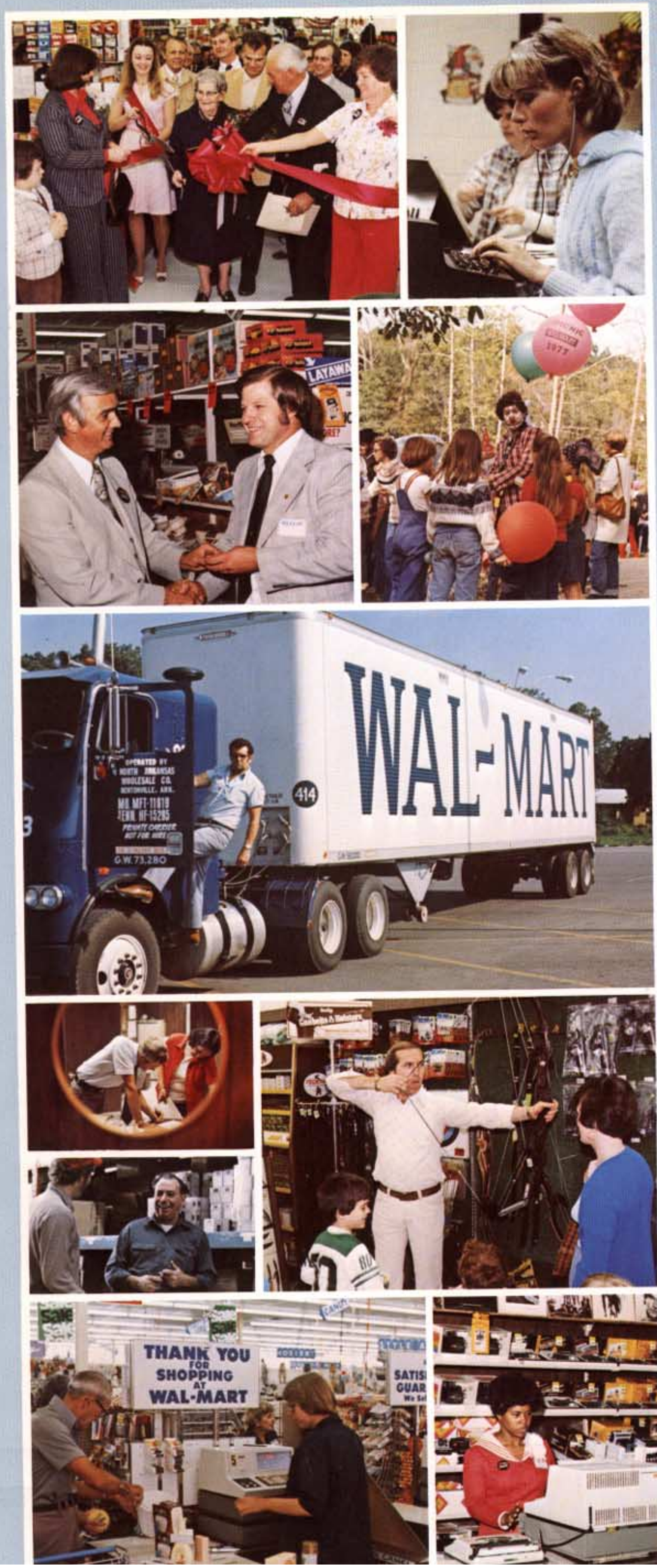
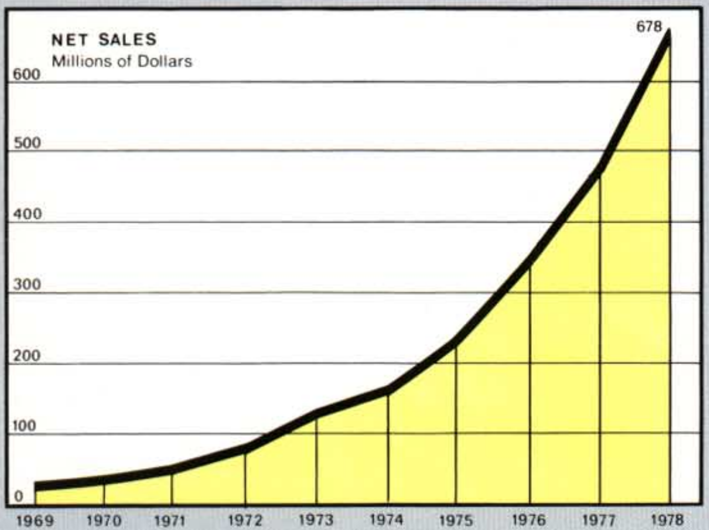
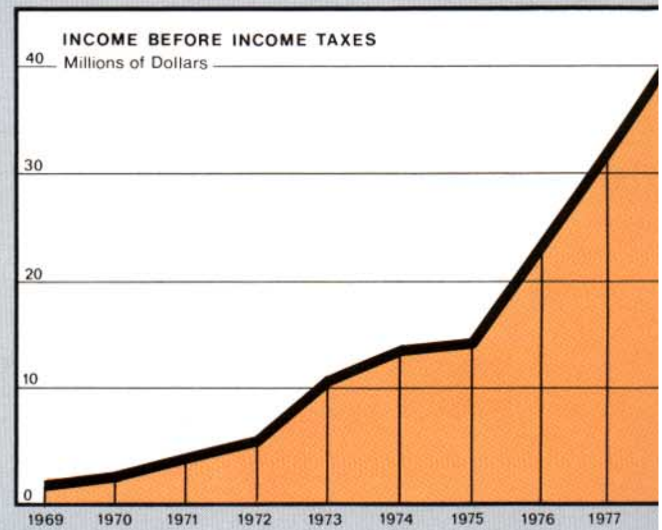
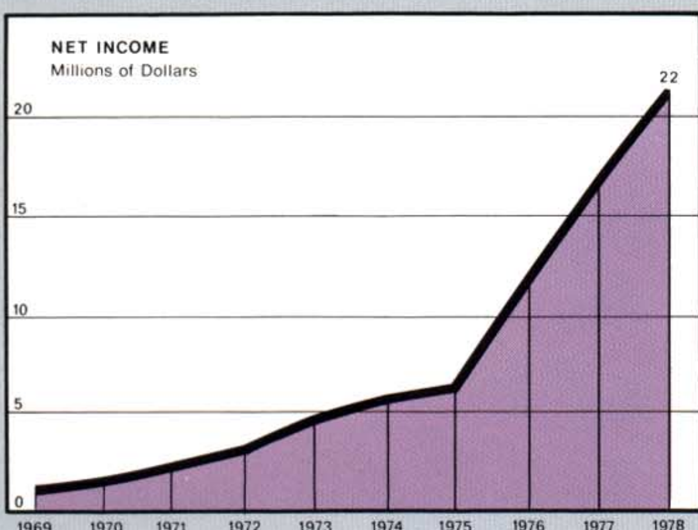


