WAL★MART® 1998 Annual

Shareholder Report

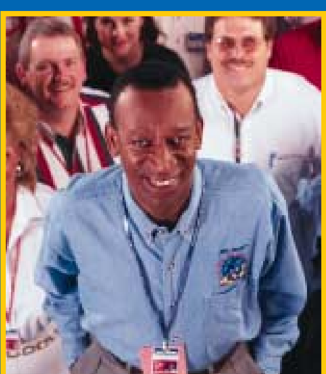
LOOK who's on the DOW!

MAKING THE GRADE

- Strategy pays off
- Asset management
- Shareholder value
- Tech leadership
- Inventory control

PLUS

- PEOPLE POWER



- SUPERCENTERS
- GLOBAL GROWTH

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WAL★MART

Shareholder Report

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DIRECTORS

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John A. Cooper, Jr.
Stephen Friedman
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David D. Glass
Frederick S. Humphries
E. Stanley Kroenke
Elizabeth A. Sanders
Jack C. Shewmaker
Donald G. Soderquist
Dr. Paula Stern
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EXECUTIVE VP, CFO	John B. Menzer
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SENIOR VP, FINANCE-TREASURER	J.J. Fitzsimmons

David D. Glass, President and Chief Executive Officer

GROWTH *by design*

With a strategy for improving returns on our investment base, Wal-Mart focuses on customer and shareholder value.

As I reflect on the year just ended, I cannot help but feel proud of what our Wal-Mart associates have accomplished. Fiscal 1998 was another record year. Every one of our operating divisions increased their sales, earnings and return on assets.

Sales increased by $13 billion, or 12%, in fiscal 1998. More importantly, earnings per share grew by more than 17%, which combined with our dividend yield, exceeded our 15% total shareholder return target. This last result came at some personal cost though. I promised our team that I would work as a People Greeter in one of our stores if we exceeded 15% earnings growth. This is a promise I am happy to keep.

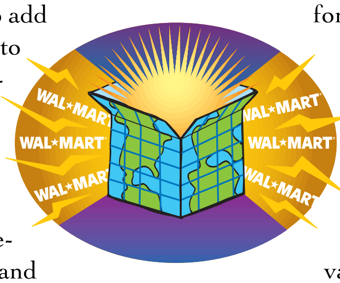
Our focus on asset management continued to produce results, as our return on assets improved 0.6% to 8.5%. We achieved this improvement while continuing to invest in the growth of the business through an aggressive capital expenditure program and international acquisitions. Further, our return on equity improved to almost 20%.

Seldom can you count on everything coming together as well as it did this year. We believe we could always do better, but we improved more this year than I can ever remember in the past. Our results exceeded our own aggressive internal goals and the stock market rewarded us for our accomplishments. As much as I would like to tell you that the stock price will increase this year by another 73%, I can't. If I did, I am sure some of you would remind me that there were years in recent history when the share price didn't increase at all. However, over time our stock will reflect the results of our efforts. This year's increase was a well-deserved reward for our associates and shareholders.

Not many years ago, it was widely believed in the investment community that Wal-Mart was a maturing company in a maturing industry. No matter how well we did, according to many on Wall Street, our prospects for growth were limited because we had simply gotten too big. The "law of large numbers" would hold us back. I am happy to say that was not the case.

The Wal-Mart division had an excellent year. Sales increased by 10%, while inventory actually declined. This inventory reduction was accomplished without reducing assortment or affecting in-stock levels. Gross margin improved through better merchandising, without raising prices. Operating expenses declined as a percentage of sales, without sacrificing service.

Supercenters, our vehicle for domestic growth, continued its rapid unit growth while improving profitability. Since we began that business in 1987, Wal-Mart Supercenters have grown to be the largest hypermarket chain in the world and one of the largest grocery retailers in the United States. The Supercenter was not really a new idea but a logical extension of the discount store. Throughout Wal-Mart's history, we have added merchandise categories to provide a broader assortment and a one-stop shopping experience. The Supercenter is the next step in those efforts, offering the customer a full range of general merchandise and food in one location. The result is a new retail format that competes effectively worldwide with discount stores and grocery stores alike. Acceptance of these stores has exceeded our expectations, and we plan to add an additional 120 to 125 units domestically in the coming year.



The SAM'S Club division had a good year, with improvements in both sales and earnings. Mark Hansen joined the talented team at SAM'S Club as president, and together they will reposition the concept for the 21st century, offering members even greater value and service. Our enhanced membership benefits and efforts to define the "Millennium Club" will establish SAM'S Club as the best warehouse club in the business. I believe Mark and his team will take the concept to a new level in the coming year and re-ignite growth in the SAM'S Club business.

If Wal-Mart had been content to be just an Arkansas retailer in the early days, we probably would not be where we are today. State borders were not barriers, and people and ideas moved freely from one area to another. The retailer who incorporated the best practices, gathered from various regions of the country, and who offered the best prices, assortment and service, earned the customer. We believe the successful retailers of the future will be those that bring the best of each nation to today's consumer. We call it "global learning." We are committed to being a successful global retailer and we believe the attributes that made us successful in the United States will also lead to success internationally.

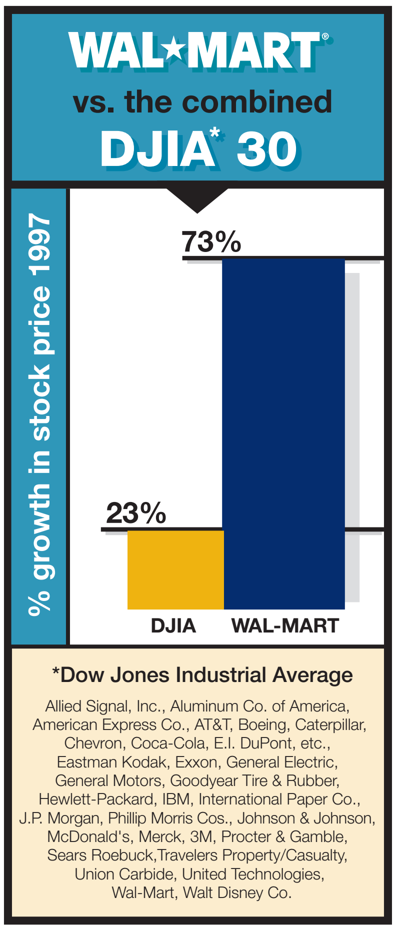
Our first international goal was to be the dominant retailer in each country in North America. We accomplished that goal this year. Canada had an outstanding year. This year's double-digit sales gains allowed us to almost triple sales since we acquired 122 Woolco stores four years ago. Profits exceeded even our own estimates, and market share continues to grow. With the tender offer for Cifra shares and merger of the joint ventures in Mexico, we now have a controlling interest in Mexico's largest retailer. Cifra now operates stores with a variety of concepts in every region of Mexico, ranging from the nation's largest chain of sit-down restaurants to a softlines department store.

Our second goal was to penetrate South America, and our start-up operations in Argentina and Brazil are progressing as planned. Our emerging market focus in Asia began in China, where we have good customer acceptance but insufficient critical mass, as yet, to sustain profitability. Finally, on Dec. 30, 1997, we completed the acquisition of 21 hypermarkets in Germany, marking our first entry into Europe, one of the largest consumer markets in the world.

The year was marked by other notable accomplishments. Return on assets and equity continued to improve as we eliminated $1.4 billion from inventories. While the financial community assumed the impact of our asset management would be on the interest expense line in the financial statements, the effect was even more far-reaching. Sales increased as we offered customers fresher inventory, margins improved as markdowns and shrink declined, and expenses decreased as merchandise handling was reduced in the stores. All this allowed us to end the year with almost $1.5 billion in cash.

We will aggressively expand with budgeted capital expenditures of approximately $4 billion in the coming year and, at the same time, we will look for further opportunities to increase our international presence. Additionally, our cash flow and earnings growth will allow us to continue our share buyback with the expectation that we will repurchase $2 billion more in stock over the next 12 to 18 months. Despite the law of large numbers, we believe that our stated target of total annual shareholder return of 15% remains quite achievable.

My congratulations and gratitude to our associates for their sacrifices, dedication and enthusiasm that translated into one of the best years this company ever experienced. Thanks also to our shareholders and customers for your support. I truly believe that with the momentum we have, fiscal 1999 will be even better.



Letters to Wal-Mart

Our customers don't just shop at Wal-Mart, they also let us know how they liked it! Here is a sampling from our mailbox.

Fit for a halo

We want you to know what a great lady Claudene Nichols is! (Store 90, Grove, OK). Our son was in a serious car accident and broke his neck, requiring him to wear a "halo." He really needed some shirts that he could easily put on and take off. Claudene offered to sew them for us. She did a wonderful job and wouldn't take a penny for all the work!

You couldn't have a better employee. We would like to see her nominated for employee of the month.

Thank you,

MRS. JIM ROUTH
GROVE, OK

Chocolate chips to the rescue!

I was shopping at Wal-Mart (Store 2049, Altoona, PA.) on Tuesday, Sept. 16. After arriving home, I discovered I had left my purse in a cart outside Wal-Mart.

My daughter and I immediately went back to Wal-Mart, but the cart was not there. We went to the courtesy desk, where my purse was returned by Regina Murphy and Terri Stehley, who found it after looking through many carts. All my papers and credit cards were inside, but all the cash was missing.

The following Sunday, I received a call to come to Wal-Mart. To my surprise, Regina and Terri gave me an envelope filled with cash in the amount I lost! They had baked chocolate chip cookies and held a bake sale for employees so they could return my money!

Terri (domestic department) and Regina (housewares department) deserve the highest award Wal-Mart can give. I also want to recognize Manager Sam Gortney and all the employees of the Altoona Wal-Mart. I am deeply grateful to all at that store.

Thank you,

HELEN L. MAURO
HOLLIDAYSBURG, PA

Santas with Smileys

Two weeks ago, I called Wal-Mart (Store 1162, Washington, IN) with a special request. I was given Assistant Manager Karen Burr. We were trying to arrange a Christmas surprise for my husband's parents in Washington.

Jeffrey's parents needed a new television, and we knew Wal-Mart had a RCA 26" set on sale. Since we live in Missouri, we didn't know how to get it to them. I asked Karen if they made deliveries. Not usually, she replied, but asked what we needed. I explained, and without hesitation she said she had a few associates who could help. I then requested another favor: Would Karen mind putting a big bow on the box and signing our names to a card? She said no problem and she would let us know when the delivery was made.

We were so excited wondering what was happening 500 miles away! We called Karen back in two hours and learned the associates had just left the store. She had wrapped the box in plain brown paper, put a bow on it with the card, and had even sent along a camera to capture the event for us.

About 20 minutes later, our parents called. They said two guys with Santa hats had just delivered a TV to their home! They were so excited and surprised. They weren't expecting Christmas to come early, and especially delivered by Wal-Mart.

Your employees went way beyond the call of duty. It would have been very easy for Karen to say she couldn't help us. I don't know the names of the young men who played Santa, but they are to be commended for their extra efforts.

With people always grumbling about poor customer service, I think it's time to recognize Wal-Mart employees who put the "Merry" in our Christmas!

Sincerely,

JEFF, JENNY AND
LILY ROSE HUNTER
BLUE SPRINGS, MO

Baby Grace, all ready to go home with her mother, Libby, and grandmother.

Giving Back

Wal-Mart associates generate $102 million in gifts in 1997.

From the beginning, Sam Walton believed that each Wal-Mart store should reflect the values of its customers and community. That's why local associates are at the heart of Wal-Mart community outreach programs.

Guided by associates, Wal-Mart has helped countless individuals and organizations, from tiny Baby Grace, a Children's Miracle Network child, to the Cullman, AL schools, where Distribution Center 6006 raised $15,000 to help replace a building destroyed by fire.

This emphasis on giving back has benefited Wal-Mart, as well. It's no coincidence that the top stores in sales generally are the most involved in the community.

Associates' involvement is key to Wal-Mart's role as the official mass merchandise sponsor for Children's Miracle Network, a group of 170 children's hospitals. Local stores have sponsored a variety of activities over the past decade to raise $104 million for CMN — $20 million in 1997 alone. In Myrtle Beach, S.C. (Store 643), associates have done their part, holding bake sales, fund-raising meals and shopping sprees.

Their generosity was repaid when Grace Young was born at just 23 weeks, weighing 15 ounces.

