

Sourcing ethically through a socially responsible program

WAL★MART

2006 Report on Ethical Sourcing



Report on Ethical Sourcing



This is Wal-Mart's 2006 Report on Ethical Sourcing ("Report") providing information about the Company's Ethical Standards Program – its impact on factory working conditions and workers' lives. The Ethical Standards Program focuses on issues surrounding factory labor and environmental practices.

Wal-Mart's Ethical Standards vision is

"sourcing ethically through a socially responsible program."

Wal-Mart Stores, Inc. is a publicly traded company with U.S. and international retail operations. In fiscal year 2007 (February 1, 2006–January 31, 2007), Wal-Mart Stores, Inc. had sales of \$345 billion:

Wal-Mart U.S.

3,443 store locations with sales of \$226 billion

Wal-Mart International

2,757 store locations in 12 countries and Puerto Rico with sales of \$77 billion

Sam's Club

579 clubs with sales of \$42 billion.

Contents

Introduction

- 02** Letter from Lee Scott
- 03** Executive Summary

Ethical Standards Program

- 05** Meredith's Story
- 09** Factory Ratings
- 10** Program Background

Monitoring

- 17** Audit Scope
- 18** Audit Results
- 21** Frequency of Violations
- 25** Regional Challenges

Beyond Monitoring

- 26** Building for the Future
 - 27** Industry Challenges
 - 30** Educational Outreach
 - 31** International Giving Program
 - 32** Stakeholder Engagement
-
- 35** Conclusion
 - 36** Appendix
 - 40** Glossary of Terms

Introduction

Letter from Lee Scott

At Wal-Mart, we have achieved our growth in part through supply chain excellence – delivering the merchandise our customers need and want. In doing so, we draw upon a global network of suppliers and factories. When we buy merchandise, we realize that our orders touch factory workers and their communities around the world. As we reflect on the impact of our sourcing, we recognize that success goes beyond financial results alone. For that reason we continue to invest in a robust Ethical Standards Program.

This past year we increased unannounced audits and strengthened our environmental criteria. We also expanded our audit scope to include factories producing select domestic imports for Wal-Mart Canada. Today, Wal-Mart has one of the most active ethical sourcing programs in the retail industry.

In 2006, Wal-Mart's Ethical Standards auditors and third-party audit firms conducted 16,700 audits in 8,873 factories around the globe.

Even with these efforts, improvement of factory working conditions in our supply chain remains a challenge. The root causes of non-compliance are complex and resolving these issues requires a sustained effort by many stakeholders. We are working in collaboration with governments, industry peers, academics and non-governmental organizations to address the underlying conditions that impact factory workers and the environment. We also are looking inwardly at our own processes and devising new approaches.

This Report spells out the issues we face and our strategy to meet those challenges. At Wal-Mart, we are committed to behaving in an ethical, socially responsible manner, using our resources and energy to create positive change.



Lee Scott

President and CEO
Wal-Mart Stores, Inc.

Executive Summary

“The Wal-Mart Ethical Standards Program is in place today to work with our suppliers and to do what is right for factory workers and the environment. The only effective way to achieve our objective is by moving beyond monitoring factories, increasing collaboration with stakeholders and capacity building. Through our efforts we hope not only to bring sustainable and positive change to working conditions in factories but also help to provide opportunities for a better life in the countries where we are sourcing.”

Rajan Kamalanathan
Vice President of Ethical Standards

In this Report, we provide the results of our 16,700 audits of supplier factories conducted during 2006. We outline key ethical sourcing challenges, as well as our efforts to work collaboratively with stakeholders to address those challenges. In addition, we outline plans to improve sourcing practices aimed at having a positive effect on workers' lives and the environment.

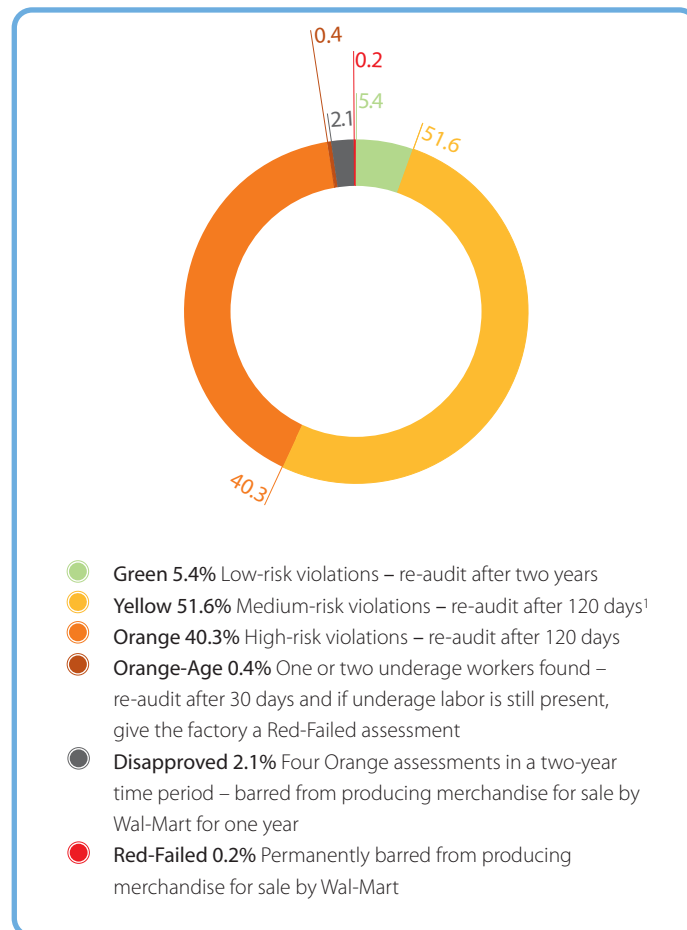
The Ethical Standards Program is in place to verify suppliers' factory compliance with Wal-Mart's Standards for Suppliers, strengthen the implementation of positive labor and environmental practices in factories, and bring about opportunities for a better life in the countries where merchandise for sale by Wal-Mart is produced.

In 2006, 16,700 audits were conducted in 8,873 factories. Factory audits are conducted by Wal-Mart's Ethical Standards auditors and selected third-party firms.

- Of the factories audited, 6,757 factories were producing direct import merchandise. Direct import merchandise is merchandise where Wal-Mart is responsible for the customs clearance. Direct import factories are audited by Wal-Mart's Ethical Standards team.
- The remaining 2,116 factories were producing domestically sourced merchandise. Domestically sourced merchandise is merchandise where the supplier has either produced the merchandise in the local retail market or imported the merchandise into the retail market prior to sale. Factories of domestically sourced merchandise are audited by approved third-party firms.

26% of the total number of audits conducted were unannounced. 5,000 suppliers and members of factory management attended training hosted by Ethical Standards.

Audit Results



¹ The re-audit schedule for Yellow-rated factories changed in 2007 to 180 days.

For more information, including a three-year view of audit results, a commentary on the data, and a list of frequent violations, see pages 17–24.

Direct import factories are audited for all retail markets. However, only factories producing domestically sourced merchandise for Wal-Mart U.S., Wal-Mart Canada, and ASDA are currently within the audit scope, as further described below.

WAL★MART®

Wal-Mart U.S. audits factories producing domestically sourced merchandise for select proprietary brands and five high-risk categories (accessories, apparel, footwear, toys and sporting merchandise).

WAL★MART® CANADA CORP.

Wal-Mart Canada audits factories producing domestically sourced proprietary brands within the same five high-risk categories (accessories, apparel, footwear, toys and sporting merchandise).

ASDA

ASDA audits factories producing domestically sourced George™ brand and the categories of Home & Leisure and Health & Beauty.

See page 17 and Appendix (page 36).

Auditing has been the primary focus of Wal-Mart's Ethical Standards Program, but we recognize that ethical sourcing goes beyond monitoring². We are moving toward an increased focus on collaboration with other stakeholders, developing uniform industry-wide supplier standards ("code convergence"), and capacity building for supplier factories. We believe that this is the most effective way to address industry-wide concerns with sustainable solutions.

We are also examining our internal processes to accomplish the following:

- Identify internal processes that might contribute to non-compliance with Wal-Mart's Standards for Suppliers, such as short lead time for production and last-minute design changes
- Increase internal alignment between social and commercial objectives, factoring labor compliance and social responsibility into purchasing decisions
- Provide suppliers who drive compliance throughout their supply chain but still deliver on quality, on-time shipping, and price with incentives in the form of future business

We envision that the above measures will improve factory audit results, as suppliers are given increased incentives for positive performance.

² References in this report regarding activities "beyond monitoring" pertain to all activities of the Ethical Standards team related to non-monitoring. Ethical Standards is placing increased emphasis on initiatives that are beyond our auditing (monitoring) efforts. "Beyond Monitoring Program" is a program associated with Business for Social Responsibility; Wal-Mart, as well as other retailers and brand owners, is a participant of the Beyond Monitoring Program.

Ethical Standards Program



First-hand View of a Factory Audit: Meredith's Story

Meredith Menhennett works in the Ethical Standards Program as a Social Responsibility Specialist at Wal-Mart's Home Office, Bentonville, Arkansas, USA. Meredith's responsibilities include engaging with stakeholders and raising awareness of the Ethical Standards Program and key ethical sourcing issues.

New in my role as a Social Responsibility Specialist with Wal-Mart's Ethical Standards team, I traveled from the Wal-Mart Home Office to Honduras to meet with our regional team, observe factory audits, and engage with factory workers and management. It was important for me to gain a more in-depth knowledge of Ethical Standards' monitoring function, as monitoring is where our team's resources are concentrated. Monitoring includes auditing, identifying regional trends, and educating factory management during the audit process.

Soon after arriving in Honduras, I met with Karla, the regional manager, and Marisabel and Jessica, the auditors I would be working with during my stay. The next day we would be visiting a factory making ladies' apparel for a supplier of Wal-Mart. At the factory, approximately 450 workers cut, sew, spot clean and pack garments for shipping. The previous audit of the factory yielded a Yellow rating, indicating medium-risk violations of the Standards for Suppliers, such as employees lifting greater than allowed loads. The Standards for Suppliers is Wal-Mart's code of conduct and the basis from which all audits are conducted.

Green and Yellow-rated factories have low to medium-risk violations. Orange-rated factories are more of a concern with high-risk violations such as failure to pay legally required overtime premium.

Of the factories audited by the Ethical Standards team or approved third-party firms, 40.3% were rated Orange in 2006.

On our way to the free trade zone where the factory was located, I began to get to know Jessica and Marisabel better. Jessica is warm and friendly, but she is able to stand her ground in a polite, non-confrontational manner. She is familiar with the manufacturing industry from working at a free trade zone in Honduras and brings a wealth of experience to her current position. Marisabel has also previously worked in factory management, and she is keenly perceptive about what is going on around her. Both women take pride in what they do and are passionate about monitoring factories and sharing their knowledge of best practices.

Generally, audit teams consist of two individuals; although, in this case, my participation meant an extra person in attendance during the audit. In addition to enhancing the safety of the auditors, a two-person audit team is more likely to detect inconsistencies than an individual auditor. In general, auditors rotate between factories so that one factory is not audited consecutively by the same two people. Working in teams and rotating auditors between factories helps to preserve the integrity of the audit process. Factories also benefit from this approach, as two auditors can complete the review in less time, minimizing disruption to the factory schedule.



Upon entering the factory, we began by introducing ourselves to the factory's managers and explaining the standard operating procedure for the auditors known as the "Audit Process". We then presented Wal-Mart's Gifts & Gratuity Policy which forbids any offer or receipt of gifts or bribes by the factory or the auditor, and asked the managers to sign it. Jessica and Marisabel requested documents relating to personnel, including time and pay records. This part of the audit is called the "opening meeting".

After a quick review of the paperwork collected during and just following the opening meeting, we were ready to walk through the factory. I walked with Jessica as she reviewed the safety of the machinery, examined fire safety equipment, and checked posted evacuation plans and first aid boxes, among other things. While the factory was filled to capacity with workers, the aisles were sufficient in width and emergency exit routes were clearly marked. The factory did need to provide more bathroom facilities. Some of the sewing safety guards were operational and others were not.

Detailed documentation review takes place after the factory walk through. Documentation review is essential to try to gain an accurate understanding of factory working conditions. Auditors use the documentation review to determine how much workers are being paid and how many hours they are working. They also verify the age of the workers. Unfortunately, factories sometimes present false documents to the auditors. Thus, auditors are tasked with identifying the falsified documents, and are trained in techniques to detect such falsification.

