

FINAL TRANSCRIPT

Thomson StreetEventsSM

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PRESENTATION**Carol Schumacher** - Wal-Mart Stores Inc. - VP - IR

Good morning. I'm Carol Schumacher, Vice President of Investor Relations at Wal-Mart. Welcome, to those of you who are joining us today who weren't here yesterday.

We had a great agenda yesterday. We covered not only some updates on the global financial picture for Wal-Mart Stores Inc., but we also had a very in-depth presentation on the International business with a great focus, thank you, Scott, on Asia, and also Japan.

And for those of you who didn't make it in yesterday, if you would like to you can refer back to the webcast for the presentations that are -- were done yesterday. It does take a little bit of cycle time, but usually within 24 hours we also do post a transcript for yesterday's session. And we will have that available.

Yesterday, you got to see the Wal-Mart cheer. And, as you know, it is Wal-Mart's tradition to start every meeting, particularly those meetings that are held inside the Company, with a Wal-Mart cheer.

We don't normally do this at the IR meetings, but today we're going to not only have the Sam's cheer, but you might hear it in something other than English. So with that, I'd like to invite Sandy Tam and her team up for the Sam's cheer.

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Thank you, Carol. Good morning, ladies and gentlemen. Let's start today's meeting with the Sam's cheer. Does anybody want to learn Chinese? This is the Chinese spin of Sam's cheer. Please, follow us. Are you ready?

Unidentified Speaker

Yes.



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Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Let's go. Lai year ge S!

Unidentified Speaker

S!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Lai yi ge A!

Unidentified Speaker

A!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Lai yi ge M!

Unidentified Speaker

M!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Huh!

Unidentified Speaker

Huh!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Lai yi ge S!

Unidentified Speaker

S!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Wo men yi gi han?



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Unidentified Speaker

Shan Mu Hui Yuan Dian!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Shui shi di yi?

Unidentified Speaker

Hui Yuan Di Yi!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Wo ting bu dao?

Unidentified Speaker

Hui Yuan Di Yi!

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Shui de shi ye?

Unidentified Speaker

Wo De Shi Ye, Wo De Shi Ye, Huh!

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Thank you, all for joining it. It really does get the adrenalin going, and it certainly gets our energy level up, which is a good way to combat the jet lag.

As I said yesterday many of you did, like we did, change our plans to accommodate what happened in Tokyo. And what that meant is that because that majority of the travel from Tokyo to Dalian was tied with a start in Tokyo. We eliminated the side trip that we had originally planned to Dalian.

Just as a little bit of background, we had planned to do that because a number of you had asked to also see some of our operations in a Tier 2 city, and you're going to learn about that today and why Tier 2 cities are strategically important to Wal-Mart China.

So because you weren't able to go to Dalian, we're going to bring a little bit of Dalian to you. And you'll have a chance to see the entire video later, but in the interest of equal time with Sam's we're also going to kick off this meeting with a very unique cheer from our store associates at 3407 in Dalian, China.

(VIDEO PLAYING)



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Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay. Now, in the back -- before we start the second video, we do need to have those first couple of slides come up, please. So, the video that you just saw is the intro to what is actually a video look, a store tour on video.

And we do have that available for you on the jump drive that you'll get at the end of this meeting. And it's a ten-minute look through the store so you can really see what we have to offer our customers in a store like Dalian.

Just as a reminder, we are video webcasting again and you can find additional information on walmartstores.com under the Investor tab, not just about this meeting but about a lot of other things.

During the night our Company filed our 10-K, so I don't know if any of you got that trigger into your email when you woke up this morning. But certainly, our 10-K was filed after market close yesterday and that is now available on the website as well.

You can see today that we have a very full agenda. The entire morning is going to be devoted to Wal-Mart China, and you're going to hear from Ed Chan and a lot of the members of his management team about our business here.

You can see that we will take one break, and so for those of you listening on the webcast, there will be a period where we're not live online. We will have one Q&A at the end and then we'll break for lunch, and the afternoon is devoted to our store tours.

As I mentioned last night at dinner, you will be seeing four of our locations here in Shenzhen. Bear in mind that we started in Shenzhen, so some of the stores that you're going to see have been here for the 15 years that we've been in the city. But, you'll also see some of our new offerings. We'll be touring four units, a Wal-Mart store, a Trust-Mart, the Sam's Club and our new, smaller format, Smart Choice.

This meeting wouldn't be this meeting without a forward-looking statement, and people bear in mind that we will certainly be making forward-looking statements throughout the meeting.

And with that, we are ready to roll the video and kick off Wal-Mart China.

(VIDEO PLAYING)

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Please welcome to the stage Ed Chan, President and CEO of Wal-Mart China.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Good morning, everyone, or good evening for those who see us live from the other side of the world. I hope you found the China video as inspirational as I did. You might have seen a lot of these numbers in many publications, but every time I see them I cannot stop myself from being amazed, seeing the transformation of this economy in the past.

I'm very proud of the fact that I lead the Wal-Mart China business here, serving our associates, our customers. I've seen real live how this country has transformed, and I'm very optimistic what you are seeing here will come true one day.

I'll start off the presentation by introducing my China team members who will be also presenting today, Roland Lawrence, our CFO; Sandy Tam who head up Merchandising for Sam's; Clara Wong, our head of Human Resources; and Barry Friedman who head up Corporate Affairs.



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Our agenda of the presentation, I'll take you through a very brief overview of China's Wal-Mart business today. Then, we'll share with you more details of our journey that are taking us to where we are at this moment and then share with you our key strategies, the growth drivers and what are the enablers that we have built to support those initiatives. And we also have time for Q&A.

A brief snapshot, you have heard some of those numbers yesterday's presentation. We started 15 years ago as a small retailer in then a small city called Shenzhen, which is today -- rank among one of the four Tier 1 cities in China.

We're a \$7.5 billion sales company as we finish FY '11. 329 stores spread over 121 cities is our Tier 1, Tier 2, Tier 3 and even Tier 4 cities. We serve 2 million customers a day with over 100,000 associates. Many of them joined us even before the first day we opened our first door and first club in Shenzhen.

With that, I would like to invite Roland Lawrence to share with you the journey that has taken Wal-Mart where it is today in China.

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

Thank you. Good morning, ladies and gentlemen. I probably want to start with a simple line to say it's China's time. The start of the twenty-first century has confirmed that that this is China's century.

In 1990, China was just the number 13 economy in the world. By 1999 number seven economy in the world. Just last month, we confirmed that China has overtaken Japan to be the number two economy in the world.

Let's come and look at some of these statistics because they are quite amazing. First of all, we are the largest population of 1.35 billion, an Internet population that is booming that's now 460 million users online. We also noticed that this is also the second largest economy in the world, as I pointed out, at over \$9 trillion.

If you look at some other statistics, it's also the largest trading nation and also the second largest retail economy in the world. And these helped build some strong foundations for us to grow our business in China, so let's try and understand a little bit about the GDP and where China will be heading.

Right now China, as we mentioned, is the number two economy. But, these last three decades have been immensely powerful for China. We've seen extraordinary growth from a poor rural economy to one of an industrial power -- one of the industrial powers of the world. This coming decade will cement China as a super power -- a super economic power.

In 2020 -- by 2020 we'll reach a GDP of \$20 trillion, and this will happen because China will grow at approximately 8% GDP while the rest of the world grows at a more sedate 3%. So, what does this mean in terms of the transition of the economy in through the middle class?

In 1995, there were only 42 million households that could have been classified as middle class. By 2025, over 900 million people in 295 million households will be classified as middle class. Now, this is important because these are our customers. They want to save money. They would love to have creative value in their products, improved food safety, and they also want to beautify their homes. And we can help them save money and live better.

So, let's look at what's happening in the middle class and let's try and understand a little bit about the cities in China. First and foremost, the urbanization is happening and it's intertwined with the growth of the middle class.

You will notice that almost the entire population of America will be added into the urbanized world of China by 2025, nearly 300 million people with about 243 million of them being migrants.



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Our experience in Shenzhen helps us to understand how migrants, as they move into the cities, desire to grow in their households, to have a better life, and we can help them again. So when you look at this, this is to say that by 2025 we have nearly 1 billion people in the urbanized world. But, let's try and understand what does that mean for cities.

Unsurprisingly, with this urbanization we are adding close to 800 cities that have -- there will be over 800 Tier 1, 2, 3 and 4 cities. And this offers unprecedented opportunities for retailers in China.

By 2025, there'll be approximately 22 large city clusters of which about 8 of them will have populations of more than 10 million people each. But more importantly, there will be over 200 cities with more than 1 million people in there. And you will see that it is an area of focus for our business.

So, let's look at the retail market. I mentioned to you that it's one of the largest retail markets in the world. At \$1.7 trillion, this means that China is actually larger than the rest of Asia-Pacific, excluding Japan. It eclipses all the whole of Asia-Pacific.

More interestingly is that China has just released the 12th, five-year plan. The government has just released, and it says the number one strategic pillar that it will build its economy on is the domestic economy. So, they're focusing on consumption rather than investment or investments as they used to or exports. So for the first time, we're now talking for the next five years it's about the domestic economy.

Now, this expected growth offers great opportunities for Wal-Mart. What does it mean? To start with, it is anticipated there will be double-digit growth in retail for the next 30 years. Secondly, China will be the largest grocery market by 2014.

So now, let's try and look at what has Wal-Mart done against this wonderful economic backdrop. They -- against this backdrop, as I mentioned to you, we have also expanded rapidly over the last 15 years. We're growing at a CAGR of 44% because in 1996 we just had two stores.

By the end of the formative years in 2006 we had 71 stores. In 2007 we purchased an interest in Trust-Mart and added another 101 stores. And for that year, we closed with 202 stores. Last year we finished the year with 328 stores, having grown 49 stores organically.

More importantly, many of these stores are located in the Tier 2, Tier 3 and Tier 4 cities and markets that we talked about. This fortuitously aligns our strategy with that of the Chinese government and the growth patterns that are happening in these cities. And we believe that this is a key strategic advantage of Wal-Mart, to be a first mover in many of these locations. As we mentioned, these stores are located in 121 cities today.

Another key development you will hear about today will be about Sam's. We opened our fourth Sam's store late in 2009. Last year, we added a further two more stores in the important cities of Beijing and Shanghai.

Now, Beijing is particularly important because it's the first city in which we've opened a second Sam's store. And this is about important of things to come. Sam's Club, we believe, is another key differentiation in our strategy because it serves the small business and a unique sociodemographic that's happening in these urban centers. Sandy will be speaking a lot more about Sam's in the near future.

By leveraging on our infrastructure, we've also been exploring other formats. And we've opened one discount compact hyper in Zhangshu, and we have three Smart Choices in Shenzhen. These are small formats called Smart Choice. These formats serve the underserved.

So, let's look at our sales now that we know that we had a CAGR of 44% in our store growth, and you'll see that at our sales the statistic reveals that despite the influx of [operating] new stores our sales growth has actually kept pace with our new store growth. And to emphasize this is that we have had consistent, double-digit growth increase over the last 14 years.



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But, let's look at our comp stores. Our growth strategy actually has been tempered by prudence to ensure that we have sustainable growth, not just in new stores but also in our comparable store growth rate. Whilst we are aggressively opening these stores, the comparable store growth actually emphasizes the performance of the entire fleet of Wal-Mart.

Since FY '07, you can see that we have outperformed the major international and local competitors despite the slowdown that you see in FY '10. And I'm particularly proud of FY '10 because it shows the resilience of our brand.

In a very difficult time of the global financial crisis, the resilience of the brand has stood firm when you consider that we are mainly in the southern sections and in important export or entered centers such as Dongguan, Shenzhen and Guangzhou.

And it just shows you again, despite the slowdown, we have outperformed most of our competitors. Our growth, in short, is predicated on both new stores and a healthy comparable store growth rate.

But, let's look at being EDLC in trying to understand our productivity. Being EDLC is a prerequisite of being EDLP. This journey requires us to continuously look at and meticulously look at ways to ensure that we lower our costs so that we can lower our prices for our customers and pass on the benefits of the economies of scale.

So, one of these key productive measures is our units per labor hour. You can see from here that units per labor hour has actually shown a 41% increase over the last three years. Now, this is arisen from a focused productivity drive called the WorkSmart program.

Many of these ideas have actually arisen from our associates on how to make their work easier and more productive. Unsurprisingly, we have a far more improved efficiency. But, more importantly, we actually have a highly engaged and energized workforce because of Smart Choice.

Now, let's look at SG&A. It's had the benefit of two major drives. The first has been our increased desire to be a 100% sustainable company. So when you look at it, many of these stores actually haven't had the new sustainable capital expenditure such as LED lighting. But, it's been the desire to be sustainable, which has allowed us to look at how we use our water, how we use our energy.