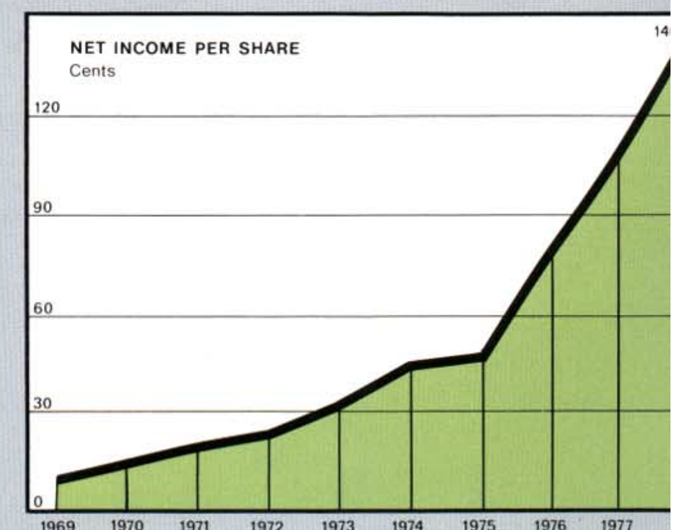
WAL-MART STORES, IN
ANNUAL REPORT
1978

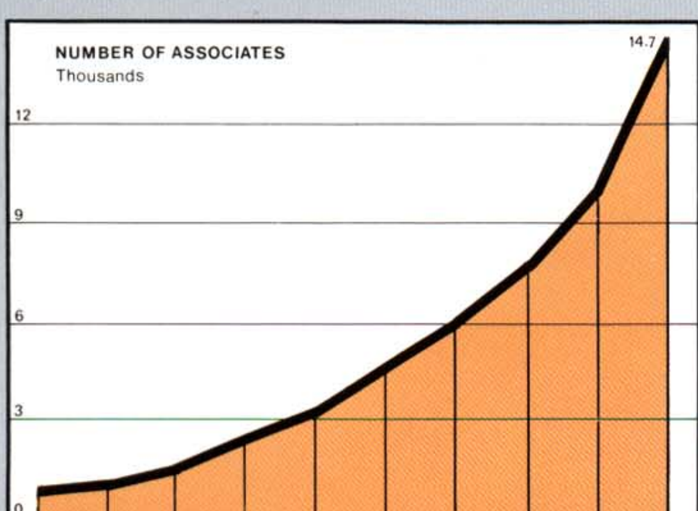
A GRAPHIC RECORD OF GROWTH

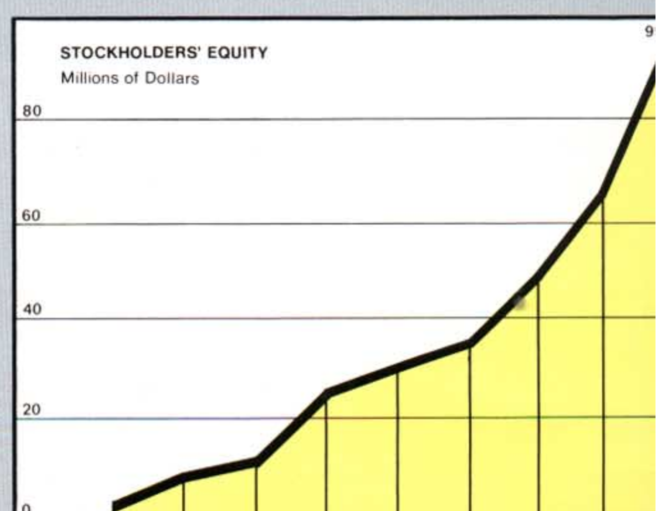












FINANCIAL HIGHLIGHTS

A TWO-YEAR COMPARISON

	1978	1977	Percentage Change
Current Assets	**$150,986,000**	$99,493,000	+ 51.8
Current Liabilities	**73,083,000**	41,929,000	+ 74.3
Working Capital	**77,903,000**	57,564,000	+ 35.3
Current Ratio	**2.07**	2.37	
Stockholders' Equity	**$ 98,943,000**	$66,183,000	
Number of Shares Outstanding	**14,867,711**	13,649,829	

FIVE-YEAR FINANCIAL REVIEW

	1978	1977	1976	1975	1974
Net sales	**$678,456,000**	$478,807,000	$340,331,000	$236,209,000	$167,561,000
Income before income taxes	**42,186,000**	31,833,000	22,798,000	12,208,000	11,884,000
Net income	**21,886,000**	16,546,000	11,506,000	6,353,000*	6,159,000
Net income per share:					
Primary	**$1.53**	$1.19	$.83	$.48*	$.47
Fully diluted	**1.46**	1.12	.80	.48*	.47
Number of stores in operation at the end of the period	**195**	153	125	104	78

**The Company adopted the LIFO method of costing inventories which resulted in a reduction in net income of $2,347,000 or $.18 per share.*

CONTENTS

TO OUR SHAREHOLDERS

Sam M. Walton Ferold G. Arend

Once again, we are pleased to report your C(has attained record sales and earnings. The fisc ended January 31, 1978, was one of outstand complishment and performance for Wal-Mart, wi of management's objectives being achie surpassed.

Sales increased to $678.5 million, or 41.7 over the $478.8 million reported last year. Net ea after taxes, increased to $21.9 million from $1 lion, or 32.3 percent. Related earnings per sha from $1.12 to $1.46 on a fully diluted basis. T dend on common shares was increased again t annualized rate of 22 cents per share from 18 Shareholders' equity, or capital structure, incre $99 million, up approximately 50 percent over la

Other financial highlights we are extremely p report are the results of the recent survey for magazine, wherein Wal-Mart Stores, Inc. was co with other major discount stores, department stor variety store chains for the preceding five years' a performance. The companies were ranked in fou — Return on Equity, Return on Capital, Sales and Earnings Growth. Wal-Mart ranked number o four categories, a significant accomplishment fo we can all be proud.

The Company's financial condition is stror liquid, and our ongoing profitability should allo finance our future growth internally, excludir property.

Other highlights for fiscal 1978 include the fol

1. The addition of 30 new Wal-Mart stores a expansion and/or relocation of 10 others.
2. The acquisition of 16 Mohr Value stores in (two were subsequently closed); all have no completely remodeled and re-merchandis cording to our Wal-Mart standards.
3. At fiscal year end, Wal-Mart operated 195 totaling 8.5 million square feet of space, cor with 153 stores and 6.5 million square fee end of the previous fiscal year.

Our comparable store sales gains were agai strong. Last year, we increased 17 percent, after a 19 percent in same store sales gain in the previou One of our primary Company goals was achiev past year when sales exceeded $100 per square gross square footage. This sales productivity ranks high in our industry and, combined with the fact our stores are located in the smaller rural markets, has to be one of the real keys to the continued profitability of Wal-Mart.

The outlook for the present fiscal year remains quite favorable. Our current sales trend remains strong in all stores, and the recently acquired stores are showing increases well in excess of our comparable Wal-Mart stores and should, as a group, be profitable for us in 1978. We plan to open approximately 35 new stores this year, representing 1.7 million square feet of selling space, an increase of approximately 20 percent over last year's base of 8.5 million square feet. Our Store-Opening Program is progressing well, with nine of our new stores scheduled to open the first quarter. However, due to the exceptionally severe winter throughout our marketing area, we have experienced some construction delays in our new store buildings, and it would appear now that some of our new stores will open later in the year than previously scheduled. Even so, this should not present any significant problems.

Construction of our new 390,000 square foot Distribution Center in Searcy, Arkansas, is progressing well; we should be able to begin operations there in June as originally scheduled. This new, automated facility will handle about 40 percent of our stores in the Eastern and Southern sectors of our Company, and should improve greatly our capacity and effectiveness in continuing to service our stores on a two to three day turn-around basis.

We are pleased to report Wal-Mart is off to a good start in 1978. Our inventories are cleaner and more balanced than ever before. We resolved to maintain better in-stock condition of basic merchandise during January and February, with the conviction that improved sales and profits would result. The response has been excellent. Looking at the strength of our sales over the past several months, we see a very positive message from our customers concerning the economic outlook in our marketing area and their continuing desire to make those value-oriented purchases from our local Wal-Mart stores. In view of the rising productivity of our mature stores, the excellent reception being given our new stores, and our continuing physical expansion, we feel we have a sound basis for being optimistic about our prospects for 1978 and the years ahead.

We are often asked, "What is the secret of Wal-Mar success?" Very simply stated, it is nothing more than t bringing together of men and women who are co pletely dedicated to their jobs, their Company, and th communities. Our organization has become a team th acts with one purpose, deriving its strength from t many individuals who constitute our Board of Directo our management, and our associates throughout o Wal-Mart organization. We feel our management tea at all organizational levels, is highly motivated and ch lenged to assure continued strong performance in t years ahead. For the efforts and contributions of the men and women, we are extremely thankful. We al thank our shareholders for their support and confiden in 1977. We look forward to a continuation of the supp of all those individuals who have helped to make this year of outstanding achievement.

Sam M. Walton, Chairman
and Chief Executive Officer

Ferold G. Arend, President
and Chief Operating Officer

WAL-MART STORES, INC. . .

Wal-Mart Stores, Inc., a regional discount department store chain headquartered in Bentonville, Arkansas, had the greatest growth in its fifteen-year history during the fiscal year ended January 31, 1978. Thirty new Wal-Mart Discount City stores were opened, and sixteen Mohr Value Discount Department stores, located in Missouri and Illinois, were acquired. In addition, ten existing stores were expanded and/or relocated.

The Company closed four units — a Sav-Co Home Improvement Center in Rogers, Arkansas; a Ben Franklin Family Center in Waynesville, Missouri; and two of the former Mohr Value operations located in Sullivan and Flat River, Missouri. This brought the total number of stores in operation at the end of the fiscal year to *195*, which represented a net gain of forty-two units, for a total of 1,944,342 square feet of new store space.

Wal-Mart Discount City stores span a ten-state area within a 400 mile radius of the Company's headquarters and distribution facilities located in Bentonville, Arkansas. Fifty-seven stores are located in Missouri; fifty in kansas; thirty-four in Oklahoma; twelve in Mississippi; each in Tennessee and Texas; eight in Kansas; six e in Louisiana and Illinois; and two in Kentucky.

In addition to the new store expansion program, c struction began during 1977 on a new 390,000 square Distribution Center in Searcy, Arkansas, with the comp tion date tentatively set for June 1978.

While Wal-Mart Stores, Inc. had its beginning in small-town variety store business in 1945, when Sam Walton opened his first Ben Franklin franchise operat in Newport, Arkansas, the Company did not open its discount department store until November 1962. The Wal-Mart Discount City store was opened in Rogers, kansas, then a small, primarily agricultural communit approximately 5,000 people.

