Lowe's 1989 Annual Report

Financial Highlights

	Change	Fiscal 1989	Fiscal 1988
Sales	+ 5%	$2,650,547,000	$2,516,879,000
Net Earnings	+ 8	74,912,000	69,201,000
Per Share:			
Earnings	+10	2.01	1.83
Cash Dividends	+ 7	.49	.46
Year-End Share Price	+19%	$ 27.25	$ 22.88

Lowe's Profile

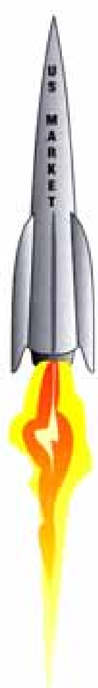
In *Fortune's* June 1989 listing of America's star retailers, Lowe's ranked:

- 38th in Sales
- 32nd in Profits
- 24th in Ten-Year E.P.S. Growth Rate
- 19th in Total Return to Investors

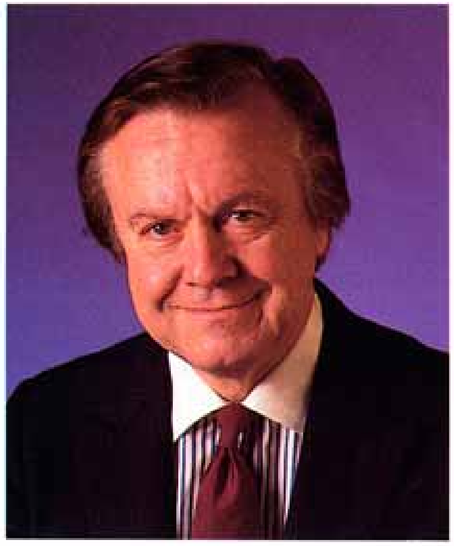
Uniquely among major players in our industry, Lowe's serves the needs of a triple franchise: home center, durable goods, and building contractor customers.

Lowe's 306 stores provide merchandise and services to customers in 20 states located principally in the South Atlantic and South Central regions of the United States.

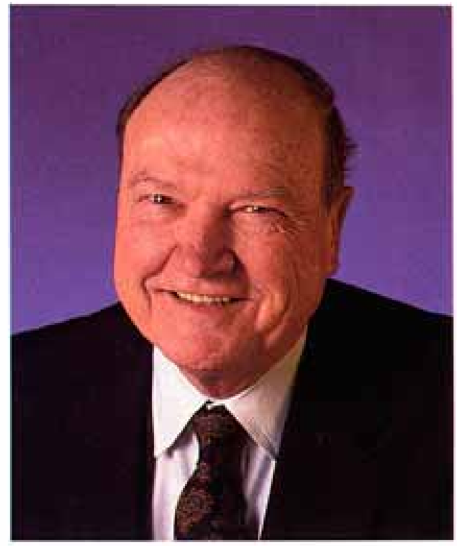
Lowe's has been a publicly owned company since October 6, 1961. Our stock has been listed on the New York Stock Exchange since December 19, 1979; on the Pacific Stock Exchange since January 26, 1981; and on The Stock Exchange in London since October 6, 1981. Shares are traded under the ticker symbol of LOW.



Contents



Robert L. Strickland



Leonard G. Herring

Dear Shareholders:

"Space: The Final Frontier!" Millions of Baby Boomers remember that famous introduction to "Star Trek," the weekly TV show that brought a user-friendly version of outer space into the living rooms of America. Since the Starship Enterprise was first launched into popular culture, our ideas about space have been influenced by adventures both real and imaginary, from the Apollo moon landings to the exploits of Luke Skywalker.

Having achieved our goal of $2 earnings per share in the last year of the Eighties, in this annual report we explore the frontiers of space for our merchandising universe of the Nineties — charting galaxies of market opportunity (Outer Space), bringing new technologies to American homes (Inner Space), and expanding the boundaries of our own stores (Store Space). We review our 1989 performance in the context of our ongoing mission: to be our customers' first-choice destination store for home center products, building supplies, and consumer durables.