The consequence is that there has been a 30 basis-points reduction in cost over the last three years, and we have our associates to thank for this improvement. The second I mentioned to you has been about the WorkSmart program. Next, let's look at our head office cost.

Again, it is about the -- not just the economies of scale but an undertaking to improve our productivity in our head office. So, we consciously eliminated waste. The Trust-Mart back-office integration has meant that we avoided duplication and also streamlined efficiency in processes.

Moving to a common information technology platform allows us to save -- to improve our productivity and eliminate rework. We've also centralized activities to ensure that we can serve our customers and associates better.

Now, when we move into the new SAP system in 2012, we can anticipate even better benefits. And I want to say again, the SAP is a good example of global leverage. We are learning from our associates from Japan and Canada to ensure that we can do a quicker and faster rollout and a far more efficient rollout of SAP into China.

Finally, let's look at sales per square feet. Our sales per square feet shows that it's a result of us lowering our prices and offering our customers greater value every day. But, this cannot happen unless we have a drive towards improving our productivity.



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So, let's look at our profitability. Wal-Mart China made its maiden profit in 2008. Since then, we have made steady progression every year despite the aggressive store rollout program. As you know, new stores take time before they can generate substantial profits.

The strong profit growth can be attributed to three things, one, leveraging our economies of scale; secondly, having that specific focus on productivity; and thirdly, it's about a relentless approach to EDLC in everything that we do.

Let's look now at return on investment and free cash flow. The return on investment and free cash flow is an important part of what we do. The ROI again highlights our financial prudence.

While increasing profitability we also keep a very close eye on our balance sheet to ensure that we can continue to expand our store portfolio in the most efficient manner. This ensures that our shareholders reap the benefits of their investment.

Finally, I'd like to talk about an important duty that we undertake, which is managing the cash flows. Despite, I mentioned to you, the very large investment in new stores we can state that we have been free cash flow positive in three out of the last four years.

So, let's look at one of the key takeaways that we can go through. Number one is that the China economy is growing rapidly and so is the growth of the middle income and personal income.

Number two, Tier 2, 3 and 4 cities are going to feature in prominence, and Wal-Mart is well poised to help them in this growth. Number three, Wal-Mart China has grown rapidly, both in new stores and our comparable sales.

And finally, despite this growth, we have actually improved our productivity, achieved profitability, and we have generated very significant cash flows. With that, I'd like to put you on to Ed to talk about our strategic growth. Thank you.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Now, let me share with you our growth strategies and those growth drivers. In China, it's not about just growth. It's about how you can grow even faster sustainably. For Wal-Mart, we're already a multichannel and decided to become a multi -- a multiformat and started to become a multichannel business.

Currently, our growth opportunities come from three sources, comp growth, new stores and eCommerce. First, we follow our tradition to build our business one customer at a time, one store at a time, to grow our comp sales. Second, we have an ambitious plan to grow our new stores. And third, we just started our new channel, the eCommerce.

Our three growth initiatives are supported by three enablers, first, the Wal-Mart culture and people. Wal-Mart in China is known for its culture inside and outside a company. We are a company of the people and for the people with a great reputation of developing talent.

We will be a leading reputation with governments and key stakeholders in the communities to support our growth and align our strategies with the government priorities.

Third, while we are expanding our new stores, we are also building a high-value, increasingly efficient supply chain to support that growth. Let me first go through how we drive our comp growth.

At the heart of our business model is the productivity loop. The virtuous circle has been so important to our history in Wal-Mart. By lowering expenses, passing those savings back to our customers, having more of them to come to shop with us and selling



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more merchandise, we fulfill our mission to help save them money so they can live better and, therefore, driving greater sales and raising return to our shareholders.

The virtuous circle begin with operate for less. By driving greater turns, maintaining a disciplined approach on business expenses, raising efficiency, productivity with process improvement, IT technologies, we continue to take costs out every day.

The other side of lowering our cost every day is about buy for less. We focus on lowering the cost of products by sourcing direct, centralization and long-term mutual beneficial relationship with our suppliers.

Operate for less and buying for less enable us to sell for less through our commitment on our journey to everyday low price. With EDLC and EDLP, we also provide a trusted shopping experience in our store for our customers to drive sales further.

Now, I'll walk you through some of our operation, merchandising and marketing initiatives, how we drive comp sales through our productivity loop. You have heard that we have a WorkSmart program in Japan. We also have this program in Wal-Mart China. It's a productivity initiative that is associate-driven to simplify our daily process in the stores to take costs out and then improve associate satisfaction.

It started in 2009 and already spread to 100 Wal-Mart Supercenters. The program has five modules; first in operation; second floor, scheduling; third, checkout scheduling; fourth, back-room management; and fifth, promoter management.

A very unique aspect of this program, WorkSmart, is its bottom up, associate driven. 90% of the great ideas are created by the associate that help instant acceptance of those initiative and make immediate impact on our productivity in the stores. So, it's no surprise that WorkSmart has created very good improvement on productivity in those WorkSmart stores.

In addition to those savings, we are also seeing reduction in associate idle time, reduction in our stocks, cleaner back room and therefore quicker in-store replenishment and greater associate satisfaction. WorkSmart will continue to be roll out this year to other Wal-Mart Supercenter as well as all the Trust-Mart stores by the end of this year.

One of our key initiatives, to buy for less, is the joint business partnership. Like other Wal-Mart businesses, we work with suppliers. We have global suppliers as well as regional Asian suppliers but local Chinese suppliers to develop win-win partnership that drive better sales and better profit for them and for Wal-Mart and deliver greater value to our customers.

We have seen better results of these joint business planning partners -- suppliers, better performance to those non-JBP partners. The exciting thing is many of the local suppliers [playing this] program started with Wal-Mart when they were small and we were small 15 years ago.

Global effort also plays an increasingly important part to enable us to buy for less. Private brand, currently private brand is only 3.5% of our sales but the brand awareness of our private brands are rising very fast.

Today, in the store tour you will see how our private brands, the Member's Mark of Sam's, the Great Value, the Mainstays of our hypermarket are featured as an integral part of the brand structure in many categories. Direct imports, particularly global brands, direct imports grow 22% last year and it's only the beginning. We see huge potential of this initiative.

Global sourcing, China still has very complex import tariffs from 20%-plus to as high as 50%-plus, but we do see the benefits of moving more indirect to direct sourcing.

Some of you might recall in last October's meeting, Eduardo Castro-Wright share a US red apple initiative for the global buy, and China is a big beneficiary of this global buy initiative.



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We also share many tools that [Acot Enjesti] and his team put together such as a eCatalog, eAuction, eGMCs around the world, and we believe global leverage will provide Wal-Mart China with unique advantage and the insight and resources of the Wal-Mart family.

Selling for less is not something new to Chinese customers. Outside research has shown that we track customer impression and share of wallet are down to three key elements. Do this year have trust? Do they feel they are shopping smart in your stores? Can they find their relevant products in your local stores? And do they like your prices?

Wal-Mart's actually tracking very well compared to its peers on most drivers of impression, of our customers. We particularly lead the way in trust and smart choice in our assortment.

However, we also note that today no one retailer in China is a clear market leader on price perception with all major retailers largely comparable and, therefore, we know a key opportunity for Wal-Mart China is to build that sustainable price perception through our strategies.

As I mentioned earlier, our roadmap for achieving price leadership is establishing a solid EDLC foundations. With EDLC in place, we can then focus on building a meaningful price advantage in the products we sell by monitoring and adjusting our prices. Maintaining a consistent price gap through our EDLP is critical to build a long-term, sustainable price perception.

Over the last 1.5 years, we introduced a new tool to enable us to track prices. We now check over 1 million prices of competitors through a independent and dedicated team using a PDA technology.

Price checks are done for like-for-like products with the same UPCs. We then can make a adjustment on prices to ensure that our customer get the best prices of the basket that they shop in our stores on products that are most meaningful to them. In 2010, the average market basket items we measured against 51 competitors had about 4.8% price advantage.

In addition to EDLC -- EDLP, we also focus on other elements to give our customers better experience to grow sales. And this marketing play a critical role in strengthening that shopping experience.

The example I share with you here is how we communicate price leadership, how we make the stores for retailtainment. We have developed a highly localized marketing approach in all our 121 cities that we have stores through common themes and approaches.

The examples you see on the screen are single price points for a variety of products to enable us to sell at low prices, easy-to-understand prices, for a variety of relevant products.

Retailtainment will build strong local loyalty through in-store activities that cover all age group of the family. In the communities, we treat our store as part of the community.

Marketing also strengthen the brand building of our stores and clubs. Grand openings are a very big part of building our brand, particularly in those cities and communities that Wal-Mart is only entering first time. It's such a important event, not only in building our brands but also on the economic impact that we can bring to the local economies. And quite often, senior local officials will come to join the grand opening.

China has many big holidays, and each holidays is a big sales opportunity for Wal-Mart. The example here is the Chinese New Year. It's the biggest selling season of the year.

During China's New Year, the whole company is energized, decorating the stores inside out, the home office, everybody is excited, to ensure that every customers who walk into our store will leave at least buying something exciting for them to celebrate this important holiday of the year.



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Listening to our customer is very important. It's through customer insight and research that we continue to refine our learning of our customer, how we can serve them better. Chinese customers are still relatively conservative compared to developed market customers, but they're becoming more and more similar.

Based on the research, we learn about the customer proposition. It's about products relevant to them, about price and value, about the in-store experience and about every time they come they want to see something new and exciting.

While our [assisting] box works very well with our customers and members of Sam's Club, we take those new learnings to incorporate into our new store modeling. In our new store remodel that we did for Beijing 10889 recently where we routed the store in [the Pho zone] again around the family, a zone for the Mom, a zone for the Dad, daily fresh, family zone with fun.

The initial result from our remodel is very encouraging. We see across all the demographics of the shoppers to this store liking the stores overall and also liking every department in the store after the remodel. They are more satisfy and they are more likely to recommend the store to others.

But, we've also seen very good comp growth of this store compared to the control store in Beijing. With these continued learnings we're going to incorporate a lot of these new elements into our future remodeling.

While we are on the subject of comp growth, it will be remiss of me not to give you an update of the Trust-Mart integration. We acquired an interest of Trust-Mart back in February 2007. Our initial year's focus was to integrate all the back-end functions, human resources, finance, IT, support, business development as a protection within the operation.

Last year, we embarked and completed a major initiative to convert our Trust-Mart store system and merchandise onto the Wal-Mart system and logistic platform. We completed our last store at the end of last year.

Trust-Mart sales were affected, as we reported in the previous two quarters. While we are continuing to see negative comp of the Trust-Mart business, we are encouraged by the sequential improvement as we see it today. And we continue to expect progress in the current fiscal year. We have plan to remodel 14 Trust-Mart store this year to make them even more compelling for our customers, and we have plan to remodel the entire Trust-Mart fleet in the next few years.

In today's store tour, we'll take you see Trust-Mart 107, which has been put onto the Wal-Mart system, merchandise and logistic platform, and it's gone through a complete remodeling.

Just to recap this session, we continue to rely on our productivity loop to drive comp sales, that means focus on EDLC and then build our journey towards EDLP. Buy for less through scale, local leverage and supply partnership and further enhancing our customer experience when they shop in our store or outside our stores.

Our second growth driver is new stores. Over our 15-year history, we have built a network of 329 stores that have capitalized on the record consumption growth of China, that provide us a base to build the network further.

On formats, we are already a multi-formatted business. We've learn a lot from many successful multi-formatted experience of the Wal-Mart family in several countries. Our format targets specific customers and can work together very well in the same geography. Our store networks provide the knowledge base, the relationship, and the trust to grow further in those existing cities and other neighboring emerging cities.

Finally, our new store development process, we have built an excellent reputation with developers, with governments, and, also, have the knowledge to be ahead of the game to find excellent locations.

We also have processes to help us grow our stores cheaper and quicker. We have a multi-format strategy today. Moving from left to right, is our proven format, a Hypermarket and membership clubs. And we also have two tested formats in the discount



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category. Each of these formats target specific customers with the same merchandise assortment and they also have the tailor marked real-estate strategy to find and locate the market and sites.

With our global experience, and our experience in China, we have shown that these formats can co-exist together very well. In China, our membership club is called Sam's Club. They target AB customer segment we also, attract small business members. Our average club is about 15,000 to 22,000 square meters gross and carry about 8,000 SKUs.

Our members have said, they like the exclusivity, they like the new and exciting offers every time they come in. Again, we opened new clubs last year in Beijing and Shanghai and we have another new club in Dalian under construction that is built on the land where we acquired the land use rights directly from the District Government.

Our current clubs are located in large cities, with great access, ample parking, and we are very excited about this unique format for the Chinese customers. Our hypermarket format has two banners, Wal-Mart and Trust-Mart. We have 319 stores in 120 different cities. The hypermarket is designed to target ABC customers.

