

2005 REPORT ON ETHICAL SOURCING

WAL★MART®

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Wal-Mart Ethical Standards Vision

Wal-Mart's Ethical Standards vision is to have strong relationships with our suppliers and the confidence of our customers that we are taking the appropriate steps to achieve our goal of procuring merchandise for our stores that has been produced in an ethical manner.

We have listened closely
and learned a great deal...

A Message from Lawrence Jackson

July 31, 2006

As President of Global Procurement, it is my responsibility to make sure that our Ethical Standards program is effective and to communicate our progress in this critical area to Lee Scott, CEO of Wal-Mart Stores, Inc., and to the Wal-Mart Board of Directors. Below are a few of our accomplishments concerning Ethical Standards in 2005.

Consistent with Wal-Mart's objective of continuous improvements in all of our activities, in 2005 we implemented several enhancements to our Ethical Standards program. Wal-Mart added several significant provisions to our Standards for Suppliers encompassing health and safety practices, freedom of association, and the rights of foreign contract workers. We increased the number of our auditors in order to ensure that audits in certain geographic regions are conducted in pairs. Furthermore, we modified the classification of violations to make certain that our suppliers address violations promptly. In total, these enhancements positioned Wal-Mart to identify and address issues in the factories of our suppliers in an effective manner, thus making a positive difference for the workers.

Wal-Mart implemented a key initiative in 2005 by engaging in discussions with nongovernmental organizations and interest groups regarding our Ethical Standards program; we have listened closely and learned a great deal from this interaction. We have had thoughtful and, at times, provocative conversations about how we could improve our monitoring program. This approach has been helpful to ensure that all interested parties share the common goal of improving the working conditions in the factories of our suppliers.

We have one of the most active Ethical Standards programs in the retail industry. In 2005, we audited more factories than any other company in the world, performing more than 13,600 audits of 7,200 factories. We increased the number of unannounced audits by 100 percent. When violations are found, our first priority is to work with our suppliers to ensure their factories achieve compliance. We are confident that this collaborative approach is the best way to help our suppliers understand the business benefits of operating factories meeting labor, environmental, and health and safety standards. In closing, I am dedicated to ensuring that our Ethical Standards program achieves the best-in-class status.

I welcome your comments and suggestions.



President and Chief Executive Officer
Global Procurement
Wal-Mart Stores, Inc.

Executive Summary

This is Wal-Mart's Report on Ethical Sourcing for the calendar year of 2005. In this report we summarize the steps we have taken to verify compliance with the Ethical Standards (ES) we have established for the suppliers with whom we do business.

Wal-Mart auditors and third-party firms conducted more than 13,600 audits of 7,200 factories providing goods to Wal-Mart stores during the 2005 calendar year.

We audited, at least once, each of the 6,120 factories from which we purchased direct imports. We also required audits of approximately 1,080 supplier factories from which we source domestic import items in "high-risk" categories: apparel, shoes, sporting goods, accessories and toys.

In 2005 we expanded the program to include all supplier factories producing items for selected Wal-Mart private-branded labels. Each year, we will continue to increase the number of Wal-Mart private-label brands audited with the objective of eventually auditing all supplier factories producing goods sold under our private labels.

In 2005, 141 factories were permanently banned from doing business with Wal-Mart, primarily because of underage labor violations. In addition, Wal-Mart disapproved another 23 factories as a result of multiple instances of non-compliance with the Standards for Suppliers.

Total Factories Audited in 2005	7,200
Total Audits Performed	>13,600
Factory Management and Suppliers Trained	>11,000

We made several enhancements to our Ethical Standards (ES) program in 2005:

- o We increased unannounced audits from 8 percent to 20 percent of our total audits.
- o We trained more than 11,000 supplier and factory management representatives around the world.
- o We strengthened our Standards for Suppliers by adding new criteria for health and safety; the right to freedom of association and collective bargaining consistent with local laws; and additional rights for foreign contract workers.
- o We established a team focused on Social Responsibility and Stakeholder Engagement and began the stakeholder engagement process by reaching out to non-governmental organizations (NGOs). We believe that working together with external stakeholders is critical to improving our program effectiveness and industry-wide compliance, and we are committed to continuing this engagement.
- o Finally, in 2005 we increased the penalty period for disapproved factories from 90 days to one year to encourage stronger and more consistent compliance with the Standards for Suppliers.

Ethical Standards Program Objectives

- o To encourage the adoption of ethical sourcing practices through supplier and factory education
- o To monitor, through auditing, supplier and factory management practices to ensure they are in accordance with the Wal-Mart Standards for Suppliers and the local law
- o To engage stakeholders in order to continually strengthen our Ethical Standards program

Wal-Mart's Ethical Standards Program

Scope

Wal-Mart's Ethical Standards team is in charge of the administration and the execution of supplier factory audits in the following areas:

- o Supplier factories from which we directly source and we are the importer of record
- o Supplier factories where the supplier is the importer of record and which produce goods in five "high-risk" categories: accessories, apparel, footwear, toys and sporting goods
- o Supplier factories that produce products sold under our proprietary (private label) brand names such as Mainstays, HomeTrends, and George.

	GLOBAL PROCUREMENT	DOMESTIC IMPORT SUPPLIERS
IMPORTER OF RECORD	Wal-Mart	Suppliers
ADMINISTRATION	GP Field Offices	Bentonville Home Office
AUDIT EXECUTION	Wal-Mart GP Auditors	Approved Third-Party Auditing Firms
AUDIT SCOPE	100% of All Merchandise	Toys, Sporting Goods, Apparel, Shoes, Accessories and Selected Proprietary Brands
NUMBER OF FACTORIES AUDITED	6,120	1,080

It is important to note that Wal-Mart does all of its business through suppliers. Suppliers can have agreements with a number of factories, or in some cases, own and manage their own factories. Wal-Mart does not own, operate or manage any factories.

Ethical Standards has 23 offices and approximately 200 associates worldwide, covering five regions:

- o Americas
- o Far East
- o Indian Sub-Continent
- o Southeast Asia
- o Europe, Middle East and Africa

In most cases, we employ individuals who speak local languages and understand cultures and customs. Each region has a Wal-Mart team responsible for auditing the factory base within that area producing direct imports for Wal-Mart purchased through our Global Procurement department. The Global Procurement team in Bentonville, Arkansas, is responsible for governing the entire ES program and for coordinating the audits of suppliers producing merchandise in high-risk categories or sold under selected Wal-Mart proprietary brands.¹ For these audits, we use third-party auditing firms. A Wal-Mart ES supervisor reviews the audit reports for accuracy; and a Wal-Mart ES regional or operations manager then analyzes the report and assigns a factory rating based on the violations found during the audit.