Celestial Navigation

Seafarers have long used the stars as celestial guides for navigation. Likewise, five years ago we set Lowe's sights on a star that we identified as Retail Growth, and it has guided us faithfully toward our goal: increased profitability coupled with greater independence from the cyclicality of housing starts.

In 1984 we formulated a five-year plan that gave top priority to retail sales growth while still affirming the importance of professional builder sales as part of Lowe's identity. Over the last five years, that retail emphasis has mandated many innovations in merchandising, customer service, and sales floor expansion; but although our techniques and tactics have varied, the continuity of our commitment has been steadfast.

Our sales results show that we have not labored in vain. Retail sales have grown from 52% of total sales in 1984 to 62% in 1989, significantly reducing our exposure to the fluctuations of the new housing market. Coincidentally, those same years have seen a new moderation in the rises and falls of housing starts. The net effect of less exposure combined with less marketplace variability is doubly positive: stability that is open to future growth.

As shown, in 1989 we achieved a benchmark $2.01 per share in earnings, a 10% increase over last year. Lowe's increasing gross margin is largely due to the growing strength of our home center product lines as a percentage of our total sales mix. As our expanded sales floors enable us to offer our customers a selection that is both broader and deeper than ever before, Lowe's is well positioned for margin improvement based on our enriched sales mix rather than on higher prices. For a detailed analysis of merchandise sales trends, please see page 19.

Lowe's Fleet In Transition: From Small Ships To Starships

Last year we compared Lowe's store chain to a navy composed of two fleets: an older, smaller fleet of "P.T. Boats" and a large new fleet of "Battleships." The superior performance of our battleship fleet confirmed our belief that home center retailing requires a large sales floor, so we announced our schedule for converting Lowe's P.T. Boats into Battleships — the better to dominate the small and medium-sized markets of Lowe's trading area.

We are right on schedule with the expansion of our fleet. In 1989 we added 1.2 million square feet to our chain total; by the end of 1991, we will have more than 8 million square feet of sales floor. But even as we add up these numbers, they seem less relevant than in the past. For while researching various store shapes and dimensions, always looking for a better way to stock, present, and sell our goods, we realized the blindingly obvious — space isn't truly measured in square feet, but in cubic feet! Sales *floor* size is relevant if you sell something that can't be stacked, for instance, cars; with Lowe's new tall racking system, items on an upper shelf are easily retrievable and more impressively seen. So now, as we add floor space, we look to the heavens for *more* space! And we are increasingly pleased by the stellar performance of these starships. For expanded discussion of Lowe's expansion, please see page 20.

Payload 1990: This Is Not Your Father's Drywall

Unlike traditional building materials, many of Lowe's home center products didn't exist ten years ago — and who knows what may be taking their place in ten more years? Technologies are breeding like rabbits; every day, new products appear on the home center scene, offering the American consumer new options for home comfort, convenience, and security.

We invited some of the outstanding corporate leaders of our industry to appear in this report and share their visions of what the 1990's are bringing to their particular sectors of the home center universe. Introduced by insights from Faith Popcorn, the renowned consumer trends analyst, our feature "Look Homeward, America" begins on page 5.

The Final Frontier Is Just The Beginning

When Columbus hoisted sail to cross the Atlantic, he was sure that he was going to India. Likewise, when we set Lowe's course to expand into the wild blue yonder, we were sure that there was a $200 billion potential market for our industry. Well, Columbus was thinking too small, and so were we. He found not India but a whole New World; we have found a market potential that is not $200 billion, but no less than $500 billion! Sometimes a universe lives up to its billing. For a full discussion of Lowe's Outer Space, please see page 26.