This market's averaging about 12,000 square meters gross. The average SKUs is about 20,000 to 25,000 SKUs and some will be as big as 35,000 SKUs. Our customers like what they see in these Hypermarkets, that they can get everything under one roof, with the prices and the relevant local products they can find in a trusted, friendly environment.

The Hypermarket format will remain a major format in our growth program. We have opened our first discount under Hyper in the [Yangtze] Province in a city called [Guangzhou].

And the particular trade area in that city that has a high concentration of CTE customers and also with good independent local competition. We want to have that trade area to test how this concept works.

That store has about 3,400 square meter of selling space, and carrying 7,000 SKUs, and the initial results have been very encouraging. It is on plan, our customers like the price, they also like the assortment and, said that, before we opened, they couldn't find those products at the great prices that we made them available in the store. The planning of opening this store, and also the post-opening walk-through, has been assisted by associates from the Wal-Mart family in other parts of the world, who have done similar formats.

And we learned tremendously from that assistance, of that sharing of the knowledge base from other parts of Wal-Mart.

Finally, we have the small box, assort discount format, we have three in Shenzhen. You'll see one of them today. The size is about 300 to 400 square meters only, selling about 2,000-plus SKUs, serving the top-up needs of our customers.

We will continue to refine and test this format to determine the role it will play in our portfolio. Now, let us take a look at how these different formats can work together.

On the screen, you can see how three formats can work within a 3-kilometers radius. This is the City of Shenzhen and you have the hypermarket, a Sam's Club, and assort discount and they work very well together on a common infrastructure.

The City of Shenzhen is a Tier 1 city, just like Beijing, Shanghai, and Guangzhou. But, in China, in addition to these four, major Tier 1 cities that we're seeing tremendous growth in them, we're also seeing even more excitement beyond these four Tier 1 cities.

Over the next 15 years, China will create an additional urban population, the size equivalent to today's entire population of the United States. By then, 900 million Chinese will be living in 815 cities.



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Today, Wal-Mart has presence in only 121 of those cities, that means there's still up to 700 cities for Wal-Mart to consider entering. China's cities can be categorized into four tiers; 1, 2, 3, 4. And the most rapid growth will come from those Tier 2 and Tier 3 and Tier 4 cities. And Wal-Mart is very well positioned to capture that growth.

Today, 80% of our stores are in a Tier 2, 3, and 4 city. Therefore, we know how to serve our customers in those cities. In the next few years, we will have even faster growth in those lower tier cities and these lower cities have a higher population and income growth and that will enable us to grow profitably.

This is a great example of how the Tier 2 and 3 cities cluster can prove to be a great future for our operations. The City of Dalian is in the Lioaning Province.

This province has about 43 million people, a GDP of \$35 billion, has been growing double digits. And the size of this economy is the same of many countries, more countries, in the world.

We have stores in another city in this province, Shenyang, 250 kilometers from Dalian, but, in the whole province, there are 39 cities with a 225,000 population and above. And we are just in a handful of those cities and that gives you the idea of the growth prospect ahead of us with the four formats at our disposal. But, Lioaning is just one of the 22 mega economic clusters making in China.

The majority of the 800-plus cities I referred to earlier can be clustered around these 22 mega hubs and only four of those are the Tier 1 cities. Our company is known for one customer at a time, one store at a time. But, as we build our store clusters on the four formats, we'll build scale, knowledge, relationship, driving our efficiency and productivity further, build our brands further and make our supply chain even more sustainable and more capable.

That gives us the confidence as our format and network grow in tandem with the evolution of the economies and the cluster growth in China. Again, our 16-store network and 15 years of history gives us great base to grow further.

First, I want to emphasize how important it is that real estate is local. It's about the knowledge, the relationship, the partnerships and the bond with the local communities and the local governments.

Local governments like Wal-Mart to open stores there. They like our culture, they like our people philosophy, and, when we enter, we create jobs. We modernize retail and logistics. We create opportunities for suppliers, even individual farmers. We also cultivate harmonious community relationships and sustainability is a big theme for many cities.

They want to grow the cities sustainably during the future record urbanization and Wal-Mart can collaborate with the government by sharing our know-how and, also, building sustainable stores. Needless to say, when we open stores, we also create recurring tax revenue for the local government. Our presence, in all of these provinces, is really a great base for further growth.

Second, our store-build out is largely dependent on developers and landlords. We have strong relationships with national and regional developers in China. These developers are active on getting prime locations in Tier 1, Tier 2 or even Tier 3 cities.

We, through these long-term partnership, often become their anchor tenant in that facility, in their shopping malls, and we have invested substantial resources to build and further strengthen those relationships.

And, third, in smaller tier cities, in Tier 3 and Tier 4 cities, we often work with individual landlords who have very good location in those emerging cities. And we also have built substantial resources for those independent developers in emerging cities. Last, we have started to acquire land use rights from governments to build our own stores.

As you know, land cost in China is rising and the land use rights is one that allows you access to land of 40 or more years, it depends on the use. Often a prime site in big cities are bid by leading developers to build big shopping malls. In those occasions,



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we'll work with the developers to become their long-term anchor leasing tenant. But there are projects that the local governments, sometimes, are planning for medium and smaller sized developments.

A good example would be the Dalian Sam's, where we acquired the land use rights directly from the district government where we are building a Sam's Club with a slightly larger tenant space compared to a typical proto.

Our new store development process is not just about building stores and leasing stores. It's about a continual process of improvement, how we can bring the stores quicker and cheaper to our customers. In the last two years, we have driven down our average construction cost by over 10%. A hypermarket proto, now, has 3% more selling base compared to the total box.

In our club and hypermarket proto, today, is now 40% more energy efficient compared to those back in 2005. In addition to that, we want to provide a complete shopping experience to our customers and members as they go through our stores and clubs. And we have also built a cohesive tenants mix in some of our stores and clubs in and around the country. The purpose, of course, is to focus on our core formats where tenant space is becoming a total portfolio compliment to the total experience of our customers.

Let me recap on this session. Multiple formats allow us to serve distinct customer segment from a common infrastructure processes and organization, allow us to build scale more rapidly in the same geographical areas.

Our store network strategy and planning matches very well with the organization and creation of mega clusters of China. Our store and club is now much faster and quicker to build and roll out.

Finally, we have a trusted and leading reputation with the developers, partners, and governments around the country, and the communities around the country to enable us to build stores quicker, through our new approach, leasing and also acquiring the land use rights directly from governments.

With that, I'd like to invite --

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

No, we have a break.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Okay.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay, so, Ed, you did a great presentation with Roland and you two were so efficient with time. We are a little bit ahead of schedule, so, because of that, we are going to have time and we were worried that we would be tight on time. But, we are going to have time to share the Dalian video with you that I talked about. And, Ed, I had the opportunity to visit Dalian. It's a wonderful city.

It's on the Northeast Coast. It's just a beautiful city. We have, not only great associates who work there, but incredibly productive stores as well. And one of the unique opportunities that you're going to have to -- that you will have the ability to see this afternoon is to also learn more about our direct farm program.



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And I can tell you that the direct farm program in Dalian is one of the reasons why our customers love our stores in Dalian. When they enter this particular store, they're just greeted with such an overwhelming presentation of fresh produce. And much of it comes from the farms in and around Dalian. In addition to that, because Dalian is on the Coast, obviously, fish is very important to the customers, particularly fresh fish.

And they do have the opportunity to have fresh fish all of the time, including some unique items that I had the chance to see for the first time in my life. I can't say that I actually tried everything and, in the video, you'll see one of those items.

It's a product called sea cucumbers. It's certainly not something that we're too familiar with in the United States. But, you can see from the photos up on the screen, Dalian is a city, because it is close to Japan, that has also attracted a number of Japanese tech companies, electronic manufacturers, so there's also a fair number of Japanese who live in this city.

And so, because, like in so many of our countries, being locally relevant becomes so important for us to be able to serve our customers. You'll also find, in Dalian, a number of products that are very specific, like Sushi and other things, that are very specific for the Japanese customers. And so, it's important for us to be locally relevant no matter what market we are operating in. Soccer is really -- soccer or football is really also important in that market as well.

And the one photo you see is a giant soccer ball that actually sits in the middle part of downtown. So, a very beautiful city. We, unfortunately, don't have to, really, any footage to share with you of the city. But, on the USB drive there is a fair amount of background about the city and that is designed to give you a better understanding of why, as Ed mentioned in the presentation, the Tier 2, 3, and 4 cities will be very critical to Wal-Mart China's growth.

So, with that, we'd like to bring you a tour of store -- Wal-Mart Store 3407 from Dalian, China.

(VIDEO PLAYING)

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

So, Baker Jiang who is the Regional Director of Operations, who you saw in the video, is also here with us. I'd like to ask Baker to stand and Baker will also be available at lunch.

But, we do have a copy of that video for you on the jump drive. Also, you can imagine that for both Karen and Joanna, English is not their native, certainly, not their native language.

So, we certainly appreciate all of the time and effort that they put in to working with Baker for us to be able to bring you that video. So, because we were a little ahead of schedule, we believe in flexibility and we're going to give you an extra Q&A.

We're going to spend about ten minutes right now before the break and we're going to ask Ed and Roland to come up, back up, on stage and what we are going to do is be focused, though, on the growth part of the presentation. So, you heard where -- about our plans and you see how important the Tier 1, 2, and 3 -- 1, 2, 3, and 4 cities are and so, we'd like to be focused.

Let's keep the questions to this part of the topic and we'll expand the Q&A at the end for everything else.



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QUESTIONS AND ANSWERS

Stephan van der Mersch - *Ruane, Cunniff & Goldfarb - Analyst*

Thank you, gentlemen. Stephan with Ruane Cunniff. If you were to take all of your stores here, in China, and put them on a map, I'm curious, how many would be profitable?

And, then, if you would see any patterns on the map of what would be profitable and what would not profitable?

Ed Chan - *Wal-Mart Stores Inc. - President, CEO - Wal-Mart China*

Okay, I will answer the first part of this question and, then, Roland can help you on the others. Although, we don't breakdown an individual store's profitability, what I can share with you is that new stores tend to be in some years before it becomes profitable.

And, as you can see, we are growing a lot of new stores in the last few years. So, that would have an impact on the -- on a fleet part of the stores. So, with that, yes, Roland.

Roland Lawrence - *Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China*

Thank you, I probably just want to comment on a few things. First, and foremost, the older stores tend to do better. So, with a doubt, the areas where we've been for some time will do better.

As we pointed out, those that are new are forecasted for some time before they achieve a significant profitability. But, our safety is down here because we are very regionally based and making sure that we are localized, we have actually adapted well.

And, if you look at it, we are doing well in North. We're doing well in the West, we're doing well in the Central, we're doing well in the South, so I'm satisfied that we have, actually, met the localized need for the customers. It's about the time and the maturity of the stores.

Stephan van der Mersch - *Ruane, Cunniff & Goldfarb - Analyst*

And do you own any locations?

Ed Chan - *Wal-Mart Stores Inc. - President, CEO - Wal-Mart China*

Again, the Dalian Sam's Club, which is currently under construction, is the first project that we have, by way of acquiring the land use rights directly from the government. It gives us the right to operate from that piece of property for a few decades.

Carol Schumacher - *Wal-Mart Stores Inc. - VP - IR*

Okay, we'll go Adrienne and, then, we'll come over here to Maggie.

Adrianne Shapira - *Goldman Sachs - Analyst*

Adrianne Shapira from Goldman Sachs. It, clearly, seems the focus is growing faster and cheaper since you've identified 700 cities you're not in today.



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Maybe, give us a sense of what is the runway going forward? What is the reasonable growth rate in terms of store openings over the next several years?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

As you can see, and share with you, our growth in the last few years, I think, in China, we need to understand the growth enablers first. It's about your people and talent.

We have a great, great culture for people and Clara is going to share with you all about our people, culture, and strategy, how we plan for the future. The other aspect is about site availability.

I've shared with you our multiple strategy pillars, how we find sites with our different partnerships with national, regional, or even, local developers. And our reputation with the government is a key to gain support for us to grow into new cities, even by way of leasing from developers.

Because the government still needs to be supported or by way of direct dealing with the government to acquire the land use rights. So, while we cannot be specific to share with you the number of stores we'll grow every year in the next few years. But, we are very excited about the capability and the enablers that we have built to support a very, very fast growth.

Adrianne Shapira - Goldman Sachs - Analyst

And, just following up, it sounds as if the getting factor is people and the relationships with the government. Maybe, give us a sense of how competitive it is out there in terms of securing those sites in Tier 2, 3, and 4 cities where you're facing competition either national or international?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Well, I cannot generalize which city is more competitive. By and large, the higher tier cities, undoubtedly, are the most competitive and, in those Tier 1 cities, we tend to work very well with larger, national, regional developers to become their tenants.

As you know, property prices or rents have been going up in China. But, in the smaller tier cities, the lower tier cities, we tend to have found an easier access to great locations as we are one of the earlier or multi-national or national retailers who enter many new cities.

