

Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

General

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 fiscal year ends on January 31. During the fiscal year ended January 31, 2008, we had net sales of \$374.5 billion.

Consolidation

The Consolidated Financial Statements include the accounts of Wal-Mart Stores, Inc. and its subsidiaries. Significant intercompany transactions have been eliminated in consolidation. Investments in which the Company has a 20% to 50% voting interest and where the Company exercises significant influence over the investee are accounted for using the equity method.

The Company's operations in Argentina, Brazil, China, Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico, Nicaragua and the United Kingdom are consolidated using a December 31 fiscal year-end, generally due to statutory reporting requirements. There were no significant intervening events in January 2008 which materially affected the financial statements. The Company's operations in Canada and Puerto Rico are consolidated using a January 31 fiscal year-end.

The Company consolidates the accounts of certain variable interest entities where it has been determined that Wal-Mart is the primary beneficiary of those entities' operations. The assets, liabilities and results of operations of these entities are not material to the Company.

Cash and Cash Equivalents

The Company considers investments with a maturity of three months or less when purchased to be cash equivalents. The majority of payments due from banks for third-party credit card, debit card and electronic benefit transactions ("EBT") process within 24-48 hours, except for transactions occurring on a Friday, which are generally processed the following Monday. All credit card, debit card and EBT transactions that process in less than seven days are classified as cash and cash equivalents. Amounts due from banks for these transactions classified as cash totaled \$826 million and \$882 million at January 31, 2008 and 2007, respectively.

Receivables

Accounts receivable consist primarily of receivables from insurance companies resulting from our pharmacy sales, receivables from suppliers for marketing or incentive programs, receivables from real estate transactions and receivables from property insurance claims. Additionally, amounts due from banks for customer credit card, debit card and EBT transactions that take in excess of seven days to process are classified as accounts receivable.

Inventories

The Company values 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 of the Wal-Mart Stores segment's merchandise inventories. Sam's Club merchandise and merchandise in our distribution warehouses are valued based on the weighted average cost using the LIFO method. Inventories of foreign operations are primarily valued by the retail method of accounting, using the first-in, first-out ("FIFO") method. At January 31, 2008 and 2007, our inventories valued at LIFO approximate those inventories as if they were valued at FIFO.

Financial Instruments

The Company uses derivative financial instruments for purposes other than trading to manage its exposure to interest and foreign exchange rates, as well as to maintain an appropriate mix of fixed and floating-rate debt. Contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

Capitalized Interest

Interest costs capitalized on construction projects were \$150 million, \$182 million and \$157 million in fiscal 2008, 2007 and 2006, respectively.

Long-Lived Assets

Long-lived assets are stated at cost. Management reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows, which is at the individual store level or in certain circumstances a market group of stores. Undiscounted cash flows expected to be generated by the related assets are estimated over the asset's useful life based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, any potential impairment is measured based upon the fair value of the related asset or asset group as determined by an appropriate market appraisal or other valuation technique.

Goodwill and Other Acquired Intangible Assets

Goodwill represents the excess of purchase price over fair value of net assets acquired, and is allocated to the appropriate reporting unit when acquired. Other acquired intangible assets are stated at the fair value acquired as determined by a valuation technique commensurate with the intended use of the related asset. Goodwill and indefinite-lived other acquired intangible assets are not amortized; rather they are evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of the asset may be impaired. Definite-lived other acquired intangible

Notes to Consolidated Financial Statements

assets are considered long-lived assets and are amortized on a straight-line basis over the periods that expected economic benefits will be provided.

Indefinite-lived other acquired intangible assets are evaluated for impairment based on their fair values using valuation techniques which are updated annually based on the most recent variables and assumptions.

Goodwill is evaluated for impairment by determining the fair value of the related reporting unit. Fair value is measured based on a discounted cash flow method or relative market-based approach. The analyses require significant management judgment to evaluate the capacity of an acquired business to perform within projections. Historically, the Company has generated sufficient returns to recover the cost of the goodwill.

Goodwill is recorded on the balance sheet in the operating segments as follows:

(Amounts in millions)	January 31,	
	2008	2007
International	\$15,766	\$13,454
Sam's Club	305	305
Total goodwill	\$16,071	\$13,759

The change in the International segment's goodwill since fiscal 2007 resulted primarily from the acquisition of the controlling interest in Bounteous Company Ltd. ("BCL"), the tender offer to acquire the remaining outstanding common and preferred shares of our Japanese subsidiary, The Seiyu, Ltd. ("Seiyu"), and foreign exchange rate fluctuations.

Leases

The Company estimates the expected term of a lease by assuming the exercise of renewal options where an economic penalty exists that would preclude the abandonment of the lease at the end of the initial non-cancelable term and the exercise of such renewal is at the sole discretion of the Company. This expected term is used in the determination of whether a store lease is a capital or operating lease and in the calculation of straight-line rent expense. Additionally, the useful life of leasehold improvements is limited by the expected lease term or the economic life of the asset. If significant expenditures are made for leasehold improvements late in the expected term of a lease and renewal is reasonably assumed, the useful life of the leasehold improvement is limited to the end of the renewal period or economic life of the asset.

Rent abatements and escalations are considered in the calculation of minimum lease payments in the Company's capital lease tests and in determining straight-line rent expense for operating leases.

Foreign Currency Translation

The assets and liabilities of all foreign subsidiaries are translated using exchange rates at the balance sheet date. The income statements of foreign subsidiaries are translated using average exchange rates for the period. Related translation adjustments are recorded as a component of accumulated other comprehensive income.

Revenue Recognition

The Company recognizes sales revenue net of sales taxes and estimated sales returns at the time it sells merchandise to the customer, except for layaway transactions. The Company recognizes revenue from layaway transactions when the customer satisfies all payment obligations and takes possession of the merchandise. Customer purchases of shopping cards are not recognized as revenue until the card is redeemed and the customer purchases merchandise by using the shopping card.

Sam's Club Membership Fee Revenue Recognition

The Company recognizes Sam's Club membership fee revenue both in the United States and internationally over the term of the membership, which is 12 months. The following table details unearned revenue, membership fees received from members and the amount of revenue recognized in earnings for each of the fiscal years 2008, 2007 and 2006.

(Amounts in millions)	Fiscal Year Ended January 31,		
	2008	2007	2006
Deferred membership fee revenue, beginning of year	\$ 535	\$ 490	\$ 458
Membership fees received	1,054	1,030	940
Membership fee revenue recognized	(1,038)	(985)	(908)
Deferred membership fee revenue, end of year	\$ 551	\$ 535	\$ 490

Sam's Club membership fee revenue is included in membership and other income in the revenues section of the Consolidated Statements of Income.

Cost of Sales

Cost of sales includes actual product cost, the cost of transportation to the Company's warehouses, stores and clubs from suppliers, the cost of transportation from the Company's warehouses to the stores and clubs and the cost of warehousing for our Sam's Club segment.

Payments from Suppliers

Wal-Mart receives money from suppliers for various programs, primarily volume incentives, warehouse allowances and reimbursements for specific programs such as markdowns, margin protection and advertising. Substantially all payments from suppliers are accounted for as a reduction of purchases and recognized in our Consolidated Statements of Income when the related inventory is sold.

Operating, Selling, General and Administrative Expenses

Operating, selling, general and administrative expenses include all operating costs of the Company except those costs related to the transportation of products from the supplier to the warehouses, stores or clubs, the costs related to the transportation of products from the warehouses to the stores or clubs and the cost of warehousing for our Sam's Club segment. As a result, the cost of warehousing and occupancy for our Wal-Mart Stores and International segments' distribution facilities are included in operating, selling, general and administrative expenses. Because we do not include the cost of our

Notes to Consolidated Financial Statements

Wal-Mart Stores and International segments' distribution facilities in cost of sales, our gross profit and gross profit as a percentage of net sales (our "gross margin") may not be comparable to those of other retailers that may include all costs related to their distribution facilities in cost of sales and in the calculation of gross profit and gross margin.

