
Lowe's 1997 Annual Report
LOWE'S
HOME IMPROVEMENT WAREHOUSE

Financial Highlights

In thousands, except for per share data

	Change from 1996	Fiscal 1997	Fiscal 1996
Sales	18%	$10,136,890	$8,600,241
Net Earnings	22%	$357,484	$292,150
Earnings per Share:			
Basic	18%	$2.05	$1.74
Diluted	20%	$2.05	$1.71
Cash Dividends per Share:	5%	$0.22	$0.21

Company Profile

Lowe's Companies, Inc. is one of America's 25 largest retailers and a *Fortune 200* company serving the home improvement, home decor, and home construction markets from approximately 450 stores located primarily in the eastern half of the United States. At the beginning of 1998, our employees numbered nearly 60,000 and our retail sales space totaled approximately 36.5 million square feet.

Lowe's has been selected by *Fortune* magazine as one of the "100 Best Companies to Work For in America" and is the only home improvement retailer to receive that distinction.

In late 1997 we proudly announced our commitment as a Gold Sponsor to the 1999 Special Olympics World Summer Games. The 10th Special Olympics World Games will be the largest sporting event in the world in 1999. Our goal is to provide all the visiting athletes, coaches, volunteers, families and friends a memorable and enriching life experience.

Lowe's has been a publicly held company since October 10, 1961. Our stock is listed on the New York Stock Exchange, the Pacific Stock Exchange, and the London Stock Exchange with shares trading under the ticker symbol LOW.

LOWE'S®
Home Improvement Warehouse
OFFICIAL SPONSOR

1999
SPECIAL OLYMPICS
WORLD GAMES
NORTH CAROLINA

Contents

To Our Shareholders

In 1997, Lowe's got better at what we do well. We served more than twenty million customers, ringing up 200 million transactions. We topped $10 billion in sales and achieved record earnings of $357 million. In addition, during our 51st year we dedicated ourselves to acquiring a comprehensive understanding of our increasingly diverse customer base. As a result, we are now better able to provide the superior customer satisfaction that is essential to Lowe's continued growth and prosperity.

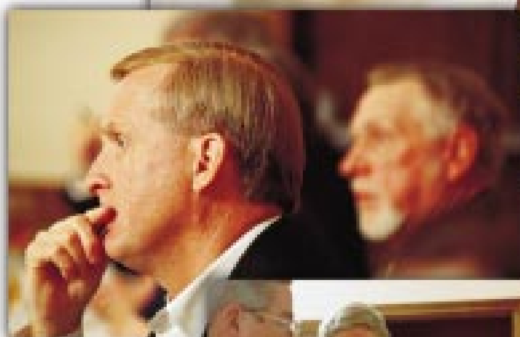
The Nineties have been a great platform from which to launch Lowe's into the new millennium. In this decade, so far, we have achieved a 20% compound sales growth rate and a 26% compound growth rate in net earnings. Those results have kept pace with the increase in our total square footage as we have transformed Lowe's into a chain of large home improvement warehouses. Although Lowe's has been around for half a century, 75% of our square footage is less than four years old. At the end of 1997 we had 289 large stores (80,000 square feet and larger) which accounted for 85% of our total 36.5 million square feet of selling space.

We have been completing new store projects (including relocations) at a rate of more than one per week. In 1997 we opened 42 new stores in new markets, taking Lowe's product assortment and customer service to millions of new customers. We also completed 24 "re-Lowe-cations," continuing the transformation that has yielded immediate and vigorous sales and earnings growth from relocated stores.

We have opened four state-of-the-art regional distribution centers (rdc's) within the last four years, and a fifth is currently

Bob Tillman at a Gold Advisory Board meeting.

Bob Tillman gets valuable input from customers at a Gold Advisory Board meeting.



under construction. Every Lowe's store is now served by one of these high-tech rdc's, and we're ready to leverage our investment. We have refined our inventory and distribution systems so that we can get products to our customers faster while reducing costs.

As our hub-and-spoke expansion continues, we are taking Lowe's into selected metropolitan markets. New stores in Atlanta, Dallas, Jacksonville, and Tampa met with enthusiastic acceptance in 1997.

Our 1998 expansion will include between 75 and 80 new store projects, of which nearly 40% will be relocations of existing stores. Metro markets will be the target of more than half of Lowe's new market expansion over the next eighteen months, as we penetrate and aggressively develop metro areas with proximity to our distribution centers.

Taking care of customers is our mandate and our mission. It sounds simple, but to get the job done we are using increasingly sophisticated methods of analysis, prediction, and planning. Through our own research, as well as from prognosticators such as Yankelovich, Peters, Nesbitt, and the Home Improvement Research Institute, we have identified trends that seem destined to have a profound effect on Lowe's and our industry as we enter the next millennium. Of course, predicting the future is always a gamble, but it beats closing your eyes and hoping it will go away. And you can significantly better your odds by doing your homework.

Homework begins at home, so last year we intercepted more than 8,000 customers at the end of a Lowe's shopping experience and asked them to complete a comprehensive questionnaire. Their responses showed us where Lowe's is in tune with their evolving needs and desires, and where we could be serving them better.

Another highly effective source of customer feedback has been Lowe's Gold Advisory Board. Gold Card holders are customers who have earned a substantial credit line and shop our stores frequently. At least once every month, we randomly select a market and invite a group of these special customers to join a Lowe's district manager and members of top management, including myself, for dinner.

What we have learned in these sessions has confirmed and augmented our other research. There is great opportunity out there if we have the vision to identify trends, the wisdom to understand them, and the intellectual and financial capital to exploit them.

America is getting older. Not only are we living longer in better health, but Baby Boomers are pulling the age curve upward as they cross the half-century mark. With increasing age and affluence, consumers are less likely to be do-it-yourselfers and more inclined to delegate projects to those with professional skills and tools. Replacing windows or installing a new floor is not how they choose to spend their valuable free time. They hire professionals for lawn care, pest control, pool maintenance, and furnace and air conditioner servicing. This indicates a realignment in the patterns of product distribution. We see it as an opportunity.

Since 1950, the majority of the U.S. population has been female, but their current purchasing clout is a more recent development. Roughly half of the shoppers in Lowe's stores are female—and many male shoppers are influenced by women. Women initiate the majority of home improvement projects. They decide where to shop, and once inside the store they make virtually all the home décor decisions. They are also capable of carrying out projects themselves: the "Honey-Do" lists of yesteryear are simply "To-Do" lists today. Yet most of our industry's stores, packaging, staffing, advertising, and merchandising is targeted at—and managed by—men. We see this as another opportunity.

How (besides salivating) are we responding to these opportunities? The initiatives that we are planning and implementing are detailed in the feature article which follows this letter, but in brief: we are focused on providing value as defined by our customers, as well as supplying an unsurpassed assortment at unbeatable prices in all our product categories.

Our customers value solutions, and they like us to make things easy for them. That's why our strategic focus for 1998 includes greatly enhanced programs for special orders and installed sales. We are expanding our home décor offering to help customers achieve the look they want in every detail. We are building trust in Lowe's through high-quality, exclusive brands such as Top Choice™ Lumber. We are paying particular attention to commercial business customers, that group of professionals to whom the Baby Boomers are delegating so many home projects. We are also making our stores more productive through traffic-sensitive staffing schedules and improved systems for ordering and delivery.

We have recently added new expertise and perspective to our board of directors. Dr. Leonard Berry heads the Center for Retailing Studies at Texas A&M University and is an authority on services marketing; Peter Browning is President and COO of Sonoco, the global packaging company; and Richard Lochridge is a management consultant with experience helping companies to identify and seize opportunities for growth and development. As we welcome these talented individuals to our board, we also express our gratitude and appreciation to two outstanding board members who retired in 1997. Pete Kulynych was one of Lowe's founding directors and is now a director emeritus; Senator Russell Long, long-time chairman of the U.S. Senate Finance Committee, served on Lowe's board for ten years.

At the end of January 1998, Bob Strickland retired as Chairman of the Board of Directors. Bob was a member of Lowe's first management team, joining the company in 1957 and serving on the Executive Committee and in the Office of the President before becoming chairman in 1978. We look forward to his continuing contribution as a member of the board.

Lowe's retailing sector is growing. In the past fifteen years, our industry has grown at a compound annual rate of 6.5%, from $55 billion to $142 billion. According to the Home Improvement Research Institute, growth is expected to continue at roughly 5% per year. We are the second largest player in our fragmented sector, where in 1997 the top three competitors still only accounted for roughly one quarter of total industry sales. We see a tremendous opportunity to win market share as the trend toward consolidation continues.

With our sharpened customer focus, we are confident that Lowe's is going where our customers want us to be. And putting customers first is good news for Lowe's shareholders, whose stake in Lowe's will also be customer driven.

Best wishes,

Robert L. Tillman
Chairman of the Board, President
and Chief Executive Officer
North Wilkesboro, NC

“How Can We Help You Today?”

Attuned to Trends, Lowe's Sells Solutions

Millions of Americans know that they can buy flooring at Lowe's; now they can have it installed through Lowe's, too. They know Lowe's has everything it takes to remodel a bathroom; now we also have everything to decorate it, right down to the soap dish. We sell nails by the pound, of course; now we also sell them by the pallet. We have always carried lumber; now we carry premium grade lumber at better prices. And, sure, we have more than forty thousand items in our stores; but we can also provide hundreds of thousands of products to our customers—and have them delivered to their doorstep.

These are some of Lowe's own "home improvements," designed to satisfy the current needs and desires of our customers. In 1997 we sharpened our customer focus—and never has it been more important. There's a world of options out there for anyone with money to spend on home improvement projects. Consumers can shop at hardware stores, appliance dealers, lumber yards, carpet stores, and garden centers, not to mention catalog shopping and the Internet. Surrounded by alternatives, Lowe's has to seize every opportunity to stand out. We have to give consumers a reason to become Lowe's customers, and give our customers a reason to keep coming back.

The improvements we have made—and continue to make—are a direct response to demographic shifts that were set in motion years ago and that will continue to influence our economy well into the next century. With sensitive monitoring, these shifts yield the kind of information we can use to competitive advantage.

Of course, the big demographic story is that Baby Boomers are aging. "As they move to the next phase of life, from parent and provider to retiree, they represent enormous opportunities," says Dale Pond, Senior VP of Marketing.

"The Boomers have more money and less time than any previous generation. As they hit fifty, they're finishing raising their kids and paying for college; even mortgage payments are becoming less of a budget factor. So we'll see them spending more of their resources on entertainment, travel, and health—and investing for retirement.

"They'll have less inclination to undertake do-it-yourself projects around home," Dale says. "They don't have to do the work themselves in order to save money; with age,

Baby Boomers such as this homeowner at the Gulf Harbour Yacht & Country Club in Ft. Myers, Florida increasingly call on the expertise of Lowe's commercial business customers to help with home improvement projects.

their physical ability may be limited; and they simply have other priorities.

"This generation will increasingly delegate home projects. They'll pay to have their yards landscaped and a sprinkler system put in. They'll contract to have their house painted and new carpet installed. They'll hire someone to cut the grass, wash the windows, and clean the gutters.

"The opportunity this presents for Lowe's is two-fold. We want to serve the needs of the professionals who are being hired by our homeowner customers; and when the homeowner is buying products directly from us, we need to offer the attendant services."

In many cases, the essential service is installation. "For instance, flooring is a very popular home improvement project with Boomers right now," says Greg Bridgeford, Senior VP and General Merchandise Manager - Fashion Products. "Consumers are seeing the floor as a 'fifth wall'—a decorative plane, not just a functional surface. But flooring installation can require special skills and tools. I don't keep a carpet stretcher in my hall closet; do you? And mistakes can be costly." It's not surprising, therefore, that in a survey conducted by the Home Improvement Research Institute (HIRI), nearly a third of home center customers said they would use an installation service if one were available through a retailer they trust.

Shoppers in the home decor area of our store in Hurst, Texas (in the Dallas Metroplex) find a comprehensive and fashionable product selection at their fingertips.

"Lowe's carpet sales grew 50% last year," says Greg. "We are the fourth largest flooring retailer in the United States, and the only one in the top ten that hasn't been getting the majority of its business through installed sales. So we have pumped up our flooring installation program. Now we will offer all types of flooring on an installed basis."

To become certified Lowe's flooring installers, independent contractors complete a rigorous certification course organized by Armstrong and Beaulieu, two of the largest flooring manufacturers in the world. Other suppliers are helping us develop installed sales programs for categories such as kitchen cabinets, water heaters, garbage disposals, storm doors, garage doors and openers, ceiling fans, and lighting fixtures. These expanded installed sales programs were tested in our Dallas and Atlanta markets, where they proved very popular with customers.

With their children leaving home, Baby Boomers are less likely to be adding rooms to the house and more likely to be upgrading their decor. "Previous customer research told us that we didn't have a deep enough assortment of home decor products, and that we weren't on top of fashion trends," says Greg Bridgeford. "We're getting higher marks now, both for our assortment and our pricing, but we're still pursuing a deeper selection.

"Nearly 20% of our customers have two homes—and that means a lot of decor decisions! Women make the majority of those decisions. They want to coordinate hard goods with soft lines in terms of style and color scheme, and they want access to upscale products. They can come to Lowe's and find a Kohler bathtub, Price-Pfister faucets, and fabulous granite, solid surface, or tile countertops; they should be able to step over to related home décor areas and find matching fashions and quality in our soft lines.

"We used to tell our soft line suppliers 'Just give us a selection of your best-selling items;' but that shotgun approach isn't good enough anymore. We have a new fashion design manager, and we recently joined the Color Marketing Association and Accessories Resource Team to help us keep our colors and designs current. We're taking a giant step toward the front lines of fashion, and new advertising will promote the idea that you can pull a whole look together at Lowe's."

Lowe's product offering is significantly amplified by our Special Order System (S.O.S.), which received a major upgrade in 1997. "Our customers want access to premium-quality items such as mahogany front doors, Palladian windows, and patio furniture," says Larry Stone, Chief Operating Officer, "but we can't afford to keep those items in stock in every store. Lowe's S.O.S. enables us to offer a greatly expanded selection.