In those cities, you'll probably will have found more availability with very local developers.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay, next question, Maggie.

Unidentified Audience Member

Yes, originally, as I understood it, your stores we're all partnerships with the developers. Is that no longer the case and could you describe where that is going? And, second of all, can you talk about why the neighborhood markets kind of stalled two stores?



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Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Okay, I'll get it. Our partnerships with developers is not about equity partnerships. It's about building trust. It's about building mutual knowledge of their processes, their planning, and our processes and our planning.

We share with them how we pre-plan as we design and build and fit all our stores. It's the trust that we build. We also share with them our specific expansion plans by areas that these developers will also be building their malls.

They also trust us by sharing their plans ahead of the time. So, with that mutual trust and mutual planning, that gives us the advantage of building multiple projects with these larger developers. But, again, it's also equally important is the working with the individual developers who tend to be the ones we need to work with in some newer emerging cities.

Barry Friedman - Wal-Mart Stores Inc. - VP - Corporate Affairs - Wal-Mart China

Ed, just let me add to that, I think what you're referring to is that, when we originally entered China, there was legal constraints on FDI.

So, we had with CITIC, in our first, probably, 100 stores, a relationship that exists today. We still manage and operate the stores. But, since the law has changed, we have been 100% self-operated. We do not have any sort of joint ventures.

In terms of that growth trajectory, as Ed has said, we work very closely with a number of various developers. But, there is no equity relationship as part of that.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

On your second question, the neighborhood markets.

Unidentified Audience Member

Yes.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Yes, we do have two Wal-Mart neighborhood markets in Shenzhen. One is about 20,000 square foot and the other's about 60,000 square foot. The neighborhood market, currently, is not a priority.

But of the two, the large one is actually very close to our hypermarket proto. And the smaller one is in a unique location at the basement of the office tower. It's not a priority, but the two neighborhood market is doing reasonably satisfactorily.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

The next question is from Bob and, then, we'll go to Peter next to him.

Robert Drbul - Barclays Capital - Analyst

Yes, thanks, Bob Drbul, Barclays Capital. The question I have is on the Trust-Mart business. The stores, you talked about comp being negative. Can you just, maybe, put a little bit more color behind is it a function of ticket or traffic and a game plan to actually get those stores to comp positive in the market that you're competing in today?



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Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Yes, it's principally, as we convert the store there's some disruption during the period of conversion, as we change the inside approach to our customers.

For example, in the past, there's a lot more direct mailing through the loyalty card of Trust-Mart and, now, we are using a more EDL approach and that is a exchange program that we have seen the acceptance of newer customers.

It's a journey and the encouragement is about, after the initial remodeling, we have seen sequential improvement in customers coming back and adjusting to the newer experience, with bigger assortments and the more EDLP pricing approach.

And that's why we are so excited about it. The second part is, again, on the remodeling plan. Most of our Trust-Mart stores have been a number of years old and we have plans to remodel 14 of those and the entire fleet in the next few years. And that's why, today, we wanted to share with you during the store tour, the Trust-Mart, number 107.

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

107.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Number 107, yes, that is the store that has been remodeled and we are very happy with the performance and we're going to show you some of the results as you walk those stores. And we are going to model that with the remodeling this year and in the future.

Peter Benedict - Robert W. Baird & Co. - Analyst

Yes, hi, Peter Benedict, Robert Baird. My question's on the 4.8% price gap that you noted that you have currently in China. How long has that been in place at that level? How comfortable are you that that's the right level; I think we heard yesterday, that Japan was succeeding with a 7% gap. Just any color on that, thanks.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

The initiative that we established with that Peter, the knowledge is only 18-months old and that also included many new stores. And we build that price gap over the last 18 months, obviously, for those that are already opened, we started the program, it has an 18 month tracking issues.

The newer stores has shorter. We are also continue -- we find a market basket of the measurement. So, I think that it's a very good starting point that gives us already the early inside of a 4.8% gap advantage.

But, it does take a bit more time to cement that price gap leadership, as well as what we are doing about building the conception. The conception is one that is key to translate the price gap into actual action spending by the customers.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Michael.



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Michael Exstein - Credit Suisse - Analyst

Following up on the perception point, why do you think the perception is lagging the reality and why do you think, historically, you have gotten credit for pricing leadership in this market?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

First, China is a very, very competitive market. There are good retailers at the national, regional, and local levels, that's first. Secondly, is about building the price perception.

Still, a lot of our marketing efforts, although they have common themes and approaches, are very localized. We have stores, we have about 329 stores, that we closed in the fiscal year, but they are spread across 121 cities.

So, in terms of local scale, it's still the early stage and as we build this scale, and we apply the tools I mentioned, building the perception with the earlier perception of this price gap, I think we will build and strengthen the perception in the future and be able to build a clear price leadership.

Although, at this moment, everyone, again, is similar to each other in terms of the price perception. But, we do have a good base of price gap advantages already.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

The next question will come from Dan Binder.

Unidentified Company Representative

Yes, I was looking for you.

Daniel Binder - Jefferies & Co. - Analyst

Thanks, Dan Binder from Jeffries. I don't know if you noticed, but your assistant forgot to put the numbers on the slide. So, merely, could get a copy of those after the meeting.

Seriously, though, I was wondering if you can compare and contrast a little bit how your store productivity, your comp's per sales, and your returns look relative to other competitors in the market? I understand your share is still small, but, on a relative basis, how are you doing in the market?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Maybe, Roland, I'll start with this, in light of the competition.

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

Sure.



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Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

If you will recall from one of the slides, about how we monitor our price advantage. We measure against 51 competitors across the country and that gives you a sense of the level of competition in China.

There are many, many good national, regional, and local competitors. Even so, we target as who are shopper's will shop and who they are if they don't shop with Wal-Mart. So, we do have multiple competition and, I have to say, there are many good local, domestic retailers that we admire and we continue to monitor and measure against. And your particular questions, Roland?

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

Regarding productivity, I think the first category that I'll say to you, down here, is I think the first step to say, how are we doing ourselves.

As you can see, I've shown productivity increases up to 41% in three years. This is about progression in ourselves. Against a comparison to others, I find the competitors are sort of [odious], but we are satisfied with how we're progressing. We are satisfied with -- we are comfortable.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

We'll go, David Strasser, and, then, Greg Melich, and that'll be a wrap up for our first session.

David Strasser - Janney Montgomery Scott - Analyst

Thank you, with all of these local competitors, and so on, you eluded to this yesterday a little bit. But, it would seem like there's a lot of opportunity for acquisition here. And how do you think about acquisition versus organic growth in China, especially in these markets you're not in, those 700 or so?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

The Trust-Mart is an acquisition. The store program that I shared with you is organic. While we, certainly, cannot share with you the specific acquisition plans, we are learning a lot from the Trust-Mart acquisition experience.

And, also, we have a very good growth plan ahead of us, even by working with developers, by working with governments, so there are a lot of growth vehicles for us.

David Strasser - Janney Montgomery Scott - Analyst

If I could follow up, how -- what would you consider the top two or three criteria to do an acquisition going forward?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I think, for an acquisition, in general, across the Wal-Mart world, number one is we have to major in the majors. We are acquiring those stores in locations that will enable us to be serving our customers better and, then, build better scale in a market.

And, secondly, it has to enhance the shareholder's value and, third, it has to fit our strategy plan, as we grow in different parts of the country, in terms of format, in terms of the geographical customer focus, etcetera.



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David Strasser - Janney Montgomery Scott - Analyst

Thank you.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

And the last question, Greg.

Greg Melich - ISI Group - Analyst

Hi, Greg Melich with ISI. Two parts to this question, one is on the growth. What is the mix of infill versus going into those cities that you're currently not in, would you say over the next three to five years?

And, then, a second is you, in one of those slides, mentioned how you're going to optimize tenant revenue. Could you just fill us in on that model, if I remember correctly, you sort of pay 7% or 8% of sales in rent, but, then, you get a lot of it back through sub-leases. Fill us in on how that's trending, thanks.

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

Go ahead.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

On the first part, I think the emphasis is really growing our footprint. We do -- we'll grow into a number of newer cities, particularly those emerging lower tier cities. But, we cannot forget that, in cities we are already enter, we also have to build the scale in order to serve the customers that we currently lost from our existing store.

So, in building scale in existing already and the geographical markets is just as important to entering newer markets, where we will gain the knowledge and provide a foundation for building further scales in those newer cities.

On tenant space, it has been becoming a higher proportion of our income. But, our primary purpose is to make sure that those additional tenants, they provide a cohering shopping experience for our customers who come to our stores and shop.

Because, with that focus, we are increasing the shopping experience, we're driving the traffic, and that also helps the tenants. And tenants is defined so that they add, they compliment, the experience when the customers go to our stores. From the flow into the tenant area into our store, flow out the store into the tenant area. It has to be cohesive, it has to be complimentary. But, that proportion of the income is rising compared to the past.

(BREAK)

PRESENTATION

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Welcome back, everyone, and, now, we will be going straight through on the rest of Wal-Mart China. And our next break will be at lunchtime, so let me remind everyone that, in this session, as well, we will be making some forward-looking statements.



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We won't bother to put that legal statement back up and, now, I'm very pleased to introduce Sandy Tam for the Sam's Club presentation.

Sandy Tam - Wal-Mart Stores Inc. - VP - Sam's Merchandising, Wal-Mart China

Good morning, ladies and gentlemen, it's my honor to introduce to you how Sam's Club is really in China. The business model of Sam's Club is pretty unique in this country.

There are four components in this model. First, Sam's Club is the only one pay to shop membership format. We mainly target affluent family shoppers and the small business owners in the market.

The Club charge own members, RMB150, \$22.00, for our primary membership account per year. The membership of the same model currently allows the Club to keep the merchandising margin low and they deliver a better price value to our members.

The membership fee model can also encourage the members loyalty to the Club. The secret component is the (inaudible) assortments. The Club typically offers 8,000 to 9,000 SKU. The merchandising strategy of a Sam's Club is to provide our members a limited selection of high quality, name brand merchandise, in a wide range of merchandise categories and at the lowest possible price.

Price leadership is the third component of this model. Last, but not least, Sam's Club is a low cost operator. The low cost shields Sam's no frills buildings. The low cost shows Sam's letter marketing activities at the center.

There are six Sam's Clubs in China. The first opened Club, the Shenzhen Club, is the number one sales store in Wal-Mart globally. It's a very high audience sales Club and its sales will continue to increase year-by-year.

The success of Sam's Club is not only shown through the Shenzhen Club, but also shown in our regional Clubs. Take one Guangzhou Club as an example, this Club was just opened in the end of fiscal year 2010.

This Club has already contributed a positive profit to the company in its first operating year. Two new members joined the Sam's family. One in Beijing and another one in Shanghai. The unique business model of Sam's Club fitting our unique members needs. Who are our members. The Club has two types of members; business members and advantage members.

Let's talk about the business members first. Today, the Club has close to 800,000 members, 33% of these are business members. The contributed 49% of the total sales. We mainly package five groups of the business members. Small restaurants, small office, Mama-Poppa stores, small supermarkets herein, and the world sales purchase group.

You may not know what the resale purchase group is. In China, during the Holiday season, some of the government agencies and the enterprise will buy skates for the employees. We call that well filled purchase. Many of our business members shop at Sam's Club, not only for the business units, but also for the Chinese. Sam's Club advantage members are family shoppers.

They belong to A+, A, and, then, some part of B customer segments in the market. The average household income are at least 30% higher than the stated averages.

The majority of them own a college degree and the majority of these are car owners. Sam's Club is a highly efficient sales model in Wal-Mart tenants. The CAGR of sales per square feet is 25% in the last four years.

And the secondary income percentage to sales has gone to 230 basis point increase compared with the fiscal year 2008. The mission of Sam's Club is to build a Sam's Club into pre-element club format in ten other cities in China.



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The company has a strong confidence in investing this format. We expect Sam's Club will be in 17 provinces in the coming five years. Sam's Club is a unique business format in the country. With the growth of the economics, Sam's Club will have a faster growing membership base. Sam's Club will continue to deliver strong profitability and the productivity to the company.

In a word, Sam's Club will have tremendous growth opportunities in this country. Hopefully, you will all enjoy your Club tour this afternoon. Thank you, now, let's recall Scott Price, our CEO of Wal-Mart Asia.

Scott Price - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia

Good morning, yes I'm back. The reason I'm up here talking about eCommerce is that we had decided to change the way globally we're managing the eCommerce business within developing markets.

Given the huge organic growth opportunity in terms of bricks and mortar a decision was made that we would separate the business unit so China eCommerce and the expansion plans that we have will for a period of time leverage our bricks and mortar position but will continue to now report to me and as well to our global eCommerce colleagues in Brisbon, California.

