tom Coughlin at the Wal-Mart Division and John Menzer internationally. And the same goes for our leaders at all levels of the Company.

ELITE VALUE

New Features Drive Membership and Shareholder Value

SAM'S Club is moving into the new century with a heightened sense of purpose. That purpose is to attract and retain members with an exciting focus on new values that will build a partnership with the member.

Among the new values are delicious meat and bakery items, exciting merchandise and a new design program for many existing clubs. But, perhaps the most exciting member benefit is the new premium value package called the Elite Membership.

The Elite package offers a valuable, convenient array of benefits for SAM'S Club members — even beyond the reliable perks of the standard Advantage and Business memberships which are currently enjoyed by more than 38 million card members.

This new service features other advantages such as emergency roadside assistance, discounted business insurance, Internet and long-distance service, auto

brokerage, coupon books, member checks and a pharmacy card. Also included in the list of Elite services is a special membership rate with Telebank where members can benefit from excellent rates on certificates of deposit, money-market and interest-bearing checking accounts. And, it provides this amazing average value of over \$1,700 to the member for an annual membership fee of only \$100.

“The SAM'S Club card has become the most valuable card in our mem-

































































ber's wallets — especially with the new Elite benefits,” says Tom Grimm, President and Chief Executive Officer of SAM'S Club. “Our members trust SAM'S Club to negotiate the very best benefits and services available, just as they count on us for top-quality merchandise at the very best prices,” Grimm says. “And we're not going to let them down.”

The ultimate benefit of this strategy is that in driving value to the club's members, the Company also drives value to its shareholders. “We believe that if we can attract and retain members with services and benefits like these, we will not only drive our sales, but we will drive the value all the way to our shareholders,” Grimm says. ★



Fiscal 2000 End-of-Year Store Count

											
State	Discount Stores	Supercenters	SAM'S Clubs	State	Discount Stores	Supercenters	SAM'S Clubs	State	Discount Stores	Supercenters	SAM'S Clubs
 Alabama	43	38	8	 Minnesota	35	1	9	 Vermont	4	0	0
 Alaska	4	0	3	 Mississippi	34	25	4	 Virginia	26	37	10
 Arizona	31	5	9	 Missouri	69	43	12	 Washington	24	0	2
 Arkansas	44	33	4	 Montana	9	0	1	 West Virginia	8	18	3
 California	113	0	25	 Nebraska	13	6	3	 Wisconsin	54	4	11
 Colorado	23	16	12	 Nevada	13	0	2	 Wyoming	9	0	2
 Connecticut	14	0	3	 New Hampshire	18	3	4	US Total	1801	721	463
 Delaware	3	1	1	 New Jersey	22	0	6				
 Florida	89	50	35	 New Mexico	9	13	3	Country			
 Georgia	59	35	16	 New York	52	9	18	 Argentina	0	10	3
 Hawaii	5	0	1	 North Carolina	66	26	16	 Brazil	0	9	5
 Idaho	9	0	1	 North Dakota	8	0	2	 Canada	166	0	0
 Illinois	85	22	26	 Ohio	75	11	24	 China	0	5	1
 Indiana	56	24	14	 Oklahoma	52	27	6	 Germany	0	95	0
 Iowa	36	11	7	 Oregon	24	0	0	 Korea	0	5	0
 Kansas	37	11	5	 Pennsylvania	49	27	18	 Mexico	397*	27	34
 Kentucky	39	33	5	 Rhode Island	7	0	1	 Puerto Rico	9	0	6
 Louisiana	48	29	10	 South Carolina	32	25	9	 United Kingdom	0	232	0
 Maine	17	3	3	 South Dakota	8	0	2	INT'L Total	572	383	49
 Maryland	25	1	11	 Tennessee	49	38	14	Worldwide			
 Massachusetts	32	1	3	 Texas	154	94	53	Grand Total	2373	1104	512
 Michigan	52	1	21	 Utah	14	0	5				

* Includes: 36 Aurreras, 68 Bodegas, 51 Suburbias, 38 Superamas, and 204 Vips.

Wal-Mart.com

Joint-Venture Opens New Frontier for Shareholders

Wal-Mart fast-forwarded its online retailing plans recently by forming a promising new partnership with the respected Internet venture-capital firm, Accel Partners.

The new venture, Wal-Mart.com Inc., is expected to benefit Wal-Mart shareholders by further accelerating development of the Company's online retailing model — a model that provides opportunities for even greater sales growth, future profits and shareholder value.

Wal-Mart moved into the Internet in 1996 with the introduction of Wal-Mart On-line, then relaunched the site on January 1, 2000. The original Internet business model was designed and operated in-house at the Company's Bentonville, Ark., headquarters, but the new Wal-Mart.com will be based in Palo Alto, Calif., in the middle of Silicon Valley's vast information and technology talent pool.