"All orders are entered into the system the same way now, whether an item is in stock or not, and the system determines the best way to fill each order. Some items will be shipped directly from the manufacturer to the customer; some orders will be filled from one of our regional distribution centers, where we can stock the best-selling special order merchandise. Customers don't care about our behind-the-scene processes; what matters to them is lead-time. If we promise an item in seven days, we'd better deliver.

"As an added benefit, this initiative will increase turnover and reduce Lowe's investment in inventory."

Speedy delivery has always been important to Lowe's commercial business customers, the professionals who perform a growing number of services for homeowners. These customers aren't new to Lowe's: we've been selling to painters, plumbers, electricians, property managers and specialty contractors (such as fencing contractors and landscapers) for more than fifty years, and these customers have always accounted for a significant portion of Lowe's sales. Nevertheless, says Dale Pond, "We've been getting a relatively small 'share of wallet' from this big and growing customer group.

"By offering commercial grade products and brands, by stocking the right assortments in job lot quantities, and by marketing directly to these customers (who are already in our

stores), we can increase our share of their business. And we're doing that."

"It's not that we need to do a lot of new things," says Greg Wessling, Senior VP and General Merchandise Manager - Functional Products. "We're doing the same things, but differently. Take the way we sell lumber: to homeowners, we sell it in eight, ten, or twelve-foot lengths, because their hauling

Generation X customers find useful information and friendly, knowledgeable assistance at Lowe's.

capacity is limited. They might be driving a BMW! By contrast, a commercial customer is likely to have a flatbed truck that will accommodate longer lengths.

"Professionals also need large quantities of commodity items such as nails, caulk, cabinet hardware, cleaning chemicals, electrical supplies and plumbing fittings, which can be packaged in bulk for easy handling and one-shot scanning. You'll be seeing more products packaged in professional quantities throughout our stores. They are designed to please the pros, but they'll be available to all our customers at the same low price. Again, we're not doing anything different—just different*ly*."

At the Commercial Sales desk in every Lowe's store, experienced and enthusiastic personnel are assigned specifically to serve commercial business customers. They set up business payment plans, prepare Ready-To-Go orders received by phone or fax, and help these busy professionals get what they want—which is to get back to work!

Another customer group in a hurry (yes, they *all* are) is Generation X. These children of the supersonic age grew up with cell phones and pagers and digital organizers, and they don't remember a time before microwave ovens and ATM's. They are impatient with anything that wastes their time, but they value information and will trust reliable sources. They promise to be an important market for the Internet sales program that is currently being developed. They would also be instantly comfortable with the electronic catalog and ordering kiosk that we're now beta testing in Dallas.

Lowe's entry into the metro markets of Dallas, Atlanta, Jacksonville, and Tampa has met with great success, encouraging us in the ongoing evolution of our expansion strategy. "Our future expansion will concentrate more on metro areas where there are more households with higher incomes," says David Shelton, Senior VP of Real Estate, Engineering and Construction. "This means the best of expansion is still ahead of us."

To make sure that Lowe's merchandising and marketing are on target in these new markets, early entry teams do on-the-ground research. "They shop the market and check out our competition," says Larry Stone. "What business hours do our competitors keep? What are their credit options? What delivery services do they offer? What products are unexpectedly popular? In new markets, we can't take for granted that we know these things. "

Greg Bridgeford agrees. "We need to find out the distinctive features of each individual market, so that we know how to adapt our merchandise selection."

"We need to understand local customs and building codes," says Greg Wessling. "For instance, chain link fencing is

Early in the morning, Lowe's commercial business customers gather to pick up orders and discuss new product offerings at Lowe's Commercial Sales desk.

Lowe's Total Market Potential

Dollars in Billions

	Building Contractor		Home Owner		
	Home Center Market				
	New Housing	R & R*	DIY	HH Appliances†	Total
2002e	$81.5	$46.7	$123.4	$33.5	$285.1
2001e	79.9	46.1	118.9	32.5	277.4
2000e	77.9	45.3	114.6	31.4	269.2
1999e	75.6	43.8	110.5	30.4	260.3
1998e	72.4	42.2	106.0	29.7	250.3
1997e	70.2	40.7	101.7	29.0	241.6
1996	67.8	37.8	95.5	27.8	228.9
1995	62.0	37.3	89.8	27.2	216.3
1994	61.4	38.0	86.9	25.6	211.9
1993	52.3	35.6	79.0	24.0	190.9
1992	45.5	33.0	73.9	22.2	174.6
1991	38.9	31.6	68.4	21.6	160.5
1990	45.1	35.7	69.8	22.4	173.0
1985	40.3	25.4	53.1	19.8	138.6
1980	24.4	15.6	38.1	15.1	93.2

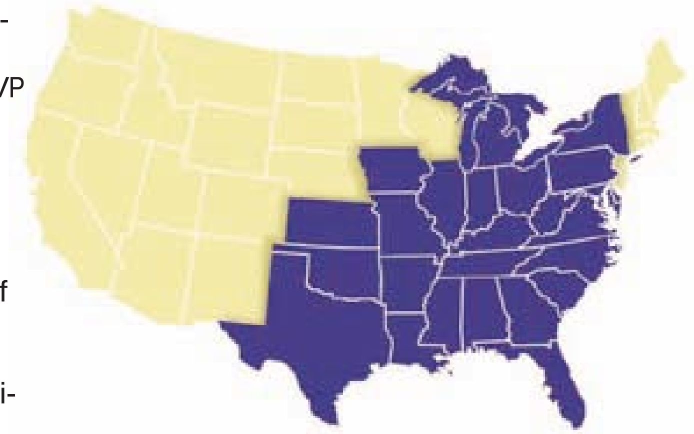
* R & R = Repair and Remodeling e = estimate

† Kitchen and Household Appliances

Source: Home Improvement Research Institute; Management Horizons common in rural areas, but wood sells better in metro markets. In Plano, Texas, sectional cedar fences are extremely popular. Screen pool enclosures have become standard in Florida."

Merchants assigned to Lowe's regional offices work with store management in expansion areas, because, as Larry Stone says, "Too much centralization works against local effectiveness." Other functions are most effective when they're centralized. Headed by Senior VP Bill Irons, Lowe's Management Information Services (MIS) gathers point-of-sale customer information from all Lowe's compass points. "They're developing new ways to help us make informed decisions," says Bill Warden, Chief Administrative Officer. "In the jargon of MIS, it's called 'decision support.'"

We are turning 'decision support' into strategic advantages in our large but competitive marketplace. As Lowe's customer base grows and diversifies, success increasingly depends on our ability to understand and satisfy each customer better than our competition. In 1998, we are implementing long-term initiatives supported by information from the best possible source—our customers. These programs are the proof of our understanding, and the evidence of our dedication to putting Lowe's customers first.



Lowe's Stores

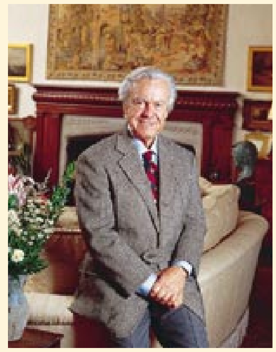
Alabama	17	Kentucky	20	Oklahoma	9
Arkansas	8	Louisiana	13	Pennsylvania	20
Delaware	3	Maryland	11	South Carolina	25
Florida	20	Michigan	8	Tennessee	28
Georgia	22	Mississippi	8	Texas	36
Illinois	12	Missouri	5	Virginia	35
Indiana	18	North Carolina	68	West Virginia	12
Iowa	5	New York	5		
Kansas	1	Ohio	37		

Merchandise Sales Trends

Dollars in Millions

Total Sales 5-Year CGR	Category	1997 Total Sales	1997 %	1996 Total Sales	1996 %	1995 Total Sales	1995 %	Base Year 1992 Total Sales	Base Year 1992 %
+ 8%	1. Structural Lumber	$ 939	9	$ 815	9	$ 839	12	$ 637	16
+12	2. Building Commodities & Millwork	1,974	19	1,866	21	1,508	22	1,101	29
+36	3. Home Decor	700	7	528	6	388	5	149	4
+19	4. Major Appliances/ Kitchens	1,102	11	992	12	871	12	457	12
+32	5. Paint & Sundries	791	8	645	8	493	7	201	5
+29	6. Plumbing	938	9	776	9	607	9	266	7
+30	7. Electrical	879	9	707	8	559	8	240	6
+32	8. Power Tools	609	6	487	6	364	5	154	4
+28	9. Hardware	572	6	493	6	386	5	167	4
+26	10. Nursery & Gardening	942	9	728	8	610	9	291	8
+30	11. Outdoor Hardlines	691	7	563	7	450	6	183	5
+21%	**Totals**	**$10,137**	**100**	**$8,600**	**100**	**$7,075**	**100**	**$3,846**	**100**

Looking Back on the Year 2000



Bob Strickland was hired by Lowe's founder Carl Buchan in 1957. In four decades with Lowe's, his marketing skills and expansive vision contributed immeasurably to the company's growth. He was Chairman of the Board of Directors from 1978 until passing the gavel to Bob Tillman in January 1998, and he remains an active member of the board.

Dear Reader:

Rather than indulge in nostalgia, I prefer a technique I've dubbed "20/20 hindsight," wherein we project our minds into the future and attempt to look *back* at the year 2000!

You see, every generation has its "good old days." Mine are the 1950's, when I went to college, got married, and joined Lowe's. My children now feel the same way about the 1970's and '80's that I feel about the Eisenhower years. In due course, the children of the 1990's will look back on the turn of the millennium as their "good old days."

So let's try to project our economic thinking ten years into the future. What do we already know for sure about the coming decade? And knowing that, what should we be doing in 1998 to prepare ourselves for 2008, to make the forthcoming years "better old days"?

We know, right now, at least two things about 2008. First, we all will be ten years older; second, dollar prices of everything will be higher, because inflation has become a national institution.

The rate of inflation for 1998 is predicted to "remain low"—less than 3%. That's much better than the spiraling double-digit inflation of two decades ago, but there was a time back in the Nixon administration when wage and price controls were imposed because inflation was approaching the unacceptable, unendurable level of 4%!

Inflation is the reason why money and wealth are not one and the same. Wealth is better! Confusing money with wealth leads people to pursue the wrong things, make bad economic decisions, and is the common error behind misplaced economic nostalgia.

When you ask people what was so good about the good old days, they're likely to tell you that prices were a lot lower back then. They'll say "I remember when you could buy a Hershey bar for a nickel and a Chevy Impala for $3,000." In fact, real prices were not lower: rather, the real buying power of the dollar was higher. My grandfather often used the phrase "as sound as a dollar," but the sound dollar and my grandfather are both long gone.

Under the leadership of Alan Greenspan, the Federal Reserve Board has worked to keep inflation down around 3%. Even at that rate, however, a dollar loses half its buying power in twenty years! At 6% annual inflation, the dollar would lose half today's buying power by 2008!

For our economic projections to be as sharp as hindsight (which is always 20/20), we should bear in mind the difference between a $20 bill and a $20 gold piece. The $20 bill is merely money, while the $20 gold piece is wealth.

In 1928, they were equal in value: both would buy a decent man's suit. In 1998, the gold piece still will: it's worth about $500! But the $20 bill won't even buy a good necktie! The buying power of the dollar has virtually collapsed, while the power of the gold piece has not.

The difference between money and wealth is that money loses buying power; wealth doesn't. When the Big Bad Wolf of inflation comes calling, money is a house of straw; wealth is a house of bricks. Even without a career in building supply retailing, I could have told you to go for the bricks!

Now let's consider another form of wealth—a share of Lowe's stock. There have been plenty of times in the past when you could buy a share with a $20 bill and get change back. One of those times was 1978, the year we inaugurated Lowe's highly acclaimed ESOP. We created the plan in the firm belief—indeed, in the *knowledge*—that share ownership in Lowe's constituted real wealth. With hindsight, we see that it has far exceeded our expectations.

In 1978, we projected future ESOP account values of an employee entering the plan at that time. We assumed a $10,000 beginning salary, a pay increase of 5% per year, 7% annual growth in the value of Lowe's stock, cash dividends that would increase at 3% per year, and a consistent annual contribution from Lowe's. Not all those assumptions have proven accurate. Nevertheless, after ten years in the plan, that hypothetical employee's actual account value was 28% greater than our projection. After fifteen years, the account value was $133,290—more than twice the projected amount. After twenty years, it was more than $550,000, or 4.5 times our projected value. At stock prices in the recent $65 range, the account value is $750,880, over six times the twenty-year projection! That's not a bad way to celebrate the plan's twentieth anniversary.

Through the years, Lowe's ESOP has been a source of real wealth for many loyal, hard-working employees. It has contributed to Lowe's growing reputation as one of the best companies to work for in America, and it has helped attract and retain the talent that is now leading this company—and this industry—into the good old days of the future.

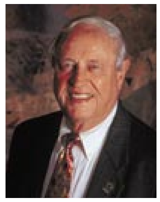
Now my four decades as a Lowe's employee have come to a close. In parting, I want to share with you my conviction that the operating management of this company is talented, deep, and properly organized under Bob Tillman's leadership; that the employee culture of hard work and teamwork is working more successfully than ever; and that the words of our founder Carl Buchan are still prophetic: "The future of Lowe's will be spectacularly fabulous!"

All the best to you,

Robert L Strickland


Robert L. Tillman

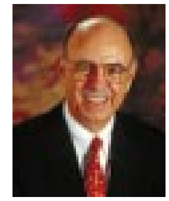

William A. Andres

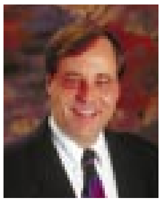

John M. Belk


Leonard L. Berry, Ph.D.

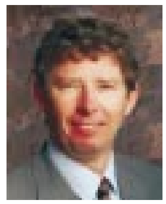

Peter C. Browning


Carol A. Farmer


Paul Fulton


James F. Halpin


Leonard G. Herring


Richard K. Lochridge


Claudine B. Malone


Robert G. Schwartz


Robert L. Strickland

Lowe's Board of Directors

Robert L. Tillman, Chairman
Director since 1994, age 54. Chairman of the Board since January 1998, President and Chief Executive Officer since August 1996, having previously served as Senior Executive Vice President and Chief Operating Officer (1994-July 1996) and Executive Vice President – Merchandising (1991-1994), Chairman of Executive Committee of the Company. Other directorships: International Mass Retail Association, Arlington, Va., since 1996.

