FINAL TRANSCRIPT

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PRESENTATION

Bob Drbul - *Lehman Brothers - Analyst*

My name is Bob Drbul, thanks for coming. We're very excited about our upcoming keynote luncheon speaker. We have Eduardo Castro-Wright, President and CEO of the Wal-Mart U.S. business. We're going to lead into the Wal-Mart presentation today. If you all missed it this morning, Wal-Mart had an announcement out with their plan on the rebate initiative that they have underway where they are going to institute free check cashing for the tax rebate checks that are coming down and there is a press release around that and I assume that will be covered in Eduardo's presentation.

But it really gives me a great pleasure to introduce our keynote speaker, Eduardo Castro-Wright. I really don't think he needs an introduction. So I'm going to cut it short, but Eduardo, President and CEO of the Wal-Mart U.S. division and the U.S. business and from our perspective on the research side at Lehman Brothers, we're very encouraged by what we're seeing happen within the Wal-Mart story and around apparel, around the overall business, especially in this environment. And we've been encouraged by the margin expansion story that is out there and still exists at Wal-Mart and we obviously -- we believe they are just getting started. So with that, I'd like to turn it over to Eduardo Castro-Wright. Thank you, everybody, for coming today.

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

Thank you, Bob. Thanks a lot, I appreciate it. Good afternoon and enjoy your lunch. I will give my presentation from here so please don't get distracted, and hope I don't cause any disruptions to your lunch. What I would like to do today is I would like to first, start with the convention, which is the lawyers tell me that if I don't show this I'll get fired. So, I like my job, so I won't get fired.

As you know, I will be making forward-looking statements and therefore, I invite you to please go to our online site and check out the statement there and I've put it up there so you can read it.

Let me start with something that I feel that is very important and provides context to what I'm going to talk about today. First of all, I spent the past couple of hours and this morning and also last night meeting with a lot of investors and so I've gotten a lot of questions and I think from those questions I can model the presentation today to be a lot more responsive. And I'll try to do that and I'm sure when you have your questions you'll remind me about it.

First thing I would like to say is that we are very well positioned. Wal-Mart is very well positioned. Not only to take advantage of the current economic environment, and I will provide you hopefully with plenty of details on why I believe that we are precisely well positioned to take advantage of this environment. But more importantly, I am really excited about the changes that we have implemented and the fact that I believe that we are even better positioned to take advantage of growth when the economy turns around.

And as you all know, the economy will turn around, although in the short-term I will provide you also plenty of information that from a consumer point of view, from proprietary research that we conduct every month, we have gathered around how do customers feel out there; the consumer in general and hopefully that will enhance the presentation and the understanding of what we see out there.

So many people have asked about, so how is the plan coming about? How is it being executed? We shared with you back over three years ago now, what we called the plan, the roadmap for growth and for receiving return on investments. That roadmap has a cadence of programs that we have been executing against.

What I can tell you is that I feel very good about where we are today. The execution of this plan is having meaningful impact on the business. And, quite honestly, I believe that that is the first reason why I said what I said before that I feel very strongly that we are in a very good place today to take advantage of, not only the current situation, but longer-term.

The second reason that I feel very strongly about it is that we have now in place, and it seems suddenly the most difficult of all those initiatives, and that's referred to we have not replaced [as yet] the management team to be able to actually bring this entire program to life. And it, like you would expect, people make the difference and in this case having brought in the powers that was brought into the whole demonstration in the last two years provides me with the comfort that those things that we have put on paper are being executed out in the marketplace. And hopefully, you will see plenty of reasons to believe that statement.

The third reason that I would add that I feel very good about is that we have recently implemented a new management structure, where, as you know we announced a little earlier this year, where we have aligned several of the functions around the Wal-Mart U.S. business in a way that now, for example logistics is part of the Chief Operating Officer's responsibility.

So Bill Simon will see everything from the supplier forward throughout all the supply chain through the checkouts. And he has responsibility for that, he and his team. And that provides a much better opportunity for alignment. The same thing as it relates to real estate; for example, where real estate now is also part of the division, and therefore, the decisions in terms of factor allocation are still realigned with the strategies that you will see in place.