Prior to opening their first discount operation, Sam W ton and his brother, J. L. "Bud" Walton, who had forme

Large crowds gather in anticipation before this new Wal-Mart Discount City store opens its doors for business.

Wal-Mart stores feature thirty-six full-line departments offering a wide variety of both hard and softline quality merchandise to satisfy the shopping needs of the entire family.

A Company on the Move

partnership in 1946, assembled a group of fifteen successful Ben Franklin variety stores which were to serve as the basis for a chain of quality retail discount department stores in small-town America. This concept still prevails since most of the Company's operations are located in small to medium-sized communities with the average population ranging between 5,000 and 25,000. The two largest cities in which the Company operates are Little Rock, Arkansas, and Springfield, Missouri, although Wal-Mart stores are located close to a few metropolitan areas — Tulsa, Oklahoma; St. Louis, Missouri; and Memphis, Tennessee.

With few exceptions, Wal-Mart stores are the largest non-food retailers in the communities they serve. Generally, the stores range in size from 30,000 to 60,000 square feet, with the thirty newest stores averaging 42,500 square feet. Wal-Mart stores feature thirty-six full-line departments offering a wide variety of both hard and softline quality merchandise to satisfy the shopping needs of the entire family.

Since its beginning, the Wal-Mart concept was ba
on the theory that a quality discount store could ope
profitably, and even thrive, in a small community.
theory has since proven fact — as the rapid growth
development of the Company have shown. The orig
goals of providing top quality merchandise at low, ev
day discount prices and "guaranteeing customer satis
tion" remain the basis of the Wal-Mart philosophy to
As a result of strict adherence to these operating pri
ples, Wal-Mart has gained recognition as a leader in
retailing industry.

PEOPLE HELPING PEOPLE . . .

CUSTOMERS

Wal-Mart has always cared about its customers. The Company is committed to its program of providing them with the finest quality merchandise at the lowest everyday discount prices. Moreover, the Company and its associates are very aware that courteous and efficient customer service is essential to their continued success.

Today, the management of Wal-Mart continues to strive for customer satisfaction. "Guaranteed Customer Satisfaction" is one of its principal policies. Realizing quality merchandise and low, discount prices are not enough, the Company insists upon friendly, reliable service.

Wal-Mart encourages its customers to express their opinions through weekly in-store surveys. If a customer feels there is an area of weakness in the Company's policy, management listens and takes steps to correct the problem.

These are just some of the ways Wal-Mart people try to show customers they care. All Wal-Mart associates realize customer goodwill is the Company's best investment for future successful growth.

The Fabric and Crafts Center features the latest in fashion piece goods and a broad assortment of craft supplies and notions. Well-trained associates are always available to assist customers in their selections.

Friendly, efficient service at the check-out counter is just one way Wal-Mart associates let our customers know we "care."

ASSOCIATES

Store associates take every opportunity to visit and tour their Company's headquarters in Bentonville, Arkansas.

Associates of Wal-Mart's headquarters and their families relax and enjoy the atmosphere of fun and celebration at the Company's Annual Picnic.

One of the most important foundations for Wal-Mart's continued success is the people who work for the Company. Quality, dedication, loyalty and capability are some of the characteristics of the Company's associates.

Caring about their Company means caring about Wal-Mart's growth, success and customers. Wal-Mart associates realize with continued success comes continued opportunity for advancement and benefits.

Being a member of the Wal-Mart family means sharing in an excellent benefit plan, which includes profit sharing, health and life insurance, paid vacations, holiday pay, and a Monthly Investment Plan.

Wal-Mart associates are aware continued success depends on "Guaranteed Customer Satisfaction" — a policy based on friendly, reliable customer service.

Wal-Mart continues to attract, challenge, and train outstanding personnel throughout the organization. Associates at every level, showing interest and dedication in their jobs, have made the Company's tremendous growth possible.

"People Helping People" is a philosophy Wal-Mart believes in and relies on for continued success in years to come.

The Philosophy Behind Wal-Mart's Success

COMMUNITIES

Because Wal-Mart cares so strongly about the communities in which it operates, the Company encourages its associates to take an active part in the total life of the communities served. As a result, Wal-Mart associates can be found within every community involved in the churches of their choice, PTA's, Chambers of Commerce, civic clubs, business and professional organizations, school boards, scouting, Little League, and scores of other community activities and projects.

Wal-Mart management personnel, both in the stores and in the headquarters, are encouraged to participate in local affairs. The Company knows that the future of the communities served depends upon the involvement and support of local citizens — and when Wal-Mart opens a new store, it accepts the responsibility of bringing a new dimension into each community.

The philosophy of "People Helping People" extends beyond the check-out stands in Wal-Mart's stores and the boundaries of its General Office. Instead, it reaches deeply into the total life of each community in an effort to make it a better place in which to live.

Local high school bands and cheerleaders participate in Wal-Mart's Grand Opening ceremonies, making them a festive occasion for all.

Local dignitaries and beauty queens spread goodwill at ribbon-cutting ceremonies for a Wal-Mart Grand Opening.

PERSONNEL AND TRAINING

With the continued rapid growth of Wal-Mart, the Personnel and Training Division was expanded. Staff additions were made in both areas, as the need for the broadening of programs and services became apparent.

Manpower planning and employment provide a continuing challenge to the Personnel Department. Identifying promotable associates from within and recruiting qualified management talent from other sources is vital in supporting the continued growth of the Company. Wal-Mart visited approximately fifty colleges and universities to interview promising college graduates for the Company's Management Training Program. Store managers for the new stores added during 1977 were promoted from the assistant manager group.

Wal-Mart historically has committed itself to provide to all of its associates a wide range of growth opportunities, congenial working conditions, and above average wage rates. Toward this end, the Personnel Department developed a completely comprehensive job classification and salary plan for all store level positions. A similar program is under development for the General Office and Distribution Centers.

The Training Department was expanded and initiated several new directions during 1977. Among these were the development of individual training programs that are released to the stores at the rate of one new program per quarter. Conducted at store level by District Managers, these training sessions feature audio-visual presentations, written exercises and extensive question-and-answer periods. With the help of the Merchandising Division, eighteen seminars dealing with fashion merchandising were conducted at key locations throughout the Company's trade territory. Aimed at improving the merchandising capabilities of key softlines personnel in all stores, this was the most extensive and thorough program of its kind ever attempted at Wal-Mart.

Other training projects completed during 1977 included a seminar for Merchandise Assistants, a New Buyers' Seminar, a Security Training Program, and nine one-week Office Training Seminars for Assistant Store Managers.

The Company is committed to the continued expansion of its training program. Several new projects are planned for 1978, which will compliment the existing program.

MERCHANDISING DIVISION . . . *A Commitment to Quality*

Wal-Mart's Merchandising Division is committed to *quality* as it performs its function of selecting a broad assortment of merchandise which can be sold profitably in the stores. This is an important responsibility when one considers the average size Wal-Mart store (42,000 square feet) carries over 35,000 different "stock-keeping units."

Since Wal-Mart offers the lowest possible prices on all merchandise sold on an everyday basis, it is extremely important the Company has a smooth system of merchandise distribution and replenishment.

Frequent vendor interviews keep Buyers aware of new products on the market. The emphasis is always on product quality, availability and price before selecting merchandise for the stores.

A broad selection of quality fashion merchandise at true discount prices makes Wal-Mart's Ladies Ready-to-Wear department a popular place to shop.

Wal-Mart's buyers spend an enormous amount of time communicating with the stores. The quantity and quality of products are two extremely important factors in the Company's merchandising program.

Currently, the basic structure of the Merchandising Division includes a Vice President/General Merchandise Manager for both Softlines and Hardlines and four Division Merchandise Managers who work with a well-trained staff of Senior Buyers, Buyers, Assistant Buyers, and Buyer Trainees.

The Merchandising Division is committed to making the best available purchases as they meet with vendors in the trade centers and the Company's General Office. They strive to obtain the lowest possible "landed cost" on quality merchandise so the savings can be passed on to our customers.

During the selection of a merchandise assortment, the buyers must decide if there is available space for the goods in the stores and determine the method to be used in product replenishment — through the warehouse, local jobber, or assembly ordering. They must also follow up on all merchandise commitments to cancel or control deliveries, and analyze market conditions to ascertain current demands for merchandise.

The Fashion Distribution Department is an important part of the Merchandising Division since it is responsible for distributing all wearables to the stores. Distribution is based on "rate of sale" data received daily from the stores through the computer terminal network.

Wal-Mart has also developed a direct import program from the Orient which necessitates group buying trips about six times a year. Even so, less than eight percent of all the merchandise carried in Wal-Mart stores is bought directly from the Orient. The buyers concentrate primarily on items which involve a great deal of intricate labor and can be purchased in volume at considerable savings to the Company and, ultimately, to Wal-Mart's customers.