While the factory was filled to capacity with workers, the aisles were **sufficient** in width and emergency exit routes were **clearly marked**.

Violations of the Standards for Suppliers and applicable local laws are recorded throughout the audit process. Auditors occasionally suspect that violations of the Standards for Suppliers are occurring but are unable to obtain sufficient evidence to confirm their suspicions. Issues such as freedom of association and verbal abuse, for example, can be difficult to substantiate but can have a considerable impact on workers. In cases where the auditors deem the risk to the workers to be great, an unannounced investigation audit is conducted.

Normal factory production activities continued throughout our audit. Skilled workers piled a thick stack of fabric together, topped it with a paper pattern and then cut through the stack with an electrical saw. Others stitched the pieces together quickly and efficiently. The process generated a lot of fiber and dust, so workers wore protective facemasks. In some cases, protective equipment is found to only be used when auditors are present. Many workers find the equipment to be uncomfortable and have not been properly trained on the potential hazards of not using the protective equipment.

Workers reported having a good relationship with management and said that each time a brand comes to audit the facility they see that **improvements are made**.

We then spoke with 25 workers in a room away from factory management and the production floor. The auditors asked workers questions regarding payroll, benefits, the production process and issues impacting their health and safety. Jessica and Marisabel were able to easily create a comfortable environment for workers to share their experiences. Workers reported having a good relationship with management and said that each time a brand comes to audit the facility they see that improvements are made.

Employee Interviews

Worker interviews are confidential and are conducted away from the production area in a private room on the factory premises. The standard practice for Wal-Mart is to conduct interviews onsite. Exceptions have been made when deemed necessary to obtain accurate information. Under no circumstance are worker interviews conducted with factory management, supervisors, or their representatives present. Between 25 and 30 workers are interviewed representing a gender and departmental mix. Men and women are interviewed separately, and interviews are conducted both in groups and individually.

During interviews, auditors give factory workers a business card with a local helpline number and an e-mail address to contact Wal-Mart with any concerns they have about factory working conditions. A worker may feel more comfortable calling our helpline if an auditor whom they have met and trust personally gives them the contact information. This practice was implemented following the recommendation of the Interfaith Center on Corporate Responsibility, members of which have joined the Ethical Standards team on factory audits.

The helpline number and e-mail address are also printed on the Standards for Suppliers poster that is to be placed in a visible location at all facilities producing merchandise for sale by Wal-Mart.

During **interviews**, auditors give factory workers a business card with a local **helpline** number and an e-mail address to contact Wal-Mart with any concerns they have about factory working conditions.

Obtaining information directly from the workers is essential in verifying our findings and observations and for accurately understanding factory processes and working conditions. It is thus important that auditors provide a location for the interviews where workers feel secure sharing their opinions and have a reasonable level of confidence that factory management will not overhear. It is also important that auditors are able to make workers feel at ease, something Jessica and Marisabel do very well. A challenge in this process is identifying when workers have been coached by factory management and then obtaining workers' true thoughts. Coaching can be easy to identify, but the challenge is getting workers to honestly share their views.

On this day, I asked to speak with a worker named José after observing him in a group interview. He has worked in the garment industry in Honduras for many years. During the group interview, he presented himself as knowledgeable of the industry and of how conditions have changed over the years.

A **challenge** in this process is identifying when workers have been coached by factory management and then obtaining workers' true thoughts.

The conversation took place away from factory management. I began the conversation by introducing myself and asking if I could share any information we would discuss, leaving out his last name and factory name. He smiled, said "yes", and began to talk about his life without further prompting.

Here is his story.

José's Story

José is a factory worker who sews garments at an apparel factory in Honduras producing merchandise for sale by Wal-Mart.

Life in my country is difficult, and work is critical to life. I need to work. I need food. Living here is very expensive, and the currency is deflated. The first week of the month, my pay goes toward rent. The second week, the money I earn goes toward food for my family. My wife and I have two children, a four-year-old girl and a 20-month-old boy. I try to save enough money so that I do not have to ask for loans to buy my baby's milk. I have worked in this factory for four years, and I previously worked in another factory for several years. I had a bad experience in the previous factory. I have been happy with the management at this factory. I feel safe and am paid regularly.

I have benefited from working at the factory by learning to sew. I knew how to iron and then my supervisor taught me to sew. He first taught me how to sew on buttons and then to sew more complex portions of the garments, such as seams. My salary increased with the new skill. I am more comfortable sewing than ironing – much less heat.

I have talked with one of your (Wal-Mart's) auditors before. I felt comfortable during the interview. Other brands have also come to audit the factory. On days we are audited, it is work as usual for us. I like it when auditors come because the factory soon follows up on the concerns we have expressed and other improvements are made.

I want more money and a specific severance benefit given by some factories. For my children, I want them to learn. My wife and I teach them God's way. I want them to study and to learn from any mistakes I have made. I would also personally like to build my own house and own my own business some day.

Typically, a team of two auditors spends a full day auditing a factory thus a combined time of approximately 16 hours is spent auditing each factory.

As the audit came to a close, we met with factory management again to review our findings. Marisabel and Jessica were thorough, looking objectively at the factory and explaining observations and possible solutions to factory management. We gave specific

suggestions to remedy the violations and explained that auditors would return to review the factory's progress. For example, auditors observed that workers in the packing section of the factory were using razor blades as utility knives. The auditors explained to the workers and supervisors in that section, as well as to factory management, that unprotected blades present a safety risk to workers and that utility knives should be used instead. The auditors and factory management then signed the onsite report.

Monitoring has not proven effective to address the **complex issues** that affect workers' lives and the environment.

Following the factory visit, the auditors uploaded the audit report to Wal-Mart's data management system. Audit reports are assessed and approved by at least two Ethical Standards associates and then assigned a color-coded factory rating. The associates who assess the audit report findings are Ethical Standards Supervisors, Operations Managers, or Regional Managers but are not auditors.

As I reflect on the trip to Honduras, I better understand how auditing gives Wal-Mart a snapshot view of factory working conditions in the Company's supply chain. Monitoring efforts can lead to improvements in factory working conditions, as in José's story. However, many of the same violations are observed repeatedly, and they affect the daily lives of workers. If workers are not paid the local minimum wage or given the benefits due, they may have difficulty supporting their families. If workers spend an egregious number of hours working, there may be an increased risk to their health. Monitoring has not proven effective to address the complex issues that affect workers' lives and the environment. For this reason, root cause issue resolution and capacity building are of increasing importance to the Ethical Standards team going forward.



Factory Ratings

The factory rating system is based on the concept of a stoplight, which indicates go, proceed with caution, and stop.



Green. Factories rated “Green” have no violations or low-risk violations. An example of a Green violation is one or two missing pulley guards on sewing machines. Factories rated Green are re-audited after two years as an incentive for compliance. This change from a one-year to a two-year audit period was made in 2006.



Yellow. Factories rated “Yellow” have medium-risk violations, such as no pay slips for workers. Yellow-rated factories are re-audited after 120 days. In 2007, the time between audits for a Yellow-rated factory increased from 120 to 180 days to benefit factories that are working toward increased compliance.



Orange. Factories rated “Orange” have high-risk violations. Orange-rated factories are re-audited after 120 days. An example of an Orange violation is failure to pay legally required overtime premium.



Orange-Age. An “Orange-Age Assessment” is given when one or two underage workers are found to be employed by a factory. A factory that receives an Orange-Age Assessment is given 30 days to address the violation by discontinuing the use of underage workers and by properly compensating and repatriating the underage workers. If the underage workers are not properly compensated and repatriated without any expense to the workers, the factory is given a Red-Failed rating and is permanently banned from producing merchandise for sale by Wal-Mart. A factory is only permitted one Orange-Age Assessment. Any subsequent identification of underage labor in the same factory results in a Red-Failed rating.



Disapproved. Four Orange ratings in a two-year time period will result in a factory being disapproved for producing merchandise for sale by Wal-Mart for one year. After a year elapses, the factory can then only produce merchandise for sale by Wal-Mart if a Yellow or Green rating is achieved.



Red. Factories are rated “Red-Failed” when egregious violations are found. A Red-Failed-rated factory is immediately and permanently banned from producing merchandising for sale by Wal-Mart.

Please note: While it is our policy to work with suppliers and their factories to overcome labor conditions that do not meet our standards, we disallow production of Wal-Mart merchandise in factories that exhibit certain violations including: forced or prison labor, transshipment, physical abuse of workers, and extremely unsafe working conditions. Unremedied underage labor is also among the violations that are not tolerated (see Orange-Age Assessment description above).

Program Background

In 2006, over 200 Ethical Standards associates were located in five regions around the globe: Southeast Asia; the Indian Subcontinent; the Far East; the Americas; and the Middle East, Africa, and Europe. The Ethical Standards team monitors supplier factories, engages with stakeholders, and provides training related to ethical sourcing.

The Ethical Standards team is entrusted with verifying that suppliers comply with the Standards for Suppliers. The standards include provisions for the following: health and safety, environment, compensation, hours of labor, seventh day of rest, forced or prison labor, underage labor, discrimination, compliance with applicable local laws and regulations³, freedom of association and collective bargaining, rights concerning foreign contract workers, and the right of audit by Wal-Mart. The full text of the Standards for Suppliers can be found in the Appendix to this Report.

Established in 1992, the Standards for Suppliers detail Wal-Mart's expectations for labor practices in the production of merchandise for sale by Wal-Mart. Every supplier must sign an agreement that they, their contractors, and subcontractors will abide by the Standards for Suppliers. As part of Wal-Mart's agreement with suppliers, a poster of the Standards for Suppliers, signed by the factory management, must be displayed in a location visible to all workers at all facilities that manufacture merchandise for sale by Wal-Mart. The poster is available in 25 languages, and must be displayed in the primary language(s) spoken by the workers and in English.

Ethics Helpline

An important innovation in detecting labor violations is a local helpline number displayed on the Standards for Suppliers poster. Workers can call this number, which connects them to a third-party service provider with local language support in over 140 languages. Calls can be made anonymously. Information from these calls is then communicated to Wal-Mart's Global Ethics Office for investigation by the Ethical Standards team. Investigation findings are communicated by Ethical Standards to the Global Ethics Office and to the third-party service provider in the event the worker follows-up about the case.

In 2006, more than 150 workers contacted Wal-Mart to express concerns about factory working conditions via the helpline or by directly contacting members of the Ethical Standards team. Out of the above referenced number, 15 workers contacted Wal-Mart through the Ethics Helpline. The most frequent concerns expressed pertained to freedom of association, failure to pay minimum wage/applicable wage, failure to pay legally required overtime premium, and forced overtime.

When Wal-Mart receives concerns regarding factory working conditions through the helpline or other sources, the Ethical Standards team coordinates an investigation of the allegations. The supplier is made aware of any concerns that are observed during the investigation, and a corrective action plan is formulated with the supplier and factory management.



³ When Wal-Mart standards are more stringent than local law, the more rigorous provision is to be upheld.

Leslie's Story

Leslie Durairaja is an Ethical Standards Operations Manager based in Dubai. He is responsible for training auditors and working to ensure the consistency, integrity, and validity of the audit process in the Middle East, Africa, and Europe.

I have been employed by Wal-Mart for three and a half years and in that time I have dealt with a wide range of issues regarding labor. In May 2006, I received a call at home late in the evening, around 11:00 pm, from my manager who had heard reports of foreign worker labor abuses in Jordan. I packed my bag right away and left for the country of Jordan to investigate the situation.

Wal-Mart may conduct unannounced investigation audits when concerns are reported to us by workers, other interested parties, or when our auditors suspect serious violations are occurring but are unable to validate their suspicions.

Any situation where many individuals of different cultures and languages work closely together can present unique challenges. This is true of factories with foreign worker populations and there are many in Jordan. Often foreign workers do not speak the local language, and frequently factory management does not speak their language. Therefore, foreign workers may have few avenues to address grievances and are often unfamiliar with their legal rights in the host country.

While my audit team and I were conducting this investigation, The National Labor Committee issued a report about labor conditions in Jordan. The primary allegations of the report were:

- Withholding workers' passports by factory management
- Forced overtime
- Egregious working hours
- Abuse
- Limited access to drinking water
- Forced deportation
- Non-payment of minimum wage
- Seven-day work weeks

Specific factories were mentioned in the report. Production of merchandise to be sold by Wal-Mart was said to be in several of the factories, some of which were found to be undeclared subcontractors producing merchandise for sale by Wal-Mart (see "Undeclared Subcontracting" page 27). Other retailers and brand owners were also named in the report. Please note that production of Wal-Mart's merchandise is generally only a portion of factories' total production.