Baby Grace, as she's known in the Wal-Mart family, was the smallest baby ever to survive in McLeod Children's Hospital in Florence, S.C. State-of-the-art care helped her reach five pounds after four months in the Neonatal Intensive Care Unit. Only then was she able to come home with her mother, Libby Young, a 12-year Wal-Mart associate at Store 643.

Companywide, associates and customers initiated giving of more than $63.1 million last year through five major community outreach programs. The bulk was $34 million in Community Matching Grants, in which the Wal-Mart Foundation matches funds raised by local stores.

Wal-Mart associates proved that "Voluntarism Pays," as the foundation contributed $400,000 to local charities. $100 was given for each 15 hours of volunteer work per quarter contributed by associates.

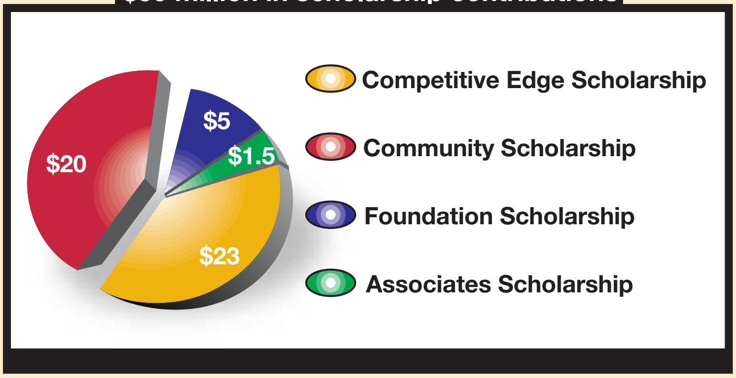
The giving included $47,220 in Associate Matching Grants as Wal-Mart matched associates' donations of $25 to $250 to colleges of their choice.

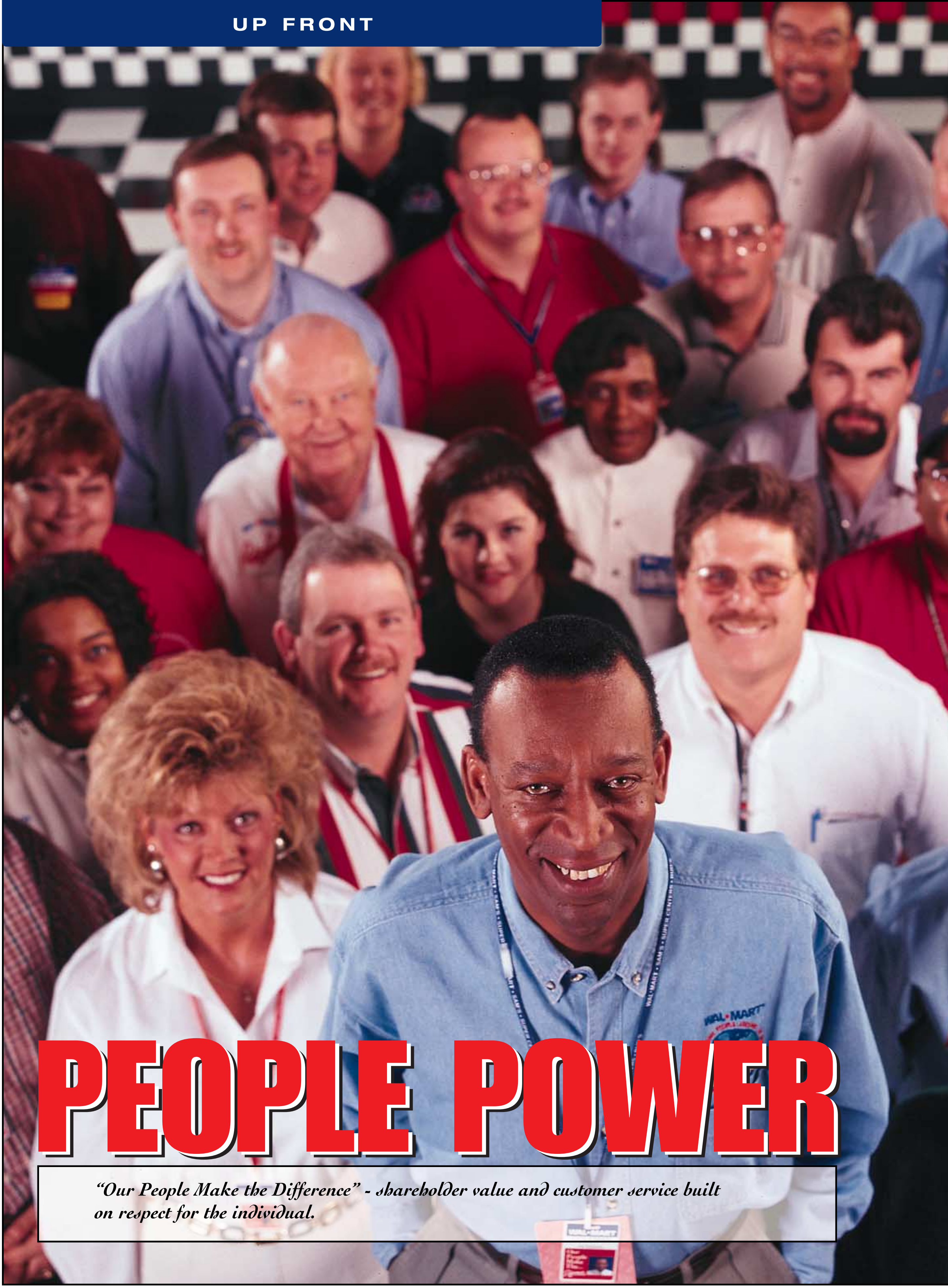
As part of America's Hometown Leader Program, local stores selected outstanding teachers - 1,800 across the country - and the foundation donated $500 to each honoree's school.

Wal-Mart invests heavily in the latest technology, and our faith in the future extends to tomorrow's leaders, with sponsorship of five college scholarship programs for deserving young people.

At the local level, each Wal-Mart store provides a $1,000 Sam Walton Community Scholarship to one student for his or her freshman year of college. This program, funded by the foundation, has awarded nearly $20 million in scholarships since 1981.

$50 million in scholarship contributions





PEOPLE POWER

"Our People Make the Difference" - shareholder value and customer service built on respect for the individual.

Long before "empowerment" became a corporate buzzword, Wal-Mart associates were empowered, not just allowed, but encouraged to make decisions, take risks and, yes, even make mistakes in the cause of customer service.

Who makes the customer Number One? "Our People Make the Difference!"

At Wal-Mart, our people make the difference for each other, too.

"Our division's mission for our associates is to 'Get' them, 'Keep' them and 'Grow' them," said Coleman Peterson, Senior Vice President of the People Division. "Everything we do comes out of our basic Wal-Mart principle of 'Respect for the individual.'

"And when we put all that together, it translates into great service to the customer."

In addition to an industry-leading array of health and other benefits, Wal-Mart offers associates a variety of incentive programs. Most of these incentives are based directly on the performance of an associate's store or division - improvement in profits, reduction in shrink, etc. Virtually all Wal-Mart associates are eligible for some type of performance-based incentive plan.

From an associate's point of view, the equation is obvious: Better service to the customer means better profits, which means higher incentives and increased shareholder value. And yes, Wal-Mart associates care deeply about shareholder value, because so many are shareholders themselves. Our associates are kept informed about the stock price, so everyone understands the connection between Wal-Mart's performance and their own financial success.

Last year, the total company and every division but one met or exceeded its maximum profit improvement goals. As a result, a record level of payout was awarded to associates. We believe there is a direct correlation between record incentive award levels and the company's record-setting performance last year.

Even traditional associate benefits also show the Wal-Mart touch. They provide the best available service at the lowest possible price.

"We have health plans to fit anyone's budget," said Tom Emerick, Vice President of Benefits. "I'm proud to say that we have a health plan, with no lifetime caps. Very few benefit plans will cover a major health problem as well as ours.

"And yet, thanks to diligent negotiations with providers and the great work our associates do in controlling costs, our total cost of benefits is below industry averages."

Perhaps the biggest benefit news in fiscal 1998 came when we rolled out our 401(k) savings plan, which has been so well received that we expect it to become the largest such plan, in number of participants, in the United States.

The 401(k) plan, which provides a tax-deferred opportunity to save for retirement, came about after associates suggested it in Wal-Mart's "Grass Roots" communications program. This year, Wal-Mart divided the company's annual contribution equally between the Profit Sharing and 401(k) plans.

Nowhere is the link between associates' interests and the success of the shareholders more visible than in the Profit Sharing program, which has 70 percent of its assets invested in Wal-Mart stock. "Thanks to the 73 percent increase in the stock price, the Profit Sharing plan's assets increased 57 percent in the last year," said Chief Financial Officer John Menzer.

That's what can happen when Wal-Mart people, the best in the retail industry, focus on creating value for customers, shareholders and the company as a whole.

Coleman Peterson (foreground), Senior Vice President, People Division, with the people he serves.

The WAL★MART® Nobody Knows

Only a major real estate and transportation company could move $118 billion in product and house 825,000 people. And that company is Wal-Mart!

A roof over our heads

Walk in any Wal-Mart store and you're immediately drawn to the friendly associates, the attractive displays and cheery Mr. Smiley (☺) signs. Wal-Mart strives to make shopping enjoyable and convenient, even as it offers the lowest prices on items for every member of the family.

Part of Wal-Mart's formula for success is the convenient location of its more than 2,800 U.S. operating units, with easy access to major highways and ample parking. In addition, each store has roomy aisles and abundant space for displays of items as varied as cookware, tents and sneakers.

A little-known division of our company, Wal-Mart Realty Co., selects and manages the sites for Wal-Mart discount stores, Supercenters and SAM'S Club units across the United States. Decisions on new stores take into account several factors: potential market saturation, competition, expansion or relocation alternatives, total capital expenditure, cash-on-cash incremental rate of return and a marketing plan for the existing real estate if the project involves relocation.

With about 310 million square feet of property, Wal-Mart Realty is the largest owner and manager of retail space in the country; far larger than the nation's next-largest shopping center manager.

And Wal-Mart's real estate holdings will only continue to grow. The company added, relocated or expanded 147 stores in the fiscal year ended January 1998 and plans 180 to 200 more in the year ending January 1999. In the future, Wal-Mart expects to add, relocate or expand about 200 stores a year.

Supercenters will lead Wal-Mart's domestic growth in the future, which means an even larger role for Wal-Mart Realty. As the division rolls out new Supercenter prototypes (ranging from 110,000 to 220,000 square feet), it also must find uses for existing relocated stores after they are closed.

In the past four years, Wal-Mart Realty has implemented an aggressive marketing plan for once-occupied stores. Its goal: sell or lease the unused space.

In the latest fiscal year, Wal-Mart Realty leased or sold more than 10 million square feet of once-occupied space. Some non-retail uses include call centers, light manufacturing, storage, physicians' offices, family entertainment and community centers, all of which help create jobs in the local community.

"Wal-Mart will accelerate its aggressive strategy to identify uses for once-occupied properties as it plans a significant number of store relocations in the future," said Jim Vawter, Director of Financial Management for Wal-Mart Realty.

Regardless of whether it is building or relocating, the realty company's most important goal, like that of all other Wal-Mart divisions and each Wal-Mart associate, is to provide a solid return on investment. The project must generate acceptable returns for our company, or it won't get off the ground.

Pictured at left, 18-wheelers stand ready at the Wal-Mart Distribution Center in Ottawa, KS. Above, Wal-Mart Realty's marketing led to the reuse of a closed SAM'S Club building (inset) as this Florida Mercedes dealership.

Carrying the load

Anywhere you travel along the highways and byways of America, it's no surprise to see a tractor-trailer rig painted with the familiar blue Wal-Mart logo. With 3,300 trucks, Wal-Mart's company-owned truck fleet is among the nation's largest – with dispatch locations from Oregon to New Hampshire to Florida to "all over," said Larry Duff, Vice President of Transportation.

"We're a pretty good-sized transportation company in our own right," Duff said. "But we're obviously in the retail business, a point we continue to make clear."

The Wal-Mart fleet logged 455 million miles last year as 3,800 drivers made more than 900,000 deliveries.

Just as impressive as these statistics is the division's safety record. Last year, Wal-Mart drivers averaged 1.2 million miles without an accident, an enviable achievement for any transportation company. That means Wal-Mart drivers' safety record is far superior when compared with the national average.

