

# 2004 RESULTS

## 2004 Program Results

Wal-Mart's Ethical Standards program rates factories Green, Yellow, Red or Failed depending upon the results of an audit.

- Factories with low-risk violations are assessed as Green
- Factories with medium-risk violations are assessed as Yellow
- Factories with high-risk violations are assessed as Red
- Factories with critical violations are Failed

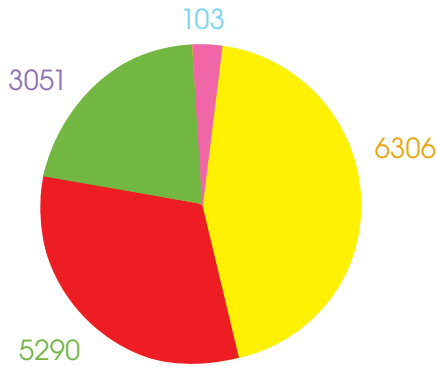
Audit results in 2004 were virtually identical to results in 2003: 21 percent of the factories audited received Green ratings, 42 percent received Yellow ratings, and 36 percent received Red ratings. A Failed rating was given to 108 factories in 2004, 1 percent of the total audited. In one case, the rating was due to forced labor; all others resulted from serious child labor violations. In keeping with Wal-Mart's policy, we ceased doing business with factories with a Failed rating.

The major causes of Yellow ratings were: failure to pay legally required benefits, incomplete age documentation, withholding of documentation, failure to provide or use personal protective equipment and inadequate fire safety equipment. Red ratings were primarily due to time keeping systems not being used and auditors being unable to verify wages and hours worked.

Given the similarity in results between 2003 and 2004, a reasonable question might be: "Why didn't you make more progress?" Answering this question is difficult because of a lack of a clear consensus on how "progress" should be defined. Some might argue that progress should be measured by an increasing number of Green ratings, indicating that fewer factory violations had been found. Others, however, might argue that a higher number of Red and Yellow ratings would demonstrate progress because it would show a more rigorous audit process. For that reason we have not established targets for reducing or increasing particular rating categories. In fact, both points of view have validity and may help account for the fact that audit results showed little statistical change between 2003 and 2004. This report outlines other examples of "progress" that go beyond the number of Red, Yellow and Green ratings awarded.

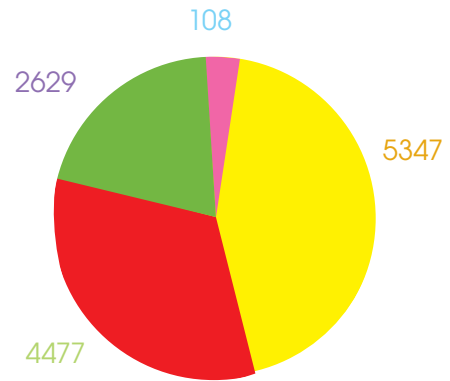
These statistics do not include audits conducted by our UK retail subsidiary, ASDA. They conducted an additional 791 third-party audits based on an identical program, which is not currently reported publicly. In the coming year, we intend to include ASDA's results in this report.

Total Assessments  
(March '03 – February '04)



Green	3051
Yellow	6306
Red	5290
Failed	103
<b>Total</b>	<b>14750</b>

Total Assessments  
(January '04 – December '04)

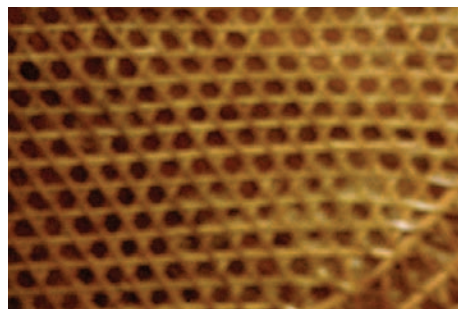


Green	2629
Yellow	5347
Red	4477
Failed	108
<b>Total</b>	<b>12561</b>

Note: Results are from January through December 2004. The prior report covered March 2003 through February 2004. We will continue to report results based on the calendar year.