As we refocused our investigation to include all of the allegations mentioned in the report, the mood in Jordan was tense, and I was afraid for our safety at times.

We decided to pool our efforts with two other retailers/brand owners and work together to investigate. We focused on worker interviews and spoke with factory workers in their native languages at offsite locations after their factory shift had ended because of the intensity of the situation. Some of the workers were aware of the report that had been released. Other workers were confused about the intense interest in the factories where they worked. Nevertheless, the workers were open, often eager, to share their perspectives.

Workers were primarily concerned about not being paid properly or in a timely manner for the long hours they were working. Many foreign workers employed in Jordan obtained their jobs by paying a fee to an agent in their home country. The workers indicated that the agent promised them a specific wage which was not being paid. Wages were of particular concern to the workers because they were struggling to recoup the fee they paid to the agent. Some workers also talked with us about their passports being held by factory management, though most workers said they felt that their travel documents were most secure with factory management and preferred not holding their own documents.

The investigation confirmed many of the allegations. Wal-Mart responded by taking the following actions: working with the two other retailers/brand owners to address the code of conduct violations we found with our suppliers and with factory management, engaging with the government of Jordan, supporting the International Labour Organization proposed amendments to Jordanian labor law, and participating in multi-stakeholder forums around the issues. We continue to participate in such activities.

The investigation confirmed many of the allegations and **Wal-Mart, in cooperation** with other retailers and brand owners, continues to work toward **improved conditions**.

Labor Conditions

Labor conditions are complex and measured improvement is often not evident overnight. The Ethical Standards team has found that collaborative efforts by multiple stakeholders are the most effective way to address factory conditions. For this reason, Wal-Mart has participated in various multi-stakeholder forums regarding labor conditions in Jordan hosted by Business for Social Responsibility ("BSR") and the International Labour Organization ("ILO"). Government engagement has also been a focus for the Ethical Standards team. In addition, Wal-Mart supports ILO's proposed amendments to Jordanian labor law, as well as the possible introduction of an ILO Better Works program in Jordan.

The government of Jordan has been instrumental in encouraging positive labor practices in the country. We have seen specific, notable improvements in factories in Jordan around the following:

- Working hours
- Workers' passports being returned to them or workers giving written legal consent for factories to hold their passports, and
- Freedom of association being exercised more frequently.

Leslie's personal commitment to ethics was displayed in his relentless drive to discover the truth.

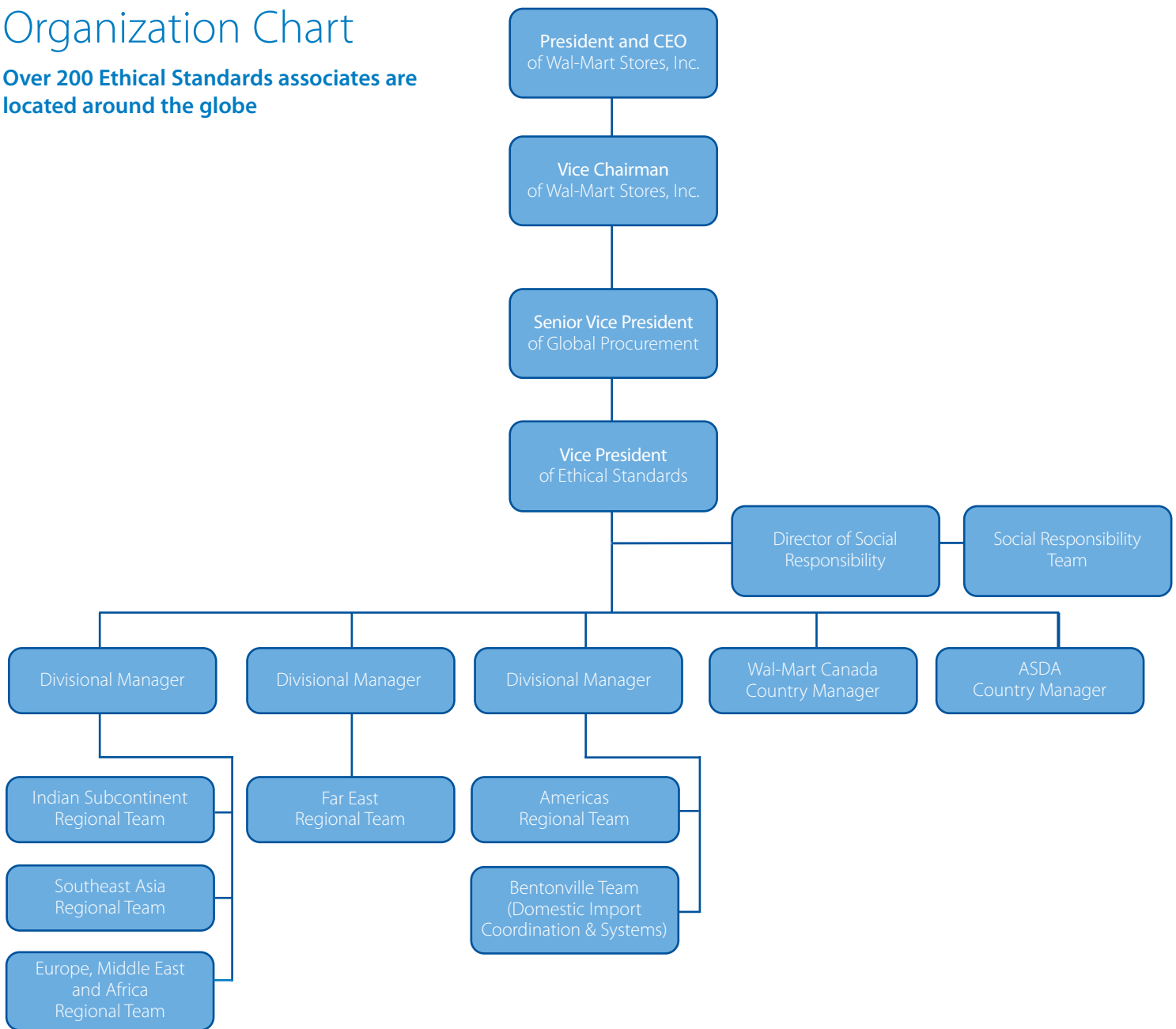
He worked late into the night and on weekends in an intense environment to gain an understanding of the situation in Jordan and work toward resolution of the issues.

In October of 2006 the Global Ethics Office sponsored the first Wal-Mart Award for Ethical Courage. Six Wal-Mart associates from around the world were presented with the award. They were nominated by peers for demonstrating extraordinary courage in making ethical decisions. Leslie was one of the recipients of the Wal-Mart Award for Ethical Courage, presented by Wal-Mart's Chief Executive Officer, Lee Scott and Vice Chairman, Mike Duke. We are proud of the Ethical Standards team's dedication that is exemplified by Leslie.



Organization Chart

Over 200 Ethical Standards associates are located around the globe



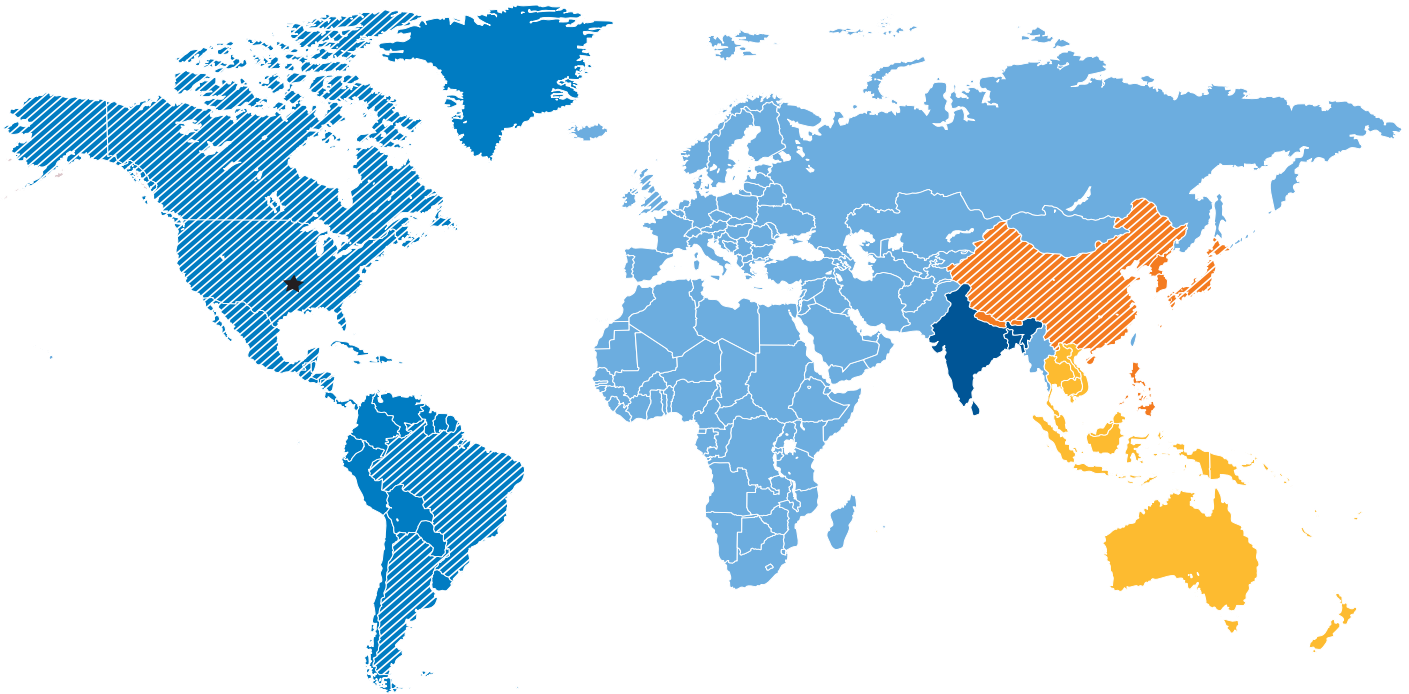
Diversity

Wal-Mart's commitment to diversity extends to our Ethical Standards operations around the world. We strive to ensure that Wal-Mart hiring represents the diversity of the communities in which it operates and that Wal-Mart associates have opportunities to advance their careers.

- 46% of all Ethical Standards associates in 2006 were female.
- 39% of all Ethical Standards management in 2006 was female.
- The team fluently speaks 31 different local languages. Languages spoken by factory management and factory workers are taken into account when assigning auditors to audit a factory.

Map of Regions

Ethical Standards regions and Wal-Mart retail markets



★ Home Office – Bentonville, Arkansas

Americas Region

	Retail Markets	Argentina	El Salvador	Nicaragua
		Brazil	Guatemala	Puerto Rico
		Canada	Honduras	United States
		Costa Rica	Mexico	

Indian Subcontinent

Europe, Middle East and Africa Region

	Retail Markets	United Kingdom

Far East Region

	Retail Markets	China
		Japan

Southeast Asia Region

Enhancements to the Ethical Standards Program

Program Enhancements	Update
2006 Program Enhancements	
Increase environmental criteria	As part of Wal-Mart's global sustainability initiatives, the audit criteria were expanded to include additional environmental components such as: waste identification, waste handling and disposal, wastewater treatment and discharge, air emissions, and banned substances. The environmental criteria were audited but not considered in the factory assessment.
Revise re-audit schedule for Green-rated factories	Factories rated Green are now re-audited after two years. Prior practice was to re-audit the factories after one year. A longer period of time between audits gives factories increased incentive for achieving a Green rating.
Increase unannounced audits to 25%	Unannounced audits reached 8% in 2004, 20% in 2005, and 26% in 2006. We believe 25% is the ideal balance between announced and unannounced audits. Some regions conducted more than 25% unannounced audits in 2006. These regions experienced an increased difficulty in auditing without an increased benefit to the program. Therefore, the target for unannounced audits set at 30% in 2005 has been changed to 25%.
Implement the use of Tablet PCs	Auditors began to use handheld computer devices with special applications for them know as "Tablet PCs" to enter violations and generate the onsite report during an audit.
Increase the domestically sourced audit scope to include Wal-Mart Canada	The Ethical Standards Program was expanded to include audits of certain domestically sourced merchandise sold in the Canadian retail market. The expansion to Wal-Mart Canada is focused on domestically sourced merchandise monitoring, education, stakeholder engagement, and social responsibility as it relates to ethical sourcing.
Award a grant through the International Giving Program	The International Giving Program was established in 2005 to give back to the communities where merchandise produced for Wal-Mart is sourced and sold. The first grant was awarded in 2006 to The Asia Foundation for a migrant women scholarship program in China.
2005 Program Enhancements	
Increase unannounced audits to 20% with a target goal of 30% in 2006	Unannounced audits reached 8% in 2004 and 20% in 2005.
Revise the underage labor policy to allow for remediation in certain instances	The underage labor policy was revised in 2005 so that if more than two underage workers are found in a factory, the factory is permanently banned from producing merchandise for Wal-Mart. If one or two underage workers are found in a factory, the factory has 30 days to remediate the problem. If, during a follow-up audit, no corrections have been made, the factory is permanently banned from producing merchandise for sale by Wal-Mart. Orange-Age Assessments were found in 0.4% of factories audited in 2006.
Add a provision to the Standards for Suppliers concerning foreign contract workers	The provision for foreign contract workers was added in 2005 and specifies that suppliers are only to employ workers with a legal right to work. Suppliers are also requested to regularly audit employment agencies they use. In 2006, migrant worker violations were most frequently observed in the Europe, Middle East, and Africa region, with 3% of factories having violations.