Not a surprise. We've already noted some of these statistics. China represents in terms of the eCommerce arena a huge opportunity. It now has the world's largest Internet population with 457 million unique users. 25% of the world's online users is Chinese. Last year we saw an enormous growth 49% of shopping to \$161 million. It is very, very fast moving.

Total eCommerce commerce in China has almost doubled in just one year to \$77 billion. It's just extraordinary. Of that amount B2C commerce leads the pack. So the online shopping by consumers is actually the biggest pie here with \$9.3 billion in revenue. By 2016 it's estimated at the current pace of growth that the China eCommerce business will be greater in value than that of the United States today.

We made the decision to start our entry into eCommerce by starting with business to business so we launched in November of last year our Sam's Club website. So this was more focused on membership, business members leveraging again our bricks and mortar position in terms of the Sam's Club SKU counts.

So it started with 6,000 SKUs and immediately we saw a very big uptake. So it was an unmet need and in fact we were quite pleasantly surprised to see that the average order size online now is greater than what we see in terms of the average on -- on bricks and mortar or offline.

Very, strong, conversion rates when those members come and visit the site for the first time. We're seeing really solid sales trends growth in terms of the amount of sales that we're starting to leverage out of this online presence and very positive word of mouth that we're seeing online as well in terms of the overall customer.

We believe that the connection to Wal-Mart and the quality reputation that we have in China is an enormous opportunity in terms of continuing to grow and we will continue to roll this membership club out nationally.

We see this as well a great benchmark a great learning as we move into retail in the B2C world and think that with our large network of 300 plus stores in China and the high growth that we have as we expand more aggressively into Tier 2 and Tier 3 cities an opportunity for multichannel in creating a one plus one equals three type of solution for us.

It is still early days. We are aggressive but are discreet in terms of the details around our plans. I think the intent here is to just make it clear that we do see this as a big part of retail over the coming decades. One just has to look to the United States market to understand how multichannel is going to be an important part of retail now in large markets like -- like China as well.



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That's all for me in terms of eCommerce. I think probably this time next year we'll have a lot more detail to share but in the meantime what I'd like to do is I'd like to turn it over to our Senior Vice President of People, Clara Wong to talk a little bit about our talent plans in China. Clara.

Clara Wong - Wal-Mart Stores, Inc. - SVP - People, Admin & AP, Wal-Mart China

Ladies and Gentlemen, good morning, good evening, I'm very glad to share with you the people performance of Wal-Mart China. We have very strong people performance in China. What we have done and how we have performed will enable us to grow further more successfully.

Our associates are very proud that they work for a very special company that is based on Mr. Sam Walton's vision of saving people money so that they can live better.

So with the support from 100,000 associates and the very talented leadership team we have established a very strong talent pipeline, the most engaged workforce in the retail market in China, a widely recognized best employer reputation and also a system that enables us to efficiently manage our costs.

We recruit the best talents in China. We also provide the most comprehensive training and people development systems. Whatever jobs they do we enable them to serve the customers well while help them grow with the company.

To support the business growth plan we will grow the number of associates from the current 100,000 to around 250,000 in five years-time. In order to do that, we have a strong talent pipeline system.

To start we have a multi-layer recruitment plan that targets at different layers of our associates. And we also have management training programs that covers the different needs of business from the MBA graduates of the most prestigious universities in China such as [Chongqing] University to students from the schools of first Tier -- the third - Tier 3 and Tier 4 cities.

We also provide job specific training for store associates and buyers and also management training programs for managers of different levels. We also provide leadership development programs to help our leaders to grow fast with the company.

Specifically, we provide women leadership programs that help this very important segment of our associates to fulfill their career with Wal-Mart. We also provide very robust job rotation programs for associates around different divisions and different markets of China -- of Wal-Mart globally.

I'm very proud to say that nearly 100% of our store managers are promoted from within. I'm also very proud to say that 40% of our management associates are female.

I would like you to meet Grace Zhong. You're going to meet her when you tour stores in the afternoon. She is now our Senior Operations Director of Southern Region. She started with us in the year of 1996 as a store associate.

Now she's leading nearly 20,000 associates in this company serving our customers. She is also a role model of many female associates in Wal-Mart China. If you don't recognize the gentleman to the left of Grace, he is Rob Walton, son of Mr. Sam Walton.

So we work in a company that respects our associates. We enable them. We encourage them to put our customers first. We strive -- we together we strive for excellence. Our associates love Wal-Mart.

They in the 2010 Associates Opinion Survey Results told us that engagement level of Wal-Mart China is 88%, almost doubling the market level at 49%, also higher than the best employer known in China. We have a very engaged group of associates working together.



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With all the efforts of associates and the talent -- and the management team we are able to have this widely recognized best employer reputation not only in retail market but also across all industries. Some recent examples are; in 2010 Hewitt gave us the "Best Employer Award" across all industries.

Also, last year the China Chain Federation of Association (CCFA), which has a strong connection with government and also one of the most respected retail associations in China gave us award of "Best Retailer to Work For." Just two months ago we were given award of "China's Top Employer 2011" by Corporate Research Foundation.

We welcome this as this kind of reputation will help our customers -- our associates understand who we are and what we stand for. We are able to leverage this kind of recognition to do even better and grow further. This kind of recognition also enables us to establish constructive relationships with unions of all levels from the central level to provincial, city, grass roots levels.

The China government is taking measures to increase the income level of its low earning groups trying to reduce the gap between the rich and the poor and also to maintain social stability while it grows its economy. With increased income -- with this the increased income will eventually be reflected in our sales increase.

The immediate effect is the increase of labor costs. Our strategy is to have full recognition of the reality and also get alignment with the government's priority. Get focused on efficiently managing the cost through employment management and also productivity improvement activities while maintaining our associates' engagement level.

With our advantage of low people attrition rates and high engagement we are confident that we'll continue to lead in this market. So in summary we have a strong talent pipeline. Our 100,000 associates are working together to serve our customers. We are widely recognized as the best employer and we have a strong cost management plan in place.

Working together we are ready to grow and make Mr. Sam Walton's vision a reality for more customers in China. With this I will invite Barry Friedman our Head of Corporate Affairs to the stage. Thank you.

Barry Friedman - Wal-Mart Stores Inc. - VP - Corporate Affairs - Wal-Mart China

Thank you Clara. Good morning, everyone. Another key enabler for success of our long-term strategy in China is building a positive corporate reputation and image, and building on an excellent corporate reputation is the best way to gain government support and also to create a healthy environment for our business and for our business growth in China.

First, and central, to our success in developing these relationship is expressing a goal that is of mutual understanding and benefit to our government decision makers.

As a good and local corporate citizen, one that is fully compliant with all laws in the country, we follow the government's lead in development of China and also its lead in economic trends, and we focus on government and societal priorities that also strengthen our long-term competitiveness in China.

We are doing this through continuous positive engagement with the local and national media, with also frequent contacts with local decision makers around the country where we exchange ideas on development, express our best practices and also find areas that we can be helpful to local areas, at the same time initiating our Wal-Mart corporate social responsibility and sustainability initiatives.

Speaking of approaches, it is absolutely essential that we align our business strategy with the government and societal priorities. Following themes that were again recently emphasized in the National People's Congress announcement of the 12th five-year plan, we have created programs that support domestic consumption, that boost rural economic development, that create economic activities that will create jobs and employment throughout the country.



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We are strengthening food safety systems, which are a top priority for the government and sustainability across all of our business activities. All of this has been highly praised by government decision makers and by the media in society.

Finally, our goal is to be the most admired company in China, the best retailer, the best employer and to be seen as a local company. If I can quote the Vice Minister of Commerce, (speaking Chinese), "Wal-Mart China is a Chinese company." And this is a concept that we are trying to promote throughout the country.

I think many of you are familiar with this slide. One of the government's priorities is environmental protection and energy conservation, and it was raised to an all-new high status in the 12th, five-year plan and it's fully aligned with our own global and local sustainability initiatives.

These are the three global corporate goals of sustainability. We will be supplied 100% by renewable energy in all of our business activities. We are committed to create zero waste and also to sell products that our customers want that sustain resources and the environment.

We date our journey in China in sustainability to October 2008 when we hosted the Global Sustainability Summit in Beijing, China, where we brought together over 900 of our key suppliers and global partners, Chinese officials, the media, NGOs and other stakeholders with the aim of proving our business practices in a variety of areas and those of our partners and suppliers.

We have many initiatives ongoing in China in our stores and operations. We've concentrated on greening our facilities, and we're doing this through energy and water reduction use and working with our service providers to lower the logistical footprint of shipping products around the country to our many locations.

I'm happy to report that we've already met one of our overall goals, and that is to reduce energy use by 40% in our prototype [doors] against our baseline. In delivering on our ambition of zero waste, we have also set some very ambitious goals for ourselves.

By calendar year 2013, we want to eliminate all plastic bags in our stores, achieve a 70% waste diversion from landfill and reduce packaging waste by at least 5%. I'm also happy to say that we've met our first goal of water reduction by over 50%, so we'll be able to build on that as we move forward and open more stores.

We want to meet these goals, not only for ourselves but also with our suppliers, and we're helping them do that. For instance, last November we held our third packaging fair where we brought together our suppliers and packaging experts to trade ideas and also devise strategies where they could reduce packaging in the products that they sell to our customers.

In other areas of our products, we have also achieved 90% RoHS, ROHS compliance on energy efficiency (technical difficulty) and we're also looking for more energy efficiency, 25% this year.

In the area of private label and non-branded suppliers, we have full declaration of the names and locations of all factories that are involved in supplying (technical difficulty), and this year we're going to verifiable 100% compliance with local and societal regulations.

This is a program that we are particularly proud of and that you've heard mention of it already, the Direct Farm program.

(spoken in Chinese) is now a national brand and famous brand across the country. (technical difficulty) a symbol that you'll see on the products.

That's the symbol that you'll see on the products, and you'll see a display over there on the other side of the room, which will be similar to the signage that you'll see in the stores. This program brings particular benefits to communities, farmers and government entities as well as our customers.



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For the government, we are fully aligned on priorities for rural economic development, which hundreds of millions of Chinese depend on as well as raising the critical area of food safety.

For our customers they get higher quality, safer products, healthier products at much better prices. For the cooperatives and the communities that we operate in, we help them maintain and sustain scarce resources. And of course for our farmers, they not only get training and technology transfer, but they get more of their product to market at a better return.

There are certainly sustainable and environmental implications for this. Just a few of them to mention are more sustainable growing practices, a lower logistical footprint in delivering our product around. For Wal-Mart itself, we have a greatly improved image in quality, in price and in safety with the government and with our customers.

We have established 65 Direct Farm bases in 19 provinces and cities around China. We have about 800,000 Chinese mu of land under cultivation. That's about 130,000 acres, and we are working to improve the livelihood of 750,000 farmers and farm workers who are engaged in this capacity-building efforts.

We've announced some new goals through our global sustainability agricultural efforts around the world and, for us by the end of the calendar year 2015 we will engage over -- almost 2 million farmers in the Direct Farm program.

We'll try to produce 15% less product waste and have 50% of our perishable goods in a cold supply chain. We hope to upgrade 15% of our green farms to organic farms also by that calendar year. By strengthening government relations, by leading in corporate social responsibility, we have built a strong reputation in the market. And that gives us that license to grow.

Some of our activities are up here, but first I want to mention that the activities have to also be communicated to the public. And we have very positive engagement with the media. This past year, we've had five times more positive stories on the activities that we're doing in China. We've received twice as many awards in recognition from society as we did in any other year.

We have conducted community events around China in food safety with families, women and children, our key customer group, in education and sustainability. And every day, our associates throughout the country give back to their community by volunteering in these areas and also in many others.

Following our commitment to inclusiveness and diversity throughout our business, we have an agreement with the China Women's Development Fund, a unit of the All China Women's Federation, which is the largest women's federation in China with over 1 million members, headed by the Vice Chair of the National People's Congress.

We've established through this connection an association of the Wal-Mart Women's Development Fund. The purpose of the fund is to give financial support and technical assistance and training as well as a revolving credit facility to women in China's poorest rural areas involved in agricultural production and related industries. And we help women start their own businesses so they can live better lives and become suppliers for Wal-Mart.

Over the past 15 years, we have donated millions in cash and in-kind support to local communities and organizations around China. Wal-Mart China sustainability and CSR efforts are widely recognized throughout the country.

Just a few of the awards that we've received just this year include the Best Corporate Social Responsibility Contribution Award of China, the China Women's Charity Award where we've been selected as one of the ten best global leaders in a green economy by Chinese organizations, the Best China Employer, the Best Retail to Work and the Best Retail Innovator in China in 2010 and so forth.

Also, Wal-Mart China leads in community involvement, and we're able to bring our business expertise to address problems that face the country. One area that we've talked about already has been in disaster relief where we can bring some of our logistical support.