William A. Andres
Director since 1986, age 71. Chairman of Governance Committee, Member of Compensation Committee and Executive Committee of the Company. Previously Chairman of the Board and Chief Executive Officer (1976-1983), Chairman of Executive Committee (1983-1985) of Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. (Mr. Andres retired in September 1985.)

John M. Belk
Director since 1986, age 78. Chairman of Audit Committee, Member of Governance Committee of the Company. Chairman of the Board, Belk Stores Services, Inc. (Retail Department Stores), Charlotte, N.C., since 1980. Other directorships: Coca-Cola Bottling Company Consolidated, Charlotte, N.C., since 1972; Chaparral Steel, Midlothian, Tex., since 1987.

Leonard L. Berry, Ph.D.
Director since 1998, age 55. Member of Audit Committee and Governance Committee of the Company. Professor of Marketing, Holder of the J.C. Penney Chair in Retailing Studies, and Director of the Center of Retailing Studies, Texas A&M University, College Station, Tex., since 1982. Other directorships: CompUSA Inc., Dallas, Tex., since 1993; Hastings Entertainment, Inc., Amarillo, Tex., since 1994; Council of Better Business Bureaus (Public Member), Arlington, Va., since 1995.

Peter C. Browning
Director since 1998, age 56. Member of Compensation Committee and Governance Committee of the Company. President and Chief Operating Officer, Sonoco Products Company (Global Packaging Company), Hartsville, S.C., since 1996 having previously served as Executive Vice-President (1993-1996) of that company; Director since 1995. Other directorships: Phoenix Home Life Mutual Ins. Co., Hartford, Conn., since 1989; Wachovia Corporation, Winston-Salem, N.C. since 1997.

Carol A. Farmer
Director since 1994, age 53. Member of Compensation Committee and Governance Committee of the Company. President, Carol Farmer Associates, Inc. (Trend Forecasting and Consulting), Boca Raton, Fla., since 1985. Other directorships: The Sports Authority, Inc., Ft. Lauderdale, Fla., since 1995.

Paul Fulton
Director since 1996, age 63. Member of Compensation Committee and Governance Committee of the Company. Chairman and Chief Executive Officer, Bassett Furniture Industries, Bassett, Va., since 1997; Director since 1993. Dean, Kenan-Flagler Business School, University of North Carolina, Chapel Hill, N.C., 1994-1997. President, Sara Lee Corporation (Manufacturer and Marketer of Consumer Products), Chicago, Ill., 1988-1993. Other directorships: Sonoco Products Company, Hartsville, S.C., since 1989; NationsBank Corporation, Charlotte, N.C., since 1993; The Cato Corporation, Charlotte, N.C., since 1994; Hudson Bay Company, Toronto, Ontario, since 1997.

James F. Halpin
Director since 1996, age 47. Member of Compensation Committee, Executive Committee and Governance Committee of the Company. President and Chief Executive Officer, CompUSA Inc. (Computer Superstores), Dallas, Tex. since 1993; President, HomeBase (Home Improvement Retail Chain), Irvine, Cal., 1990-1993. Other directorships: Interphase Corporation, Dallas, Tex., since 1995; Invincible Technologies Corp., Boston, Mass., since 1995; ToyBiz, Inc., New York, N.Y., since 1995.

Leonard G. Herring
Director since 1956, age 70. President and Chief Executive Officer 1978-July 1996, (Mr. Herring resigned as President and CEO effective August 1, 1996 and retired as an employee of the Company January 31, 1997), Member of Audit Committee and Executive Committee of the Company.

Richard K. Lochridge
Director since 1998, age 54. Member of Audit Committee and Governance Committee of the Company. President and Chief Executive Officer, Lochridge & Company (General Management Consulting Firm), Boston, Mass. since 1986. Other directorships: Dynatech Corporation, Burlington, Mass., since 1986; Hannaford Brothers Co., Portland, Me., since 1993.

Claudine B. Malone
Director since 1995, age 61. Member of Audit Committee and Governance Committee of the Company. President and Chief Executive Officer, Financial & Management Consulting, Inc., McLean, Va., since 1984. Other directorships: Chairman, Federal Reserve Bank, Richmond, Va., since 1996 (Member since 1994); Dell Computer Corporation, Austin, Tex., since 1993; Hannaford Bros., Scarborough, Me., since 1991; Hasbro, Inc., Pawtucket, R.I., since 1992; Houghton Mifflin, Boston, Mass., since 1982; LaFarge Corporation, Reston, Va., since 1994; The Limited, Inc., Columbus, Oh., since 1982; Mallinckrodt Group Inc., St. Louis, Mo., since 1994; SAIC-Science Applications International Corporation, San Diego, Cal., since 1993; Union Pacific Resources Corporation, Fort Worth, Tex., since 1995.

Robert G. Schwartz
Director since 1973, age 70. Chairman of Compensation Committee, Member of Governance Committee of the Company. Director of Metropolitan Life Insurance Company, New York, N.Y., since 1980, having previously served as Chairman of the Board (1983-1993), President and Chief Executive Officer (1989-1993) of that company. (Mr. Schwartz retired in March 1993.) Other directorships: Potlatch Corporation, Spokane, Wash., since 1973; Comsat Corporation, Bethesda, Md., since 1986; Mobil Corporation, Fairfax, Va. since 1987; The Reader's Digest Association, Inc., Pleasantville, N.Y., since 1989; Consolidated Edison Company of New York, New York, N.Y., since 1989; Lone Star Industries, Inc., Stamford, Conn., since 1994; Ascent Entertainment Group, Inc., Denver, Colo., since 1995.

Robert L. Strickland
Director since 1961, age 67. Chairman of the Board 1978-January 1998, (Mr. Strickland retired as an employee of the Company effective January 30, 1998), Member of Audit Committee and Executive Committee of the Company. Other directorships: Deputy Chairman, Federal Reserve Bank, Richmond, Va., since 1996; T. Rowe Price Associates, Inc., Baltimore, Md., since 1991; Hannaford Bros., Scarborough, Me., since 1994.

Petro Kulynych was hired as Lowe's first bookkeeper in 1946. Energetic and dedicated, he worked with Carl Buchan to establish Lowe's as an innovative force in building supply retailing. He grew with the Company and retired as a managing director in 1983, remaining on the board as a regular member until 1997. His outstanding career inspires thousands of Lowe's employees to this day.

Russell D. Long is one of Louisiana's best-known native sons. He served his state as a U.S. Senator for nearly forty years, rising through the ranks to chair the Senate Finance Committee, where he became the leading Congressional champion of Employee Stock Ownership Plans. In 1987, he brought his wisdom and trademark sense of humor to Lowe's board of directors. He retired from the board in 1997.

Lowe's Executive Management Committee

Robert L. Tillman - Chairman of the Board, President and Chief Executive Officer
Gregory M. Bridgeford - Senior Vice President and General Merchandise Manager
Richard D. Elledge - Senior Vice President, Chief Accounting Officer and Assistant Secretary
Lee Herring - Senior Vice President, Logistics
William L. Irons - Senior Vice President , Management Information Services
W. Cliff Oxford - Senior Vice President, Corporate and Human Development
William D. Pelon - Senior Vice President, Store Operations
Dale C. Pond - Senior Vice President, Marketing
David E. Shelton - Senior Vice President, Real Estate/Engineering & Construction
Larry D. Stone - Executive Vice President and Chief Operating Officer
William C. Warden, Jr. - Executive Vice President, General Counsel, Secretary and Chief Administrative Officer
Gregory J. Wessling - Senior Vice President and General Merchandise Manager
Thomas E. Whiddon - Executive Vice President and Chief Financial Officer

Disclosure Regarding Forward-Looking Statements

This Annual Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in the Annual Report, including certain statements in the "Shareholders' Letter," "How Can We Help You Today?" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding the Company's financial position and business strategy, may constitute forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable; it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations (cautionary statements) are:

- The Company's sales are dependent on the general economic health of the country, variations in the number of new housing starts, the level of repairs, remodeling and additions to existing homes, commercial building activity, and the availabilty and cost of financing. An economic downturn can adversely affect sales because much of the Company's products are purchased by consumers for discretionary projects, which can readily be deferred.
- The Company's expansion strategy may be impacted by environmental regulations, local zoning issues and delays, and more stringent land use regulations than it has traditionally experienced.
- Many of the Company's products are commodities whose price fluctuates erratically within an economic cycle, a condition true with respect to lumber and plywood.
- The Company's business is highly competitive, and as it expands to larger markets the Company may face new forms of competition which do not exist in markets it has traditionally served.
- The ability of the Company to continue its everyday competitive pricing strategy and provide the products that consumers desire depends on the vendor community providing a reliable supply of inventory at competitive prices.
- On a short-term basis, inclement weather may impact sales performance of certain product groups such as lawn and garden, lumber, and building materials.

Independent Auditors' Report
To the Board of Directors and Shareholders
of Lowe's Companies, Inc.

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 30, 1998 and January 31, 1997, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lowe's Companies, Inc. and subsidiaries at January 30, 1998 and January 31, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Charlotte, North Carolina
February 19, 1998

Audit Committee Chairman's Letter

The Audit Committee of the Board of Directors is composed of the following six independent directors: John Belk, Chairman, Leonard Berry, Leonard Herring, Richard Lochridge, Claudine Malone and Robert Strickland. The committee held five meetings during Fiscal 1997.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility the committee recommended to the Board of Directors, the engagement of Deloitte & Touche LLP as the Company's independent public accountants. The committee discussed with the internal auditors and the independent public accountants the overall scope and results of their respective audits, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The committee also reviewed the Company's consolidated financial statements and the adequacy of the Company's internal controls with management. The meetings were designed to facilitate any private communication with the committee desired by the internal auditors or independent public accountants.

John Belk
Chairman, Audit Committee

Management's Responsibility for Financial Reporting

Lowe's management is responsible for the preparation, integrity and fair presentation of its published financial statements. These statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on management's best estimates and judgments. Lowe's management also prepared the other information included in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by the independent accounting firm, Deloitte & Touche LLP which was given unrestricted access to all financial records and related data. The Company believes that all representations made to the independent auditors during their audit were valid and appropriate. Deloitte & Touche's audit report presented here provides an independent opinion upon the fairness of the financial statements.

The Company maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance to Lowe's management and Board of Directors regarding the preparation of reliable published financial statements. The system includes appropriate divisions of responsibility, established policies and procedures (including a code of conduct to foster a strong ethical climate) which are communicated throughout the Company, and the careful selection, training and development of our people. Internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the Board of Directors, and corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Board, operating through its audit committee, provides oversight to the financial reporting process.

Robert L. Tillman
Chairman of the Board
President & Chief Executive Officer

Thomas E. Whiddon
Executive Vice President & Chief Financial Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion summarizes the significant factors affecting the Company's consolidated operating results and liquidity and capital resources during the three-year period ended January 30, 1998 (i.e., fiscal 1997, 1996 and 1995). This discussion should be read in conjunction with the Letter to Shareholders, financial statements and financial statement footnotes included in this annual report.

Net earnings for 1997 increased 22% to $357.5 million or 3.5% of sales compared to $292.2 million or 3.4% of sales for 1996. Return on beginning assets was 8.1% compared to 8.2% for 1996; and return on beginning shareholders' equity was 16.1% compared to 17.6% for 1996. This decrease in return on equity resulted primarily from an increase in equity during 1996 due to the conversion of outstanding convertible debt to common stock.

OPERATIONS

The Company's sales were $10.1 billion during 1997, an 18% increase over 1996 sales of $8.6 billion. Sales for 1996 were 22% higher than 1995 levels. Comparable store sales increased 4% in 1997. Large store (stores exceeding 80,000 square feet) comparable sales increased 6% for the year. The increases in sales are attributable to the Company's store expansion and relocation program and comparable store sales growth. Comparable store sales increases are driven by the Company's continued strategy of employing an expanded inventory assortment, everyday competitive prices and an emphasis on customer service. The following table presents sales and store information:

	Fiscal		
	1997	1996	1995
Sales (in millions)	$10,137	$8,600	$7,075
Sales Increases	18%	22%	16%
Comparable Store Sales Increases	4%	7%	—
At end of year:			
Stores	446	402	365
Sales Floor Square Feet (in millions)	36.5	30.4	24.0
Average Store Size Square Feet (in thousands)	82	76	66

Gross margin in 1997 increased to 26.5% from 25.9% in 1996. Both of these years were an improvement over the 24.9% posted in 1995. Adherence to careful pricing disciplines in the execution of the Company's everyday competitive pricing strategy continued to provide margin improvements. Also, changes in product mix resulting from the expanded merchandise selection available in larger stores has contributed to the improvements in gross margin. Additionally, the Company reduced its exposure in lower margin consumer electronics at the end of 1995 replacing these items with less seasonal, stronger margin products. The Company recorded a LIFO credit of $7.0 million in 1997, compared to charges of $1.4 million and $8.3 million for 1996 and 1995, increasing gross margin for 1997 by 6 basis points, and decreasing gross margin for 1996 and 1995 by 1 and 12 basis points, respectively.

Selling, General and Administrative (SG&A) expenses for 1997 were $1.7 billion or 16.6% of sales. SG&A in the two previous years was 16.2% and 15.9% of sales. The 1997 increase of 40 basis points primarily resulted from higher payroll levels at stores that were new or relocated and increased costs relating to relocating or closing stores. The 1996 increase of 30 basis points primarily resulted from higher payroll levels at new or relocated stores and from the full achievement of annual bonus performance goals by management in 1996 compared to partial achievement in 1995. The Company has completed a comprehensive analysis of the impact and costs relating to the year 2000 system conversions and has developed an implementation plan to address the issue. The impact of the conversions is not expected to have a significant effect on the Company's results of operations and the related costs are not estimated to be material.

Store opening costs were $70.0 million for 1997. These costs were $59.2 and $49.6 million for 1996 and 1995, respectively, and were expensed as incurred. As a percentage of sales, store opening costs were 0.7% for each of the three years presented. These costs averaged approximately $1 million per store during 1997.