Program Enhancements

Update

2005 Program Enhancements Continued

Add a provision to the Standards for Suppliers concerning freedom of association and collective bargaining	In 2005, a provision was added covering freedom of association and collective bargaining consistent with local law. In 2006, freedom of association and collective bargaining violations were most frequently observed in the Southeast Asia region, with 3% of the factories having violations.
Include the George™ proprietary brand in the domestic audit scope and continue to increase the number of proprietary brands that are included in the Ethical Standards Program	Several proprietary brands, including George™, have been added to the domestic audit scope. Proprietary brands sourced domestically will continue to be a focus for Ethical Standards going forward.
Implement team audits	Team audits have been implemented by the Ethical Standards team and third-party firms in all but a few low-risk areas of the world.

2004 Program Enhancements

Increase unannounced audits to 8%	Unannounced audits reached 8% in 2004.
Increase stakeholder engagement	Stakeholder engagement became one of the focus areas for the Ethical Standards team in 2004, with staff dedicated to managing this key effort.
Implement a National Brand Pilot Program with Levi Strauss™, Sara Lee®, and Jockey®	The Ethical Standards team no longer audits factories producing merchandise for Wal-Mart under the Levi Strauss™, Sara Lee®, and Jockey® brands. Wal-Mart is looking to continue to increase the number of national brands whose audits Wal-Mart accepts in lieu of its own audits to reduce unnecessary duplication of effort.
Include proprietary brands in the domestic import audit scope	Several proprietary brands have been added to the domestic audit scope. Proprietary brands are a continued focus for Ethical Standards going forward.
Extend a helpline number to supplier factories so workers can call Wal-Mart	The helpline is operational and local phone numbers are now displayed on the Standards for Suppliers poster.

Monitoring



Audit Scope

Wal-Mart's Ethical Standards team audits all factories that produce direct import merchandise for all retail markets. Direct imports are defined as imports where Wal-Mart is responsible for customs clearance of merchandise.

Wal-Mart also audits factories that produce select categories of domestic import merchandise. Domestically sourced merchandise is defined as merchandise that the supplier has either produced in the local retail market or imported into the retail market. Approved third-party firms audit factories that produce domestically sourced merchandise.

Domestically sourced merchandise is being phased into the audit process by category for the Wal-Mart U.S. Retail Market, beginning with apparel, footwear, sporting goods, toys, accessories, and a selection of proprietary brands. Suppliers are responsible for declaring factories producing domestically sourced merchandise to Wal-Mart for audit.

Domestically sourced merchandise categories are also being phased into the audit process in other retail markets. To date, the Ethical Standards group has focused its efforts on Wal-Mart Canada and ASDA (in the United Kingdom). Wal-Mart Canada includes factory audits of proprietary brands within the categories of apparel, footwear, sporting goods, toys, and accessories. ASDA includes factory audits of the George™ brand and the categories of Home & Leisure and Health & Beauty. Ethical Standards plans to continue to expand to other Wal-Mart retail markets.

The domestically sourced merchandise categories listed above were incorporated into the audit scope because they are high-risk areas for compliance, as human labor is intensive in the production of this merchandise. Proprietary brands were also incorporated because, as Wal-Mart exclusive brands, they present increased risk to the Company.

	Direct Imports	Domestically Sourced Merchandise
Importer of Record	Wal-Mart	Suppliers
Buying Administration	Global Procurement Field Offices	Retail Market Home Offices
Audit Execution	Generally, Ethical Standards Auditors, but on occasion, approved third-party auditing firms	Approved third-party auditing firms
Audit Scope	100% of all merchandise	Wal-Mart U.S: toys, sporting goods, apparel, shoes, accessories and select proprietary brands Wal-Mart Canada: proprietary brands within the categories of toys, sporting goods, apparel, shoes, and accessories ASDA: the George™ brand and the categories of Home & Leisure, and Health & Beauty
Number of Factories Audited in 2006	6,757	2,116

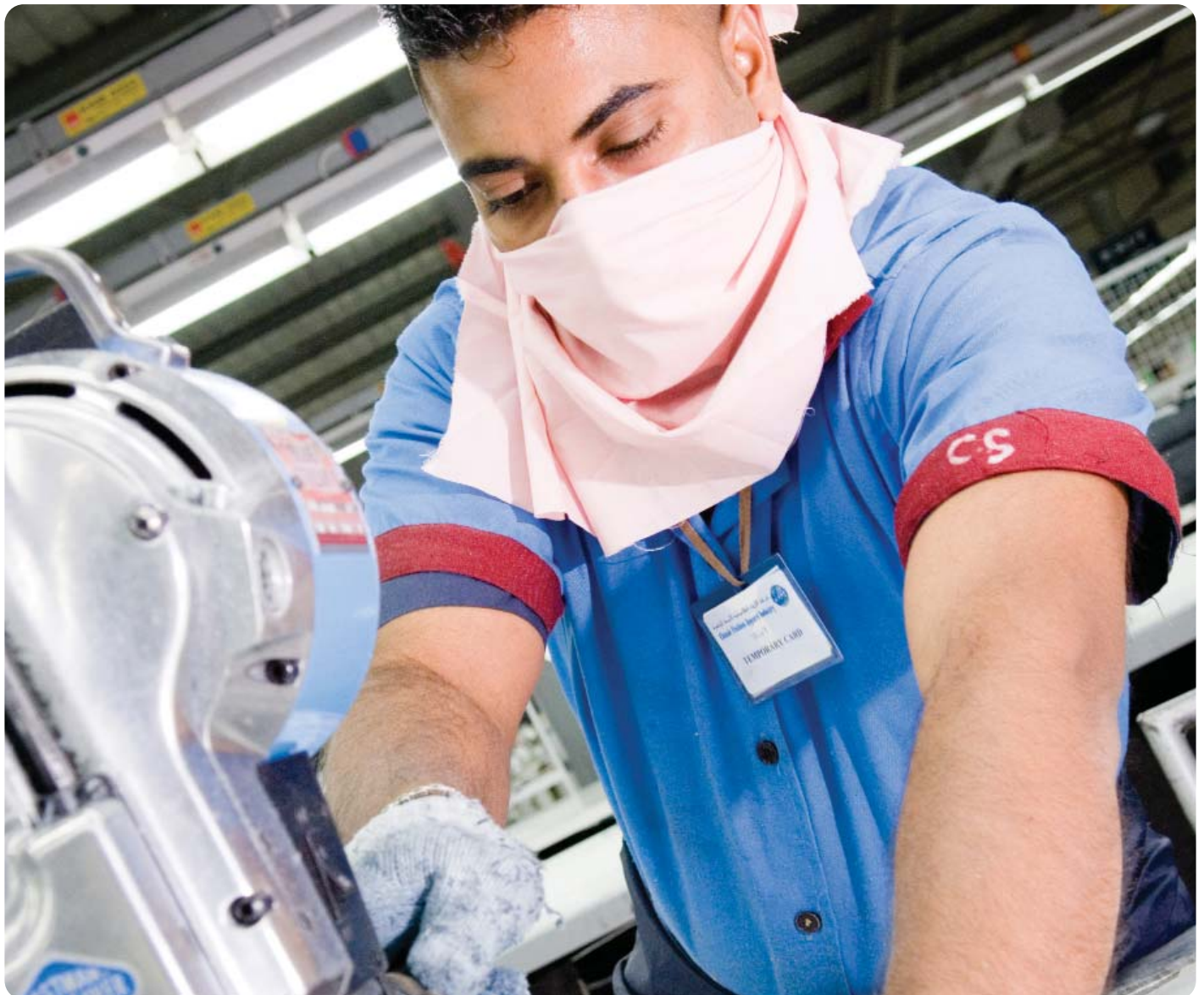
Audit Results

8,873 factories were subject to 16,700 audits conducted by Wal-Mart's Ethical Standards team and third-party audit firms:

- 6,757 were factories from which direct import merchandise was produced
- 2,116 were factories from which domestically sourced merchandise was produced.

Of all audits conducted in 2006, 26% were unannounced, an increase from 20% in 2005 and 8% in 2004. Wal-Mart's goal is that 25% of audits be unannounced.

Wal-Mart's Internal Audit Division ("Internal Audit") re-inspected a random sample of 3.2% of factories audited by the Ethical Standards auditors in 2006 to verify that the Ethical Standards operating procedures were being implemented. In 2006, Internal Audit found consistency in all but 3.05% of their samples.

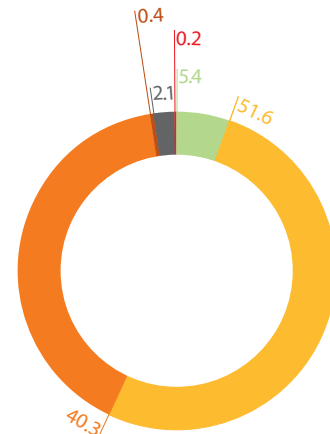


Total Audit Results

2006

- Green 5.4% Low-risk violations – re-audit after two years
- Yellow 51.6% Medium-risk violations – re-audit after 120 days⁴
- Orange 40.3% High-risk violations – re-audit after 120 days
- Orange-Age 0.4% One or two underage workers found – re-audit after 30 days and if underage labor is still present, give the factory a Red-Failed assessment
- Disapproved 2.1% Four Orange assessments in a two-year time period – barred from producing merchandise for sale by Wal-Mart for one year
- Red-Failed 0.2% Permanently barred from producing merchandise for sale by Wal-Mart

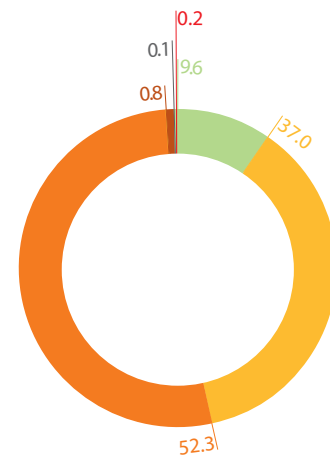
- Total number of factory audits in 2006: 16,700
- Total number of factories audited in 2006: 8,873 (direct imports = 6,757; domestically sourced merchandise = 2,116)
- Includes audit results for direct imports and certain domestically sourced categories by Wal-Mart U.S., Wal-Mart Canada, and ASDA.



2005

- Green 9.6% Low-risk violations – re-audit after one year
- Yellow 37.0% Medium-risk violations – re-audit after 120 days
- Orange 52.3% High-risk violations – re-audit after 120 days
- Orange-Age 0.8% One or two underage workers found – re-audit after 30 days and if underage labor is still present, give the factory a Red-Failed assessment
- Disapproved 0.1% Four Orange assessments in a two-year time period – barred from producing merchandise for sale by Wal-Mart for one year
- Red-Failed 0.2% Permanently barred from producing merchandise for sale by Wal-Mart

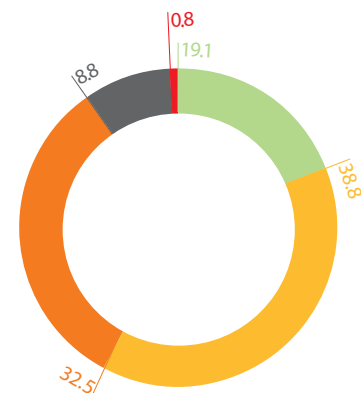
- Total number of factory audits in 2005: 13,600
- Total number of factories audited in 2005: 7,200 (direct imports = 6,120; domestically sourced merchandise = 1,080)
- Includes audit results for direct imports and certain domestically sourced categories by Wal-Mart U.S.