Ultimately, Wal-Mart.com might choose to go public. But even if there is a public offering, Wal-Mart Stores will retain a majority ownership of the new venture, ensuring that the "online store" builds on the Wal-Mart brand and takes full advantage of the traditional "bricks-and-mortar" stores. Since Wal-Mart Stores, Inc. is the majority shareholder, the results from the Internet business will be consolidated into Wal-Mart's financials, so Wal-Mart shareholders

will benefit from any increased sales and profits that result from Internet business.

Wal-Mart.com will even have a separate management team and board of directors. Board members will include Wal-Mart Chairman Rob Walton; Wal-Mart President and CEO Lee Scott; new Wal-Mart.com CEO Jeanne Jackson and Accel Managing Partner James Breyer.

"This puts Wal-Mart.com right where it needs to be and should allow us to further develop our e-commerce business at both Wal-Mart and Internet speed," Scott says. "Our focus is to grow our market through the Internet — not just cannibalize the existing Wal-Mart customer base."

Scott says Wal-Mart's new online model approaches the Internet as a fresh new market with totally different retailing rules — much like a foreign country. The formation of this new company offers advantages in recruiting Internet talent; eliminates disadvantages that impact Wal-Mart customers; and levels the Internet playing field.

Fortunately, the new company was able to attract a top retail management talent in Jeanne Jackson, who is the former CEO of a leading specialty retailer and also directed that retailer's efforts in catalog and Internet business. In her 22-year career,

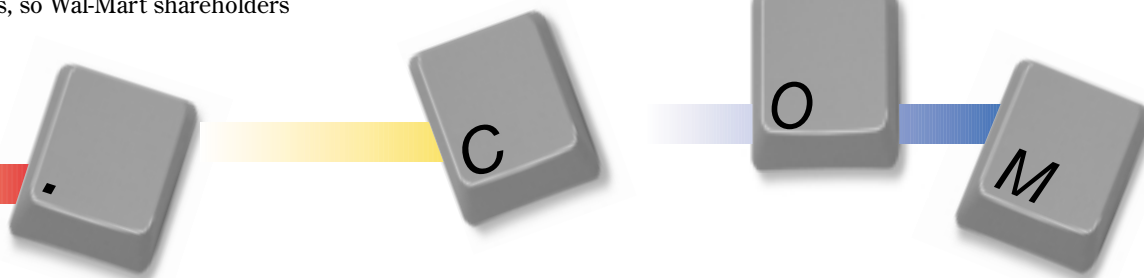
Jackson has acquired expertise in retail brands while working for several top-name firms. She was even named by *Fortune* as one of the "50 Most Powerful Women" in U.S. business, and by *Business Week* as one of the nation's top 25 business managers. Jeanne's experience gives the Company a great start on building an even stronger presence on the Internet and attracting new customers to the Wal-Mart brand.



**Jeanne Jackson,
Wal-Mart.com CEO**

Wall Street's reaction to the new dot-com venture has been overwhelmingly positive. Merrill Lynch called the new partnership "a smart move for Wal-Mart" and other analysts congratulated the Company for harnessing the power of the technology market to develop Wal-Mart's online retailing program into a world leader.

Accel, the first venture-capital firm to invest in the Internet, gained widespread acclaim for backing UUnet, which grew into one of the world's largest Internet service providers and a unit of MCI WorldCom. Accel also backed RealNetworks, the online audio/video company. ★



A Banner Year For WAL★MART International



ASDA Purchase Leads Way for Wal-Mart's International Expansion

Call it a merger of old chums. A pair of natural allies joined ranks last summer when Wal-Mart acquired the British supermarket chain ASDA, its largest acquisition to date and continued to build a strong base for future store operations in Europe and other international markets.

With its own price rollbacks, people greeters, “permanently low prices forever” and even “Smiley” faces, ASDA has cheerfully imitated Wal-Mart’s store culture for many years. ASDA, based in Leeds, England, was purchased for 6.7 billion pounds — or about \$10.8 billion — adding 232 stores in England, Scotland and Wales to Wal-Mart’s rapidly growing international operations. It’s a match made in heaven for Wal-Mart shareholders and the customers of both stores, leading *Mergers & Acquisitions* magazine to name the transaction Cross-Border Deal of the Year for 1999.

“The businesses are so similar that it’s almost spooky,” says Allan Leighton, Chief Executive Officer of ASDA and President of Wal-Mart’s operations in the United Kingdom. “The integration has been fantastic. Our people can come over to the states, or the U.S. Associates can come over to the U.K. and it feels like home. It’s all in the culture.”

Apt Pupils

“We have been students of Wal-Mart,” Leighton says, “but until recently the only things we could do were to read about the Company and see things from

the outside. Now, it’s a bit like having the key to the chocolate factory. Before, we had to look in the window at the goods. Now we can go in and have a look around the shop, and we’re taking the opportunity to reinvent our business.”

One reason for ASDA’s similarity to Wal-Mart — and for its offbeat reputation among British retailers — is its policy of “borrowing shamelessly” ideas and concepts from other companies. From one company, ASDA borrowed the concept of treating employees as treasured “Colleagues” — much like Wal-Mart’s “Associates.”