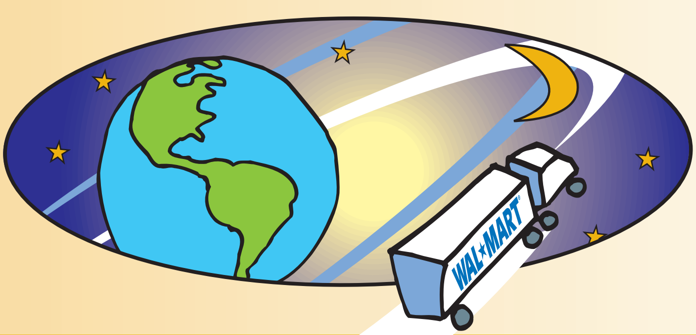
Wal-Mart drivers are the epitome of our company's belief in giving back to our communities. Our drivers often help strangers alongside the road by changing tires, driving stranded motorists to service stations or offering the use of cellular telephones to call for help. In the Wal-Mart tradition of voluntarism and community service, our drivers help out because they want to, not because they have to.

We recognize drivers' good deeds with the "Good Sam" award. The award, a ballcap with a halo around it, has a double meaning: It honors our founder, Mr. Sam, and our "Good Samaritans" of the roadways as well.

Wal-Mart hires only experienced drivers, with at least 300,000 accident-free miles and no major traffic violations. In trucking industry terms, Wal-Mart offers a premium driving job, which allows drivers to be home frequently and does not require them to load and unload trucks.

The truck fleet is the visible link between stores and a critical distribution network. Combined, these are the associates who ensure that every item in our stores arrives in good shape and on time, which provides Wal-Mart with a competitive advantage in delivering merchandise to our customers.

Wal-Mart to the moon and back



Wal-Mart trucks traveled 455 million miles (in the U.S.) in 1997. At a distance of 238,857 miles from the earth to the moon, Wal-Mart drivers could have gone from the earth to the moon -- and back! -- 952 and a half times.

People + Product + Price = (shareholder) VALUE!

Fiscal 1998 was another record-setting year for Wal-Mart as we led the industry in sales and earnings.

SHORTHAND

When Wal-Mart first went public, a foresighted investor could have bought 100 shares of the stock for $1,650. Today, that investor's 100 shares would have grown to 102,400 shares, worth more than $5.1 million, for an average gain of more than $180,000 per year.

Imagine a company with revenues of nearly $120 billion. This hypothetical company is the largest in its industry - not just in the United States, but in the world.

How likely is it that this company could continue to be a growth stock? Not very, the conventional wisdom would respond - but then, Wal-Mart has never paid much attention to conventional wisdom.

After passing the milestone of $100 billion in revenues in fiscal 1997, Wal-Mart followed up by making 1998 the biggest year in its history, setting another sales record with revenues of $118 billion.

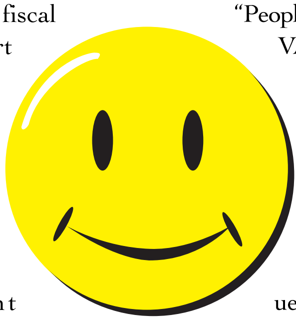
Not only did Wal-Mart extend its standing as the largest retailer in the world, but our fiscal 1998 increase in sales ($13.1 billion), by itself, would make Wal-Mart the ninth-largest retailer in the nation.

"Pound for pound in fiscal 1998, we had the best year in the history of the company," said David Glass, President and Chief Executive

Officer of Wal-Mart Stores, Inc.

The investment community sat up and took notice. Analyst after analyst has given Wal-Mart ratings of "buy" (Credit Suisse First Boston Corp. and Genesis Merchant Group) or "strong buy" (Salomon Brothers).

No doubt the largest single Wal-Mart investor in fiscal 1998 was Wal-Mart itself. In a move to improve shareholder value, the Board of Directors authorized a $2 billion share repurchase program. In March 1998, management expanded the share repurchase program to the level of $2 billion over the next 12 to 18 months.



"Our share repurchase program really sends a message of confidence in the company to Wall Street," said Executive Vice President and Chief Financial Officer John Menzer, "and it was a great investment for us, too. We started buying in the low 20s, and the stock ended up rising 73 percent in the last calendar year. Wal-Mart had the second-highest return to shareholders among the 30 blue-chip stocks that make up the Dow Jones Industrial Average."

Wal-Mart shareholders also saw an immediate increase in their returns in fiscal 1998 when the dividend was increased by 29 percent.

Combine those actions with Wal-Mart's ongoing drive to do business better, increasing profits while managing our capital, and management believes the company is on track to achieve its goal of 15 percent total annual shareholder returns. Analysts agree.

"Wal-Mart's improved execution is more than simply a focus on improving the return on investment," Analyst Michael Exstein of Credit Suisse First Boston wrote in late 1997. "Instead, a number of initiatives, including merchandising and operational changes and more disciplined financial management, have combined to produce improved results."

By concentrating on the basics of its business, Wal-Mart continues to build shareholder value.

Wal-Mart's growth, in the future as well as the past, is based on a tight focus on the Wal-Mart equation: "People + Product + Price = VALUE!"

H. Lee Scott Jr., President and CEO of the Wal-Mart Stores Division, identified four key legacies of Wal-Mart Founder Sam Walton that continue to guide the company's quest for ever-greater value:

1) Every Day Low Prices (EDLP)
2) Customer Service
3) Leadership
4) Change

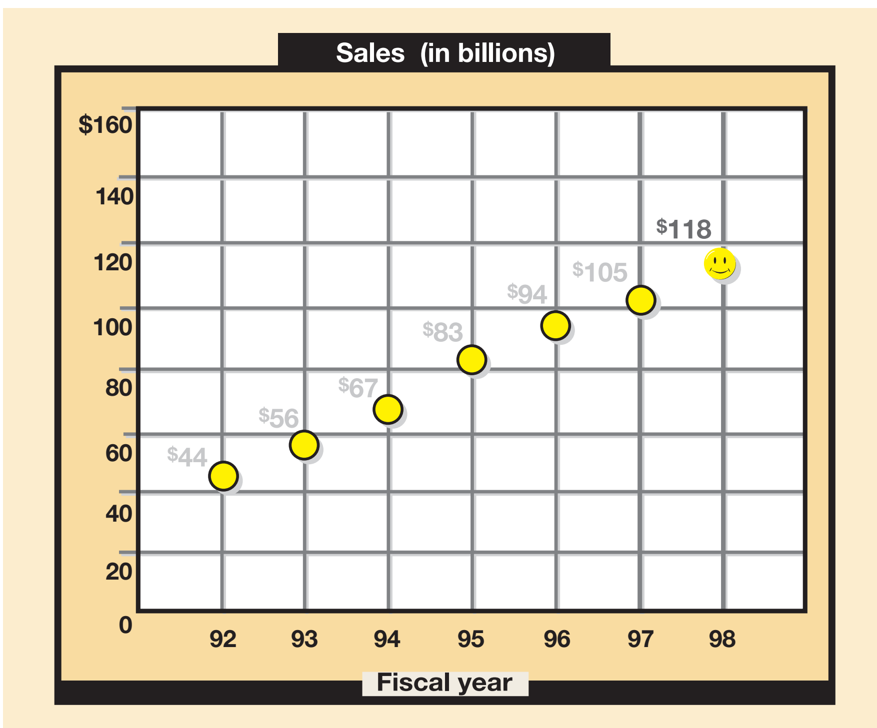
"We have never been afraid of change," Scott said, noting that Mr. Sam was always willing to take risks for the sake of change.

"At Wal-Mart, we are always challenging ourselves to continue to improve, because we can't allow ourselves to become complacent," Scott said. "We have not yet arrived at the level we are always striving to achieve."

Wal-Mart's dedication to value - for our customers, our associates and our shareholders - has produced what Don Soderquist, Vice Chairman and Chief Operating Officer, calls "the most incredible story ever told in American business."

When Wal-Mart first went public, in October 1970, a foresighted investor could have bought 100 shares of the stock for $1,650. Today, that investor's 100 shares would have grown to 102,400 shares, worth more than $5.1 million at Wal-Mart's recent closing price of 50, for an average gain of more than $180,000 per year. In addition, that holding would have paid $27,000 in dividends in 1997.

"This is a *long-term* game," Glass said. "We don't have any short-term plans at Wal-Mart. Everything we do is designed to build shareholder value over the long haul. Our opportunities are unparalleled in the history of retailing because of where we are now, and the capability and determination we have to keep getting better."



Managing for Results

Improvements in asset management, inventory control and technology will keep Wal-Mart earnings growing steadily.

There was a time when Wal-Mart associates, like their counterparts at other retailers, spent much of their time simply trying to keep track of inventory. They manually counted items and filled out endless order forms in the hope that, eventually, the paper trail would lead the right products back to their shelves.

But today, thanks to Wal-Mart's industry-leading information technology, computers handle most of those chores, far faster and more efficiently than a paper-based system. Wal-Mart leads the retail industry with its version of a "just in time" supply system in which computers track every product and automatically alert warehouses when it's time to restock the shelves.

SHORTHAND

Despite a 12 percent increase in sales in 1998, the company saw only a 4 percent increase in inventories, saving about $1.4 billion. This makes more capital available for productive uses.

Now, associates who spent their days filling out forms can spend that time serving customers.

This kind of improved efficiency at the individual level can be seen every day among 825,000 Wal-Mart associates worldwide. In the stores, where the rubber meets the retail road, Wal-Mart customers benefit directly from the company's tight focus on continuing to improve its operating strategy.

"Focus is the key," said Thomas M. Coughlin, Wal-Mart's Executive Vice President of Operations. "As a company, we have to stay very intense about the things that are most important in our business - our customers, our associates and our shareholders, who often are one and the same person."

In the stores, where strategy rolls up its sleeves and goes to work, some of our most visible strategic initiatives include the improved management of assets and inventory, stronger-than-ever merchandising initiatives and continuous development of informa-

Top photo: Bobby Martin, President of the International Division, and Mark Hansen, President of SAM'S Club. Lower photo: H. Lee Scott Jr., President of the Wal-Mart Stores Division, and Thomas M. Coughlin, Executive Vice President of Operations.

tion technology. These initiatives show their value not only in the financial results of fiscal 1998, but are designed to continue to deliver improved results, now and in the future.

In turn, greater efficiency in the stores will have a direct impact on Wal-Mart's value to shareholders.

An example of how Wal-Mart's operational improvements build returns to investors: Despite a 12 percent increase in sales in 1998, the company saw only a 4 percent increase in inventories, saving about $1.4 billion. This makes more capital available for other productive uses.

According to Bob Connolly, Executive Vice President of Merchandising, there are four keys to this dramatic improvement in inventory management:

1) Systematic reduction of unproductive inventory
2) Reduction of orders by 15 percent, enabling stores to manage their own inventory
3) Reduced pack sizes across many categories
4) Timely markdowns

Rather than blindly slashing inventory, Wal-Mart has used the data gathered by technology to make more inventory available in the key items that customers want most, while reducing inventories overall.

This is where today's information technology meets merchandising. Continuous learning has been a constant thread in Wal-Mart's history, and with modern technology for understanding what customers do in the store, we have been able to focus more precisely on serving their needs.

Wal-Mart's record-breaking performance in fiscal 1998 was, as Coughlin puts it, a matter of focus. By focusing simultaneously on raising profits and restraining expenses, our results show what can happen when we combine inventory management, leading-edge technology and increased financial discipline.

