

## **Bangladesh & Sourcing Update**

**Operator:** Greetings and welcome to the Wal-Mart update on Bangladesh and sourcing.

At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Miss Carol Schumacher. Thank you, Miss Schumacher. You may now begin.

**Ms. Carol Schumacher:** Uh, good morning, everyone, and, um, potentially good afternoon to some of you who may be joining us from outside the United States.

So, this is Carol Schumacher. I'm Vice President of Investor Relations for Wal-Mart. And this is, uh, a call that we're--we've put together for the investment community, for the equity side of the business, uh, to be able to provide an update on ethical sourcing and--and what's been going on in Bangladesh.

We know that many of you have been asking us and have had a number of questions. And in the interest of being efficient, uh, with your time and also with our management's time, we've put together this session as a conference call so that we can reach everybody at the same time, uh, and always with the same information.

So, uh, we are going to, um, get into the briefing in a second. But, I'd like to remind you that back in April we published our global responsibility report. That's a

Thursday, August 29, 2013

companion document to the annual report and the proxy, all of which were issued at the same time.

We have a very robust section in the GRR starting on page 22 of this year's report that goes into a lot of detail about ethical sourcing and the processes and procedures we have in place to address, uh, where we are with sourcing.

Um, it's always available on our website. You can find that at [www.corporate.Wal-Mart.com](http://www.corporate.Wal-Mart.com), and you'll see the section for the global responsibility report. It details everything that you need to know about our standards and our resources in this particular area.

When we do have updates on particular topics like Bangladesh, we do also issue company statements. And again, you can generally find those on our website as well. Sometimes they are in the news section there.

So, joining me today, um--I'm happy to say that we had a schedule change for, uh, one of our participants this morning, so I'm happy to tell you that we have the whole team here. Um, I'll start with Jay Jorgensen, who is our SVP and Global Chief Compliance Officer. Jay oversees the entire area of compliance, which includes ethical sourcing. Uh, also with us today is Rajan Kamalanathan, who's VP of Ethical Sourcing, and Wesley Wilson, our Senior Director in the department as well.

Um, for those of you who may not be familiar with the reporting structure, this area of the company and all of compliance reports up to our Chief, uh, uh, Legal person, who is Karen Roberts.

Uh, and with that, um, I would like to turn this over now to Jay.

**Mr. Jay Jorgensen:** Hey, It's Jay Jorgensen. Carol, thanks so much for--for introducing us.

Um, one quick clarification. I report up to Jeff Gearhart.

**Ms. Carol Schumacher:** Right.

**Mr. Jay Jorgensen:** I know--we were just barely talking to Karen Roberts.

**Ms. Carol Schumacher:** Yes--.

**Mr. Jay Jorgensen:** --So, that's, uh--.

**Ms. Carol Schumacher:** --That's--.

**Mr. Jay Jorgensen:** --But--yeah. But, uh, Jeff is the Corporate Secretary and Executive Vice President and, despite that, a pretty good guy.

So, um, let--I wanted to talk today about two areas of focus that the company has had, um, in Bangladesh. And there's a special, as everyone knows, safety situation in Bangladesh that we want to respond to.

And so, the two areas of focus that we hope to talk about today, and then we'd be glad to take your questions, uh, really relate to, first, Wal-Mart's own sourcing in Bangladesh, the--the factories that produce products in Bangladesh that are ultimately sold in our stores both in the United States and--and around the world. So, that--that's the first point, what are we doing in our own factories, in our own sourcing.

And then, the second point is Wal-Mart's come together with what's now 20 other retailers and brands to create an alliance to coordinate enhanced safety efforts in Bangladesh so that we don't just act alone, but rather we leverage, uh, our experiences and the experiences of others to, uh, increase safety throughout the country. And I know Rajan and, uh--and Wesley are going to speak about that.

So, let me start with the first point, our own efforts. So, since the--the two tragedies in Bangladesh, Wal-Mart has begun, uh, a--really a unique program for Bangladesh, one that I don't think any other retailer has done, and I know that we have not done, uh, in the past.

What we're doing is, we've hired, uh, a very large engineering company. And we have asked them--we've given them a list of all the factories in Bangladesh that produce product for sale at Wal-Mart, and we've asked these engineers to divide into teams and to go to each and every one of those factories three times. Uh, we divide it into phases.

The first phase is the--the engineers go and they take electrical engineers and structural engineers so that they cover both the fire safety aspect and the building safety aspect. And using their expertise, they do an initial one day assessment of each factory to understand what's the current safety situation here, is there an urgent, uh, crisis at any of these factories, and to prioritize the factories for the rest of the process.

Then--we call that phase one. Then the engineers come back now--when the prioritized list is created, uh, to do a phase two assessment. Let me talk for a minute about phase two, because it's really something special.

So, on phase two, teams of engineers come. The--the teams average between eight and 12. Eight and 12 engineers come to the factory, uh, and they stay there for anywhere from a week to a month depending on the size of the factory. So, eight to 12 engineers at each factory for up, uh--from a week up to a month, and they do an exhaustive search of the factory.

They go through the wiring. They go through structural issues. They bring thermal imagers so they could look inside the walls for hot spots with the--with the wires. I mean, we're talking about a really exhaustive, uh, deep dive safety analysis.