Advertising Costs

Advertising costs are expensed as incurred and were \$2.0 billion, \$1.9 billion and \$1.6 billion in fiscal 2008, 2007 and 2006, respectively. Advertising costs consist primarily of print and television advertisements.

Pre-Opening Costs

The costs of start-up activities, including organization costs, related to new store openings, store remodels, expansions and relocations are expensed as incurred.

Share-Based Compensation

The Company recognizes expense for its share-based compensation based on the fair value of the awards that are granted. The fair value of stock options is estimated at the date of grant using the Black-Scholes-Merton option valuation model which was developed for use in estimating the fair value of exchange traded options that have no vesting restrictions and are fully transferable. Option valuation methods require the input of highly subjective assumptions, including the expected stock price volatility. Measured compensation cost, net of estimated forfeitures, is recognized ratably over the vesting period of the related share-based compensation award.

Share-based compensation awards that may be settled in cash are accounted for as liabilities and marked to market each period. Measured compensation cost for performance-based awards is recognized only if it is probable that the performance condition will be achieved.

Insurance/Self-Insurance

The Company uses 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 these risks are estimated by considering historical claims experience, demographic factors, frequency and severity factors and other actuarial assumptions. In estimating our liability for such claims, we periodically analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims. 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 fiscal year 2004 through 2007 claims, 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.

Depreciation and Amortization

Depreciation and amortization for financial statement purposes are provided on the straight-line method over the estimated useful lives of the various assets. Depreciation expense, including amortization of property under capital leases for fiscal years 2008, 2007 and 2006 was \$6.3 billion, \$5.5 billion and \$4.6 billion, respectively. For income tax purposes, accelerated methods of depreciation are used with recognition of deferred income taxes for the resulting temporary differences. Leasehold improvements are depreciated over the shorter of the estimated useful life of the asset or the remaining expected lease term. Estimated useful lives for financial statement purposes are as follows:

Buildings and improvements	5–50 years
Fixtures and equipment	3–12 years
Transportation equipment	3–15 years

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

In determining the quarterly provision for income taxes, the Company uses an annual effective tax rate based on expected annual income and statutory tax rates. The effective tax rate also reflects the Company's assessment of the ultimate outcome of tax audits. Significant discrete items are separately recognized in the income tax provision in the quarter in which they occur.

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 benefit 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. Financial Accounting Standards Board Interpretation ("FASB") No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), effective for the Company for fiscal year 2008, sets out the framework by which such judgments are to be made.

Notes to Consolidated Financial Statements

Accrued Liabilities

Accrued liabilities consist of the following:

(Amounts in millions)	January 31,	
	2008	2007
Accrued wages and benefits	\$ 5,247	\$ 5,347
Self-insurance	2,907	2,954
Other	7,645	6,374
Total accrued liabilities	\$15,799	\$14,675

Net Income Per Common Share

Basic net income per common share is based on the weighted-average number of outstanding common shares. Diluted net income per common share is based on the weighted-average number of outstanding shares adjusted for the dilutive effect of stock options and other share-based awards. The dilutive effect of stock options and other share-based awards was 6 million, 4 million and 5 million shares in fiscal 2008, 2007 and 2006, respectively. The Company had approximately 62 million, 62 million and 57 million option shares outstanding at January 31, 2008, 2007 and 2006, respectively, which were not included in the diluted net income per share calculation because their effect would be antidilutive.

Estimates and Assumptions

The preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior periods to conform to current presentations.

2 Commercial Paper and Long-term Debt

Information on short-term borrowings and interest rates is as follows (dollars in millions):

(Amounts in millions)	2008	Fiscal Year	
		2007	2006
Maximum amount outstanding at any month-end	\$9,176	\$7,968	\$9,054
Average daily short-term borrowings	5,657	4,741	5,719
Weighted-average interest rate	4.9%	4.7%	3.4%

Short-term borrowings consisted of \$5.0 billion and \$2.6 billion of commercial paper at January 31, 2008 and 2007, respectively. At January 31, 2008, the Company had committed lines of credit of \$8.5 billion with 30 firms and banks, which were used to support commercial paper. The committed lines of credit mature at varying times starting between June 2008 and June 2012, carry interest rates of LIBOR plus 11 to 15 basis points and at prime plus zero to 50 basis points, and incur commitment fees of 1.5 to 7.5 basis points on undrawn amounts.

Long-term debt at January 31 for each fiscal year presented consists of:

(Amounts in millions)	Due by Fiscal Year	2008	2007
Interest Rate			
0.310 – 11.750%, LIBOR less 0.10%	Notes due 2009	\$ 4,688	\$ 4,372
1.200 – 6.875%	Notes due 2010	4,584	4,614
5.250%	Notes due 2036	4,487	4,465
0.1838 – 10.880%	Notes due 2011 ⁽¹⁾	3,511	3,292
6.500%	Notes due 2038	3,000	—
0.750 – 7.250%	Notes due 2014	2,982	2,970
1.200 – 4.125%	Notes due 2012	2,481	2,426
5.750 – 7.550%	Notes due 2031	1,994	1,983
4.875%	Notes due 2039	1,987	1,966
2.950 – 5.800%	Notes due 2019 ⁽¹⁾	1,764	515
3.750 – 5.375%	Notes due 2018	1,027	28
3.150 – 6.630%	Notes due 2016	765	769
5.875%	Notes due 2028	750	—
1.600 – 5.000%	Notes due 2013	516	18
6.750%	Notes due 2024	250	250
2.300 – 2.875%	Notes due 2015	42	45
2.000 – 2.500%	Notes due 2017	24	37
2.875 – 13.750%, LIBOR less 0.1025%	Notes due 2008	—	3,141
5.502%	Notes due 2027	—	1,000
Other ⁽²⁾		860	759
Total		\$35,712	\$32,650

(1) Notes due in 2011 and 2019 both include \$500 million put options.

(2) Includes adjustments to debt hedged by derivatives.

The Company has \$1.0 billion in debt with embedded put options. The holders of one \$500 million debt issuance may require the Company to repurchase the debt at par plus accrued interest at any time. One issue of money market puttable reset securities in the amount of \$500 million is structured to be remarketed in connection with the annual reset of the interest rate. If, for any reason, the remarketing of the notes does not occur at the time of any interest rate reset, the holders of the notes must sell, and the Company must repurchase, the notes at par. All of these issuances have been classified as long-term debt due within one year in the Consolidated Balance Sheets.

Under certain lines of credit totaling \$8.5 billion, which were undrawn as of January 31, 2008, the Company has agreed to observe certain covenants, the most restrictive of which relates to maximum amounts of secured debt and long-term leases. In addition, one of our subsidiaries has restrictive financial covenants on \$2.0 billion of long-term debt that requires it to maintain certain equity, sales, and profit levels.

Notes to Consolidated Financial Statements

Long-term debt is unsecured except for \$1.1 billion, which is collateralized by property with an aggregate carrying amount of approximately \$1.3 billion. Annual maturities of long-term debt during the next five years and thereafter are:

(Amounts in millions) Fiscal Year	Annual Maturity
2009	\$ 5,913
2010	4,786
2011	3,002
2012	2,580
2013	592
Thereafter	18,839
Total	\$35,712

The Company has entered into sale/leaseback transactions involving buildings while retaining title to the underlying land. These transactions were accounted for as financings and are included in long-term debt and the annual maturities schedule above. The resulting obligations mature as follows during the next five years and thereafter:

(Amounts in millions) Fiscal Year	Annual Maturity
2009	\$ 10
2010	10
2011	10
2012	10
2013	10
Thereafter	290
Total	\$340

The Company had trade letters of credit outstanding totaling \$2.7 billion and \$3.0 billion at January 31, 2008 and 2007, respectively. At January 31, 2008 and 2007, the Company had standby letters of credit outstanding totaling \$2.2 billion. These letters of credit were issued primarily for the purchase of inventory and self-insurance purposes.