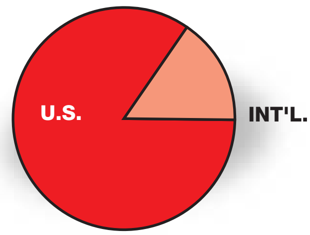
FISCAL 1998 END OF YEAR STORE COUNTS

	Discount Stores	Supercenters	SAM'S Club
Alabama	50	27	8
Alaska	3	0	3
Arizona	34	0	7
Arkansas	50	27	4
California	100	0	24
Colorado	31	5	10
Connecticut	14	0	3
Delaware	2	1	1
Florida	102	33	31
Georgia	62	25	16
Hawaii	5	0	1
Idaho	9	0	1
Illinois	95	11	24
Indiana	60	15	14
Iowa	43	2	7
Kansas	40	8	5
Kentucky	45	23	5
Louisiana	56	19	9
Maine	19	0	3
Maryland	22	1	10
Massachusetts	27	0	3
Michigan	45	0	21
Minnesota	34	0	9
Mississippi	42	14	4
Missouri	79	30	12
Montana	9	0	1
Nebraska	13	5	3
Nevada	13	0	2
New Hampshire	17	0	4
New Jersey	16	0	6
New Mexico	16	3	3
New York	51	5	18
North Carolina	78	8	14
North Dakota	8	0	2
Ohio	77	4	23
Oklahoma	57	21	6
Oregon	23	0	0
Pennsylvania	49	12	18
Rhode Island	6	0	1
South Carolina	41	12	9
South Dakota	8	0	2
Tennessee	57	30	11
Texas	169	72	52
Utah	14	0	5
Vermont	3	0	0
Virginia	31	21	10
Washington	20	0	2
West Virginia	12	6	3
Wisconsin	55	1	11
Wyoming	9	0	2
U.S. TOTAL	**1,921**	**441**	**443**

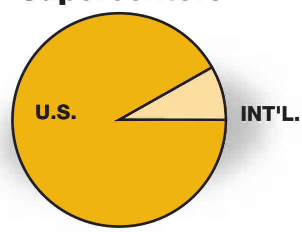
	Discount Stores	Supercenters	SAM'S Club
Alberta	16	0	0
British Columbia	12	0	0
Manitoba	9	0	0
New Brunswick	4	0	0
Newfoundland	7	0	0
Nova Scotia	7	0	0
NW Territories	1	0	0
Ontario	52	0	0
Quebec	28	0	0
Saskatchewan	8	0	0
CANADA TOTAL	**144**	**0**	**0**
Argentina	0	6	3
Brazil	0	5	3
Mexico	347*	27	28
Puerto Rico	9	0	5
China	0	2	1
Germany	0	21	0
INT'L. TOTAL	**500**	**61**	**40**
GRAND TOTAL	**2,421**	**502**	**483**

*Includes 36 Superamas, 62 Bodegas, 33 Aurreras, 178 Vips and 30 Suburbias

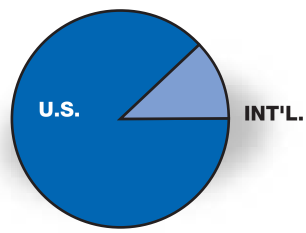
Discount Stores



Supercenters



SAM'S Club



Engine for Earnings

Wal-Mart, Supercenters and SAM'S Club drive Wal-Mart's growth - and refinements in merchandising are revving the engine.

When Wal-Mart turned to Supercenters - larger than traditional discount stores, with a full-service grocery department - as a key vehicle for future growth, some investors wondered how the addition of traditional grocery store items would affect the division's performance. Some also wondered whether consumers would be willing to shop for food and general merchandise in the same place.

Those questions have been answered to the benefit of Wal-Mart shareholders.

SHORT HAND

Supercenters have been an important source of the continuous learning that is central to the Wal-Mart Way. By "data-mining" the information on customer shopping habits that our technology provides, we have been able to refine store layouts and design.

Wal-Mart Discount Stores already carry many of the items that a typical supermarket sells, such as household cleansers, paper goods, soft drinks, snacks and health and beauty care items. When we add a grocery section to a regular store, creating a Supercenter, it is a natural extension of the concept. As we expected, shoppers responded enthusiastically to the one-stop convenience. Supercenters will represent more than 20 million square feet of our new retail space this year. We also expect them to provide half of our earnings growth over the next three to five years.

Wal-Mart Discount Stores, the core of our business, are also a key component of our earnings engine. They delivered improved results this year through execution and merchandising initiatives. Our inventory reduction efforts have provided sustainable margin benefits while allowing us to continue to roll back prices. This means fresher merchandise, better sales and improved profits for our shareholders.

Along with serving as a primary driver of growth, Supercenters have been an important source of the continuous learning that is central to the Wal-Mart Way of doing business. By "data-mining" the massive supply of information on customer shopping habits that our information technology provides, we have been able to refine our store layouts and design, so that new and remodeled stores more effectively serve customers.

For another example, once Wal-Mart went seriously into the food business, which is a $450 billion market in the U.S., we quickly learned the ins and outs of making regional perishable food distribution as efficient as possible. As one analyst wrote in October 1997:

Combined with the merchandising savvy of Wal-Mart's team of food merchants, regional perishable food distribution and related centralized buying are enabling Wal-Mart to get a leg up on some of the competition in terms of both merchandising power and value.

SAM'S Club, the largest domestic warehouse club operation, is another major source of earnings for Wal-Mart.

With 443 units and attractive returns, SAM'S already is a significant contributor to the overall company. On top of that, under SAM'S new President, Mark Hansen, the division is introducing important enhancements in products and services this year. Wal-Mart plans to remodel about 70 SAM'S Club units in fiscal 1999, expand a large number of fresh departments and add about 10 new units.

Driving force

Creating shareholder value begins at the top - the 14 members of the Wal-Mart Board of Directors. With a wide variety of top-level international, retail, business and education experience, these leaders are a driving force for Wal-Mart's growth.

Right: Dr. Paula Stern, The Stern Group Inc.
John Walton, Quantum Partners

Below: Rob Walton, Paul Carter, Don Soderquist and David Glass

Above: Stanley Gault, formerly of Goodyear Tire
Dr. Frederick Humphries, Florida A&M University
Stan Kroenke, The Kroenke Group

Below: Elizabeth (Betsy) Sanders, The Sanders Partnership
Jack Shewmaker, international consultant

Above: Jeronimo Arango, Cifra S.A. de C.V.; John A. Cooper Jr., Cooper Communities Inc.; and Stephen Friedman, Goldman Sachs & Co.

The Wal-Mart Way of doing business knows no boundaries. John Evanson, manager of Store 3064 in Oakville, Ontario, Canada, shows off a Wal-Mart value.

A World of Opportunity

The Wal-Mart Way wins customers worldwide - and we learn more with each country we serve.

With more than 600 units in seven countries and another 50 to 60 new units planned for fiscal 1999, the International Division plays a key role in the Wal-Mart organization.

Along with the financial returns from the international expansion, we learn more each day about how the Wal-Mart Way of doing business can best serve customers from diverse cultures and backgrounds.

Five years into our international expansion, operating profits from the International division were $24 million in fiscal 1997 and $262 million in fiscal 1998. The division had total revenues of $7.5 billion in the year just completed.

Even though Wal-Mart is only a few years into its international experience and many of the markets are still in the early investment stage of development, it is notable that International is already generating a meaningful profit.

More importantly, we are beginning to understand the true meaning and benefits of being a global company. The best of class from all over the world now set the benchmarks for our industry, whether domestic or international. "Speedy checkouts," "gravity walls" and new merchandise items are examples of ideas from international markets that we imported and applied to our domestic business. Just think of the multiplier factor when we apply a new sales-generating or cost-saving idea to 3,000 existing stores. This is what we call "Global Learning."

SHORTHAND

In the long term, the success of Wal-Mart's entry into the global arena means one thing to shareholders: The entire world is our marketplace. And wherever Wal-Mart does business, we learn how to do business better.

Our first two entries into the global marketplace were Mexico and Canada. Both were major contributors to the international success that we enjoyed this past year and will be key components of our future achievements.

Canada provided impressive results with double-digit sales increases and a near doubling of its operating profits. Continued market share gains and improved results made Canada one of the standout divisions of fiscal 1998.

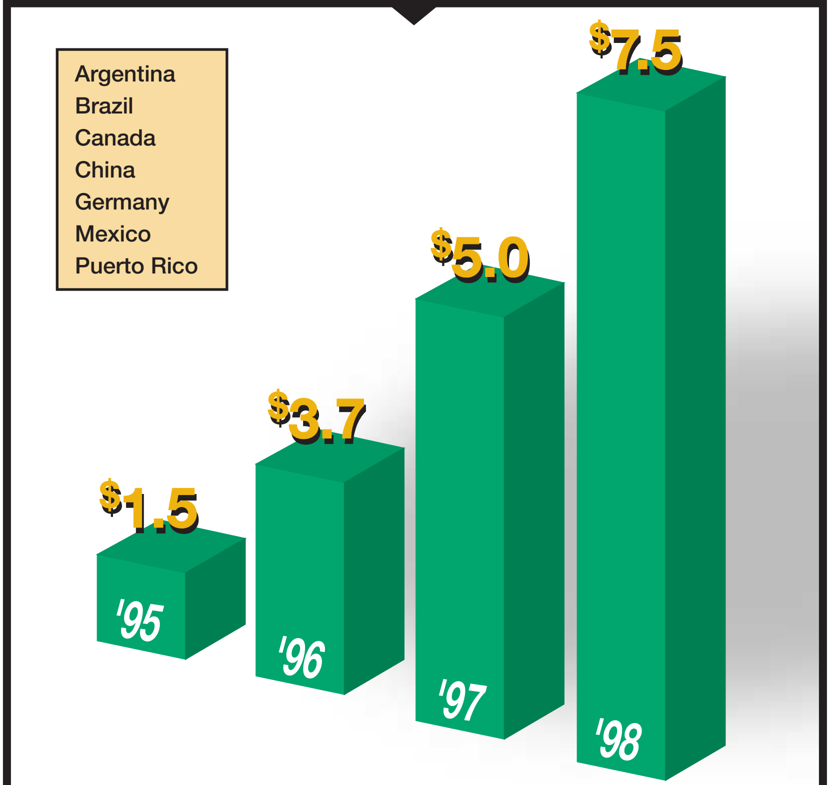
Other highlights of fiscal 1998 for the International division:

- Wal-Mart has established itself as the premier retailer in Mexico with its purchase of a 51 percent interest in Cifra, that nation's largest retailer. Several analysts who follow Wal-Mart have remarked on the enormous potential of the Mexican market, with its population of 92 million and GDP of almost $335 billion.
- In addition, the high inflation that currently characterizes Mexico's economy has been a valuable learning experience for Wal-Mart, as we learn how to manage our business in such an environment. We expect to apply the experience gained from combining our strategy with Cifra's to other international markets.
- Wal-Mart now has operations in a seventh international market - Germany, which we entered by purchasing Wertkauf, an operator of "hypermarkets," one-stop shopping facilities similar to our Supercenters. With the Wertkauf acquisition, Wal-Mart gains 21 stores that did $1.2 billion in business in fiscal 1998, and perhaps more importantly, entrée into Germany, Europe's largest retail market.
- The International expansion accelerates the development of Wal-Mart as a global "brand" along the lines of Coca-Cola, Disney, McDonald's and others. "We are a global brand name," said Bobby Martin, President of the International Division. "To customers everywhere it means low cost, best value, greatest selection of quality merchandise and highest standards of customer service."

In the long term, the success of Wal-Mart's entry into the global arena means one thing to shareholders: The entire world is our marketplace. And wherever Wal-Mart does business, we learn how to do business better.