At the end of that time, uh, the engineers give the factory a list of all the things both in terms of structure, you know, the physical plant, and in terms of process, the training that they're doing, whether people are educated on fire safety. They give them a complete report on--on--on where the factory stands from a safety point of view, uh, and, of course, a remediation list.

Anyone's who's ever had their house inspected knows that when the--the home inspector comes, there's this long list of things that need to get fixed. And, you know, from--from little to large, they put together that list and they give it to the factory and say, "Here's what needs to be fixed."

Then the engineers give the factory, uh, a space of time. It can be 30 days, it could be 60 days, it varies, uh, to fix those materials, or rather those--those issues, and then they come back. They come back for a phase three assessment.

And phase three is for the engineers to see what's been fixed, what remains to be fixed, and to issue a final report of here's how this factory, uh, is doing.

So, I mean, that kind of in-depth, uh, of search, study, and--and, uh, correlation with the factories, uh, is something that we haven't done in the past and something that I'm pleased to be doing, because it gives, um, a--a more in-depth safety focus to each one of these factories.

It gives the factory owner more information, gives us more information, and provides that reassurance that, in our own backyard, uh, things--you know, things are--are

Thursday, August 29, 2013

going well. Things are safe, and we feel that the workers who work in those facilities have good, safe working conditions.

So, Rajan, I--let me turn to you and--and have you talk for a moment, if you would, about how those engineering, uh, inspections relate to our social inspections, 'cause we don't--we are also continuing to do our social inspections. Go ahead.

**Mr. Rajan Kamalanathan:** Thank you, Jay.

So, over and above the, um, building and fire safety assessments that are going on that Jay just talked about, we have, uh, increased, uh, the requirements around fire safety in the normal social audit that we conduct in the factories.

So, we are making sure that, um, each of the factories that are producing goods for us have, uh, proper exits and the--the exits have proper push-bar, uh, doors so that workers can escape, uh, when--when there is, uh--in the event of a fire, and that actually each, uh--each and every exit, uh, has a door which basically prevents smoke, uh, to--getting to areas of the building which could actually cause, uh, deaths to workers.

We are making sure that, uh, the windows on--on the first floor, uh, you know, of a building, for example, actually have, uh, an ability to be opened from--from the inside so they can actually escape from the building.

So, a lot of additional, uh, requirements are being put in to make sure that the workers, uh, are safe in the--in the factories that--that are producing for our--for our--for our goods. And so, together with the, uh, social audit as well as, uh, fire safety assessment, uh, we are making sure that the, uh--the workers', uh, safety is being taken care of.

**Mr. Jay Jorgensen:** Thank you, Rajan.

So, I feel, uh, good about this. I'm glad that we're doing this. And it's important to note that, uh, we're doing it, uh--we're doing it at our own cost. We want to move quickly. We don't want there to be an issue about cost.

So, this costs us between 10 to \$12,000 per factory to bring that kind of engineering expertise and put it on the ground. Uh, but, we are--that's what we're doing because we want to be sure that the workers who produce goods for sale at Wal-Mart have safe working conditions.

So, that's Wal-Mart's own sourcing in Bangladesh. But, of course we have, uh--what's been in the news is the fact that, uh--that companies have come together in a historic way to--to coordinate their efforts.

So, Wesley, can we turn to you to talk about the Alliance for Bangladesh Worker Safety?

**Mr. Wesley Wilson:** Sure.

Uh, thank you all for taking the time this morning. Uh, as you all know, we've been active participant in the, uh, Alliance for Bangladesh Worker Safety.

Uh, there are, uh, five key areas that this initiative is focused on: uh, the training, education, and empowerment of workers, supervisors, and management in the factories, uh, regarding safety; the development of common standards for assessing fire safety and building safety in conjunction, uh, with the Bangladeshi government and, uh, other stakeholders including factory owners; uh, the expansions of fire safety programs for inspection and remediation; uh, transparency through sharing, uh, and, uh--best practices, uh, affecting both trainings and inspections; and then also sustainable, uh, financial commitments.

Thursday, August 29, 2013

Um, as you all have seen, uh, reported, the, uh--the Alliance is now up to, uh, 20 North American companies, so US and Canadian, uh, recently, uh, appointed a chair, uh, Ellen Tauscher, uh, and have completely filled out the Board, uh, and are, uh, actively working to meet the commitments which are laid out in the members' agreement, uh, which, uh, is available on the, uh--the website, uh, of the Alliance for Bangladesh, uh, Worker Safety.

**Mr. Jay Jorgensen:** As investors, you probably don't track ethical sourcing, you know, in minute detail every day. So, I want to focus on a couple things that Wesley talked about.

It really is a breakthrough for this many companies, for 20 companies, to come together and say, "Let's have common standards," because what happens in these factories, and Rajan, you'll know this best, is the--they're audited over and over again by, uh, a number of different companies that do business with them. And while the standards are all focused on safety, they have slight differences.

And so, factory owners, we, uh, understand in the past, have--have spent a lot of time trying to--well, we even heard one factory owner say, "I move the--the firefighting equipment to the left. Then the next inspector comes and I move it to the right, and then the next inspector comes and I move it back to the left," uh, and that's a waste of time.