“To a large degree ASDA is based on Wal-Mart,” says Leighton, who joined ASDA in 1992 and became the company’s CEO in 1996. “We always wanted to have everyday low prices because we felt we had the sort of economics to do it. But at the same time we wanted to inject some personality into the stores. We started borrowing from Wal-Mart with very simple things. We saw the greeter idea, rollbacks and the VPI (volume-producing item) idea and we took them back to the stores.”

Maverick Brits

ASDA marches slightly out of step with other United Kingdom retailers. “At home, we’re scoffed at and seen as crazy mavericks,” Leighton says. “People wonder what we’re doing knocking all our corporate offices down, and having everyone wear a badge and calling each other by their first names. That’s good, though, because we’re always the underdog and

it makes us determined to prove other people wrong.”

While the culture and pricing strategies of the two companies are nearly identical, ASDA and Wal-Mart are learning from their many differences, primarily the size and retail mix of the stores. The average Wal-Mart Supercenter is 180,000 square feet in size and does about 30 percent of its sales in groceries. In sharp contrast, the average ASDA store has only 65,000 square feet and does 60 percent of sales in grocery items. But although Supercenters are three times larger, a typical ASDA store does as much in sales as the average Supercenter.

“ASDA’s sales per square foot are the highest in the Company,” says John Menzer, President and CEO of Wal-Mart International. “That’s partly because ASDA has a much bigger food business and because the U.K. has far fewer grocery stores per capita. But it’s also because ASDA works hard to manage their business and drive sales through offering value to their customers.”

Domestic Supercenter operations promise to be Wal-Mart’s primary growth engine over the next five to 10 years. But beyond that window, Wal-Mart’s growth potential will be more dependent on the international scene. Menzer hopes that 30 percent of Wal-Mart’s earnings growth will come from international division profits in the future. For the year ended January 31, 2000, international sales accounted for 14 percent of Wal-Mart’s total sales and

eight percent of the operating profit, but Menzer envisions both will continue to grow throughout the decade.

ASDA will be an important part of that growth. In 1998, the British retailer had \$14 billion in sales, and since the Wal-Mart merger, ASDA's monthly comparable-store sales have risen 11 percent.

Two-Way Learning



There are plenty of opportunities for the two companies to learn from each other. ASDA, for example, can teach Wal-Mart about its line of high-quality, private-label fashion apparel — a product line rarely seen in grocery stores. George, ASDA's private-label apparel brand, is Europe's fastest growing line of apparel, with annual sales of more than \$830 million. At large ASDA stores, the company devotes around 15 percent of the floor space to the clothing line.

ASDA also receives high marks for the quality of its in-store home-meal replacement departments. The company is now the U.K.'s biggest retailer of Indian food and the world's largest Indian "takeaway" retailer. And ASDA is lending its expertise in the areas of smaller store formats and the fresh-food supply chain.

On the other side of the coin, Wal-Mart stores offer ASDA a wealth of needed experience in general-merchandise retailing, along with the best store-information systems in the industry. Wal-Mart systems are being rolled out throughout ASDA between now and October this year, and will bring real improvements in service and in-stock for customers.

Changing European Retail

ASDA is the third-largest supermarket chain in the U.K, but that could change with the Wal-Mart merger. In a bold

move to build market share, ASDA pledged last year to continue reducing prices, some by five to 10 percent, through its ongoing rollback program.

The merger with Wal-Mart also has accelerated ASDA's price-rollback plan, with the Company promising to cut 10,000 prices in calendar-year 2000.

"The changing retail landscape in Europe has caused all retailers to think about the future," Leighton says. "The net effect is that prices have dropped, certainly in the U.K., and I think that will happen in Germany, too, as our rollback programs really begin to 'buy a home.' There are a group of competitors who take the attitude that 'this too will pass,' and will probably not survive. But there are also some very good competitors who will take this opportunity to reinvent themselves and will come out of it much stronger."

The Company plans to spend in excess of \$100 million over the next five years to open 50 stores in the new 25,000-square-foot ASDA "fresh" format, which stresses fresh foods and prepared meals. Two new ASDA Supercenters — ala Wal-Mart — also are in the works.

Around the Planet



Wal-Mart's German operations got a big boost from the purchase of 74 Interspar hypermarket stores in fiscal 1999. By September, Wal-Mart had rebranded all 95 of its German stores and begun stocking them with a new and revamped selection of merchandise. Store renovations also began last year and half of all the German stores should be renovated by late 2000.

Although German shoppers are hurried by local laws that force early store closings and forbid Sunday sales, German Wal-Mart stores are setting the bar for the rest of the Company in sales volume. The store in Karlsruhe, for example, is one of the highest volume Wal-Mart stores in the world, though it is open less than 12 hours a day.

Wal-Mart has already made a major change in the shopping culture of Germany simply by opening stores two hours earlier than the 9 a.m. standard. German laws allow shopping to begin at 7 a.m., but most shops in the country wait at least two more hours to open.