2004

- Green 19.1% Low-risk violations – re-audit after one year
- Yellow 38.8% Medium-risk violations – re-audit after 120 days
- Orange 32.5% High-risk violations – re-audit after 60 days
- Disapproved 8.8% Two consecutive Red ratings and/or a combination of Yellow and Red ratings – 90-day disapproval period
- Red-Failed 0.8% Permanently barred from producing merchandise for sale by Wal-Mart

- Total number of factory audits in 2004: 12,561
- Total number of factories audited in 2004: 7,600 (direct imports = 5,300; domestically sourced merchandise = 2,300)
- Includes audit results for direct imports and certain domestically sourced categories by Wal-Mart U.S.



⁴The re-audit schedule for Yellow-rated factories changed in 2007 to 180 days.

Commentary and Data Biases

Results represent data for the calendar year.

To compare 2004 results with those from 2005 and 2006, it is necessary to combine Orange-Age Assessments and Red-Failed for 2005 and 2006 (2004 Red-Failed at 0.8%, 2005 Red-Failed & Orange-Age Assessments at 1%, 2006 Red-Failed & Orange-Age Assessments at 0.6%).

The Red ratings in 2004 are now deemed Orange. The change is reflected in 2005 and 2006 results.

Factories rated Green decreased in 2006, while Yellow ratings have increased. Green and Yellow ratings represent low to medium risk to factory workers, whereas Orange-rated factories present greater risk to the factory workers. While the percentage of Orange-rated factories decreased in 2006, the ratio is still of concern.

Wal-Mart believes that the decrease in Orange ratings can be attributed to our educational efforts during the factory audits and the supplier and factory management educational sessions. For example, we have observed measurable improvements in factories that have

participated in Third Orange Meetings (see page 30). In the Middle East, Africa, and Europe region, meetings were held with eight targeted suppliers and factory management; at the end of 2006, six of the targeted factories had achieved a Green rating and two had received a Yellow rating. For more information see page 9.

The lower number of disapproved factories in 2005 and 2006 can be attributed to the program changes that took effect in 2005. The deactivation period for disapproved factories was extended from 90 days to one year to strengthen the consequences for non-compliance. Because of the lengthened disapproval period, we restarted Orange rating counts at zero for all factories on January 1, 2005, leading to lower disapproval rates in 2005 and 2006.

Factory turnover also impacts audit results because results do not reflect the same factory base from year to year. Fifty-two percent of factories audited by Ethical Standards in 2005 were not also part of the program in 2006 due to several factors, including: supplier turnover, disapproved factories, and Red-Failed-rated factories.

Factory **turnover** also impacts audit results because **results** do not reflect the same factory base from **year to year**.



Frequency of Violations

Key 0% <1% 1-10% 11-25% 26-50% >50%

VIOLATION	This chart reflects by region the percentage of factories in which a violation has been observed.				
	Far East	Southeast Asia	Indian Subcontinent	Americas	Europe, Middle East, Africa
Environment					
Air emission control equipment not maintained	1-10%	11-25%	11-25%	1-10%	11-25%
Failure to obtain permit or approval to conduct open burning	1-10%	1-10%	11-25%	1-10%	11-25%
Hazardous materials burned on site	11-25%	11-25%	11-25%	1-10%	11-25%
No appropriate permit for air emission	11-25%	11-25%	26-50%	11-25%	11-25%
No or inadequate equipment to control air pollutants	1-10%	11-25%	26-50%	1-10%	11-25%
Open burning causing excessive smoke or fumes	11-25%	11-25%	11-25%	1-10%	11-25%
Permit for air emission application in process	1-10%	1-10%	26-50%	11-25%	11-25%
Residue from open burning not contained or disposed appropriately	1-10%	1-10%	11-25%	11-25%	11-25%
Significant accumulation of materials from stacks and vents	11-25%	11-25%	1-10%	11-25%	1-10%
Improper handling or transportation of waste containers	1-10%	11-25%	1-10%	11-25%	1-10%
Inappropriate/illegal waste disposal	11-25%	11-25%	26-50%	11-25%	11-25%
Inappropriate storage of wastes that could lead to fire, spills or infestations	11-25%	26-50%	11-25%	11-25%	11-25%
No appropriate permit for waste disposal	11-25%	11-25%	11-25%	11-25%	1-10%
No waste inventory and tracking system	11-25%	26-50%	26-50%	11-25%	11-25%
Permit for waste disposal application in process	11-25%	11-25%	11-25%	11-25%	11-25%
Training not provided for waste identification, labeling and disposal	11-25%	26-50%	26-50%	11-25%	11-25%
Unacceptable condition of waste containers and labels	1-10%	11-25%	1-10%	11-25%	11-25%
Unknown disposal of wastes	1-10%	11-25%	11-25%	11-25%	11-25%
Waste not identified/labeled by type and hazard	11-25%	26-50%	11-25%	11-25%	11-25%
Wastes burned on site	1-10%	11-25%	11-25%	1-10%	1-10%
Failure to obtain required discharge permit for wastewater	26-50%	11-25%	11-25%	1-10%	11-25%
No appropriate permit for wastewater treatment/discharge/installation	11-25%	11-25%	11-25%	1-10%	1-10%
On-site septic or wastewater treatment problems	11-25%	1-10%	11-25%	11-25%	11-25%
Permits for wastewater treatment/discharge/installation in progress	11-25%	1-10%	11-25%	11-25%	11-25%
Untreated sanitary wastewater discharge	1-10%	11-25%	11-25%	1-10%	11-25%
Farm Pesticide Management					
Buffer zones around housing not considered during spraying	1-10%	11-25%	11-25%	11-25%	11-25%
Employees not trained in the application of pesticides/herbicides/fungicides	11-25%	11-25%	11-25%	1-10%	11-25%
Empty chemical containers not correctly disposed	11-25%	11-25%	11-25%	11-25%	11-25%
High risk of water source contamination from chemicals	1-10%	11-25%	1-10%	11-25%	11-25%
Incorrect disposal of excess diluted chemicals	11-25%	1-10%	11-25%	11-25%	1-10%
No adherence to laws on certification of pesticides/herbicides/fungicides	11-25%	11-25%	11-25%	11-25%	11-25%
No medical screening program provided to employees involved in chemical handling	11-25%	11-25%	11-25%	11-25%	11-25%
No personal protective equipment provided to employees handling chemicals	1-10%	1-10%	1-10%	11-25%	11-25%
Wind and weather conditions not considered when evaluating when to spray	1-10%	11-25%	11-25%	11-25%	11-25%
Health and Safety – Accident/Medical Program/First Aid					
First-aid equipment not available, inadequate and/or inaccessible	26-50%	11-25%	11-25%	26-50%	26-50%
No AIDS awareness program	11-25%	11-25%	11-25%	11-25%	11-25%
No first aid or medical program on site	26-50%	26-50%	26-50%	11-25%	11-25%
No incident investigation and corrective action process	26-50%	11-25%	11-25%	11-25%	11-25%
No procedure for determining if employee is ready to return to work	26-50%	11-25%	26-50%	11-25%	1-10%
Injuries not monitored	26-50%	11-25%	26-50%	11-25%	11-25%
No trained first-aid or medical responders on site	11-25%	11-25%	26-50%	11-25%	26-50%
Transportation to medical care unavailable	1-10%	1-10%	11-25%	11-25%	11-25%
Unavailable medical facility	11-25%	11-25%	26-50%	11-25%	1-10%
Health and Safety – Canteen					
Food storage temperature not set correctly	1-10%	1-10%	11-25%	1-10%	1-10%
Unsanitary food storage	11-25%	11-25%	11-25%	1-10%	11-25%
Employees serving food do not wear hairnets, aprons, disposable gloves	26-50%	11-25%	26-50%	11-25%	26-50%
Employees serving food have no valid health certificates	11-25%	11-25%	26-50%	11-25%	11-25%
Improper management of food waste disposal	1-10%	1-10%	11-25%	11-25%	1-10%
Insufficient canteen capacity	11-25%	11-25%	11-25%	11-25%	26-50%
Not inspected and certified by local health authorities	26-50%	11-25%	26-50%	11-25%	1-10%
Health and Safety – Chemical Safety					
Chemical storage area has improper ventilation	1-10%	11-25%	26-50%	1-10%	11-25%
Flammable or combustible materials stored near ignition source	1-10%	11-25%	26-50%	26-50%	1-10%
Hazardous chemicals stored in work area	11-25%	11-25%	26-50%	26-50%	11-25%
Incompatible hazardous materials stored together	11-25%	11-25%	26-50%	26-50%	11-25%
Material Safety Data Sheet not available	26-50%	11-25%	26-50%	26-50%	11-25%

VIOLATION

This chart reflects by region the percentage of factories in which a violation has been observed.

	Far East	Southeast Asia	Indian Subcontinent	Americas	Europe, Middle East, Africa
Health and Safety – Chemical Safety (continued)					
No hazardous materials inventory maintained	11-25%	26-50%	26-50%	1-10%	11-25%
No posting of chemical hazards	26-50%	11-25%	26-50%	26-50%	11-25%
No proper eye-wash/shower stations	11-25%	11-25%	26-50%	11-25%	26-50%
No secondary containment for chemical storage tanks	>50%	11-25%	26-50%	26-50%	>50%
Obvious indications of historical spills and leaks	1-10%	26-50%	11-25%	11-25%	11-25%
Personnel leaving workplace with contaminated clothing	1-10%	11-25%	11-25%	1-10%	11-25%
Poor housekeeping in storage areas	1-10%	11-25%	11-25%	11-25%	11-25%
Inadequate spill response materials	26-50%	11-25%	11-25%	11-25%	11-25%
Unacceptable condition of containers and/or labels	11-25%	26-50%	11-25%	26-50%	11-25%
Health and Safety – Electrical Safety					
Bare wiring near water or dusty/explosive atmospheres	1-10%	11-25%	11-25%	1-10%	11-25%
Bare wiring, poor insulation or open electrical connections	11-25%	11-25%	26-50%	11-25%	26-50%
Employees working on live circuits	1-10%	0%	1-10%	1-10%	11-25%
Inappropriately enclosed electrical boxes	11-25%	11-25%	11-25%	11-25%	11-25%
Overloaded circuits/circuits without breakers	11-25%	11-25%	11-25%	11-25%	11-25%
Health and Safety – Equipment Safety					
Employees not trained on machine safety/equipment and the importance of protective guards	26-50%	26-50%	26-50%	11-25%	1-10%
Machinery not fitted with safety features	26-50%	11-25%	>50%	26-50%	11-25%
No machinery maintenance programs and records	11-25%	26-50%	26-50%	11-25%	11-25%
Radiation or light sources not shielded	1-10%	1-10%	1-10%	0%	0%
Safety interlocks disabled or removed	1-10%	1-10%	11-25%	11-25%	11-25%
Health and Safety – Fire Safety Management					
Evacuation plan not written in languages spoken by the work force	11-25%	11-25%	26-50%	1-10%	11-25%
Inadequately marked and lit exits	26-50%	11-25%	11-25%	26-50%	11-25%
Fire exit door opens inward	11-25%	1-10%	11-25%	11-25%	26-50%
Locked and/or blocked exits/evacuation routes	11-25%	11-25%	11-25%	26-50%	26-50%
Inaccessible fire safety equipment and/or exit	26-50%	26-50%	26-50%	11-25%	11-25%
Inadequate evacuation plan posted or marked on the floor	11-25%	26-50%	26-50%	11-25%	26-50%
Inadequate number, distribution, and/or maintenance of fire fighting/safety equipment	>50%	11-25%	11-25%	11-25%	11-25%
Inadequate number of exits based on the workforce	11-25%	11-25%	11-25%	11-25%	11-25%
Inadequate fire drills	26-50%	26-50%	11-25%	26-50%	26-50%
Employees not trained in emergency evacuation and fire fighting	11-25%	11-25%	26-50%	11-25%	26-50%
No evacuation plan posted or marked on the floor	26-50%	11-25%	11-25%	11-25%	>50%
No fire alarms, emergency lighting, sprinkler systems, fire extinguishers, and/or smoke detectors	11-25%	11-25%	11-25%	11-25%	26-50%
Partially blocked exits/evacuation routes	11-25%	26-50%	26-50%	11-25%	26-50%
Health and Safety – Material Handling					
Material handling equipment used beyond rated loads/for other than designated purposes	1-10%	1-10%	1-10%	1-10%	1-10%
Employees lifting greater than allowed loads	1-10%	1-10%	1-10%	1-10%	1-10%
Material handling equipment not inspected before use	11-25%	11-25%	1-10%	11-25%	11-25%
Health and Safety – Personal Protective Equipment					
Employees not trained on the proper use of personal protective equipment	11-25%	11-25%	11-25%	11-25%	11-25%
No eye protection available where appropriate	11-25%	26-50%	26-50%	11-25%	11-25%
No hearing protection available for noisy operations	11-25%	11-25%	26-50%	11-25%	11-25%
No respiratory protection available where appropriate	11-25%	26-50%	26-50%	11-25%	11-25%
Other protective equipment not available	11-25%	26-50%	26-50%	26-50%	11-25%
Health and Safety – Sanitation					
Clean water basin not provided with soap and running water	11-25%	11-25%	11-25%	11-25%	11-25%
Cleaning supplies/cleaning agents found in food preparation or eating areas	1-10%	0%	1-10%	1-10%	0%
Eating and drinking in areas where hazardous materials are used or stored	1-10%	11-25%	1-10%	11-25%	1-10%
Inoperable, un-segregated, or insufficient number of restroom and/or bathing facilities	1-10%	26-50%	11-25%	26-50%	26-50%
No drinking water available	1-10%	1-10%	11-25%	1-10%	1-10%
Insufficient access to drinking water	11-25%	11-25%	11-25%	11-25%	1-10%
Pest infestations	1-10%	1-10%	11-25%	1-10%	11-25%
Unsanitary food preparation/eating areas	11-25%	11-25%	11-25%	11-25%	11-25%
Lack of access to drinking water	1-10%	11-25%	1-10%	1-10%	11-25%

VIOLATION

This chart reflects by region the percentage of factories in which a violation has been observed.