It's nice to move beyond that and to have common standards. And it's--as Wesley was mentioning, these are standards that we're not developing as--as lawyers, uh, or as ethical sourcing experts. So, we have engineers.

Technical experts are the ones who are saying to us, "Here's what the standards are. Here's what they should be." And with 20 companies coming together, the amount of duplicative auditing goes down.

And then, to Wesley's second point, we're sharing the audit results among the alliance members. So, it's not just that the factories are not being audited to conflicting standards. They're getting more in-depth audits that then companies can share so those same resources can be used to increase our footprint, to be--do a deeper dive in each one of the facilities rather than--rather than, uh, duplicating our--our efforts over and over again. Uh, I'm really pleased, uh, about that.

And then, of course there's the money. So, the--the people who--or rather the companies who participate in the alliance are obligated. It's a binding commitment that they must pay, uh, dues into a--what we call a worker safety fund.

The worker safety fund is used to fund all of the activities of the alliance, including the experts that I just mentioned and you--all the other things you can imagine that would go into such an effort. We're up to close to \$50 million in--in--in commitments, um, to the fund.

Uh, and then, on top of the fund, which is--these are the fees that the--that the companies pay, uh, many companies in the alliance have stepped forward and said we're going to make low cost capital available for safety related remediation in--in Bangladesh because, for those of you who know about Bangladesh, access to capital can be a problem.

Thursday, August 29, 2013

Even if you're creditworthy, it can be hard to get credit, uh, at anything that approaches sort of a reasonable interest rate. So, uh, \$52 million total among the companies has been put up, uh, for that.

So, uh, I feel like we're addressing all of the sort of problems that have--that have bedeviled, uh, the industry in the past. Uh, and let me use, for example, one of the problems.

All of the companies together have agreed that we do not tolerate unauthorized subcontracting. And I've been really pleased to see, in the media and in their public statements, the government of Bangladesh and the BGMEA, which, as you know, is the trade--leading trade association in Bangladesh, uh, among factories, also say that they don't tolerate unauthorized subcontracting.

Uh, so, I'm very pleased to see that, and I'm very pleased to see the government of Bangladesh participating in this effort. Uh, I saw that the government of Bangladesh announced last week that they are in the process of hiring 800 new inspectors, 800 new inspectors, to--to inspect the factories in Bangladesh.

And--and that's important because, as the government made clear, there's, uh--as many of you know, there's a group of largely European retailers that have come together to do a very similar effort to what the alliance is doing. And I really applaud them.

So, that's going to cover one group of factories. Then, there's another group of factories in Bangladesh that the alliance is going to cover, of course with some overlap. And then, there's going to be a third group of factories that neither the companies of the accord nor the companies of the alliance participate in, and who's going to inspect those?

Thursday, August 29, 2013

So, really pleased and compliment the government of Bangladesh that they are stepping up to cover those factories as well.

Uh, what everybody wants, everybody that I'm talking about, the companies, the accord, the alliance, uh, we don't want any more tragedies. We--to the contrary, we want the men and women of Bangladesh to have a safe place to work.

Rajan, other thoughts?

**Mr. Rajan Kamalanathan:** No, you--you covered it well. Thank you.

**Mr. Jay Jorgensen:** Carol, should we open it up for questions?

**Ms. Carol Schumacher:** Yeah.

So, uh, Jessie [sp], if you could please go through the procedures for, uh, anyone who wants to ask a question?

**Operator:** Absolutely. Ladies and gentlemen, at this time we will be conducting our question and answer session.

If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you would like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Again, it is star-one to ask a question at this time. One moment, please, while we poll for questions.

Once again, ladies and gentlemen, if you would like to ask a question, please press star-one on your telephone keypad.

Thursday, August 29, 2013

Thank you for your patience, and please continue to hold while we prioritize the queue.

Thank you. Our first question today is coming from the line of Tim Goodman with Hermes. Please proceed with your question.

**Mr. Tim Goodman:** Hello. That, uh--thank you very much the update. You know, it's--it's been helpful. I've got a number of questions, but I'll--I'll maintain discipline and only ask one.

Um, whilst the focus of the call is about Bangladesh, you know, and--and you've-- you say you've done groundbreaking work in Bangladesh, it obviously begs the question, what have you learned from Bangladesh and, uh, are you applying to other countries where--where you supply goods from?

**Mr. Jay Jorgensen:** Thank you for that question. So, we asked our self that very--that very, uh, question.

You know, we're investing millions of dollars. I think we've previously announced Wal-Mart's share of the fees to the alliance are \$5 million. Then we've got, uh, the millions of dollars we're putting into engineers, uh, in each of the factories, uh, in addition to all of the staff that we're hiring. Uh, I think we had, uh, previously announced we're increasing our staff in Bangladesh.

So, with--with an investment like that, we have to ask ourselves, what good can we do with this? We want to make sure that we make the factories in Bangladesh as safe as they can possibly be. Uh, but, can we--can we have learnings that reach beyond?