Germans seem to enjoy browsing the stores when crowds are smaller.

Though they were initially
(continued on next page)

Puerto Rican Associates show Wal-Mart's international energy.



Buddies Cross Atlantic For Fresh Ideas



Andy Davies (L) and Collin Claunch

U.S. and U.K. store managers quickly turned into exchange students when ASDA became part of the Wal-Mart family last summer, joining a trans-Atlantic buddy program that's given both sides new retailing ideas and enduring friendships.

"It's a very interesting experience, really," says Andy Davies, manager of an ASDA store in Burnley, England, and one of the first to make the exchange in October, 1999. "Regardless of the location, it seems, our people make the difference."

The feeling is shared by Collin Claunch, Andy's "buddy" and manager of the Wal-Mart Supercenter in Denton, Texas. "The ASDA colleagues are just like us," Collin says. "They're not in the banana business, they're not in the George clothing business. They're in the people business. That's why the acquisition has gone so well."

By the end of this year, every ASDA store manager will visit a Wal-Mart Supercenter in the states, and the respective U.S. store managers will make the trip to the United Kingdom to study an ASDA store.

The interest of the media was intense on both sides of Andy and Collin's exchange. Collin did interviews with a local school in England and the BBC. And when Andy came to the states, he actually filmed a documentary for the BBC.

Andy has made the most of the buddy program by involving all his store "colleagues," who are excited about the association with Wal-Mart. "At my store, I've got two plaques up with pictures of the two of us visiting Collin's store," Andy says. "Then we've got a notice board where anything that Collin sends me through e-mail or fax is posted, such as weekly store sales and the items that sold well. It's almost like having a pen pal. We share a lot of information and we speak once a week."

"Twice a day now in our store, we actually do a 'rap' Collin taught us that's very much like the Wal-Mart Cheer," Andy says.

Likewise, Collin says the buddy program has energized his Denton store. "My folks think Andy is just neat," he says. "They might have had some apprehension about ASDA, but they know Andy, so if Andy says that's how it is, that's fine. ASDA has such phenomenal sales per square foot that my people are amazed."

Outside the stores, Andy and Collin made sure to share important cultural experiences. Collin took Andy to a Dallas Cowboys football game, for example, and Andy reciprocated with tickets to a big soccer match between England and Scotland.

Andy came away from the states fascinated with some of the products carried at the Supercenters, especially hot dogs in a can. Inspired, he plans to bring canned Frankfurters to his ASDA store and promote them as his personal VPI (volume-producing item).

Collin, on the other hand, was awed by ASDA's efficient milk-stocking system, in which milk racks roll directly off the truck and into a recessed refrigerator in the wall, removing the need to hand-stock the jugs on refrigerated shelves. It's an idea he'd love to steal. ★

(continued from previous page)

alarmed to find greeters talking to them when they entered the stores, the friendly, smiley-faced Wal-Mart culture has now established a firm foothold.

Lessons Learned

But cultural transitions haven't always been this smooth for Wal-Mart International.



In Argentina, for example, Wal-Mart initially faced challenges in adapting its U.S.-based retail mix and store layouts to the local culture. From the meat counter to the hardware and jewelry departments, Wal-Mart had to learn quickly and work hard to adjust the stores' offerings to Argentine tastes.

Compounding the challenges, Wal-Mart didn't anticipate the heavier Argentine customer traffic, which temporarily overwhelmed the stores' relatively narrow aisles. Today, Wal-Mart has adjusted to all these cultural nuances, and offers Argentine shoppers the products they desire in a comfortable environment with wider aisles. Specialized cuts of meat have been added to the stores, and the jewelry line has been retooled to emphasize simple gold and silver, in keeping with the local fashion.

"It wasn't such a good idea to stick so closely to the domestic Wal-Mart blueprint in Argentina, or in some of the other international markets we've entered, for that matter," says John Menzer. "In Mexico City we sold tennis balls that wouldn't bounce right in the high altitude. We built large parking lots at some of our Mexican stores, only to realize that many of our customers there rode the bus to the store, then trudged across those large parking lots with bags full of merchandise. We responded by creating bus shuttles to drop customers off at the door. These were all mistakes that were easy to address, but we're now working smarter internationally to avoid cultural and regional problems on the front end."

Lifting Off in Latin-America

Overall, Wal-Mart's future in Latin America looks bright. In this decade, Wal-Mart plans to capture a greater share of the Argentine retail market, estimated at \$69 billion by leading analysts. Currently, Wal-Mart has 10 Supercenter stores in Argentina.

In China, a homemade hat promotes this Associate's personal "VPI" product.



In Mexico, Wal-Mart operates seven different retail formats. Most of these relate to the

1997 acquisition of a controlling interest in the leading Mexican retail conglomerate, Cifra, which is now Wal-Mart de México. Wal-Mart operates 397 Cifra outlets in Mexico, in addition to 27 Wal-Mart Supercenters and 34 SAM'S Club stores. Cifra is the largest retailer by far in Mexico.

