

# Management’s Discussion and Analysis of Financial Condition and Results of Operations

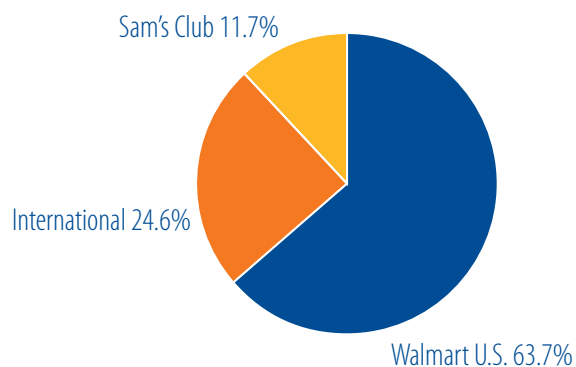
## Overview

Wal-Mart Stores, Inc. (“Wal-Mart,” the “Company” or “we”) operates retail stores in various formats around the world and is committed to saving people money so they can live better. We earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at every day low prices (“EDLP”), while fostering a culture that rewards and embraces mutual respect, integrity and diversity. EDLP is our pricing philosophy under which we price items at a low price every day so that our customers trust that our prices will not change under frequent promotional activity. Our focus for Sam’s Club is to provide exceptional value on brand-name merchandise at “members only” prices for both business and personal use. Internationally, we operate with similar philosophies. Our fiscal year ends on January 31.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. We also discuss certain performance metrics that management uses to assess our performance. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole. This discussion should be read in conjunction with our financial statements as of January 31, 2009, and the year then ended and accompanying notes.

Throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations, we discuss segment operating income and comparable store sales. Segment operating income refers to income from continuing operations before net interest expense, income taxes and minority interest and excludes unallocated corporate overhead and results of discontinued operations. From time to time, we revise the measurement of each segment’s operating income as changes in business needs dictate. When we do, we restate all periods presented for comparative purposes.

**SALES BY SEGMENT**  
 Net sales in fiscal 2009 were a record \$401.2 billion, up 7.2% from fiscal 2008.



Comparable store sales is a measure which indicates the performance of our existing stores by measuring the growth in sales for such stores for a particular period over the corresponding period in the prior year. In fiscal 2008 and fiscal 2007, our method of calculating comparable store sales included all stores and clubs that were open for at least the previous 12 months. Additionally, stores and clubs that were relocated, expanded or converted were excluded from comparable store sales for the first 12 months following the relocation, expansion or conversion. During fiscal year 2008, the Company reviewed its definition of comparable store sales for consistency with other retailers. For fiscal year 2009, beginning February 1, 2008, Wal-Mart revised its definition of comparable store sales to include sales from stores and clubs open for the previous 12 months, including remodels, relocations and expansions. Changes in format continue to be excluded from comparable store sales when the conversion is accompanied by a relocation or expansion that results in a change in square footage of more than five percent. Since the impact of this revision is inconsequential, the Company will not restate comparable store sales results for previously reported years. Comparable store sales are also referred to as “same-store” sales by others within the retail industry. The method of calculating comparable store sales varies across the retail industry. As a result, our calculation of comparable store sales is not necessarily comparable to similarly titled measures reported by other companies.

## Operations

Our operations comprise three business segments: Walmart U.S., International and Sam’s Club.

Our Walmart U.S. segment is the largest segment of our business, accounting for 63.7% of our fiscal 2009 net sales and operates stores in three different formats in the United States, as well as its online retail operations, walmart.com. Our Walmart U.S. retail formats include:

- Discount stores, which average approximately 108,000 square feet in size and offer a wide assortment of general merchandise and a limited variety of food products;
- Supercenters, which average approximately 186,000 square feet in size and offer a wide assortment of general merchandise and a full-line supermarket; and
- Neighborhood Markets, which average approximately 42,000 square feet in size and offer a full-line supermarket and a limited assortment of general merchandise.

At January 31, 2009, our International segment consisted of retail operations in 14 countries and Puerto Rico. This segment generated 24.6% of our fiscal 2009 net sales. The International segment includes numerous different formats of retail stores and restaurants, including discount stores, supercenters and Sam’s Clubs that operate outside the United States.

Our Sam’s Club segment consists of membership warehouse clubs in the United States and the segment’s online retail operations, samsclub.com. Sam’s Club accounted for 11.7% of our fiscal 2009 net sales. Our Sam’s Clubs average approximately 133,000 square feet in size.

For certain financial information relating to our segments, see Note 11 to our Consolidated Financial Statements.

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## The Retail Industry

We operate in the highly competitive retail industry in both the United States and the countries we serve internationally. We face strong sales competition from other discount, department, drug, variety and specialty stores, warehouse clubs, and supermarkets, many of which are national, regional or international chains, as well as internet-based retailers and catalog businesses. We compete with a number of companies for prime retail site locations, as well as in attracting and retaining quality employees (whom we call "associates"). We, along with other retail companies, are influenced by a number of factors including, but not limited to: general economic conditions, cost of goods, consumer disposable income, consumer debt levels and buying patterns, consumer credit availability, interest rates, customer preferences, unemployment, labor costs, inflation,

currency exchange fluctuations, fuel and energy prices, weather patterns, catastrophic events, competitive pressures and insurance costs. Further information on risks to our Company can be located in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

## Company Performance Metrics

Management uses a number of metrics to assess the Company's performance including:

- Total sales;
- Comparable store sales;
- Operating income;
- Diluted income per share from continuing operations;
- Return on investment; and
- Free cash flow.

## Total Sales

(Amounts in millions)	Fiscal Year Ended January 31,							
	2009			2008			2007	
	Net Sales	Percent of Total	Percent Increase	Net Sales	Percent of Total	Percent Increase	Net Sales	Percent of Total
Walmart U.S.	\$255,745	63.7%	6.8%	\$239,529	64.0%	5.8%	\$226,294	65.6%
International	98,645	24.6%	9.1%	90,421	24.1%	17.6%	76,883	22.3%
Sam's Club	46,854	11.7%	5.6%	44,357	11.9%	6.7%	41,582	12.1%
Total net sales	\$401,244	100.0%	7.2%	\$374,307	100.0%	8.6%	\$344,759	100.0%

## Comparable Store Sales

	Fiscal Year Ended January 31,		
	2009	2008	2007
Walmart U.S.	3.2%	1.0%	1.9%
Sam's Club <sup>(1)</sup>	4.8%	4.9%	2.5%
Total U.S.	3.5%	1.6%	2.0%

(1) Sam's Club comparable club sales include fuel. Fuel sales had a positive impact of 1.2 and 0.7 percentage points in fiscal years 2009 and 2008, respectively, and negative 0.4 percentage points on comparable club sales in fiscal 2007.

Our total net sales increased by 7.2% and 8.6% in fiscal 2009 and 2008 when compared to the previous fiscal year. Those increases resulted from our global store expansion programs, comparable store sales increases and acquisitions.