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The last few years have been difficult for our -- many of our customers in communities around China because of adverse weather and natural disasters. Wal-Mart China is a committed local corporate citizen, and we show we care when adversity strikes.

This year for instance, we donated to relief and logistical support to communities that were hard hit by mudslides by floods, and there have been earthquakes. Since the big earthquake three years ago, there have been others, and we have used -- we have given a lot of relief support and logistical support in those communities as well as our associates helping out in Sichuan and [Sangi] provinces.

In a similar way when there are tragedies that strike other areas of the world, we move quickly and our associates also move quickly to give support in Haiti and our sister company in Chile when they had the earthquake.

When the news and the extent of the tragedy in Japan became known, our associates had a well spring of support and sympathy for our colleagues in Seiyu, Japan, and raised quite a bit of money and worked with Wal-Mart Asia office to put together relief supplies in a plane to send over to China, and we're still doing that.

Our Wal-Mart China associates are, in fact, the real heroes of any successful CSR program that we do. We've donated about 200,000 community hours to community service in CSR activities around China, and that's actually the real story and tradition of the Wal-Mart culture. And what makes Wal-Mart China so special and so successful here in China is that work by our associates.

Just to summarize some of the key takeaways that we talked about just now, we have a very strong and positive relationship with the Chinese government and it's essential that we align our business activities with those priorities of the government.

We have made a lot of commitments and engagement with the community in a variety of areas, especially in sustainability, and we are delivering on those goals in all aspects of our business. One area is the Direct Farm program, which is aligned with many areas of China's priorities, and it gives direct benefits to our customers by creating greater efficiencies and lowering costs and prices.

All of this together helps us boost our reputation, and leading reputation is what gives us that license to grow in the country. We are recognized, both as a leader in retailing and a leader in community involvement, and that's really the key for us.

We are very well knitted into the communities where we operate. We are seen as the local partner, and our associates have been the great agents of that. Thanks. And now, I'm going to ask Ed to return to the stage.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Now, let me share with you our final and the third enablers to support our growth, the supply chain. Supply chain has traditionally been a core strength of Wal-Mart globally.

And we are very proud of the fact that we have built an integrated DC network in China, which provide us very unique advantage to serve our stores and customers around the country, and we also are very proud of the productivity gains that we achieve in the supply chain through centralization, process optimization and also through building scale.

Have a large supply chain is not our only purpose. We're also improving our productivity by continual processing improvement to getting more out of our existing supply chain. In the last two years, we have been improving our efficiency and productivity in our supply chain by 10% per annum.

Our DC network has expanded rapidly, in tandem with our store expansion. Back in 2006, we only have two dry DCs. Now, we have a network of five dry DCs, six regional perishable centers and some DSD centers to support our rapid growth of the stores.



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We'll continue to grow on this strategy, and by 2016 we will have a network of seven dry DCs, more DSD consolidation [ponds] and more perishable centers to bring our stores closer to our distribution network, enhance serving the stores and customer even faster and raise further efficiency so that we can generate better and better return.

With that, we have covered a lot of materials this morning for Wal-Mart China, and I'd like to just recap some of the key highlights. We have a clear growth strategy, and they have three growth drivers, driving cost comp store growth through productivity loop; accelerate new store openings; and explore new channels through eCommerce.

And we have built and will continue to strengthen our strategy enablers, our people and culture, our CSR and government reputations and also an integrated supply chain to bring our stores closer to our DC network.

China economy is promising, and it's amazing. It's about urbanization. It's about building huge economic clusters. It's about creation of middle class. Our strategy aligns very well with that development of China, and our enablers are built to support those growth drivers.

It's also important to highlight again how our growth drivers and our enablers align very well with the government priorities. Our people, our government relations and supply chain, sustainability and driving consumption, these are what the government plans to do in its next five-year plan.

Over the past 15 years, we have built a fantastic reputation, store network, associate to support this exciting growth. We are also keenly aware of the fact that our shareholders look upon us for growth. We also continue to drive productivity so that we can report back with good return to our shareholders.

With that, I would like to ask Carol to help us moderate the Q&A sessions with the remaining time.

QUESTIONS AND ANSWERS

John Zolidis - *Buckingham Research - Analyst*

Hi John Zolidis, Buckingham Research. You talked a lot about working closely with the government in terms of setting strategic priorities and making sure your aims were aligned with the published intentions etc.

Have there been any points at which you've run into any friction from a business standpoint where Wal-Mart's business goals could not be reconciled with these government priorities?

Ed Chan - *Wal-Mart Stores Inc. - President, CEO - Wal-Mart China*

Barry would you like to answer this question or would you like me to start first?

Barry Friedman - *Wal-Mart Stores Inc. - VP - Corporate Affairs - Wal-Mart China*

You can start --

Ed Chan - *Wal-Mart Stores Inc. - President, CEO - Wal-Mart China*

I'll start first.



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Barry Friedman - Wal-Mart Stores Inc. - VP - Corporate Affairs - Wal-Mart China

And then I'll continue.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I think one of the great experiences we have is about active dialogue with the government at central level, at different ministries, also at a local level.

It's this mutual understanding and trust that we've built over many years that I won't say we have the situation you describe but it's about explaining who we are, what we stand for and our plan and understanding the points of the governments around the country, their needs, their priorities.

So far I think our relationship has been mutually beneficial and we learned a lot from this relationship and we have created a lot of trust during the last 15, 16 years in this country even before we started the -- the first store in Shenzhen. Barry you want to add on that.

Barry Friedman - Wal-Mart Stores Inc. - VP - Corporate Affairs - Wal-Mart China

Sure as Ed says we work closely within the regulations and are a fully compliant company with what China has set for foreign invested firms in China. Of course there are things that we would like to do in China that we do very successfully in other parts of the world selling certain products that we're not allowed to sell right now.

So, we're waiting to do that. So, we engage the government in discussions of where we can expand and contribute to the society in our business goals.

John Zolidis - Buckingham Research - Analyst

Just as a follow up, could you talk specifically about real estate. You did mention that you've got your first store where you have this direct approval to have, I guess, long term land use rights. Is that something that you would like to do more frequently going forward and how do you go about getting that approval?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

We have get our first one through our Dalian Sam's Club which is currently under construction. It's part of our real estate strategy beside the one that we've been using mostly up until today which is leasing from developer partners.

We'll be looking forward to when the occasion is suitable and the site is available and meets our needs then we'll go and work with the government dealing directly to acquire those venues which will give us long term use of that particular plot of land. So, it will be part of our strategic portfolio of getting sites in those markets that we want to go into.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Our next question Stephan and then we'll go to David up here.



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Unidentified Audience Member

It's fun to see this map you have of integrated supply chain network. It's very impressive and I'm just wondering how complete you consider it?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I'm sorry what's the --

Unidentified Audience Member

How complete you consider it?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

How complete do we consider it?

Unidentified Audience Member

The supply chain network.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Well, I think we are well structured in terms of the supply chain road map going into 2016. I think in some parts of China we are actually ahead. But if you look the detailed supply chain network it's about building some major, major [drive DCs] because you know the efficiencies will go up as we have some major ones.

But we are also building many regional perishable centers. That reflects the needs of many perishable products you need to be shipped from a nearer distance and we're also building some DSD consolidation points.

But the fact that there's still many suppliers who are local there are still many suppliers who may not have national distribution networks that will accelerate the speed to the market for those suppliers and products to our stores.

We are also expanding certain category dedicated centers such as electronics, such as apparel. So that will give us a network of multiple purpose by category by the need to be quick to the market, quick to the store network. So I think we have a very good plan as we laid out in the next five years.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay next one was up two -- a couple of rows, David.

David Reed - Hillhouse Capital Management - Analyst

Hi this is David Reed from Hillhouse Capital. With regard to the growth strategy it certainly looks like there's a lot of stores that are going to go into the network over the next few years. So I'm wondering if you'd give any more color.



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I think you've talked broadly about the opportunity in Tier 2, 3 and 4 markets. But is there a more focused strategy around which geographic areas? If you talk about 22 different city clusters are there certain geographic areas or regional focuses that you want to expand into? That's the first question.

And second, kind of piggy back on the supply chain network, if you look at the supply chain that you're preparing to build, what kind of scale of operation are you prepared to support?

Because certainly the -- the network that is outlined here looks like it would support probably 1,000 plus store network scale, or multi thousands, relative to the extensive build out of the back end. So what kind of operation are you prepared to support in the coming few years?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

The first question first. In terms of where our priorities are I probably will not give you specifics by province but I would describe how we enable us to help our customers save money by way of majors in the majors. There are markets that we are winning certainly better in some parts of China. Roland described a little bit of that.

It also depends on our mix of formats in which part of the cities. Sam's is a very major cities, high-income cities driven format. Our Hypermarket is more in mid-market, middle-class formats. Then we have those test formats in the pipeline and I introduced two of those today the discount compact hyper and the small soft discount smart choice. So that mix of formats would determine how we spread our stores around the country and also where we are winning.

It also depends on the saturation or relative saturation in competition of the cities and the availability of real estate site. So that can give you sense of where the growth potential will be. But by and large in many Tier 2, Tier 3, Tier 4 cities there is still plenty of growth and many of those markets we don't even have one store yet.

And on your second question I wouldn't comment on the predictions, how many stores or clubs that network will support but the most important is we're going to allow stores to be served quicker and faster for rapid replenishment so we can get more products quicker into the hands of our customers.

And also by running more and more efficient supply chain there's a dual purpose of not only serving the stores but also we want to make sure that we run our supply chain efficiently to drive the return expected on the China operation.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay next question Faye.

Faye Landes - Consumer Edge Research - Analyst

Hi yesterday there was a lot -- I'm sorry Faye Landes, Consumer Edge Research. Yesterday there was a lot of conversation, a lot of slides, a lot of mention of pricing structure, EDLP both in Japan and other Asian countries.

Today you touched on a lot of things but maybe it's just my perception but less on how you price. Can you just elaborate on that and I guess just drilling down a little bit, how localized is the pricing?

Is EDLP -- where are you on the EDLP scale? How feasible is EDLP in this market and what are some of the challenges? If EDLP is the way that you're going what are some of the challenges in implementing it?



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Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Yes a few things. Number one, it's fully aligned with what Doug has shared with you yesterday. For China EDLP is about a journey. It needs to be a structured approach toward it. We need to be keenly aware of the customers' needs, our competition and where our stores are today.

Some of our stores who are in newer cities would be probably the ones that are easier to start that journey earlier. But in some cities Faye, there's a lot more competition and we're still building scale and we'll take a bit longer to go toward that EDLP journey.

And it's most important we stay relevant to our customers with the assortment and the pricing and also always remember the supply chain efficiency of the EDLP journey. The more we can drive toward EDLP the more efficient we are and the more consistent our pricing will be to our customers but we have to deal with it in a very, very structural fashion.

Faye Landes - Consumer Edge Research - Analyst

And just color for those of us who spend very little time -- spend very little time here. What are some -- are there -- are there specific cultural issues in terms of pricing that we should keep in mind?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Pricing is about looking at the cost of doing business and how we buy our products and where our stores are in terms of competition and we need to stay relevant.

And if you recall one of the slides I presented earlier on the price checks, we measure against 51 competitors and many of those competitors are very, very local.

So we want to make sure that we deliver best prices to our customers as compared to who our stores are competing against. Many of those competitors again are very local and they are very, very capable. So that's how we deliver a differentiated pricing to better serve our customers.

Faye Landes - Consumer Edge Research - Analyst

And just a final follow up on this. Just in terms -- what I meant in terms of the cultural issues though are that am I correct in thinking that people who are recently lived in rural towns and are in Tier 3 and Tier 4 cities are now very used to a fixed pricing model at all.

When they are shopping at wet markets they are haggling, etcetera. And is that -- is that -- if that's the case does that make things as -- does that present its own challenges?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Very good. Well I'll just answer it by experience in the newer cities and the Discount Compact Hypermarket. In those places a lot of the traditional customers have been shopping in wet markets.

But when we introduce a new source either a Discount Compact or a Hypermarket what we've found is particularly in general merchandise we give them the access of products that before our entry are not available to them at such great prices.



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And on fresh we stay very in tune to what the competitions are and we give daily fresh with daily, weekly, great prices to ensure that our customers have the same price experience as they shop in the traditional wet market.

But one thing we differentiate on our fresh is about quality. We source from high quality safe sources. And we are building a big enabler Direct Farm that allows us to source cheaper, reliably and at the same time helping farmers and can trace back where we sourced those fresh produce from.

I think that's a clear differentiation compared to the competition in those newer cities or for customers who used to shop in traditional markets.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Ed, during the break one of the things we also talked about in a small group was about the competitive environment from the informal market standpoint. And I think one of the other points that you made beyond price at that point was also the quality, price and food safety. So maybe you could touch on that as well right now.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Yes, informal markets are still a big part in China. How big it is depends on which region, which city, which province. Obviously, in Tier 1 cities the informal market would be smaller than emerging cities.