Mexico remains an important market for Wal-Mart because of its huge potential. As the country continued to recover from its 1995 economic crisis, Cifra opened 39 new units in fiscal 2000. In December, all Supercenters were closed for a day as prices on 6,000 different items were rolled back. Cifra had \$6 billion in sales in fiscal 2000, a figure that Wal-Mart plans to increase this year.



Brazil also offers great opportunities, with the fifth largest population in the world, and

with nine Supercenters and five SAM'S Clubs already on the ground. The country's recent economic problems have presented a challenge, but Brazil's tendency to follow U.S. cultural cues has been very encouraging for Wal-Mart. This year, the Company plans to expand its Brazilian presence by opening three more SAM'S Clubs in the country, with locations in Parana, Rio de Janeiro and Sao Paulo. The three clubs will create 600 new jobs — a tangible symbol of Wal-Mart's commitment to the country.



Puerto Rico is nicely positioned to host a Wal-Mart growth spurt. With 15 Stores and

Clubs already built on the island, Wal-Mart seems prepared to benefit from a continued economic upturn as the country bounces back from the devastation of 1998's Hurricane Georges. And with the typical annual income for a Puerto Rican family of four running about \$27,000, the island has a strong need for everyday low prices. Wal-Mart will continue to meet those needs.

Canadian Operations Serve as Model



Over the years, naysayers have scoffed at Wal-Mart's international aspirations,

claiming that the Company's culture and business practices would never translate beyond U.S. borders. Skeptics even doubted that Wal-Mart could succeed in Canada. But, six years in Canada have proven the critics wrong. Wal-Mart now has 166 discount stores in Canada, and the Company's operations there are considered as a model for Wal-Mart's expansion into other international markets.

When acquired, the 122-store Canadian Woolco chain was losing millions of dollars annually, but operations became profitable within three years. Today, Canadian operations are among the most profitable in the Company. The productivity of the stores rivals that of U.S. Wal-Mart stores, and the Company added 17 new stores in fiscal 2000. Wal-Mart has also added an interesting flair in its Canadian operations, with emphasis on quality fashion apparel such

as the BUM® line, a great product targeted to young, fashion-conscious customers. In the most recent development, Wal-Mart opened 50 in-store One Source® Nutrition Centers in fiscal 2000, providing pharmacy customers with more than 1,500 natural healthcare products.

So far, Wal-Mart has captured more than 35 percent of the Canadian discount-and department-store retail market and has become the largest retailer in Canada, the United States and Mexico.



In Asia, meanwhile, Wal-Mart has six Supercenters and SAM'S Clubs in China and

five Supercenters in South Korea. The unique and developing retail environments



of those countries throw some challenges into the mix, but the potential for Wal-Mart

in Asia is tremendous, considering that South Korea has the highest population density of any country on the planet, and China has the most people: an amazing 1.2 billion residents. ★

Selected Wal-Mart International Retail Sales for Fiscal Year 2000

(≈U.S. Billions)



2000 WAL-MART NAMED RETAILER OF THE CENTURY BY DISCOUNT STORE NEWS

A Tribute to a Culture

By: Tony Lisanti, Editor & Associate Publisher Discount Store News



"The reason we chose Wal-Mart as Retailer of the Century is that Wal-Mart cares about the individual, whether he or she is an Associate or a customer."

Tony Lisanti



In 1999, Discount Store News honored Wal-Mart Stores, Inc. as "Retailer of the Century" with a commemorative 200-page issue of our magazine. As editor of the magazine I'd like to take a moment to explain why we chose Wal-Mart for this rare honor.

Wal-Mart and Discount Store News essentially grew up together. The first issue of DSN was published in 1962, the same year that Sam Walton opened the first Wal-Mart store in Bentonville, Ark. And as the decades passed, we had time to learn what makes this Company truly special — the secret that has allowed Wal-Mart to outpace every other retailer in history.

The difference, we believe, is the spirit that pervades the Company's culture. It's obvious to anyone who visits a Wal-Mart store, district office or company headquarters. It's a spirit where individuals are

proud of their work — a spirit where the Associates know that the Company is interested in them, and pass that same level of interest on to their individual customers.

To me, this unique environment is amplified by the fact that the organization doesn't slot anyone into a particular job or category. Store managers can be moved to headquarters or to international operations. Distribution experts can suddenly find themselves in the financial area. And believe it or not, you can even move from human resources to become President of Wal-Mart Stores, just as Tom Coughlin did. Wal-Mart believes in





the individual and has faith in their ability to learn and succeed.

The reason we chose Wal-Mart as Retailer of the Century wasn't its size, its profits, or its phenomenal growth record (though those things certainly don't hurt.) The reason is that Wal-Mart cares about the individual, whether he or she is an Associate or a customer.