To reinforce their buying decisions, members of the Merchandising Division make regular visits to the Company's stores, to work with store personnel in display techniques and product evaluation, and to provide other special assistance which will lead to increased sales.

Supplementing this in-store program, each year a series of one-day regional merchandising field training seminars are conducted for Department Heads of selected departments.

Everyday, low discount prices on quality, name-brand items is the goal Wal-Mart buyers try to achieve as they develop the merchandising program for the Company's stores.

MERCHANDISE PLANNING MODULE PROGRAM . . . *A Profitable Concept*

Making sure that shelves are well-stocked and products are readily available to customers are two goals of every store associate.

The Merchandise Planning Module Program provides a home for every item carried in a Wal-Mart store.

Beginning in 1974, Wal-Mart's Store Merchandise Planning Division embarked on a program to allocate department space, to improve adjacency of departments, categories and related items, and to designate the location and size display of each individual item carried with the intent of improving sales per square foot, lowering stock investments, improving stock turns and maintaining an improved in-stock position through uniform merchandise presentation in all stores.

The first year was one of research, experimentation, merchandise item study and perfecting the procedure. Actual implementation of the program at store level began in January 1975, and progressed through the year, department by department, on a timetable scheduled around busy sale and seasonal periods, and covering every item carried in the four different class stores.

Schematics and photos of each counter were provided, along with merchandise labels, in order that the "home" of each item carried would be permanently identified. During this same period, the ordering lists were realigned in the same rotation as the merchandise layout to facilitate speedier on-handing and ordering. By the end of 1975, the initial implementation was completed in all stores.

Today, modulars are continually studied for improvement. The rate of sale and return on investment is evaluated constantly as merchandise trends change, and items or lines are added or deleted, and minor revisions of layouts are sent to stores on a continuing basis.

During the slower business months of January and February, complete store-wide modular updating and re-lay is scheduled with new schematics, photos, and merchandise labels being furnished to the stores for implementation.

DATA PROCESSING AND COMMUNICATIONS

To achieve our corporate goal of improved communications, Wal-Mart committed to the installation of a Company-wide computer terminal network. With the completion of this project in 1977, Wal-Mart became one of the few retail chains in the nation to have an in-store "intelligent" computer terminal.

With this communication network, messages pertaining to any phase of our operations can be sent to and from the stores immediately. The system is also used by the stores to place orders for merchandise which expedites processing, since the terminals "talk" directly to the computer.

The latest project to be programmed was the corporate payroll. This allows store management to know, on a daily basis, their exact payroll costs and also permits the stores to forward their payroll data to the General Office without delay.

The computer terminal network now permits the Company to communicate with its 195 stores within hours — not days.

Wal-Mart's sophisticated Data Processing network insures a constant flow of communication between the stores and the headquarters facilities.

WAL-MART'S DISTRIBUTION SYSTEM . . . *Innovative and Highly Developed*

Growing with the Company, Wal-Mart's highly developed distribution system has experienced rapid expansion in recent years.

Wal-Mart's two distribution centers, located in Bentonville, Arkansas, total 540,000 square feet and employ approximately 650 people. By storing basic and promotional goods in the warehouses, the Company is able to constantly resupply Wal-Mart stores with needed merchandise. Because the Company purchases large quantities of merchandise directly from vendors, greater savings can be passed on to Wal-Mart customers.

Wal-Mart also maintains its own trucking operations, which ensure a smooth and efficient flow of merchandise to the stores. Last year, the Wal-Mart trucking fleet hauled 15,817 loads of merchandise, which represented 38,851 store deliveries. In addition, 874 loads of freight were moved directly from vendors to the stores, and 5,605 loads from vendors to the distribution facilities. Utilizing 73 tractors and 288 trailers, Wal-Mart's 115 professional drivers logged a total of approximately 9,000,000 miles.

In 1975, the second distribution center was opened in Bentonville. This center has enabled the Company to expand its service area as Wal-Mart continues to grow.

Distribution Center II was designed to consolidate and redistribute bulk merchandise, before goods are shipped to the stores. With the addition of the second distribution facility, more space was available in Distribution Center I for basic and promotional goods. A continuous flow of new promotional products has been possible with this system.

As Wal-Mart continued to expand throughout its ten-state trade territory, the need for increased distribution facilities became apparent. During 1977, plans were formulated and construction began on a new 390,000 square foot distribution center in Searcy, Arkansas. When fully operative in 1978, the Searcy facility will have the capability of servicing one-half of the existing Wal-Mart stores. The center will distribute merchandise to stores located east of Searcy, as well as some located south of the distribution facility.

Utilizing a revolutionary conveyor system, the Searcy center will move freight on an automated belt at the rate of approximately 200 feet per minute. Combining both the warehousing functions of Distribution Center I and the distribution capabilities of Distribution Center II under one roof, the Searcy operation will make maximum use of each man-hour by increasing the efficiency of merchandise handling.

The highly sophisticated Searcy operation is an indication of Wal-Mart's tremendous growth and future development. Providing the highest quality merchandise at the lowest possible prices is the reason Wal-Mart's distribution system plays such a vital role in the Company's overall operation and success.

Highly-skilled fork lift operators play a key role in the distribution efficiency of goods stored in the Bentonville facilities.

Regular divisional meetings are held with associates to keep them well-informed and to assure adherence to the Company's policy of open-door communications.

Wal-Mart's two Distribution Centers in Bentonville, Arkansas, total 540,000 square feet with approximately 650 people employed. The Centers provide a smooth flow of basic and promotional goods to the stores.

ADVERTISING AND SALES PROMOTION

The Advertising and Sales Promotion Division handles all of Wal-Mart's printed and televised promotions.

Two basic types of printed advertising are developed by the division: "broadsheet" all-store circulars and "rotos" (a tabloid using a method of printing to control color intensity). During 1977, five "roto" circulars were printed and eight "broadsheet" circulars were distributed. Supplementing this program was the production of the Company's first "Pocketbook" sale, which included extremely successful promotional sale items presented in a paperback book. Two and one-half million copies of each of these advertised sales were distributed for the stores.

In addition, each store runs from fifteen to twenty weekly advertisements per month within its market area. The format for these ads is prepared by the General Office's Production Department several weeks prior to the sale dates. In addition to corporate planned advertised items, stores select sale products from their stock merchandise.

The Production Department also designs signs for the stores' major promotional seasons and events, produces Grand Opening circulars for new stores, and designs packages and logos for Wal-Mart's private label program.

Last year, Wal-Mart expanded and increased its television advertising coverage. The program is a very extensive one, which features a well-known area personality who has become closely identified with Wal-Mart within the marketing area. Produced in Kansas City, Missouri, the Wal-Mart network represents the fourth largest television market in the United States.

The talented staff of Wal-Mart's Advertising and Sales Promotion Division illustrate products and design layouts for the Company's advertising programs.

The main responsibility of the Sales Promotion Department is to keep the stores informed of new display ideas and fast-selling items. Several contests were created by the department to increase enthusiasm and awareness at store level. New display ideas and item sales are highlighted through the contests.

The Accounting Department of the division handles all accounts receivable and payable for the stores' advertising programs. All advertising expenses are paid through this department and charged back to the stores.

Totally involved in the merchandising of products, Wal-Mart's Advertising and Sales Promotion Division has developed a unique program in the retailing industry. The emphasis in Wal-Mart's advertising program is on merchandise quality and price. From planning, to implementing, to billing, Wal-Mart's Advertising and Sales Promotion Division is responsible for the "look" of the Company's advertising and promotional campaigns.