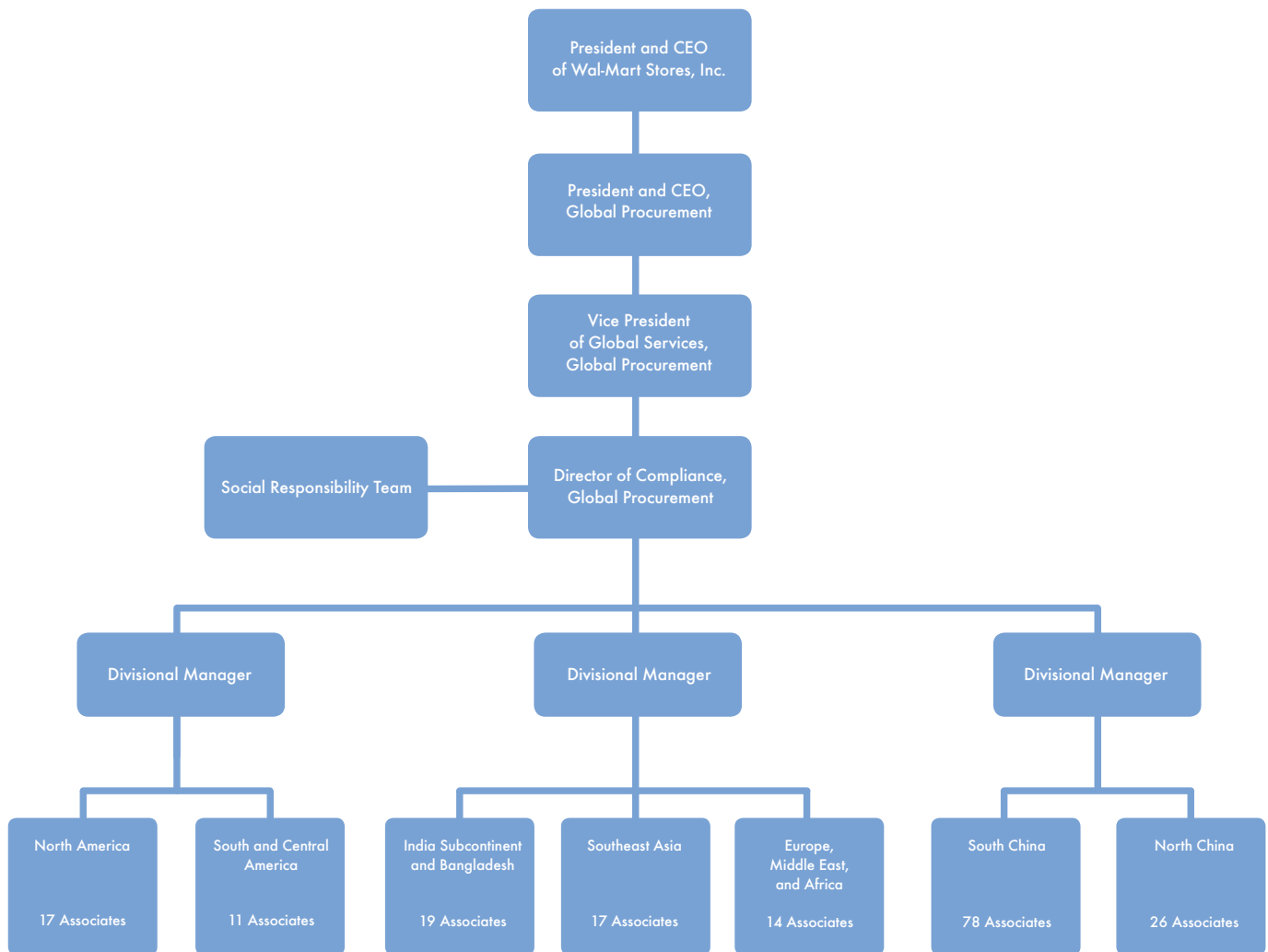
Over the past two years, we have increased the size of the ES team to enable the majority of audits to be conducted with two auditors (team audits) where appropriate. Some regions with relatively low risk and high compliance rates, such as the United States and certain countries in Europe, have no need for team audits.

We began implementing team audits in 2005. Our goal for 2006 is to have team audits in 100 percent of the high-risk geographic regions. Team audits produce a superior product in that they allow two people to observe violations, conduct worker interviews and review documentation. Additionally, the practice of rotating auditors allows a new perspective during each factory visit. Performing an audit with two auditors also reduces the risk of bribery and other unethical behavior and ensures the safety of our auditors.

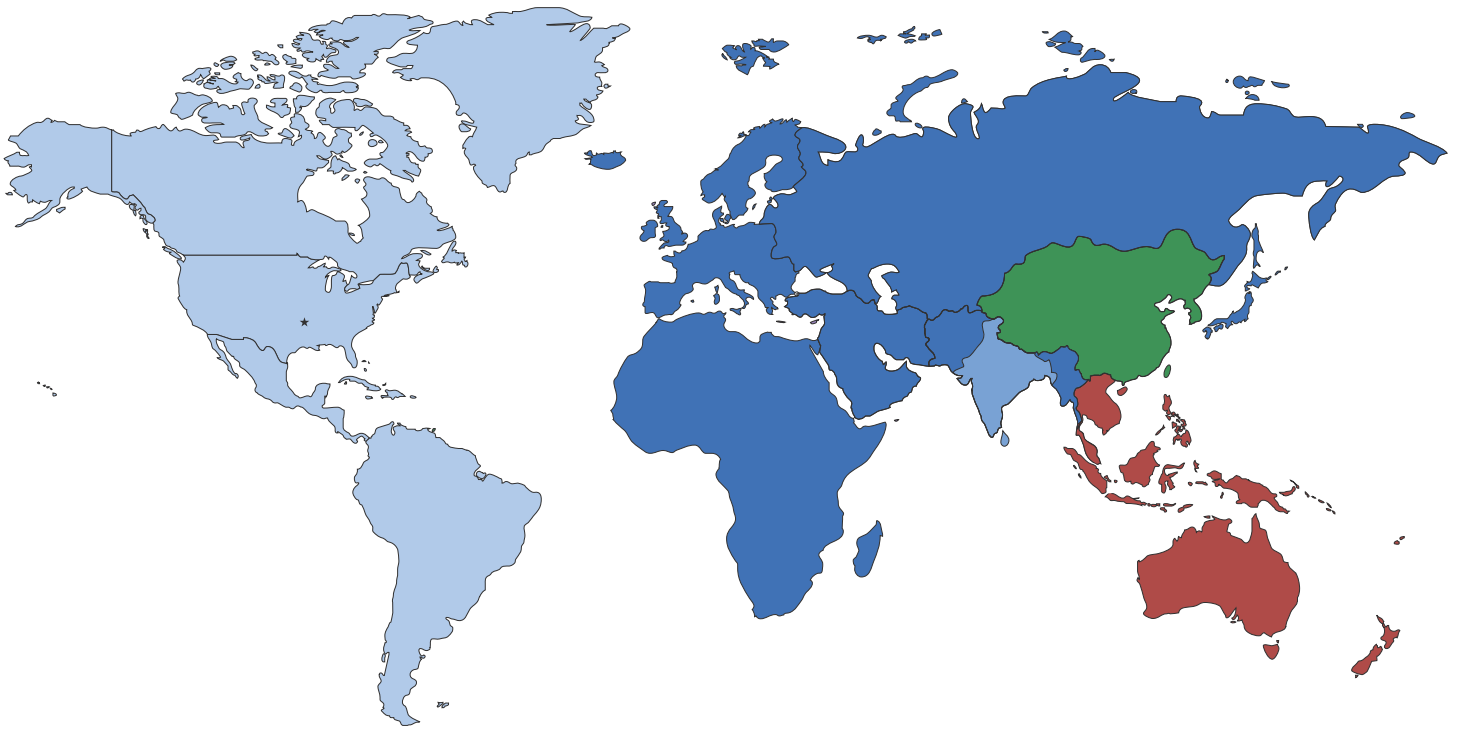
¹ The five categories of accessories, apparel, footwear, toys and sporting goods are considered high-risk by Wal-Mart because of a history of underage workers in the industries based on the typical manufacturing process.

ES PROGRAM

Ethical Standards Department Global Procurement, Wal-Mart Stores, Inc.



Office Locations



Americas Region- Choloma, Honduras,

Indian Subcontinent- Bangalore, India

Europe, Middle East and Africa Region- Dubai, United Arab Emirates

Far East Region- Shenzhen and Shanghai, China

Southeast Asia Region- Singapore

★ Home Office- Bentonville, Arkansas

Standards for Suppliers

Wal-Mart's Standards for Suppliers, which is our Code of Conduct, was established in 1992. Since then, we have been continually updating and evaluating changes to the Standards based on feedback from the ethical sourcing community. The Standards cover health and safety issues, environment, compensation, working hours, forced labor, underage labor, discrimination, compliance with applicable national laws and regulation, freedom of association and collective bargaining, rights concerning foreign contract workers, and the right of audit by Wal-Mart.

Prior to contracting with any supplier, we require them to review and sign Wal-Mart's Supplier Agreement, which refers to the Standards for Suppliers. In addition, it is mandatory that all suppliers display the Standards for Suppliers poster in all factories with which the supplier is affiliated. The factory management is required to sign that they have read and fully understand the Standards for Suppliers poster. They must place a copy of the poster in the relevant language in a public place within the factory. The Standards for Suppliers poster is available in 25 languages.