Comparable store sales is a measure which indicates the performance of our existing stores by measuring the growth in sales for such stores for a particular period over the corresponding period in the prior year. Comparable store sales in the United States increased 3.5% in fiscal 2009 and 1.6% in fiscal 2008. Comparable store sales in the United States in fiscal 2009 were higher than fiscal 2008 due to an increase in customer traffic as well as an increase in average transaction size per customer. As we continue to add new stores in the United States, we do so with an understanding that additional stores may take sales away from existing units. During fiscal 2008, in connection with our revisions to our capital efficiency model, we revised our methodology for calculating the negative impact of new stores on comparable

store sales. Using our new methodology, we estimate the negative impact on comparable store sales as a result of opening new stores was approximately 1.1% in fiscal 2009 and 1.5% in fiscal 2008. With our planned reduction in new store growth, we expect the impact of new stores on comparable store sales to decline over time.

During fiscal 2009, foreign currency exchange rates had a \$2.3 billion unfavorable impact on the International segment's net sales. Despite this unfavorable impact, the International segment's net sales as a percentage of total Company net sales increased slightly. Although movements in foreign currency exchange rates cannot reasonably be predicted, volatility in foreign currency exchange rates, when compared to prior periods, may continue to impact the International segment's reported operating results in the foreseeable future. The slight decrease in the Sam's Club segment's net sales as a percent of total Company net sales in fiscal 2009 and 2008, when compared to the previous fiscal years resulted from the more rapid development of new stores in the International and Walmart U.S. segments than the Sam's Club segment. We expect this trend to continue for the foreseeable future.

In fiscal 2008, foreign currency exchange rates had a \$4.5 billion favorable impact on the International segment's net sales, which increased the International segment's net sales as a percentage of total Company net sales. Additionally, the decrease in the Sam's Club segment's net sales as a percentage of total Company net sales in fiscal 2008 and 2007, when compared to the previous fiscal years resulted from the more rapid development of new stores in the International and Walmart U.S. segments than the Sam's Club segment.

## Operating Income

(Amounts in millions)	Fiscal Year Ended January 31,							
	2009			2008			2007	
	Operating Income	Percent of Total	Percent Increase	Operating Income	Percent of Total	Percent Increase	Operating Income	Percent of Total
Walmart U.S.	\$18,763	82.3%	7.1%	\$17,516	79.8%	5.4%	\$16,620	81.1%
International	4,940	21.7%	4.6%	4,725	21.5%	10.8%	4,265	20.8%
Sam's Club	1,610	7.1%	-0.5%	1,618	7.4%	9.3%	1,480	7.2%
Other	(2,515)	-11.1%	31.9%	(1,907)	-8.7%	2.1%	(1,868)	-9.1%
Total operating income	\$22,798	100.0%	3.9%	\$21,952	100.0%	7.1%	\$20,497	100.0%

Operating income growing faster than net sales is a meaningful measure because it indicates how effectively we manage costs and leverage expenses. For fiscal 2009, our operating income increased by 3.9% when compared to fiscal 2008, while net sales increased by 7.2% over the same period. For the individual segments, our Walmart U.S. segment met this target; however, our International and Sam's Club segments did not. The International segment fell short of this objective due to fluctuations in foreign currency exchange rates. The Sam's Club segment fell short of this objective due to increases in operating, selling, general and administrative expenses ("operating expenses").

### Diluted Income per Share from Continuing Operations

	Fiscal Year Ended January 31,		
	2009	2008	2007
Diluted income per share from continuing operations	\$3.35	\$3.16	\$2.92

Diluted income per share from continuing operations increased in fiscal 2009 and 2008 as a result of increases in income from continuing operations in conjunction with share repurchases reducing the number of weighted average shares outstanding.

### Return on Investment

Management believes return on investment ("ROI") is a meaningful metric to share with investors because it helps investors assess how efficiently Wal-Mart is employing its assets. ROI was 19.3% for fiscal 2009 and 19.6% for fiscal 2008. The decrease in ROI in fiscal 2009 resulted from our recent investment in Chile and the accrual for our settlement of 63 wage and hour class action lawsuits, as further discussed in footnotes 6 and 8, respectively, of the Notes to Consolidated Financial Statements.

We define ROI as adjusted operating income (operating income plus interest income and depreciation and amortization and rent from continuing operations) for the fiscal year or trailing twelve months divided by average investment during that period. We consider average investment to be the average of our beginning and ending total assets of continuing operations plus accumulated depreciation and amortization less accounts payable and accrued liabilities for that period, plus a rent factor equal to the rent for the fiscal year or trailing twelve months multiplied by a factor of eight.

ROI is considered a non-GAAP financial measure under the SEC's rules. We consider return on assets ("ROA") to be the financial measure computed in accordance with generally accepted accounting principles ("GAAP") that is the most directly comparable financial measure to ROI as we calculate that financial measure. ROI differs from return on assets (income from continuing operations before minority interest for the fiscal year or the trailing twelve months divided by average of total assets of continuing operations for the period) because: ROI adjusts operating income to exclude certain expense items and add interest income; it adjusts total assets from continuing operations for the impact of accumulated depreciation and amortization, accounts payable and accrued liabilities; and it incorporates a factor of eight to arrive at total invested capital.

Although ROI is a standard financial metric, numerous methods exist for calculating a company's ROI. As a result, the method used by management to calculate ROI may differ from the method other companies use to calculate their ROI. We urge you to understand the method used by another company to calculate its ROI before comparing our ROI to that of the other company.

### WAL-MART STORES, INC. OPERATING INCOME (in millions)



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The calculation of ROI along with a reconciliation to the calculation of ROA, the most comparable GAAP financial measurement, is as follows:

(Amounts in millions)	Fiscal Year Ended January 31,	
	2009	2008
<b>Calculation of return on investment</b>		
<b>Numerator</b>		
Operating income <sup>(1)</sup>	\$ 22,798	\$ 21,952
+ Interest income <sup>(1)</sup>	284	309
+ Depreciation and amortization <sup>(1)</sup>	6,739	6,317
+ Rent <sup>(1)</sup>	1,751	1,604
= Adjusted operating income	\$ 31,572	\$ 30,182
<b>Denominator</b>		
Average total assets of continuing operations <sup>(2)</sup>	\$162,891	\$156,603
+ Average accumulated depreciation and amortization <sup>(2)</sup>	33,317	28,828
- Average accounts payable <sup>(2)</sup>	29,597	29,409
- Average accrued liabilities <sup>(2)</sup>	16,919	15,183
+ Rent x 8	14,008	12,832
= Invested capital	\$163,700	\$153,671
<b>ROI</b>	<b>19.3%</b>	19.6%
<b>Calculation of return on assets</b>		
<b>Numerator</b>		
Income from continuing operations before minority interest <sup>(1)</sup>	\$ 13,753	\$ 13,269
<b>Denominator</b>		
Average total assets of continuing operations <sup>(2)</sup>	\$162,891	\$156,603
<b>ROA</b>	<b>8.4%</b>	8.5%

## Certain Balance Sheet Data

January 31,	2009	2008	2007
Total assets of continuing operations <sup>(1)</sup>	\$163,234	\$162,547	\$150,658
Accumulated depreciation and amortization <sup>(1)</sup>	35,508	31,125	26,530
Accounts payable <sup>(1)</sup>	28,849	30,344	28,473
Accrued liabilities <sup>(1)</sup>	18,112	15,725	14,641

(1) Based on continuing operations only; therefore, this excludes the impact of our South Korean and German operations, which were sold in fiscal 2007, the impact of Gazeley which was reflected as a sale in the third quarter of fiscal 2009, and the impact of Seiyu store closures and other property divestitures in fiscal 2009, all of which are classified as discontinued operations for all periods presented. Total assets as of January 31, 2009, 2008 and 2007 in the table above exclude assets of discontinued operations of \$195 million, \$967 million and \$929 million, respectively.