A Tale Of Two Companies

Once upon a time, there were two home center chains — one was small, the other was large. The small chain had annual sales of $1.4 billion; the large chain did $2.6 billion in sales. Book value per share was $8 for the small chain, $17 for the large chain. As stated in the noted investment publication *Value Line,* the small chain reported $1.40 in earnings and $1.73 in cash flow per share. Similarly, the large chain reported $2.01 in earnings and $3.26 in cash flow per share.

The small chain's price per share hit $32. So did the large chain's!

Ready for the punch line? The small chain was Lowe's, circa 1983. The large chain was Lowe's, 1989. Stay tuned for regular updates.

We salute Lowe's partners-in-interest: our customers, suppliers, employees, shareholders, and directors. In the galaxy of our esteem, your names are blazed across the sky in stars.

Cordial good wishes,

Robert L. Strickland

Robert L. Strickland
Chairman of the Board

Leonard G. Herring

Leonard G. Herring
President and
Chief Executive Officer

North Wilkesboro, North Carolina

Inner Space

Look Homeward, America!

Trend analyst Faith Popcorn sees consumer focus returning to the home.

"Home is where people want to be, and they're interested in doing anything they can to make themselves more comfortable there," says Faith Popcorn. That's not just a hunch: Faith is the founder and chairman of BrainReserve, Inc., a Manhattan-based marketing consulting firm that advises many of America's *Fortune* 500 corporations on new product development and strategic planning. Backed by her BrainReserve team of researchers, creative professionals, and project consultants, Faith has an impressive track record of accurate predictions about consumer perceptions and preferences. The failure of the New Coke, the popularity of shoulder pads, the declining divorce rate, the growing market for bottled water— these are just a few of the developments that she has foretold.

Most relevantly for Lowe's and for our partners-in-interest, Faith identified the trend toward what she terms "cocooning:" the tendency for people to seek refuge from a harsh and unpredictable world to the comfort and security of their homes. Rejecting the excesses that led to environmental problems, economic woes, and failing educational and ethical systems, people are "sick of the glut and the glitz," says Faith. They are finding a new appreciation of traditional values, and they are looking to family and home life as a source of personal satisfaction.

"Oh, Auntie Em— there's no place like home!" That's what Dorothy learned from her adventures in the land of Oz, a highly unpredictable and sometimes downright scary place that made Dorothy long for Kansas and her own back yard. Dorothy was an early spokesman for cocooning; Faith Popcorn finds evidence of the current cocooning trend in popular entertainment of 1990. "Think of 'The Wonder Years,' 'The Cosby Show,' 'Life Goes On,' 'thirtysomething,' and 'Roseanne,'— not to mention the movie 'Parenthood,'" she says. "They're all centered around the home.

"The Eighties were all about 'me' and what I needed, and money, money, money. The Nineties will be about children and community and concern for other people and for the planet." People are going back to the basics, she says.

Consumers want products of real quality and value, made by companies that are committed to social responsibility and ethical behavior.

When home is where the heart is, home is also where the money goes. As people focus on home as the inner space at the center of their lives, they will be investing money to make it the best it can be. "Look at 'This Old House,' a TV series about home remodeling— it's very popular," she says. "By 1991, the home improvement market is expected to grow by 9% to $111 billion — that's my number. Americans are spending $6.8 billion annually just on remodeling one room of the house: the bathroom." It's been several years since Faith Popcorn predicted that by 2001, the bathroom will become "an anti-stress center and leisure area." She also foresees a continuing desire for home media rooms and healthy sales growth for environmentally safe outdoor and garden products. "Gardening is a $15 billion industry now," she notes.

Mass media and national marketing efforts have combined to eliminate much of the regionalism that used to differentiate consumer needs and preferences from one area of the country to another. It's 1990 in Lowe's heartland: if a new product appears on a cable TV network or is mentioned in *USA Today*, a Lowe's customer will be asking about it tomorrow. So now more than ever, we owe it to our customers to be attuned to consumer trends as they develop. And that our suppliers feel a similar obligation is manifestly obvious in the products they are bringing to the marketplace. On the following pages, we feature just a few of Lowe's many partners-in-interest who are developing, making, and marketing products for American homes of the Nineties.