During 2004 we disapproved 1,211 factories. Disapproval is a consequence of a factory getting two consecutive Red ratings and/or a combination of Yellow and Red assessments. The factory remains disapproved for 90 days, and to resume business must have a Yellow or better assessment. Of the 1,211 factories disapproved, 260 were later reactivated after the problems identified were addressed.

During 2004, Wal-Mart's ES program conducted 2,189 fewer audits than the previous year. This was due in part to the fact that more of our suppliers used factories with Yellow and Green ratings and dropped factories rated Red. In addition, fewer disapproved factories sought reinstatement, and fewer re-audits were needed because of an improved understanding of the Wal-Mart program arising from the training of factory management.





## Global Challenges and Trends

Significant challenges remain at the factory level. Globally, some of the most commonly observed issues are those related to legally required benefits not being paid, i.e. pension, medical, accident and unemployment. Other frequent violations are workers not being paid for all hours worked (working off the clock), the use of “double books” to hide the numbers of hours worked, and incomplete or no documentation so auditors can verify observations made during the audit. Wal-Mart is committed to working with its suppliers to find long-term solutions to these issues through improved production planning, education of workers, factory management training and enhanced internal supply chain management. We are engaging with other stakeholders in the ethical sourcing community to identify additional ways to address these challenges.

Regionally, there are variances in the predominant violations observed. In Southeast Asia, the two most observed violations were not adhering to Wal-Mart’s seventh day of rest policy and body searches of workers for security reasons. In Latin America, Europe, the Middle East, and Africa, fire safety, poorly maintained restrooms and machines not fitted with safety features were the most common issues. In the Far East and the Indian Subcontinent, the largest number of violations involved legally required benefits not being paid.

Due to the combined efforts of the Ethical Sourcing community, cases of child labor involving persons below 14 years of age have become rare occurrences. Today, most observed age violations involve workers just a few months short of the legal working age. All of Wal-Mart’s child labor findings in 2004 were in China. The minimum legal working age in China is 16, and a common problem is for workers to use the traditional Chinese method of calculating age, which is from the time of conception, rather than from birth, adding nine months to their age. A second common cause for underage labor violations is workers using fake identity cards because of their desire to obtain work. Wal-Mart auditors are trained to identify fake identity cards. In an effort to increase compliance and reduce the number of underage labor violations, Wal-Mart includes information on proper hiring procedures and document forgery in its supplier training sessions.

# Wal-Mart Ethical Standards Program Milestones

## 1992

Wal-Mart's Factory Certification program established, including Standards for Suppliers. Efforts were focused on Bangladesh and China.

## 1993-1996

First Factory Certification program manual was developed, and our exclusive agent, Pacific Resources Exports Ltd. (PREL), began auditing factories directly manufacturing for Wal-Mart.

## 1997-2001

Factories in Egypt, Pakistan, India, and Nicaragua were added. The program scope was expanded by requiring third-party domestic suppliers using factories in these countries to engage approved third-party service providers, Intertek Testing Standards and Global Social Compliance.

Regardless of location, PREL and approved third-party firms audited factories making private-label Wal-Mart brands such as McKids/McBaby®, Faded Glory®, Bobbie Brooks®, Catalina®, Retro Blues®, Basic Equipment®, Sportrax® and Lady Manhattan®.

## 2002

Wal-Mart purchased PREL and began directly managing the Factory Certification program.

## 2003

Factory Certification program strengthened by reclassifying minimum wage and severe working hour violations to high-risk "Red" ratings.

A product quality assurance program was also established, including reviews by internal audit.

Wal-Mart began training its buyers, suppliers and factory managers on Wal-Mart Supplier Standards. More than 4,600 representatives of suppliers and factories were trained globally.

Wal-Mart incorporated U.S. Department of Homeland Security Customs-Trade Partnership Against Terrorism (C-TPAT) requirements into our Factory Audit Program.