INTERNATIONAL SALES GROWTH

Fiscal year end January 31



Sales dollars in billions

(Dollar amounts in millions except per share data)	**1998**	1997	1996
Net sales	**$ 117,958**	$ 104,859	$ 93,627
Net sales increase	**12%**	12 %	13 %
Comparative store sales increase	**6%**	5 %	4 %
Other income-net	**1,341**	1,319	1,146
Cost of sales	**93,438**	83,510	74,505
Operating, selling and general and administrative expenses	**19,358**	16,946	15,021
Interest costs:			
Debt	**555**	629	692
Capital leases	**229**	216	196
Provision for income taxes	**2,115**	1,794	1,606
Minority interest and equity in unconsolidated subsidiaries	**(78)**	(27)	(13)
Net income	**3,526**	3,056	2,740
Per share of common stock:			
Net income – Basic and Dilutive	**$1.56**	1.33	1.19
Dividends	**0.27**	0.21	.20
Financial Position			
Current assets	**$ 19,352**	$ 17,993	$ 17,331
Inventories at replacement cost	**16,845**	16,193	16,300
Less LIFO reserve	**348**	296	311
Inventories at LIFO cost	**16,497**	15,897	15,989
Net property, plant and equipment and capital leases	**23,606**	20,324	18,894
Total assets	**45,384**	39,604	37,541
Current liabilities	**14,460**	10,957	11,454
Long-term debt	**7,191**	7,709	8,508
Long-term obligations under capital leases	**2,483**	2,307	2,092
Shareholders' equity	**18,503**	17,143	14,756
Financial Ratios			
Current ratio	**1.3**	1.6	1.5
Inventories/working capital	**3.4**	2.3	2.7
Return on assets*	**8.5%**	7.9%	7.8 %
Return on shareholders' equity**	**19.8%**	19.2 %	19.9 %
Other Year-End Data			
Number of domestic Wal-Mart stores	**1,921**	1,960	1,995
Number of domestic Supercenters	**441**	344	239
Number of domestic SAM'S Club units	**443**	436	433
International units	**601**	314	276
Number of associates	**825,000**	728,000	675,000
Number of shareholders	**245,884**	257,215	244,483

* Net income before minority interest and equity in unconsolidated subsidiaries/average assets
** Net income/average shareholders' equity

1995	1994	1993	1992	1991	1990	1989	1988
$ 82,494	$ 67,344	$ 55,484	$ 43,887	$ 32,602	$ 25,811	$ 20,649	$ 15,959
22 %	21 %	26 %	35 %	26 %	25 %	29 %	34 %
7 %	6 %	11 %	10 %	10 %	11 %	12 %	11 %
914	645	497	404	262	175	137	105
65,586	53,444	44,175	34,786	25,500	20,070	16,057	12,282
12,858	10,333	8,321	6,684	5,152	4,070	3,268	2,599
520	331	143	113	43	20	36	25
186	186	180	153	126	118	99	89
1,581	1,358	1,171	945	752	632	488	441
4	(4)	4	(1)				
2,681	2,333	1,995	1,609	1,291	1,076	838	628
1.17	1.02	.87	.70	.57	.48	.37	.28
.17	.13	.11	.09	.07	.06	.04	.03
$ 15,338	$ 12,114	$ 10,198	$ 8,575	$ 6,415	$ 4,713	$ 3,631	$ 2,905
14,415	11,483	9,780	7,857	6,207	4,751	3,642	2,855
351	469	512	473	399	323	291	203
14,064	11,014	9,268	7,384	5,808	4,428	3,351	2,652
15,874	13,176	9,793	6,434	4,712	3,430	2,662	2,145
32,819	26,441	20,565	15,443	11,389	8,198	6,360	5,132
9,973	7,406	6,754	5,004	3,990	2,845	2,066	1,744
7,871	6,156	3,073	1,722	740	185	184	186
1,838	1,804	1,772	1,556	1,159	1,087	1,009	867
12,726	10,753	8,759	6,990	5,366	3,966	3,008	2,257
1.5	1.6	1.5	1.7	1.6	1.7	1.8	1.7
2.6	2.3	2.7	2.1	2.4	2.4	2.1	2.3
9.0 %	9.9 %	11.1 %	12.0 %	13.2 %	14.8 %	14.6 %	13.7 %
22.8 %	23.9 %	25.3 %	26.0 %	27.7 %	30.9 %	31.8 %	31.8 %
1,985	1,950	1,848	1,714	1,568	1,399	1,259	1,114
147	72	34	10	9	6	3	2
426	417	256	208	148	123	105	84
226	24	10					
622,000	528,000	434,000	371,000	328,000	271,000	223,000	183,000
259,286	257,946	180,584	150,242	122,414	79,929	80,270	79,777

Net Sales

Sales (in millions) by operating segment for the three fiscal years ended January 31, are as follows:

Fiscal Year	Wal-Mart Stores	SAM'S Club	International	Other(McLane)	Total Company	Total Company Increase
1998	**$ 83,820**	**$ 20,668**	**$ 7,517**	**$ 5,953**	**$ 117,958**	**12%**
1997	74,840	19,785	5,002	5,232	104,859	12%
1996	66,271	19,068	3,712	4,576	93,627	13%

The Company sales growth of 12% in fiscal 1998, when compared to fiscal 1997, was attributable to our expansion program and comparative store sales increases of 6%. Expansion for fiscal 1998 included the opening of 37 Wal-Mart stores, 97 Supercenters (including the conversion of 75 Wal-Mart stores), eight SAM'S Club units and the opening or acquisition of 289 international units. International sales accounted for approximately 6.4% of total sales in fiscal 1998 compared with 4.8% in fiscal 1997. The growth in International is partially due to the acquisition of controlling interest in Cifra, S.A de C.V. during the third quarter. See Note 6 of Notes to Consolidated Financial Statements for additional information on our acquisitions. SAM'S Club sales, as a percentage of total sales, decreased from 18.9% in fiscal 1997 to 17.5% in fiscal 1998.

The sales increase in fiscal 1997 when compared to fiscal 1996 was attributable to our expansion program and comparative store sales increases of 5%. Expansion for fiscal 1997 included the opening of 59 Wal-Mart stores, 105 Supercenters (including the conversion of 92 Wal-Mart stores), nine SAM'S Club units and 38 international units. The majority of the sales increase resulted from Wal-Mart stores and Supercenters while international sales grew to approximately 4.8% of the total sales in fiscal 1997 from 4.0% in fiscal 1996. SAM'S Club sales, as a percentage of total sales, decreased from 20.4% in fiscal 1996 to 18.9% in fiscal 1997.

Costs and Expenses

Cost of sales, as a percentage of sales, decreased .4% in fiscal 1998 when compared to fiscal 1997 and increased .1% in fiscal 1997, when compared with fiscal 1996. The decrease in fiscal 1998 resulted from improvements in the mix of merchandise sold and from better inventory management. Operating efficiencies and the strong emphasis placed on inventory management has reduced markdowns and shrinkage. Approximately .1% of the decrease in cost of sales was a result of the sales contribution of SAM'S Club. As its sales became a smaller percentage of total Company sales, the cost of sales is positively impacted since their gross margin contribution is lower than the stores. The increase in fiscal 1997 when compared to fiscal 1996 is due in part to one-time markdowns in the third quarter resulting from a strategic decision to reduce the merchandise assortment in selected categories. Cost of sales also increased approximately .3% due to a larger percentage of consolidated sales from departments within Wal-Mart stores which have lower markon percents, and to our continuing commitment of always providing low prices. These increases were offset by approximately .2% because SAM'S Club comprised a lower percentage of consolidated sales in 1997 at a lower contribution to gross margin than Wal-Mart stores.

Operating, selling, general and administrative expenses increased .3%, as a percentage of sales, in fiscal 1998 when compared with fiscal 1997, and were flat in fiscal 1997 when compared to fiscal 1996. Approximately .2% of the increase in fiscal 1998 was due to increases in payroll and related benefit costs. Additionally, a contributing factor in the increase for the year is a charge of $50 million for closing the majority of the Bud's Discount City stores during the second quarter of fiscal 1998. This charge was reflected in operating income due to its immateriality to our results of operations and because we continue to operate eight Bud's Discount City stores. In fiscal 1997, operating, selling, general and administrative expenses increased approximately .1% due to a lower expense to sales percentage at SAM'S Club compared to Wal-Mart Stores. This increase was offset through expense control in all of the operating formats.

Historically, computer software has been programmed to make assumptions about the century when given a date that only uses two digits to represent the year. Although these assumptions have been perfectly acceptable the past few decades, they are potential cause for concern for software used in the year 2000 and beyond. Specifically,this abbreviated date format makes it difficult for an application or computer user to distinguish between dates starting with 19xx and 20xx. The Company has initiated a project to address the year 2000 compliance issue for technology hardware, software and equipment. The assessment phase of our project is substantially complete. The majority of the compliance is expected to be performed by Company associates. Approximately 67% of the required conversions have occurred. We anticipate completing all remaining conversions during fiscal 1999. The total estimated cost of the conversion is $12 million, which is being expensed as incurred. The cost of the conversions and the completion dates are based on management's best estimates and may be updated as additional information becomes available. In addition, communications are ongoing with other companies with which our systems interface or rely on to determine the extent to which those companies are addressing their year 2000 compliance.

Interest Costs

Interest costs decreased in fiscal 1998 compared to fiscal 1997 due primarily to lower short-term borrowings. Enhanced operating cash flows and lower capital spending enabled the Company to meet cash requirements without short-term borrowings throughout most of fiscal 1998. Interest costs decreased in fiscal 1997 compared to fiscal 1996 due to lower average daily short-term borrowings and through retirement of maturing debt. See Note 2 of Notes to Consolidated Financial Statements for additional information on interest and debt.

Market Risk

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign exchange rates. We enter into interest rate swaps to minimize the risk and costs associated with our financial activities. The swap agreements are contracts to exchange fixed or variable rates for floating interest rate payments periodically over the life of the instruments.

The following table provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and average interest rates by contractual maturity dates. For variable rate instruments, we have indicated the applicable floating rate index.

Interest Rate Sensitivity
Principal (Notional) Amount by Expected Maturity
Average Interest (Swap) Rate

(Amounts in millions)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value 1/31/98
Liabilities								
Long-term debt Including current portion								
Fixed rate debt	$1,039	$815	$2,018	$52	$559	$3,747	$8,230	$8,639
Average interest rate	7.1%	7.2%	7.2%	7.1%	6.9%	7.2%	7.2%	
Long-term obligation related to real estate investment trust								
Fixed rate obligation	36	39	43	46	50	382	596	560
Average interest rate	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	
Interest Rate Derivative Financial Instruments Related to Debt								
Interest rate swaps								
Pay variable/receive fixed	–	500	–	–	–	–	500	–
Average pay rate – 30-day commercial paper non-financial plus .134%								
Average receive rate	–	5.7%	–	–	–	–	5.7%	
Interest Rate Derivative Financial Instruments Related to Real Estate Investment Trust Obligation								
Interest rate swaps								
Pay variable/receive fixed	35	37	41	45	49	378	585	17
Average pay rate – 30-day commercial paper non-financial								
Average receive rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Interest Rate Derivative Financial Instrument on Currency Swap								
German Deutschmarks								
Pay variable/receive variable	–	–	–	–	1,101	–	1,101	(1)
Average pay rate – 3-month Deutschmark LIBOR minus .0676%								
Average receive rate – 30-day commercial paper non-financial								

The Company routinely enters into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on inventory purchases denominated in foreign currencies. These contracts are for short durations, generally less than six months. In addition, we have entered into a foreign currency swap to hedge our investment in Germany. Under the agreement, the Company will pay 1,960 million in German Deutschmarks in 2003 and will receive $1,101 million in United States Dollars.

The following table provides information about the Company's derivative financial instruments, including foreign currency forward exchange agreements and currency swap agreements by functional currency and presents the information in U.S. dollar equivalents. For foreign currency forward exchange agreements, the table presents the notional amounts and average exchange rates by contractual maturity dates.

Foreign Currency Exchange Rate Sensitivity
Principal (Notional) Amount by Expected Maturity

(Amounts in millions)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value 1/31/98
Forward Contracts to Sell Foreign Currencies for US $								
Canadian Dollars								
Notional amount	24	–	–	–	–	–	24	–
Average contract rate	1.4	–	–	–	–	–	1.4	
German Deutschmarks								
Notional amount	2	–	–	–	–	–	2	–
Average contract rate	1.8	–	–	–	–	–	1.8	
Forward Contracts to Sell Foreign Currencies for Hong Kong $								
German Deutschmarks (DEM)								
Notional amount	1	–	–	–	–	–	1	–
Average contract rate	0.2	–	–	–	–	–	0.2	
Average currency exchange rate (DEM to US$)	1.8	–	–	–	–	–	1.8	
Currency Swap Agreements								
Payment of German Deutschmarks								
Notional amount	–	–	–	–	1,101	–	1,101	30
Average contract rate	–	–	–	–	1.8	–	1.8	

International Operations

A portion of our operations consists of sales activities in foreign jurisdictions. We operate wholly owned operations in Argentina, Canada, Germany and Puerto Rico, through joint ventures in China and through majority-owned subsidiaries in Brazil and Mexico. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we do business. We minimize the exposure to the risk of devaluation of foreign currencies by operating in local currencies and through buying forward contracts, where feasible, on known transactions.

All foreign operations are measured in their local currencies with the exception of Brazil and Mexico, which operate in highly-inflationary economies and report operations using U.S. Dollars. Beginning in fiscal 1999, Brazil will no longer be considered a highly-inflationary economy and will begin reporting its operations in its local currency. In fiscal 1998, the foreign currency translation adjustment increased by $73 million to $473 million primarily due to the exchange rate in Canada. In fiscal 1997, the foreign currency translation adjustment decreased by $12 million to $400 million primarily due to a favorable exchange rate in Canada. The cumulative foreign currency translation adjustment of $412 million in fiscal 1996 was due primarily to operations in Mexico.