Supplier and Factory Management Training

In 2005, our Associates trained more than 11,000 suppliers and members of factory management, an increase from nearly 8,000 participants in 2004. On a regular basis, Ethical Standards Operations Managers lead half-day training sessions for suppliers and factory management to increase their familiarity with the requirements of Wal-Mart's Standards for Suppliers and to encourage an exchange of information about practices within the industry.

At each training session, participants receive the Ethical Standards Manual, available in seven languages. The training sessions are designed as an introduction to the Ethical Standards program and include information about program enhancements. Each session covers industry standards for wage calculations and recognizing false identity documents. In 2005, training was enhanced to include our new health and safety and environmental criteria.

This outreach is helping Wal-Mart foster strategic relationships with suppliers and factory management. Having these relationships helps suppliers and factory management understand Wal-Mart's program and encourages them to improve working conditions. New suppliers and factory management are encouraged to attend to gain an understanding of the Ethical Standards program. At the end of each session, we ask participants to complete a test to determine the effectiveness of the training and participants' understanding of the content.

We are continuously improving the ways we monitor training effectiveness. We recognize that the working conditions in the factories we have audited have improved. The number of participating suppliers and factory managers has increased. However, we need to ensure that the improved working conditions are a direct result of an increase in the participation of managers who can influence positive change.

Supplier and factory management education is an important part of the ES program. We believe the program can only be successful if suppliers and factories take ownership of the compliance process. Therefore, a goal of our program is to move from a policing approach to a coaching approach. In a policing approach, the effort goes into the audit itself: finding violations and assessing factories. In a coaching approach, suppliers and factory management work together with our auditors toward the same goal of compliance with the Standards for Suppliers.

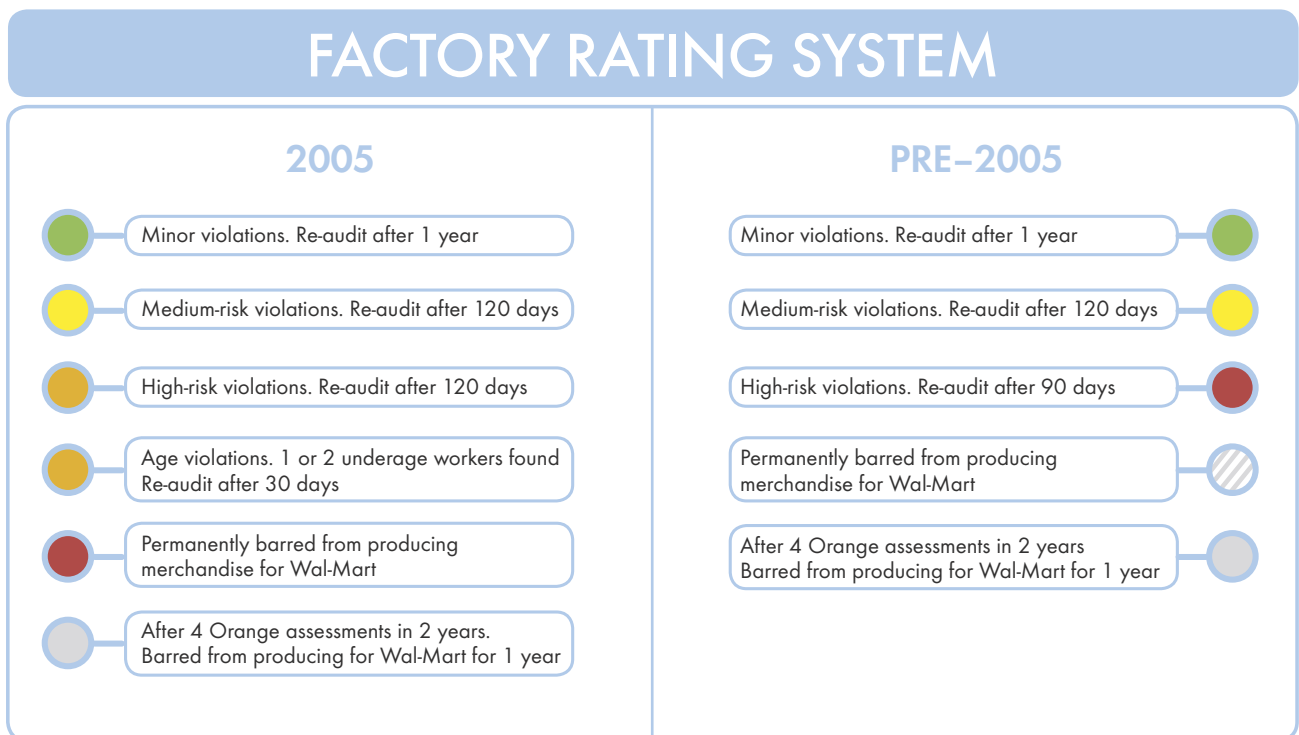
Wal-Mart Audit Training

Wal-Mart auditor training is also an important piece of our program. Auditors are required to take a test covering specific situations and violations every six months. Auditors are not allowed to perform audits if they do not score above the required minimum. Auditors who score below the minimum are pulled from the field and re-trained until their scores improve. Only then are they again permitted to audit supplier factories.

We also hold regular meetings, allowing auditors from all over the world to share experiences. While we recognize that our auditors may not uncover every violation every time, we continuously train the team to increase its effectiveness.

Audit Program

All factories covered by the ES program are audited at least once and up to four times a year as needed. The time between audits is based on the results of the previous audit: the better the results, the longer the time between assessments. The program is structured to provide motivation for improvement and bring about positive change at the factory level. The reward for compliance is less frequent audits.



AUDIT PROGRAM

Beginning in 2005, any factory that consistently receives high-risk assessments will be disapproved for up to one full year, resulting in a cessation of Wal-Mart orders during that period. This disapproval period increased from 90 days to a full year to strengthen the penalty for non-compliance.

Factories are rated Green, Yellow, Orange, or Red, depending on the findings of an audit. Factories receive Green assessments for no or minor violations; Yellow for medium-risk violations; and Orange for high-risk violations. Factories that have been failed are rated Red and are permanently banned from producing merchandise for Wal-Mart. Green-rated factories have annual re-audits, while Yellow- and Orange-rated factories have follow-up audits after 120 days to allow time for corrections and verification that corrective actions have been implemented.² Factories rated Orange with underage labor violations for only one or two workers are an exception to the above-mentioned timeline. We added the Orange-Age violation in 2005 to cover situations when only one or two underage workers are found to be employed by a factory. The factory has 30 days to achieve compliance with our age labor policies and the national labor law before a follow-up audit is conducted. If the situation has been corrected, the factory can continue production. If the situation has not been corrected, the factory will be assessed as Red and Failed. Factories that have more than two underage workers found during an audit are immediately rated Red and Failed.

A factory receiving an Orange assessment four times in a two-year period will be disapproved for up to one year, leading to a cessation of Wal-Mart orders during that period. As of January 1, 2005, the disapproval period has been extended from 90 days to one year. This decision was made to strengthen the seriousness of program non-compliance.

Suppliers that produce merchandise covered by the Ethical Standards program must disclose to Wal-Mart the factory they will use for an order. For direct imports, our Ethical Standards field team performs the audit. For domestic imports, a Bentonville team schedules an audit with an outside auditing firm. In 2005, we used the auditing firms Accordia, Bureau Veritas, Cal Safety Compliance Corporation, Global Social Compliance, Intertek Testing Services and Société Générale de Surveillance.

Wal-Mart works with suppliers and factory management to correct violations of the Standards for Suppliers found in the factories. At the closing meeting of a factory audit, factory management is given a list of violations found during the audit and has a chance to ask questions about any findings. While factories are given the opportunity to improve their working conditions, certain violations are never tolerated and will result in an immediate banning of factory production for Wal-Mart.

Please note: Underage labor, forced or prison labor, transshipments, severe abuse of workers, extremely unsafe working conditions and other serious violations are not tolerated at any time.

² Beginning in 2006, Green-rated factories will have follow-up audits after two years.