On my desk I keep a copy of Sam Walton's "Rules for Building a Business," and my favorite is No. 7: "Listen to everyone in your company. Figure out ways to get them talking. The people on the front line — the ones who actually talk to the customers — are the only people who really know what's happening."

Wal-Mart still has the courage and good sense to follow these universal operating principles. Congratulations, Wal-Mart, for both recognizing and continuing to implement a great business philosophy. You have my admiration and respect. ★



Wal-Mart proudly moved up in Fortune's list of the top 10 "America's Most Admired Companies" in 2000, rising to fifth on the list and being flanked by the likes of General Electric, Coca-Cola, Microsoft, Dell Computer, Berkshire Hathaway, Southwest Airlines, Intel, Merck and Walt Disney.

The Bentonville, Ark.-based retailer made its first top-10 appearance on *Fortune's* Most Admired list in 1987 and has been included eight times since then. In ranking the top 10, *Fortune* surveyed more than 10,000 executives, directors and securities analysts, who were asked to choose the companies they admired most, regardless of industry.

Wal-Mart earned its inclusion in the Most Admired List, in

part, with fiscal 2000 revenue of \$165 billion and with the 70.4 percent annual return that investors received on the Company's stock.

Wal-Mart received another major honor last year when the Company was named by *CIO* magazine as a recipient of the CIO-100 award for excellence in the information systems field. It was the 12th year for the CIO-100 program, and Wal-Mart has been chosen for the honor in 11 of those 12 years.

In other distinctions, the Foundation Center recently ranked the Wal-Mart Foundation fifth in giving out of all U.S. foundations, and Wal-Mart also was ranked first in the 1999 Cone/Roper Report, an annual national public survey on philanthropy and corporate citizenship.

Wal-Mart also has been recognized recently both by *Hispanic Magazine* and *Latina Magazine* as one of the best 100 companies to work for in the United States for Hispanics and Latinas. ★



Children's department mannequins are guests at an Associate's impromptu "tea party."

OL' ROY'S NEW TRICKS

Private Brands Fill Value Gap With Quality Merchandise

It all began with the Ol' Roy™ brand, the private-label dog food named for Sam Walton's favorite hunting companion. Introduced to Wal-Mart stores in 1982 as a low-price alternative to the national brands, Ol' Roy steadily grew to become, pound for pound, the biggest seller of all dog-food brands in the country.

Today, thousands of other private-label Wal-Mart products are trotting along in Ol' Roy's tracks, offering value to cost-conscious consumers around the world. Wal-Mart's own line of garden fertilizer, for example, has become the best-selling brand in the country.

"We are a brand-oriented company first," says Bob Connolly, Executive Vice President of merchandising of Wal-Mart Stores, Inc. "We became the largest retailer in the world by offering quality, well-known brands at everyday low prices. But we also use private labels to fill a value or pricing void that, for whatever reason, the brands have left behind. The market has really dictated every move we've made in private-label brands. We don't create them to improve our profit margins; we create them to improve value to customers, which builds customer loyalty."



In the end, this loyalty improves Wal-Mart's sales and profit margins, which also helps investors.

"We want our prices to be accessible to everyone — not just a select group," says Connolly. "So part of our strategy with the private-label brands is to offer opening price points — the lowest price available in the store for a particular type of item. The national brands will sometimes abandon a traditional opening price to emphasize higher-end products with better profit margins."

Often, Wal-Mart uses its Great Value® brand to offer those impor-

tant opening prices. An innovative brand, Great Value was the first line to introduce a fat- and sugar-free coffee creamer, and has also led the way in developing convenient and user-friendly packaging, like the easy-grip bottles used for Great Value juice drinks. More than 800 Great Value products are now offered in the deli, dairy, dry grocery, meat and produce departments.

Wal-Mart has applied a similar concept to the pharmacy and health-and-beauty-aids departments with the high-quality Equate® product line. Several Equate items have become top sellers in their categories, including Equate Ibuprofen and Equate Pain Reliever.

Focus-group studies reveal that customers actually think of Equate as a national brand. The products are so popular, in fact, that suppliers get letters from customers asking why they can't buy Equate products at other retail chains.

Spring Valley®, Wal-Mart's private-label vitamin line, is another top-seller in the over-the-counter pharmacy area, already becoming the largest brand of vitamins sold in the United States. Recently, the product line was recognized in a nationally known consumer magazine for its quality and value.

Sometimes, the best way for Wal-Mart to fill a value gap is to buy an existing brand — often a line recently abandoned by a manufacturer. For example, in the summer of 1999 Wal-Mart started selling diapers and toilet tissue under the White Cloud® label, a former brand of Procter & Gamble Co. Wal-Mart used the same strategy in the blue-jeans category by buying the Faded Glory® brand.

“Part of our philosophy on opening prices is that they aren’t always the cheapest prices on a type of item, as with a cordless phone, for example,” Connolly says. “It, might, instead, be the best price on the most important part of the category, such as 900-MHz cordless phones.”