This, I am very pleased about, obviously. While we talked to you six months ago, this last six months ago when we had our analyst conference, it was two days after six days -- six months ago. I don't know where this has done today through Friday, but as you can imagine, we are very pleased with the direction that's taken.

Now, I've got a lot of questions today relative to do you believe that this is just because we are the price [meter] and therefore, we are taking advantage of the current economic situation. And, I'm not going to say that that has not played a factor or at least a factor in this, but I would like to think that fundamentally the business is a lot more stronger than it was six months ago. Back then many of you were kind enough to let us know that you felt that what we shared with you in that presentation made sense and it seems like the marketplace believes that it makes sense and it shows in the self performance.

Let's start with comps first. If you think about our underlying business and our underlying business as being there's going to be continuous trend upward of comps, and I feel that give or take some basis points, the business is performing at or around the 2% comp level, 1.5% to 2% comp level. That, the underlying performance of the business, I call your attention to our earnings, our sales release, I'm sorry, in March where we increased a bit our guidance for this month of April. And so, it is at that level.

Now, many of you have said that 2%, 1.5% to 2% is certainly not enough and I would fully agree with you and certainly that is not our long-term plan. If you said that, don't forget that environment we're in, and I'm going to show you where we are relative to the rest of the market. Because I think that in relative terms, you will see that we are outperforming, in five of our six businesses, we're outperforming the market.

And that is a statement of strength that goes way beyond that 1.5% to 2% that you see the total from. As to the leading competitor in each one of those segments, and it's the latest reported quarter comps for those competitors and we have adjusted our comps to match their calendar. So it's apples to apples, exactly the same information and it's as reported by them. Not discounts, significant outperforming the competition. Health and wellness; double digit comps. If you look at the grocery box, and the grocery box I know that many of our very good competitors are doing well, but we are doing a little bit better than the top one. So, we feel very good about it.

Entertainment; that's been a major focus for us, entertainment in this case particularly as it relates to consumer electronics, and so consumer electronics if you take the best in class competitor; we outgrew them by 6 to 1 in the last quarter. That's a [cool] statement of customers actually heading [broad] into the strategy that I shared with you last time that talked about copying from the success that we have in selling brand store west in the rest of the store and bringing that into the environment of categories where we believe that brands matter and this is an example of the execution of that strategy, which combined with improvements in store execution; both as it relates to improvements and remodels that we did in electronics two years ago, and also the fact that we have improved the service levels and changed the structure to actually take advantage of that has resulted in a very meaningful growth.

And even apparel; I know that you've been feeling about how bad apparel has been for us and all that. Well, it's starting to turn around. If you look at, again, the leading competitor in apparel and compare their quarter performance with our quarter performance, we did a little better. Home is a work in a progress. Home is probably the one, where because of the macroeconomic environment and the difficulty to implement some of the changes that we have in place as we relate to bringing brands into that space is probably the one that you will see lagging the rest for a while, both from the macroeconomic point of view, but also from the internal ability to execute the same strategy across that space.

Let me share some information on consumers because I think that just to satisfy the questions that I have added and you, probably what you are thinking. I would like to confirm some of the things that you have been hearing that I will provide you with factual data that actually reaffirms that. Let me start with credit. It's interesting because if you think about what has happened with credit, business; the percent of credit growth as a component of the total forms of payment within Wal-Mart. Okay?

So, you saw -- this is total credit, it's not just our card, it's total credit. And if you see what was happening, this is our fiscal year, so this would reflect November 2006 to January 2007 would be the first quarter. And you saw that credit as a percent of the total component of forms of payment was growing. It grew again in the period of February through April of 2007, and then with the mortgage crisis with the issues that you have seen; credit has siphoned as you would have expected.

And credit, as a component of the total forms of payment has accelerated in it's decline. People don't have as much active credit as they used too. And clearly, that is having an impact on how consumers behave. Particularly as it relates to that they can stand as it relates to discretionary merchandise; things that they don't absolutely need, things that they want, but without credit they feel much more difficult to buy.

I was impressed and actually, surprised is a better word, when I saw these numbers. Because if you think about it in the fourth quarter most everybody had interest free credit, including us. So this is not only that people have decided that they can't spend more, because interest free wouldn't have cost them anything; they have gone beyond their ability to actually get any more credit. They have topped out. And therefore, even during the holiday season, where you would see dramatic increases in credit, as we saw for example the prior year; we didn't see it this year.