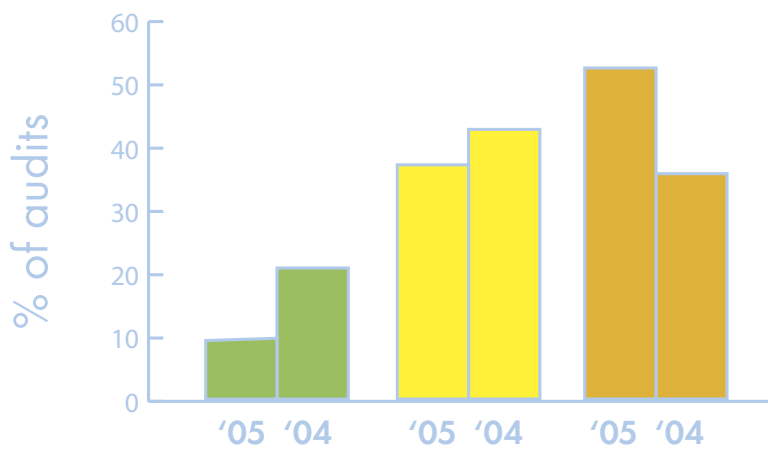
AUDIT PROGRAM

2005 Audit Results

In 2005, we instituted new provisions in Wal-Mart's Standards for Suppliers, increasing the rigor of our program. With these changes, the percentage of Orange assessments increased and the percentage of Yellow and Green assessments decreased. Green assessments accounted for 9.6 percent of the total assessments; Yellow accounted for 37.0 percent; Orange accounted for 52.3 percent; Orange-Age accounted for 0.8 percent; and Failed accounted for 0.2 percent.

Compared to 2004, we saw an increase of Orange assessments, from 35.6 percent to 52.3 percent. Accordingly, we had a decrease in Yellow and Green assessments. Age violations were found at similar rates as in 2004, where 0.9 percent of factories had age violations. In 2005, factories that had one or two underage workers received an Orange-Age violation and 30 days to rectify the situation. If it was not rectified, they received a Failed assessment. If a factory was found to have more than two underage workers, the factory immediately received a Failed assessment. To compare 2005 results with 2004 results, it is necessary to combine Orange-Age violations and Failed assessments for 2005, which accounts for 1 percent.

COMPARISON OF 2004 AND 2005 AUDIT RESULTS



2005

● Green	9.6%
● Yellow	37%
● Orange	52.3%
Total	14,750

2004

● Green	20.7%
● Yellow	42.6%
● Orange	35.6%
Total	12,561

Note: Results are from January through December 2004. The prior report covered March 2003 through February 2004. We will continue to report results based on the calendar year. Figures that are less than 1% of the total number of factories audited are not shown in the chart.

Many factors contributed to the shift toward more suppliers' factories being rated Yellow or Orange:

- o Unannounced audits increased, which allowed our auditors to see a more realistic picture of day-to-day factory activities.
- o Violations were reclassified to strengthen and reinforce their severity. Violations such as false record keeping were reclassified from Yellow to Orange.
- o Our suppliers added approximately 2,000 new factories. These new factories were unfamiliar with the ES program expectations and generally had a lower compliance rate.
- o Our auditors became more familiar with the factories and the factory workers. And as the workers became more accustomed to the interview process, they more openly shared their experiences.
- o Team audits were implemented in 2005, which allowed for more observations and a more thorough analysis of documentation.
- o The rigor of Wal-Mart's Standards for Suppliers increased.

Disapproved Factories

During 2005, we Disapproved 23 factories – a significant decrease – down from 1,211 in 2004. The lower number of Disapproved factories is attributed to program changes that took effect in that year. The penalty period for Disapproved factories was extended from 90 days to one year in order to strengthen the consequences for program non-compliance. Factories receive a Disapproved status if they receive four Orange assessments in a two-year time period. Because of the lengthened disapproved period, we restarted Orange assessment counts at zero for all factories on January 1, 2005. Since our Ethical Standards program audits an Orange factory every 120 days, many factories had not been audited

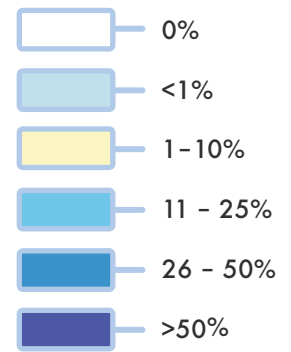
the requisite four times in 2005. However, with the trend of more Orange assessments from our enhanced Standards, we anticipate an increase in Disapproved factories in 2006. We will be monitoring the situation and include results in our next report.

Frequent Violations

Several consistently found serious violations at the factory level include problems with payment of overtime compensation, coaching of workers for worker interviews, and the use of 'double-books' to hide the true numbers of hours worked or wages/benefits paid. Unclear interpretation of local laws contributes to payment of overtime compensation issues. Often local overtime wage laws are not consistently enforced by the local government; although we do see some indication that governments are working to improve their efforts to enforce laws more consistently. Without local enforcement, factory management has less incentive to pay the legal wages. They feel complying with the law puts them at a business disadvantage to factories that are not paying the legal overtime wages. Also, workers often want to work overtime for the extra money and do not realize they are entitled to more.

AUDIT PROGRAM

Frequent Violations

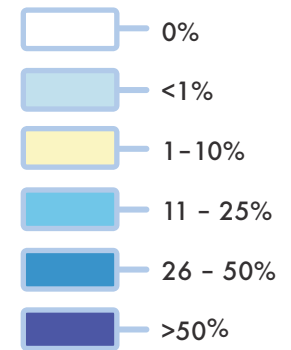


CATEGORY VIOLATION		Far East	Europe, Middle East, Africa	Indian Subcontinent	Southeast Asia	Americas
Child Labor	Age Violation - 1 or 2 underage workers observed	1-10%	<1%	<1%	<1%	<1%
	Health examination not provided to young workers	11-25%	<1%	1-10%	<1%	<1%
	Factory employed child labor when there was no Wal-Mart production	1-10%	<1%	<1%	<1%	<1%
	Incomplete age documentation	26-50%	1-10%	11-25%	11-25%	1-10%
	Job applicants falsifying age documentation	1-10%	1-10%	<1%	<1%	<1%
	Minors with inadequate work documents	11-25%	<1%	<1%	1-10%	<1%
	Improper working conditions for minors	<1%	<1%	<1%	<1%	<1%
	No hiring procedures to ensure compliance	11-25%	1-10%	11-25%	1-10%	1-10%
	No proper breaks for minors	<1%	<1%	<1%	<1%	<1%
	Numerous discrepancies in age verification records	26-50%	<1%	<1%	11-25%	<1%
	Underage workers engaged in work with occupational hazards	<1%	<1%	<1%	<1%	<1%
	Underage workers working off the books	<1%	<1%	<1%	<1%	<1%
	Workers' children allowed on production floor	<1%	<1%	<1%	<1%	<1%
	Delaying payment of any portion of wages	1-10%	1-10%	11-25%	1-10%	1-10%
Compensation	Failure to pay legally required overtime premium	26-50%	11-25%	26-50%	26-50%	1-10%
	Failure to pay minimum wage	11-25%	1-10%	11-25%	1-10%	1-10%
	Illegal deductions	1-10%	<1%	11-25%	11-25%	<1%
	Legally required benefits not paid	>50%	1-10%	>50%	<1%	11-25%
	Manipulation of payroll	<1%	1-10%	11-25%	1-10%	1-10%
	No pay slips for workers	1-10%	<1%	11-25%	<1%	<1%
	Non-payment of applicable wages	26-50%	<1%	11-25%	1-10%	1-10%
	Training wages paid longer than legal probation	<1%	<1%	1-10%	<1%	<1%
	Training wages paid to skilled labor	<1%	<1%	<1%	<1%	<1%
	Unpaid piece work / No payment for rework	<1%	<1%	<1%	<1%	<1%
	Wages cannot be verified / wage system not clear	>50%	11-25%	26-50%	11-25%	1-10%
	Workers unaware of pay rates and deductions	1-10%	1-10%	11-25%	1-10%	<1%
	Inappropriate storing/handling of chemicals	11-25%	<1%	26-50%	1-10%	1-10%
	Willful violation of environmental legal requirements	1-10%	1-10%	11-25%	1-10%	<1%
	Concern for the Environment	Workers exposed to toxic levels of pollutants	<1%	<1%	<1%	<1%
Maternity and paternity rights must be upheld in accordance with current national legislation		<1%	<1%	<1%	<1%	<1%
Illegal pregnancy testing		<1%	<1%	<1%	<1%	1-10%
Pregnant women denied jobs or dismissed		<1%	<1%	<1%	<1%	<1%
Discrimination	Promotions or pay based on personal characteristics	<1%	<1%	1-10%	<1%	<1%
	Excessive recruitment fees	1-10%	<1%	<1%	<1%	<1%
	Excessive restrictions on movement	<1%	<1%	<1%	<1%	<1%
	Factory holds government issued identity papers	<1%	<1%	<1%	<1%	<1%
	Suppliers/Factories respect the rights of employees to choose whether or not to associate with any group, as long as such groups are legal in their own country	<1%	<1%	<1%	1-10%	<1%
Forced Labor	Illegal / Unreasonable terms in contract / factory rules and regulations	11-25%	1-10%	1-10%	11-25%	1-10%
	Purchasing supplies from state entities using prison labor	<1%	<1%	<1%	<1%	<1%
	Required and routine seven-day workweek	1-10%	<1%	<1%	<1%	<1%
	Terminating or disciplining workers who will not work OT hours	<1%	<1%	<1%	<1%	1-10%
	Unreasonably limited access to basic needs	<1%	<1%	<1%	1-10%	<1%