Thursday, August 29, 2013

And I'll tell you one that I've learned just, uh, speaking for myself, and Rajan, then I'll turn to you. And that is it's--if the competitors can come together to share information on safety, it's so much more powerful. And we've already had that.

You've already seen, uh--and it's not just companies that are in the alliance. You've seen Tesco and others, uh, calling out unsafe situations in Bangladesh so that others know.

And that just takes the--the value of their investment and provides that benefit to everyone so that a unsafe factory doesn't lose one retailer only to pick up another retailer who doesn't know about the situation. I would like to see that expand beyond Bangladesh, information sharing.

Rajan, your thoughts?

**Mr. Rajan Kamalanathan:** Well, my thoughts are that, um, as we go through this whole process and come to the end of it, I think there'll be a lot of rich learnings that we can take and apply to not just Bangladesh but other countries; Pakistan, if that, uh, applies too. And, you know, uh--and other sourcing countries that we--a number of retailers are in, uh, could have similar issues.

And so, it's about how do we, you know, take the learnings from Bangladesh and apply not necessarily the rigor that we have done, because I think Bangladesh is a special case because of the number of fires its had. But, how do you apply that so that you minimize the risks in--in the other sourcing countries?

**Mr. Jay Jorgensen:** And--.

**Mr. Rajan Kamalanathan:** --That's fine.

**Operator:** Thank you.

Thursday, August 29, 2013

Our next question is coming from the line of Mary Jane McQuillen with ClearBridge. Please proceed with your question.

**Ms. Mary Jane McQuillen:** Hi. Thanks. Just a quick question.

You mentioned 10 to \$12,000 was your own cost per factory. Um, did you say how many factories that tends to be?

**Mr. Jay Jorgensen:** Uh, I don't think I did, but I don't mind saying it. So, Wal-Mart, uh, sources from approximately 280 factories in Bangladesh.

Now, that number changes all the time. Like, as soon as I've said it to you, it's changing. Do you know what I mean? We--we are a dynamic business. But, that's--the rough number is 280 factories in Bangladesh.

**Ms. Mary Jane McQuillen:** Okay.

And thank you for doing the call today.

**Mr. Jay Jorgensen:** Oh, you bet. Thank you for, uh, investing in Wal-Mart.

**Operator:** Thank you.

The next question is coming from the line of Tytti Kaasinen with GES. Please proceed with your question.

**Ms. Tytti Kaasinen:** Yes, thank you, for all, uh--this conference call. We really appreciate the chance to, uh, hear and ask questions.

My question will be, uh, regarding Wal-Mart's own practices. And I wondered if you have reviewed your procurement practices and how they might have an unintended impact on the working conditions at suppliers as well as on the livelihood of unauthorized subcontracting.

So, I'm talking about things like giving appropriate lead times, being aware of the production capacity at suppliers, um, building a longstanding relationship with the suppliers so they have some assurance that they can--they will continue to have business at Wal-Mart and will therefore maybe be more inclined to invest in safety improvements themselves as well.

**Mr. Jay Jorgensen:** That's an excellent question. I can tell you've been working on this and thinking about this for a long time, because that's a--that's a sophisticated question.

So, uh, I want to--I'm going to turn to Rajan to talk about this, but first I want to sort of congratulate him. Uh, those efforts are something that he's been working on for years.

Uh, so, for those who are perhaps new to this, the reason that lead times matter is because if you say to a factory, you know, "Make me 20,000 shirts," but you don't give them enough time to make it, then of course the pressure increases on them to engage in unauthorized subcontracting.

And of course, the reason you don't want unauthorized subcontracting is we put all this effort into making a factory safe, and then if--if production goes out the door to a factory we've never heard of down the street, you know, then--then--then we've not accomplished what we wanted to do. That factory hasn't received the inspections, the training, the investment that--that we've put into the others.

So, on lead times, Rajan has been, uh, engaging with the--the merchants here at Wal-Mart for several years to make sure that they're aware of that, that they know that the

Thursday, August 29, 2013

lead times need to be understood, and actually has developed a process whereby Wal-Mart, uh, assesses the capacity of each factory.

So, it's not just that, uh, we say we need 20,000 shirts, who wants to buy--I mean who wants to produce them, we actually know each factory. We know what that factory can produce, what it's capable of producing, you know, in terms of like units per week. Uh, and so, the merchants are aware of that.

And then, on the engaging with, um--with the suppliers, longer term relationships are not just good for us in terms of safety, they're good for us in terms of quality of product, price of product. If somebody knows they're going to have a lifelong or at least a long term relationship with us, then, as you said, they're willing to invest more in their factory 'cause they know they're going to get more out of it. They're willing to invest more in training 'cause they're going to get more out of it.

Rajan has worked for many years on something we call women's economic empowerment, which is, in countries where--where women perhaps have been historically repressed, we go into the factories and we identify women who could use, uh, for example, to learn to--to read or who are doing very well and could move up in management, and we take them through training programs so that they can be prepared to be promoted. Then we come back to the factory to follow up to see that indeed these women that are receiving this training are being promoted.

If you're a factory owner, you're not going to do that. You're not going to let your people leave the line and--and, uh--and not produce unless you think you got a long term relationship with Wal-Mart.