Let me just say the other one, it's also very important because it reaffirms something that some of you have been writing about and, fortunately for us we are the recipient of this benefit. If you take the stores that, as we segment stores, I've share this with you in the past and we have a process in place or we have the full market research redefining the segments within our stores.

So we have now multiple segments and those segments reflect demographics, [text graphic] lifestyle. And based on that, we're assorting the stores. Now, that's work in progress, it's going to take a lot longer than a few months to implement it completely. But the stores have already been segmented, so I know that stores that have -- are in the segment that we call affluent segment;

and it's hundreds of stores that are in that are in that segment. Remember that is the segment that would have household incomes of anywhere between, above $65,000 or $75,000. So, above that level. All those stores are in this segment.

So we went out and checked, can I validate what I'm hearing from the market, because of this trickle down effect? So are people actually that are more affluent coming down to Wal-Mart because of our great prices and because we save people money so they can live better? That applies the same to anyone here in this room as well as our core business customers. And sure enough, in February and then in March, we're seeing an acceleration of that; where the stores that have traded as affluent have seen their traffic increase in February [69] basis points of this comparing with the average of the chain. And in March, 221 basis points.

So think about it. If we march with flat in traffic, that means that affluent stores grew traffic 2.2%, like that. So we are capturing our customers from the more affluent segments. They are shopping at Wal-Mart because they find the shopping experience combined with prices that they like.

Let me share one more thing; why I believe that that is the thing. Well, because price today matters even more than before. And I can, again, refer back to information that we got from our survey. We survey every month anywhere between 500,000 and 1 million customers. That's one of the most robust, reliable surveys that you're going to find anywhere in the industry.

Those customers tell us a lot of things about not only what they think about the stores where they shop, they tell us also a lot about how they feel about their lives and the conditions that they see out there. If you take the yellow bars there that's 2007. You see 2008, customers that more than almost doubled, the importance that they give to price year-over-year. It went from 19%, including that with the top concern to 37% last month. That is very telling in terms of what customers think about is price important or not.

Things like, for example smart choice, which would be; I'm smart because I shop in XYZ place. I think they're smart if they save money, but that's another discussion. Then, that has dropped dramatically year-over-year. So, I like to feel smart, but if I'm not going to save money, I might shop at Wal-Mart. So, I think it's smart to shop at Wal-Mart at the end of the day and I think that's what customers are telling us.

We are very well positioned, very well positioned. And I go through this chart in detail as we move forward in this presentation. We're very well positioned because, first of all, we have credibility in price leadership. That's not something you build overnight. [Perhaps] you build in over 30 years that we have been the price leaders in the marketplace. I will show you some people that like price dots in the marketplace and the data I show you later on will reaffirm that.

Price dots, depending on what channel, might go from anywhere from a few single digit points to 20-some percentage points, depending on the category and the type of competitor. The fact of the matter is that perception is different. And if you look at perception today, perception on our latest survey; when customers were asked whose got the lowest prices in the market of South America, three out of every four mention Wal-Mart first.

Now the second one that they mentioned, and I'm not going to say who it is, was single digits. So now you have to think whose got credibility in price leadership. Three-fourths or single digits. You don't build that overnight, it takes 40 years to build the position like the one that we have in price.

[Types] of offering, you're going to see a lot of what we've done. We're fortunate to have a great talent in merchandising, we've brought in first of all, [John Fleming], that I believe is one of the best merchants in world industry today and he's brought in a lot of talent. Each one of the business units, and I go on and be happy to share with you the people that we've brought in but I'm really, really fortunate to have a fantastic team in merchandising and therefore, the fact of the matter is that is having an impact on the clarity of our offering. And customers will tell you that.

We're focusing on growth categories, and I'll go through that in a little more detail. We have improved the customer experience. Our stores are faster, are friendlier, and are cleaner today. Easy for me to say, but the fact is that the survey that we conduct with up to 1 million customers per month tells us that we have made significant improvements in those dimensions. They feel much better about how we check them out, for example. The last numbers I've seen, check out times year-over-year are 33% lower, so we check out 33% faster at Wal-Mart today than you did over a year ago.