	Far East	Southeast Asia	Indian Subcontinent	Americas	Europe, Middle East, Africa
Health and Safety – Work Area Design and Maintenance					
Factory conditions are crowded, disorganized, and unsanitary					
Elevated surfaces with no railing					
Insufficient safety mechanisms on elevated surfaces/surfaces where engulfment hazards exist					
Work area poorly ventilated					
Working areas present safety hazard					
Health and Safety – Worker Accommodations					
Improper chemical storage in housing					
Excessive curfew restrictions					
First aid equipment not available, inadequate and/or inaccessible					
Inadequate capacity for housing/poorly maintained housing facilities					
Inadequate fire safety systems					
Inadequate lighting					
Insufficient restroom and bathing facilities					
Inadequate security measures					
Inadequately marked and lit exits					
Lack of fire evacuation plans					
Not segregated by gender					
Locked and/or blocked exits					
Inadequate fire drills					
No first aid or medical program on site					
Poor electrical safety practices					
Labor Practice – Benefits					
Childcare facilities not on site (as per local law)					
Legally required benefits with monetary value not paid					
Legally required benefits with non-monetary value not paid					
Maternity and paternity rights not upheld					
Labor Practice – Underage Labor					
Age violation – 1 or 2 underage workers observed					
More than 2 underage workers					
Workers children allowed on production floor					
Labor Practice – Discrimination					
Illegal pregnancy testing					
Non-promotion and pay restriction based on personal characteristics or beliefs					
Pregnant women denied jobs or dismissed					
Labor Practice – Employment Practices					
Verbal abuse					
Physical abuse					
Excessive recruitment fees					
Excessive restrictions on movement					
Job applicants falsifying age documents					
Health examination not provided to young workers and/or workers who work with hazardous processes/chemicals					
Illegal/unreasonable terms in contract/factory rules and regulations					
Numerous discrepancies in age verification records					
Incomplete/expired and/or missing workers contracts					
Minors with inadequate work documents					
Improper working conditions for minors					
No hiring procedures to ensure compliance					
Wal-Mart Standards for Suppliers not posted					
Labor Practice – Forced Labor					
Terminating or disciplining workers who will not work overtime hours					
Involuntary labor					
Purchasing supplies from state entities using prison labor					
Terminating workers who will not work overtime hours					

VIOLATION

This chart reflects by region the percentage of factories in which a violation has been observed.

	Far East	Southeast Asia	Indian Subcontinent	Americas	Europe, Middle East, Africa
Labor Practice – Freedom of Association and Collective Bargaining					
Factory does not recognize labor unions as a party in collective bargaining					
Factory does not respect the right of employees to choose whether or not to associate with any group, as long as such group is legal in their own country					
Factory does not provide a mechanism for employees to voice their opinions and suggestions					
Workers do not have the right to form or join trade unions of their choice					
Labor Practice – Labor Hours					
Egregious hours					
Excessive hours					
Minors working beyond legal limits					
Violation of Wal-Mart's seventh day of rest policy					
Working off the clock					
Labor Practice – Management Commitment to Employee Programs					
Environment, health, and safety training unavailable					
No employee environmental, health and safety committee					
Training and documentation not provided in local languages					
Labor Practice – Migrant Workers					
Minimum wage and benefits not paid					
Workers application for visa or work permit in process					
No/expired visa or work permit					
Migrant workers are kept in their work after completion of the contract period					
Migrant workers do not understand the terms and conditions of their contracts					
Withholding of travel documents/residency permits without workers permission					
Labor Practice – Wages					
Delaying payment of any portion of wages					
Failure to pay minimum wage/applicable wage					
Failure to pay legally required overtime premium					
Illegal payroll deductions					
Manipulation of payroll					
No pay slips for workers					
Training wages paid longer than legal probation					
Wages cannot be verified/wage system not clear					
Right of Inspection					
Inappropriate business license					
Violation of Wal-Mart's Gift and Gratuity Policy					
Denied access					
No business license					
Factory fails to provide all relevant information					
Right Of Inspection – Subcontracting					
Undeclared subcontractors used for Wal-Mart production					

Regional Challenges

Globally, the top challenges observed during factory audits are with respect to overtime hours and the payment of wages and benefits. Following are examples by region of some of the key violations per the Ethical Standards Program. The percentages represent the rate of incidence by region found in the factories audited under the Ethical Standards Program.

Far East

- Legally required benefits whether with monetary or non-monetary value not paid
- Failure to pay minimum wage or the applicable wage
- Egregious hours of work

China is currently experiencing a labor shortage. This labor shortage is resulting in workers feeling pressure to work overtime. Minimum wage rates have risen each year in China, yet the mandated wage rates are not always followed.

Americas

- Incomplete, expired or missing workers' contracts where required
- Violation of Wal-Mart's seventh day of rest policy
- Working off the clock

The Ethical Standards team in the Americas region audits a number of "pack-houses" that assemble food for sale by Wal-Mart. These are seasonal operations and often display a distinct pattern of violations. Following proper hiring procedures, for example, is not a priority for many seasonal facilities, as workers only work for a few months at a time. Auditors observe instances of incomplete, expired or missing workers' contracts. Also of concern are the long working hours, no seventh day of rest and working off the clock.

Middle East, Africa and Europe

- Excessive hours of work
- Disciplining workers who will not work overtime hours
- Factory does not provide a mechanism for employees to voice their opinions and suggestions

In the Middle East, incidences of excessive working hours and disciplining workers who will not work overtime hours have been observed. While factories in this region often have mechanisms for their employees to voice concerns, the established mechanisms are often insufficient, particularly for foreign workers who do not speak a locally recognized language. Foreign workers comprise the majority of the population of factory workers in some of the sourcing countries in this region. Auditors have also observed that employment contracts in the Middle East tend to be for a longer period of time (estimated at three years on average in some countries) than in other regions. Many foreign workers are recruited by an agency in their home country and do not have the ability to return to their country until their contract with the factory is complete.

Southeast Asia

- Inadequate number, distribution and/or maintenance of fire fighting and safety equipment
- No AIDS awareness program
- No secondary containment for chemical storage tanks

The violations listed above are prevalent in Southeast Asia for several reasons. A few countries in Southeast Asia do not have applicable laws regarding fire equipment and thus European standards are used by Wal-Mart to measure factory compliance. HIV and AIDS are topics that are not discussed in many countries due to the local culture. As a result, some factories do not implement AIDS awareness programs. Factory management is often unaware of proper design specifications for secondary containment of chemicals.

Indian Subcontinent

- Failure to pay legally required overtime premium
- Manipulation of payroll
- Incomplete, expired and/or missing workers' contracts

Many factory workers in the Indian Subcontinent have short-term contracts and are placed in local factories by employment agencies. The attrition rate is high and incidences of missing, incomplete or expired employment contracts have been noted. Also, the highest incidence of payroll manipulation and failure to pay the legally required overtime premiums has been observed in this region. Factories often do not maintain the appropriate documentation which contributes to non-compliance.

Beyond Monitoring



Building for the Future: 2007 and Beyond

“It is critical that we integrate Ethical Standards into our sourcing decisions as this will enable us to partner with the right suppliers and their factories.”

Jeff Macho

Senior Vice President of Global Procurement

Ethical sourcing goes beyond monitoring; it is also about confronting the complexities that are at the root of non-compliance and driving improvements in working conditions globally. Wal-Mart has observed changes in factory conditions and witnessed success stories as a result of the Ethical Standards Program. Regrettably, Wal-Mart has also observed that many of the same issues occur repeatedly.

To help address these concerns, Wal-Mart is working to increase collaboration with other stakeholders. Wal-Mart is also looking to transform its sourcing process and create a more proactive structure for tracking and giving incentives to suppliers that uphold the Standards for Suppliers. Wal-Mart is taking a closer look at its sourcing model to identify how it can address the barriers that may contribute to non-compliance, such as short lead time for production and last minute design changes (see Industry Challenges: Undeclared Subcontracting and Working Hours). Wal-Mart wants to create a breakthrough model that is based on positive reinforcement and incentives rather than policing and punitive measures. Incentives would come in the form of longer-term supplier relationships and future business. The overarching goal is to fully integrate labor compliance and social responsibility into all purchasing decisions.

Wal-Mart wants to create a breakthrough model that is based on **positive reinforcement** and incentives rather than policing and punitive measures.

Wal-Mart is exploring a number of mechanisms that can be used to effect a positive change in factories producing direct imports and domestically sourced merchandise, such as:

- Enhancing training for Wal-Mart buyers, merchandisers, and sourcing managers so that they are well equipped to support and reinforce Ethical Standards vision as they interact with suppliers and make sourcing decisions (see Supply Chain Decision Maker Training page 28).
- Pre-qualifying factories for Ethical Standards and Quality Assurance before the selected factories are allowed to produce merchandise for sale by Wal-Mart. A factory would need a rating of Green or Yellow to begin manufacturing merchandise for sale by Wal-Mart. Pre-qualification of factories producing both direct imports and domestically sourced merchandise is scheduled to take place in phases over the next few years, starting with the category of merchandise which is consumed by Wal-Mart that is not for resale merchandise, followed by toys and apparel.
- Keeping a scorecard that includes Ethical Standards and rewarding suppliers and factories that score well with the incentive of future business.

All of the above considerations point to a need for a transformation in the Company-supplier relationship, shifting from a primarily transactional association (purchase orders) to longer-term commitments. If suppliers can depend on future business as a result of positive performance, they will have more incentive to conform to the Standards for Suppliers. Wal-Mart envisions that these measures will improve factory audit results. The goal is for suppliers to deliver consistently higher-quality merchandise produced in factories that demonstrate a strong commitment to Wal-Mart's labor and environmental standards. The specific details of the strategy, including milestones and metrics, are still being developed, but work is underway. We will report on progress in our next Ethical Sourcing Report.

Industry Challenges

Challenge

Undeclared Subcontracting

Factories subcontract portions of their production for several reasons. In certain circumstances, factories commit to produce more than they have capacity to produce, and in some situations, production expectations change and the factories subcontract to meet their deadlines.



Subcontractor factories are defined as factories contracted by other factories to produce finished merchandise and sub-assemblies that can be readily identified as associated with Wal-Mart. Undeclared subcontracting takes place when a supplier does not declare a subcontractor factory to Wal-Mart for audit, in which case Wal-Mart does not know the factory is producing merchandise to be sold in its stores. The Ethical Standards Team has observed that high-risk violations are often found in undeclared subcontractor factories.

Our Response

Auditors look for signs of subcontracting through a detailed review of production processes and by asking key questions about both process and capacity. Auditors then seek to verify that subcontractor factories have been declared to Wal-Mart for audit. If undeclared subcontracting is identified in direct import or domestically sourced merchandise factories, the subcontractor factory is immediately subject to Wal-Mart's Ethical Standards Program.

Challenge

The Environment

The environment is changing and Wal-Mart recognizes that it has an opportunity to promote restorative business practices in its stores and with its suppliers.

Our Response

Ethical Standards Team Training

ENSR, a global environmental consultancy, has provided training to our Ethical Standards team on auditing for environmental criteria. In 2006, the team began to audit the enhanced environmental criteria in the areas of waste identification, waste handling and disposal, wastewater treatment and discharge, air emissions and banned substances.