AUDIT PROGRAM

CATEGORY VIOLATION		Far East	Europe, Middle East, Africa	Indian Subcontinent	Southeast Asia	Americas
Labor Hours	Minors working beyond legal limits					
	Egregious hours					
	Excessive overtime					
	Routine coerced overtime					
	Working off the clock					
	Violation of Wal-Mart's Seventh Day Rest Policy					
	Excessive recruitment fees					
Migrant Workers	Migrant workers do not understand the terms and conditions or their contracts					
	Migrant workers are not allowed to leave their employment					
	Min. wage and benefits are not paid as per host country					
	Withholding of travel documents / residency permits without workers permission					
	Denied access to factory or dormitory					
Right of Inspection	Factory fails to provide all relevant documentation					
	Inappropriate business license					
	No Business License					
	Incomplete personnel files					
	Worker interviews not permitted					
	Wal-Mart Standards for Suppliers not posted					
	Homeworkers used and paid by factory					
Standards Posted	Unauthorized subcontractors used for Wal-Mart production					
	Exits unmarked					
Subcontracts	Inadequate number of exits based on workforce					
	Inadequately marked & lit exits					
	Locked and/or blocked exits					
Workplace Environment (Health & Safety - Dormitories)	Open, but partially obstructed exits					
	Access to fire safety equipment					
	Electrical hazards found					
	Emergency evacuation plan not posted in native language					
	Expired fire extinguishers					
	Fire evacuation plan not marked on floor					
	Inadequate / Restricted access to staircase					
	Inadequate fire drills					
	Inadequate number and distribution of fire extinguishers and hoses					
	No fire alarms, emergency lighting, or sprinkler system					
	Empty / No / Locked first aid box (kit)					
	Hazardous chemicals are present					
	Insufficient restroom and bathing facilities					
	Insufficient restrooms based on boarders					
	Insufficient space based on number of boarders					
	Insufficient ventilation					
	Lack of access to potable water					
	Not inspected and certified by local health authorities					
	Not segregated by gender					
	Poorly maintained restroom facilities					
Wet/slick surfaces are not covered with non-slip materials						
Other						

AUDIT PROGRAM



CATEGORY VIOLATION		Far East	Europe, Middle East, Africa	Indian Subcontinent	Southeast Asia	Americas
Workplace Environment (Health & Safety - Harassment or Abuse)	Physical abuse					
	Pat down searches					
	Verbal abuse					
	Other					
Workplace Environment (Health & Safety)	Chemicals improperly stored near food					
	Food preparation and eating areas are unsanitary					
	Food prepared/consumed on the production floor					
	Insufficient canteen capacity					
	Inadequate number of exits based on workforce					
	Inadequately marked and lit exits					
	Locked and/or fully blocked exits					
	Partially blocked exits					
	Electrical hazards found					
	Expired fire extinguishers					
	Fire evacuation plan not marked on floor					
	Fire extinguishers are blocked					
	Hanging wires / Wiring impedes exit / passage					
	Inadequate fire drills					
	Inadequate number and distribution of fire extinguishers and hoses					
	No fire alarms, emergency lighting, or sprinkler system					
	No posted evacuation plan					
	Storage of finished goods presents fire hazard					
	Empty first aid kit					
	First Aid procedures not posted					
	Glucose or dextrose noted in first aid kit					
	Injuries not monitored					
	Insufficient or inadequately supplied first aid kits					
	Factory conditions are crowded, disorganized, and unsanitary					
	Inappropriate trash disposal					
	Lack of access to potable water					
	Possible infestations					
	Work area poorly lit					
	Work area poorly ventilated					
	Appropriate personal protective equipment not provided to worker					
	Machinery not fitted with safety features					
	Hazardous chemicals stored in work area					
Wet/slick surfaces are not covered with non-slip materials						
Failure to provide gender segregated bathrooms						
Insufficient restrooms based on workforce						
Poorly maintained restroom facilities						

Audit Methodology

o Opening Meeting – The Opening Meeting consists of confirmation of the factory and its information, an introduction by the Wal-Mart auditors to factory management and supplier representatives, and the presenting of and signing of the Wal-Mart Gifts & Gratuity Policy (which forbids any offer or receipt of gifts or bribes by the factory or the auditor). At this time, the auditors will request documentation related to personnel, production, time and pay records.

o Factory Tour – The auditors conduct a factory walk-through to examine factory conditions. The walk-through has minimal factory managers present, as the auditors will ask production employees questions about machinery operation and other working conditions. Auditors also follow up with workers interviewed in previous audits about conditions since the last audit. The tour lasts up to three hours, depending on the size of the factory.

o Worker Interviews – During factory tours, auditors typically choose workers off the shop floor to interview, although additional workers may be requested to verify factory records during the documentation review process. Factory management must provide a private location; and under no circumstances are interviews conducted with factory management or supplier representatives present. Workers are interviewed in same-sex groups. The objectives of the interviews are to find out what the workers have to say relevant to the audit, verify findings and observations made by the auditors, and to ensure that workers understand their rights. A minimum of 15 workers are interviewed. The number of workers interviewed will depend on the size of the factory.

o Factory Documentation Review – Auditors conduct an on-site inspection of appropriate production documents. For Initial and Annual audits, document review will require records dating back at least three months and up to one year. Follow-up audits not only include reviewing findings from the previous audit, but also will always include review of hours and compensation. Any factory that fails or refuses to comply with this requirement is subject to immediate cancellation of any and all outstanding orders.

o Closing Meeting – Auditors summarize the audit findings and discuss any areas found to be out of compliance with Wal-Mart Standards for Suppliers with the factory management. Auditors are required to compile an on-site report consisting of violations observed during the audit process and recommendations to remedy the violations. Factory management and the auditor both sign the on-site report. Auditors are required to leave a copy of the signed audit findings and recommendations. This ensures that the factory management has a record of the violations and recommendations. Factory management is expected to act on all recommendations in the on-site report. Factory management must present the completed action plan to the auditor during the follow-up audit opening meeting so auditors can validate that the actions were taken. Suppliers and factory management are encouraged to contact the regional Wal-Mart ES office to discuss any concerns or questions about the on-site report and recommendations.

AUDIT PROGRAM

Meet our Associates

S. M. Leong

Leong joined Wal-Mart in 2001 as a Ethical Standards Supervisor in the Far East region. She was promoted to Ethical Standards Operations Manager in 2003, and currently serves as an Ethical Standards Regional Manager for the Southeast Asia region based in Singapore.



Educational Background

Leong received her Master of Science in Analytical Chemistry from the University of Houston and her Bachelor of Science in Chemistry from Texas A and M University.