## 2004

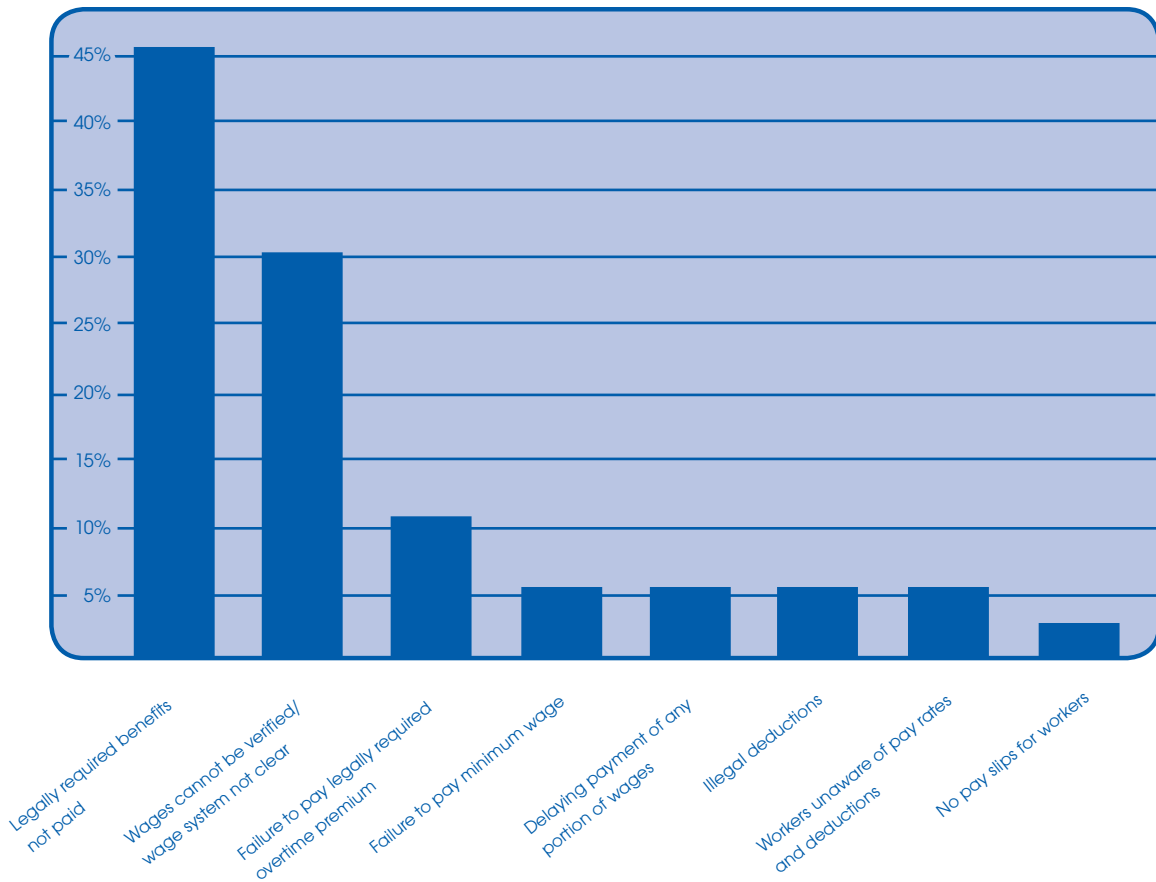
Wal-Mart increased the number of unannounced inspections from less than 1 percent to 8 percent of all audits. Wal-Mart began a National Brand Pilot Program with Levi Strauss & Co., Sara Lee® and Jockey®.

## 2004 Direct Import Violations

This section of the report covers the frequency of violations observed in our directly-sourced factories. Non-directly-sourced factory violations will be reported in the future. The percentage shown indicates the frequency in which the violation type was observed in total factories.