Brand communication; I feel very proud about where we are -- save money, live better. The beauty of save money, live better is not that it's a fantastic tagline, it is that is the way [world] lives. It's what we do. We then, it's a way that the organization executes. It's a way that customers think about, so it is something that our Company said that management goes to an offsite so define what is their mission and after several consultants they end up with a long list of how you're then going to bring that down and trickle it down in your demonstration.

For Wal-Mart it's very simple; we save people money so they can look better. It's credible, it's impactful, people believe in it. Our organization believes in it, and customers give us credit for it. So I feel that our brand communication today is the one that is very powerful and we feel very good about it.

Let me show you some of the things that we've done. In terms of price leadership -- by the way this is the new stores that we're opening with a much more colorful hues and much warmer in that sense. The thing that you have there is you cannot only see prices. Our price [signs] are outstanding, they are visible, but more important, they are very meaningful. These are not signs, these are real great prices.

Price leadership, as in the $4 prescription program. We have changed the dynamics of the industry. And anyone that thinks that this has not done that, shall we refer them back to the market share information that I shared with you before where it showed that our comps in pharmacy were double digit in the last quarter. And that, clearly, reflects the customers give us credibility.

Price, these are the price flags versus leading competitors in different parts of the country from the West where we don't have stores in California, and some unfortunately have to pay higher prices in [food] to more competitive environments where we have been for a long time, like the Southwest.

But overall, you are seeing significant price spreads, and again there is a very robust system to an outside vendor that checks prices every month on 1,200 to 15,000 items, every single month against every single competitor. So, we can stand by this.

And for those of you that might have some questions, we offer a nice NBC newscast a few weeks ago; we have no relationship with NBC by the way, they in one of the major cities in the U.S., in Detroit I believe it was; they went out and searched for different prices in the different outlets and they came back with basket and determined how much customers were paying across each different channel. And they determined that against the best of class in that market, Wal-Mart's basket was over 20% cheaper. That's the best in class. And we didn't do it, someone else did it and it was very good.

The focus on brands, brands for less, again, back to what I said before. The fact that we have very successful in position ourselves as a house of brands, we believe in this, some people have asked me why do I see the realm of private labels in all the scheme of things. And I insist, we can drive significant savings for customers on the brands that they trust, and therefore, for us private labels, while important it is not the core of our strategy. Our core strategy clearly is we sell brands for less. We're fortunate that people trust brands, and therefore we believe we're in a very good position there.

You had some questions in terms of the stimulus plan and what we're doing about it. You will see in the next few weeks announcements covering in much more detail. In general terms, what you can expect; first, free cashing of checks. So, different from some other places where you have to put your money somewhere, we don't. If you want to cash your check at Wal-Mart and go spend it at a competitors, that's fine with us, that's fine. We're hopeful that they will see our prices and they will decide to stay with us, but if someone wants to do that, that's fine. We'll cash checks for free.

Rollback, that's what we stand to, so we will just enhance our rollback program and you will see that coming throughout the summer. But with that is we already had a very robust Summer program in place. And when the decision by Congress and the government loves to introduce this stimulus package, what we did is we went back and say how do we put this on top of what you already have? Because we had already very robust on the program in place. I'll show you something on that.

And the difficult things, there are a couple of places in the store where we're going to dedicate the action alleys to stock bases of products with great prices. Products that help the average American meet their needs, look better, and so very relevant prices that we have, we'll find and we'll indicate that part of that promotional activity and we'll have that starting today from stores through July 11th.

Turning to the commercial and this is what is going to start running. This is one of many execution spots. Can you put that commercial?

(VIDEO PLAYING)

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

This is one of many executions that we are bringing to the market during the summer and that have a clear connotation of summer, but also the fact that you will save money and enjoy the summer. The nice thing about that is also that we will, by doing that, we're trying to make people feel so better. Not everyone should be depressed because of this situation and we'll bring prices down so you can have a reasonably successful and happy summer with your family.

This is a major transformation that we have embarked on. This is something that will take time. It has initiated some of the initial results as they relate to electronics in a barrel are very promising as you saw from the results. It's a different way of looking at how you have sold your stores. It's a the brainchild of John Fleming, so he is redefined so what is the role with each category within a portfolio and then the breadth of assortment that we have over at Wal-Mart.