3 Financial Instruments

The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest and foreign exchange rates. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty

will not fulfill the terms of the contract. The notional, or contractual, amount of the Company's derivative financial instruments is used to measure interest to be paid or received and does not represent the Company's exposure due to credit risk. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty, reviewing credit ratings and requiring collateral (generally cash) when appropriate. The majority of the Company's transactions are with counterparties rated "AA-" or better by nationally recognized credit rating agencies.

Fair Value Instruments

The Company enters into interest rate swaps to minimize the risks and costs associated with its financing activities. Under the swap agreements, the Company pays variable-rate interest and receives fixed-rate interest payments periodically over the life of the instruments. The notional amounts are used to measure interest to be paid or received and do not represent the exposure due to credit loss. All of the Company's interest rate swaps that receive fixed interest rate payments and pay variable interest rate payments are designated as fair value hedges. As the specific terms and notional amounts of the derivative instruments match those of the instruments being hedged, the derivative instruments were assumed to be perfectly effective hedges and all changes in fair value of the hedges were recorded on the balance sheet with no net impact on the income statement.

Net Investment Instruments

At January 31, 2008 and 2007, the Company is party to cross-currency interest rate swaps that hedge its net investment in the United Kingdom. The agreements are contracts to exchange fixed-rate payments in one currency for fixed-rate payments in another currency.

The Company has outstanding approximately £3.0 billion of debt that is designated as a hedge of the Company's net investment in the United Kingdom as of January 31, 2008 and 2007. The Company also has outstanding approximately ¥142.1 billion of debt that is designated as a hedge of the Company's net investment in Japan at January 31, 2008 and 2007. All changes in the fair value of these instruments are recorded in accumulated other comprehensive income, offsetting the foreign currency translation adjustment that is also recorded in accumulated other comprehensive income.

Cash Flow Instruments

The Company was party to a cross-currency interest rate swap to hedge the foreign currency risk of certain foreign-denominated debt. The swap was designated as a cash flow hedge of foreign currency exchange risk. The agreement was a contract to exchange fixed-rate payments in one currency for fixed-rate payments in another currency. Changes in the foreign currency spot exchange rate resulted in reclassification of amounts from accumulated other comprehensive income to earnings to offset transaction gains or losses on foreign-denominated debt. The instruments matured in fiscal 2007.

Notes to Consolidated Financial Statements

Fair Value of Financial Instruments

Derivative financial instruments designated for hedging:

(Amounts in millions)	Fiscal Year Ended January 31,			
	Notional Amount		Fair Value	
	2008	2007	2008	2007
Received fixed-rate, pay floating rate interest rate swaps designated as fair value hedges	\$ 5,195	\$ 5,195	\$ 265	\$ (1)
Received fixed-rate, pay fixed-rate cross-currency interest rate swaps designated as net investment hedges (Cross-currency notional amount: GBP 795 at 1/31/2008 and 1/31/2007)	1,250	1,250	(75)	(181)
Total	\$ 6,445	\$ 6,445	\$ 190	\$ (182)
Non-derivative financial instruments:				
Long-term debt	\$35,712	\$32,650	\$35,940	\$32,521

Hedging instruments with an unrealized gain are recorded on the Consolidated Balance Sheets in other current assets or other assets and deferred charges, based on maturity date. Those instruments with an unrealized loss are recorded in accrued liabilities or deferred income taxes and other, based on maturity date.

Cash and cash equivalents: The carrying amount approximates fair value due to the short maturity of these instruments.

Long-term debt: Fair value is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Fair value instruments and net investment instruments: The fair values are estimated amounts the Company would receive or pay to terminate the agreements as of the reporting dates.

4 Accumulated Other Comprehensive Income

Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity. Amounts included in accumulated other comprehensive income for the Company's derivative instruments and minimum pension liabilities are recorded net of the related income tax effects. The following table gives further detail regarding changes in the composition of accumulated other comprehensive income during fiscal 2008, 2007 and 2006

(Amount in millions)	Foreign Currency Translation	Derivative Instruments	Minimum Pension Liability	Total
Balance at January 31, 2005	\$ 2,982	\$ (5)	\$ (283)	\$ 2,694
Foreign currency translation adjustment	(1,691)			(1,691)
Change in fair value of hedge instruments		(31)		(31)
Reclassification to earnings		30		30
Subsidiary minimum pension liability			51	51
Balance at January 31, 2006	\$ 1,291	\$ (6)	\$ (232)	\$ 1,053
Foreign currency translation adjustment	1,584			1,584
Change in fair value of hedge instruments		123		123
Reclassification to earnings		(117)		(117)
Subsidiary minimum pension liability			(15)	(15)
Adjustment for initial application of SFAS 158, net of tax			(120)	(120)
Balance at January 31, 2007	\$2,875	\$ —	\$(367)	\$2,508
Foreign currency translation adjustment	1,218			1,218
Subsidiary minimum pension liability			138	138
Balance at January 31, 2008	\$4,093	\$ —	\$(229)	\$3,864

Notes to Consolidated Financial Statements

The foreign currency translation amount includes a translation loss of \$9 million at January 31, 2008, and translations gains of \$143 million and \$521 million at January 31, 2007 and 2006, respectively, related to net investment hedges of our operations in the United Kingdom and Japan.

In conjunction with the disposition of our operations in South Korea and Germany, the Company reclassified \$603 million from foreign currency translation amounts included in accumulated other comprehensive income into discontinued operations within our Consolidated Statements of Income for fiscal year 2007.

5 Income Taxes

The income tax provision consists of the following (in millions):

	Fiscal Year Ended January 31,		
	2008	2007	2006
Current:			
Federal	\$5,145	\$4,871	\$4,646
State and local	524	522	449
International	1,247	883	837
Total current tax provision	6,916	6,276	5,932
Deferred:			
Federal	12	(15)	(62)
State and local	6	4	56
International	(26)	100	(123)
Total deferred tax provision	(8)	89	(129)
Total provision for income taxes	\$6,908	\$6,365	\$5,803

Income from continuing operations before income taxes and minority interest by jurisdiction is as follows (in millions):

	Fiscal Year Ended January 31,		
	2008	2007	2006
United States	\$15,820	\$15,158	\$14,447
Outside the United States	4,378	3,810	3,088
Total income from continuing operations before income taxes and minority interest	\$20,198	\$18,968	\$17,535

Items that give rise to significant portions of the deferred tax accounts are as follows (in millions):

	January 31,	
	2008	2007
Deferred tax liabilities:		
Property and equipment	\$ 2,740	\$ 3,153
Inventory	705	600
Other	41	282
Total deferred tax liabilities	\$ 3,486	\$ 4,035
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,073	\$ 865
Amounts accrued for financial reporting purposes not yet deductible for tax purposes	2,400	2,233
Share-based compensation	324	300
Other	516	846
Total deferred tax assets	4,313	4,244
Valuation allowance	(1,589)	(1,307)
Total deferred tax assets, net of valuation allowance	\$ 2,724	\$ 2,937
Net deferred tax liabilities	\$ 762	\$ 1,098

The change in the Company's net deferred tax liability is impacted by foreign currency translation.