SECURITY AND LOSS PREVENTION

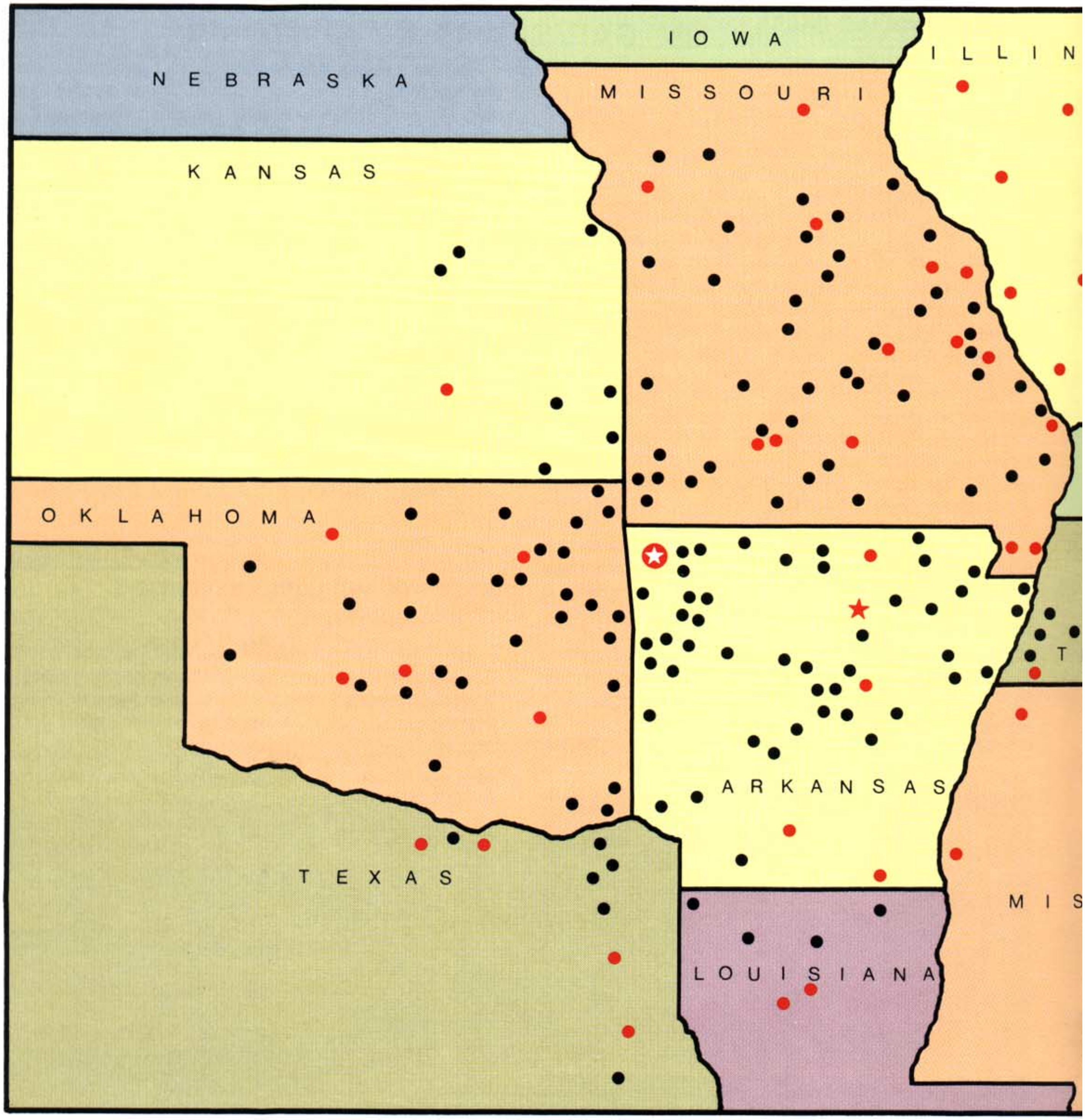
Four years ago, Wal-Mart recognized the need to institute a Security and Loss Prevention program in order to protect Company assets and to provide support to management in various essential areas of operation.

As the program developed, the District Security concept was initiated, which provided a Supervisor in each of the Company's districts. The main objectives were to implement, at store level, every phase of the Security and Loss Prevention program and to support store and district management in their responsibilities.

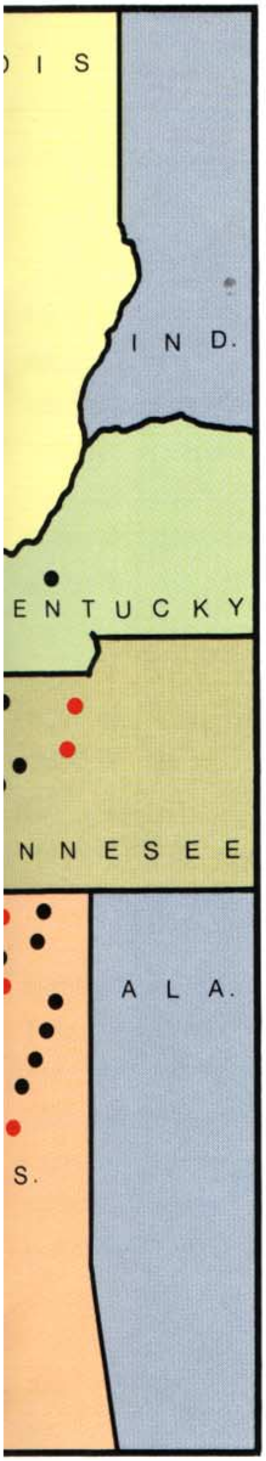
By mid-1977, Wal-Mart store operations consisted of twenty-one districts and four regions. As Wal-Mart expanded, the Security and Loss Prevention Division effected an organizational restructuring which varied from the Company's store operating districts and regions.

The new organizational plan of the Security and Loss Prevention Division divided the Company stores into four regions, condensed their present districts, and instituted the concept of the Roving In-Store Security Associate in order to provide coverage for all stores.

With this restructuring, the Division has effected savings of controllable expenses which have increased net profit; provided closer and more frequent field supervision; increased availability of security associates to the stores; stimulated job interest for security personnel and store associates; and improved communications between associates throughout the Company. Since its inception, the Security and Loss Prevention Division has effected significant savings to the Company.



General Office and Distribution Centers
Stores in operation at end of fiscal 1977
Stores opened or acquired in fiscal 1978
Distribution Center to be opened in 1978



WAL-MART GAINS FORTY-TWO STORES

ARKANSAS
Ashdown
*Ash Flat
Batesville
Benton
Bentonville (2)
Berryville
Blytheville
Booneville
Brinkley
*Camden
Clarksville
Conway
*Crossett
Fayetteville (2)
Forrest City
Ft. Smith (2)
Harrison
Hot Springs
Jacksonville
Jonesboro
*Lonoke
Little Rock (2)
Magnolia
Malvern
Mena
Morrilton
Mountain Home (2)
**Nashville
Newport
**North Little Rock (2)
Osceola
**Paragould
Pocahontas
Rogers
Russellville
**Searcy
**Siloam Springs
Springdale (2)
Stuttgart
Van Buren
Walnut Ridge
West Memphis
Wynne

ILLINOIS
***Belleville
***Carbondale
***Jacksonville
***Lincoln
***Macomb
***Salem

KANSAS
Chanute
Coffeyville
*El Dorado
Ft. Scott
Junction City
Leavenworth
Manhattan
Pittsburg

KENTUCKY
Benton
Fulton

LOUISIANA
Bastrop
*Jonesboro
Minden
*Natchitoches
Ruston
Vivian

MISSISSIPPI
Amory
Aberdeen
Booneville
Corinth
*Greenville
*Louisville
New Albany
*Pontotoc
*Ripley
*Senatobia
Starkville
West Point

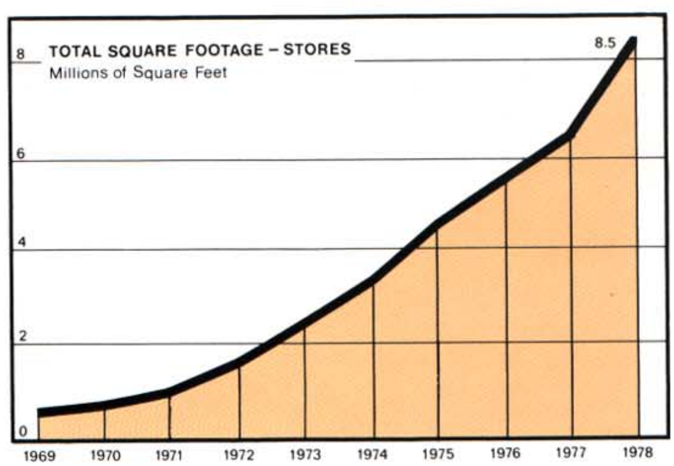
MISSOURI
Aurora
Ava
Bolivar
**Branson
Camdenton
Cameron
***Cape Girardeau
Carthage
*Caruthersville
Chillicothe
Clinton
*Columbia (2)
Desloge
De Soto
Dexter
Eldon
***Excelsior Springs
Farmington
Festus
***Flat River
Fulton
Harrisonville
*Houston
Jackson
Jefferson City
Joplin (2)
***Kennett
***Kirksville
**Lebanon
Louisiana
Marshfield
Mexico
Moberly
Monett
Mountain Grove
Neosho
Nevada
***Pacific
Perryville
Poplar Bluff
*Potosi
***Rolla (2)
Salem
Sikeston
*Springfield (3)
St. Robert
Sullivan
Troy
Union
Warrensburg
***Washington
West Plains

OKLAHOMA
*Alva
*Anadarko
Ardmore
Bartlesville
Blackwell
Broken Arrow
Broken Bow
*Catoosa
Chickasha
Claremore
Elk City
Grove
Guthrie
Hugo
Idabel
Kingfisher
*McAlester
Miami
Muskogee
*Norman
Okmulgee
Poteau
Pryor
Purcell
**Sallisaw
Sapulpa
Seminole
Shawnee
Stillwater
**Stilwell
Tahlequah
Vinita
Wagoner
Woodward