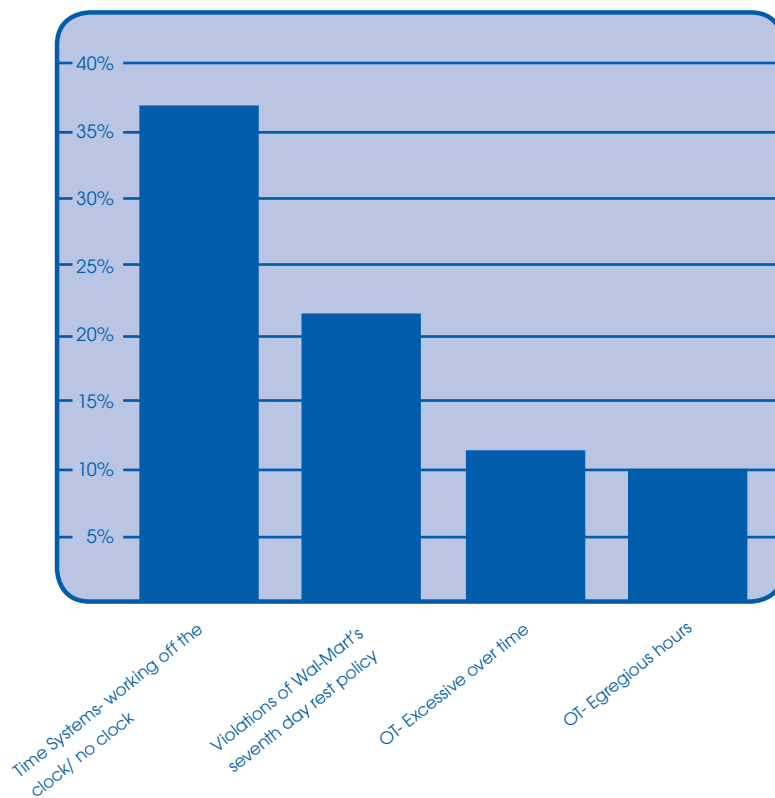


# Compensation



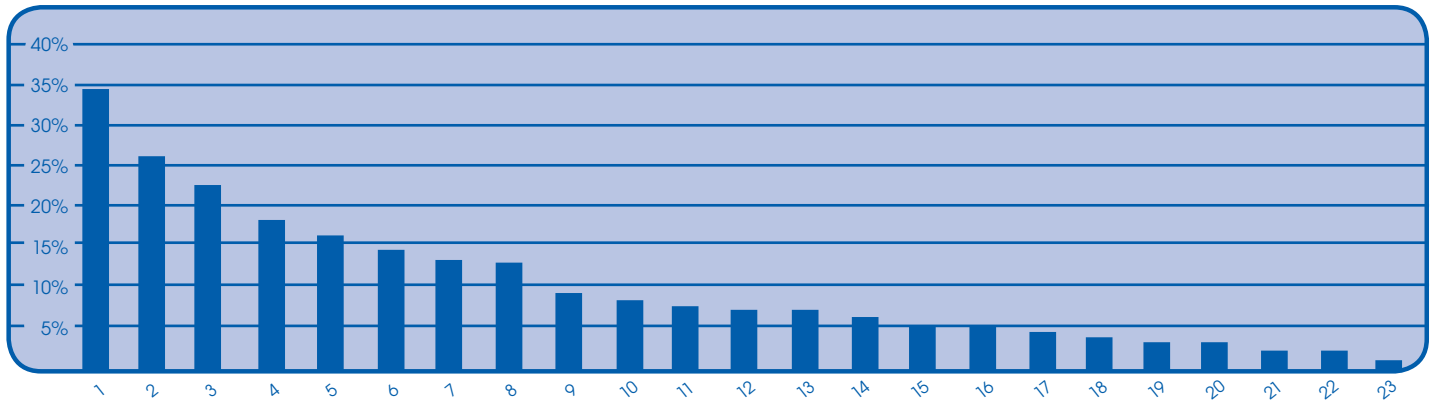
Compensation	
Legally required benefits not paid	46%
Wages cannot be verified/ wage system not clear	31%
Failure to pay legally required overtime premium	11%
Failure to pay minimum wage	6%
Delaying payment of any portion of wages	6%
Illegal deductions	6%
Workers unaware of pay rates and deductions	6%
No pay slips for workers	3%