A reconciliation of the significant differences between the effective income tax rate and the federal statutory rate on pretax income is as follows:

	Fiscal Year Ended January 31,		
	2008	2007	2006
Statutory tax rate	35.00%	35.00%	35.00%
State income taxes, net of federal income tax benefit	1.72%	1.80%	1.85%
Income taxes outside the United States	-1.54%	-1.84%	-2.09%
Other	-0.98%	-1.40%	-1.67%
Effective income tax rate	34.20%	33.56%	33.09%

United States income taxes have not been provided on accumulated but undistributed earnings of its non-U.S. subsidiaries of \$10.7 billion and \$8.7 billion as of January 31, 2008 and 2007, respectively as the Company intends to permanently reinvest these undistributed earnings. However, if any portion were to be distributed, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable because of the complexities with its hypothetical calculation.

The Company had foreign net operating loss carryforwards of \$2.9 billion at January 31, 2008 and \$2.3 billion at January 31, 2007. Of these amounts, \$1.9 billion relate to pre-acquisition losses for which a valuation allowance has been recorded. Any tax benefit ultimately realized upon the release of this portion of the valuation allowance will be accounted for as an adjustment to goodwill. Net operating loss carryforwards of \$1.7 billion will expire in various

Notes to Consolidated Financial Statements

years through 2015. In addition, the Company had other deferred tax assets of \$0.5 billion at January 31, 2008 and 2007, for which any benefit would be accounted for as an adjustment to goodwill. See Note 13, "Recent Accounting Pronouncements," for the impact of Statement of Financial Accounting Standards No. 141(R), "Business Combinations" with regard to accounting for tax benefits acquired in a business combination.

During fiscal 2007, the Company recorded a pretax loss of \$918 million on the disposition of its German operations. In addition, the Company recognized a tax benefit of \$126 million related to this transaction. The Company recorded an additional loss on this disposition of \$153 million during fiscal year 2008. See Note 6, "Acquisitions and Disposals," for additional information about this transaction. The Company plans to deduct the tax loss realized on the disposition of its German operations as an ordinary worthless stock deduction. Final resolution of the amount and character of the deduction may result in the recognition of additional tax benefits of up to \$1.7 billion which may be included in discontinued operations in future periods. The Internal Revenue Service often challenges the characterization of such deductions. If the loss is characterized as a capital loss, any such capital loss could only be realized by being offset against future capital gains and would expire in 2012. Any deferred tax asset, net of its related valuation allowance, resulting from the characterization of the loss as capital may be included with the Company's non-current assets of discontinued operations.

The Company adopted the provisions of FIN 48 effective February 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company recognized a \$236 million increase in the liability for unrecognized tax benefits relating to continuing operations and a \$28 million increase in the related liability for interest and penalties for a total of \$264 million. Of this amount, \$160 million was accounted for as a reduction to the February 1, 2007, balance of retained earnings, \$70 million as an increase to non-current deferred tax assets, and \$34 million as an increase to current deferred tax assets.

The Company classifies interest on uncertain tax benefits as interest expense and income tax penalties as operating, selling, general and administrative expenses. At February 1, 2007, before any tax benefits, the Company had \$177 million of accrued interest and penalties on unrecognized tax benefits.

In the normal course of business, the Company provides for uncertain tax positions and the related interest and adjusts its unrecognized tax benefits and accrued interest accordingly. For the full year fiscal 2008, unrecognized tax benefits related to continuing operations and accrued interest increased by \$89 million and \$65 million, respectively. During the next twelve months, it is reasonably possible that tax audit resolutions could reduce unrecognized tax benefits by \$50 million to \$200 million, either because the tax positions are sustained on audit or because the Company agrees to their disallowance. Such unrecognized taxed benefits relate primarily to timing recognition issues and the resolution of the gain determination on a discontinued operation in fiscal year 2004.

A reconciliation of the beginning and ending balance of unrecognized tax benefits related to continuing operations is as follows (dollars in millions):

Balance at February 1, 2007	\$ 779
Increases related to prior year tax positions	125
Decreases related to prior year tax positions	(82)
Increases related to current year tax positions	106
Settlements during the period	(50)
Lapse of statute of limitations	(10)
Balance at January 31, 2008	\$868

The amount, if recognized, which is included in the balance at January 31, 2008, that would affect the Company's effective tax rate is \$597 million. The difference represents the amount of unrecognized tax benefits for which the ultimate tax consequence is certain, but for which there is uncertainty about the timing of the tax consequence recognition. Because of the impact of deferred tax accounting the timing would not impact the annual effective tax rate but could accelerate the payment of cash to the taxing authority to an earlier period.

Additionally, as of February 1, 2007, the Company had unrecognized tax benefits of \$1.7 billion which if recognized would be recorded as discontinued operations. Of this, \$1.67 billion is related to a worthless stock deduction to be claimed for the Company's disposition of its German operations in the second quarter of fiscal 2007, as mentioned above. This increased by \$57 million in the second quarter of fiscal 2008 as a result of the final resolution of outstanding purchase price adjustment claims and certain indemnities in conjunction with the disposition of the Company's German operations. The Company cannot predict with reasonable certainty if this matter will be resolved within the next twelve months.

The Company is subject to income tax examinations for its U.S. federal income taxes generally for the fiscal years 2007 and 2008, with fiscal years 2004 through 2006 remaining open for a limited number of issues, for non-U.S. income taxes for the tax years 2002 through 2008, and for state and local income taxes for the fiscal years generally 2004 through 2007 and from 1997 for a limited number of issues.

Additionally, the Company is subject to tax examinations for payroll, value added, sales-based and other taxes. A number of these examinations are ongoing and, in certain cases, have resulted in assessments from the taxing authorities. Where appropriate, the Company has made accruals for these matters which are reflected in the Company's Consolidated Financial Statements. While these matters are individually immaterial, a group of related matters, if decided adversely to the Company, may result in liability material to the Company's financial condition or results of operations.

Notes to Consolidated Financial Statements

6 Acquisitions, Investments and Disposals

Acquisitions and Investments

In February 2007, the Company announced the purchase of a 35% interest in BCL. BCL operates 101 hypermarkets in 34 cities in China under the Trust-Mart banner. The purchase price for the 35% interest was \$264 million. As additional consideration, the Company paid \$376 million to extinguish a loan issued to the selling BCL shareholders that is secured by the pledge of the remaining equity of BCL. Concurrent with its initial investment in BCL, the Company entered into a stockholders agreement which provides the Company with voting rights associated with a portion of the common stock of BCL securing the loan, amounting to an additional 30% of the aggregate outstanding shares. Pursuant to the purchase agreement, the Company is committed to purchase the remaining interest in BCL on or before February 2010 subject to certain conditions. The final purchase price for the remaining interest will be approximately \$320 million, net of loan repayments and subject to reduction under certain circumstances.

After closing the acquisition, the Company began consolidating BCL using a December 31 fiscal year-end. The Company's Consolidated Statements of Income for fiscal year 2008 include the results of BCL for the period commencing upon the acquisition of the Company's interest in BCL and ending December 31, 2007. BCL's results of operations were not material to the Company. Assets recorded in the acquisition were approximately \$1.6 billion, including approximately \$1.1 billion in goodwill, and liabilities assumed were approximately \$1.0 billion. The Consolidated Financial Statements of BCL, as well as the allocation of the purchase price, are preliminary.

In August 2007, the Company announced an agreement between Wal-Mart and Bharti Enterprises, an Indian company, to establish a joint venture called Bharti Wal-Mart Private Limited to conduct wholesale cash-and-carry and back-end supply chain management operations in India, in compliance with Government of India guidelines. The first wholesale facility is targeted to open in late fiscal 2009. The joint venture was formed to establish wholesale warehouse facilities to serve retailers and business owners by selling them merchandise at wholesale prices, including Bharti Retail, a wholly-owned subsidiary of Bharti Enterprises, that is developing a chain of retail stores in India. In addition, Bharti Retail has entered into a franchise agreement with an Indian subsidiary of Wal-Mart under which it will provide technical support to its retail business.