(2) The average is based on the addition of the account balance at the end of the current period to the account balance at the end of the prior period and dividing by 2.

### Free Cash Flow

We define free cash flow as net cash provided by operating activities of continuing operations in the period minus payments for property and equipment made in the period. Our free cash flow increased in fiscal 2009 from fiscal 2008 due to the increase in net cash provided by operating activities of continuing operations and the reduction in our capital expenditures primarily associated with our planned slowing of store expansion in the United States.

Free cash flow is considered a non-GAAP financial measure under the SEC's rules. Management believes, however, that free cash flow is an important financial measure for use in evaluating the Company's financial performance, which measures our ability to generate additional cash from our business operations. Free cash flow should be considered in addition to, rather than as a substitute for, income from continuing operations as a measure of our performance or net cash provided by operating activities of continuing operations as a measure of our liquidity. Additionally, our definition of free cash flow is limited and does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other obligations or payments made for business acquisitions. Therefore, we believe it is important to view free cash flow as supplemental to our entire statement of cash flows.

The following table reconciles net cash provided by operating activities of continuing operations, a GAAP measure, to free cash flow, a non-GAAP measure.

(Amounts in millions)	Fiscal Year Ended January 31,		
	2009	2008	2007
Net cash provided by operating activities of continuing operations	\$ 23,147	\$ 20,642	\$ 20,280
Payments for property and equipment	(11,499)	(14,937)	(15,666)
Free cash flow	\$ 11,648	\$ 5,705	\$ 4,614
Net cash used in investing activities of continuing operations	\$ (10,742)	\$ (15,670)	\$ (14,507)
Net cash used in financing activities	\$ (9,918)	\$ (7,422)	\$ (5,122)

**Our total net sales increased by 7.2% and 8.6% in fiscal 2009 and fiscal 2008 when compared to the previous fiscal year. Those increases resulted from our global expansion programs, comparable store sales increases and acquisitions.**

### Results of Operations

The following discussion of our Result of Operations is based on our continuing operations and excludes any results or discussion of our discontinued operations.

#### Consolidated Results of Operations

Our total net sales increased by 7.2% and 8.6% in fiscal 2009 and fiscal 2008 when compared to the previous fiscal year. Those increases resulted from our global expansion programs, comparable store sales increases and acquisitions. During fiscal 2009, foreign currency exchange rates had a \$2.3 billion unfavorable impact on the International segment's net sales, however, the International segment's net sales as a percentage of total Company net sales increased slightly. In fiscal 2008, foreign currency exchange rates had a \$4.5 billion favorable impact on the International segment's net sales, causing an increase in the International segment's net sales as a percentage of total net sales relative to the Walmart U.S. and Sam's Club segments.

Our gross profit as a percentage of net sales (our "gross profit margin") was 23.7%, 23.5% and 23.4% in fiscal 2009, 2008 and 2007, respectively. Our Walmart U.S. and International segment sales yield higher gross profit margins than our Sam's Club segment. However, our International segment produced lower segment net sales increases in fiscal 2009 compared to sales increases in fiscal 2008 due to unfavorable fluctuations in foreign currency exchange rates in fiscal 2009. The gross profit margin increase in fiscal 2009 compared to fiscal 2008 was primarily due to lower inventory shrinkage and less markdown activity as a result of more effective merchandising in the Walmart U.S. segment. Additionally, the increase in gross profit margin in fiscal 2008 included a \$97 million refund of excise taxes previously paid on past merchandise sales of prepaid phone cards.

Operating expenses as a percentage of net sales were 19.1%, 18.8% and 18.5% for fiscal 2009, 2008 and 2007, respectively. In fiscal 2009, operating expenses increased primarily due to higher utility costs, a pre-tax charge of approximately \$352 million resulting from the settlement of 63 wage and hour class action lawsuits, higher health benefit costs and increased corporate expenses compared to fiscal 2008. Corporate expenses have increased primarily due to our long-term transformation projects to enhance our information systems for merchandising, finance and human resources. We expect these increased expenses from the transformation projects to continue in the foreseeable future.

Operating expenses as a percentage of net sales were higher in fiscal 2008 than the preceding year primarily due to lower segment net sales increases for our Walmart U.S. and International segments, as well as increases in certain operating expenses in each segment. In fiscal 2008, operating expenses were favorably affected by the change in estimated losses associated with our general liability and workers' compensation claims, which reduced accrued liabilities for such claims by \$298 million before tax, partially offset by pre-tax charges of \$183 million for certain legal and other contingencies. Additionally, the fourth quarter of fiscal 2008 included \$106 million of pre-tax charges related to U.S. real estate projects dropped as a result of our capital efficiency program. The net impact of these items had no effect on our operating expenses as a percentage of net sales in fiscal 2008.

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Membership and other income, which includes a variety of income categories such as Sam's Club membership fee revenues, tenant income and financial services income, as a percentage of net sales for fiscal 2009 was consistent with the prior year. Membership and other income as a percentage of net sales for fiscal year 2008 increased compared to the prior year due to continued growth in our financial services area and in recycling income resulting from our sustainability efforts. Membership and other income for fiscal 2008 also includes the recognition of \$188 million in pre-tax gains from the sale of certain real estate properties.

Interest, net, as a percentage of net sales was consistent between fiscal 2009 and fiscal 2008. Interest, net, as percentage of net sales increased slightly in fiscal 2008 compared to fiscal 2007 primarily due to increased borrowing levels and higher interest rates on our floating debt.

Our effective income tax rate was 34.2% for fiscal years 2009 and 2008, and 33.5% for fiscal year 2007. The fiscal 2009 effective tax rate was consistent with that of fiscal 2008. The fiscal 2008 rate was higher than the fiscal 2007 rate primarily due to the mix of earnings among our domestic and international operations and favorable resolution of certain federal and state tax contingencies in fiscal 2007 in excess of those in fiscal 2008.

## Walmart U.S. Segment

Fiscal Year	Segment Net Sales Increase from Prior Fiscal Year	Segment Operating Income (in millions)	Segment Operating Income Increase from Prior Fiscal Year	Operating Income as a Percentage of Segment Net Sales
<b>2009</b>	<b>6.8%</b>	<b>\$18,763</b>	<b>7.1%</b>	<b>7.3%</b>
2008	5.8%	17,516	5.4%	7.3%
2007	7.8%	16,620	8.9%	7.3%

The segment net sales growth resulted from comparable store sales increases of 3.2% in fiscal 2009 and 1.0% in fiscal 2008, in addition to our continued expansion activities. Strength in the grocery, health and wellness and entertainment categories as well as strong seasonal sales throughout the year also contributed to the fiscal 2009 net sales increase.

Comparable store sales were higher in fiscal 2009 due to an increase in customer traffic, as well as an increase in average transaction size per customer.

The Walmart U.S. segment expansion programs consist of opening new units, converting discount stores to supercenters, relocations that result in more square footage, as well as expansions of existing stores. During fiscal 2009 we opened two discount stores, 23 Neighborhood Markets and 165 supercenters (including the conversion and/or relocation of 78 existing discount stores into supercenters). Four discount stores and two Neighborhood Markets closed in fiscal 2009. During fiscal 2009, our total expansion program added approximately 22.7 million or 4.0% of additional square footage, net of relocations and closings. During fiscal 2008 we opened seven discount stores, 20 Neighborhood Markets and 191 supercenters (including the conversion and/or relocation of 109 existing discount stores into supercenters). Two discount stores closed in fiscal 2008. During fiscal 2008, our total expansion program added approximately 26 million or 4.8% of additional square footage, net of relocations and closings.