Liquidity and Capital Resources
Cash Flows Information

Cash flows from operating activities were $7,123 million in fiscal 1998, up from $5,930 million in fiscal 1997. In fiscal 1998, the Company invested $2,636 million in capital assets and paid dividends of $611 million and had a net cash outlay of $1,865 million for acquisitions. Acquisitions include the Wertkauf hypermarket chain in Germany, a controlling interest in Cifra, S.A. de C. V. (Cifra) and the minority interest in our Brazilian joint venture from Lojas Americanas. See Note 6 of Notes to Consolidated Financial Statements for additional information on our acquisitions.

Company Stock Purchase and Common Stock Dividends

In fiscal 1998, the Company repurchased over 47 million shares of its common stock for $1.6 billion. Subsequent to January 31, 1998, the Company announced plans to repurchase up to $2 billion of its common stock over the next 12 to 18 months. Additionally, the Company increased the dividend 15% to $.31 per share for fiscal 1999.

Borrowing Information

The Company had committed lines of credit with 77 banks, aggregating $1,873 million and informal lines of credit with various other banks, totaling an additional $1,950 million, which were used to support short-term borrowing and commercial paper. These lines of credit and their anticipated cyclical increases will be sufficient to finance the seasonal buildups in merchandise inventories and for other cash requirements.

We anticipate generating sufficient operating cash flow to fund all capital expenditures and our Company stock repurchase program. Accordingly, we do not plan to finance future capital expenditures with debt. However, we do plan to refinance existing long-term debt as it matures and may desire to obtain additional long-term financing for other uses of cash or for strategic reasons. We anticipate no difficulty in obtaining long-term financing in view of our excellent credit rating and favorable experiences in the debt market in the recent past. In addition to the available credit lines mentioned above, we may sell up to $251 million of public debt under shelf registration statements on file with the Securities and Exchange Commission.

Expansion

Domestically, we plan to open approximately 50 new Wal-Mart stores and between 120 and 125 new Supercenters. Approximately 90 of the Supercenters will come from relocations or expansions of existing Wal-Mart stores. Also planned for next fiscal year are ten new SAM'S Club units and three distribution centers. Internationally, plans are to develop 50 to 60 new retail units. These stores are planned in Argentina, Brazil, Canada, China, Germany, Mexico and Puerto Rico. Total planned growth represents approximately 26 million square feet of additional retail space.

Total planned capital expenditures for fiscal 1999 approximate $4 billion. We plan to finance our expansion primarily with operating cash flows.

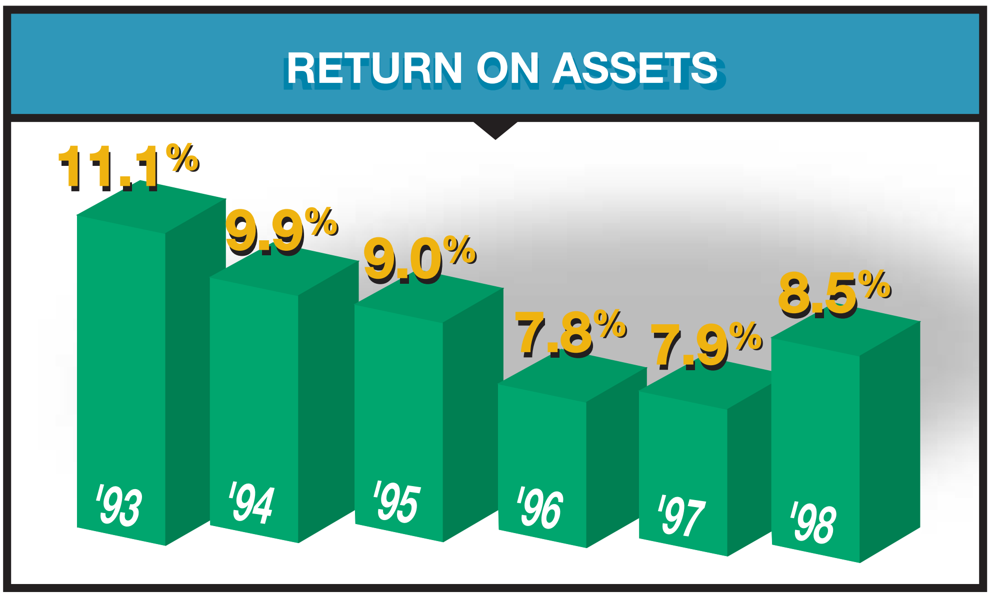
Forward-Looking Statements

Certain statements contained in Management's Discussion and Analysis, and elsewhere in this annual report, are forward-looking statements. These statements discuss, among other things, expected growth, future revenues and future performance. The forward-looking statements are subject to risks and uncertainties, including, but not limited to, competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, capital market conditions and other risks indicated in our filings with the Securities and Exchange Commission. Actual results may materially differ from anticipated results described in these statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions except per share data) Fiscal years ended January 31,	**1998**	1997	1996
Revenues:			
Net sales	**$ 117,958**	$ 104,859	$ 93,627
Other income-net	**1,341**	1,319	1,146
	119,299	106,178	94,773
Costs and Expenses:			
Cost of sales	**93,438**	83,510	74,505
Operating, selling and general and administrative expenses	**19,358**	16,946	15,021
Interest Costs:			
Debt	**555**	629	692
Capital leases	**229**	216	196
	113,580	101,301	90,414
Income Before Income Taxes, Minority Interest and Equity in Unconsolidated Subsidiaries	**5,719**	4,877	4,359
Provision for Income Taxes			
Current	**2,095**	1,974	1,530
Deferred	**20**	(180)	76
	2,115	1,794	1,606
Income Before Minority Interest and Equity in Unconsolidated Subsidiaries	**3,604**	3,083	2,753
Minority Interest and Equity in Unconsolidated Subsidiaries	**(78)**	(27)	(13)
Net Income	**$ 3,526**	$ 3,056	$ 2,740
Net Income Per Share – Basic and Dilutive	**$1.56**	$1.33	$1.19

See accompanying notes.



(Amounts in millions) January 31,	1998	1997
Assets		
Current Assets:		
Cash and cash equivalents	**$ 1,447**	$ 883
Receivables	**976**	845
Inventories		
At replacement cost	**16,845**	16,193
Less LIFO reserve	**348**	296
Inventories at LIFO cost	**16,497**	15,897
Prepaid expenses and other	**432**	368
Total Current Assets	**19,352**	17,993
Property, Plant and Equipment, at Cost:		
Land	**4,691**	3,689
Building and improvements	**14,646**	12,724
Fixtures and equipment	**7,636**	6,390
Transportation equipment	**403**	379
	27,376	23,182
Less accumulated depreciation	**5,907**	4,849
Net property, plant and equipment	**21,469**	18,333
Property Under Capital Lease:		
Property under capital lease	**3,040**	2,782
Less accumulated amortization	**903**	791
Net property under capital leases	**2,137**	1,991
Other Assets and Deferred Charges	**2,426**	1,287
Total Assets	**$ 45,384**	$ 39,604
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 9,126**	$ 7,628
Accrued liabilities	**3,628**	2,413
Accrued income taxes	**565**	298
Long-term debt due within one year	**1,039**	523
Obligations under capital leases due within one year	**102**	95
Total Current Liabilities	**14,460**	10,957
Long-Term Debt	**7,191**	7,709
Long-Term Obligations Under Capital Leases	**2,483**	2,307
Deferred Income Taxes and Other	**809**	463
Minority Interest	**1,938**	1,025
Shareholders' Equity		
Preferred stock ($.10 par value; 100 shares authorized, none issued)		
Common stock ($.10 par value; 5,500 shares authorized, 2,241 and 2,285 issued and outstanding in 1998 and 1997, respectively)	**224**	228
Capital in excess of par value	**585**	547
Retained earnings	**18,167**	16,768
Foreign currency translation adjustment	**(473)**	(400)
Total Shareholders' Equity	**18,503**	17,143
Total Liabilities and Shareholders' Equity	**$ 45,384**	$ 39,604

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions except per share data)	Number of shares	Common stock	Capital in excess of par value	Retained earnings	Foreign currency translation adjustment	Total
Balance - January 31, 1995	2,297	$ 230	$ 539	$ 12,213	($ 256)	$ 12,726
Net income				2,740		2,740
Cash dividends ($.20 per share)				(458)		(458)
Purchase of Company stock	(5)		(4)	(101)		(105)
Foreign currency translation adjustment					(156)	(156)
Stock options exercised and other	1	(1)	10			9
Balance - January 31, 1996	2,293	229	545	14,394	(412)	14,756
Net income				3,056		3,056
Cash dividends ($.21 per share)				(481)		(481)
Purchase of Company stock	(8)		(7)	(201)		(208)
Foreign currency translation adjustment					12	12
Stock options exercised and other		(1)	9			8
Balance - January 31, 1997	2,285	228	547	16,768	(400)	17,143
Net income				3,526		3,526
Cash dividends ($.27 per share)				(611)		(611)
Purchase of Company stock	(47)	(5)	(48)	(1,516)		(1,569)
Foreign currency translation adjustment					(73)	(73)
Stock options exercised and other	3	1	86			87
Balance - January 31, 1998	2,241	$ 224	$ 585	$ 18,167	($ 473)	$ 18,503

See accompanying notes.

(Amounts in millions) Fiscal years ended January 31,	1998	1997	1996
Cash flows from operating activities			
Net Income	**$ 3,526**	$ 3,056	$ 2,740
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,634**	1,463	1,304
Increase in accounts receivable	**(78)**	(58)	(61)
(Increase)/decrease in inventories	**(365)**	99	(1,850)
Increase in accounts payable	**1,048**	1,208	448
Increase in accrued liabilities	**1,329**	430	29
Deferred income taxes	**20**	(180)	76
Other	**9**	(88)	(303)
Net cash provided by operating activities	**7,123**	5,930	2,383
Cash flows from investing activities			
Payments for property, plant and equipment	**(2,636)**	(2,643)	(3,566)
Proceeds from sale of photo finishing plants		464	
Acquisitions	**(1,865)**		
Other investing activities	**80**	111	234
Net cash used in investing activities	**(4,421)**	(2,068)	(3,332)
Cash flows from financing activities			
(Decrease)/increase in commercial paper		(2,458)	660
Proceeds from issuance of long-term debt	**547**		1,004
Net proceeds from formation of Real Estate Investment Trust (REIT)		632	
Purchase of Company stock	**(1,569)**	(208)	(105)
Dividends paid	**(611)**	(481)	(458)
Payment of long-term debt	**(554)**	(541)	(126)
Payment of capital lease obligations	**(94)**	(74)	(81)
Other financing activities	**143**	68	93
Net cash (used in)/provided by financing activities	**(2,138)**	(3,062)	987
Net increase in cash and cash equivalents	**564**	800	38
Cash and cash equivalents at beginning of year	**883**	83	45
Cash and cash equivalents at end of year	**$ 1,447**	$ 883	$ 83
Supplemental disclosure of cash flow information			
Income tax paid	**$ 1,971**	$ 1,791	$ 1,785
Interest paid	**796**	851	866
Capital lease obligations incurred	**309**	326	365
Investment in unconsolidated subsidiary exchanged in acquisition	**226**		

See accompanying notes.

1 Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of subsidiaries. Significant intercompany transactions have been eliminated in consolidation.

Cash and cash equivalents

The Company considers investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

The Company uses the retail last-in, first-out (LIFO) method for domestic Wal-Mart discount stores and Supercenters and cost LIFO for SAM'S Clubs. International inventories are on other cost methods. Inventories are not in excess of market value.

Pre-opening costs

Costs associated with the opening of stores are expensed during the first full month of operations. The costs are carried as prepaid expenses prior to the store opening. If the Company had expensed these costs as incurred, net income would have been reduced by $2 million, $9 million and $2 million in fiscal 1998, 1997 and 1996, respectively.

Interest during construction

In order that interest costs properly reflect only that portion relating to current operations, interest on borrowed funds during the construction of property, plant and equipment is capitalized. Interest costs capitalized were $33 million, $44 million and $50 million in 1998, 1997 and 1996, respectively.

Financial instruments

The Company uses derivative financial instruments for purposes other than trading to reduce its exposure to fluctuations in foreign currencies and to minimize the risk and cost associated with financial and global operating activities. Settlements of interest rate swaps are accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized. Contracts that effectively meet risk reduction and correlation criteria are recorded using hedge accounting. Hedges of firm commitments or anticipated transactions are deferred and recognized when the hedged transaction occurs.