In October 2007, the Company announced the launch of a tender offer to acquire the remaining outstanding common and preferred shares of our Japanese subsidiary, Seiyu. Prior to the offer, the Company owned 50.9% of Seiyu. The tender offer commenced on October 23, expired on December 4, and closed on December 11, 2007. At closing, the Company acquired the majority of the common shares and all minority preferred shares for approximately \$865 million, and expects to finalize the purchase of any remaining minority

common shareholders by April 2008. The Company now owns approximately 95% of the common shares and all of the preferred shares of Seiyu. This acquisition of the remaining Seiyu shares not owned by the Company resulted in the recording of \$547 million of goodwill and the elimination of \$318 million minority interest related to the preferred shareholders. The allocation of the purchase price is preliminary and will be finalized in fiscal 2009.

Disposals

During fiscal 2007, the Company disposed of its operations in South Korea and Germany, which had been included in our International segment. Consequently, the net losses and cash flows related to these operations are presented as discontinued operations in our Consolidated Statements of Income and our Consolidated Statements of Cash Flows for the appropriate periods presented.

The Company recorded a pretax gain on the sale of its retail business in South Korea of \$103 million, and tax expense of \$63 million during fiscal 2007. In determining the gain on the disposition of our South Korean operations, the Company allocated \$206 million of goodwill from the International reporting unit.

The Company recorded a loss of \$918 million on the disposal of its German operations during fiscal 2007. In addition, the Company recognized a tax benefit of \$126 million related to this transaction in fiscal 2007. The Company recorded a charge of \$153 million in fiscal 2008 to discontinued operations related to the settlement of a post-closing adjustment and certain other indemnification obligations.

In addition to the gain and loss on the dispositions noted above, discontinued operations as presented in the Company's Consolidated Statements of Income also include net sales and net operating losses from our South Korean and German operations as follows (in millions):

(Amounts in millions)	Fiscal Year Ended January 31,	
	2007	2006
Net sales	\$2,489	\$3,482
Net losses	(142)	(177)

7 Share-Based Compensation Plans

As of January 31, 2008, the Company has awarded share-based compensation to executives and other associates of the Company through various share-based compensation plans. The compensation cost recognized for all plans was \$276 million, \$271 million and \$244 million for fiscal 2008, 2007 and 2006, respectively. The total income tax benefit recognized for all share-based compensation plans was \$102 million, \$101 million and \$82 million for fiscal 2008, 2007 and 2006, respectively.

The Company's Stock Incentive Plan of 2005 (the "Plan"), which is shareholder-approved, was established to grant stock options, restricted (non-vested) stock and performance share compensation awards to its associates, and 210 million shares of common stock to be issued under the Plan have been registered under the Securities Act of 1933 (the "Securities Act").

Notes to Consolidated Financial Statements

Under the Plan and prior plans, substantially all stock option awards have been granted with an exercise price equal to the market price of the Company's stock at the date of grant. Generally, outstanding options granted before fiscal 2001 vest over seven years. Options granted after fiscal 2001 generally vest over five years. Shares issued upon the exercise of options are newly issued. Options granted generally have a contractual term of 10 years.

The Company's United Kingdom subsidiary, Asda, also offers two other stock option plans to its associates. The first plan, The Asda Colleague Share Ownership Plan 1999 ("CSOP"), grants options to certain associates. Options granted under the CSOP generally expire six years from the date of grant, with half vesting on the third anniversary of the grant and the other half on the sixth anniversary of the date of grant. Shares in the money at the vesting date are exercised while shares out of the money at the vesting date expire. The second plan, The Asda Sharesave Plan 2000 ("Sharesave"), grants options to certain associates at 80% of market value on the date of grant. Sharesave options become exercisable after either a three-year or five-year period and generally expire six months after becoming exercisable. The shares were registered under the Securities Act for issuance under CSOP and Sharesave Plans to grant stock options to its colleagues for up to a combined 34 million shares of common stock.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton option valuation model that uses various assumptions for inputs, which are noted in the following table. Generally, the Company uses expected volatilities and risk-free interest rates that correlate with the expected term of the option when estimating an option's fair value. To determine the expected life of the option, the Company bases its estimates on historical exercise and expiration activity of grants with similar vesting periods. Expected volatility is based on historical volatility of our stock and the expected risk-free interest rate is based on the U.S. Treasury yield curve at the time of the grant. The expected dividend yield is based on the annual dividend rate at the time of grant. The following table represents a weighted-average of the assumptions used by the Company to estimate the fair values of the Company's stock options at the grant dates:

	Fiscal Year Ended January 31,		
	2008	2007	2006
Dividend yield	2.1%	2.3%	1.6%
Volatility	18.6%	19.4%	20.8%
Risk-free interest rate	4.5%	4.8%	4.0%
Expected life in years	5.6	5.3	4.1

A summary of the stock option award activity for fiscal 2008 is presented below:

Options	Shares	Weighted-Average Exercise Price	Aggregate Remaining Life in Years	Intrinsic Value
Outstanding at January 31, 2007	71,376,000	\$48.65		
Granted	8,933,000	42.85		
Exercised	(3,134,000)	29.35		
Forfeited or expired	(8,315,000)	45.31		
Outstanding at January 31, 2008	68,860,000	\$49.01	5.2	\$198,674,000
Exercisable at January 31, 2008	38,902,000	\$50.55	4.7	\$ 72,429,000

As of January 31, 2008, there was \$292 million of total unrecognized compensation cost related to stock options granted under the Plan, which is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of options vested during the fiscal years ended January 31, 2008, 2007 and 2006, was \$102 million, \$160 million and \$197 million, respectively.

The weighted-average grant-date fair value of options granted during the fiscal years ended January 31, 2008, 2007 and 2006, was \$11.00, \$9.20 and \$11.82, respectively. The total intrinsic value of options exercised during the years ended January 31, 2008, 2007 and 2006, was \$60 million, \$103 million and \$125 million, respectively.

In fiscal 2007, the Company began issuing restricted stock rights to most associates in lieu of stock option awards. Restricted stock rights are associate rights to Company stock after a specified service period. The rights typically vest over five years with 40% vesting three years from grant date and the remaining 60% vesting five years from grant date. The fair value of each restricted stock right is determined on the date of grant using the stock price less the expected dividend yield

through the vesting period. Expected dividend yield is based on the annual dividend rate at the time of grant. The weighted average dividend yield for restricted stock rights granted in fiscal 2008 and 2007 was 8.4% and 6.9%, respectively.

A summary of the Company's restricted stock rights activity for fiscal 2008 presented below represents the maximum number of shares that could be earned or vested under the Plan:

Restricted Stock Rights	Shares	Weighted-Average Grant-Date Fair Value
Restricted stock rights at January 31, 2007	3,508,000	\$42.57
Granted	3,604,000	43.42
Vested	(4,000)	42.66
Forfeited	(467,000)	43.05
Restricted stock rights at January 31, 2008	6,641,000	\$43.00

Notes to Consolidated Financial Statements

As of January 31, 2008, there was \$175 million of total unrecognized compensation cost related to restricted stock rights granted under the Plan, which is expected to be recognized over a weighted-average period of 3.4 years. The total fair value of shares vested during the fiscal year ended January 31, 2008, was insignificant.

Under the Plan, the Company grants various types of awards of restricted (non-vested) stock to certain associates. These grants include awards for shares that vest based on the passage of time, performance criteria, or both. Vesting periods vary. The restricted stock awards may be settled in stock, or deferred as stock or cash, based upon the associate's election. Consequently, these awards are classified as liabilities in the accompanying Consolidated Balance Sheets unless the associate has elected for the award to be settled or deferred in stock.

During fiscal 2006, the Company began issuing performance share awards under the Plan that vest based on the passage of time and achievement of performance criteria. Based on the extent to which the performance criteria are achieved, vested shares may range from 0% to 150% of the original award amount. Because the performance shares may be settled in stock or cash, the performance shares are accounted for as liabilities in the accompanying Consolidated Balance Sheets unless the associate has elected for the award to be settled or deferred in stock.