TENNESSEE
Brownsville
*Collierville
Covington
Humboldt
*Huntingdon
Martin
Milan
Millington
*Paris
Ripley

TEXAS
*Bonham
Clarksville
Denison
*Gainesville
Gilmer
*Henderson
Lufkin
Mt. Pleasant
*Nacogdoches
Paris

*New Stores opened in fiscal 1978
**Stores relocated and/or expanded
***Stores acquired



Nine-Year Summary

(Dollar amounts in thousands except for per share data)

EARNINGS	1978	1977
Net sales	$678,456	$478,807
Leased department rentals and other income — net	7,767	5,393
Cost of sales	503,825	352,669
Operating, selling and general and administrative expenses	137,939	97,807
Interest and debt expense	2,273	1,891
Taxes on income	20,300	15,287
Net income	21,886	16,546
Per share:		
Net income		
Primary	$ 1.53	$ 1.19
Fully diluted	1.46	1.12
Dividends	.16	.085
Stores in operation at the end of the period	195	153
FINANCIAL POSITION		
Current assets	$150,986	$ 99,493
Net property, plant and equipment	55,402	33,091
Total assets	206,691	133,158
Current liabilities	73,083	41,929
Long-term debt	21,489	19,158
Long-term obligations under capital leases	10,904	4,087
Stockholders' equity	98,943	66,183
FINANCIAL RATIOS		
Current ratio	2.1	2.4
Inventories/net working capital	1.7	1.5
Return on assets**	16.4	16.5
Return on stockholders' equity**	33.1	34.1

**The Company adopted the LIFO method of costing inventories which resulted in a reduction in net income of $2,347,000 or $.18 per share.*

**On beginning of year balances.

1976	1975	1974	1973	1972	1971	1970
$340,331	$236,209	$167,561	$124,889	$78,015	$44,286	$30,863
3,803	2,478	1,805	1,558	846	346	222
251,473	176,591	123,339	93,090	58,592	32,825	22,866
68,105	48,088	33,044	23,848	14,285	8,441	5,912
1,758	1,800	1,099	592	415	195	108
11,292	5,855	5,725	4,326	2,662	1,519	960
11,506	6,353*	6,159	4,591	2,907	1,652	1,011
$ .83	$ .48*	$ .47	$ .35	$ .24	$ .15	$ .11
.80	.48*	.47	.35	.24	.15	.11
.065	.05	.025	—	—		
125	104	78	64	51	38	32
$ 76,070	$ 55,860	$ 45,254	$ 32,787	$21,069	$12,150	$ 6,703
23,646	19,157	14,657	13,233	7,080	3,080	1,678
100,249	75,221	60,106	46,241	28,463	15,331	8,493
32,945	26,190	18,122	15,990	12,806	6,513	3,872
17,531	11,132	10,578	5,066	4,659	809	1,328
—	—	—	—	—	—	—
48,454	36,935	30,734	24,754	10,748	7,841	3,159
2.3	2.1	2.5	2.1	1.7	1.9	1.7
1.5	1.7	1.5	1.8	2.2	1.9	2.0
15.3	10.6	13.3	16.1	19.0	19.5	20.7
31.2	20.6	24.9	42.8	37.1	52.3	49.4

Management's Analysis of Summary of Earnings

Year Ended January 31, 1978

During 1977, Wal-Mart continued its sales growth with an increase of 42 percent in comparison with last year. Comparable stores sales (excluding the effect of new stores) increased 17 percent compared to the same period a year ago.

Leased department sales and rentals increased in proportion to our own sales. Leased department rentals and other income were 1.1 percent of sales compared to 1.1 percent a year ago.

We continued our aggressive expansion program with the addition of 30 new Wal-Mart stores and the expansion and/or relocation of 10 others. Additionally, in late summer, we acquired a group of 16 stores. Four stores were closed during the year including two of the acquired stores, giving us 195 stores and 8,500,000 square feet of floor space in operation at year end in comparison with 153 and 6,500,000, respectively, at the same time a year ago.

Gross margin decreased for the year to 25.7 percent from 26.3 percent in 1977. Very aggressive promotional programs, particularly in the fourth quarter, created a significant increase in promotional markdowns. That, and the clearance markdowns associated with the acquired stores were the most significant factors contributing to the decline. Shrinkage increased during the year to a level slightly above historical averages.

Operating, selling, general and administrative expenses increased 41 percent and were 20.3 percent of sales as compared with 20.4 percent in 1977. Salary expenses were 11.4 percent for both years, and advertising expense remained at 1.1 percent. Our energy savings programs enabled us to reduce utilities costs by .1 percent, repairs and maintenance were down .1 percent, and rent expense (including buildings, data processing, and transportation equipment) was 2.3 percent compared to 2.4 percent last year. Supplies and other expenses increased .2 percent.

Interest and debt expense increased slightly in dollars but decreased .1 percent of sales compared to last year. Primary interest expense differences are created by the call of our 6½ percent convertible debentures offset by the addition of debt to finance the previously mentioned acquisition.

Taxes on income as a percentage of income before taxes increased slightly over those from 1977.

Year Ended January 31, 1977

The sales for the year increased 41 percent in comparison with last year. This was particularly significant considering the 44 percent increase in 1976 over 1975. Our expansion program of 28 new stores contributed 17 percent of the 41 percent increase, stores opened last year 7 percent and the remaining 17 percent increase was contributed by stores opened prior to January 31, 1975. Leased department sales increases were consistent with those achieved in Wal-Mart's owned sales.

Gross margins increased to 26.3 percent of sales in 1977 as compared with 26.1 percent in 1976. The moderate increase in gross is primarily attributable to an improvement in shrinkage control through greater utilization of our Internal Audit and Security and Loss Prevention Departments.

Operating, selling and general and administrative expenses increased 44 percent and were 20.4 percent of sales as compared to 20.0 percent in 1976. Salary expense increased from 11.1 percent to 11.4 percent due primarily to an improvement in the average wage rate and the Company's decision to increase personnel in our stores to improve the quality of service. Net advertising costs decreased from 1.3 percent to 1.1 percent mainly through a concentrated effort to increase cooperative advertising. This year we started an Energy Conservation Program in all areas of the Company. While this program was not in effect for the entire year, utility expenses were reduced .1 percent over the previous year by reducing the peak demand and kilowatt hour usage. Maintenance and Repair increased .1 percent over last year because of a planned program to revamp the electrical and air conditioning systems in our stores. Insurance also increased .3 percent to .7 percent and was generally due to higher premium rates in general liability and group hospitalization. Total rent expense was 2.4 percent in 1977 and 1976. Rent expense includes buildings, data processing and transportation equipment.

Taxes on income in 1977 increased over those for 1976 due to the increase in income before taxes. Taxes on income as a percentage of income before taxes decreased slightly over those for 1976 due to an increase in investment tax credit.

Consolidated Statement of Income and Retained Earnings

	Years ended January 31, 1978	1977
Number of stores in operation at the end of the year	**195**	153
Revenues:		
Net sales	**$678,456,000**	$478,807,000
Rentals from leased departments (Note 5)	**4,957,000**	3,670,000
Other income — net	**2,810,000**	1,723,000
	686,223,000	484,200,000
Costs and expenses:		
Cost of sales	**503,825,000**	352,669,000
Operating, selling and general and administrative expenses	**137,939,000**	97,807,000
Interest and debt expense	**2,273,000**	1,891,000
	644,037,000	452,367,000
Income before income taxes	**42,186,000**	31,833,000
Provision for federal and state income taxes (Note 6):		
Current	**19,829,000**	14,805,000
Deferred	**471,000**	482,000
	20,300,000	15,287,000
Net income	**21,886,000**	16,546,000
Retained earnings, beginning of year	**48,269,000**	32,873,000
	70,155,000	49,419,000
Dividends paid (1978 — $.16 per share; 1977 — $.085 per share)	**2,219,000**	1,150,000
Retained earnings, end of year (Note 3)	**$ 67,936,000**	$ 48,269,000
Net income per share (Note 4):		
Primary	**$1.53**	$1.19
Fully diluted	**1.46**	1.12

See accompanying notes.