Depreciation, reflecting continued fixed asset expansion, increased 22% to $241 million, compared to increases of 32% and 37% for 1996 and 1995, respectively. Depreciation as a percentage of sales increased slightly to 2.4% in 1997 from 2.3% in 1996 and 2.1% in 1995. Approximately 43% of new stores opened in the last three years were leased, of which approximately 30%, 93% and 64% in 1997, 1996 and 1995 were under capital leases. Property, less accumulated depreciation, increased to $3.01 billion at January 30, 1998 compared to $2.49 billion at January 31, 1997. The increase in property resulted primarily from the Company's expansion program, including land, building, store equipment, fixtures and displays and investment in new distribution facilities.

Employee retirement plan expense for 1997 was $72 million or 0.7% to sales. This cost is consistent with 0.8% for 1996 and 0.7% for 1995.

Interest costs as a percent of sales were 0.6% for 1997 and 1996, compared to 0.5% for 1995. Interest totaled $66 million in 1997, $49 million in 1996 and $38 million for 1995. Interest costs related to capital leases totaled $38.3, $29.1 and $16.9 million for 1997, 1996 and 1995, respectively. See the discussion below on liquidity and capital resources.

Effective income tax rates were 36.0%, 35.6% and 35.8% in 1997, 1996 and 1995, respectively. The higher rate in 1997 was primarily due to available tax credits not growing at the same rate as earnings and from expansion into states with higher tax rates. The lower rate in 1996 was primarily due to utilization of available state net operating losses.

LIQUIDITY AND CAPITAL RESOURCES

Primary sources of liquidity are cash flows from operating activities and certain financing activities. Net cash provided by operating activities was $664.9 million for 1997. This compared to $543.0 and $303.3 million for 1996 and 1995, respectively. The increases in net cash provided by operating activities for 1997 and 1996 are primarily related to increased earnings and smaller increases in inventory net of accounts payable from year to year. An increase in other operating liabilities also contributed to the 1996 increase in net cash provided by operations from 1995. Working capital at January 30, 1998 was $660.3 million compared to $502.9 million at January 31, 1997.

Cash flows provided by financing activities were $221.8, $11.9 and $58.2 million in 1997, 1996 and 1995, respectively. The major cash components of financing activities in 1997 included issuance of $268 million aggregate principal amount of Medium Term Notes (MTN's) and $32.8 million of scheduled debt repayments. In 1996, financing activities primarily included proceeds from $64 million in short-term borrowings and $17.7 million of scheduled debt repayments. The major financing activity of 1996 was the noncash conversion of $284.7 million principal amount of 3% Convertible Subordinated Notes into common stock. In 1995, the Company issued $100 million aggregate principal amount of 6.375% Senior Notes and had scheduled debt repayments of $25.1 million. The ratio of long-term debt to equity plus long-term debt was 28.7%, 25.7% and 34.3% for 1997, 1996 and 1995, respectively. The increase in the debt to equity ratio in 1997 was primarily due to the issuance of the $268 million in MTN's mentioned earlier. The decrease in 1996 was primarily a result of the conversion of debt to equity.

During 1997, the Company registered $350 million of MTN's from a shelf registration filed in 1996. At January 30, 1998, the Company had sold $268 million aggregate principal of MTN's to investors with final maturities ranging from September 1, 2007 to May 15, 2037, at interest rates ranging from 6.07% to 7.61%. Approximately 37% of these MTN's may be put to the Company at the option of the holder on either the tenth or twentieth anniversary date of the issue. In December 1997, the Company filed a shelf registration statement with the Securities and Exchange Commission covering an additional $518 million of "unallocated" debt or equity securities. These registrations enable the Company to issue common stock, preferred stock, senior unsecured debt securities, or subordinated unsecured debt securities. On February 9, 1998, the Company issued $300 million of 6.875% Debentures due February 15, 2028. The debentures may not be redeemed prior to maturity. The Company has a remaining uncommitted aggregate of $300 million available under these previously filed shelf registrations.

The primary component of net cash used in investing activities continues to be new store facilities in connection with the Company's expansion plan. Cash acquisitions of fixed assets were $773, $677 and $520 million in 1997, 1996 and 1995, respectively. Financing and investing activities also include noncash transactions of capital leases for new store facilities and equipment, the result of which is to increase long-term debt and property. During 1997, 1996 and 1995, the Company acquired fixed assets (primarily new store facilities) under capital leases of $32.7, $182.7 and $96.9 million, respectively.

At January 30, 1998, the Company has a $300 million revolving credit facility with a syndicate of ten banks, available lines of credit aggregating $206 million for the purpose of issuing documentary letters of credit and standby letters of credit and $80 million available, on an unsecured basis, for the purpose of short-term borrowings on a bid basis from various banks. At January 30, 1998, outstanding letters of credit aggregated $66.9 million. In addition, the Company has a $100 million revolving credit and security agreement from a financial institution with $98.1 million outstanding at January 30, 1998.

The Company has had only limited involvement with derivative financial instruments, and does not use them for trading purposes. The Company has entered into derivatives, exclusively interest rate swaps and caps, to lower funding costs or alter interest rate exposures for long-term liabilities. At January 30, 1998, the Company had no derivative financial instruments. At January 31, 1997, the Company had five interest rate swap agreements outstanding with financial institutions, having notional amounts of $10 million each and a total notional amount of $50 million and was a party to five interest rate cap agreements, each with terms tied to the terms of the interest rate swap agreements. These interest rate swap and cap agreements expired in 1997.

The Company's major market risk exposure is the potential loss arising from changing interest rates and its impact on long-term investments and long-term debt. The Company's policy is to manage interest rate risks by maintaining a combination of fixed and variable rate financial instruments. At January 30, 1998, long-term investments consisted of

$35.2 million in municipal obligations, classified as available-for-sale securities. Although the fair value of these securities, like all fixed income securities, would fall if interest rates increase, the Company has the ability to hold its fixed income investments until maturity and not experience an adverse impact on earnings or cash flows. The following table summarizes the Company's market risks associated with long-term debt. The table presents principal cash out flows and related interest rates by fiscal year of maturity. Fair values included below were determined using quoted market rates or interest rates that are currently available to the Company on debt with similar terms and remaining maturities.

Long-Term Debt Maturities by Fiscal Year
(Dollars in Millions)

	1998	1999	2000	2001	2002	There-after	Total	Fair Value
Fixed Rate	$11.3	$96.4	$47.4	$29.5	$59.1	$810.7	$1,054.4	$1,139.7
Average interest rate	8.67%	7.32%	7.27%	8.23%	8.05%	7.94%		
Variable Rate	$ 1.1	$ 1.5	$ 0.4	$ 0.4	$ 0.4	$ 2.9	$ 6.7	$ 6.7
Average interest rate	4.26%	3.99%	4.25%	4.25%	4.25%	3.76%		

The Company's 1998 capital budget is targeted at $1.4 billion, inclusive of approximately $400 million of operating or capital leases. More than 80% of this planned commitment is for store expansion. Expansion plans for 1998 consist of approximately 75 to 80 new stores with about 60% in new markets and the balance being relocations of existing stores the combination of which will increase sales floor square footage by approximately 20%. Approximately 30% of the 1998 projects will be leased and 70% will be owned. Additionally, the Company has entered into an agreement with a lessor to build a 1.17 million square foot distribution center in Pennsylvania which will be operational in Spring 1999. This new distribution center includes a 195 thousand square foot specialty distribution center at the same site. At January 30, 1998, the Company operated four regional distribution centers and ten smaller support facilities. The Company believes that funds from operations, funds from debt issuances, leases and existing short-term credit agreements will be adequate to finance the 1998 expansion plan and other operating needs.

General inflation has not had a material impact on the Company during the past three years. As noted above, the LIFO credit was $7.0 million in 1997 compared to charges of $1.4 million in 1996, and $8.3 million in 1995. Overall inventory deflation was .99% for 1997. There was overall inflation of .15% and .79% for 1996 and 1995, respectively.

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) was issued. SFAS 130 will require disclosure of comprehensive income (which is defined as "the change in equity during a period excluding changes resulting from investments by shareholders and distributions to shareholders") and its components. SFAS 130 is effective for fiscal years beginning after December 15, 1997, with reclassification of comparative years. The Company will adopt SFAS 130 in the year ending January 29, 1999. Had the new standard been applied in 1997, there would have been no material difference between comprehensive and reported income.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) was also issued in June 1997. SFAS 131 is effective for the Company in the fiscal year ending January 29, 1999. SFAS 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. Management does not believe that the adoption of SFAS 131 will have a material impact on the Company's current disclosures of its one operating segment, home improvement retailing.

STORE PERFORMANCE PERSPECTIVE – FISCAL YEAR 1997

In 1992, Lowe's began reporting on the transformation from a chain of small, contractor-oriented stores to a family of modern, home-improvement warehouses. The tables below group Lowe's stores into categories by store size and illustrate the progress that has been made in the transformation as well as the opportunity that still exists. In addition to our relocation program, our new territory expansion continues and offers a means of increasing market share by providing exceptional value to a new customer base.

Store group categories, presented in these two tables, are defined as follows:

1. Yards : Focused Contractor Yards
2. Small : Average of 19,000 square feet
3. Medium : Average of 58,000 square feet
4. Large : Average of more than 100,000 square feet. (All stores in excess of 80,000 square feet.)

Further, Large store sales are reported on both a comparable (same store) basis and new (open less than a year) basis. A relocated store is removed from the comparable store computation until it has been open at least 13 months.

Table 1 Store Group Unit Totals, Fiscal Year Average

	1997		1996		1995	
	% of Total	Units	% of Total	Units	% of Total	Units
Yards	7%	29	6%	25	7%	25
Small	13	55	18	70	27	97
Medium	20	84	24	95	27	96
Large Comp	42	180	33	124	20	71
Large New	18	75	19	74	19	68
Total	100%	423	100%	388	100%	357

Table 1 Comments: As shown, Large stores have grown from 39% of total two years ago, to 60% today. Small stores and Yards are just 20% of total now compared to 34% in 1995. These trends will continue.

Table 2 Sales & Operating Profits* by Store Group, Fiscal Year

	1997		1996		1995	
	Sales	O.P.*	Sales	O.P.*	Sales	O.P.*
Yards	4%	3%	4%	3%	5%	4%
Small	7	7	10	10	17	17
Medium	19	26	25	34	29	39
Large Comp	51	53	42	45	27	29
Large New	19	11	19	8	22	11
Total	100%	100%	100%	100%	100%	100%

*Operating Profits before corporate expense and intercompany charges, interest, LIFO and income taxes. 1995 is also net of restructuring adjustments.

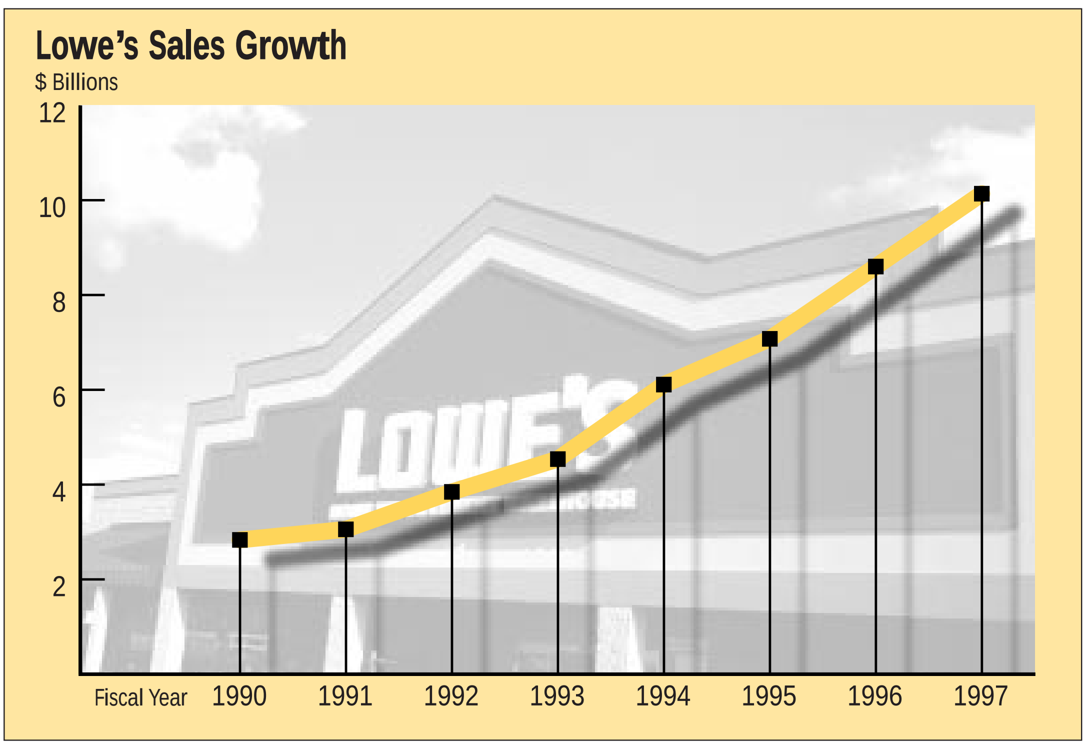
Table 2 Comments: Reflecting the changing mix of units shown in Table 1, Large stores contributed 70% of sales in fiscal '97, up from 49% in 1995. The Large stores also contributed 64% of operating profits in 1997, up from 40% in 1995.

LOWE'S
Companies, Inc.

Consolidated Statements of Earnings

In Thousands, Except Per Share Data Fiscal Years Ended On	January 30, 1998	% Sales	January 31, 1997	% Sales	January 31, 1996	% Sales
Net Sales	$10,136,890	100.0%	$8,600,241	100.0%	$7,075,442	100.0%
Cost of Sales	7,447,117	73.5	6,376,482	74.1	5,312,195	75.1
Gross Margin	2,689,773	26.5	2,223,759	25.9	1,763,247	24.9
Expenses:						
Selling, General and Administrative	1,683,000	16.6	1,395,523	16.2	1,127,333	15.9
Store Opening Costs	69,999	0.7	59,159	0.7	49,626	0.7
Depreciation	240,880	2.4	198,115	2.3	150,011	2.1
Employee Retirement Plans (Note 10)	71,780	0.7	68,289	0.8	46,130	0.7
Interest (Notes 6 and 13)	65,567	0.6	49,067	0.6	38,040	0.5
Total Expenses	2,131,226	21.0	1,770,153	20.6	1,411,140	19.9
Pre-Tax Earnings	558,547	5.5	453,606	5.3	352,107	5.0
Income Tax Provision (Note 11)	201,063	2.0	161,456	1.9	126,080	1.8
Net Earnings	$ 357,484	3.5%	$ 292,150	3.4%	$ 226,027	3.2%
Shares Outstanding – Weighted Average (Note 7)	174,277		167,599		160,377	
Basic Earnings Per Share	$ 2.05		$ 1.74		$ 1.41	
Diluted Earnings Per Share	$ 2.05		$ 1.71		$ 1.36	
Cash Dividends Per Share	$ .22		$ .21		$ .19	

See accompanying notes to consolidated financial statements.