In addition to the food safety I mentioned in particular the fresh. Chinese customers put a lot of importance on this trust element and building around the trust is the service in the store and particularly do they believe your products are safe.

Whether it's food, non-food and do you procure your products from responsible sourcing. That is a key difference a key enabler for a good retailer to answer to respond back to the rising need of the customers. It's food safety. It is about responsible sourcing. It's about a responsible retailer.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Other questions Dan then Adrienne.

Daniel Binder - Jefferies & Co. - Analyst

Dan Binder of Jefferies, in one of the slides you talked about very broad strokes managing associate cost structure in a rising wage environment. I was wondering if you could be maybe a little bit more specific, elaborate on how you're doing that.

And then separately, as part of that same question, there was a slide yesterday that showed the sales per associate in Japan versus China. It was a pretty big difference and I was just curious if there is an opportunity to streamline the associate structure here in China?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Very good, I'll break your question into three parts. Number one is how we offset the wage increase? The third part is comparing China and Japan. Then I would like to ask Clara to fill in with the soft side of people strategy.



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On the first one I think the initiatives I've introduced are Worksmart which is a Japan program and adopted in China is one way that we try increasing productivity of associates to offset the wage increase. Obviously the more we can drive the productivity gains throughout the entire chain the better we can offset the wage increase.

The flip side of wage increase means there will be more disposable income of -- of the consumers in China so there's a good side of it.

In terms of the -- the associate head counts in -- in the Japan presentation yesterday and today, first is we run different size of boxes. In China the box sizes are bigger, that's first.

Secondly, is we should also look at the -- the unit per labor hour than just the sales because you know on the average the -- the commodities merchandised sales value in Japan is higher, more expensive than -- than China. The third is Japan is a best practice country in terms of productivity and we still have a lot to learn from Japan and that's the beauty of being part of the Wal-Mart family.

We'll continue to drive learning through our own pilot roll out Smart Choice, also continue to learn from Japan experience how they become the best in class in Wal-Mart family in terms of labor productivity.

Daniel Binder - Jefferies & Co. - Analyst

Maybe if I could just as a follow up to that, how does your sales per associate look versus your competitors and is there a government priority to have a certain level of employment per store?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I'll give the opportunity to Clara to answer some of the engagement part, how we build the engagement addition to the more common benefits question you have. I can't comment on our competitors' sales per associate but we do have mixed formats.

We do have stores in different Tier cities and that makes that answer back on what is the sales per associate -- there are regulations on neighbors but I don't think there's a fixed labor headcount per store that's required by law to answer the last part of your question. But I would like to ask Clara to add on what are the things that we do in addition to stay competitive on common benefits in order to train, retain and develop associates, Clara.

Clara Wong - Wal-Mart Stores, Inc. - SVP - People, Admin & AP, Wal-Mart China

Thank you Ed. Thank you for the question. Actually for our people practices we're always believing something fundamental based on our culture. We believe that happy associates will bring happy customers and hence the bigger sales and that has been the foundation where we have built our people practices.

And I'm very happy to say that since we started the roll out of the Worksmart program last year and you saw in Roland's presentation the productivity has been improving all the years. But another good news is that our engagement level is also increasing.

Last year we were -- I shared with you is 88% and the year before last year is 83%. So it is a continuous growth at a very high level and the market norm has actually remained kind of flat, a slight decrease actually.



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So it's a very -- I'm very happy to say that we are happy with our productivity improvement activities and at the same time we're able to maintain a very engaged work force. And the attrition rate for our work force is I would say very, very good. I'm very happy with the performance of the attrition rate.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Next Adrienne.

Adrienne Shapira - Goldman Sachs - Analyst

Thank you, Adrienne Shapira, Goldman Sachs. As you seek to capitalize on China's growing domestic consumption spending opportunity I'm wondering if you could shed light on the difference between non-food and food sales. And I think I the video Dalian said about 44% of sales in grocery. Maybe shed light on the difference on that spread in Tier 1 versus Tier 2, 3 and 4 cities.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Well that's a very good question. If I give you a spread of the overall country it probably doesn't give you the -- the real picture of the different Tier cities, different formats and the different maturity.

Although one would imagine that as the population is becoming more affluent you spend more money on non-food general merchandise. But at the same time what we're seeing is also there is a lot of innovation opportunity to sell even in food.

There is so much great innovation in product introduction even on some of the basic commodities. In categories such as rice, I would encourage you when you look at Sam's Club this afternoon, you will look at some of those very high value rice being introduced into the market.

So there's still lots of growth opportunities but in the more established Tier 1 cities you do expect that general merchandise and larger appliances probably will go up as a result of higher disposable income growth in those and in more affluent cities.

Roland, do you have anything to add on that one?

Roland Lawrence - Wal-Mart Stores Inc. - SVP, CFO - Wal-Mart China

I would just say that food is an important part of our business and we're proud of it but we don't split our information regarding food and general merchandise.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

We'll take the next one from Aaron, up front.

Aaron Fischer - CSLA Ltd - Analyst

Yes it's Aaron Fischer from CSLA. What's the average wage increase you've been putting through the last few years and what's the expectation over the next few years?



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Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

The average --

Aaron Fischer - CSLA Ltd - Analyst

Wage increase.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I think our wage increase is pretty much in tandem with the -- with the market is. We can just stay competitive. We have to remain competitive in the next few years as you can understand being part of the next five-year-plan for the country.

Premier Wen had indicated how he wants to see the different priorities of the Country's such as growth development such as bridging the income gap between the higher income and the lower income earners. So we just need to stay, number one is competitive.

We've got to pay what the market requires to pay. But most importantly for us is number one to drive productivity. That is the way we know what to do and we are confident we can do it.

Secondly, is in addition to common benefits it's about the people culture. It's about the development potential that you use to retain talent to reduce turnover. Common benefits is not the only tool to make a great people company. And you need to have a great people company to support a rapid retail growth in China.

Unidentified Audience Member

(inaudible question - microphone unavailable)

Usher Urqhardt - Samuels Capital Management - Analyst

Hi [Usher Urqhardt] from Sam's Capital. In terms of merchandising in China how do you balance carrying local brands that drive traffic versus global brands where you have a sourcing advantage or the margins might be better.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

It's important to have a good assortment merchandising that a lot of the products drive traffic. The number one category that drives traffic in China is fresh and fresh is primarily very local.

Although in some produce categories it becomes very regional sometimes even national such as those direct farm examples you heard earlier in the day, the apples, the Fuji apples, the pear, etcetera. I think in terms of driving the margin I think good suppliers whether they're global or whether they're local they're all supportive of how we can go on the journey by mutually incurring sales, thinking of customers and also driving profitability for both the suppliers and also for -- for Wal-Mart in China.

But again the biggest traffic driver in China is perishable, the fresh categories. And it is also one that the customers come and the customers build their trust in your retail brand.



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Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Ed, we'll take two more on China. The next one will come from Bob and then we'll go to Greg up front.

Bob Summers - Susquehanna Financial Group - Analyst

I just have a question on Sam's Club. I think the chart said six clubs in four provinces going to 17 provinces. What is the expectation on the number club increases that you have planned for the next five years?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

We don't detail specific opening plans but that gives you an indication of the confidence and how much we like our Sam's Club business here. It is very uniquely positioned. It attracts AB customers and in China in the big cities there are a lot of AB customers and they'll be rapid growth of those AB customers.

We also continue to see a lot of needs from the business members that these current and newer Sam's Clubs will find uniquely positioned to serve those needs of the business members. So again on the slide you see 17 provinces our current thinking and that gives you an indication of our confidence in this unique format. While we cannot share the numbers Jiang do you have anything to add?

Baker Jiang Zheng - Wal-Mart Stores, Inc. - Regional Director -- Operations

Thank you. What I can share is it's the right time for Sam's Club to fly in China. And I'm very glad I'm the one member of this fast growing format.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Yes you can hear from Sandy that her passion for Sam's is unparalleled and we are very proud to have Sandy and her team to drive the growth of Sam's Club.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay, last question, Greg.

Greg Melich - ISI Group - Analyst

Hi Greg Melich from ISI. I guess a bigger picture question. If you're going from 300 some stores to whatever 500 over the next five year what is the biggest constraint? There's real estate, there's government relations, there's managing the people, there's supply chain, and I assume it's not capital given what we heard yesterday.

So as you see it if we don't get to whatever number you have, rank what things would actually be the constraint at the end of the day?

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

I think we can answer the question about what the constraints and in fact what we have built is enablers. For retail business first and foremost you've got to have people the talent and the loyalty working for a common mission.



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I think there's always a challenge. We have built such a fantastic reputation as a people company. You also draw the inevitable consequence that Wal-Mart's a company that a lot of retail companies or even non-retail companies come and ask our associates if they would consider.

So people is a constraint but we have built enablers to be a people company stay competitive on the common benefits side, build great culture to retain and develop associates, give them opportunities both in China or even globally.

The second is obviously size availability. We want to grow more in China if we can find even more sites and staff always ask can you grow faster in China.

There will be I think -- I wouldn't call it a constraint because we have built such a great strategy and enablers of multiple pillars with national, regional and also local independent developers and also great relationship with the governments around the country for direct dealing on buying the land use rights. So we feel good about those enablers but if we can find even more sites I think we'll be even happier.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Thank you Ed and the Wal-Mart China Team. Now we'll have Scott, Doug and Cathy come up and we'll just have a few more minutes for any other questions beyond China or any of the presentations that you heard yesterday. Okay we'll start -- John we'll start with you first as they're walking up.

John Heinbockel - Guggenheim Securities - Analyst

John Heinbockel, Guggenheim. Can you talk about the budgeting process for regional to international to corporate, bottoms up versus -- top down versus bottoms up, the dynamic, how that may have changed in the last couple of years.

And then is your budget very much independent of what US might do? So if US is struggling is there more pressure on you to deliver more profit or is that not the case?

Cathy Smith - Wal-Mart Stores, Inc. - SVP - Finance, Wal-Mart International

You must -- You must not have liked my answer when you and I spoke about this because we did have this discussion. So I'll answer it and then Doug and Scott can obviously answer as well.

We obviously do a combination of tops down and bottoms up. Historically we've probably been a little bit more bottoms up derived but as always we have expectations both of ourselves as a total company, as a division as well as external expectations that we have to try to meet and those do bear some top down aspect as well.

What you would have heard from Doug yesterday is that as we think about optimizing our portfolio we're being a little bit more deliberate around top down targets. However, bottoms up is really important to understand capabilities for real estate, for new stores, for comp stores, etc. So it is a combination.

And to your point about the dynamics between Wal-Mart US versus International versus Sam's we all have high expectations so we don't independently say just because Wal-Mart US is going to this, we're going to do this. We all have the same kind of high expectations.



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Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Did you answer it differently, no.

Cathy Smith - Wal-Mart Stores, Inc. - SVP - Finance, Wal-Mart International

Okay so you didn't like that answer from yesterday so what should I change?

Scott Price - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia

Okay maybe I'll through something in. I come from two other multinationals. And the process is here's the bottom, here's the top and top says best of luck to get to that number. I think the difference in Wal-Mart is that the gap does exist but we are far more focused on the global leverage opportunity to help the countries close the gaps.

So when you look at productivity per square foot we talk about okay well here we can benchmark, China and Mexico, great benchmarks, Japan, UK, great benchmarks, in terms of market demographics, in terms of the density of population, etc.

Cost opportunity so we talked about the Worksmart. So those are the ways where countries are not left to their own. This is where really global leverage can play a powerful part of ensuring that we have high expectations but we give the countries the tools to achieve them.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

I would also add on that that as a member of the corporate segment which is our fourth segment beyond the operating segment we have the same pressure to provide leverage and expense control as well. So what you heard from Cathy really applies to the entire company.

Cathy Smith - Wal-Mart Stores, Inc. - SVP - Finance, Wal-Mart International

You know I think we'll amplify though Scott's point. It is worth amplifying I think, what the nuance is there we understand the powered by Wal-Mart advantages that we have.

Great opportunities to continue to drive value there and that is how we're going to help with closing the gap a little bit more deliberately then maybe we have in the past. We're helping to quantify those leverage points a little bit more.

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

I might just one other thing and I mentioned it yesterday as it relates to Brazil. Incremental improvement in the markets that don't generate an acceptable level of profit today is not enough. And so we need step change improvement in some of those particular markets in our -- our budgets and our expectations reflect that.

We are trying to help them with how but we're not going to give some of these markets five and ten years to achieve a higher level of profitability.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay we'll take one from Mark.



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Mark Miller - William Blair & Co. - Analyst

It's partly to do with budgeting as well but maybe you could just talk in general terms about things that happen that are outside of budgets like you get commodity price inflation. You've got to do something about it and you've got to pass it through somehow.