Consolidated Balance Sheet

ASSETS

	January 31, 1978	January 31, 1977*
Current assets:		
Cash	$ 7,072,000	$ 6,094,000
Short-term money market investments	1,084,000	1,069,000
Receivables	5,449,000	2,708,000
Inventories (Note 2)	135,845,000	88,815,000
Prepaid expenses	1,536,000	807,000
TOTAL CURRENT ASSETS	150,986,000	99,493,000
Property, plant and equipment, at cost (Note 3):		
Land	4,602,000	2,190,000
Buildings and improvements	17,152,000	9,835,000
Fixtures and equipment	32,535,000	23,916,000
Transportation equipment	2,571,000	1,843,000
	56,860,000	37,784,000
Less accumulated depreciation	12,393,000	8,615,000
Net property, plant and equipment	44,467,000	29,169,000
Property under capital leases (Note 7)	12,185,000	4,384,000
Less accumulated amortization	1,250,000	462,000
Net property under capital leases	10,935,000	3,922,000
Other assets and deferred charges	303,000	574,000
	$206,691,000	$133,158,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, 1978	January 31, 1977*
Current liabilities:		
Notes payable (Note 3)	$ 5,788,000	$ —
Accounts payable	45,427,000	28,054,000
Accrued liabilities:		
Salaries	5,556,000	3,463,000
Taxes, other than income	3,337,000	2,049,000
Other	4,975,000	2,826,000
Accrued federal and state income taxes (Note 6)	6,746,000	4,341,000
Long-term debt due within one year (Note 3)	341,000	465,000
Obligations under capital leases due within one year (Note 7)	913,000	731,000
TOTAL CURRENT LIABILITIES	73,083,000	41,929,000
Long-term debt (Note 3)	21,489,000	19,158,000
Long-term obligations under capital leases (Note 7)	10,904,000	4,087,000
Deferred income taxes	2,272,000	1,801,000
Stockholders' equity (Notes 3 and 4):		
Preferred stock	—	—
Common stock	1,487,000	1,365,000
Capital in excess of par value	29,520,000	16,549,000
Retained earnings (Note 3)	67,936,000	48,269,000
TOTAL STOCKHOLDERS' EQUITY	98,943,000	66,183,000
	$206,691,000	$133,158,000

See accompanying notes.

**Certain items have been reclassified to conform to current classification.*

Consolidated Statement of Changes in Financial Position

	Years ended January 31,	
	1978	1977*
Source of funds:		
Current operations:		
Net income	**$21,886,000**	$16,546,000
Items not affecting working capital in the current period:		
Depreciation	**4,666,000**	3,210,000
Amortization of deferred charges	**405,000**	61,000
Deferred income tax	**471,000**	482,000
Total from current operations	**27,428,000**	20,299,000
Retirement of property, plant and equipment	**133,000**	539,000
Property sold under sale and leaseback arrangements	**608,000**	4,634,000
Net proceeds from exercise of options for common stock and conversion of debentures	**13,093,000**	2,333,000
Additions to long-term debt	**18,861,000**	3,859,000
Additions to long-term obligations under capital leases	**7,875,000**	5,368,000
	67,998,000	37,032,000
Application of funds:		
Additions to property, plant and equipment	**18,898,000**	10,415,000
Additions to property under capital leases	**7,875,000**	3,786,000
Property additions acquired, subject to sale and leaseback arrangements	**945,000**	3,627,000
Reductions in long-term debt, including changes in current maturities and conversion of debentures	**16,530,000**	2,232,000
Reductions in long-term lease obligations, including changes in current obligations	**1,058,000**	1,281,000
Dividends paid	**2,219,000**	1,150,000
Additions to other assets and deferred charges	**134,000**	102,000
	47,659,000	22,593,000
Increase in working capital	**$20,339,000**	$14,439,000
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	**$ 978,000**	$ 4,567,000
Short-term money market investments	**15,000**	(5,791,000)
Receivables	**2,741,000**	132,000
Inventories	**47,030,000**	24,444,000
Prepaid expenses	**729,000**	71,000
	51,493,000	23,423,000
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	**28,691,000**	9,612,000
Accrued federal and state income taxes	**2,405,000**	(1,321,000)
Long-term debt due within one year	**(124,000)**	(38,000)
Obligations under capital leases	**182,000**	731,000
	31,154,000	8,984,000
Increase in working capital	**$20,339,000**	$14,439,000

See accompanying notes.

Certain items have been reclassified to conform to current classification.

Note 1 — Business and accounting policies

Segment information — The Company and its subsidiaries are principally engaged in the operation of retail discount stores in a ten-state region surrounding its Arkansas headquarters. No single customer accounts for a significant portion of its consolidated sales.

Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

Inventories — Inventories are stated at cost (last-in, first-out), which is not in excess of market, using the retail method for inventories in stores.

Pre-opening costs — Costs associated with the opening of new stores are expensed during the first month of operations. The costs are carried as prepaid expenses prior to the store opening.

Interest during construction — In order that interest and debt expense properly reflect only that relating to current operations, interest on borrowed funds during the construction of property, plant and equipment is capitalized and subsequently amortized by charges to earnings over the depreciable life of the related asset. Interest and debt expense and interest capitalized during construction exclude amounts related to properties constructed under sale and leaseback transactions, which amounts are recovered on sale of property.

Depreciation — Depreciation for financial statement purposes is provided on the straight-line method over the estimated useful lives of the various assets. For income tax purposes, accelerated depreciation is used with recognition of deferred income taxes for the resulting timing differences.

Net income per share — Primary net income per share is based on weighted average outstanding shares and stock options reduced by shares assumed to have been purchased with proceeds from such options under the treasury stock method.

Fully diluted net income per share gives effect to more dilutive market prices in calculations under the treasury stock method and further assumes the conversion of convertible subordinated debentures as if converted at the beginning of the period after giving effect to the elimination of interest expense, less income tax effect, applicable to the debentures.

Operating, selling and general and administrative expenses — Buying, warehousing and occupancy costs are included in operating, selling and general and administrative expenses.

Stock options — Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions and no charges or credits are made to income in connection with the plans.

Note 2 — Inventories

Inventories at January 31 consist of:

	1978	1977
Stores in operation	$124,194,000	$79,230,000
Distribution centers	24,132,000	18,708,000
New stores not opened	1,667,000	1,467,000
	149,993,000	99,405,000
Reduction to LIFO cost	14,148,000	10,590,000
	$135,845,000	$88,815,000

Note 3 — Notes payable and long-term debt

At January 31, 1978, the Company had short-term, unsecured borrowings aggregating $15,600,000 from three banks. Subsequent to January 31, 1978, the Company closed a $5,000,000 long-term loan commitment it had made during the fiscal year, the proceeds of which were used to repay short-term debt. The note is for $5,000,000 bearing interest at 8½% per annum. Borrowings under the agreement are repayable in equal quarterly installments over a twenty-five year period. In addition, during the fiscal year, the Company entered into an agreement to borrow $10,000,000 in twenty-five year financing, bearing interest at 8⅝% per annum, to finance the acquisition of land and construction of new store buildings. These funds may be drawn at any date through March, 1979. At January 31, 1978, $4,812,000 in short-term borrowings were used to finance new store construction. Accordingly, $9,812,000 of short-term borrowings at January 31, 1978, have been reclassified to long-term debt.

Long-term debt at January 31 consists of:

	1978	1977
Short-term notes reclassified	$ 9,812,000	$ —
8% unsecured notes, due 1980 through 1984	9,000,000	—
6½% convertible subordinated debentures due May 1995	—	12,682,000
9¼% mortgage notes, payable $68,822 quarterly (including interest) to June 1992	2,111,000	2,187,000
9% mortgage note, payable $35,499 monthly (including interest) to July 1991	—	3,322,000
9¾% notes, payable $180,000 annually (plus interest) to April 1979	149,000	509,000
Other	417,000	458,000
	$21,489,000	$19,158,000

Annual maturities on long-term debt during the next five years are: 1979, $341,000; 1980, $1,438,000; 1981, $1,312,000; 1982, $2,330,000; and 1983, $2,344,000.

The agreements relating to the 9¾% and 8% notes include certain restrictions on dividends, additional debts and leases, and sale of assets and contain covenants concerning working capital. The agreement relating to the

9¼% mortgage notes of a subsidiary, which are guaranteed by Wal-Mart Stores, Inc., contains certain restrictions on the subsidiary concerning additional debt, business activities, investments and issuance of its capital stock and requires rental payments by Wal-Mart Stores, Inc. on certain buildings leased from the subsidiary in amounts equal to aggregate note and interest payments.

Under the most restrictive of the above agreements, retained earnings of $50,763,000 were restricted at January 31, 1978.

The convertible debentures were called for redemption during the year. Holders of $12,628,000 in debentures elected to exercise their conversion rights for 1,174,634 shares of common stock, and the remaining amount of $54,000 was redeemed.

Note 4 — Stockholders' equity

There are one million shares of $.10 par value preferred stock authorized and unissued. There are twenty million shares of $.10 par value common stock authorized with 14,867,711 shares issued and outstanding at January 31, 1978, and 13,649,829 shares at January 31, 1977.

At January 31, 1978, 1,082,534 shares of common stock were reserved, including 196,620 shares for issuance under the Company's qualified stock option plan for employees and 885,914 shares for issuance under the nonqualified stock option plan. The options under the qualified stock option plan expire five years from date of grant and may be exercised in four annual installments. The options granted under the nonqualified stock option plan expire ten years from date of grant and may be exercised in nine annual installments. Capital in excess of par value increased during the year by $12,971,000 which includes increases of $12,509,000 from conversion of debentures, $257,000 from exercise of stock options, and $205,000 relating to the tax benefit resulting from certain stock option transactions.