Work Experience

Upon her graduation, Leong worked with Jebesen and Jessen Packaging in Malaysia as an Environmental, Health & Safety / Quality Manager. She joined Gap Inc. in 2000 to serve as a Regional Environmental, Health and Safety Specialist for the Asia Pacific and India Continent. Leong has been with Wal-Mart since 2001.

Why did you come to work for Wal-Mart?

I am constantly looking for opportunities where I can do a little bit more for the society and the people around me within my capabilities. I decided to join Wal-Mart because it has such a large supplier base affecting many factories across various industries. I can reach out more and can do more for others through this venue. Through my everyday work, I wanted to find a place where I can live the fullest and contribute the most. Wal-Mart fits into my needs with its reach and approach to facing challenges.

What is unique about Wal-Mart's Ethical Standards program?

Our environment is constantly changing, and as a result, the program is continually evolving and expanding. For example, this year we are expanding our focus in environmental issues. The Wal-Mart Ethical Standards program is effective and allows time for suppliers and their factories to improve, while keeping them accountable for noncompliance. Our program requires suspension of orders to non-compliant factories, demonstrating the commitment we have to ethical sourcing as a company.

What do you think about the Wal-Mart ES program?

We are moving in the right direction, from program design to execution. There are many suppliers and factories that have improved through the years and are committed to grow their business with us. However, there is still much work to be done across the industries. Effort and patience are needed to continually educate new suppliers and factories as they enter into the program.

What do you see in the future regarding ES?

The success of the program relies on all parties involved. Currently multiple retailers and brands have different requirements that increase the stress and compliance challenges faced by the suppliers and their factories. I hope to see a universal code of conduct adopted and implemented worldwide to simplify the situation. I believe the concept of compliance is the right thing to do and will eventually become the norm globally.

Do you feel like you are making a difference?

I know I have definitely made a difference, but there is still so much more to do. I recall when I first started in this area of work I saw factories where workers worked in the rain due to leaking roofs, insufficient or broken toilets, and factory management that scolded workers in front of others. Today, basic needs are met and workers are treated with respect in many factories. I am glad that I am involved in the process and am looking forward to equipping myself better so that I can contribute more to the goal of social compliance across all factories. We all have our own unique mission in life that only we can fulfill, and I treat this line of work as my life's mission.



Olivia Krishanty

Olivia is an Ethical Standards auditor on the Southeast Asia team based in Indonesia. She has been with Wal-Mart since 2004.

Why am I an Ethical Standards auditor for Wal-Mart?

During my time as a student in college in my home country of Indonesia, I was in an organization of students concerned about factory laborers. We focused on educating workers about their rights and sometimes participated in demonstrations with labor unions. But I learned that we were not always the winners in such situations. Many people may take advantage of the situation during demonstrations, causing riots; and factory management sometimes uses the hard way to evict demonstrators. There might be riot victims, workers may be laid off, and, in some instances, the factory might even close down.

As an Ethical Standards auditor, I can help improve working conditions in our suppliers' factories. Through Wal-Mart's continuing business, factories have an incentive to follow the government regulations and Wal-Mart Standards. This way, it's a win-win solution for Wal-Mart, the factory, and the workers.

Do you feel like you are making a difference?

It's the ability to make the difference in workers' lives that I like the most about my job. It's doing my job as best as I can, gaining more knowledge and experience, and sharing it with others. I've found that sharing with factories and suppliers really makes my job easier. If they understand the reason behind why we ask them to do some things, such as health and safety issues, they are more willing to spend their money on them. If they don't understand why it is important, they are more likely to view the improvement as just a waste of their money.

How thorough is the ES program?

Our ES program is very comprehensive and covers all aspects of social, environmental, health and safety issues, and gives opportunities for us to make changes for the betterment of the society.

But in a bigger way, I hope that what we do for suppliers' factories in Indonesia, when they change and follow the national law and our standards, will draw more orders to our country. Then more people can have jobs, and our economy can improve, even on a small scale. People in my country need that, with our economy in a slump. As for now, I believe that we can make a difference just by doing our job correctly and delivering the message to our suppliers and their factories.

Stakeholder Engagement

This year marked the establishment of our Social Responsibility team within the Ethical Standards team. The Social Responsibility team is charged with identifying and engaging with stakeholders, as well as understanding the issues and challenges faced by stakeholders around the world as a result of our sourcing.

With a focus on nurturing relationships with selected stakeholders, we aim to find sustainable solutions to problems within our supply chain. The purpose of our effort is to:

- o Better understand the issues in our sourcing countries and learn about best practices in the industry
- o Give back to the communities in our sourcing markets
- o Develop relationships with stakeholders who can verify the actions we are taking
- o Tell our story about Wal-Mart's sourcing practices to all stakeholders, and
- o Increase the transparency of our Ethical Standards program

Wal-Mart contracted with Business for Social Responsibility (BSR), a non-profit consulting firm, for help in the stakeholder engagement process. BSR helped us to choose issues on which to engage and identify appropriate stakeholders with whom to engage.

The team has been reaching out to several non-governmental organizations (NGOs) and other organizations that are knowledgeable of the industry, including Maquila Solidarity Network (MSN), Interfaith Center on Corporate Responsibility (ICCR), International Labour Organisation (ILO), and the Ethical Trading Initiative (ETI). We also have begun a dialogue with various members of the academic community. Through our relationships with these stakeholders, we are beginning to better

understand how Wal-Mart can influence positive change in our sourcing countries' manufacturing industries.

Common Code of Conduct

As we've dug deeper into our supply chain, it has become clear that it is not efficient or cost-effective for individual retailers or brands to monitor factories. Duplication of audits by different retailers and brands also leads to confusion on the part of factory managers. We believe that a collaborative effort by a majority of major brands and retailers to adopt a common Code of Conduct and enforcement program that covers all categories of manufactured merchandise is an important way to make progress in achieving social compliance.

Wal-Mart is pursuing the adoption of a Common Code of Conduct. Having a Common Code of Conduct and a single monitoring process would be cost-effective for all involved and help eliminate 'audit fatigue' in factories. Wal-Mart does not own any factories, but instead contracts with a supplier for a product, who then contracts with a factory to make the product. Both suppliers and factories typically do business with multiple parties, meaning suppliers will use multiple factories, and factories will produce for multiple suppliers. Because of this, at any given time a factory producing merchandise for Wal-Mart is likely producing for another retailer or brand. With each retailer and

brand having and enforcing its own Code of Conduct, factories are subjected to multiple audits. Since the Codes are typically alike in many ways, this presents an opportunity for leveraging resources and committing to one consistent set of standards.

Wal-Mart is currently involved in a number of initiatives aimed at creating and implementing such a program. While forward progress is slow, we are optimistic about the end results and understand that sustainable change takes time. We are committed to setting up a feasible and effective program that will contribute toward both allowing significant gains in social compliance and improving the quality of life for the workers in the factories.

Better Factories Cambodia

In 2005, Wal-Mart became a contributor to the International Labour Organization's (ILO) Better Factories Cambodia program. Through this initiative, we accept the audits performed by ILO auditors and approve the factories to produce merchandise for Wal-Mart.

Better Factories Cambodia is a unique program of the International Labor Organization that was a direct result of the trade agreement between the United States and Cambodia. The program is a collaborative effort between the government, factory managers, suppliers and unions. Better Factories Cambodia monitors and reports on working conditions in Cambodian garment factories according to national and international standards. The program helps factories improve their productivity. Better Factories Cambodia also works with the government and international buyers to ensure a rigorous and transparent cycle of improvement.

This project is helping to eliminate the duplication of audits that occur at individual factories, as multiple retailers or buyers are purchasing from the same factory. In the past, every retailer or buyer would have its own program with its own auditors. Through supporting the Better Factories Cambodia program, we, along with other retailers and brands, are accepting audits performed by the ILO. This is a model for future collaboration across the industry.

To read more information on the ILO's Better Factories Cambodia project, please visit www.betterfactories.org.

2005 Challenges & Trends

Government Enforcement

Consistent governmental enforcement at a local level continues to be an issue. In these circumstances, the factory management also is hesitant to improve the enforcement because they believe it puts them at a competitive disadvantage compared to other factories in their area. The inconsistency leads some factory management to believe the local government is endorsing their business practices. We recognize the fact that governments are working to improve enforcement of local laws and offer support when we can.