# Labor Hours



Labor Hours	Time System- Working off the clock/ No clock		36%
	Violation of Wal-Mart's Seventh Day Rest Policy		21%
	OT- Excessive overtime		12%
	OT- Egregious hours		10%

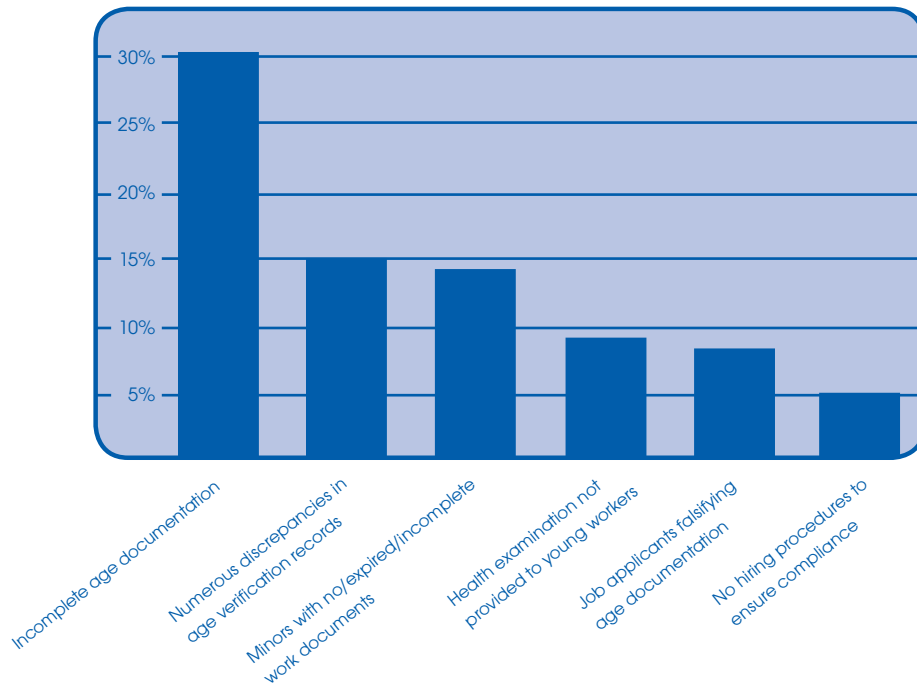
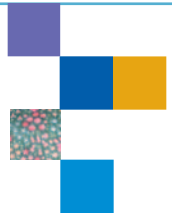
# Factory Workplace Environment (Health & Safety)