Thursday, August 29, 2013

So, we're doing all of those things, but it's really because of Rajan's efforts over the years. Rajan, do you want to talk about that?

**Mr. Rajan Kamalanathan:** And I, um--thanks, Jay.

The, um--certainly it's taken a little while to get, uh, the sourcing and buying teams to understand the importance of, you know, being thoughtful about, you know, um, the timing as they're placing orders and making sure that suppliers have enough time to actually produce the goods that we want.

And we have--you know, when we have issues like Tazreen, it actually, uh, focuses people's minds and makes them realize that--you know, why they need to do this. And I think the--the fire at Tazreen has caused, uh, the--our buying teams to recognize that. And now they are actively, uh, working on making sure that suppliers have sufficient time, we're working with the right suppliers, making sure there's a long term relationship.

So, you know, out of all of this, I think, you know, uh, the Tazreen fire, while it's tragic, it's actually helped focus people's minds on doing things that right way. And I think it's good for business, uh, and it's good for the workers. And I think we'll all be, um, uh--we'll all do well as a result of it.

**Mr. Jay Jorgensen:** Thank you, Rajan.

Wesley?

**Mr. Wesley Wilson:** Uh, the one other thing I'd add--I know your question, uh, was about, uh, Wal-Mart's internal practices.

But, with the alliance, one thing that was very important for us to have included as part of the alliance's founding documents was this discussion about, uh, unauthorized

Thursday, August 29, 2013

subcontracting and, uh, internal processes. So, if you look at--it's article eight in the members' agreement, again available on that Web--on the--the alliance's website.

There's a specific set of commitments in the members' agreement that members will conduct a review of their internal policies, identify best practices and modifications to their own buying practices that, uh, can help to reduce the potential for unauthorized subcontracting. And then, they're committed to share those to one another, uh, through the alliance and with the help of the Executive Director.

**Ms. Carol Schumacher:** Um, and the other--this is Carol. The other thing that I would point out is that our company has also made a commitment to women empowerment.

Um, and so, those efforts are over and above anything that Jay talked about in terms of our financial commitment on the sourcing and the Bangladesh side, um, because this is something that, uh, Mike Duke, our CEO, has been, uh, very supportive of and has actually been at the forefront of leading this effort, uh, not just at Wal-Mart but is viewed now as a leader of doing this by other companies, too. So, just wanted to mention, uh, that point.

**Mr. Jay Jorgensen:** That's right, Carol.

So, that's why this question is so important, is only a long term partner's going to help us with that. If we have a transactional relationship with somebody where they sell us something once and they don't think they're going to see us again, then they're not going to partner with us on that.

**Ms. Carol Schumacher:** So, uh, Jessie, we'll take the next question, please.

**Operator:** Thank you.

Thursday, August 29, 2013

Our next question is coming from the line of Bertille Presta with F&C Asset Management. Please proceed with your question.

**Ms. Bertille Presta:** Thank you very much for giving us an update on what Wal-Mart is currently doing in--in Bangladesh.

And I just wanted to come back briefly on the accord, so--which has, I think, to my knowledge been tied to close to 80 companies worldwide, including North American companies so far. So, one of the specificities of the accord is that it's a multi-stakeholder initiative that--and truly puts factory workers and their representatives, um, at the--at the center of, uh, what the accord and the steering committee governing the accord is actually doing.

And I--I'm not aware at this stage of similar provisions being made by the alliance's Board. And so, I was just wondering whether you could tell us a bit more about, uh, the alliance's plans to include key stakeholders that are factory workers and their representatives, um, going forward.

**Mr. Jay Jorgensen:** Yeah, that's a--.

**Ms. Bertille Presta:** --Thank you.

**Mr. Jay Jorgensen:** Thank you for that question. Let me start, uh, actually, by talking for a moment about the accord.

I'm very complimentary of the accord. I mean, they--the idea that the--the--the last I knew, it was 79. But, I think you're right. Maybe it's now 80 companies coming together to focus on worker safety in Bangladesh. It's to be complimented.

And, uh--and I really think what they're doing is very similar to what the alliance is doing in that it's common standards, sharing of audits, uh, ensuring that the factories,

Thursday, August 29, 2013

uh--the things that are found in the factories that need to be remediated are remediated, binding commitments to contribute.

So, I have to admit when we created the alliance, we saw those provisions in the accord and we decided we're going to have those provisions in the alliance, uh, as well. And so, we have those--those same provisions.

But, your point, now turning to your question, is exactly right. Unless the workers are at the center of what you're doing, uh, or what we are doing, then we won't be fully successful, because we--we need to know what the workers are experiencing on the ground. An auditor can come for a week or a month, but then they're not going to be there--there full-time.

So, we've got a couple of different ways that we approach that. First, we want to have--we have had members of civil society, uh, come onto the Board of the alliance. So, the--we got the BGMEA and BRAC.

And for those of you who don't know, BRAC is the largest NGO in Bangladesh. We brought them on 'cause they can give us more of a society view. But, to your point, they're not workers. They're--they're an NGO and association of manufacturers.

So, then to bring in the worker--the worker voice, we've set up a Board of Advisors. Uh, and what we really want to have on the Board of Advisors are the very same--if not the very same people, at least the very same types of people that the alliance has, 'cause I've called and met the alliance and the kind of people that they have brought onto their--their Board of Advisors to give them this kind of advice.