Model Factory Program

The Ethical Standards team is working closely with Wal-Mart's Sustainable Value Networks (the "Networks") to promote sustainability in Wal-Mart's supply chain. The Networks were established to work with internal and external stakeholders to meet the company's goals concerning energy, waste, and products.

In 2006, Wal-Mart arranged for ENSR to conduct an assessment of environmental and energy competencies in select supplier factories in China. These assessments were conducted in four key merchandise sectors, allowing Wal-Mart to begin to understand the baseline situation. From this effort, the Model Factory Program was conceptualized. Beginning in 2007, the Ethical Standards team will be working closely with 20 factories and suppliers in China to identify and implement sustainable and cost-effective practices that can be replicated across the industry. The Model Factory Program is targeting sustainable sourcing practices including the environment, quality assurance, and Ethical Standards.

Challenge

Working Hours

Factories may agree to produce more merchandise than they have the capacity to produce. Additionally, buyers may place unrealistic production deadlines on factories. Many factories respond to these situations by allowing and even encouraging excessive working hours. The Standards for Suppliers indicate that factories should work toward a 60-hour work week for their factory workers, and the factory workers should work no more than 72 hours for every six working days or 14 hours a day. Forced labor is not tolerated and results in a Red-Failed rating. Wal-Mart also looks for each of the following violations when auditing a factory: no seventh day of rest, minors working beyond legal limits, and non-payment of overtime premium.



Our Response

How Wal-Mart manages its purchase orders has a significant impact on suppliers and factories. Ethical Standards has begun the process of training Wal-Mart supply chain decision makers (merchandisers, buyers, and sourcing managers) so they are aware of how their decisions can potentially impact factory working conditions and equip them with the necessary knowledge to reinforce to the suppliers the importance of positive factory labor practices. Wal-Mart believes that educating our associates is fundamental to fully integrating labor compliance and social responsibility into all purchasing decisions and building our vision for the future.

Factory Five Program

The Factory Five Program was initiated in 2007 in response to audit results and the Ethical Standards team's efforts to continue to move beyond monitoring. The program entails five factories and their suppliers meeting with each other and the local Ethical Standards team in each region. Meetings take place monthly and center on discovering sustainable solutions to critical, collective areas of non-compliance with the Standards for Suppliers in the factories. The program provides opportunities for suppliers and factories to learn from each other. Our intent is to then share best practices from the program and success stories with a broader audience of suppliers and factory management. The critical violations that have been identified by suppliers and factory management include: egregious working hours, non-payment of wages (minimum wage/applicable wage and overtime premium), and non-payment of benefits (monetary and non-monetary).

Challenge

Audit Fatigue

Monitoring efforts are a standard for many retailers and brand owners and each retailer and brand owner has their own codes of conduct. Most codes are similar. It is not uncommon for a factory to be audited upwards of 10 times a month by different companies, leading to duplication of efforts and audit fatigue. Multiple audits are confusing and frustrating to factory management, as interpretation of standards tends to vary by company. Interpretation of local law by retailers and brand owners also varies, and management are asked to comply with a variety of interpretations.

Our Response

Wal-Mart recognizes that sustainable solutions need to address our supply chain and be replicable in the industry. Wal-Mart believes that it can address root-cause issues most effectively in collaboration with stakeholders. We are looking beyond monitoring to focus more on collaboration with stakeholders, code convergence, and capacity building in supplier factories.

Code Convergence

Wal-Mart has deepened its engagement and collaboration with industry peers and nongovernmental organizations (NGOs) with the goal of developing a unified and credible certification for the factories that addresses audit fatigue. Notably, two efforts are underway – the International Council of Toy Industries (ICTI) CARE Process and the Global Social Compliance Program (GSCP). Each organization is further discussed below. Wal-Mart has been actively involved in the formation of GSCP. Wal-Mart has also adopted the ICTI CARE Process certification of toy factories in lieu of Ethical Standards audits of certified factories. Code convergence and acceptance of external codes of conduct will free up resources currently focused on monitoring which will then be devoted to capacity building in factories and resolution of the root causes of non-compliance.

International Council of Toy Industries CARE Process

The health and safety of children throughout the world is the driving force behind the International Council of Toy Industries. ICTI promotes international toy safety standards, fair labor treatment and safe working conditions in toy factories, and a responsible approach in advertising and marketing to children. ICTI consists of toy trade associations from 21 countries: Australia, Austria, Brazil, Canada, China, Chinese Taipei, Denmark, France, Germany, Hong Kong, Hungary, Italy, Japan, Mexico, the Netherlands, Russia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The CARE (Caring, Awareness, Responsible, Ethical) Process is ICTI's program to promote ethical manufacturing in the form of labor practices as well as employee health and safety in the toy industry supply chain. The initial focus is in China where 70% of the world's toy volume is manufactured. ICTI's intent is to provide a single, thorough, and consistent program to monitor toy factories' compliance with ICTI's Code of Business Practices. Given the consistent high standards imposed by the ICTI CARE Process, Wal-Mart accepts ICTI's CARE audit results in lieu of the Ethical Standards audits for participating toy factories.

Global Social Compliance Program (GSCP)

Wal-Mart has joined forces with industry peers to form the GSCP, an initiative designed to promote uniform and acceptable working conditions at the highest standards for global sourcing. These labor standards cover health and safety, child labor, discrimination, and compensation, among others topics. GSCP is dedicated to providing a holistic approach, including both factory monitoring and capacity building. The work is being facilitated by CIES, an international association of food retailers and suppliers. GSCP covers both food and non-food production for retailers and brand owners. The program, which is currently being developed, is distinct in the way it is being established.

To date, it has been a business-driven initiative with CEO support. Governance structures are being put in place that will increase transparency and engagement with nongovernmental organizations, multi-lateral organizations, and trade unions.

Educational Outreach

In 2006, 5,000 suppliers and members of factory management were trained regarding Wal-Mart's Ethical Standards Program, including program enhancements, and industry best practices. The number is down from more than 11,000 suppliers and members of factory management in 2005. The decrease in the number is a result of sessions scheduled for late 2006 being postponed until 2007.

Training is regularly made available to Wal-Mart suppliers. Attendance of suppliers and factory management who are within the current audit scope of the Ethical Standards Program is encouraged. Training sessions take place in both group and one-on-one settings. The Ethical Standards team is working to make sure that the supplier representatives that attend training sessions have a relationship with factory management and the authority to influence factories toward a positive change.

Suppliers can access online information about Ethical Standards via Retail Link (Wal-Mart's data management system) at any time. Documentation and team contact information are regularly updated on Retail Link to reflect any changes in the Ethical Standards Program. In addition, the Ethical Standards team is available to answer supplier questions.

We are working to establish metrics that could measure the effectiveness of the educational outreach activities described below.

Introductory Training

Introductory Training on Ethical Standards is targeted specifically for new suppliers, though any supplier of Wal-Mart is welcome to attend. This training serves as an introduction to Ethical Standards and is offered at least once a year in each region.

Supplementary Training

Large group supplementary training sessions are offered at least once a year in each region. The training focuses on Ethical Standards' program enhancements and industry best practices. Environmental training was highlighted in 2005 due to the fact that audit criteria were enhanced to include waste identification, waste handling and disposal, wastewater treatment and discharge, air emissions, and banned substances. The environmental criteria were audited in 2006 but were not considered in factory assessments. Therefore, the enhanced criteria did not influence the factory ratings. The auditors did discuss environmental findings with factory management during the audit closing meetings to educate them on the new criteria and on environmental sustainability.

Third Orange Meeting

Factory management and their respective Wal-Mart suppliers for the factories that receive three Orange ratings in a two-year time period are invited to meet with members of the Ethical Standards team. The meeting centers on the importance of social responsibility and actionable steps that the factory and supplier can take to improve factory working conditions. The role of the Ethical Standards team in this situation is to facilitate dialogue on issues of concern and to serve as a resource to the supplier and factory management. This approach has shown positive results. For example, in the Middle East, Africa, and Europe region, meetings were held with eight targeted suppliers and factory management; at the end of 2006, six of the factories had achieved a Green rating and two had received a Yellow rating.

International Giving Program

"Education is the road to freedom and development. Through the International Giving Program, we are empowering individuals to walk into their true potential and bring about positive changes in their communities."

Suze Francois
Social Responsibility Specialist

The International Giving Program (IGP) was established in 2005 in cooperation with the Wal-Mart Foundation. The purpose of the program is to give back to the communities where Wal-Mart's merchandise is produced and the retail market countries where merchandise is sold. The program was founded because some countries where Wal-Mart's

merchandise is produced are considered Less Developed Countries (LDCs) where development indicators such as literacy rate, education level, and health care are low. Working with well-respected organizations, Wal-Mart is supporting programs that expand educational opportunities for workers, their families, and their communities around the world.

The International Giving Program's first charitable grant was awarded in 2006 to The Asia Foundation for a scholarship program that educates migrant women working in the Chinese province of Guangdong where there is a concentration of supplier factories producing merchandise for Wal-Mart. This grant was issued in October 2006 and runs through 2009.

Scholarship Recipient and Success Story Cai Yuqing

Cai Yuqing was selected as one of the first 45 women to receive a scholarship to attend a vocational education program. She chose to study Computer Applications Technology at the Guangdong Women's Professional Technical College.

As with all of the scholarship recipients, tremendous personal obstacles prevented Ms. Cai from completing her education earlier in life. She has a paralyzed right leg that has limited her motion, and has used a crutch for much of her life. A significant amount of her family's resources went for medical treatment rather than education. She was later forced to drop out of school when her younger brother was admitted to vocational school and the family could not afford to pay for her to continue her education.

Despite these obstacles, Ms. Cai showed resolve and a commitment to improving her life. Like millions of other Chinese women, she migrated from her family home in Guangxi province to work in a factory in China's industrial south. Separated from her family and struggling through rigorous workdays for minimal pay, she was determined to earn enough money to enroll in a vocational program in sewing. After three years, she was finally able to afford the training course and soon was able to sustain a local sewing business. During this time, she married and had a son.

Things took a turn for the worse when her husband, also disabled, was unable to find work. During this time, Ms. Cai characterized her family as "penniless".

Only through the contributions of her elder sister was she able to purchase a second-hand computer and began taking short-term basic computer courses.

The Asia Foundation's scholarship program comes at a pivotal time in Cai Yuqing's life. In a letter written to the Scholarship Review Committee, she was "exhilarated" to learn about the Wal-Mart-funded scholarship program. This scholarship represents a rare opportunity for her to participate in a three-year program where she will develop the computer skills she needs to pursue new employment opportunities.

Cai Yuqing is one example of how this Wal-Mart-funded scholarship program can transform the lives of Chinese women workers. The Scholarship Review Committee has worked diligently with local vocational schools and the applicants to make sure that the women with the greatest need are selected as scholarship recipients and that they receive the appropriate support throughout the course of their studies. During the next three years, The Asia Foundation will provide 70 deserving women with scholarship opportunities to attend vocational school programs that will make them more marketable for jobs. Programs include computer technology, human resource management, business administration, logistics management, computers, foreign language, economics, and education.

Contributed by The Asia Foundation

Stakeholder Engagement

“ Our stakeholders can be found internally and externally. Stakeholder engagement is a mechanism in which concerns relating to social responsibility are heard. Issues within the supply chain can be complex at times, and resolutions to issues can take a combination of approaches. Engaging with stakeholders is one powerful way to stay connected and build relationships across various work groups. The end result is a better understanding of how others work, a stronger network, and a strengthened Ethical Standards Program.”

Marie David

Director of Social Responsibility, Ethical Standards

Wal-Mart defines stakeholders as those individuals and organizations who are directly or indirectly impacted by any part of our business activities. They are factory workers, customers, communities, countries, suppliers, Wal-Mart associates, governments, interest groups, media, and nongovernmental organizations, to cite a few. The groups may vary but they share a common interest in how manufacturing and business practices affect factory workers, their communities, and the environment. The Ethical Standards team seeks to engage with individuals and groups that are willing, knowledgeable, and influential.

Social responsibility and social performance on a global scale must come from a synergistic effort of all the parties involved. Wal-Mart is committed to working with stakeholders and listening to their perspectives. Wal-Mart is building bridges with many constituencies, even those with views different from our own.

Among the stakeholders the Ethical Standards team regularly interfaces with are: governments, nongovernmental organizations, Wal-Mart associates, suppliers, factory workers, factory management, inter-governmental organizations, multi-lateral organizations, academia, and labor rights groups.