In fiscal 2009, gross profit margin increased 0.3 percentage points compared to the prior year primarily due to decreased markdown activity and lower inventory shrinkage. These improvements are attributable to our merchandising initiatives which are improving space allocation, enhancing our price leadership and increasing supply chain efficiencies. In fiscal 2008, gross profit margin increased slightly compared to the prior year primarily due to higher initial margins and decreased markdown activity as a result of improved inventory management in the second half of the year, partially offset by higher inventory shrinkage. In addition, gross profit for fiscal 2008 included a \$46 million excise tax refund on taxes previously paid on past prepaid phone card sales.

Segment operating expenses as a percentage of segment net sales increased 0.3 percentage points in fiscal 2009 compared to the prior year due to hurricane-related expenses, higher bonus payments for store associates, higher utility costs and an increase in health benefit costs.

Segment operating expenses as a percentage of segment net sales increased 0.2 percentage points in fiscal 2008 from fiscal 2007, primarily due to lower segment net sales increases compared to the prior year and higher costs associated with our store maintenance and remodel programs. In fiscal 2008, operating expenses were favorably affected by the change in estimated losses associated with our general liability and worker's compensation claims, which reduced accrued liabilities for such claims by \$274 million before tax, partially offset by pre-tax charges of \$145 million for certain legal and other contingencies.

Other income in fiscal 2009 increased from the prior year due to continued growth in our financial services area. Other income in fiscal 2008 increased from the prior year due to continued growth in our financial services area and increases in recycling income. Additionally, other income for fiscal 2008 includes pre-tax gains of \$188 million from the sale of certain real estate properties.

**Walmart U.S. comparable store sales were higher in fiscal 2009 due to an increase in customer traffic, as well as an increase in average transaction size per customer.**

### International Segment

Fiscal Year	Segment Net Sales Increase from Prior Fiscal Year	Segment Operating Income (in millions)	Segment Operating Income Increase from Prior Fiscal Year	Operating Income as a Percentage of Segment Net Sales
<b>2009</b>	<b>9.1%</b>	<b>\$4,940</b>	<b>4.6%</b>	<b>5.0%</b>
2008	17.6%	4,725	10.8%	5.2%
2007	29.8%	4,265	24.8%	5.5%

At January 31, 2009, our International segment was comprised of our wholly-owned subsidiaries operating in Argentina, Brazil, Canada, Japan, Puerto Rico and the United Kingdom, our majority-owned subsidiaries operating in five countries in Central America, and in Chile and Mexico, our joint ventures in India and China and our other controlled subsidiaries in China.

The fiscal 2009 increase in the International segment's net sales primarily resulted from net sales growth from existing units and our international expansion program, offset by the unfavorable impact of changes in foreign currency exchange rates of \$2.3 billion. Our international expansion program added 517 units and 29.2 million or 13.1% of additional unit square footage, net of relocations and closings. The acquisition of Distribución y Servicio contributed 197 stores and 9.6 million square feet in fiscal 2009.

The fiscal 2008 increase in the International segment's net sales primarily resulted from net sales growth from existing units, our international expansion program and the favorable impact of changes in foreign currency exchange rates of \$4.5 billion. Our international expansion program added 364 units and 34.1 million or 17.9% of additional unit square footage, net of relocations and closings. The consolidation of Bounteous Company Limited ("BCL") contributed 101 stores under the Trust-Mart banner and 17.7 million square feet in fiscal 2008.

For additional information regarding our acquisitions, refer to footnote 6 of the Notes to Consolidated Financial Statements.

In fiscal 2009, the International segment's gross profit margin decreased 0.3 percentage points compared to the prior year. The decrease was primarily driven by growth in lower margin fuel sales in the United Kingdom and the transition to EDLP as a strategy in Japan.

In fiscal 2008, gross profit margin increased by 0.2 percentage points largely driven by Brazil and the United Kingdom. Gross profit in Brazil was favorably impacted by global sourcing initiatives and improved supplier negotiations. Fiscal 2008 gross profit in the United Kingdom was positively impacted by a mix shift toward premium, private-label food products.

Segment operating expenses as a percentage of segment net sales decreased slightly in fiscal 2009 compared to the prior year primarily as a result of strong cost control measures in the United Kingdom and every day low cost initiatives in Japan designed to support the shift to EDLP, partially offset by accruals for certain legal matters.

Segment operating expenses as a percentage of segment net sales increased 0.3 percentage points in fiscal 2008 primarily as a result of an accrual for certain legal matters, the impact of restructuring and impairment charges at Seiyu, the impact of the consolidation of BCL, the startup of our joint venture in India and banking operations in Mexico and overall sales pressures in Mexico.

Other income as a percentage of segment net sales in fiscal 2009 was consistent with the prior year.

In fiscal 2009, foreign currency exchange rate changes unfavorably impacted operating income by \$266 million. Although movements in foreign currency exchange rates cannot reasonably be predicted, volatility in foreign currency exchange rates, when compared to prior periods, may continue to impact the International segment's reported operating results in the foreseeable future. In fiscal 2008, foreign currency exchange rate changes favorably impacted operating income by \$227 million.

**The fiscal 2009 increase in the International segment's net sales primarily resulted from net sales growth from existing units and our international expansion program, offset by the unfavorable impact of changes in foreign currency exchange rates of \$2.3 billion. Our international expansion program added 517 units and 29.2 million or 13.1% of additional unit square footage, net of relocations and closings.**

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## Sam's Club Segment

Fiscal Year	Segment Net Sales Increase from Prior Fiscal Year	Segment Operating Income (in millions)	Segment Operating Income Increase from Prior Fiscal Year	Operating Income as a Percentage of Segment Net Sales
<b>2009</b>	<b>5.6%</b>	<b>\$1,610</b>	<b>-0.5%</b>	<b>3.4%</b>
2008	6.7%	1,618	9.3%	3.6%
2007	4.5%	1,480	5.2%	3.6%

Growth in net sales for the Sam's Club segment in fiscal 2009 and fiscal 2008 resulted from comparable store sales increases, including fuel, of 4.8% in fiscal 2009 and 4.9% in fiscal 2008, along with our continued club expansion activities.

The Sam's Club segment expansion program consists of opening new units, relocations that result in more square footage, as well as expansions of existing clubs. Eleven new clubs opened in fiscal 2009 and 12 new clubs opened in fiscal 2008. No clubs were closed for fiscal 2009 or 2008. In fiscal 2009, our total expansion program added approximately 1.7 million or 2.1% additional club square footage, net of relocations. In fiscal 2008, our total expansion program added approximately 2.0 million, or 2.6%, of additional club square footage, net of relocations.

Comparable club sales increased during fiscal 2009 due to growth rates in food and consumables as well as an increase in member traffic and transaction size per member. Comparable club sales in fiscal 2008 increased compared to fiscal 2007 primarily due to growth in food, pharmacy, electronics and certain consumables categories as well as an increase in both member traffic and average transaction size per member. Additionally, fuel sales had a positive impact of 1.2 percentage points for fiscal 2009 and 0.7 percentage points in fiscal 2008 on comparable club sales.