This premium-value concept has been the foundation of the Sam’s American Choice® brand. Every item in the Sam’s American Choice line is tested to ensure that it is at least equal to the national brands. And in many cases, they’re better. The percentage of actual fruit juice in Sam’s American Choice fruit drinks, for example, is higher than that of the national brands, and there are more raisins in the Sam’s American Choice raisin bran than in any of the national brand cereals. All Sam’s American Choice products are grown, produced and manufactured in the United States. In fact, the tea offered by Sam’s American Choice is the only tea still grown and produced at a tea plantation in the United States.

“We don’t create private-label brands to improve our profit margins; we create them to improve value to customers, which builds customer loyalty.”
— Bob Connolly

Private-label brands are helping Wal-Mart succeed in the extremely competitive grocery business, where consumers have learned to accept — and even expect — “store brands” as a cost-cutting alternative. The private brands are expected to prove particularly useful at our smaller Neighborhood MarketSM stores.

One of Wal-Mart’s recent ventures into private-label branding was the launch of a new line of laundry detergents under the Sam’s American Choice name.



The new detergents can be purchased in either liquid or powdered form, and are sold at the high end of the opening price point in the detergent category.

The Company grabbed even more attention last year for introducing its own line of disposable alkaline batteries marketed under the name EverActive™.

Wal-Mart also has a popular line of automotive batteries called EverStart®. The product launch was backed by an aggressive television advertising campaign centered on sports programming. So far, EverStart appears to be catching on; the batteries already are being installed as standard equipment in all Ranger boats.

SAM'S Club also has a line of private-label products sold under the Member's Mark™ label. The brand was created in 1997 and focuses on providing premium products at exceptional values to SAM'S Club members. Items in the line include blue jeans, vitamins, dish-washing detergent and many other consumable products.

“One of the long-term benefits of Wal-Mart’s private-label expansion is that it could create strong global brands,” Connolly says. Wal-Mart Germany, for instance, recently moved to crank up its private-label offerings from 32 items to about 1,000. OI' Roy® is among the brands already sold there, along with Special Kitty® cat food and Great Value® orange juice, iced tea and tissues. ★

Good Works.

From Free Eyeglasses to School Breakfast Programs, Wal-Mart Cherishes Role as Community Partner

In Thunder Bay, Ontario, a Wal-Mart store manager shaves his head to raise money for an elementary school. In Shenzhen, China, Associates bring gifts and cheer to the elderly during the Chinese New Year. And in Little Rock, Arkansas, the Company donates \$1.8 million to help Arkansas Children's Hospital.

It all happened in fiscal 2000, but it could have been any year in the community-centered heart of Wal-Mart. The Company was ranked as the number-one good corporate citizen by the 1999 Cone/Roper Report. In an effort to improve the quality of life in all of its store communities, Wal-Mart raised and contributed \$163.8 million to charitable causes in fiscal 2000 and participated in a wide range of volunteer programs, many of them dedicated to helping children.

Eyes on the Future

For example, more than 13,000 kids got a helping hand last year from Project Insight, a program created by the Associates of the 680 Wal-Mart Vision Centers worldwide. In its seventh year, the program pairs each Vision Center with a local elementary school, orphanage or shelter that serves underprivileged

children. Each child in the program receives a thorough eye exam and a perfectly fitted pair of glasses from their friends at Wal-Mart.



“It makes a big difference for the kids,” says Stephanie Morris, a licensed optician with Wal-Mart Vision Centers. “You feel really proud when they walk out with their shiny new glasses.”

Wal-Mart also sponsors a vast network of elementary and secondary schools through its Adopt A School program. And in October, 1999, the Company brought Canada into the program, adding one-year sponsorships for 166 Canadian schools — one school for every Wal-Mart store in the country.

These stores provide their adopted schools with merchandise donations, in-store fundraising events and volunteers for special school projects. At some Canadian stores, Associates have even started breakfast clubs to feed students who can't eat at home before they start the school day.

“Working one-by-one on projects in their communities, Wal-Mart Associates are probably the largest charitable fundraising force in Canada,” says Dave Ferguson, President and Chief Executive Officer of Wal-Mart Canada.

A young girl shows off a new pair of glasses provided through Operation Insight.

Support for Children's Hospitals

One of Wal-Mart's favorite causes each year is the Children's Miracle Network, which raises money for 170 children's hospitals across the United States. In June, 1999, Wal-Mart donated \$29 million to CMN, the largest single contribution ever made to the cause. Wal-Mart is the largest corporate sponsor of CMN, and has raised more than \$160 million for the network during its 12 years of sponsorship.