Hidden Violations

Some compliance violations prove to be more difficult to uncover than others. Physical violations, such as Health and Safety or Fire Safety issues, are easier to objectify and quantify.

For example, it is easy to observe whether a factory has the correct number of fire extinguishers or toilets. On the other hand, it is harder to uncover whether factory management is respecting workers' right to Freedom of Association, or is keeping two sets of books to hide the true number of hours worked. To uncover these types of violations, our auditors use a variety of methods, such as meticulously gathering and reviewing information from a multitude of sources, including individual workers' interviews; and reviewing time cards, worker pay stubs, factory payroll logs and maintenance records. We also rely on our Global Ethics Helpline, which has 38 local numbers with local language support worldwide. Every complaint that we receive via that helpline is investigated immediately and is subject to corrective action.

We regularly train our auditors and hold meetings where our auditors from all over the world gather to share experiences about these issues. While we recognize that our auditors may not uncover every violation every time, we continuously train the team to increase its effectiveness.

Wages and Benefits

Our auditors have observed wage increases in several regions. In India, wages in most industry segments are increasing. Changes benefiting the workers also have been occurring in China. In 2005, minimum wages set by the local labor bureaus increased, which improved the income of workers. Additionally, China's employment laws are being revised to clarify employer rights and responsibilities and strengthen the implementation of labor contracts. Still, our auditors continue to detect a high number of wage and benefit violations. Thus the focus of our audits will continue to center around factory records to ensure that multiple sets of records are not being maintained to conceal underpayment of wages and benefits.

Regarding maternity benefits, the Wal-Mart Ethical Standards team has continually improved the program to ensure that legally mandated maternity benefits are paid. To monitor this, our auditors request that the factory doctor or nurse provide a list all pregnant women in the factory and their expected dates of delivery. Then, at the next audit the auditors check to see that the women are still working or, if they are on leave, that the payroll records reflect that they are being paid.

Foreign Contract Workers

In Southeast Asia, the Middle East and some parts of Europe, foreign contract workers constitute a large percentage of the manufacturing workforce. Foreign contract workers may not understand the terms and conditions of their employment contracts. Foreign contract workers could be taken advantage of by recruiters or factory managers through unreasonable recruitment fees, rooming charges and unfair compensation. Our Standards for Suppliers specifically address this situation. During workers' interviews and documentation review, our auditors focus on identifying the issues unique to their foreign contract worker status.

Enhancements

Unannounced Audits

In 2005, we increased the number of unannounced audits to 20 percent of total audits, up from 8 percent in 2004 and less than 1 percent in 2003. Announced audits ensure that the appropriate people are at the factories and all relevant paperwork and materials are on-site, updated, and are used for the initial and annual audits. Unannounced audits are useful for follow-up audits to verify that the factory is consistently complying with the standards and to see a truer snapshot of factory conditions.

Our goal in 2006 is for 30 percent of all audits to be unannounced. We believe that both announced and unannounced audits are necessary to see the true picture of a factory, and we will continue to experiment with increasing unannounced audits until we reach the optimal mix.

Underage/Child Labor

Our policy concerning underage labor was changed in 2005. Previously, we had a zero-tolerance policy for underage workers. If even a single underage worker was found, the factory was immediately Failed and all Wal-Mart business was permanently cancelled. Beginning January 1, 2005, if one or two underage workers are found in a factory, the factory receives a warning and has 30 days to remediate the problem. If, during the follow-up audit, no corrections have been made, the factory is Failed and permanently banned from producing merchandise for Wal-Mart. If more than two underage workers are found to be working under the employment of the factory, the factory is immediately and permanently Failed and banned from Wal-Mart production.

Wal-Mart's decision to make this change was based on advice from NGOs and other stakeholders. With the previous policy, Wal-Mart would simply withdraw its orders from any factory found to be using underage workers. As a result, many workers of legal working age could be laid off and potentially encounter financial hardship.

Our auditors monitor for potential underage workers by interviewing workers who look younger than the legal working age during the factory tour and by following up with documentation verification.

Underage worker violations result from several different situations. For example, workers in China tend to calculate their age from conception instead of from birth, which can lead to discrepancies in ages by a few months. We work with these factories so they put appropriate processes in place to assure that their workers are the legal working age. The instances of underage workers have dramatically diminished during the past decade, and in 2005 violations were found in only 0.8 percent of our audits.

Foreign Contract Workers

A provision in our Standards for Suppliers addressing compliance with immigration laws and regulations for foreign contract workers who work in a supplier's factory became effective January 2005. In some factories in other countries, it is not uncommon to find several different nationalities working alongside one another. For example, in Malaysia, factory workers are often from Bangladesh, Nepal, Indonesia, Myanmar, Vietnam, Sri Lanka and Pakistan.

As part of this initiative, suppliers must only employ workers that have the legal right to work in that country. The worker's legal status must be validated through documentation review before they are allowed to begin work. Suppliers are required to regularly audit employment agencies from which they recruit workers. Employment contracts must be written in the workers' native language and workers must be paid at least the local minimum wage. Factory management must allow workers to be in control of their own travel documents and wages, and they must be free to leave the factory and return home at any time. We audit against these requirements through workers' interviews and by asking to view travel documents (including passports). Our auditors also check to verify that the visas and work permits are legal and valid, issued by the factory and stamped by the government.

Freedom of Association

Wal-Mart's Standards for Suppliers began covering worker's right to freedom of association (FOA) and collective bargaining on January 1, 2005. This provision is enforced in a consistent manner with the country law.

We recognize the challenge of auditing this area and believe that non-compliance with this standard may happen more frequently than our data suggests. This is an industry-wide challenge. We are collaborating with other retailers, brands and NGOs to share experience uncovering these issues. Our auditors monitor for this violation during workers' interviews and spot interviews that occur randomly during the factory tour.

Proprietary Brand Program

In 2005, we added the George brand to our proprietary brand program. Adding this brand places an additional 11,500 items under our Ethical Standards program. We plan to add additional proprietary brands in each successive year.

Looking Forward

International Community Giving

Wal-Mart is committed to giving back to the communities from which it sources. In 2005, The Wal-Mart Foundation gave approximately \$200 million to local communities and groups within the United States. In 2006, our objective is to begin reaching out to organizations that work in the communities outside the U.S. that produce merchandise for Wal-Mart. We've identified education as the key focus; and our target beneficiaries will be factory workers, their children or potential factory workers. The workers that could benefit do not necessarily have to work in a factory that produces merchandise for Wal-Mart.

Environment

On January 1, 2007, the program will include environmental criteria covering waste identification, handling and disposal, wastewater treatment and discharge, air emissions and banned substances. Education on the new environmental criteria for suppliers and factory management will be a focus for the Wal-Mart ES team during 2006, with auditing beginning on the new criteria in 2007.

Green Assessments

Beginning in 2006, a factory assessed as Green will be re-audited after two years, rather than one year. This increased time between follow-up audits will serve as additional motivation for factories to comply with ES standards. It also allows our team to focus more intensively on factories where improvements are needed.

Tablet Personal Computers

In 2006, Ethical Standards team members around the world will begin using tablet PCs during the audit process. This will enable them to record audit findings directly into a PC and then upload straight to Wal-Mart's system. The tablets will help to maintain consistency of audits and reporting across Wal-Mart's global ES program and increase our team's productivity.

Health and Safety

Beginning January 1, 2006, we strengthened our standards regarding health and safety. As a result, we anticipate an increase in health and safety violations in 2006. To prepare factories for these changes, we conducted training throughout 2005, educating more than 11,000 suppliers and factory managers on the new requirements. The enhancements include additional health and safety criteria covering emergency prevention and response, equipment safety, work area and design and maintenance, materials handling, electrical safety, personal protective equipment, chemical management, sanitation, accident/medical/first aid management, and commitment to employee programs.