"WE ARE LOOKING AT BUILDINGS IN A WHOLE NEW WAY."

— JEROLD WULF, PRESIDENT
ANDERSEN CORPORATION

"Our overall market for windows has changed dramatically in the last few years," reflects Jerry Wulf. "Tastes have shifted, and we're seeing much more eclectic architecture with lots of different kinds of window applications. We're seeing elements of what was Victorian, Federal, early American— all being combined with modern design in one home or commercial building. We have to be sensitive to these changing style preferences, and yet be able to distinguish between a real trend and a mere fad.

"Consumers have become very sensitive to value. People are willing to pay a price for a product if they perceive the presence of quality at that price. That's important to us at Andersen, because we have always worked hard to make windows that will last as long as the home or commercial building is occupied."

According to Wulf, it's the style of a window or door that first attracts customers, followed closely by concern for the quality of materials being used. "People can see the difference in good wood that doesn't have knots or joints. They look at the care taken in finishing a window so that pieces fit together. Durability is also a priority, especially in the replacement market: our best customers are people who are building a second home or perhaps remodeling, because they have had experience with products that were less than the best, and this time they want to do things right."

As in many other industries, electronics are providing a major opportunity for features that bring added convenience, safety, and energy efficiency to Andersen's product lines. "We are developing windows that will close themselves if it starts to rain, or if the temperature outside the house differs too greatly from the inside temperature. Soon you'll be able to operate your windows by phone: before you leave work, you'll call and tell your windows to open so that there's a breeze blowing through when you arrive at home.

"A few years down the road, we'll have push-button control of the amount of light that a window lets into a room. If you want total darkness or privacy, you'll just dial the window to block all light from passing through.

"Our industry is very fragmented, and marketing flexibility is crucial. Fortunately, marketing has always been one of our strengths. You can buy an Andersen window anywhere in the U.S., and you can get it in about a week. We have more than 130 distributors serving customers like Lowe's, and Lowe's keeps an increasing selection in stock. It's a very promising partnership."

"Consumer electronics shape and reflect our American lifestyle."