Gross profit margin increased 0.1 percentage points during fiscal 2009 compared to the prior year due to strong sales in fresh food and other food-related categories, consumable categories and the positive impact of a higher fuel gross profit rate. In fiscal 2008, gross profit margin increased 0.2 percentage points compared to the prior year due to strong sales in fresh food and other food-related categories, pharmacy and consumable categories, in addition to the \$39 million excise tax refund on taxes previously paid on prior period prepaid phone card sales.

Segment operating expenses as a percentage of segment net sales increased 0.2 percentage points in fiscal 2009 compared to the prior year. In fiscal 2009, operating expenses were negatively impacted by higher utility costs, an increase in health benefit costs, and hurricane related expenses.

Segment operating expenses as a percentage of segment net sales decreased 0.1 percentage points in fiscal 2008 from fiscal 2007, primarily due to a decrease in advertising costs. Additionally, in fiscal 2008, operating expenses were favorably affected by the change in estimated losses associated with our general liability and worker's compensation claims, which reduced accrued liabilities for such claims by \$21 million before tax, partially offset by pre-tax charges of \$15 million for certain legal contingencies.

Membership and other income, which includes a variety of income categories, increased in fiscal 2009 when compared to fiscal 2008. Membership income, which is recognized over the term of the membership, increased in fiscal 2009 compared to fiscal 2008. Membership and other income increased in fiscal 2008 when compared to fiscal 2007.

## Liquidity and Capital Resources

### Highlights

(Amounts in millions)	Fiscal Year Ended January 31,		
	2009	2008	2007
Net cash provided by operating activities of continuing operations	\$ 23,147	\$ 20,642	\$ 20,280
Purchase of Company stock	(3,521)	(7,691)	(1,718)
Dividends paid	(3,746)	(3,586)	(2,802)
Proceeds from issuance of long-term debt	6,566	11,167	7,199
Payment of long-term debt	(5,387)	(8,723)	(5,758)
(Decrease) increase in commercial paper	(3,745)	2,376	(1,193)
Total assets of continuing operations	\$163,234	\$162,547	\$150,658

### Overview

Cash flows provided by operating activities of continuing operations supply us with a significant source of liquidity. The increases in cash flows provided by operating activities of continuing operations for each fiscal year were primarily attributable to an increase in income from continuing operations and improved working capital management.

### Working Capital

Current liabilities exceeded current assets at January 31, 2009, by \$6.4 billion, a decrease of \$4.0 billion from January 31, 2008, largely due to a reduction in commercial paper outstanding at January 31, 2009. Our ratio of current assets to current liabilities was 0.9 at January 31, 2009 and 0.8 at January 31, 2008. We generally have a working capital deficit due to our efficient use of cash in funding operations and in providing returns to shareholders in the form of stock repurchases and payment of dividends.

### Company Share Repurchase Program

From time to time, we have repurchased shares of our common stock under a \$10.0 billion share repurchase program authorized by our Board of Directors in September 2004.

On May 31, 2007, the Board of Directors replaced the \$10.0 billion share repurchase program, which had \$3.3 billion of remaining authorization for share repurchases, with a new \$15.0 billion share repurchase program announced on June 1, 2007. Under the new share repurchase program, there is no expiration date or other restriction limiting the period over which we can make our share repurchases under the new program, which will expire only when and if we have repurchased \$15.0 billion of our shares under the program. Under the new program, repurchased shares are constructively retired and returned to unissued status. We consider several factors in determining when to execute the share repurchases, including among other things, our current cash needs, our capacity for leverage, our cost of borrowings and the market price of our common stock. At January 31, 2009, approximately \$5.0 billion remained of the \$15.0 billion authorization. As a

result of the economic environment and instability of the credit markets, we suspended our share repurchase program in October 2008. We reinstated our share repurchase program in February 2009 and will continue to monitor market conditions in connection with our program.

### Common Stock Dividends

We paid dividends of \$0.95 per share in fiscal 2009, representing an 8.0% increase over fiscal 2008. The fiscal 2008 dividend of \$0.88 per share represented a 31.3% increase over fiscal 2007. We have increased our dividend every year since the first dividend was declared in March 1974.

On March 5, 2009, the Company's Board of Directors approved an increase in the annual dividend for fiscal 2010 to \$1.09 per share, an increase of 15% over the dividends paid in fiscal 2009. The annual dividend will be paid in four quarterly installments on April 6, 2009, June 1, 2009, September 8, 2009, and January 4, 2010 to holders of record on March 13, May 15, August 14 and December 11, 2009, respectively.

### Contractual Obligations and Other Commercial Commitments

The following table sets forth certain information concerning our obligations and commitments to make contractual future payments, such as debt and lease agreements, and contingent commitments:

(Amounts in millions)	Payments Due During Fiscal Years Ending January 31,				
	Total	2010	2011–2012	2013–2014	Thereafter
<b>Recorded contractual obligations:</b>					
Long-term debt	\$ 37,197	\$ 5,848	\$ 8,551	\$ 5,723	\$17,075
Commercial paper	1,506	1,506	—	—	—
Capital lease obligations	5,518	569	1,083	952	2,914
<b>Unrecorded contractual obligations:</b>					
Non-cancelable operating leases	12,830	1,161	2,135	1,704	7,830
Interest on long-term debt	27,536	1,973	3,123	2,625	19,815
Undrawn lines of credit	10,234	5,942	4,276	16	—
Trade letters of credit	2,388	2,388	—	—	—
Standby letters of credit	2,034	2,034	—	—	—
Purchase obligations	4,451	3,220	952	195	84
<b>Total commercial commitments</b>	<b>\$103,694</b>	<b>\$24,641</b>	<b>\$20,120</b>	<b>\$11,215</b>	<b>\$47,718</b>

Purchase obligations include legally binding contracts such as firm commitments for inventory and utility purchases, as well as commitments to make capital expenditures, software acquisition/license commitments and legally binding service contracts. Purchase orders for the purchase of inventory and other services are not included in the table above. Purchase orders represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current inventory needs and are fulfilled by our suppliers within short time periods. We also enter into contracts for outsourced services; however, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing for payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid with respect to some unrecorded contractual commitments may be different depending on the timing of receipt of goods or services or changes to agreed-upon amounts for some obligations.

**On March 5, 2009, the Company's Board of Directors approved an increase in the annual dividend for fiscal 2010 to \$1.09 per share, an increase of 15% over the dividends paid in fiscal 2009.**

# Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to the amounts shown in the table above, \$1.0 billion of unrecognized tax benefits have been recorded as liabilities in accordance with Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), the timing of which is uncertain. FIN 48, which was adopted in fiscal year 2008, set out criteria for the use of judgment in assessing the timing and amounts of deductible and taxable items. Refer to Note 5 to the Consolidated Financial Statements for additional discussion on unrecognized tax benefits.

## Off Balance Sheet Arrangements

In addition to the unrecorded contractual obligations discussed and presented above, the Company has made certain guarantees as discussed below for which the timing of payment, if any, is unknown.

In connection with certain debt financing, we could be liable for early termination payments if certain unlikely events were to occur. At January 31, 2009, the aggregate termination payment would have been \$153 million. The two arrangements pursuant to which these payments could be made expire in fiscal 2011 and fiscal 2019.