And then drilling down a bit more specifically, clearly in the US it's a straight forward market economy. But if you could think about a couple of years-time in China you've got a wage inflation, you've got rent inflation, you've got commodity prices and you're putting through price increases in the store.

And then a phony question comes when the government says, "Well in our five-year-plan we don't have 10% inflation what are you doing putting your prices up this much?" How do you then partner with government? Or you haven't had the problem yet probably, but what if they suggest to you your prices are rising too quickly?

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Well I think we're reliant upon market economies including the one that we're in right now. And one of the beautiful things about our business is mix and as some things become more inflationary and in this instance commodities there are other categories that are deflationary. Electronics has been an example over time.

So I think we'll manage those things through mix and Wal-Mart's bias would be the last one to go up and the first one to go down on pricing whenever that's policy -- whenever that's possible.

So I think that the relative positioning of Wal-Mart compared to our competition would put us in a favorable light as it relates to customers, governments or other stakeholders. And that would be true anywhere.

Mark Miller - William Blair & Co. - Analyst

But you have to go back during the year to amend budgets, how do you do that if this stuff becomes unexpected or the extent of it is unexpected, or the market reaction is different from what you expect?

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Yes it's just a management issue. So if we budgeted the year with a certain level of inflation in it, for example, and it turns out to be quite different, we'll just use reasonableness and manage it from month to month and quarter to quarter and respond appropriately. There are things that we can control and there are things that we can't.

Mark Miller - William Blair & Co. - Analyst

Okay thanks.

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

We do make adjustments as it relates to things like incentive programs based on what happens with inflation.



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We mentioned yesterday for example that Argentina has a very high level of inflation and we have a review policy that is well understood by our management team that at the end of the year if our assumptions were off to a great degree we make appropriate adjustments.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Next one will come from John and then we'll go right to Maggie.

John Zolidis - Buckingham Research - Analyst

Hi thank you. I was just wondering if I could ask for a little clarity on the real estate strategy in China. I guess you have 330 some stores in 120 some cities. I know you don't want to talk to us about how many stores exactly you want to have over what specific time frame but it seems like that's a sub-optimal distribution of your stores.

Since you don't really have market I guess scale in any particular city. So going forward how would you prefer to have the stores open? Do you want to have a clustering strategy or is it really a land grab strategy where you're out there just trying to open up stores as quickly as possible and in as many different places as possible?

Scott Price - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia

I think the first point would be orient it back towards the demographic slide that we saw about multiple formats. So in an A city obviously ABCs focus we're talking about Hyper Centers, we're talking about Sam's Clubs.

And we have followed the concentric circle approach. We have actually quite efficient logistics costs when we look at our competitors. We're not dissatisfied with the profitability of the stores as we look at the model.

So it's a mix of bulking out the density and we see a lot of opportunity and a lot of upside while at the same time entering into new cities that are still reachable within that concentric circle approach.

So we've been methodical. We've been deliberate in the process and we don't believe that we have stretched ourselves beyond any single store being able to achieve what its objective is on ROI.

In terms of the number of stores we opened more stores last year than anyone else. We kind of like that pattern. In terms of the constraints on real estate we've got a great department. We've got a lot of pipeline so we don't see that we're going to have any issues with growing quickly. In terms of an absolute number we don't talk about those because our competitors would love to know.

John Zolidis - Buckingham Research - Analyst

Okay, I guess I wasn't thinking about it from a logistics standpoint. I was thinking more from a customer and marketing standpoint and a market share and share of mind. And so, that is why I was wondering why the one store in each different place rather than a clustering strategy where you could get scale with the customer in terms of awareness.

Scott Price - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia

When we look at our marketing we look at our statistics in terms of top of mind. Wal-Mart has a disproportionate brand awareness relative to our market share and it's a lot to do with what our government and our corporate affairs people have done. A lot of it has to do with our community relations.



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When we do a grand opening we get a very fast loyal customer base. So I don't think that opening in the trade area next door versus in the next city has any differential in terms of the initial revenue bump up that we get. So, I don't see it as a disadvantage. The current approach that we're taking.

John Zolidis - *Buckingham Research - Analyst*

Okay, and then just one last follow up. Any experience from other countries or markets that suggest this is the right way to go versus a clustering strategy?

Scott Price - *Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia*

I think Mexico, Doug is -- we've actually spent a lot of time in Mexico talking to our colleagues there and in particular not only the bulk out but the multi-format approach that we've taken.

So we've launched the compact hypermarket. We've called it the Bodega of China which we are in fact using as a clearer understanding of what is the fit out and the cost per square meter that we want proportion to revenue. So we have used other markets and we think Mexico's a pretty successful model to copy.

John Zolidis - *Buckingham Research - Analyst*

Thanks very much.

Doug McMillon - *Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International*

I think our preference would be what you're alluding to which is to have more of a clustering approach and logistics and the cost to serve would be the primary driver for that from our point of view.

But in the case of China specifically because of site availability if we can find a great project that's outside of that cluster and go ahead and get it done and make the math work we're going to ahead and do that.

So in a large market with the growth potential of this one the answer is a both -- a both answer. But I think about India and India's a different situation and we're being I think more deliberate there about clustering than we would be in China. And the infrastructure or lack thereof is probably the primary driver for that decision.

Maggie Gilliam - *Gilliam & Co - Analyst*

Okay Maggie Gilliam, Gilliam & Co. Yes, Sam's has been a bit of a step child here or it seems to have been in the sense that you've been here 15 years and you went for a long time with just two and now you have four or at least now you have six and one thing and another.

And I'm just curious it seemed to me to be successful from day one. Why was it sort of a step child?

And then second of all I'm curious about your efforts to serve the underserved in Asia. Where is that going to go?



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Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

You know, I wish had hundreds of Sam's Clubs at least 100 right now. Why it's turned out this way? I think it may be more of an indication Maggie that the Super Centers were just such a great opportunity.

And Sam's is near and dear to my heart having spent time in that business and if we had it to do over again I think we would have gone faster. And for more than a year now Mike has really been stressing that to us just as you have.

I don't have a better answer as to why it played out that way and Ed if you do jump up and give it but we would like to have more Sam's Clubs and we'd like to have more Super Centers.

Ed Chan - Wal-Mart Stores Inc. - President, CEO - Wal-Mart China

Just on Sam's Club has been the priority has been the priority the last two or three years for us but it does take a bit longer to plan and build a Sam's Club. We just have plenty of projects that we are progressing and it's going to be a key format for us to drive the next five years or beyond the next five years growth in China.

Just like Doug I wish I had a lot more Sam's today. It's just a wonderful, wonderful format to have but we also have the Hypermarkets and Wal-Mart Super Centers to grow so we do have a lot of great proven performers to grow on in China.

And in terms of the serving the underserved the Discount Compact. I think that works very well in the Tier 3 and Tier 4 cities and also as we see the urbanization development in China many of those rural customers when they first move in. They are moving to those smaller Tier cities or circling around those Tier 2 or Tier 1 cities.

So those opportunities for newer rural customers becoming urban dwellers I think those formats will feed that urban development in China as well as those existing CDE customers in the country already.

Scott Price - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Stores Asia

And if I were to broaden that to Asia, Maggie, I think that India is a great model in terms of how we're covering the demographics of A's all the way down to E's. So, we have a very successful approach to retail in the AB's and C's and the best price wholesale, pure wholesale to be able to supply the less populated the less dense towns through the traditional trade.

And not only are we able to create a business but we're really able to fulfill the "Save money, live better". Sharing a story with you, we opened a new one in [Shendagar]. So I went to the opening of that and then I went out and talked to the [customers]. And the [customers] love it, better assortment, better prices.

But they asked a question. They said, "Could you please stop advertising your prices because now my customers know what I'm paying". So we're able even though not directly being in retail to ensure that we're bringing down the prices even in those smaller towns.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

The last question will come from David and then I'll wrap up with some announcements.

David Reed - Hillhouse Capital Management - Analyst

Thank you I guess this is for Doug and it's a little bit more of a broader question. As you look at all the different international markets at different levels of maturity some giving returns some still looking out for those returns.



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What is it that you think are the great competitive advantages that Wal-Mart has across the globe that gives you the confidence to continue to invest in all these different markets, continue to look out at new markets and you think differentiates yourself both to global and local competitors?

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Organizational culture, business practice expertise, format flexibility, are things that I think give me a lot of confidence that we can do this.

As I look across small stores, big stores, clubs, retail stores, there are enough commonalities in terms of how we interact with people and how we manage process and systems in the business that there's leverage.

So I believe that in every market that we're in today there's a very bright future and it is dependent upon the leadership team that we put in place and the human capital to capture that opportunity.

David Reed - Hillhouse Capital Management - Analyst

What would you say is the biggest risk you face as -- just in the continued global growth?

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

I think our ability to adjust to a new approach as it relates to digital commerce and the way people buy merchandise is changing and being able to compete against new business models, being able to innovate digitally and then simultaneously with speed leverage the capital that we already have invested.

The points of distribution and the other assets that we have to turn that into a competitive advantage is a challenge. It's a company that -- Wal-Mart is older than a lot of eCommerce companies. We're certainly bigger than a lot of eCommerce businesses and yet we need to move with the speed and clarity of small business today. And I think that's one of our greatest challenges.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Okay, thank you all very much. We have a couple of wrap up announcements.

First of all, we will be heading outside again and we'll have lunch next door. Today lunch is assigned seating just as we were for dinner so you'll have a chance to not only be with some of the management team from Asia and Bentonville but also we are joined today by many other members of the management team from here in China. So they'll many more people seated at lunch with you then you had at dinner last night.

The second announcement is that also outside we will be giving you a jump drive and an index of what is on that. And so we're going to give those to you now so that you'll have the opportunity to put them somewhere before we head out for the store tours.

We'll wrap up lunch a little before 12.30 and then we will be heading downstairs to the lobby and the buses -- you'll be directed once you get down to the lobby as far as the buses go.

When you registered for the whole program you would have received a little information about the store tours. There are three buses and they're all going in different directions because obviously this large a group going into one store all together would be a little bit much given the customer traffic that we have here in China.



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So there are three buses. If you're unsure about which bus you're on please ask one of the team and we'll make sure that you get on the right bus.

When you get to the stores to keep the groups manageable and to be able to allow our customers to continue to shop you will be broken into two groups. There's an A Group and a B Group. So again, if you have questions about the organization of the store tours please let us know.

If you have any other questions beyond that bring those back and certainly bring back your questions after the store tours. After we're finished touring we will come back here.

We'll come up to the third floor and we do have a reception with beverages and hors d'oeuvres. And again the entire management team that is here currently with us will join us for that reception.

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Carol, could I say a few things

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Yes

Doug McMillon - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Two things quickly. First, of all on behalf of the management team we would really like to thank you for coming and your time and attention.

And then secondly, the stores are open the cash registers are working so feel free to buy something while you're the stores today.

Carol Schumacher - Wal-Mart Stores Inc. - VP - IR

Yes and if you don't -- obviously some of you may have membership cards for Sam's in the US. That doesn't necessarily translate here. But if you find something at Sam's Club that you would like to purchase we are set up, right Sandy, to accommodate purchases at Sam's Club as well despite the fact that you won't have a local membership card.

And we do have people who will be there to help you with your purchases so feel -- so one feel free to shop, two you will see that our stores here are very busy so as you're in there please also because we'll be in a group and it is easy to get bogged down listening to what is being said and having the opportunity to ask questions.

So please, just be cognizant of the fact that we do want our customers to be able to shop because at the end of the day we want to generate sales because that contributes to better shareholder value.

And then, last but not least I would be remiss if I didn't say a huge thank you to Ed and the Wal-Mart China Team. As you know we had to make a lot of changes very quickly. In less than 24 hours after the earthquake we did decide to move the meeting here completely to [Zhanjiang].



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And without the support of not only many people who are in the back of the room but the support of our colleagues also in Wal-Mart Tokyo and many others in Bentonville we would not have been able to do what we did to make the changes that we did to still bring you this meeting.

I would like to recognize a couple of people on my team. A lot of you know them by phone but you don't always get to see them in person. Marsha Cook in the back and Matthew Lunde who's our Senior Manager of IR.

And then the other member of our team David Hasler actually stayed back in Bentonville for two reasons. One as I mentioned you saw that we had the cake come out during the night. But we're also going on press with the Annual Report next week so had we not had that on top of this meeting David would have had the opportunity to join us as well.

So last but not least remember that the next big event for us is our Shareholder Event. That's Friday, June 3rd. Within the next few days as long as you're on our distribution list you will be receiving information about the logistics and the plans for that meeting.

You will have not only the chance to attend the formal part of the Shareholder's meeting but also we will have a formal q-and-a session. It's basically for those of you who haven't been there.

Open q-and-a with members of the management team including Mike and our new CFO Charles Holley. And that will be immediately following the Shareholder Meeting on Friday, June 3rd. So thanks, and let's enjoy lunch.

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