LOWE'S Companies, Inc.

Consolidated Balance Sheets

In Thousands

	January 30, 1998	% Total	January 31, 1997	% Total
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 195,146	3.7%	$ 40,387	0.9%
Short-Term Investments (Note 2)	16,155	0.3	30,103	0.7
Accounts Receivable – Net	118,408	2.3	117,562	2.7
Merchandise Inventory	1,714,592	32.8	1,605,880	36.2
Deferred Income Taxes (Note 11)	34,116	0.7	19,852	0.4
Other Current Assets	31,185	0.6	37,682	0.8
Total Current Assets	2,109,602	40.4	1,851,466	41.7
Property, Less Accumulated Depreciation (Notes 3 and 5)	3,005,199	57.6	2,494,396	56.3
Long-Term Investments (Note 2)	35,161	0.7	35,615	0.8
Other Assets	69,315	1.3	53,477	1.2
Total Assets	$5,219,277	100.0%	$4,434,954	100.0%
Liabilities and Shareholders' Equity				
Current Liabilities:				
Short-Term Notes Payable (Note 4)	$ 98,104	1.9%	$ 80,905	1.8%
Current Maturities of Long-Term Debt (Note 5)	12,478	0.2	22,566	0.5
Accounts Payable	969,777	18.7	914,167	20.6
Employee Retirement Plans (Note 10)	64,669	1.2	60,770	1.4
Accrued Salaries and Wages	83,377	1.6	71,662	1.6
Other Current Liabilities	220,915	4.2	198,461	4.5
Total Current Liabilities	1,449,320	27.8	1,348,531	30.4
Long-Term Debt, Excluding Current Maturities (Note 5)	1,045,570	20.0	767,338	17.3
Deferred Income Taxes (Note 11)	123,778	2.4	101,609	2.3
Total Liabilities	2,618,668	50.2	2,217,478	50.0
Shareholders' Equity (Notes 5 and 8):				
Preferred Stock – $5 Par Value, none issued	—		—	
Common Stock – $.50 Par Value;				
Issued and Outstanding				
January 30, 1998 175,316				
January 31, 1997 173,404	87,658	1.6	86,702	2.0
Capital in Excess of Par	980,324	18.8	903,661	20.3
Retained Earnings	1,565,133	30.0	1,245,888	28.1
Unearned Compensation – Restricted Stock Awards	(32,694)	(0.6)	(18,434)	(0.4)
Unrealized Gain (Loss) on Available-for-Sale Securities	188	—	(341)	—
Total Shareholders' Equity	2,600,609	49.8	2,217,476	50.0
Total Liabilities and Shareholders' Equity	$5,219,277	100.0%	$4,434,954	100.0%

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.

Consolidated Statements of Shareholders' Equity

In Thousands

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation Restricted Stock Awards	Unrealized Gain/(Loss) on Available For Sale Securities	Total Shareholders' Equity
Balance January 31, 1995	159,527	$79,764	$554,838	$ 792,891	$ (5,949)	$(1,654)	$1,419,890
Net Earnings				226,027			226,027
Tax Effect of Non-qualified Stock Options Exercised			25				25
Cash Dividends				(30,471)			(30,471)
Stock Options Exercised (Note 8)	4	2	42				44
Stock Issued to ESOP (Note 10)	1,182	591	36,631				37,222
Conversion of 3% Notes	97	49	2,183				2,232
Shares Issued to Directors	4	2	93				95
Unearned Compensation-Restricted Stock Awards (Note 8)	104	51	3,016		(2,127)		940
Unrealized Gain on Available-for-Sale Securities, Net of Income Taxes of $378						711	711
Balance January 31, 1996	160,918	80,459	596,828	988,447	(8,076)	(943)	1,656,715
Net Earnings				292,150			292,150
Cash Dividends				(34,709)			(34,709)
Stock Issued to ESOP	1,215	607	43,283				43,890
Conversion of 3% Notes	10,897	5,448	251,350				256,798
Shares Issued to Directors	4	2	135				137
Unearned Compensation-Restricted Stock Awards (Note 8)	370	186	12,065		(10,358)		1,893
Unrealized Gain on Available-for-Sale Securities, Net of Income Taxes of $325						602	602
Balance January 31, 1997	173,404	86,702	903,661	1,245,888	(18,434)	(341)	2,217,476
Net Earnings				357,484			357,484
Tax Effect of Non-qualified Stock Options Exercised			87				87
Cash Dividends				(38,239)			(38,239)
Stock Options Exercised (Note 8)	14	7	228				235
Stock Issued to ESOP (Note 10)	1,492	746	55,884				56,630
Shares Issued to Directors	4	2	155				157
Unearned Compensation-Restricted Stock Awards (Note 8)	402	201	20,309		(14,260)		6,250
Unrealized Gain on Available-for-Sale Securities, Net of Income Taxes of $268						529	529
Balance January 30, 1998	175,316	$87,658	$980,324	$1,565,133	$(32,694)	$ 188	$2,600,609

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.

Consolidated Statements of Cash Flows

In Thousands Fiscal Years Ended on	January 30, 1998	January 31, 1997	January 31, 1996
Cash Flows from Operating Activities:			
Net Earnings	$ 357,484	$ 292,150	$ 226,027
Adjustments to Reconcile Net Earnings to Net Cash Provided By Operating Activities:			
Depreciation	240,880	198,115	150,011
Amortization of Original Issue Discount	192	1,671	3,601
Increase in Deferred Income Taxes	7,637	17,043	32,924
(Gain) Loss on Disposition/Writedown of Fixed and Other Assets	14,263	9,892	(1,171)
Changes in Operating Assets and Liabilities:			
Accounts Receivable – Net	(846)	(4,079)	(4,269)
Merchandise Inventory	(108,712)	(338,803)	(134,795)
Other Operating Assets	6,732	(4,788)	(3,298)
Accounts Payable	55,610	258,768	(20,037)
Employee Retirement Plans	60,527	59,736	38,196
Other Operating Liabilities	31,103	53,288	16,120
Net Cash Provided by Operating Activities	664,870	542,993	303,309
Cash Flows from Investing Activities:			
(Increase) Decrease in Investment Assets:			
Short-Term Investments	25,773	98,754	18,538
Purchases of Long-Term Investments	(15,384)	(27,259)	(30,906)
Proceeds from Sale/Maturity of Long-Term Investments	4,811	12,203	66,588
(Increase) Decrease in Other Long-Term Assets	(5,472)	3,456	(2,656)
Fixed Assets Acquired	(772,792)	(677,160)	(520,362)
Proceeds from the Sale of Fixed and Other Long-Term Assets	31,183	11,615	20,856
Net Cash Used in Investing Activities	(731,881)	(578,391)	(447,942)
Cash Flows from Financing Activities:			
Long-Term Debt Borrowings	265,795	—	98,959
Net Increase in Short-Term Borrowings	17,199	64,288	14,714
Proceeds from Stock Options Exercised	210	—	44
Repayment of Long-Term Debt	(32,781)	(17,662)	(25,064)
Cash Dividend Payments	(28,653)	(34,709)	(30,471)
Net Cash Provided by Financing Activities	221,770	11,917	58,182
Net Increase (Decrease) in Cash and Cash Equivalents	154,759	(23,481)	(86,451)
Cash and Cash Equivalents, Beginning of Year	40,387	63,868	150,319
Cash and Cash Equivalents, End of Year	$ 195,146	$ 40,387	$ 63,868

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Fiscal Years Ended January 30, 1998, January 31, 1997 and 1996

Note 1, Summary of Significant Accounting Policies:

The Company is one of the largest retailers serving the do-it-yourself home improvement, home decor, and home construction markets in the United States. The Company serves customers in 446 stores in 25 states predominantly located in the eastern half of the United States. Below are those accounting policies considered to be significant.

Fiscal Year – Effective February 1, 1997, the Company adopted a 52 or 53 week fiscal year, changing the year end date from January 31 to the Friday nearest January 31. The fiscal year ended January 30, 1998 had 52 weeks. All references herein for the years 1997, 1996 and 1995 represent the fiscal years ended January 30, 1998 and January 31, 1997 and 1996, respectively.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material intercompany accounts and transactions have been eliminated.

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

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased.

Investments – The Company has a cash management program which provides for the investment of excess cash balances in financial instruments which have maturities of up to five years. Investments, exclusive of cash equivalents, with a maturity of one year or less from the balance sheet date are classified as short-term investments. Investments with maturities greater than one year are classified as long-term. Investments consist primarily of tax-exempt notes and bonds, municipal preferred tax-exempt stock and repurchase agreements.

The Company has classified all investment securities as available-for-sale and they are carried at fair value. Unrealized gains and losses on such securities are excluded from earnings and reported as a separate component of shareholders' equity, net of the related income taxes, until realized.

Derivatives – The Company does not use derivative financial instruments for trading purposes. Interest rate swap agreements, which are principally used by the Company in the management of interest rate exposure, are accounted for on an accrual basis. Income and expense are recorded in the same category as that arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as interest income or expense in the periods in which they accrue.

Premiums paid for purchased interest rate cap agreements are amortized to interest expense over the terms of the caps. Unamortized premiums are included in other assets in the consolidated balance sheet. Amounts to be received under the cap agreements are accounted for on an accrual basis, and are recognized as a reduction of interest expense. The Company had no derivative financial instruments at January 30, 1998.

Accounts Receivable – The majority of the accounts receivable arise from sales to professional building contractors. The allowance for doubtful accounts is based on historical experience and a review of existing receivables. The allowance for doubtful accounts was $1.6 and $2.3 million at January 30, 1998 and January 31, 1997, respectively.

Sales generated through the Company's private label credit card are not reflected in receivables. Under an agreement with Monogram Credit Card Bank of Georgia (the Bank), a wholly owned subsidiary of General Electric Capital Corporation, consumer credit is extended directly to customers by the Bank and all credit program related services are performed directly by the Bank.

Merchandise Inventory – Inventory is stated at the lower of cost or market. In an effort to more closely match cost of sales and related sales, cost is determined using the last-in, first-out (LIFO) method. Included in inventory cost are administrative, warehousing and other costs directly associated with buying, distributing and maintaining inventory in a condition for resale.

If the FIFO method had been used, inventories would have been $67.6 and $74.6 million higher at January 30, 1998 and January 31, 1997, respectively.

Property and Depreciation – Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts with gains and losses reflected in earnings.

Depreciation is provided over the estimated useful lives of the depreciable assets. Assets are generally depreciated on the straight-line method. Leasehold improvements are depreciated over the shorter of their estimated useful lives or term of the related lease.

Leases – Assets under capital leases are amortized in accordance with the Company's normal depreciation policy for owned assets or over the lease term if shorter and the charge to earnings is included in depreciation expense in the consolidated financial statements.

Income Taxes – Income taxes are provided for temporary differences between the tax and financial accounting bases of assets and liabilities using the liability method. The tax effects of such differences are reflected in the balance sheet at the enacted tax rates expected to be in effect when the differences reverse.

Store Pre-opening Costs – Costs of opening new retail stores are charged to operations as incurred.

Store Closing Costs – Losses related to impairment of long-lived assets and for long-lived assets to be disposed of are recognized when expected future cash flows are less than the assets' carrying value. At the time management commits to close or relocate a store location, the Company evaluates the carrying value of the assets in relation to its expected future cash flows. If the carrying value of the assets is greater than the expected future cash flows, a provision is provided for the impairment of the assets. When a leased location closes, a provision is provided for the present value of future lease obligations, net of anticipated sublease income.

The estimated realizable value of closed store real estate is included in other assets.

Advertising – Costs associated with advertising are charged to operations as incurred. Advertising expenses were $125.6, $99.8 and $87.8 million for 1997, 1996 and 1995, respectively.

Recent Accounting Pronouncements – In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) was issued. SFAS 130 will require disclosure of comprehensive income (which is defined as "the change in equity during a period excluding changes resulting from investments by shareholders and distributions to shareholders") and its components. SFAS 130 is effective for fiscal years beginning after December 15, 1997, with reclassification of comparative years. The Company will adopt SFAS 130 in the year ending January 29, 1999. Had the new standard been applied in 1997, there would have been no material difference between comprehensive and reported income.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) was also issued in June 1997. SFAS 131 is effective for the Company in the fiscal year ending January 29, 1999. SFAS 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. Management does not believe that the adoption of SFAS 131 will have a material impact on the Company's current disclosures of its one operating segment, home improvement retailing.

Note 2, Investments:

The amortized cost, gross unrealized holding gains and losses and fair values of investment securities, all of which are classified as available-for-sale securities, at January 30, 1998 and January 31, 1997 are as follows:

	January 30, 1998				January 31, 1997			
(In Thousands)	Amortized	Gross Unrealized		Fair	Amortized	Gross Unrealized		Fair
Type	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Municipal Obligations	$14,557	—	—	$14,557	$19,514	$ 1	—	$19,515
Adjustable Rate Preferred Stock	1,614	—	$ (16)	1,598	11,010	—	$(422)	10,588
Classified as Short-Term	16,171	—	(16)	16,155	30,524	1	(422)	30,103
Municipal Obligations – Classified as Long-Term	34,904	$291	(34)	35,161	35,718	139	(242)	35,615
Total	$51,075	$291	$ (50)	$51,316	$66,242	$140	$(664)	$65,718

The proceeds from sales of available-for-sale securities were $14.3, $15.1 and $60.4 million for 1997, 1996 and 1995, respectively. Gross realized gains and (losses) on the sale of available-for-sale securities were $89 thousand and $(26) thousand for 1997, $80 thousand and $(535) thousand for 1996 and $326 thousand and $(426) thousand for 1995. Municipal obligations classified as long-term at January 30, 1998 will mature in 1 to 5 years.