And the reason that we are working on this is we have defined this category, we've said every business will fit in one of this, and we're now taking it down of the department level with [fires]. So, we're going to win in certain categories, we're going to play certain categories and we're going to show certain categories. Now, what categories are we going to win in? Categories that we are going to win are categories where there are significant market growth, where scale matters, so where we can leverage our scale and where we have credibility.

We have credibility, for example, because people feel that price is important in that category. Or we have credibility because convenience and location is important. So, what one of the reasons why we have credibility, category has scale, or scale matters and is a fast growing category, we're going to win.

Examples of that would be consumer electronics. Clearly, it's a growth category. Scale matters, let me tell you that scale matters. The reason we have outpaced the competition in growth is because we have been able to make scale matter. And we now have credibility because we sell brands that the customers trust at great prices.

Take the category, for example, play. And I'm making a generalization. Inside each one of the big businesses you have categories where we're going to play or not, right? In electronics, music and video, you know media is a declining category, even though it's in a big entertainment area, it's not something that we would call a win category right, because it's not growing.

[Sixth] place, same concept; it might not be a category with significant growth, average growth. But scale again matters. And in some cases we have credibility, in some cases we have to build the credibility. But we have defined those categories where we will play.

Playing the category means that you're assortment as opposed to winning, which is breadth of assortment that makes up the player in this category, this is one with the breadth of assortment would be more limited and less show. We're going to show some categories, and when you show categories, we're going to show only the breadth of assortments to be a participant in the marketplace to have the products available for our customers, but we won't be major [pact] through that.

This is driven, a change in the way that we approach each one of the different categories or segments. This has been an example of a grocery program, I'm just going to go through those. This is, for example, the category where we have said we are going to win in apparel. But no, we're not going to win across the board. We're not going to win in fashion, but we will be the apparel retailer for anything that is basic. So, winning in this [pattern], casual active, within the broader apparel category, it's a statement of where we're going today.

The drive of offering to engage the customer in electronics for example. That's how we're latest in electronics departments; that's how we're building them today. The first one that we did was in north Little Rock and will be much like everything else; just got to plan the three-year plan to reconvert a lot of the stores and the new stores, obviously, have been built with this in mind.

But again, it's how do you engage the customer in category that has growth potential like this one and where building credibility requires to provide the customer with reassurances that you have the authority to actually win there. And I believe we've done it; I think that the customer today believes that we are a player and again, I refer back everyone to the result that we have a way to achieve.

Fresh; fresh is a growth area. The fact that you've got a lot of people that we all ask consumers that are looking for healthier ways of life. Fresh is a statement of quality, it is important for us. Fresh is one where we will win in this category and we are redefining the stores to be able to that business again, one of our newer stores.

Entertainment. So how is this playing out? I think it's working well. It's just, again, the last quarter comps provided by a leading competitor and us on their calendar so it's pretty apples to apples. And as you can see, at least in two of the categories within that large business, we have grown faster. And in everything else, we have kept pace with the growth of the overall industry. So, we feel that our strategies here are working extremely well.

Again, apparel. Some people have asked me are you reintroducing fashion? [OP, LEI, Norma Canali], what is this about? No. Actually all of those stayed within that express for less, which means that we will sell them under $10 most of them, and some of the products under $20. But it is the statement of letting people have what they want at Wal-Mart prices.

So there is no conflict here in terms of what we are doing. We're not launching dresses for within the normal Canali brand. We're just launching t-shirts, shorts, capris, blouses, things that actually consumers need for their everyday needs. Where we have the right to play and we have the right to win.

Grocery. Within grocery not everything was created equal. There are categories where we have defined because of the growth profile of the category, then we're going to invest more. Pets is one. Pets, we've been growing a double-digit and in some categories there pets is a big investment for us. We are redefining the space, reallocated the adjacencies in this store, so if, for example, you have pets.

On the back side of the store, as you come in from the grocery side, so from the grocery box to the side, right in front of babies. So we are actually reflecting the way that customers today shop in the store and we feel very good about that.