In connection with the development of our grocery distribution network in the United States, we have agreements with third parties which would require us to purchase or assume the leases on certain unique equipment in the event the agreements are terminated. These agreements, which can be terminated by either party at will, cover up to a five-year period and obligate the Company to pay up to approximately \$66 million upon termination of some or all of these agreements.

The Company has potential future lease commitments for land and buildings for approximately 321 future locations. These lease commitments have lease terms ranging from 1 to 35 years and provide for certain minimum rentals. If executed, payments under operating leases would increase by \$72 million for fiscal 2010, based on current cost estimates.

## Capital Resources

During fiscal 2009, we issued \$6.6 billion of long-term debt. The net proceeds from the issuance of such long-term debt were used to repay outstanding commercial paper indebtedness and for other general corporate purposes.

Management believes that cash flows from continuing operations and proceeds from the sale of commercial paper will be sufficient to finance seasonal buildups in merchandise inventories and meet other cash requirements. If our operating cash flows are not sufficient to pay dividends and to fund our capital expenditures, we anticipate funding any shortfall in these expenditures with a combination of commercial paper and long-term debt. We plan to refinance existing long-term debt as it matures and may desire to obtain additional long-term financing for other corporate purposes. We anticipate no difficulty in obtaining long-term financing in view of our credit rating and favorable experiences in the debt market in the recent past. The following table details the ratings of the credit rating agencies that rated our outstanding indebtedness at January 31, 2009. The rating agency ratings are not recommendations to buy, sell or hold our commercial paper or debt securities. Each rating may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating.

Rating Agency	Commercial Paper	Long-Term Debt
Standard & Poor's	A-1+	AA
Moody's Investors Service	P-1	Aa2
Fitch Ratings	F1+	AA
DBRS Limited	R-1(middle)	AA

To monitor our credit rating and our capacity for long-term financing, we consider various qualitative and quantitative factors. We monitor the ratio of our debt to our total capitalization as support for our long-term financing decisions. At January 31, 2009 and January 31, 2008, the ratio of our debt to total capitalization was 39.3% and 40.9%, respectively. For the purpose of this calculation, debt is defined as the sum of commercial paper, long-term debt due within one year, obligations under capital leases due in one year, long-term debt and long-term obligations under capital leases. Total capitalization is defined as debt plus shareholders' equity. Our ratio of debt to our total capitalization decreased in fiscal 2009 primarily due to decreased borrowing levels.

We also use the ratio of adjusted cash flow from continuing operations to adjusted average debt as another metric to review leverage.

Adjusted cash flow from continuing operations as the numerator is defined as cash flow from operations of continuing operations for the current year plus two-thirds of the current year operating rent expense less current year capitalized interest expense. Adjusted average debt as the denominator is defined as average debt plus eight times average operating rent expense. Average debt is the simple average of beginning and ending commercial paper, long-term debt due within one year, obligations under capital leases due in one year, long-term debt and long-term obligations under capital leases. Average operating rent expense is the simple average of current year and prior year operating rent expense. We believe this metric is useful to investors as it provides them with a tool to measure our leverage. This metric was 43% for fiscal 2009 and 40% for fiscal 2008. The increase in the metric is primarily due to the increase in net cash flow from continuing operations.

The ratio of adjusted cash flow to adjusted average debt is considered a non-GAAP financial measure under the SEC's rules. The most recognized directly comparable GAAP measure is the ratio of cash flow from operations of continuing operations for the current year to average total debt (which excludes any effect of operating leases or capitalized interest), which was 53% for fiscal 2009 and 49% for fiscal 2008.

A detailed calculation of the adjusted cash flow from continuing operations to adjusted average debt is set forth below along with a reconciliation to the corresponding measurement calculated in accordance with generally accepted accounting principles.

(Amounts in millions)	Fiscal Year Ended January 31,	
	2009	2008
<b>Calculation of adjusted cash flow from operations to average debt</b>		
<b>Numerator</b>		
Net cash provided by operating activities of continuing operations	\$23,147	\$20,642
+ Two-thirds current period operating rent expense <sup>(1)</sup>	1,167	1,069
– Current year capitalized interest expense	88	150
<b>Numerator</b>	<b>\$24,226</b>	\$21,561
<b>Denominator</b>		
Average debt <sup>(2)</sup>	\$43,445	\$41,845
Eight times average operating rent expense <sup>(3)</sup>	13,420	12,124
<b>Denominator</b>	<b>\$56,865</b>	\$53,969
<b>Adjusted cash flow from continuing operations to average debt <sup>(4)</sup></b>	<b>43%</b>	40%
<b>Calculation of cash flows from operating activities of continuing operations to average debt</b>		
<b>Numerator</b>		
Net cash provided by operating activities of continuing operations	\$23,147	\$20,642
<b>Denominator</b>		
Average debt <sup>(2)</sup>	\$43,445	\$41,845
<b>Cash flows from operating activities of continuing operations to average debt</b>	<b>53%</b>	49%
<b>Selected financial information</b>		
Current period operating rent expense	\$ 1,751	\$ 1,604
Prior period operating rent expense	1,604	1,427
Current period capitalized interest	88	150

#### Certain Balance Sheet Information

January 31,	2009	2008	2007
Commercial paper	\$ 1,506	\$ 5,040	\$ 2,570
Long-term debt due within one year	5,848	5,913	5,428
Obligations under capital leases due within one year	315	316	285
Long-term debt	31,349	29,799	27,222
Long-term obligations under capital leases	3,200	3,603	3,513
Total debt	\$42,218	\$44,671	\$39,018

(1)  $2/3 \times \$1,751$  for fiscal year 2009 and  $2/3 \times \$1,604$  for fiscal year 2008.

(2)  $(\$42,218 + \$44,671)/2$  for fiscal year 2009 and  $(\$44,671 + \$39,018)/2$  for fiscal year 2008.

(3)  $8 \times ((\$1,751 + \$1,604)/2)$  for fiscal year 2009 and  $8 \times ((\$1,604 + \$1,427)/2)$  for fiscal year 2008.

(4) The calculation of the ratio as defined.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Future Expansion

We expect to make capital expenditures of approximately \$12.5 billion to \$13.5 billion in fiscal 2010. We plan to finance this expansion and any acquisitions of other operations that we may make during fiscal 2010 primarily out of cash flows from operations.

Fiscal 2010 capital expenditures will include the addition of the following new, relocated and expanded units:

	Fiscal Year 2010 Projected Unit Growth
Supercenters	125–140
Neighborhood Markets	25
<b>Total Walmart U.S.</b>	<b>150–165</b>
Sam's Club Segment	15–20
<b>Total United States</b>	<b>165–185</b>
<b>Total International</b>	<b>550–600</b>
<b>Grand total</b>	<b>715–785</b>

The following represents an allocation of our capital expenditures:

Capital Expenditures	Allocation of Capital Expenditures		
	Projections	Actual	
	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
New stores, including expansions & relocations	31.1%	<b>33.3%</b>	48.1%
Remodels	14.1%	<b>10.2%</b>	5.7%
Information systems, distribution and other	22.6%	<b>20.3%</b>	15.8%
<b>Total United States</b>	<b>67.8%</b>	<b>63.8%</b>	69.6%
International	32.2%	<b>36.2%</b>	30.4%
<b>Total capital expenditures</b>	<b>100.0%</b>	<b>100.0%</b>	100.0%

## Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates and changes in foreign currency exchange rates.