Note 3, Property and Accumulated Depreciation:

Property is summarized below by major class:

(In Thousands)	January 30, 1998	January 31, 1997
Cost:		
Land	$ 711,930	$ 484,100
Buildings	1,533,954	1,324,323
Store, Distribution and Office Equipment	1,393,718	1,175,411
Leasehold Improvements	155,392	120,269
Total Cost	3,794,994	3,104,103
Accumulated Depreciation and Amortization	(789,795)	(609,707)
Net Property	$3,005,199	$2,494,396

The estimated depreciable lives, in years, of the Company's property are: buildings, 20 to 40; store, distribution and office equipment, 3 to 10; leasehold improvements, generally the life of the related lease.

Net property includes $438.4 and $421.9 million in assets under capital leases at January 30, 1998 and January 31, 1997, respectively.

Note 4, Short-Term Borrowings and Lines of Credit:

The Company has a $300 million revolving credit facility with a syndicate of 10 banks. The facility has $100 million expiring November 1998, with the remaining $200 million expiring November 2001. The facility is used to support the Company's commercial paper program and for short-term borrowings. Facility fees ranging from .06% to .075% are paid on the unused amount of these facilities. At January 30, 1998, there were no borrowings outstanding under this revolving credit facility.

Several banks have extended lines of credit aggregating $206 million for the purpose of issuing documentary letters of credit and standby letters of credit. These lines do not have termination dates but are reviewed periodically. Commitment fees ranging from .085% to .50% per annum are paid on the amounts of standby letters of credit used. At January 30, 1998, outstanding letters of credit aggregated $66.9 million.

A $100 million revolving credit and security agreement, expiring in September 1998 and renewable annually, is available from a financial institution. At January 30, 1998, there was $98.1 million outstanding under this credit and security agreement and $105.3 million of the Company's accounts receivable were pledged as collateral.

In addition, $80 million is available, on an unsecured basis, for the purpose of short-term borrowings on a bid basis from various banks. These lines are uncommitted and are reviewed periodically by both the banks and the Company. At January 30, 1998, there were no borrowings outstanding under these lines of credit.

Note 5, Long-Term Debt:

Debt Category	Interest Rates	Fiscal Year of Final Maturity	January 30, 1998	January 31, 1997
(In Thousands)				
Secured Debt[1]:				
Industrial Revenue Bonds	3.55% to 6.46%*	2020	$ 4,314	$ 5,497
Industrial Revenue Bonds[2]	4.25%*	2005	2,700	5,400
Insurance Company Notes	6.75%	1998	4	161
Other Notes	8.00% to 9.50%	2005	2,497	388
Unsecured Debt[3]:				
Medium Term Notes[4]	6.50% to 8.20%	2037	504,787	249,985
Senior Note	6.38%	2005	99,177	99,072
Capital Leases	6.58% to 13.31%	2033	444,569	429,401
Total Long-Term Debt			1,058,048	789,904
Less Current Maturities			12,478	22,566
Long-Term Debt, Excluding Current Maturities			$1,045,570	$767,338

*Interest rate varies as a percentage of prime rate or other interest index. Interest rates shown are as of January 30, 1998. Prime rate was 8.5% at January 30, 1998.

Debt maturities, exclusive of capital leases, for the next five fiscal years are as follows (in millions): 1998, $1.6; 1999, $86.0; 2000, $34.9; 2001, $15.8; 2002, $43.9.

The Company is party to certain capital lease agreements which may limit its ability to declare dividends under certain circumstances.

Notes:

1 Real properties pledged as collateral for secured debt had net book values (in millions) at January 30, 1998, as follows: industrial revenue bonds – $13.9; insurance company notes – $3.3; other notes – $.6.0.

2 With certain restrictions, the floating rate demand industrial revenue bonds can be converted to a fixed interest rate based on a fixed interest index at the Company's option.

3 On February 9, 1998, the Company issued $300 million of 6.875% Debentures due February 15, 2028. The debentures were issued at an original price of $987.20 per $1,000 principal amount, which represented an original issue discount of .405% payable at maturity and an underwriters' discount of .875%. The debentures may not be redeemed prior to maturity.

4 During 1997, the Company sold $268 million aggregate principal of Medium-Term Notes (MTN's) to investors with final maturities ranging from September 1, 2007 to May 15, 2037, at interest rates ranging from 6.70% to 7.61%. Approximately 37% of these MTN's may be put at the option of the holder on either the tenth or twentieth anniversary date of the issue.

Note 6, Financial Instruments:

At January 30, 1998, the Company had no derivative financial instruments.

In prior years, interest rate swaps allowed the Company to raise long-term borrowings at fixed rates and swap them into variable rates for shorter durations. At January 31, 1997, the Company had 5 interest rate swap agreements outstanding with financial institutions, having notional amounts of $10 million each and a total notional amount of $50 million. Under the agreements, the Company received interest payments at an average fixed rate of 6.20% and paid interest on the same notional amounts at a floating rate based on an interest rate index, which was 5.69% as of January 31, 1997. These interest rate swap agreements expired in 1997.

Interest rate cap agreements were used to reduce the potential impact of increases in interest rates on the interest rate swap agreements discussed above. At January 31, 1997, the Company was a party to 5 interest rate cap agreements, each with terms tied to the terms of the interest rate swap agreements. The agreements entitled the Company to receive from counterparties on a semi-annual basis the amounts, if any, by which the Company's interest payments on its $50 million notional amount of interest rate swap agreements exceed approximately 75 basis points over the fixed rate on each swap.

The Company was exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap and cap agreements. The counterparties were able to fully satisfy their obligations under the agreements. The counterparties consisted of a number of financial institutions whose credit ratings were AA or better at the time the agreements were instituted. No collateral was held in relation to the agreements.

The following are financial instruments whose estimated fair value amounts are different from their carrying amounts. Estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	January 30, 1998		January 31, 1997	
(In Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Long-Term Debt	$1,058,048	$1,146,434	$789,904	$818,508

Long-term debt – Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues that are not quoted on an exchange.

Interest rate swap agreements – The fair value of interest rate swaps are the amounts at which they could be settled, based on estimates obtained from dealers. There were no off-balance sheet financial instruments at January 30, 1998. At January 31, 1997, the fair value of interest rate swap agreements was $84 thousand.

Note 7, Earnings Per Share:

In February 1997, Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128) was issued. In accordance with SFAS 128, the Company has retroactively adopted the new standard in the quarter and year ended January 30, 1998. SFAS 128 requires dual presentation of basic and diluted earnings per share (EPS) on the face of the consolidated statement of earnings and a reconciliation of the components of the basic and diluted EPS calculations in the notes to the financial statements. Basic EPS excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS is similar to fully diluted EPS pursuant to Accounting Principles Board (APB) Opinion No. 15. Following is the reconciliation of EPS for fiscal years 1997, 1996 and 1995.

(In Thousands, Except Per Share Data)

	1997	1996	1995
Basic Earnings per Share:			
Net Earnings	$357,484	$292,150	$226,027
Weighted Average Shares Outstanding	174,277	167,599	160,377
Basic Earnings per Share	$2.05	$1.74	$1.41
Diluted Earnings per Share:			
Net Earnings	$357,484	$292,150	$226,027
Interest (After Taxes) on Convertible Debt	—	3,620	7,589
Net Earnings, as Adjusted	$357,484	$295,770	$233,616
Weighted Average Shares Outstanding	174,277	167,599	160,377
Dilutive Effect of Stock Options	103	79	76
Dilutive Effect of Convertible Debt	—	5,006	10,898
Weighted Average Shares, as Adjusted	174,380	172,684	171,351
Diluted Earnings per Share	$2.05	$1.71	$1.36

Note 8, Shareholders' Equity:

Authorized shares of common stock were 700 million at January 30, 1998 and January 31, 1997 and 1996.

The Company has 5 million authorized shares of preferred stock ($5 par), none of which have been issued. The preferred stock may be issued by the Board of Directors (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences and such conversion and other rights as may be designated by the Board of Directors at the time of issuance of the preferred shares.

The Company has a shareholder rights plan which provides for a dividend distribution of one preferred share purchase right on each outstanding share of common stock. Each purchase right will entitle shareholders to buy one unit of a newly authorized series of preferred stock. A shareholder's interest is not diluted by the effects of a stock dividend or stock split. At the time of adopting the rights plan, each unit was intended to be the equivalent of one share of common stock. The purchase rights will be exercisable only if a person or group acquires or announces a tender offer for 20% or more of Lowe's common stock. The purchase rights do not apply to the person or group acquiring the stock. The purchase rights will expire on September 19, 1998.

The Company has two stock incentive plans, referred to as the "1994" and "1997" Incentive Plans, under which incentive and non-qualified stock options, stock appreciation rights, restricted stock awards and incentive awards may be granted to key employees. No awards may be granted after January 31, 2004 under the 1994 plan and 2007 under the 1997 plan. Stock options generally have terms ranging from 5 to 10 years, vest evenly over 3 years and are assigned an exercise price of not less than the fair market value on the date of grant. At January 30, 1998, there were 23,790 and 4,303,750 shares available for grants under the 1994 and 1997 plans, respectively.

Option information is summarized as follows:

Key Employee Stock Option Plans	Shares (In Thousands)	Weighted-Average Exercise Price Per Share
Outstanding January 31, 1995 and 1996	20	$38.75
Canceled or Expired	(10)	$38.75
Granted	1,215	$39.13
Outstanding January 31, 1997	1,225	$39.12
Granted	747	$45.09
Canceled or Expired	(10)	$39.13
Exercised	(2)	$39.13
Outstanding January 30, 1998	1,960	$41.40
Exercisable January 30, 1998	417	$39.12

Of the 1,960,000 options outstanding at January 30, 1998, the exercise prices per share range from $38.75 to $47.31 and their weighted-average remaining term is 4.2 years.

Stock appreciation rights are denominated in units, which are comparable to a share of common stock for purposes of determining the amount payable under an award. An award entitles the participant to receive the excess of the final value of the unit over the fair market value of a share of common stock on the first day of the performance period. The final value is the average closing price of a share of common stock during the last month of the performance period. Limits are established with respect to the amount payable on each unit. A total of 496,050 stock appreciation rights, with performance periods of three years and a maximum payout of $3,720,375, were outstanding at January 30, 1998. The costs of these rights are being expensed over the performance periods and have reduced pre-tax earnings by $0.9, $1.0 and $1.0 million in 1997, 1996 and 1995, respectively.

Restricted stock awards of 435,350, 388,550 and 133,500 shares, with per share weighted-average fair values of $49.61, $33.14 and $31.25, were granted to certain executives in 1997, 1996 and 1995, respectively. These shares are nontransferable and subject to forfeiture for periods prescribed by the Company. These shares may become transferable and vested earlier based on achievement of certain performance measures. During 1997, a total of 20,200 shares were forfeited and 39,750 shares became vested. At January 30, 1998, grants totaling 991,900 shares are included in Shareholder's Equity and are being amortized as earned over periods not exceeding seven years. Related amortization expense for 1997, 1996 and 1995 was $6.2, $1.9 and $0.6 million, respectively.

The Company has a Directors' Stock Incentive Plan. This Plan provides that at the first Board meeting following each annual meeting of shareholders, the Company shall issue each non-employee Director 500 shares of common stock. Up to 25,000 shares may be issued under this Plan. In 1997, 1996 and 1995, 4,000, 4,000 and 3,500 shares, respectively, were issued under this Plan. Prior to its expiration in 1994, 140,000 stock options were issued under a Non-Employee Directors' Stock Option Plan. At January 30, 1998, 68,000 shares have been exercised and 72,000 shares were exercisable. Of the remaining outstanding options at January 30, 1998, the exercise price per share ranges from $6.375 to $18.875 and their weighted-average remaining term is 3.5 years.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant, other than for restricted stock grants and stock appreciation rights. No stock options were granted in 1995. Had compensation for 1997 and 1996 stock options granted been determined consistent with Statement of Financial Accounting Standards No. 123

(SFAS 123), "Accounting for Stock-Based Compensation," the Company's net earnings and earnings per share (EPS) amounts for 1997 and 1996 would approximate the following proforma amounts (in thousands except per share data):

	1997		1996	
	As Reported	Proforma	As Reported	Proforma
Net Earnings	$357,484	$352,217	$292,150	$291,411
Basic EPS	$ 2.05	$ 2.02	$ 1.74	$ 1.74
Diluted EPS	$ 2.05	$ 2.02	$ 1.71	$ 1.71

The fair values of each option granted on the date of grant were estimated as $19.12 for options granted on December 5, 1997, $17.09 for options granted on May 30, 1997 and $16.99 for options granted on December 6, 1996, using the Black-Scholes option-pricing model with the following assumptions, respectively: expected volatility of 34%, 37% and 38%, expected dividend yield of 0.6% for each grant; risk-free interest rate of 5.9%, 6.5% and 6.0%; and an expected life of 5 years for each grant. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

Note 9, Leases:

The Company leases certain store facilities under agreements with original terms generally of twenty years. Agreements generally provide for contingent rental based on sales performance in excess of specified minimums. To date, contingent rentals have been nominal. The leases typically contain provisions for four renewal options of five years each. Certain equipment is also leased by the Company under agreements ranging from two to five years. These agreements typically contain renewal options providing for a renegotiation of the lease, at the Company's option, based on the fair market value at that time.

The future minimum rental payments required under capital and operating leases having initial or remaining noncancelable lease terms in excess of one year are summarized as follows:

	Operating Leases		Capital Leases		
Fiscal Year	Real Estate	Equipment	Real Estate	Equipment	Total
(In Thousands)					
1998	$ 85,053	$ 755	$ 49,093	$ 291	$ 135,192
1999	97,154	708	49,094	291	147,247
2000	96,101	271	49,112	218	145,702
2001	95,841	—	49,132	98	145,071
2002	95,627	—	49,133	98	144,858
Later Years	1,300,892	—	637,798	49	1,938,739
Total Minimum Lease Payments	$1,770,668	$1,734	$883,362	$1,045	$2,656,809
Total Minimum Capital Lease Payments			$884,407		
Less Amount Representing Interest			439,838		
Present Value of Minimum Lease Payments			444,569		
Less Current Maturities			10,896		
Present Value of Minimum Lease Payments, Less Current Maturities			$433,673		

Rental expenses under operating leases for real estate and equipment were $65.4 million, $59.2 million and $54.1 million in 1997, 1996 and 1995, respectively.