Seasonal. Wal-Mart has been traditionally been a major player in seasonal. Seasonal categories for us when it comes to Halloween or Christmas or Mother's Day or whatever seasonal event. We have a disproportionate share of the market. They're growing categories, so they are a perfect example of ones who are you have, again, the credibility, you have the scale matters and categories that are growing and therefore you want to win.

You're going to see a lot of that that we've done extremely well since back-to-school last year. Every single one of our seasonal events has been a big, big winner, including all these little facts that we have outside and outstanding booths during Christmas. And in spite of the fact that it was a compressed season, we did extremely well in Easter.

[In that] they are growth categories. There are categories within Home that we feel that we have the right to play, but by integrating the online channel. Our site-to-store program has been incredibly successful. It's doubled the size of our online business in one year. This product line cannot [be easily] most recently introduced. I have put a couple of the quotes from customers, we have a rating system that we've put in place. As you go in you'll see a lot of five stars here.

Customers love the product, they really like the ease of shopping where you choose the product online, they pick it up in the store. With that, they obviously avoid the cost of shipping and they can enjoy real quality merchandise. This product line mostly available online, a little bit in stores. In stores, actually available in everything including a little bit of furniture, but mostly in domestics, your bedding and that kind of merchandise.

I think I've colored enough about the merchandise in sight. What's happening with the customer? We're very pleased with the results. Fast, cleaner, friendlier stores. The fast one, obviously, we're first to the checkout time; that's the one where we've made the most impact, that's the one that we told you that we were investing in systems over a year ago. That is fully implemented and we have seen significant improvement in checkout scores.

The clean and friendly one are programs that have come at a later stage. We're already seeing a lot of traction on both of those. What else will you see? You'll see a lot of new programs implemented in the next 24 months, all part of that regional plan that we shared with you. Initiatives to drive productivity in the stores are initiatives. Some of them are being piloted, some of them are under the signs.

All of them will be implemented within the next 24 months and that's in addition to some far-reaching initiatives that combine with our supply chain and we'll share more of that as we execute them in stores. A different way of looking at supply chain, and we've got some of our supply partners working with us on that.

Brand communication, I think that a lot of you have seen what we've done with sustainability. We, obviously, are incredibly focused on helping the environment because it is good for business, it is good for the planet.

(inaudible) this is an example of how we're integrating a program across all different media. And I've seen in New York overseeing last week meeting supplies and I saw that there's lots of retailers that are now green and they have green programs in the stores, and I am so happy to see that because it seems that Wal-Mart's leadership is having an impact.

The beauty of what we do, however, is that we're not green only in April. Actually, we are green in May, in June, in July and August and throughout the year. High commitment to sustainability second to none and it's one that has changed, I believe, in many ways the perception that some of the public has relative to Wal-Mart.

Let me show you the commercial that was to air throughout this month. Could you play the commercial please?

(VIDEO PLAYING)

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

Hopefully you agree with us that it's not only good for the environment, it's truly good for business too because all of those products actually have seen growth rates of triple digit numbers throughout this month. So, obviously it pays to be green.

Let me tell you a great story in terms of the return of investment part of our story. We shared with you our new capital efficiency model. The impact of the capital efficiency model as the one that we described is one that will take time, because it requires to deal stores, smaller stores, it requires that we build our stores in places where we don't have a good presence so that we reduce impact. It takes time.

We share with you that the program started last year and because of the lead time to bring a store to a marketplace it's an ongoing program. I'm very pleased with the reductions in capital expenditures that that new capital efficiency model has driven and that's certainly felt in our returns today.

But short-term, the best way to actually drive returns is how you manage your inventory. As you all know in retail, if you have leaner inventories, you get lower markdowns, you've got lower shrinkage, you leverage expenses, your customer sees a clear message with merchandise that's [tries] to bring higher sales or lower it, it's a win-win for everyone. We believe in it, we're passionate about how we drive inventory. We continue to drive inventory down and we have continued to say that we will grow inventories at half of the rate of the growth of sales at a very minimum.

And, as you know, inventories are beautiful because when you have lean inventories and clean inventory, markdowns decline. So, if you look at what drove our gross margin in the last two quarters, you've got a good example of what happened with [Marta Greer]. I think it's a good story and obviously margin improved to give a report that our gross margins increased 53 basis points in the fourth quarter, they were driven obviously by markdowns net of the investments that we made in [tried].