## Factory Workplace Environment (Health & Safety)

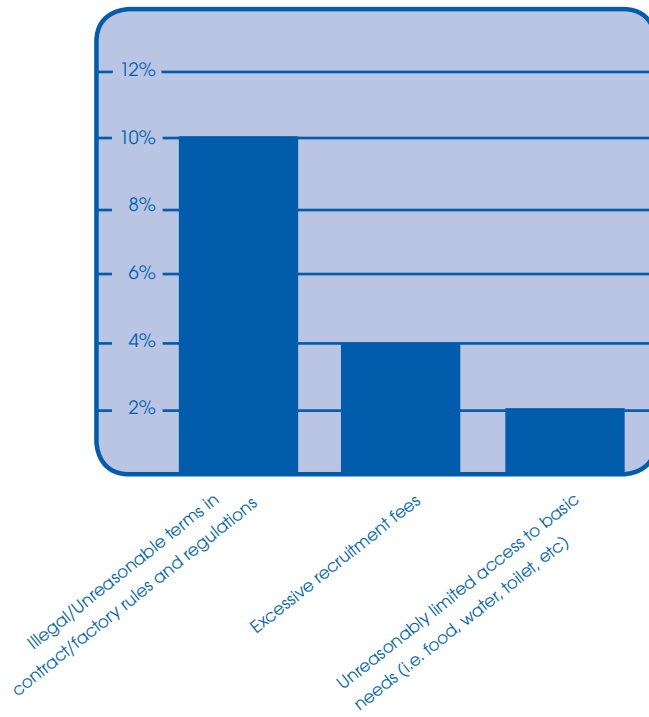
1.)	No fire alarms, emergency lighting, or sprinkler system	35%
2.)	Protective Equipment- equipment not provided to workers	26%
3.)	Inadequate number and distribution of fire extinguishers and fire hoses	22%
4.)	Fire Safety- Inadequate fire drills	17%
5.)	Fire Safety- No posted evacuation plan	16%
6.)	Protective Equipment- Machinery not fitted with safety features	14%
7.)	Fire Safety- Fire evacuation plan not marked on floor	13%
8.)	First Aid- Insufficient or inadequately supplied first aid kits	13%
9.)	Canteen- Food preparation and eating areas are unsanitary	9%
10.)	First Aid- Empty first aid kit	8%
11.)	Electrical outlets overloaded/wet areas/electrical panel not covered	8%
12.)	Open (partially obstructed exits) that preclude a speedy exit	7%
13.)	First Aid- First Aid procedures not posted	7%
14.)	Toilets- Poorly maintained restroom facilities	6%
15.)	Health- Work area poorly ventilated	5%
16.)	Exits- Locked and/or fully blocked exits	5%
17.)	Fire Safety- Expired fire extinguishers	4%
18.)	Safety- Hazardous chemicals stored in work area	4%
19.)	Fire Safety- Expired fire extinguishers	3%
20.)	Factory conditions are crowded, disorganized and unsanitary	3%
21.)	Fire Safety- Storage of finished goods presents fire hazard	2%
22.)	Canteen- Insufficient canteen capacity	2%
23.)	Lack of access to potable water	2%

# Child Labor



Child Labor	Percentage
Incomplete age documentation	31%
Numerous discrepancies in age verification records	15%
Minors with no/expired/incomplete work documents	14%
Health examination not provided to young workers	9%
Job applicants falsifying age documentation	8%
No hiring procedures to ensure compliance	5%

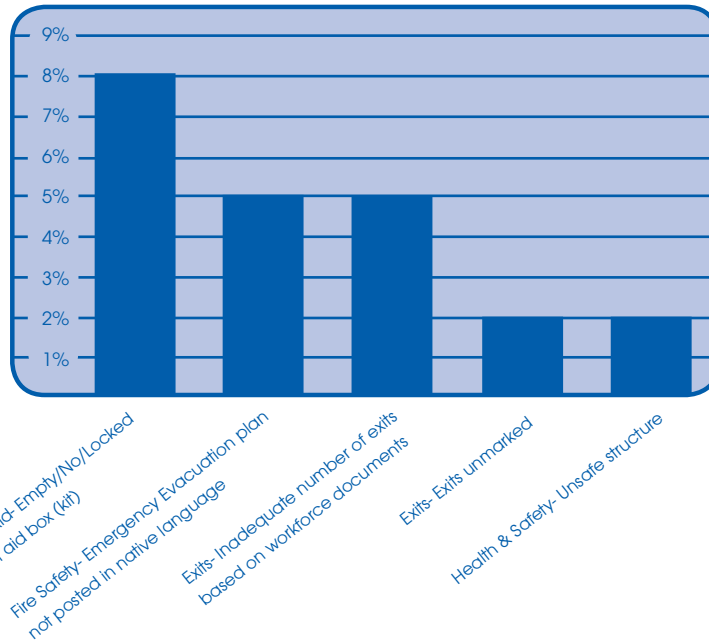
# Forced Labor



Forced Labor	
Illegal/ Unreasonable terms in contract/factory rules and regulations	10%
Excessive recruitment fees	4%
Unreasonably limited access to basic needs (i.e. food, water, toilet, etc)	2%



# Dormitory Health & Safety



Dormitory Health & Safety	
First Aid- Empty/No/Locked first aid box (kit)	8%
Fire Safety- Emergency evacuation plan not posted in native language	5%
Exits- Inadequate number of exits based on workforce documents	5%
Exits- Exits unmarked	2%
Health & Safety- Unsafe structure	2%