Further information concerning the options is as follows:

		Option price (Market price at date of grant)	
	Shares	Per Share	Total
Shares under option:			
January 31, 1977	647,330	$4.188-$14.50	$4,605,617
Options granted	12,000	$14.75	177,000
Options cancelled	(33,062)	$4.188-$14.25	(259,986)
Options exercised	(43,248)	$4.188-$14.25	(261,580)
January 31, 1978 (109,110 shares exercisable)	583,020		$4,261,051
Shares available for option:			
January 31, 1977	478,452		
January 31, 1978	499,514		

Note 5 — Leased department sales

The sales of leased departments as reported by lessees are $55,185,000 and $39,202,000 for 1978 and 1977, respectively.

Note 6 — Income taxes

The provision for income taxes consists of the following:

	1978	1977
Current:		
Federal	$18,032,000	$13,378,000
State	1,797,000	1,427,000
Deferred:		
Relating to difference in tax and financial depreciation methods	545,000	482,000
Relating to property under capital leases	(74,000)	—
	$20,300,000	$15,287,000

Investment tax credits are accounted for under the flow-through method and have resulted in reductions of the current federal income tax provisions for 1978 and 1977 of $1,126,000 and $1,113,000, respectively.

Note 7 — Long-term lease obligations

The Company and certain of its subsidiaries have long-term leases for stores, tractors, trailers and equipment. Most of these leases are classified as operating leases under the accounting standards that existed at the time the lease agreements were made; however, leases entered into subsequent to December 31, 1976, and certain other leases (reclassified from long-term debt at January 31, 1977) are classified as capital leases in the accompanying financial statements. Rentals (including, for certain leases, amounts applicable to taxes, insurance, maintenance and other operating expenses) under all long-term operating leases were $13,303,000 in 1978, and $9,607,000 in 1977.

Aggregate minimum annual rentals at January 31, 1978, under noncancelable leases are as follows:

	Operating Leases	Capital Leases
1979	$ 11,813,000	$ 2,044,000
1980	11,782,000	1,850,000
1981	11,730,000	1,662,000
1982	11,393,000	1,660,000
1983	11,237,000	1,585,000
Thereafter	123,417,000	16,247,000
Total minimum rentals	$181,372,000	25,048,000
Less: Estimated executory cost		1,760,000
Net minimum lease payments		23,288,000
Less: Inputed interest at rates ranging from 8.5% to 13.5%		11,465,000
Present value of net minimum lease payments		$11,823,000

Certain of the leases provide for contingent additional rentals based on percentage of sales. Such additional rentals amounted to $906,000 in 1978, and $546,000 in 1977.

Substantially all of the store leases have renewal options for additional terms from five to fifteen years at the same or lower minimum rentals. In addition, the Company has entered into lease agreements for land or buildings for 27 future stores at aggregate minimum annual rentals of $2,361,000.

The capitalization of leases entered into subsequent to December 31, 1976, represents a change in accounting policy required by Statement of Financial Accounting Standards Number 13, issued by the Financial Accounting Standards Board. Such change resulted in a reduction of $74,000 in net income for the year ended January 31, 1978.

Beginning in the year ending January 31, 1979, the Company will be required to retroactively capitalize certain of its present operating leases. If these leases had been capitalized in the accompanying financial statements, assets would have increased by $45,255,000 and $35,044,000 and liabilities would have increased by $47,634,000 and $36,753,000 at January 31, 1978 and 1977, respectively. Capitalization of these leases would have reduced net income for the years ended January 31, 1978, and 1977 by approximately $582,000 and $424,000, respectively.

Note 8 — Quarterly financial data (Unaudited)

Summarized quarterly financial data (thousands except per share amounts) for 1978 and 1977 are as follows:

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31
1978				
Net sales	$122,655	$152,381	$172,637	$230,783
Cost and expenses	116,122	144,818	163,877	219,220
Net income	3,894	4,671	5,403	7,918
Net income per share:				
Primary	$ .28	$ .33	$ .38	$ .54
Fully diluted	.26	.32	.36	.52
1977				
Net sales	$ 93,971	$115,186	$121,875	$147,775
Cost and expenses	89,174	109,826	115,720	137,647
Net income	2,925	3,509	3,877	6,235
Net income per share:				
Primary	$ .21	$ .25	$ .28	$ .45
Fully diluted	.20	.24	.26	.42

Note 9 — Estimated replacement cost information (Unaudited)

The Company's annual report on Form 10-K filed with the Securities and Exchange Commission contains estimated replacement cost information regarding inventories and productive capacity at January 31, 1978 and 1977, and the approximate effect replacement cost would have on the computations of cost of sales and depreciation expense for the two years then ended. The estimated replacement cost of productive capacity and related depreciation expense and inventories exceeded corresponding historical amounts in the accompanying financial statements because of the cumulative impact of cost increases on the long-lived assets (buildings and improvements, and fixtures and equipment) and the use of the LIFO method of accounting for inventories.

The use of the LIFO method results in cost of sales being stated at approximate replacement cost. The estimated replacement cost amounts reported in the Form 10-K have no effect on financial position and results of operations, as reported in the accompanying financial statements under generally accepted accounting principles.

Report of Certified Public Accountants

The Board of Directors and Stockholders
Wal-Mart Stores, Inc.

We have examined the accompanying consolidated balance sheet of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1978 and 1977, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1978 and 1977, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Tulsa, Oklahoma
April 14, 1978

Arthur Young & Company

Market Price of Common Stock

	Fiscal Year ended January 31,			
	1978		1977	
Quarter	High	Low	High	Low
4/30	$14.625	$12.00	$17.375	$13.00
7/31	15.625	11.625	15.125	11.50
10/31	18.50	14.50	16.00	12.125
1/31	20.50	16.375	16.75	13.75

	Calendar Year ended December 31,			
	1977		1976	
Quarter	High	Low	High	Low
3/31	$15.375	$13.125	$16.625	$12.625
6/30	14.875	11.625	17.375	11.75
9/30	17.00	14.00	16.00	11.50
12/31	20.50	16.375	16.75	13.875

Dividends Paid
Year ended January 31,

Quarterly 1978	Quarterly 1977
$.025 April 12, 1977	$.02 April 6, 1976
$.045 July 13, 1977	$.02 July 12, 1976
$.045 October 4, 1977	$.02 October 5, 1976
$.045 January 3, 1978	$.025 January 4, 1977

WAL-MART STORES, INC.

DIRECTORS AND OFFICERS

Theo Ashcraft
Vice President
Leased Departments

Keith R. Binkleman
Vice President
Merchandise Planning

Paul R. Carter
Controller

Jack M. Cole
Vice President
Security and Loss Prevention

Daniel L. Davies
Assistant Controller

Ruby Norman Davies
Assistant Controller

M. I. Dillard
Vice President
Merchandise Control

Kenneth Folkerts
Vice President and
Treasurer

Glenn L. Habern
Vice President
Data Processing

Claude Harris
Vice President
Marketing

John Hawks
Vice President
Region 1

Bette Hendrix
Assistant Secretary

Thomas Jefferson
Vice President
Operations

A. L. Johnson
Vice President
Advertising and Sales
Promotion

David N. McClanahan
Vice President
General Merchandise Manager
of Hardlines

Alton L. Miles
Vice President
Region 2

Gary Reinboth
Vice President
Region 4

H. G. Rountree
Vice President
Public Relations

Harold Smith
Vice President
General Merchandise Manager
of Softlines

D. Ray Thomas
Vice President
Region 3

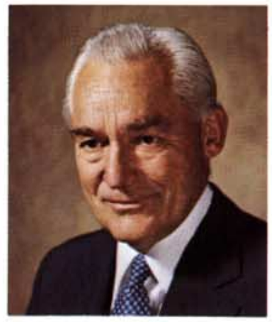
R. B. Thornton
Vice President
Distribution

David Washburn
Vice President
Personnel
Administration

S. Robson Walton
Secretary and General Counsel
Partner — Conner, Winters,
Ballaine, Barry & McGowen
Tulsa, Oklahoma

Joseph M. White
Vice President
Store Planning

*Member of the Executive Committee of the Board of Directors



***Sam M. Walton**
Director
Chairman and Chief
Executive Officer

***Ferold G. Arend**
Director
President and Chief
Operating Officer

***David D. Glass**
Director
Executive Vice President
Finance

***Jack Shewmaker**
Director
Executive Vice President
Operations, Personnel
and Merchandise

***James L. Walton**
Director
Senior Vice President

J. R. Hyde, III
Director
Chairman and President
Malone & Hyde, Inc.
Memphis, Tennessee

James H. Jones
Director
Banking and Investments

Jackson T. Stephens
Director
President, Stephens Inc.
Little Rock, Arkansas