Note 10, Employee Retirement Plans:

The Company's contribution to its Employee Stock Ownership Plan (ESOP) is determined annually by the Board of Directors. The ESOP covers all employees after completion of one year of employment and 1,000 hours of service during that year. Contributions are allocated to participants based on their eligible compensation relative to total eligible compensation. The Board authorized contributions totaling 13% of eligible compensation for 1997 and 14% of eligible compensation for 1996 and 1995. Contributions may be made in cash or shares of the Company's common stock and are generally made in the following year. ESOP expense for 1997, 1996 and 1995 was $63.1, $61.1 and $40.1 million, respectively.

At January 30, 1998, the Employee Stock Ownership Trust held approximately 10.2% of the outstanding common stock of the Company. Shares allocated to ESOP participants' accounts are voted by the trustee according to participants' voting instructions.

The Board of Directors determines contributions to the Company's Employee Savings and Investment Plan (ESIP) each year based upon a matching formula applied to employee contributions. All employees are eligible to participate in the ESIP on the first day of the month following completion of one year of employment. Company contributions to the ESIP for 1997, 1996 and 1995 were $8.7, $7.2 and $6.0 million, respectively. The Company's common stock is an investment option for participants in the ESIP. At January 30, 1998, the ESIP held approximately 0.7% of the outstanding common stock of the Company. Shares held in the ESIP are voted by the trustee as directed by an administrative committee of the ESIP.

Note 11, Income Taxes:

(In Thousands)	1997 Amount	1997 %	1996 Amount	1996 %	1995 Amount	1995 %
	Statutory Rate Reconciliation					
Pre-Tax Earnings	$558,547	100.0%	$453,606	100.0%	$352,107	100.0%
Federal Income Tax at Statutory Rate	195,491	35.0	158,762	35.0	123,237	35.0
State Income Taxes – Net of Federal Tax Benefit	12,406	2.2	7,968	1.8	8,093	2.3
Other, Net	(6,834)	(1.2)	(5,274)	(1.2)	(5,250)	(1.5)
Total Income Tax Provision	$201,063	36.0%	$161,456	35.6%	$126,080	35.8%
	Components of Income Tax Provision					
Current						
Federal	$175,649	87.4%	$135,075	83.7%	$ 86,347	68.5%
State	17,777	8.8	9,338	5.8	6,809	5.4
Total Current	193,426	96.2	144,413	89.5	93,156	73.9
Deferred						
Federal	6,328	3.1	14,122	8.7	27,282	21.6
State	1,309	0.7	2,921	1.8	5,642	4.5
Total Deferred	7,637	3.8	17,043	10.5	32,924	26.1
Total Income Tax Provision	$201,063	100.0%	$161,456	100.0%	$126,080	100.0%

The tax effect of cumulative temporary differences and carryforwards that gave rise to the deferred tax assets and liabilities and the related valuation allowance at January 30, 1998 and January 31, 1997 is as follows (in thousands):

	January 30, 1998			January 31, 1997		
(In Thousands)	Assets	Liabilities	Total	Assets	Liabilities	Total
Accrued Excess Property and Store Closing Costs	$16,208	—	$ 16,208	$13,966	—	$ 13,966
Insurance	11,338	—	11,338	9,470	—	9,470
Depreciation	—	$(144,601)	(144,601)	—	$(117,779)	(117,779)
Property Taxes	3,140	—	3,140	5,371	—	5,371
Other, Net	36,001	(11,748)	24,253	17,081	(9,555)	7,526
Less Valuation Allowance	—	—	—	(311)	—	(311)
Total	$66,687	$(156,349)	$ (89,662)	$45,577	$(127,334)	$ (81,757)

The valuation allowance decreased $311,000 in 1997 and $1,254,000 in 1996, and increased $1,416,000 in 1995.

Note 12, Commitments, Contingencies and Litigation:

The Company is a defendant in legal proceedings considered to be in the normal course of business, none of which, singularly or collectively, are considered material to the Company.

Note 13, Other Information:

Net interest expense is composed of the following:

(In Thousands)	1997	1996	1995
Long-Term Debt	$34,936	$31,300	$34,536
Capitalized Leases	38,255	29,076	16,872
Short-Term Debt	7,913	4,368	3,001
Amortization of Loan Costs	527	403	296
Short-Term Interest Income	(7,741)	(8,765)	(10,897)
Interest Capitalized	(8,323)	(7,315)	(5,768)
Net Interest Expense	$65,567	$49,067	$38,040

Supplemental Disclosures of Cash Flow Information:

(In Thousands)	1997	1996	1995
Cash Paid for Interest (Net of Amount Capitalized)	$ 74,005	$ 66,350	$55,231
Cash Paid for Income Taxes	$196,144	$125,266	$77,858

Noncash Investing and Financing Activities:

	1997	1996	1995
Fixed Assets Acquired Under Capital Leases	$ 32,738	$182,676	$96,948
Common Stock Issued to ESOP (Note 10)	56,628	43,890	37,222
Common Stock Issued to Executives and Directors, net of Unearned Compensation	6,407	2,030	1,035
Conversion of Debt to Common Stock	—	256,798	2,232
Notes Received in Exchange for Property	600	—	1,450
Notes Issued in Exchange for Property	$ 2,200	$ —	$ —

LOWE'S
Companies, Inc.

Selected Financial Data

(In Thousands, Except Per Share Data)

(Unaudited)	1997	1996	1995	1994	1993
Selected Income Statement Data:					
Net Sales	$10,136,890	$8,600,241	$7,075,442	$6,110,521	$4,538,001
Net Earnings	357,484	292,150	226,027	223,560	131,786
Basic Earnings Per Share	2.05	1.74	1.41	1.44	.89
Diluted Earnings Per Share	2.05	1.71	1.36	1.39	.89
Cash Dividends Per Share	$ .22	$ .21	$ .19	$ .18	$ .16
Selected Balance Sheet Data:					
Total Assets	$5,219,277	$4,434,954	$3,556,386	$3,105,992	$2,201,648
Long-Term Debt, Including Current Maturities	$1,058,048	$ 789,904	$ 880,310	$ 708,097	$ 641,880

Selected Quarterly Data (Unaudited)*

	Fourth	Third	Second	First
1997				
Net Sales	$2,397,568	$2,530,481	$2,808,086	$2,400,754
Gross Margin	664,090	670,886	731,093	623,703
Net Earnings	72,507	88,099	126,496	70,383
Basic Earnings Per Share	.41	.50	.73	.41
Diluted Earnings Per Share	$ .41	$ .50	$ .73	$ .41
1996				
Net Sales	$2,041,496	$2,193,239	$2,459,008	$1,906,498
Gross Margin	552,301	566,166	628,792	476,500
Net Earnings	55,626	75,183	114,279	47,062
Basic Earnings Per Share	.32	.43	.70	.29
Diluted Earnings Per Share	$ .32	$ .43	$ .67	$ .29

* LIFO Adjustment:

Fiscal 1997 – The total LIFO effect for the year was a credit of $7.0 million. A charge of $5.5 million was made against earnings through the first nine months, resulting in a fourth quarter credit of $12.5 million.

Fiscal 1996 – The total LIFO effect for the year was a charge of $1.4 million. A charge of $10.5 million was made against earnings through the first nine months, resulting in a fourth quarter credit of $9.1 million.

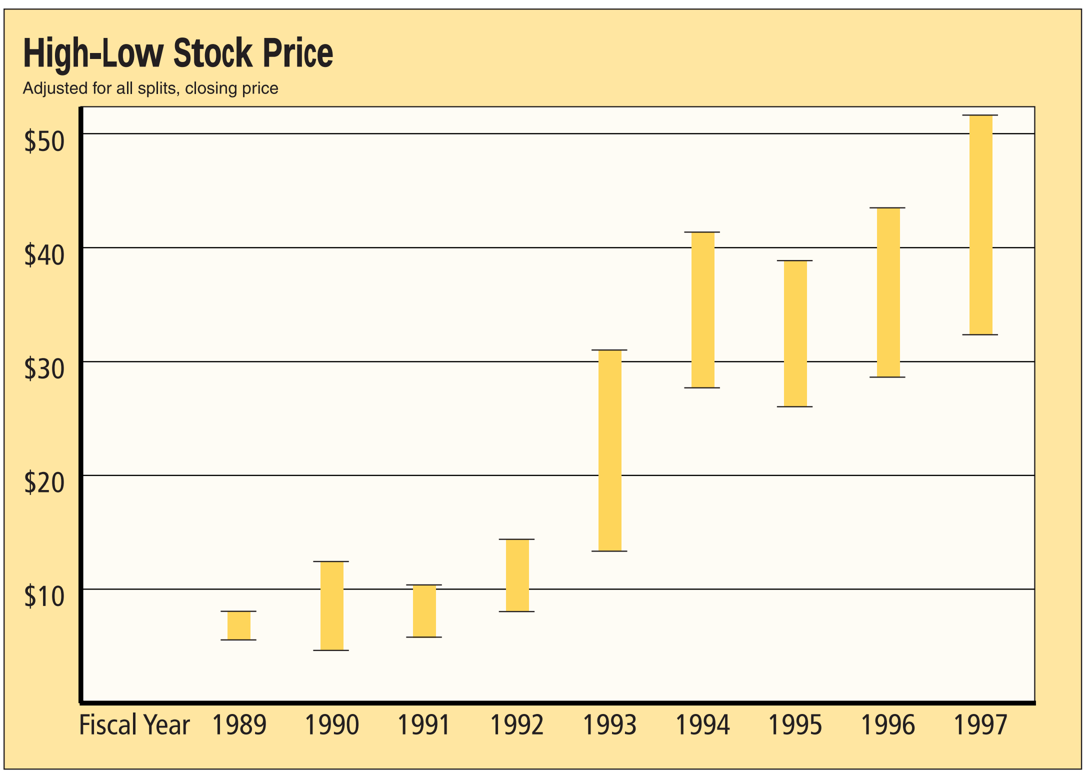
Stock Performance

Lowe's Quarterly Stock Price Range and Cash Dividends

	Fiscal 1997			Fiscal 1996			Fiscal 1995		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	$40 1/4	$32 3/8	$.055	$36 1/4	$29 3/8	$.050	$38 7/8	$27 1/2	$.045
2nd Quarter	39 7/8	33 11/16	.055	39	28 5/8	.050	37 1/4	26	.045
3rd Quarter	44 5/16	33 15/16	.055	43 5/16	32 3/8	.050	37 7/8	26 1/4	.050
4th Quarter	$51 9/16	$41 9/16	$.055	$43 1/2	$31 5/8	$.055	$34 7/8	$27 7/8	$.050

Monthly Stock Price and Trading Volume

	Fiscal 1997			Fiscal 1996		
	High	Low	Shares Traded	High	Low	Shares Traded
February	$37 7/8	$32 3/8	17,061,800	$34 1/2	$29 7/8	11,750,100
March	40 1/4	36 1/4	11,042,800	36 1/4	31 1/2	13,173,100
April	39 7/8	36 1/8	10,629,300	36 1/4	29 3/8	22,577,000
May	39 1/2	36 7/8	10,404,700	36	31 5/8	16,221,300
June	39 7/8	36 1/8	15,387,300	39	33 3/4	17,061,200
July	39 3/16	33 11/16	29,285,800	37 3/8	28 5/8	16,017,600
August	37 15/16	33 15/16	20,701,200	38 1/8	32 3/8	16,408,800
September	40 5/16	34 11/16	16,159,900	42 5/8	34 1/2	18,599,100
October	44 5/16	37 5/16	17,353,800	43 5/16	38 3/4	9,774,900
November	49	41 9/16	13,439,500	43 1/2	37 5/8	16,788,200
December	49 1/8	44 3/4	9,934,700	41 1/4	35 1/2	8,351,100
January	$51 9/16	$43 3/16	14,102,700	$36 1/2	$31 5/8	21,062,400



Sources: *The Wall Street Journal, Dow Jones Business Information Services, Bloomberg*

LOWE'S Companies, Inc.

Quarterly Review of Performance

(unaudited)

Earnings Statement

In Thousands, Except Per Share Data

Quarter Ended	Fiscal 1997 1/30/98	10/31/97	8/1/97	5/2/97	Fiscal 1996 1/31/97	10/31/96	7/31/96	4/30/96
Net Sales	$2,397,568	$2,530,481	$2,808,086	$2,400,754	$2,041,496	$2,193,239	$2,459,008	$1,906,498
FIFO Gross Margin	651,590	670,755	734,178	626,249	543,241	566,666	634,251	480,991
LIFO (Charge) Credit	12,500	131	(3,085)	(2,546)	9,060	(500)	(5,459)	(4,491)
LIFO Gross Margin	664,090	670,886	731,093	623,703	552,301	566,166	628,792	476,500
Expenses:								
S,G & A	422,898	420,037	427,844	412,218	358,556	356,074	361,915	318,978
Store Opening Costs	26,788	22,671	12,289	8,252	18,111	15,995	12,560	12,493
Depreciation	65,053	60,546	58,569	56,712	54,969	50,744	47,767	44,635
Employee Retirement Plans	17,331	15,728	19,459	19,262	21,313	16,254	17,051	13,671
Interest	17,231	15,046	16,005	17,286	13,223	10,540	12,115	13,189
Total Expenses	549,301	534,028	534,166	513,730	466,172	449,607	451,408	402,966
Pre-Tax Earnings	114,789	136,858	196,927	109,973	86,129	116,559	177,384	73,534
Income Tax Provision	42,282	48,759	70,431	39,590	30,503	41,376	63,105	26,472
Net Earnings	72,507	88,099	126,496	70,383	55,626	75,183	114,279	47,062
Basic Earnings Per Share	.41	.50	.73	.41	.32	.43	.70	.29
Diluted Earnings Per Share	$ .41	$ .50	$ .73	$ .41	$ .32	$ .43	$ .67	$ .29