You'll see in the founding agreement, uh, that creates the alliance a discussion of a commitment to engaging the workers. Uh, at Wal-Mart--let me give you one example

Thursday, August 29, 2013

of what Wal-Mart does. Wal-Mart contracts with a company called LaborVoices. LaborVoices is essentially the reverse of a hotline. A hotline waits for somebody who's in a factory to call. LaborVoices calls the workers or reaches out to the workers to say, "We need to know from you what are--what are you seeing, what are--what are you hearing."

So, that's what Wal-Mart does. You see general references in the alliance, uh, document to doing a similar thing. Now, we don't name LaborVoices 'cause we want flexibility to bring in all different kinds of companies.

But, we need to engage with workers. We need to have labor. We need to have not just, uh, manufacturers, not just civil society, but representatives of labor participating with us. And we--we are in talks with some--with, uh, some, uh, representatives of--of labor and international labor organizations, uh, to help bring us together with the accord, to help bring us together with, uh--with, um, uh, excuse me, workers.

And I don't think I'm breaking any news. I think this has been out there, that the ILO has invited us and the accord to a meeting on September 7th to talk about these very things. So, the accord, the alliance, and for those of you who know the ILO, the ILO will be--will be getting together to talk about these very things.

So, your--your--the--your focus is exactly right. It's our focus as well.

**Mr. Wesley Wilson:** The one other thing I would say about, uh, Wal-Mart's partnership with LaborVoices and the potential for, uh, the use of that model for the broader alliance is that Labor Voices, uh, not only uses their own tools but partners with civil society in Bangladesh, uh, to reach out to workers.

Thursday, August 29, 2013

So, it's not only the work of LaborVoices or Wal-Mart or the alliance. They're actively engaging, uh, NGOs, uh, likely many of them the same partners that, uh, are partnered with the accord, uh, to reach out into the factories and--and--and, uh, uh, connect with the workers in that way.

**Mr. Jay Jorgensen:** That's a great point. And the more we can do together with the accord, the better off everyone will be.

**Ms. Carol Schumacher:** Okay.

Uh, Jessie, we'll take a few more questions.

**Operator:** Thank you.

Our next question is coming from the line of Bill McGrew with CalPERS. Please proceed with your question.

**Mr. Bill McGrew:** Thank you. Good morning. Um, I--Carol, Jay, Rajan, Wesley, really appreciate you taking the time, uh, to spend with us today.

Um, I want to go back to, just real quick, the three phases that Jay spoke to, um--.

**Mr. Jay Jorgensen:** --Yeah--.

**Mr. Bill McGrew:** --And--and I'm just curious. As you get through phase three, uh, and you--you're reviewing the final reports of the various factories, um, hypothetically you're going to run across factories that don't address, uh, or improve the safety and remediation that's been identified.

Um, what is--what are Wal-Mart's plans, uh, to address those factories? And are you seeing indications where some factories are saying, "You know what? We don't want to go through this. And so, therefore we're not going to listen to these remediation

Thursday, August 29, 2013

reports and we're going to stop doing business with Wal-Mart," but keep on going with the conditions in their factories, the negative conditions?

**Mr. Jay Jorgensen:** Yeah. Let--thank you for those two questions. Let me, if I can, take them in the reverse order.

So, the question of whether people--factory owners have said to us, you know, thanks but no thanks, we actually have not experienced that. Quite to the contrary, I was in Shenzhen--was it two weeks ago, three weeks ago?

**Mr. Wesley Wilson:** Two weeks ago.

**Mr. Jay Jorgensen:** Two weeks ago I was in Shenzhen, China meeting with a group of, uh--of Bangladeshi factory owners. And what they said is, uh--I was actually kind of touched.

They said thank you, thank you, thank you. Thank you for creating the alliance. Thank you for creating the accord. Thank you for bringing this money into Bangladesh. Thank you for not just leaving Bangladesh, uh, and--you know, and--and going your own way.

Uh, so, the--the extent of engagement from the factory owners has been--has been really, I think, kind of surprising. And I think, at least the ones that we have been dealing with at Wal-Mart, they get it, that this is the country's livelihood on the line. If, uh--if the situation in terms of safety does not improve, uh, they may kill the golden goose, the one that has lifted, you know, tens of thousands of people out of--out of poverty.

So, we have not had that. We have not had factories say, no, I won't participate. Quite to the contrary, they've--they've embraced it.

And then, on the issue of, you know, well, what if they don't fix, there's really, I think, two parts to that. Let me break them out.

We said to the engineers, "I am a lawyer, not an engineer. Wesley is not an engineer. Rajan's not an engineer. We are not going to tell you what's safe and not safe. You tell us."

Like, in phase one, phase two, phase three, you tell us, are these factories safe? Are they safe enough to, uh--to allow remediation to occur while work is ongoing, or does a factory need to be closed while--while--while work is ongoing?

Uh, and so, they've been giving us those--those reports back. And if they say to us this factory is unsafe, either temporarily until a--until a particular situation is fixed or more broadly according to their sort of engineering and not merchant standards, then we don't do business with that factory until the situation is fixed, or if the situation can't be fixed, then--then ever. That--that's our standard.