Advertising costs

Advertising costs are expensed as incurred and were $292 million, $249 million and $219 million in 1998, 1997 and 1996, respectively.

Operating, selling and general and administrative expenses

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

Depreciation and amortization

Depreciation and amortization for financial statement purposes are provided on the straight-line method over the estimated useful lives of the various assets. For income tax purposes, accelerated methods are used with recognition of deferred income taxes for the resulting temporary differences. Estimated useful lives are as follows:

Building and improvements	5-33 years
Fixtures and equipment	5-12 years
Transportation equipment	2-5 years
Goodwill	20-40 years

Long-lived assets

In fiscal 1997, the Company adopted Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The statement requires entities to review long-lived assets and certain intangible assets in certain circumstances, and if the value of the assets is impaired, an impairment loss shall be recognized. Due to the Company's previous accounting policies, this pronouncement had no material effect on the Company's financial position or results of operations.

Comprehensive income

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components. The Company anticipates adopting this Statement in fiscal 1999. Since this Statement requires only additional disclosure, there will be no effect on the Company's results of operations or financial position.

Net income per share

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. Statement 128 replaces primary and fully dilutive earnings per share with basic and dilutive earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effect of options. Basic earnings per share for all periods presented are the same as previously reported. Basic net income per share is based on the weighted average outstanding common shares. Dilutive net income per share is based on the weighted average outstanding shares reduced by the effect of stock options.

The shares used in the computations for basic and dilutive net income per share are as follows (in millions):

	1998	1997	1996
Basic	2,258	2,292	2,296
Dilutive	2,267	2,296	2,299

Foreign currency translation

The assets and liabilities of most foreign subsidiaries are translated at current exchange rates and any related translation adjustments are recorded in Consolidated Shareholders' Equity. Operations in Brazil and Mexico operate in highly inflationary economies and certain assets are translated at historical exchange rates and all translation adjustments are reflected in the Consolidated Income Statements.

Estimates and assumptions

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

2 Commercial Paper and Long-term Debt

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

Fiscal years ended January 31,	**1998**	1997	1996
Maximum amount outstanding at month-end	**$ 1,530**	$ 2,209	$ 3,686
Average daily short-term borrowings	**212**	1,091	2,106
Weighted average interest rate	**5.6%**	5.3%	5.9%

At January 31, 1998 and 1997, there were no short-term borrowings outstanding. At January 31, 1998, the Company had committed lines of credit of $1,873 million with 77 banks and informal lines of credit with various banks totaling an additional $1,950 million, which were used to support short-term borrowings and commercial paper. Short-term borrowings under these lines of credit bear interest at or below the prime rate.

Long-term debt at January 31, consists of (amounts in millions):

		1998	1997
8.625%	Notes due April 2001	$ 750	$ 750
5.875%	Notes due October 2005	597	597
5.614%	Notes due February 2010 with biannual put options	500	–
7.500%	Notes due May 2004	500	500
9.100%	Notes due July 2000	500	500
6.125%	Notes due October 1999	500	500
7.800%-8.250%	Obligations from sale/leaseback transactions due 2014	458	466
6.500%	Notes due June 2003	454	454
7.250%	Notes due June 2013	445	445
7.000% - 8.000%	Obligations from sale/leaseback transactions due 2013	306	314
6.750%	Notes due May 2002	300	300
8.500%	Notes due September 2024	250	250
6.750%	Notes due October 2023	250	250
8.000%	Notes due September 2006	250	250
6.125%	Eurobond due November 2000	250	250
6.875%	Eurobond due June 1999	250	250
6.375%	Notes due March 2003	228	228
6.750%	Eurobond due May 2002	200	200
5.500%	Notes due March 1998	–	500
5.125%	Eurobond due October 1998	–	250
7.000%	Eurobond due April 1998	–	250
	Other	203	205
		$ 7,191	$ 7,709

In fiscal 1998, the Company borrowed $500 million due in 2010 with put options imbedded. Beginning in 2000, and every second year, thereafter until 2010, the holders of the debt may require the Company to repurchase the debt at face value.

Long-term debt is unsecured except for $202 million, which is collateralized by property with an aggregate carrying value of approximately $349 million. Annual maturities of long-term debt during the next five years are (in millions):

Fiscal year ending January 31,	Annual maturity
1999	$ 1,039
2000	815
2001	2,018
2002	52
2003	559
Thereafter	3,747

The Company has agreed to observe certain covenants under the terms of its note agreements, the most restrictive of which, relates to amounts of additional secured debt and long-term leases.

The Company has entered into sale/leaseback transactions involving buildings while retaining title to the undering land. These transactions were accounted for as financings and are included in long-term debt and the annual maturities schedules above. The resulting obligations are amortized over the lease terms. Future minimum lease payments for each of the five succeeding years, as of January 31, 1998, are (in millions):

Fiscal years ending January 31,	Minimum rentals
1999	$ 76
2000	104
2001	100
2002	94
2003	98
Thereafter	817

At January 31, 1998 and 1997, the Company had letters of credit outstanding totaling $673 million and $811 million, respectively. These letters of credit were issued primarily for the purchase of inventory.

Under shelf registration statements previously filed with the Securities and Exchange Commission, the Company may issue debt securities aggregating $251 million.

3 Financial Instruments:

Interest rate instruments

The Company enters into interest rate swaps to minimize the risks and costs associated with its financial activities. The swap agreements are contracts to exchange fixed or variable rates for floating interest rate payments periodically over the life of the instruments. The notional amounts are used to measure interest to be paid or received and do not represent the exposure to credit loss. The rates paid on these swaps range from 3-month Deutschmark LIBOR minus .0676% to 30-day Commercial Paper Non-Financial plus .134%. These instruments are not recorded on the balance sheet, and as of January 31, 1998 and 1997, are as follows:

January 31, 1998

Notional amount (in millions)	Maturity	Rate received	Fair value
$ 585	2006	6.97%	$17
$ 500	2000	5.65%	–
$ 1,101	2003	30-day commercial paper non-financial	($1)

January 31, 1997

Notional amount (in millions)	Maturity	Rate received
$ 630	2006	6.97%

Foreign exchange instruments

The Company has entered into a foreign currency swap to hedge its investment in Germany. Under the agreement, the Company will pay $1,960 million in German Deutschmarks in 2003 and will receive $1,101 million in United States Dollars. At January 31, 1998, the fair value of this swap was $30 million.

The Company enters routinely into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on inventory purchases denominated in foreign currencies. These contracts are for short durations (six months or less) and are insignificant to the Company's operations or financial position. (There were approximately $27 million outstanding at January 31, 1998.)

Fair value of financial instruments

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

Long-term debt: The fair value of the Company's long-term debt, including current maturities, approximates $8,639 million at January 31, 1998 and is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Interest rate instruments: The fair values are estimated amounts the Company would receive or pay to terminate the agreements as of the reporting dates.

Foreign currency contracts: The fair value of foreign currency contracts are estimated by obtaining quotes from brokers.

4 Defined Contribution Plans

The Company maintains profit sharing plans under which most full-time, and many part-time associates become participants following one year of employment. In fiscal 1998, the Company added 401(k) plans in which the same associates may elect to contribute up to 10% of their earnings.

The Company will make annual contributions to these plans on behalf of all eligible associates, including those who have not elected to contribute to the 401(k) plan.

Annual Company contributions are made at the sole discretion of the Company, and were $321 million, $247 million and $204 million in 1998, 1997 and 1996, respectively.

5 Income Taxes

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

	1998	1997	1996
Current			
Federal	**$ 1,891**	$ 1,769	$ 1,342
State and local	**186**	201	188
International	**18**	4	
Total current tax provision	**2,095**	1,974	1,530
Deferred			
Federal	**(5)**	(97)	119
State and local	**(2)**	(9)	15
International	**27**	(74)	(58)
Total deferred tax provision	**20**	(180)	76
Total provision for income taxes	**$ 2,115**	$ 1,794	$ 1,606

Items that give rise to significant portions of the deferred tax accounts at January 31, are as follows (in millions):

	1998	1997	1996
Deferred tax liabilities:			
Property, plant and equipment	**$ 797**	$ 721	$ 617
Inventory	**275**	145	135
International, principally asset basis differences	**387**	83	62
Other	**33**	45	19
Total deferred tax liabilities	**1,492**	994	833
Deferred tax assets:			
Amounts accrued for financial reporting purposes not yet deductible for tax purposes	**441**	295	204
International, asset basis and loss carryforwards	**258**	314	163
Capital leases	**190**	169	147
Deferred revenue	**89**	113	
Other	**108**	68	49
Total deferred tax assets	**1,086**	959	563
Net deferred tax liabilities	**$ 406**	$ 35	$ 270

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

	1998	1997	1996
Statutory tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**2.1%**	2.2%	3.1%
International	**(0.3%)**	(1.5%)	(1.0%)
Other	**0.2%**	1.1%	(0.3%)
	37.0%	36.8%	36.8%

6 Acquisitions

A merger of the Mexican joint venture companies owned by Wal-Mart Stores, Inc. and Cifra, S.A. de C.V. (Cifra) with, and into Cifra, was consummated with an effective merger date of September 1, 1997. The Company received voting shares of Cifra equaling approximately 33.5% of the outstanding voting shares of Cifra in exchange for the Company's joint venture interests having a net book value of approximately $644 million. No gain or loss was recognized on the exchange of the joint venture interest. The Company then acquired 593,100,000 shares of the Series "A" Common Shares and Series "B" Common Shares of Cifra, in a cash tender offer. The transaction has been accounted for as a purchase. The net assets and liabilities acquired are recorded at fair value. Resulting goodwill is being amortized over 40 years. As a result of the merger and tender offer, Wal-Mart holds approximately 51% of the outstanding voting shares of Cifra. The results of operations for Cifra, since the effective merger date, have been included in the Company's results.

In December 1997, the Company acquired the Wertkauf hypermarket chain in Germany, as well as certain real estate. The 21 hypermarkets are one-stop shopping centers that offer a broad assortment of high-quality general merchandise and food and are similar to the Wal-Mart Supercenter format in the United States. The transaction has been accounted for as a purchase. Net assets and liabilities of Wertkauf and the real estate are recorded at fair value. The goodwill is being amortized over 40 years. The transaction closed on December 30, 1997; therefore, the assets are included in the January 31, 1998 consolidated balance sheet and the results of operations will be included beginning in fiscal 1999.

In December 1997, the Company acquired the 40% minority interest in its Brazilian joint venture from Lojas Americanas, and then sold a 5% share to an individual. The purchase price of the minority interest approximated book value. Because the transaction closed on December 30, 1997, the results of operations for fiscal 1998 include the Company's original ownership percentage of the joint venture.

Pro forma results of operations are not presented due to the insignificant differences from historical results, both individually and in the aggregate.

The fair value of the assets and liabilities recorded as a result of these transactions is as follows (in millions):

Cash and cash equivalents	$ 500
Receivables	97
Inventories	266
Net property, plant and equipment	2,105
Goodwill	1,213
Accounts payable	(431)
Accrued liabilities	(132)
Deferred income taxes	(353)
Minority interest	(705)
Other	31
	2,591
Investment in unconsolidated Mexican subsidiary exchanged	(226)
Total cash purchase price	$ 2,365

7 Stock Option Plans

At January 31, 1998, 70 million shares of common stock were reserved for issuance under stock option plans. The options granted under the stock option plans expire ten years from the date of grant. Options granted prior to November 17, 1995, may be exercised in nine annual installments. Options granted on or after November 17, 1995, may be exercised in seven annual installments. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options because the alternative fair value accounting, provided under FASB Statement 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Pro forma information, regarding net income and income per share, is required by Statement 123 and has been determined as if the Company had accounted for its associate stock option plans under the fair value method of that statement. The fair value of these options was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumption ranges: risk-free interest rates between 7.2% and 5.6%, dividend yields between 0.7% and 1.0%, volatility factors between .23 and .27, and an expected life of the option of 7.4 years for the options issued prior to November 17, 1995 and 5.8 years for options issued thereafter.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferrable. In addition, option valuation methods require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's associate stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its associate stock options. Using the Black-Scholes option valuation model, the weighted average grant date value of options granted during the year ended January 31, 1998, was $13 per option.