The fair value of the restricted stock and performance shares liabilities are remeasured each reporting period. The total liability for restricted stock and performance share awards at January 31, 2008 and January 31, 2007, was \$125 million and \$153 million, respectively.

A summary of the Company's non-vested restricted stock and performance share award activity for fiscal 2008 presented below represents the maximum number of shares that could be earned or vested under the Plan:

Non-Vested Restricted Stock and Performance Share Awards	Shares	Weighted-Average Grant-Date Fair Value
Restricted stock and performance share awards at January 31, 2007	10,095,000	\$47.38
Granted	3,114,000	47.29
Vested	(688,000)	50.52
Forfeited	(1,734,000)	48.34
Restricted stock and performance share awards at January 31, 2008	10,787,000	\$47.00

As of January 31, 2008, there was \$198 million of total unrecognized compensation cost related to restricted stock and performance share awards granted under the Plan, which is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of shares vested during the fiscal years ended January 31, 2008, 2007 and 2006, was \$24 million, \$38 million and \$20 million, respectively.

8 Legal Proceedings

The Company is involved in a number of legal proceedings. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," the Company has made accruals with respect to these matters, where appropriate, which are reflected in the Company's Consolidated Financial Statements. The Company may enter into discussions regarding settlement of these matters, and may enter into settlement agreements, if it believes settlement is in the best interests of the Company's shareholders. The matters, or groups of related matters, discussed below, if adversely decided or settled by the Company, individually or in the aggregate, may result in liability material to the Company's financial condition or results of operations.

Wage and Hour "Off the Clock" Class Actions: The Company is a defendant in numerous cases containing class-action allegations in which the plaintiffs are current and former hourly associates who allege that the Company forced them to work "off the clock" or failed to provide work breaks, or otherwise that they were not paid correctly for work performed. The complaints generally seek unspecified monetary damages, injunctive relief, or both. Class or collective-action certification has yet to be addressed by the court in a majority of these cases. Where it has been addressed, certification has been denied in nine of these cases; has been granted in whole or in part in eleven of these cases; and has been conditionally granted for notice purposes in three of these cases. In another nine such cases, certification was denied and the case was then dismissed, and in two additional such cases, certification was granted and the case was then dismissed. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits, except as noted below.

One of the class-action lawsuits described above is *Savaglio v. Wal-Mart Stores, Inc.*, a class-action lawsuit in which the plaintiffs allege that they were not provided meal and rest breaks in accordance with California law, and seek monetary damages and injunctive relief. A trial on the plaintiffs' claims for monetary damages concluded on December 22, 2005. The jury returned a verdict of approximately \$57 million in statutory penalties and \$115 million in punitive damages. In June 2006, the judge entered an order allowing some, but not all, of the injunctive relief sought by the plaintiffs. On December 27, 2006, the judge entered an order awarding the plaintiffs an additional amount of approximately \$26 million in costs and attorneys' fees. The Company believes it has substantial factual and legal defenses to the claims at issue, and on January 31, 2007, the Company filed its Notice of Appeal.

In another of the class-action lawsuits described above, *Braun/Hummel v. Wal-Mart Stores, Inc.*, a trial was commenced in September 2006, in Philadelphia, Pennsylvania. The plaintiffs allege that the Company failed to pay class members for all hours worked and prevented class members from taking their full meal and rest breaks. On October 13, 2006, the jury awarded back-pay damages to the plaintiffs of approximately \$78 million on their claims for off-the-clock work and missed rest breaks. The jury found in favor of the Company on the plaintiffs' meal-period claims. On November 14, 2007, the trial judge entered a final judgment in the approximate amount of \$188 million, which included the jury's back-pay award plus statutory penalties, prejudgment interest and attorneys' fees. The Company believes it

Notes to Consolidated Financial Statements

has substantial factual and legal defenses to the claims at issue, and on December 7, 2007, the Company filed its Notice of Appeal.

In another of the class-action lawsuits described above, *Braun v. Wal-Mart Stores, Inc.*, a trial commenced on September 24, 2007, in the First Judicial District Court for Dakota County, Minnesota, on the plaintiffs' claims for backpay damages. The plaintiffs allege that class members worked off the clock and were not provided meal and rest breaks in accordance with Minnesota law, and seek monetary damages in an unspecified amount, together with attorneys' fees, interest, statutory penalties, and punitive damages, if any. Testimony concluded on December 11, 2007, on the plaintiffs' backpay claims, and the judge took the matter under advisement. No ruling has been received. The judge has not determined whether the plaintiffs will be allowed to proceed to trial on their claims for punitive damages, but a separate trial has been scheduled for October 20, 2008, in the event those claims are allowed to proceed to trial. The Company believes that it has substantial factual and legal defenses to the claims at issue. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this litigation.

Exempt Status Cases: The Company is currently a defendant in two putative class actions pending in federal court in California in which the plaintiffs seek certification of a class of salaried managers who challenge their exempt status under state and federal laws. In one of those cases (*Sepulveda v. Wal-Mart Stores, Inc.*), class certification has been denied and the ruling is now on appeal. In the other (*Salvador v. Wal-Mart Stores, Inc. and Sam's West, Inc.*), certification has not yet been addressed by the trial court. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits.

Gender Discrimination Cases: The Company is a defendant in *Dukes v. Wal-Mart Stores, Inc.*, a class-action lawsuit commenced in June 2001 and pending in the United States District Court for the Northern District of California. The case was brought on behalf of all past and present female employees in all of the Company's retail stores and warehouse clubs in the United States. The complaint alleges that the Company has engaged in a pattern and practice of discriminating against women in promotions, pay, training and job assignments. The complaint seeks, among other things, injunctive relief, front pay, back pay, punitive damages, and attorneys' fees. On June 21, 2004, the district court issued an order granting in part and denying in part the plaintiffs' motion for class certification. The class, which was certified by the district court for purposes of liability, injunctive and declaratory relief, punitive damages, and lost pay, subject to certain exceptions, includes all women employed at any Wal-Mart domestic retail store at any time since December 26, 1998, who have been or may be subjected to the pay and management track promotions policies and practices challenged by the plaintiffs. The class as certified currently includes approximately 1.6 million present and former female associates.

The Company believes that the district court's ruling is incorrect. On August 31, 2004, the United States Court of Appeals for the Ninth Circuit granted the Company's petition for discretionary review of the ruling. On February 6, 2007, a divided three-judge panel of the Court of Appeals issued a decision affirming the district court's certification order. On February 20, 2007, the Company filed a petition asking that the decision be reconsidered by a larger panel of the court. On December 11, 2007, the three-judge panel withdrew its opinion of

February 6, 2007, and issued a revised opinion. As a result, Wal-Mart's Petition for Rehearing En Banc was denied as moot. Wal-Mart filed a new Petition for Rehearing En Banc on January 8, 2008. If the Company is not successful in its appeal of class certification, or an appellate court issues a ruling that allows for the certification of a class or classes with a different size or scope, and if there is a subsequent adverse verdict on the merits from which there is no successful appeal, or in the event of a negotiated settlement of the litigation, the resulting liability could be material to the Company. The plaintiffs also seek punitive damages which, if awarded, could result in the payment of additional amounts material to the Company. However, because of the uncertainty of the outcome of the appeal from the district court's certification decision, because of the uncertainty of the balance of the proceedings contemplated by the district court, and because the Company's liability, if any, arising from the litigation, including the size of any damages award if plaintiffs are successful in the litigation or any negotiated settlement, could vary widely, the Company cannot reasonably estimate the possible loss or range of loss that may arise from the litigation.