**Operator:** Thank you.

Our next question is coming from the line of Mariela Vargova with Rockefeller & Company. Please proceed with your question.

**Ms. Mariela Vargova:** Yes. Thank you very much.

Uh, my question is, um--actually, I would like to ask you if can you elaborate more about the different approaches in the alliance and the accord between the European retailers and the US? And do you think that these two standards will be a challenge in implementing the, uh, higher, uh, held safety standards? And how do you see the differences, because there is a lot of discussion in the media and a little bit more critical about the US approach? So, how would you comment on that?

**Mr. Jay Jorgensen:** Yeah. So, first I would point out--I mean, I know there are a few people out--out there who--who say that there's a big difference between the alliance and the accord. I would invite anybody who is interested in that to read the documents of the two.

It--they're remarkably similar. They--they're both binding commitments on the companies. They're both sort of legal--they're not just sort of, they're both legal contracts that, once the company has signed, they're in. And then, they both have the key focuses of common safety standards created by technical experts, not by merchants; uh, auditing of 100 percent of the factories to those standards; importantly, sharing of those audit results with each other and with the world; and then a commitment to ensuring that the unsafe, uh, conditions that are found are fixed.

So, those are the key components. As was mentioned in a question before, both of them--both, uh, organizations seek to really engage, uh, with labor, with civil society, because we can't do this alone. And both are urging the government of Bangladesh to do more, and the government of Bangladesh is responding.

So, there's a lot of similarity between the two. But, I'm going to speak just for myself, you know, and not--not, uh, for the alliance, but for Wal-Mart. We would love to see the alliance and the accord have not just similar standards but the same standards. How great would that be if, when, uh, the alliance and the accord come out with their standards, it's literally the same document?

Uh, that would only increase the power of those standards. I feel the same way about the audits, how much nicer it would be, 'cause there's obviously overlap between factories that Wal-Mart uses and factories that are used by, uh, companies that are in the

Thursday, August 29, 2013

accord, if we don't waste our resources with duplicative audits but rather make them known to each other.

Now, we obviously have anti, uh, trust lawyers who advise us and tell us this is how you can share information and this is how you can't share information. Uh, we're very respectful of those guidelines.

But, by putting that information out for the public, uh, we've--you know, we've inspected a factory according to the common standards. This is why it comes back to common standards. If the standards are the same, then when H&M inspects a factory, we can have--say that they've used our same standards and we can rely on what they've done. The same could be true of them to us.

Wesley, your thoughts?

**Mr. Wesley Wilson:** Uh, I think the most tangible expression of this, uh, kind of, uh, intention for collaboration between the alliance and the accord so far is the way that we're working to share, uh, the--the, uh, inspections, uh, as the alliance and as the accord is doing.

And that's through the fairs--Fair Factory [sic] Clearinghouse. Both organizations have selected Fair Factories Clearinghouse as the platform that they will, uh, share their inspections through. And, uh, again, we can only speak for--for Wal-Mart and--and, you know, for our participation in the accord.

But, part of that, uh--part of that calculation, part of that, uh, decision, and it was quite intentional, um, uh, because of, A, the expertise and the neutrality of the Fair Factories Clearinghouse, but B, also because it provides the best opportunity to kind of build that commonality and sharing between the alliance and the accord.

**Mr. Jay Jorgensen:** That's a key point.

**Ms. Carol Schumacher:** Uh, Jessie, we'll take two more questions.

**Operator:** Thank you.

Our next question is coming from the line of Rob McGarrah with AFL-CIO.

Please proceed with your question.

**Mr. Rob McGarrah:** Yes. Thank you, Jeff [sic] and colleagues. This is a very helpful call.

I wanted to ask you if you could, uh, give us a little more, uh, description of the loan, uh, program for factories that--that obviously need capital to do the improvements. Um, obviously the interest rates are a factor. And then, of course the, uh, stream of--or--or adjustments in payments to the factories so that they can repay the loans, that's a significant issue, too.

Will Wal-Mart be, uh, making adjustments accordingly? I don't know if you can get into too many of the details on this, but the bottom line is how can, uh, factory owners, who say that their margins are so tight anyway, how can they, uh, essentially repay these loans?

**Mr. Jay Jorgensen:** Yeah, it's a good question, Rob.

And then, uh, you referenced there, you know, what can I tell you. I can tell you everything I know. I don't have any secrets, uh, from this group on this.

Uh, what I know is that we're working it out now, but let me tell you what we're working out. So, Wal-Mart has said we're willing to make up to \$50 million available to our suppliers, which is a fair chunk of change.

Um, the question is how, how to do that. And there is a--there is a variety of options on the table, and we're just talking them through literally right now with our own bankers, our own internal finance people, and then we have to engage the Central Bank of Bangladesh, because, uh, as you know, you can't just go into a new country and--and start issuing loans, not on your own, not through, uh, established lenders. You--at that level, you really have to engage with the central bank.

So, the options that are on the table, and perhaps more will come forward, are you could prompt pay. So, uh, as it currently is, if somebody makes something for a retailer, as you know there's often 30, 60, 90 days before the manufacturing gets paid.