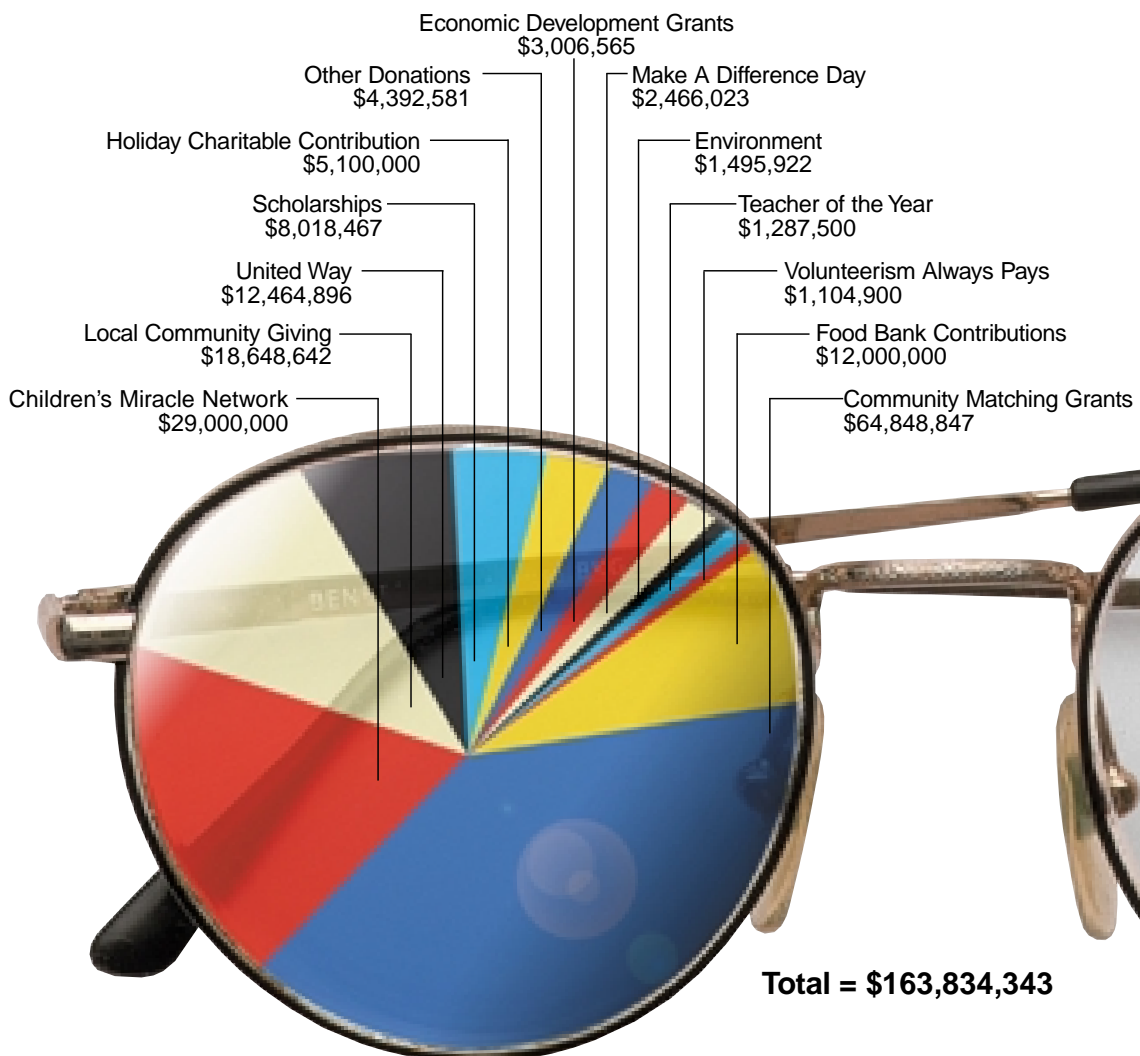
Wal-Mart Associates and partners raised last year's donation through local fundraisers, often donning funny hats and wacky costumes to drum up the contributions. All hats were off, though, to Jane Pack of SAM'S Club 6402 in Greensboro, North Carolina, who raised an amazing \$10,878 for CMN between March 8 and May 16 by kindly asking every club member she met for a donation to the cause.

Wal-Mart also is a devoted sponsor of the Missing Children's Network, a cooperative project with the non-profit National Center for Missing

and Exploited Children. Since 1996, the Company has posted boards in every Wal-Mart and SAM'S Clubs store with the names and photos of missing or abducted children.

With 100 million people shopping each week at Wal-Mart stores and SAM'S Clubs, odds are good that the posters can help locate many of these missing children. Since the formation of the Missing Children's Network, 850 children featured on display boards have been found — more than 30 of them as a direct result of Wal-Mart's efforts. ★

Wal-Mart Stores, Inc. – A Clear Vision of Community Involvement in Fiscal Year 2000



Thanks For Saying "Thanks"

With your pennies, dimes and dollars, you said "Thanks" to your parents and grandparents, husbands and wives, aunts and uncles, your brothers and sisters... the millions who did nothing less than bring peace to the world.

With your contributions, the World War II Memorial in Washington, D.C. will finally become a reality.

And because of you and millions like you, the selfless sacrifice of these great heroes will never be forgotten.

Thank you.



WAL-MART