ES Team

We are looking to expand our Ethical Standards team by approximately 15 percent by the end of 2006. We currently have open positions all over the world and are actively recruiting to fill them. We also have new headcount budgeted for in 2006. Expanding our associate base is a high priority for the managers, as this will allow us to perform 100 percent of audits in high-risk areas as team audits. It will also help ensure that follow-up audits are conducted in a timely manner.

APPENDIX

Appendix

Wal-Mart Stores, Inc. Standards for Suppliers

Wal-Mart Stores, Inc. ("Wal-Mart") is successful by adhering to three basic beliefs since its founding in 1962:

1. Respect for the Individual
2. Service to our Customers
3. Strive for Excellence

Wal-Mart strives to conduct its business in a manner that reflects these three basic beliefs and expects its suppliers to adhere to these beliefs in their contracting, subcontracting, and other business relationships. Additionally, because the conduct of Wal-Mart's suppliers can be attributed to Wal-Mart and its reputation, Wal-Mart requires its suppliers, and their contractors, to meet the following standards, and reserves the right to make periodic, unannounced audits of suppliers' facilities and the facilities of suppliers' contractors to ensure suppliers' compliance with these standards:

Compliance with applicable laws and practices: Suppliers shall comply with all local and national laws and regulations of the jurisdictions in which the suppliers are doing business, as well as the practices of their industry. Should the legal requirements and practices of the industry conflict, suppliers must, at a minimum, be in compliance with the legal requirements of the jurisdiction in which they are operating. If, however, the industry practices exceed the country's legal requirements, Wal-Mart will favor suppliers who meet such industry practices. Wal-Mart expects its suppliers to comply with the following conditions of employment.

Compensation: Suppliers shall fairly compensate their employees by providing wages and benefits which are in compliance with the local and national laws and regulations of the jurisdictions in which the suppliers are doing business, or which are consistent with the prevailing local standards in the countries, if the prevailing local standards are higher.

Hours of Labor: Suppliers shall maintain reasonable employee work hours in compliance with local standards and applicable laws of the jurisdictions in which the suppliers are doing business. Suppliers' employees shall not work more than 72 hours per 6 days or work more than a maximum total working hours of 14 hours per calendar day (measured midnight to midnight). Supplier's factories should be working toward achieving a 60-hour workweek. Wal-Mart will not use suppliers who, on a regularly scheduled basis, require employees to work in excess of the statutory requirements without proper compensation as required by applicable law. Employees should be permitted reasonable days off (at least one day off for every seven-day period) and leave privileges.

Forced/Prison Labor: Forced or prison labor will not be tolerated by Wal-Mart.

Child Labor: Wal-Mart will not tolerate the use of child labor. Wal-Mart will not accept products from suppliers or subcontractors who use child labor. No person shall be employed at an age younger than the legal minimum age for working in any specific jurisdictions. In no event shall suppliers or their subcontractors employ workers less than 14 years of age.

If you know of a violation of these standards by a supplier, factory, or Wal-Mart associate, please call 1-800-WM-ETHIC (1-800-963-8442). Alternatively, write to: Wal-Mart Stores, Inc., Wal-Mart Ethics Office, 702 SW 8th St., Bentonville, AR 72716-0860 or e-mail: ethicalstnds@wal-mart.com

Discrimination/Rights: All conditions of employment must be based on an individual's ability to do the job, not on the basis of personal characteristics or beliefs. Wal-Mart favors suppliers who do not discriminate on the basis of race, color, national origin, gender, sexual orientation, religion, disability, and other similar factors.

Freedom of Association and Collective Bargaining: Suppliers will respect the rights of employees regarding their decision of whether to associate or not to associate with any group, as long as such groups are legal in their own country. Suppliers must not interfere with, obstruct or prevent such legitimate activities.

Immigration Law and Compliance: Only workers with a legal right to work shall be employed or used by a supplier. All workers' legal status, must be validated by the Supplier by reviewing original documentation (not photocopies) before they are allowed to commence work. Procedures which demonstrate compliance with these validations must be implemented. Suppliers must regularly audit employment agencies from whom they obtain workers to monitor compliance with this policy.

Workplace Environment: Factories producing merchandise to be sold by Wal-Mart shall provide adequate medical facilities and ensure that all production and manufacturing processes are carried out in conditions that have proper and adequate considerations for the health and safety of those involved. Wal-Mart will not do business with any supplier that provides an unhealthy or hazardous work environment or which utilizes mental or physical disciplinary practices.

Security: Suppliers will maintain adequate security at all production and warehousing facilities and implement supply chain security procedures designed to prevent the introduction of non-manifested cargo into outbound shipments (e.g. drugs, explosives biohazards and/or other contraband). Additionally, each production and warehousing facility must have written security procedures and maintain documented proof of the adequate controls implemented to guard against introduction of non manifested cargo.

Concern for the Environment: We encourage suppliers to reduce excess packaging and to use recycled and nontoxic materials.

Right of Audit: Wal-Mart or a third-party designated by Wal-Mart will take certain actions, such as audit of production facilities, to implement and monitor these standards.

Confidentiality: Suppliers shall not disclose to others and will not use for its own purposes or the purpose of others any trade secrets, confidential information, knowledge, designs, data, skill, or any other information considered by Wal-Mart as "confidential". The "Standards for Suppliers" must be posted in a location visible to all employees at all facilities that manufacture products for Wal-Mart.

Wal-Mart Ethical Standards Program Milestones

1992

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

1993-1996

Audit program manual developed. Pacific Resources Exports Ltd. (PREL), our exclusive agent, began auditing factories manufacturing for Wal-Mart suppliers.

1997-2001

- o Program expanded to include factories in Egypt, Pakistan, India, and Nicaragua. Domestic suppliers using factories in these countries engaged approved third-party service providers, Intertek Testing Standards and Global Social Compliance.
- o No matter the country, PREL and approved third-party firms audited factories making private-label Wal-Mart brands such as McKids/McBaby[®], Faded Glory[®], Bobbie Brooks[®], Catalina[®], Retro Blues[®], Basic Equipment[®], Sportrax[®] and Lady Manhattan[®].

2002

Wal-Mart established the Global Procurement organization and began managing the suppliers' factory audit program.

2003

- o Audit program strengthened by reclassifying minimum wage and severe working hour violations to high-risk "Red" ratings to motivate suppliers' factories to improve compliance.
- o Audit the auditor program put in place. Wal-Mart internal audit began re-auditing a sample of factories soon after an ES audit was performed to maintain program integrity and verify findings.
- o Training program instituted for suppliers, factory managers and Wal-Mart buyers on our Standards for Suppliers. More than 4,600 representatives of suppliers and factories were trained.
- o U.S. Department of Homeland Security Customs-Trade Partnership Against Terrorism (C-TPAT) requirements incorporated into our audit program.

2004

- o Unannounced inspections increased from less than 1 percent to 8 percent of all audits.
- o Began a National Brand Pilot Program with Levi Strauss & Co., Sara Lee[®] and Jockey[®] to reduce duplicate inspections.
- o Trained 7,910 suppliers and factory management members on our Standards for Suppliers.

2005

- o Initiative renamed Ethical Standards program to more accurately reflect program its objectives.
- o Relationship with Business for Social Responsibility (BSR), a well-respected nonprofit organization, initiated to develop a stakeholder engagement program.
- o Standards for Suppliers expanded to address the right to freedom of association and collective bargaining and compliance with immigration laws and regulations for foreign contract workers.
- o Trained more than 11,000 suppliers and factory management members on our Standards for Suppliers.
- o Unannounced audits increased to 20 percent of total audits.
- o The George™ brand was added to the proprietary brand audit program. Other brands include HomeTrends™ and Mainstays™.
- o Local language helplines instituted in 45 sourcing countries to provide an easy way for suppliers' factory workers to share concerns and issues.
- o Suppliers, their factories and Ethical Standards associates trained on additional environmental, health and safety audit requirements that begin going into effect January 2006.

Disclaimer

The information in this report is accurate to the best of our knowledge, but we acknowledge the difficulties of reporting, especially since there are a variety of opinions existing on all of these issues. As we continue to improve the reporting of our ethical standards program, we welcome candid feedback from our stakeholder community.

Contact us at ESreport2005@wal-mart.com.