And so, they--whatever capital they have, if they need some of it for--for safety related remediation, they just don't have it. It's tied up in that inventory. So, by paying faster, the factories are more--more liquid. That's one way you could do it.

You could do prepay. You could pay based on an order, right? You know, someone gets an order and then they get paid before the product is--is delivered, either through a loan or through, uh--through actually just payment. That's one way you could do it.

You could do an out and out loan, like the kind where, uh, a bank steps in and issues a loan and then the retailer stands behind it, perhaps, uh, as a--as some kind of a--of a credit guarantee to keep the interest rate, uh, lower.

For each of these, we feel like we have to engage with the Central Bank of Bangladesh, and we're in the process of doing that. We've been talking to bankers and trying to figure out how to do it.

And the other uncertainty that we don't know yet is the--a level of demand because, I'll tell you, I've been surprised. I've been surprised as our--as our engineers are going to these factories, they do find often dozens of things that need to be fixed, you know, small and large.

But, the capital to fix them, I've been surprised at least in the factories that I've seen, how little it is. It's--you know, it's--if an engineer comes--I mean, excuse me, if an electrician comes in and spends a week, then these things will be fixed.

So, at least--I don't mean to speak for all of Wal-Mart. I've seen a small sample of--of the reports that have come back. But, we're not talking about millions of dollars per factory.

We're talking about tens of thousands of dollars per factory for the reports that I have seen, but of course with all the caveats: that's not necessarily representative of Wal-Mart, that's not necessarily representative of the alliance, it's not necessarily representative of Bangladesh. It's the few that I've seen. But--but, the overarching point is valid no matter what, which is we need to tailor capital to actual need.

**Operator:** Thank you.

Our final question is a follow up question coming from the line of Tytti Kaasinen with GES. Please proceed with your question.

**Ms. Tytti Kaasinen:** Yes. Thank you.

Um, you've been talking about sharing information and making more information public, or transparency. And I wondered, uh, if within the, uh, alliance or within Wal-Mart otherwise, if there are any aims or plans to make supplier lists more generally available in public.

**Mr. Jay Jorgensen:** So, uh, I can answer not for the alliance but for Wal-Mart. Uh, the answer is yes, Wal-Mart does intend, and particularly in Bangladesh where there is, uh, a special safety situation, to make the list of factories from whom we produce more public, because that transparency gives us two things.

It gives us, uh, more credibility with civil society, with labor, with, uh--you know, with just everyone, everyone, uh, who can see into that. And then, also it gives everyone more information. Uh, if somebody sees something relating to a factory that we--where we source, we would love to know. But, it--but, you know, by making the list public, then--then you can let us know. So, yes, we do. We do intend to do that.

Wesley, do you want to talk about the alliance and what the alliance has said about what it's going to do on its factory disclosures?

**Mr. Wesley Wilson:** Sure.

So, uh, first, I think the--the--on behalf of Wal-Mart, there is a key point here that--that Jay had made earlier that I want to, uh, hearken back to, which is that, you know, we believe that, uh, the more you can, uh, insert transparency into, uh--into your supply chain, uh, not only the better social and environmental impact, uh, you can have there, but it's also better for business. We believe that, uh, a transparent supply chain, a clearer supply chain, uh, is--is better for our business and from the social and environmental, uh, impact, uh, point of view.

Um, with the alliance's work, uh, everyone will be submitting their factories, uh, and we're in the process of doing this now to the Fair Factories Clearinghouse, as I had mentioned earlier. And then, um, uh, as those are brought in and processed and as audits are done against, uh--against the, uh, respective member factories, then, um, the, uh,

Thursday, August 29, 2013

factories, uh, names and information will be made available publicly for all of the members of the alliance. Uh, and then, also, uh, the safety information, uh, related to each of those factories, uh, will be made available, again through the Fair Factories Clearinghouse.

Um, so, this is a, uh--a similar mechanism, uh, to--I think it, uh, parallels almost exactly, uh, what is, uh--what the accord also proposes to do. Uh, so, between the alliance effort, the accord effort, and then, uh, hopefully the, uh, recently announced efforts of the government of Bangladesh to inspect kind--uh, factories that fall, uh, outside of the alliance and the accord, uh, we'll, uh, begin to paint a complete picture of--of what the industry, uh, looks like in Bangladesh.

**Ms. Carol Schumacher:** Uh, Jessie, um, just a few closing comments here.

This is Carol with Investor Relations again. Um, Jay, Rajan, and Wesley, thank you for all your work on this area, and thank you for participating today.

To those of you who have called in, um, first of all, thank you for being a shareholder of Wal-Mart. We do appreciate the support you have of our company. Uh, we trust that this has been, uh, very helpful to you today.

And as I said, we will continue to post updates on this and other topics on our website. And you can go to Walmart.com to look for those opportunities as they become available.

Uh, with that, uh, we're going to sign off. And if you do have further questions or need additional information, uh, please reach back out to us in Investor Relations and we'll be happy to help you out. So, thank you, everyone, for your participation and have a great day.

Thursday, August 29, 2013

**Operator:** Thank you.

Ladies and gentlemen, this does concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.