Earnings Statement Changes

Changes from Same Quarter Previous Year, to Nearest Tenth Percent

Quarter Ended	Fiscal 1997 1/30/98	10/31/97	8/1/97	5/2/97	Fiscal 1996 1/31/97	10/31/96	7/31/96	4/30/96
Net Sales	17.4%	15.4%	14.2%	25.9%	20.3%	24.2%	24.3%	16.6%
FIFO Gross Margin	19.9	18.4	15.8	30.2	30.6	31.0	27.3	13.3
LIFO (Charge) Credit	38.0	(126.2)	(43.5)	(43.3)	255.9	(85.8)	15.6	75.2
LIFO Gross Margin	20.2	18.5	16.3	30.9	31.9	32.0	27.4	12.9
Expenses:								
S,G & A	17.9	18.0	18.2	29.2	25.2	25.0	24.5	20.2
Store Opening Costs	47.9	41.7	(2.2)	(33.9)	36.4	(2.0)	9.8	45.4
Depreciation	18.3	19.3	22.6	27.1	29.8	30.6	33.4	35.4
Employee Retirement Plans	(18.7)	(3.2)	14.1	40.9	172.2	40.4	29.3	1.0
Interest	30.3	42.8	32.1	31.1	24.3	15.3	35.7	41.4
Total Expenses	17.8	18.8	18.3	27.5	29.3	24.6	25.4	22.2
Pre-Tax Earnings	33.3	17.4	11.0	49.6	48.1	70.9	32.8	(20.3)
Income Tax Provision	38.6	17.8	11.6	49.6	52.7	70.4	30.1	(20.5)
Net Earnings	30.3	17.2	10.7	49.6	45.7	71.2	34.4	(20.1)
Basic Earnings Per Share	28.1	16.3	4.3	41.4	33.3	59.3	32.1	(21.6)
Diluted Earnings Per Share	28.1%	16.3%	9.0%	46.4%	39.1%	59.3%	31.4%	(17.1%)

Earnings Statement Percentages

Percent of Sales to Nearest Hundredth; Income Tax Provision is % of Pre-Tax Earnings

Quarter Ended	Fiscal 1997 1/30/98	10/31/97	8/1/97	5/2/97	Fiscal 1996 1/31/97	10/31/96	7/31/96	4/30/96
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
FIFO Gross Margin	27.18	26.50	26.15	26.09	26.61	25.83	25.79	25.23
LIFO (Charge) Credit	.52	.01	(.11)	(.11)	.44	(.02)	(.22)	(.24)
LIFO Gross Margin	27.70	26.51	26.04	25.98	27.05	25.81	25.57	24.99
Expenses:								
S,G & A	17.64	16.60	15.24	17.18	17.56	16.24	14.73	16.72
Store Opening Costs	1.12	.90	.44	.34	.89	.73	.51	.66
Depreciation	2.72	2.39	2.09	2.36	2.69	2.30	1.94	2.34
Employee Retirement Plans	.72	.62	.69	.80	1.04	.74	.69	.72
Interest	.72	.59	.57	.72	.65	.48	.49	.69
Total Expenses	22.92	21.10	19.03	21.40	22.83	20.49	18.36	21.13
Pre-Tax Earnings	4.78	5.41	7.01	4.58	4.22	5.32	7.21	3.86
Income Tax Provision	36.83	35.63	35.77	36.00	35.42	35.50	35.58	36.00
Net Earnings	3.02%	3.48%	4.50%	2.93%	2.73%	3.43%	4.65%	2.47%

Lowe's Companies, Inc. Financial History

Supplemental Information

Fiscal Years Ended on	5-Year CGR	January 30, 1998	January 31, 1997	January 31, 1996	January 31, 1995	January 31, 1994
		LIFO accounting				
Stores and People						
1 Number of Stores	8.0%	446	402	365	336	311
2 Square Footage	29.7	36,545,343	30,381,529	23,945,111	18,604,368	14,174,889
3 Number of Employees	20.3	58,504	53,492	44,546	37,555	28,843
4 Customer Transactions (Thousands)	20.7%	206,498	176,206	146,957	122,847	92,932
5 Average Purchase		$49.09	$48.81	$48.15	$49.74	$48.83
Comparative Income Statements (Thousands)						
6 Sales	**21.4%**	**$10,136,890**	**$8,600,241**	**$7,075,442**	**$6,110,521**	**$4,538,001**
7 Depreciation	28.1	240,880	198,115	150,011	109,647	80,530
8 LIFO Credit (Charge)	NM	7,000	(1,390)	(8,250)	(435)	(15,524)
9 Operating Income[1]	32.6	864,994	700,788	540,158	481,051	297,132
10 Pre-Tax Earnings	34.7	558,547	453,606	352,107	343,531	198,324
11 Income Tax Provision	NM	201,063	161,456	126,080	119,971	66,538
12 Net Earnings	**33.4**	**357,484**	**292,150**	**226,027**	**223,560**	**131,786**
13 Cash Dividends	12.6	38,239	34,709	30,471	27,433	23,571
14 Earnings Retained	NM	$ 319,245	$ 257,441	$ 195,556	$ 196,127	$ 107,731
Dollars Per Share (Weighted Average Number of Shares)						
15 Sales	17.2%	$58.13	$51.29	$44.10	$39.44	$30.79
16 Diluted Earnings	**28.7**	**2.05**	**1.71**	**1.36**	**1.39**	**.89**
17 Cash Dividends	**9.5**	**.22**	**.21**	**.19**	**.18**	**.16**
18 Earnings Retained	NM	1.83	1.54	1.22	1.27	.73
19 Shareholders' Equity	24.3%	$14.91	$13.22	$10.33	$ 9.16	$ 5.93
Financial Ratios						
20 Asset Turnover[2]		2.29	2.42	2.28	2.78	2.82
21 Return on Sales[3]		3.53%	3.40%	3.19%	3.66%	2.90%
22 Return on Assets[4]		8.06%	8.21%	7.28%	10.15%	8.19%
23 Return on Shareholders' Equity[5]		16.12%	17.63%	15.92%	25.59%	17.97%
Comparative Balance Sheets (Thousands)						
24 Total Current Assets	23.1%	$2,109,602	$1,851,466	$1,603,684	$1,557,168	$1,083,907
25 Cash and Short-Term Investments	31.0	211,301	70,490	171,297	268,474	108,468
26 Accounts Receivable — Net	17.3	118,408	117,562	113,483	109,214	48,500
27 Inventories (Lower of Cost or Market)	25.6	1,714,592	1,605,880	1,267,077	1,132,282	853,707
28 Other Current Assets	(2.1)	31,185	37,682	32,659	29,069	60,932
29 Fixed Assets	30.7	3,005,199	2,494,396	1,858,274	1,397,713	1,020,234
30 Other Assets	5.6	69,315	53,477	53,369	67,652	57,099
31 Total Assets	**26.5**	**5,219,277**	**4,434,954**	**3,556,386**	**3,105,992**	**2,201,648**
32 Total Current Liabilities	23.7	1,449,320	1,348,531	949,931	945,893	681,176
33 Accounts Payable	24.0	969,777	914,167	655,399	675,436	467,278
34 Other Current Liabilities	24.9	220,915	198,461	151,494	134,334	81,765
35 Long-Term Debt (Excluding Current Maturities)	27.2	1,045,570	767,338	866,183	681,184	592,333
36 Total Liabilities	**24.5**	**2,618,668**	**2,217,478**	**1,899,671**	**1,686,102**	**1,327,979**
37 Shareholders' Equity	**28.8%**	**$2,600,609**	**$2,217,476**	**$1,656,715**	**$1,419,890**	**$ 873,669**
38 Equity/Long-Term Debt (Excluding Current Maturities)		2.49	2.89	1.91	2.08	1.47
39 Year-End Leverage Factor: Assets/Equity		2.01	2.00	2.15	2.19	2.52
Shareholders, Shares and Book Value						
40 Shareholders of Record, Year-End		11,334	11,460	11,299	9,765	7,470
41 Shares Outstanding, Year-End (Thousands)		175,316	173,404	160,918	159,527	147,886
42 Weighted Average Shares, Assuming Dilution (Thousands)		174,380	172,684	171,351	165,921	147,398
43 Book Value Per Share		$14.83	$12.79	$10.30	$ 8.90	$ 5.91
Closing Stock Price During Calendar Year[6]						
44 High (Adjusted for Stock Splits)		$49.13	$43.50	$38.88	$41.38	$31.00
45 Low (Adjusted for Stock Splits)		$31.63	$28.63	$26.00	$27.75	$13.32
46 Closing Price as of December 31		$47.69	$35.63	$33.50	$34.75	$29.75
Price/Earnings Ratio						
47 High		24	25	29	30	35
48 Low		15	17	19	20	15

	Base Year January 31, 1993	January 31, 1991	January 31, 1986	January 31, 1981	FIFO accounting July 31, 1970	July 31, 1961	
1	303	309	282	214	64	15	1
2	9,975,537	7,061,925	3,641,762	1,998,239	379,653	71,680	2
3	21,269	15,556	13,317	5,950	1,670	399	3
4	80,461	54,142	31,477	11,376	2,729	651	4
5	$47.80	$52.33	$65.84	$77.67	$47.09	$47.85	5
6	**$3,846,418**	**$2,833,108**	**$2,072,569**	**$883,614**	**$128,491**	**$31,128**	6
7	69,820	51,431	21,759	10,320	1,221	133	7
8	(9,514)	688	3,445	(6,686)	—	—	8
9	211,311	169,101	146,131	50,800	11,487	2,185	9
10	125,892	100,251	112,865	36,277	9,938	1,890	10
11	41,172	29,164	53,151	17,386	5,068	956	11
12	**84,720**	**71,087**	**59,714**	**18,891**	**4,870**	**934**	12
13	21,153	19,334	13,199	7,813	844	102	13
14	$ 63,554	$ 51,753	$ 46,515	$ 11,078	$ 4,026	$ 832	14
15	$26.32	$19.03	$14.19	$6.79	$1.02	$ .26	15
16	**.58**	**.48**	**.41**	**.15**	**.04**	**.01**	16
17	**.14**	**.13**	**.09**	**.06**	**.01**	**—**	17
18	.43	.35	.32	.09	.03	.01	18
19	$ 5.02	$ 4.59	$ 2.79	$1.30	$ .20	$ .04	19
20	2.67	2.47	3.26	2.95	3.09	3.32	20
21	2.20%	2.51%	2.88%	2.14%	3.79%	3.00%	21
22	5.88%	6.20%	9.39%	6.31%	11.72%	9.96%	22
23	12.67%	11.01%	17.49%	11.99%	23.34%	25.60%	23
24	$ 745,554	$ 616,461	$534,649	$209,756	$38,878	$ 9,305	24
25	54,849	50,144	87,190	15,567	4,658	1,299	25
26	53,288	96,354	127,603	68,172	14,887	3,108	26
27	594,195	460,804	313,143	125,104	19,040	4,801	27
28	34,710	9,159	6,713	913	293	97	28
29	787,197	541,464	308,603	91,399	10,390	1,229	29
30	52,856	45,127	12,939	573	148	1,301	30
31	**1,608,877**	**1,203,052**	**856,191**	**301,728**	**49,416**	**11,835**	31
32	499,634	337,676	251,669	80,781	21,212	4,922	32
33	330,584	186,860	168,068	52,003	15,178	3,187	33
34	72,626	44,578	83,601	28,778	6,034	1,735	34
35	313,562	159,204	183,909	51,929	3,315	1,791	35
36	**875,657**	**520,380**	**448,818**	**132,710**	**24,527**	**6,792**	36
37	**$ 733,220**	**$ 682,672**	**$407,373**	**$169,018**	**$24,889**	**$ 5,043**	37
38	2.34	4.29	2.22	3.25	7.51	2.81	38
39	2.19	1.76	2.10	1.79	1.99	2.35	39
40	7,257	6,261	6,253	4,620	2,117		40
41	145,946	145,838	148,328	130,220	126,232	120,000	41
42	146,152	148,856	146,036	130,220	126,232	120,000	42
43	$ 5.02	$ 4.68	$ 2.75	$ 1.30	$ .20	$ .04	43
44	$14.38	$12.41	$ 7.78	$ 2.49	$ 1.16	—	44
45	$ 8.00	$ 4.60	$ 5.19	$ 1.34	$ .62	—	45
46	$12.07	$ 6.13	$ 6.47	$ 1.89	$ 1.03	—	46
47	25	26	19	17	31	—	47
48	14	10	13	9	16	—	48

Stock splits and stock dividends since 1960

- 100% stock dividend, effective April 5, 1966, (which had the net effect of a 2-for-1 stock split).
- 2-for-1 stock split, effective November 18, 1969.
- A 50% stock dividend, effective November 30, 1971, (which had the net effect of a 3-for-2 stock split).
- A 33 1/3% stock dividend, effective July 25, 1972, (which had the net effect of a 4-for-3 stock split).
- A 50% stock dividend, effective June 2, 1976, (which had the net effect of a 3-for-2 stock split).
- A 3-for-2 stock split, effective November 2, 1981.
- A 5-for-3 stock split, effective April 29, 1983.
- A 100% stock dividend, effective June 29, 1992, (which had the net effect of a 2-for-1 stock split).
- A 2-for-1 stock split, effective April 4, 1994.

Explanatory notes

1 Pretax earnings plus depreciation and interest.

2 Asset Turnover – Sales divided by Beginning Assets.

3 Return on Sales – Net Earnings divided by Sales.

4 Return on Assets – Net Earnings divided by Beginning Assets.

5 Return on Shareholders' Equity – Net Earnings divided by Beginning Equity.

6 Stock price source: *The Wall Street Journal*

NM = not meaningful
CGR = compound growth rate

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Dividend Disbursing Agent and
Dividend Reinvesting Agent

Wachovia Shareholder Services
P.O. Box 8218
Boston, MA 02266-8218
(800) 633-4236

Dividend History

Lowe's has paid a cash dividend each quarter since becoming a public company in 1961.

Dividend Declaration Dates

Usually the middle of April, July, October and January

Dividend Payment Dates

Usually the last of April, July, October and January

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Annual Meeting Date

May 29, 1998 at 10:00 AM,
Lowe's Regional Distribution Center
Statesville, NC

Lowe's Common Stock

Ticker Symbol: LOW
Listed:
New York Stock Exchange
20 Broad Street
New York, NY 10005

Pacific Stock Exchange
301 Pine Street
San Francisco, CA 94104

London Stock Exchange
Old Broad Street
London, ECN1HP England

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