We appreciate the time that these stakeholders have set aside for engagement. Our team has learned a great deal through these interactions. We value the opportunity to productively work with stakeholders and look forward to continuing this interaction.



Engaging and Listening

Kristi Ragan is DAI Strategic Advisor to USAID Global Development Alliances, Adjunct Faculty Georgetown University and Co-Chair of the Work Group on Corporate Responsibility for the Society for International Development, Washington, D.C.

Wal-Mart has sought out a wide range of stakeholders from local NGOs in developing countries to policy makers and academics in Washington, D.C., and elsewhere. Development practitioners and contractors like DAI and professional forums like Georgetown University and the Society for International Development in Washington, D.C., have productively engaged with Wal-Mart on ways to enhance ethical standards in global supply chains.

Wal-Mart is actively discussing the issues at the intersection of international business and international development with a range of stakeholders. These dialogues are characterized by Wal-Mart's openness and an interest in listening more than talking. The positive results from these discussions are moving toward institutionalizing Wal-Mart's regular dialogue with policymakers and practitioners from government, multilateral institutions, think tanks, universities, NGOs, and other private sector actors.

Learning more about Wal-Mart's challenges in establishing higher ethical standards among its suppliers around the world is helping the international development community better understand the obstacles and opportunities involved in transforming practices and behaviors. On the flipside, the cumulative experience of the many practitioners that Wal-Mart is regularly engaging is contributing to change and innovation in one of the world's largest companies.



The following are some of the stakeholders with whom the Ethical Standards team was engaged in 2006:

- **Business for Social Responsibility (BSR)** – a group that provides consulting services on social responsibility and brings multiple stakeholders together. In 2006, our Indian subcontinent team helped to facilitate a study published by BSR on women's health, titled, "Addressing the General and Reproductive Health of Women in Global Supply Chains".
- **Canadian Retailers Advancing Responsible Trade (CRART)** – an advisory agency established by Wal-Mart Canada, HBC Canada, and Sears Canada to create a dialogue and share intelligence on issues of ethical sourcing in corporate Canada and to encourage the adoption of responsible trade practices by Canadian retailers.
- **CIES** – a global food business forum offering support and a network environment to retailers who sell food and consumer merchandise. CIES is facilitating the formation of the Global Social Compliance Program (GSCP) of which Wal-Mart is a founding member. GSCP provides a forum for discussing, identifying, and developing best practices, as well as common tools and methodologies to improve labour conditions in the supply chain and to work collaboratively on remediation and capacity building.
- **Envirowise** – a U.K. government-funded organization assisting companies in minimizing environmental waste and impact. In 2006, ASDA, Wal-Mart's retail unit in the U.K., facilitated six workshops for U.K. suppliers presented by Envirowise. Approximately 200 suppliers attended the training. Following the workshops, six suppliers were offered free environmental audits of their sites and implemented many recommendations from the audits. The six participating suppliers saved approximately \$3.9 million as a result of their learning.
- **Gangmaster Licensing Authority (GLA)** – a U.K. governmental organization in place to influence labor practices in the industries of agriculture, horticulture, shellfish gathering, and associated industries.
- **Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)** – an international cooperative focused on improving people's living conditions and prospects on a sustainable basis. Wal-Mart is participating in a pilot project with GTZ to provide factory workers with skills-based training.

- **Health and Safety Executive, Agricultural Industry Advisory Committee** – the U.K. governmental organization responsible for regulation of health and safety in Great Britain.
- **ILO Better Factories Cambodia** – a monitoring and remediation program established by the International Labour Organization (ILO). All garment factories in Cambodia that produce merchandise for sale by Wal-Mart are now monitored solely by the ILO. Many other retailers with factories in Cambodia are also monitoring factories through the ILO program. Similar programs are being established by the ILO in other countries.
- **Maquila Solidarity Network (MSN)** – a labor rights organization based in Canada. Wal-Mart and MSN have engaged regarding factory concerns that MSN has brought to our attention.
- **MFA Forum** – a forum to counteract the impact of the end of the Multi-Fibre Arrangement in countries previously favored by this arrangement. Wal-Mart is participating in several MFA Forum working groups.
- **United States Agency for International Development (USAID)** – a development agency that is part of the U.S. Government. Wal-Mart and USAID are assessing different approaches for collaboration to benefit sourcing countries and to educate factory workers and management.



Conclusion



Wal-Mart Stores, Inc. has sourcing offices around the world; merchandise sold by Wal-Mart is produced in many countries. The Company also has an international customer base with retail operations in 13 countries. Wal-Mart's customers value shopping at our stores and want to purchase merchandise that has been produced with integrity and where workers as well as the environment are treated with respect. Wal-Mart is committed to working with its suppliers to strengthen positive factory practices in accordance with the Standards for Suppliers.

We are working to address challenges with sustainable solutions. To accomplish our mission, the Ethical Standards team is looking beyond monitoring to increased collaboration with stakeholders, code convergence, and capacity building. The Ethical Standards team is having candid conversations with stakeholders about the challenges being faced and how to address those challenges. Wal-Mart is committed to the continuous improvement of the Ethical Standards Program and to learning from the experiences and advice of others.

As reported, Wal-Mart initiated several enhancements to the Ethical Standards Program in 2006; among these were:

- Increasing the domestically sourced merchandise audit scope for Wal-Mart Canada to include factories producing proprietary brands within the categories of toys, sporting goods, apparel, shoes, and accessories
- Increasing the percentage of audits that are unannounced to 25% of supplier factories
- Strengthening the environmental audit criteria to include waste identification, waste handling, wastewater treatment and discharge, air emissions, and banned substances
- Awarding the first International Giving Program grant to The Asia Foundation to fund scholarships for migrant women in the Guangdong Province of China

- Revising the re-audit schedule for Green-assessed factories from one year to two years to reward those factories operating in compliance with the Standards for Suppliers

As the Ethical Standards Program moves forward in 2007 and beyond, the Ethical Standards team is taking a close look at Wal-Mart's internal processes. Work has commenced to increase internal alignment between commercial and social objectives. Pre-qualification of factories is beginning to take place in select categories of direct imports and domestically sourced merchandise. Wal-Mart is also working to increase incentives for suppliers that demonstrate continued commitment to the Standards for Suppliers while also performing on quality, delivery and price.

The Ethical Standards team looks forward to sharing further challenges and progress with you in the next Ethical Sourcing Report. For more information on the Ethical Standards Program, please visit www.walmartstores.com/ethicalstandards

Postscript

The purpose of this Report is for informational use only. The information presented in this Report is accurate to the best of our knowledge; however, we acknowledge the difficulties of accurate reporting, especially in light of the various opinions existing on all of these issues. As we continue to improve the reporting of our Ethical Standards Program's activities, we welcome candid feedback from our stakeholder community regarding our reporting efforts.

We can be contacted by e-mail at ethicalstandards@wal-mart.com

Wal-Mart Stores, Inc. Standards for Suppliers

The Standards for Suppliers have evolved over time to reflect the development of industry best practices and what we have learned from stakeholders. The Ethical Standards team works diligently to continually strengthen the code and its adherence by Wal-Mart's suppliers. Today, the Standards for Suppliers include provisions for health and safety, environment, compensation, hours of labor, seventh day of rest, forced/prison labor, underage labor, discrimination, compliance with applicable local laws and regulations⁵, freedom of association and collective bargaining, rights concerning foreign contract workers, and the right of audit by Wal-Mart at its discretion.

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

Compliance with applicable laws and practices

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

Compensation

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

⁵When Wal-Mart standards are more stringent than local law, the more rigorous provision is applied.

Hours of Labor

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

Forced/Prison Labor

Forced or prison labor will not be tolerated by Wal-Mart.

Child Labor

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

Discrimination/Rights

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

Freedom of Association and Collective Bargaining

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

Immigration Law and Compliance

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

Workplace Environment

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

Security

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

Concern for the Environment

We encourage suppliers to reduce excess packaging and to use recycled and nontoxic materials.

Right of Audit

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

Confidentiality

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

Wal-Mart Ethical Standards Program Milestones

1992

- Wal-Mart's program was established, including the Standards for Suppliers. Efforts were focused on major export markets of Bangladesh and China.

1993–1996

- Pacific Resources Exports Ltd. (PREL), our exclusive buying agent, began auditing factories manufacturing merchandise for Wal-Mart's suppliers.

1997–2001

- The program was expanded to include factories located in Egypt, Pakistan, India, and Nicaragua. Domestic suppliers using factories in the above referenced countries were audited by approved third-party service providers, Intertek Testing Standards and Global Social Compliance.
- Regardless of the country involved, PREL and approved third-party firms audited factories producing private-label Wal-Mart brands such as McKids/McBaby®, Faded Glory®, Bobbie Brooks®, Catalina®, Retro Blues®, Basic Equipment®, Sportrax®, and Lady Manhattan®.

2002

- Wal-Mart established the Global Procurement organization and began managing the factory audits.

2003

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

2004

- Unannounced audits increased from less than 1% to 8% of all audits.
- A national brand pilot initiative was conducted with Levi Strauss & Co.™, Sara Lee®, and Jockey® to reduce duplicate inspections.
- 7,900 suppliers and members of factory management were trained on the Standards for Suppliers.
- Select proprietary brands (HomeTrends™ and Mainstays™) were included in the audit scope for Wal-Mart U.S.

2005

- Wal-Mart's program formerly called 'Factory Certification' was renamed 'Ethical Standards' to more accurately reflect the program objectives.
- A relationship with Business for Social Responsibility (BSR), a well-respected nonprofit organization, was initiated to develop a stakeholder engagement program.
- The Standards for Suppliers were expanded to address the right to freedom of association and collective bargaining and compliance with immigration laws and regulations for foreign contract workers.
- More than 11,000 suppliers and members of factory management were trained on the Standards for Suppliers and new environmental, health, and safety audit requirements that became effective in January of 2006.
- Unannounced audits increased to 20% of total audits.
- The George™ brand was added to the proprietary brand audit scope. Other brands include HomeTrends™ and Mainstays™.
- Local language helplines were instituted in 45 sourcing countries to provide an easier mechanism for suppliers' factory workers to share concerns and issues.
- Suppliers, their selected factories and Ethical Standards associates trained on additional environmental, health and safety audit requirements that began going into effect January 2006.

2006

- As part of Wal-Mart's global sustainability initiatives, the environmental criteria were expanded to include waste identification, waste handling and disposal, wastewater treatment and discharge, air emissions, and banned substances.
- The re-audit schedule for factories rated Green increased from one year to two years.
- Unannounced audits increased to 26% of total audits.
- Auditors began to use Tablet PCs to enter violations and produce the onsite report during an audit.
- The International Giving Program, focusing on giving back to the communities where merchandise for Wal-Mart are sourced and sold, awarded its first grant to the Asia Foundation to fund scholarships for migrant women in China.
- Ethical Standards' audit scope expanded to include audits of certain factories producing domestically sourced merchandise sold in the Wal-Mart Canada Retail Market.
- The sample for worker interviews and documentation review increased from 15 to 25 workers, which is an industry best practice.

Glossary of Terms

Direct imports

Merchandise sourced by Wal-Mart in a foreign country and subsequently imported by Wal-Mart.

Domestically sourced merchandise

Merchandise that a supplier has either produced locally in the retail market or imported into the domestic market. Domestic suppliers may own factories or have a network of factories from which they obtain merchandise.

Ethical Standards or Ethical Standards Program

Wal-Mart's ethical sourcing program described in this Report.

Factory

A facility that produces merchandise. Production is defined as the conversion or assembly of purchased materials into a finished product.

Proprietary brands

Brands owned by or exclusively used by Wal-Mart Stores, Inc.

Retail market

Any country where a subsidiary of Wal-Mart Stores, Inc. is located and operating retail stores.

Sourcing market

The group of countries that hosts factories that produce Wal-Mart merchandise.

Stakeholder

A party who is directly or indirectly impacted by any part of our business.

Standards for Suppliers

Wal-Mart's code of conduct for labor practices that apply to suppliers and those they do business with that produce merchandise for Wal-Mart.

Subcontractor factory

Factories contracted by other factories to produce finished merchandise and sub-assembled merchandise that can be readily identified as associated with Wal-Mart – not components of merchandise.

Supplier

A party that sells merchandise to another party.

Supplier factory

Any factory producing merchandise or parts of merchandise to be sold by Wal-Mart. Note: Wal-Mart contracts with suppliers who then source through factories.



Please consider the environment
when printing this report.

508 SW 8th Street
Bentonville, AR 72716-0830
www.walmartstores.com/ethicalstandards