The effect of applying the fair value method of Statement 123 to the Company's option plan does not result in net income and net income per share that are materially different from the amounts reported in the Company's consolidated financial statements as demonstrated below: (Amounts in millions except per share data)

	1998	1997	1996
Pro forma net income	$ 3,504	$ 3,042	$ 2,737
Pro forma earnings per share – basic	$ 1.55	$ 1.33	$ 1.19
Pro forma earnings per share – dilutive	$ 1.55	$ 1.32	$ 1.19

Further information concerning the options is as follows:

	Shares	Option price per share	Weighted average per share	Total
January 31, 1995	17,969,000	$ 2.78-30.62	$ 20.20	$ 362,981,000
Options granted	7,114,000	23.50-24.75	23.61	167,959,000
Options canceled	(1,953,000)	3.75-30.82	22.46	(43,873,000)
Options exercised	(1,101,000)	2.78-25.38	8.79	(9,678,000)
January 31, 1996	22,029,000	4.94-30.82	21.67	477,389,000
(5,011,000 shares exerciseable)				
Options granted	11,466,000	22.25-25.25	23.19	265,931,000
Options canceled	(2,110,000)	5.78-30.82	23.27	(49,109,000)
Options exercised	(999,000)	4.94-25.75	10.34	(10,327,000)
January 31, 1997	30,386,000	6.50-30.82	22.51	683,884,000
(6,448,000 shares exerciseable)				
Options granted	5,263,000	24.88-39.94	37.87	199,309,000
Options canceled	(1,802,000)	6.50-35.06	23.45	(42,251,000)
Options exercised	(3,519,000)	6.50-30.82	19.25	(67,729,000)
January 31, 1998	30,328,000	$ 7.19-39.94	$ 25.50	$ 773,213,000
(6,731,000 shares exerciseable)				

The weighted average remaining life of options outstanding as of January 31, 1998 was 7.5 years.

Shares available for option grants:

January 31, 1997	43,590,000
January 31, 1998	40,129,000

The following table summarizes information about stock options outstanding as of January 31, 1998.

Range of Exercise Prices	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options Exerciseable	Weighted Average Exercise Price
$ 7.19 to 10.66	1,593,000	1.8	$ 10.23	1,233,000	$ 10.13
13.25 to 17.69	898,000	2.9	14.44	550,000	14.46
20.00 to 24.88	17,998,000	8.0	23.29	3,000,000	23.32
25.00 to 29.75	4,513,000	5.4	27.25	1,887,000	27.62
30.82 to 39.94	5,326,000	9.8	37.89	61,000	30.82
	30,328,000			6,731,000	

8 Long-term Lease Obligations

The Company and certain of its subsidiaries have long-term leases for stores and equipment. Rentals (including, for certain leases, amounts applicable to taxes, insurance, maintenance, other operating expenses and contingent rentals) under all operating leases were $596 million, $561 million and $531 million in 1998, 1997 and 1996, respectively. Aggregate minimum annual rentals at January 31, 1998, under non-cancelable leases are as follows (in millions):

Fiscal year	Operating leases	Capital leases
1999	$ 404	$ 347
2000	384	345
2001	347	344
2002	332	343
2002	315	340
Thereafter	2,642	3,404
Total minimum rentals	$ 4,424	5,123
Less estimated executory costs		73
Net minimum lease payments		5,050
Less imputed interest at rates ranging from 6.1% to 14.0%		2,465
Present value of minimum lease payments		$ 2,585

Certain of the leases provide for contingent additional rentals based on percentage of sales. Such additional rentals amounted to $46 million, $51 million and $41 million in 1998, 1997 and 1996, respectively. Substantially all of the store leases have renewal options for additional terms from five to 25 years at comparable rentals.

The Company has entered into lease commitments for land and buildings for 38 future locations. These lease commitments with real estate developers provide for minimum rentals for 20 to 25 years, excluding renewal options, which if consummated based on current cost estimates, will approximate $38 million annually over the lease terms.

9 Segments

The Company and its subsidiaries are principally engaged in the operation of mass merchandising stores located in all 50 states, Argentina, Brazil, Canada, Germany, Mexico and Puerto Rico, and through joint ventures in China.

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," which the Company has adopted in the current year.

The Company identifies such segments based on management responsibility within the United States and geographically for all international units. The Wal-Mart Stores segment includes the Company's discount stores and Supercenters in the United States. The SAM'S Club segment includes the warehouse membership clubs in the United States. The Company's operations in Argentina, Brazil, Germany, Mexico and China are consolidated using a December fiscal year end, generally due to statutory reporting requirements. There were no significant intervening events which materially affected the financial statements. The Company measures segment profit as operating profit, which is defined as income before interest expense, income taxes and minority interest. Information on segments and a reconciliation to income, before income taxes and minority interest, are as follows (in millions):

Fiscal year ended January 31,1998

	Wal-Mart Stores	SAM'S Club	International	Other	Consolidated
Revenues from external customers	$ 83,820	$ 20,668	$ 7,517	$ 5,953	$ 117,958
Intercompany real estate charge (income)	1,375	349		(1,724)	
Depreciation and amortization	674	104	118	738	1,634
Operating income	5,833	616	262	(208)	6,503
Interest expense					784
Income before income taxes and minority interest					5,719
Total assets	$ 22,002	$ 3,864	$ 7,390	$ 12,128	$ 45,384

Fiscal year ended January 31,1997

	Wal-Mart Stores	SAM'S Club	International	Other	Consolidated
Revenues from external customers	$ 74,840	$ 19,785	$ 5,002	$ 5,232	$ 104,859
Intercompany real estate charge (income)	1,250	346		(1,596)	
Depreciation and amortization	628	99	70	666	1,463
Operating income	5,033	557	24	108	5,722
Interest expense					845
Income before income taxes and minority interest					4,877
Total assets	$ 20,905	$ 3,927	$ 2,887	$ 11,885	$ 39,604

Fiscal year ended January 31,1996

	Wal-Mart Stores	SAM'S Club	International	Other	Consolidated
Revenues from external customers	$ 66,271	$ 19,068	$ 3,712	$ 4,576	$ 93,627
Intercompany real estate charge (income)	1,075	339		(1,414)	
Depreciation and amortization	561	95	52	596	1,304
Operating income	4,562	480	(16)	221	5,247
Interest expense					888
Income before income taxes and minority interest					4,359
Total assets	$ 19,292	$ 3,875	$ 2,305	$ 12,069	$ 37,541

International long-lived assets excluding goodwill are $3,537 million, $1,199 million and $952 million in 1998, 1997 and 1996, respectively. Additions to international long-lived assets are $2,401 million, $317 million and $747 million in 1998, 1997 and 1996, respectively. The international segment includes all international real estate. All of the real estate in the United States is included in the "Other" category and is leased to Wal-Mart Stores and SAM'S Club. The revenues in the "other" category result from sales to third parties by McLane Company, Inc., a wholesale distributor.

McLane offers a wide variety of grocery and non-grocery products, which it sells to a variety of retailers including the Company's Wal-Mart Stores and SAM'S Club. McLane is not a significant segment and, therefore, results are not presented separately.

10 Quarterly Financial Data (unaudited)

	Quarters ended			
Amounts in millions (except per share information)	April 30,	July 31,	October 31,	January 31,
1998				
Net sales	$ 25,409	$ 28,386	$ 28,777	$ 35,386
Cost of sales	20,127	22,478	22,680	28,153
Net income	652	795	792	1,287
Net income per share, basic and dilutive	$.29	$.35	$.35	$.57
1997				
Net sales	$ 22,772	$ 25,587	$ 25,644	$ 30,856
Cost of sales	18,032	20,336	20,416	24,726
Net income	571	706	684	1,095
Net income per share, basic and dilutive	$.25	$.31	$.30	$.48

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Wal-Mart Stores, Inc. and Subsidiaries as of January 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wal-Mart Stores, Inc. and Subsidiaries at January 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Tulsa, Oklahoma
March 24, 1998

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements and information of Wal-Mart Stores, Inc. and Subsidiaries presented in this Report have been prepared by management which has responsibility for their integrity and objectivity. These financial statements have been prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments based upon currently available information and management's view of current conditions and circumstances.

Management has developed and maintains a system of accounting and controls, including an extensive internal audit program, designed to provide reasonable assurance that the Company's assets are protected from improper use and that accounting records provide a reliable basis for the preparation of financial statements. This system is continually reviewed, improved and modified in response to changing business conditions and operations, and to recommendations made by the independent auditors and the internal auditors. Management believes that the accounting and control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

The Company has adopted a Statement of Ethics to guide our management in the continued observance of high ethical standards of honesty, integrity and fairness in the conduct of the business and in accordance with the law. Compliance with the guidelines and standards is periodically reviewed and is acknowledged, in writing, by all management associates.

The Board of Directors, through the activities of its Audit Committee consisting solely of outside Directors, participates in the process of reporting financial information. The duties of the Committee include keeping informed of the financial condition of the Company and reviewing its financial policies and procedures, its internal accounting controls and the objectivity of its financial reporting. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee and meet with the Committee periodically, with and without management present.

John Menzer

John B. Menzer
Executive Vice President and Chief Financial Officer

Registrar and Transfer Agent:
1st Chicago Trust Company of New York
P.O. Box 2540
Jersey City, NJ 07303-2540
1-800-438-6278 (GET-MART)

TDD for hearing impaired: 1-202-222-4955

Internet: http://www.fctc.com

* **Dividend Reinvestment and Stock Purchase**

Listings- Stock Symbol: WMT
New York Stock Exchange
Pacific Stock Exchange

Annual Meeting:
Our Annual Meeting of Shareholders will be held on Friday, June 5, 1998, at 7:30 a.m. in Bud Walton Arena on the University of Arkansas campus, Fayetteville, Arkansas.

Independent Auditors:
Ernst & Young LLP
3900 One Williams Center
Tulsa, Oklahoma 74172

Corporate Address:
Wal-Mart Stores, Inc.
Bentonville, AR 72716-8611
Telephone: 501-273-4000

Internet: http://www.wal-mart.com

10-K and Other Reports:
The following reports are available upon request by writing the company or by calling 501-273-8446.

Annual Report on Form 10-K*
Quarterly Financial Information*
Current Press Releases*
Diversity Programs Report
Copy of Proxy Statement

* These reports are also available via fax.

Market Price of Common Stock

	Fiscal years ended January 31,			
	1998		1997	
Quarter Ended	Hi	Low	Hi	Low
April 30	$29.88	$23.13	$24.50	$20.88
July 31	$38.56	$28.25	$26.25	$22.88
October 31	$38.75	$32.19	$28.13	$24.50
January 31	$41.75	$36.06	$27.00	$22.13

Dividends Paid Per Share

Fiscal years ended January 31, Quarterly			
1998		1997	
April 9	$0.0675	April 8	$0.0525
July 14	$0.0675	July 8	$0.0525
October 14	$0.0675	October 7	$0.0525
January 12	$0.0675	January 17	$0.0525

Trustees

5 1/2 %, 5.65, 5 7/8%, 6 1/8%, 6 3/8%, 6 1/2%, 6 3/4%, 7 1/4%, 7 1/4%, 8%, 8 1/2%, 8 5/8% Notes, and $107,000,000 of the Mortgage Notes:
First National Bank
of Chicago
One First National Plaza
Suite 126
Chicago, Illinois 60670

9 1/10% Notes:
Harris Trust and Savings
Bank
111 West Monroe Street
Chicago, Illinois 60690

Obligations from Sale/Leaseback Transaction (Wal-Mart Retail Trust I, II, III):
State Street Bank & Trust
Company of Connecticut
750 Main Street
Suite 1114
Hartford, Connecticut 06103

5 1/8% Eurobonds:
Royal Bank of Canada
71 Queen Victoria Street
London, England EC4V4DE
United Kingdom

6 1/8%, 6 3/4%, 6 7/8%, 7% Eurobonds:
First National Bank
of Chicago
First Chicago House
90 Long Acre
London, England WC2E9RB
United Kingdom

Participating Mortgage Certificates I & II:
Bank of New York
Attn: Corp. Trust Administrator
101 Barclay Street
New York, New York 10286

Pass Through Certificates 1992-A-1-7.49%
First Security Bank
of Utah, N.A.
Corporate Trust Department
79 South Main Street
P.O. Box 30007
Salt Lake City, Utah 84130

Pass Through Certificates 1992-A-2-8.07%
First Security Bank
of Idaho, N.A.
1119 North 9th Street
Boise, Idaho 83701

Pass Through Certificates 1994-A-1-8.57% 1994-A-1-8.85% 1994-B-1-8.45% 1994-B-2-8.62%
First National Bank
of Chicago
One First National Plaza
Suite 126
Chicago, Illinois 60670