The Company is a defendant in a lawsuit that was filed on August 24, 2001, in the United States District Court for the Eastern District of Kentucky. *EEOC (Janice Smith) v. Wal-Mart Stores, Inc.* is an action brought by the EEOC on behalf of Janice Smith and all other females who made application or transfer requests at the London, Kentucky, distribution center from 1995 to the present, and who were not hired or transferred into the warehouse positions for which they applied. The class seeks back pay for those females not selected for hire or transfer during the relevant time period. The class also seeks injunctive and prospective affirmative relief. The complaint alleges that the Company based hiring decisions on gender in violation of Title VII of the 1964 Civil Rights Act as amended. The EEOC can maintain this action as a class without certification. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this litigation.

California Hazardous Materials Investigations: On November 8, 2005, the Company received a grand jury subpoena from the United States Attorney's Office for the Central District of California, seeking documents and information relating to the Company's receipt, transportation, handling, identification, recycling, treatment, storage and disposal of certain merchandise that constitutes hazardous materials or hazardous waste. The Company has been informed by the U.S. Attorney's Office for the Central District of California that it is a target of a criminal investigation into potential violations of the Resource Conservation and Recovery Act ("RCRA"), the Clean Water Act, and the Hazardous Materials Transportation Statute. This U.S. Attorney's Office contends, among other things, that the use of Company trucks to transport certain returned merchandise from the Company's stores to its return centers is prohibited by RCRA because those materials may be considered hazardous waste. The government alleges that, to comply with RCRA, the Company must ship from the store certain materials as "hazardous waste" directly to a certified disposal facility using a certified hazardous waste carrier. The Company contends that the practice of transporting returned merchandise to its return centers for subsequent disposition, including disposal by certified facilities, is compliant with applicable laws and regulations. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition or results of operations.

Notes to Consolidated Financial Statements

Additionally, the U.S. Attorney's Office in the Northern District of California has initiated its own investigation regarding the Company's handling of hazardous materials and hazardous waste and the Company has received administrative document requests from the California Department of Toxic Substances Control requesting documents and information with respect to two of the Company's distribution facilities. Further, the Company also received a subpoena from the Los Angeles County District Attorney's Office for documents and administrative interrogatories requesting information, among other things, regarding the Company's handling of materials and hazardous waste. California state and local government authorities and the State of Nevada have also initiated investigations into these matters. The Company is cooperating fully with the respective authorities. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition or results of operations.

9 Commitments

The Company and certain of its subsidiaries have long-term leases for stores and equipment. Rentals (including amounts applicable to taxes, insurance, maintenance, other operating expenses and contingent rentals) under operating leases and other short-term rental arrangements were \$1.6 billion, \$1.4 billion and \$1.0 billion in 2008, 2007 and 2006, respectively. Aggregate minimum annual rentals at January 31, 2008, under non-cancelable leases are as follows:

(Amounts in millions) Fiscal Year	Operating Leases	Capital Leases
2009	\$ 1,094	\$ 595
2010	1,051	576
2011	994	561
2012	866	528
2013	788	494
Thereafter	8,966	3,243
Total minimum rentals	<u>\$13,759</u>	<u>\$5,997</u>
Less estimated executory costs		<u>27</u>
Net minimum lease payments		<u>5,970</u>
Less imputed interest at rates ranging from 3.0% to 13.6%		<u>2,051</u>
Present value of minimum lease payments		<u>\$3,919</u>

Certain of the Company's leases provide for the payment of contingent rentals based on a percentage of sales. Such contingent rentals amounted to \$33 million, \$41 million and \$27 million in 2008, 2007 and 2006, respectively. Substantially all of the Company's store leases have renewal options, some of which may trigger an escalation in rentals.

In connection with certain debt financing, we could be liable for early termination payments if certain unlikely events were to occur. At January 31, 2008, the aggregate termination payment would have been \$129 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 \$97 million upon termination of some or all of these agreements.

The Company has potential future lease commitments for land and buildings for 165 future locations. These lease commitments have lease terms ranging from 2 to 39 years and provide for certain minimum rentals. If executed, payments under operating leases would increase by \$67 million for fiscal 2009, based on current cost estimates.

10 Retirement-Related Benefits

In the United States, the Company maintains a Profit Sharing and 401(k) Plan under which most full-time and many part-time associates become participants following one year of employment. The Profit Sharing component of the plan is entirely funded by the Company, and the Company makes an additional contribution to the associates' 401(k) component of the plan. In addition to the Company contributions, associates may elect to contribute a percentage of their earnings to the 401(k) component of the plan. During fiscal 2008, participants could contribute up to 50% of their pretax earnings, but not more than statutory limits.

Associates may choose from among 13 different investment options for the 401(k) component of the plan and 14 investment options for the Profit Sharing component of the plan. For associates who did not make an election, their 401(k) balance in the plan was placed in a balanced fund. Associates' 401(k) funds immediately vest, and associates may change their investment options at any time. Associates with three years of service have full diversification rights with the 14 investment options for the Profit Sharing component of the plan. Prior to January 31, 2008, associates were fully vested in the Profit Sharing component of the plan after seven years of service, with vesting starting at 20% at three years of service and increasing 20% each year until year seven. Effective January 31, 2008, associates are fully vested in the Profit Sharing component of the plan after six years of service, with vesting starting at 20% at two years of service and increasing 20% each year until year six.

Annual contributions made by the Company to the United States and Puerto Rico Profit Sharing and 401(k) Plans are made at the sole discretion of the Company. Expense associated with these plans was \$945 million, \$890 million and \$827 million in fiscal 2008, 2007 and 2006, respectively.

Notes to Consolidated Financial Statements

Employees in foreign countries who are not U.S. citizens are covered by various post-employment benefit arrangements. These plans are administered based upon the legislative and tax requirements in the countries in which they are established. Annual contributions to foreign retirement savings and profit sharing plans are made at the discretion of the Company, and were \$267 million, \$274 million and \$244 million in fiscal 2008, 2007 and 2006, respectively.

The Company's subsidiaries in the United Kingdom and Japan have defined benefit pension plans. The plan in the United Kingdom was overfunded by \$5 million at January 31, 2008 and underfunded by \$251 million at January 31, 2007. The plan in Japan was underfunded by \$202 million and \$208 million at January 31, 2008 and 2007, respectively. These underfunded amounts have been recorded in our Consolidated Balance Sheets upon the adoption of SFAS 158. Certain other foreign operations have defined benefit arrangements that are not significant.

11 Segments

The Company is engaged in the operations of retail stores located in all 50 states of the United States, Argentina, Brazil, Canada, Puerto Rico and the United Kingdom and through majority-owned subsidiaries in Central America, Japan, and Mexico. The Company operates retail stores in China through joint ventures and through its investment in BCL. The Company identifies segments in accordance with

the criteria set forth in Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" and is primarily based on the operations of the Company that our chief operating decision maker regularly reviews to analyze performance and allocate resources among business units of the Company.

The Wal-Mart Stores segment includes the Company's mass merchant concept in the United States under the Wal-Mart brand. The Sam's Club segment includes the warehouse membership clubs in the United States as well as samsclub.com. The International segment consists of the Company's operations outside of the United States. The amounts under the caption "Other" in the table below relating to operating income are unallocated corporate overhead items.

The Company measures the profit of its segments as "segment operating income," which is defined as income from continuing operations before net interest expense, income taxes and minority interest and excludes unallocated corporate overhead and results of discontinued operations. At the beginning of fiscal 2008, the Company revised the measurement of each segment's operating income. The measurement now includes within each operating segment certain direct income and expense items that had previously been accounted for as unallocated corporate overhead. All prior year measurements of segment operating income have been restated for comparative purposes. Information on segments and the reconciliation to income from continuing operations before income taxes, minority interest and discontinued operations appears in the following tables.