The analysis presented for each of our market risk sensitive instruments is based on a 10% change in interest or foreign currency exchange rates. These changes are hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. As the hypothetical figures discussed below indicate, changes in fair value based on the assumed change in rates generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

At January 31, 2009 and 2008, we had \$37.2 billion and \$35.7 billion, respectively, of long-term debt outstanding. Our weighted average effective interest rate on long-term debt, after considering the effect of interest rate swaps, was 4.4% and 4.8% at January 31, 2009 and 2008, respectively. A hypothetical 10% increase in interest rates in effect at January 31, 2009 and 2008, would have increased annual interest expense on borrowings outstanding at those dates by \$16 million and \$25 million, respectively.

At January 31, 2009 and 2008, we had \$1.5 billion and \$5.0 billion of outstanding commercial paper obligations. The weighted average interest rate, including fees, on these obligations at January 31, 2009 and 2008, was 0.9% and 4.0%, respectively. A hypothetical 10% increase in commercial paper rates in effect at January 31, 2009 and 2008, would have increased annual interest expense on the outstanding balances on those dates by \$1 million and \$20 million, respectively.

We enter into interest rate swaps to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed and floating-rate debt. Our preference is to maintain between 40% and 50% of our debt portfolio, including interest rate swaps, in floating-rate debt. The swap agreements are contracts to exchange fixed- or variable-rates for variable- or fixed-interest rate payments periodically over the life of the instruments. The aggregate fair value of these swaps represented a gain of \$304 million at January 31, 2009 and a gain of \$265 million at January 31, 2008. A hypothetical increase or decrease of 10% in interest rates from the level in effect at January 31, 2009, would have resulted in a loss or gain in value of the swaps of \$17 million. A hypothetical increase (or decrease) of 10% in interest rates from the level in effect at January 31, 2008, would have resulted in a (loss) or gain in value of the swaps of (\$45 million) or \$46 million, respectively.

We hold currency swaps to hedge the foreign currency exchange component of our net investments in the United Kingdom. The aggregate fair value of these swaps at January 31, 2009 and 2008 represented a gain of \$526 million and a loss of \$75 million, respectively. A hypothetical 10% increase or decrease in the foreign currency exchange rates underlying these swaps from the market rate would have resulted in a loss or gain in the value of the swaps of \$150 million at January 31, 2009. A hypothetical 10% increase or decrease in the foreign currency exchange rates underlying these swaps from the market rate would have resulted in a loss or gain in the value of the swaps of \$182 million at January 31, 2008. A hypothetical 10% change in interest rates underlying these swaps from the market rates in effect at January 31, 2009 and 2008, would have an insignificant impact on the value of the swaps.

In addition to currency swaps, we have designated debt of approximately £3.0 billion as of January 31, 2009 and 2008, as a hedge of our net investment in the United Kingdom. At January 31, 2009, a hypothetical 10% increase or decrease in value of the U.S. dollar relative to the British pound would have resulted in a gain or loss in the value of the debt of \$440 million. At January 31, 2008, a hypothetical 10% increase or decrease in value of the U.S. dollar relative to the British pound would have resulted in a gain or loss in the value of the debt of \$601 million. In addition, we have designated debt of approximately ¥437.4 and ¥142.1 billion as of January 31, 2009 and 2008, respectively,

as a hedge of our net investment in Japan. At January 31, 2009, a hypothetical 10% increase or decrease in value of the U.S. dollar relative to the Japanese yen would have resulted in a gain or loss in the value of the debt of \$443 million. At January 31, 2008, a hypothetical 10% increase or decrease in value of the U.S. dollar relative to the Japanese yen would have resulted in a gain or loss in the value of the debt of \$216 million.

### Summary of Critical Accounting Policies

Management strives to report the financial results of the Company in a clear and understandable manner, although in some cases accounting and disclosure rules are complex and require us to use technical terminology. In preparing our Consolidated Financial Statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations as reflected in our financial statements. These judgments and estimates are based on past events and expectations of future outcomes. Actual results may differ from our estimates.

Management continually reviews its accounting policies, how they are applied and how they are reported and disclosed in our financial statements. Following is a summary of our more significant accounting policies and how they are applied in preparation of the financial statements.

#### Inventories

We value our inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the last-in, first-out (“LIFO”) method for substantially all our Walmart U.S. segment’s merchandise. Sam’s Club merchandise and merchandise in our distribution warehouses are valued based on weighted average cost using the LIFO method. Inventories for international operations are primarily valued by the retail method of accounting and are stated using the first-in, first-out (“FIFO”) method.

Under the retail method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to each merchandise grouping’s retail value. The FIFO cost-to-retail ratio is based on the initial margin of beginning inventory plus the fiscal year purchase activity. The cost-to-retail ratio for measuring any LIFO reserves is based on the initial margin of the fiscal year purchase activity less the impact of any markdowns. The retail method requires management to make certain judgments and estimates that may significantly impact the ending inventory valuation at cost as well as the amount of gross profit recognized. Judgments made include recording markdowns used to sell through inventory and shrinkage. When management determines the salability of inventory has diminished, markdowns for clearance activity and the related cost impact are recorded at the time the price change decision is made. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences and age of merchandise, as well as seasonal and fashion trends. Changes in weather patterns and customer preferences related to fashion trends could cause material changes in the amount and timing of markdowns from year to year.

When necessary, the Company records a LIFO provision for a quarter for the estimated annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. Our LIFO provision

is calculated based on inventory levels, markup rates and internally generated retail price indices. At January 31, 2009 and 2008, our inventories valued at LIFO approximated those inventories as if they were valued at FIFO.

The Company provides for estimated inventory losses (“shrinkage”) between physical inventory counts on the basis of a percentage of sales. The provision is adjusted annually to reflect the historical trend of the actual physical inventory count results.

#### Impairment of Assets

We evaluate long-lived assets other than goodwill and assets with indefinite lives for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Management’s judgments regarding the existence of impairment indicators are based on market conditions and our operational performance, such as operating income and cash flows. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store level or, in certain circumstances, at the market group level. The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demographics. Thus our accounting estimates may change from period to period. These factors could cause management to conclude that impairment indicators exist and require that impairment tests be performed, which could result in management determining that the value of long-lived assets is impaired, resulting in a write-down of the long-lived assets.

Goodwill and other indefinite-lived acquired intangible assets are not amortized, but are evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. This evaluation requires management to make judgments relating to future cash flows, growth rates, and economic and market conditions. These evaluations are based on determining the fair value of a reporting unit or asset using a valuation method such as discounted cash flow or a relative, market-based approach. Historically, the Company has generated sufficient returns to recover the cost of goodwill and other indefinite-lived acquired intangible assets. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted.

#### Income Taxes

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in our financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from taxing authorities. When facts and circumstances change, we reassess these probabilities and record any changes in the financial statements as appropriate. We account for uncertain tax positions under the provisions of Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” which sets out criteria for the use of judgment in assessing the timing and amounts of deductible and taxable items.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Self-Insurance

We use a combination of insurance, self-insured retention and self-insurance for a number of risks, including, without limitation, workers' compensation, general liability, vehicle liability, and the Company's obligation for employee-related health care benefits. Liabilities associated with the risks that we retain are estimated by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions. In calculating our liability, we analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims made against our self-insured program. The estimated accruals for these liabilities could be significantly affected if future occurrences or loss development differ from these assumptions. For example, for our workers' compensation and general liability, a 1% increase or decrease to the assumptions for claims costs or loss development factors would increase or decrease our self-insurance accrual by \$25 million.