I'll finish with cash flow. Now this is the free cash flow chart that is for Wal-Mart Stores Inc., not the Wal-Mart Stores U.S. We're considered a little bit good, but the fact of the matter is if you look at this and you think of free cash flow, which by the way we're very focused on, we think that cash is king. And we believe that the flexibility that it provides us is something that will help us make that big difference in coming years. Operating income, if you look at operating income growing at faster than sales, we are in the third, fourth quarter.

Operating income growing faster than property type and equipment? No. Because as I said, the transitions to a more capital efficiency model takes a little time. But clearly, we'll get there. We will get to the point where operating income, and it's -- I won't give you dates, but we're working towards that. Payables growing faster than inventories, also was the case. Inventories growing to half the sales of [weight]. So the Wal-Mart U.S. business would have been green because as I just shared with you there are inventory charges, you saw that inventory is still growing at lower than half the rate of sales. And corporate expenses growing slower than the growth of sales is also green.

I think this is a very positive story. I am concerned about the current market environment. I don't want to be naive and tell you that everything is pretty, but I believe that we are very well positioned to take advantage of the current market environment, but more importantly, to take advantage of the growth when the economy turns. Thank you so much. So my strategy worked? I have no questions?

QUESTIONS AND ANSWERS

Bob Drbul - *Lehman Brothers - Analyst*

Eduardo, thanks for the presentation. Two quick questions. One, I'm curious, your apparel trend has improved, at least your language about the apparel trend has improved. Just wondering if you look at apparel sales relative to your overall classic level, how that spread has gone, because there are a lot of things going on there in terms of the macro and your consumer and your merchandising. So how does that spread look, sales relative to overall traffic?

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

You really have to look at relative the marketplace. Because the traffic is not a good indicator simply put because people are not buying anything that is discretionary. So, I think that the [proxy] for performance there is relative to the market, and that's the way that we're measuring it.

As you saw, comps for apparel when you break them down were still negative, as compared with the comps in the rest. That is not being driven by ticket. That's mostly been driven by people not being able to purchase apparel or not willing too because of their discretionary quality of that. I think it's much more relevant to look at it relative to the marketplace.

Bob Drbul - *Lehman Brothers - Analyst*

Okay, fair. And then the second question; an area that you've continued to surprise on the off side is their productivity or your ability to leverage expenses on a very modest sales level. So how much more time do you have where you can leverage in a 1%, 2% comp environment?

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

If you look at the underlying business we actually execute a lot of initiatives that I shared with you, you will see the ability to leverage expenses way beyond where we are today. If nothing would change I would think that you've hit a stage where you can't leverage expenses. But, given the fact that we are investing heavily in systems and processes that will change the way that we conduct our business, I think that we've got a lot of runway ahead of us before we hit that barrier. Yes. I don't know what innings, but certainly not in the ninth.

Bob Drbul - *Lehman Brothers - Analyst*

Questions?

Unidentified Participant

Just a question on interpreting some of the data. The slide that you showed earlier that showed that there was a huge spike in customer spending in the more affluent stores, or those regions catering to that --

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Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

Let me correct you, I'm sorry, not spending, shopping.

Unidentified Participant

Okay. How do you interpret that? Does that mean that the economy is deteriorating and therefore that customer is trading down because they are more concerned or is that customer incrementally buying more because --

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Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

It's traffic, so it wouldn't be buying more, this is just traffic. What it means is that we have, in affluent stores, a flow of traffic it's much faster than in the rest of the chain. I can only speculate as to why that's happening, but I think it validates your intuition that customers might be giving us some credit and moving to Wal-Mart because we save them money so they can live better.

And I believe that that is happening, it is up to us now with our store execution to capture their imagination and make sure they continue to shop with us when things turn around. There is no reason why that can't be done.

Bob Drbul - *Lehman Brothers - Analyst*

I think we're going to end it there. Eduardo is going to be downstairs for an over-capacity breakout room for the next 45 minutes, so thank you Eduardo, and thank you everybody for coming.

Eduardo Castro-Wright - *Wal-Mart Inc. - President, CEO - U.S.*

Thank you everyone.