(Amounts in millions)

Fiscal Year Ended January 31, 2008	Wal-Mart Stores	Sam's Club	International	Other	Consolidated
Revenues from external customers	\$239,529	\$44,357	\$90,640	\$ —	\$374,526
Operating income (loss)	17,516	1,618	4,769	(1,907)	21,996
Interest expense, net					(1,798)
Income from continuing operations before income taxes and minority interest					\$ 20,198
Total assets of continuing operations	\$ 84,286	\$11,722	\$62,961	\$ 4,545	\$163,514
Depreciation and amortization	3,813	507	1,684	313	6,317
Fiscal Year Ended January 31, 2007	Wal-Mart Stores	Sam's Club	International	Other	Consolidated
Revenues from external customers	\$ 226,294	\$ 41,582	\$ 77,116	\$ —	\$ 344,992
Operating income (loss)	16,620	1,480	4,265	(1,868)	20,497
Interest expense, net					(1,529)
Income from continuing operations before income taxes and minority interest					\$ 18,968
Total assets of continuing operations	\$ 79,040	\$ 11,448	\$ 55,903	\$ 5,196	\$ 151,587
Depreciation and amortization	3,323	475	1,409	252	5,459
Fiscal Year Ended January 31, 2006	Wal-Mart Stores	Sam's Club	International	Other	Consolidated
Revenues from external customers	\$ 209,910	\$ 39,798	\$ 59,237	\$ —	\$ 308,945
Operating income (loss)	15,267	1,407	3,438	(1,399)	18,713
Interest expense, net					(1,178)
Income from continuing operations before income taxes and minority interest					\$ 17,535
Total assets of continuing operations	\$ 72,368	\$ 10,588	\$ 48,752	\$ 4,522	\$ 136,230
Depreciation and amortization	2,947	436	1,011	251	4,645

Notes to Consolidated Financial Statements

In the United States, long-lived assets, net, excluding goodwill and other assets and deferred charges were \$66.8 billion, \$62.3 billion and \$55.5 billion as of January 31, 2008, 2007 and 2006, respectively. In the United States, additions to long-lived assets were \$10.4 billion, \$12.2 billion and \$11.8 billion in fiscal 2008, 2007 and 2006, respectively.

Outside of the United States, long-lived assets, net, excluding goodwill and other assets and deferred charges were \$30.3 billion, \$26.1 billion and \$22.4 billion in fiscal 2008, 2007 and 2006, respectively. Outside of the United States, additions to long-lived assets

were \$4.5 billion, \$3.5 billion and \$2.7 billion in fiscal 2008, 2007 and 2006, respectively. The International segment includes all real estate outside the United States. The operations of the Company's Asda subsidiary are significant in comparison to the total operations of the International segment. Asda sales during fiscal 2008, 2007 and 2006 were \$33.4 billion, \$28.9 billion and \$26.8 billion, respectively. Asda long-lived assets, consisting primarily of property and equipment, net, totaled \$14.3 billion, \$13.3 billion and \$11.0 billion at January 31, 2008, 2007 and 2006, respectively.

12 Quarterly Financial Data (Unaudited)

(Amounts in millions except per share data)	Quarters Ended			
	April 30,	July 31,	October 31,	January 31,
Fiscal 2008				
Net sales	\$85,387	\$91,990	\$90,880	\$106,269
Cost of sales	65,311	70,589	69,292	81,323
Gross profit	\$20,076	\$21,401	\$21,588	\$ 24,946
Income from continuing operations	\$ 2,826	\$ 3,105	\$ 2,857	\$ 4,096
Loss from discontinued operations, net of tax	—	(153)	—	—
Net income	\$ 2,826	\$ 2,952	\$ 2,857	\$ 4,096
Basic net income per common share:				
Basic income per common share from continuing operations	\$ 0.69	\$ 0.76	\$ 0.71	\$ 1.03
Basic loss per common share from discontinued operations	—	(0.04)	—	—
Basic net income per common share	\$ 0.69	\$ 0.72	\$ 0.71	\$ 1.03
Diluted net income per common share:				
Diluted income per common share from continuing operations	\$ 0.68	\$ 0.76	\$ 0.70	\$ 1.02
Diluted loss per common share from discontinued operations	—	(0.04)	—	—
Diluted net income per common share	\$ 0.68	\$ 0.72	\$ 0.70	\$ 1.02
Fiscal 2007				
Net sales	\$ 78,834	\$ 84,524	\$ 83,543	\$ 98,090
Cost of sales	60,237	64,585	63,765	75,565
Gross profit	\$ 18,597	\$ 19,939	\$ 19,778	\$ 22,525
Income from continuing operations	\$ 2,660	\$ 2,984	\$ 2,594	\$ 3,940
Loss from discontinued operations, net of tax	(45)	(901)	53	—
Net income	\$ 2,615	\$ 2,083	\$ 2,647	\$ 3,940
Basic and diluted net income per common share:				
Basic and diluted income per common share from continuing operations	\$ 0.64	\$ 0.72	\$ 0.62	\$ 0.95
Basic and diluted (loss) income per common share from discontinued operations	(0.01)	(0.22)	0.01	—
Basic and diluted net income per common share	\$ 0.63	\$ 0.50	\$ 0.63	\$ 0.95

The sum of quarterly financial data may not agree to annual amounts due to rounding.

Notes to Consolidated Financial Statements

13 Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands required disclosures about fair value measurements. In November 2007, the FASB provided a one year deferral for the implementation of SFAS 157 for nonfinancial assets and liabilities. The Company will adopt SFAS 157 on February 1, 2008, as required. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial condition and results of operations. However, the Company believes it will likely be required to provide additional disclosures as part of future financial statements, beginning with the first quarter of fiscal 2009.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). This standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. The Company adopted the funded status recognition and disclosure elements as of January 31, 2007, and will adopt measurement elements as of January 31, 2009, as required by SFAS 158. The adoption of SFAS 158 did not have a material impact on the Company's financial condition, results of operations or liquidity.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective beginning February 1, 2008. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition and results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) replaces SFAS 141, "Business Combinations," but retains the requirement that the purchase method of accounting for acquisitions be used for all business combinations. SFAS 141(R) better defines the acquirer and the acquisition date in a business combination, establishes principles for recognizing and measuring the assets acquired (including goodwill), the liabilities assumed and any noncontrolling interests in the acquired business and requires expanded disclosures than previously required by SFAS 141. SFAS 141(R) also requires that, from the date of adoption of SFAS 141(R), any change in valuation allowance or uncertain tax position related to an acquired business, irrespective of the acquisition date, shall be recorded as an adjustment to income tax expense and not as an adjustment to goodwill as had previously been required under SFAS 141. SFAS 141(R) will be effective for all business combinations with an acquisition date on or after February 1, 2009, and early adoption is not permitted. The Company is currently evaluating the impact SFAS No. 141(R) will have on the Company's Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires that noncontrolling (or minority) interests in subsidiaries be reported in the equity section of the company's balance sheet, rather than in the balance sheet between liabilities and equity. SFAS 160 also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company's income statement and establishes guidelines for accounting for changes in ownership percentages and for deconsolidation. SFAS 160 will be effective beginning February 1, 2009. The adoption of SFAS 160 is not expected to have a material impact on the Company's financial condition and results of operations.

14 Subsequent Events

On March 6, 2008, the Company's Board of Directors approved an increase in annual dividends to \$0.95 per share. The annual dividend will be paid in four quarterly installments on April 7, 2008, June 2, 2008, September 2, 2008, and January 2, 2009, to holders of record on March 14, May 16, August 15 and December 15, 2008, respectively.

In March 2008, the Company announced it was exploring strategic options for its property development subsidiary, Gazeley Limited, which could conclude in a sale of that business. Gazeley Limited develops industrial distribution warehouses in the United Kingdom, mainland Europe and China and has extended its operations to India and Mexico.