During the last few years, we have enhanced how we manage our workers' compensation and general liability claims. As a result, our loss experience with respect to such claims has improved and the actuarially determined ultimate loss estimates, primarily for claims from fiscal 2004 through 2007, were reduced during the quarter ended July 31, 2007. The reductions in ultimate loss estimates resulted primarily from improved claims handling experience, which impacts loss development factors and other actuarial assumptions. Due to the beneficial change in estimate of our ultimate losses, accrued liabilities for general liability and workers' compensation claims were reduced by \$196 million after tax, resulting in an increase in net income per basic and diluted common share of \$0.05 for the second quarter of fiscal year 2008.

For a summary of our significant accounting policies, please see Note 1 to our Consolidated Financial Statements that appear after this discussion.

## Forward-Looking Statements

This Annual Report contains statements that Wal-Mart believes are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements are intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. These forward-looking statements include statements in Management's Discussion and Analysis of Financial Condition and Results of Operations: under the caption "Company Performance Metrics—Comparable Store Sales" regarding the effect of

the opening of new stores on comparable store sales and the decline in that impact over time as new store growth is reduced and the trend of Sam's Club net sales decreasing as a percentage of total net sales for the foreseeable future; under the caption "Results of Operations—Consolidated Results of Operations" with respect to increased expenses from transformation projects to continue in the foreseeable future; under the caption "Results of Operations—International Segment" with respect to the possible impact of currency exchange rate fluctuations on the International segment's reported results; under the caption "Liquidity and Capital Resources—Common Stock Dividends" regarding the payment of dividends in fiscal 2010; under the caption "Liquidity and Capital Resources—Off Balance Sheet Arrangements" with respect to the amount of increases in payments under operating leases if certain leases are executed; under the caption "Liquidity and Capital Resources—Capital Resources" with respect to our ability to finance seasonal build-ups in inventories and to meet other cash requirements with cash flows from operations and the sale of commercial paper, our ability to fund certain cash flow shortfalls by the sale of commercial paper and long-term debt securities, our plan to refinance long-term debt as it matures, our anticipated funding of any shortfall in cash to pay dividends and make capital expenditures through the sale of commercial paper and long-term debt securities, our plan to refinance existing long-term debt as it matures, and our ability to sell our long-term securities; and under the caption "Liquidity and Capital Resources—Future Expansion" with respect to our capital expenditures in fiscal 2010, how we will finance expansion and any acquisitions made during fiscal 2010, the anticipated number of new stores and clubs to be opened in the United States and internationally and the anticipated allocation of capital expenditures in fiscal 2010. These statements also include statements in Note 2 to our Consolidated Financial Statements regarding the effect of the adoption of Statement of Financial Accounting Standards No. 157, in Note 5 to our Consolidated Financial Statements regarding the realization of certain deferred tax assets, possible tax treatment and effect of the loss recorded in connection with the disposition of our German operations in fiscal year 2007, the effect of the resolution of certain tax audits, the possible timing and effect of certain tax payments, and the effect of certain tax issues on our consolidated financial condition or results of operations, in Note 8 to our Consolidated Financial Statements regarding the aggregate amount of the payments to be made in connection with the settlement of certain litigation and in Note 13 to our Consolidated Financial Statements as to the expected lack of material impact on the Company's financial condition or results of operations from the adoption of Statement of Financial Accounting Standards No. 141(R) and No. 160.

The letter of our President and Chief Executive Officer appearing in this Annual Report includes forward-looking statements that relate to our efforts contributing to our efficiency, maintaining focus on price leadership, our contribution to sustainability, our efforts in responsible sourcing, our plan to create jobs in fiscal 2010, our continued efforts at inclusiveness, our making a difference by participating in debates and taking actions on certain issues, continued change at Wal-Mart, no change occurring in aspects of our culture, and our plan to distance Wal-Mart from our competitors and to continue helping our customers save money. Forward-looking statements appear elsewhere in this Annual Report: under the caption "Now More Than Ever at Walmart U.S. Save money. Live better." and relate to management's expectations for remodeling stores in fiscal 2010 and the strengthening of our value proposition around the world; and under the caption "Now More Than Ever We Make A Difference Around The World" and relate to management's expectations that achievement of sustainability goals will make Wal-Mart an even more efficient, innovative and competitive organization and that Wal-Mart will create tens of thousands of jobs in fiscal 2010. The forward-looking statements described above are identified by the use in such statements of one or more of the words or phrases "anticipate," "believes," "could be realized," "could reduce," "expect," "is not expected," "may become," "may continue," "may result," "plan," "will be," "will continue," "will find," "will fully realize," "will maintain," "will make," "will never change," "will play," "will strengthen," "would be," "would not impact" and other, similar words or phrases. Similarly, descriptions of our objectives, strategies, plans, goals or targets are also forward-looking statements. These statements discuss, among other things, expected growth, future revenues, future cash flows, future capital expenditures, future performance and the anticipation and expectations of Wal-Mart and its management as to future occurrences and trends.

The forward-looking statements included in this Annual Report and that we make elsewhere are subject to certain factors, in the United States and internationally, that could affect our business operations, financial performance, business strategy, plans, goals and objectives. Those factors include, but are not limited to: general economic conditions, including the current economic crisis and disruption in the financial markets, unemployment levels, consumer credit availability, levels of consumer disposable income, consumer spending patterns and debt levels, inflation, the cost of the goods we sell, labor costs, transportation costs, the cost of diesel fuel, gasoline, natural gas and electricity, the cost of healthcare benefits, accident costs, our casualty and other insurance costs, information security costs, the cost of construction materials, availability of acceptable building sites for new

stores, clubs and other formats, competitive pressures, accident-related costs, weather patterns, catastrophic events, storm and other damage to our stores and distribution centers, weather-related closing of stores, availability and transport of goods from domestic and foreign suppliers, currency exchange fluctuations and volatility, trade restrictions, changes in tariff and freight rates, adoption of or changes in tax and other laws and regulations that affect our business, costs of compliance with laws and regulations, the outcome of legal proceedings to which we are a party, interest rate fluctuations, changes in employment legislation and other capital market, economic and geo-political conditions and events, including civil unrest and terrorist attacks. Moreover, we typically earn a disproportionate part of our annual operating income in the fourth quarter as a result of the seasonal buying patterns. Those buying patterns are difficult to forecast with certainty. The foregoing list of factors that may affect our performance is not exclusive. Other factors and unanticipated events could adversely affect our business operations and financial performance. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition, results of operations and liquidity in other of our filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K. We filed our Annual Report on Form 10-K for the year ended January 31, 2009, with the SEC on April 1, 2009. The forward-looking statements described above are made based on knowledge of our business and the environment in which we operate. However, because of the factors described and listed above, as well as other factors, or as a result of changes in facts, assumptions not being realized or other circumstance, actual results may materially differ from anticipated results described or implied in these forward-looking statements. We cannot assure the reader that the results or developments expected or anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. You are urged to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements and not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Annual Report speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances, except as may be required by applicable law.