— Donald F. Johnstone, President and CEO
Philips Consumer Electronics Company

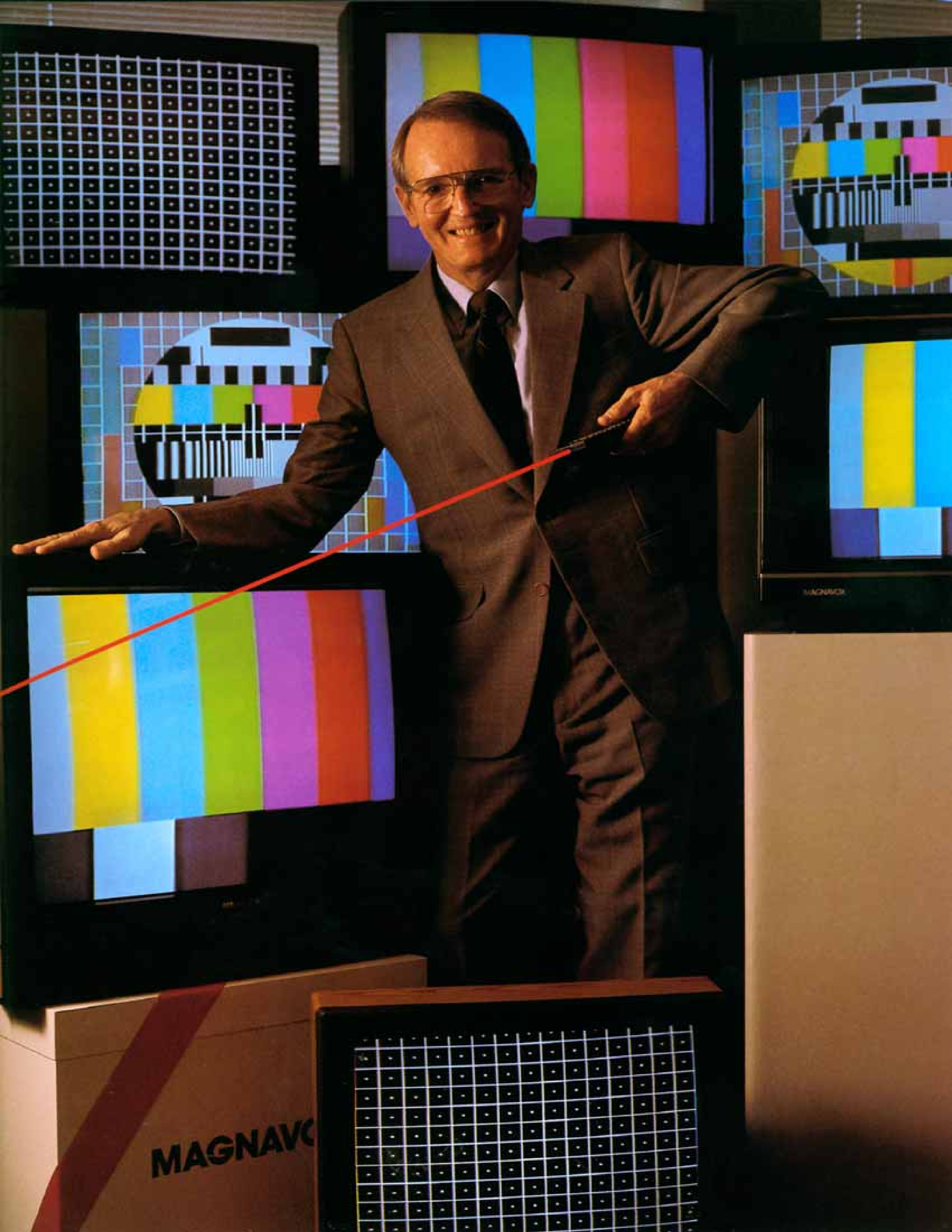
"Americans have a love affair with television," says Don Johnstone, pictured here on the screen of a Magnavox Smart Window monitor. "Virtually all American homes have at least one TV. Currently there's 65% saturation for second TV sets, and a third of American households have three TVs or more. When we get a new set, we give the old one to the kids or put it in another room of the house.

"The Baby Boomers grew up with electronics; now they have a high discretionary income, and they're shopping for special features and convenience. Consumer electronics are a good value, because integrated circuits have made it possible for us to add new features and improve quality while at the same time reducing production costs."

Consumer electronics is such a fast-moving industry, says Don, that "Ten years is a lifetime." So what's hot for the lifetime of the Nineties? "The driving trend is for improvements in large-screen TV, along with CD-quality audio. Consumers want that home theatre environment, so a lot of work is going into improving picture tubes. Just over the horizon is television with a horizontal screen similar in format to the screen in a movie theatre. And ultimately there'll be high definition television (HDTV) which will use the same wide screens."

For Lowe's customers, performance improvements are already apparent in large-screen TVs and the refinement of special features. "Over the last five years, Magnavox has led the industry in new features such as the Smart Window, the universal remote control (which can operate a variety of electronic components), and on-screen graphics for adjustments to the TV picture or sound."

The sophisticated TVs of the Nineties will be more than entertainment devices, says Don. "In 1991 Philips will launch CD-I (Compact Disc - Interactive), a system that lets the viewer interact with the TV set. It's software-driven, and it exploits the tremendous information storage capacity of the compact disc format (which Philips invented). CD-I can entertain, it can inform, and the user will be active rather than passive. It's going to knock people's socks off."


MAGNAVO

"PROTECTING THE VALUE OF YOUR HOME CAN BE RECREATION AS WELL."

— RICHARD H. AYERS, CHAIRMAN AND PRESIDENT
THE STANLEY WORKS

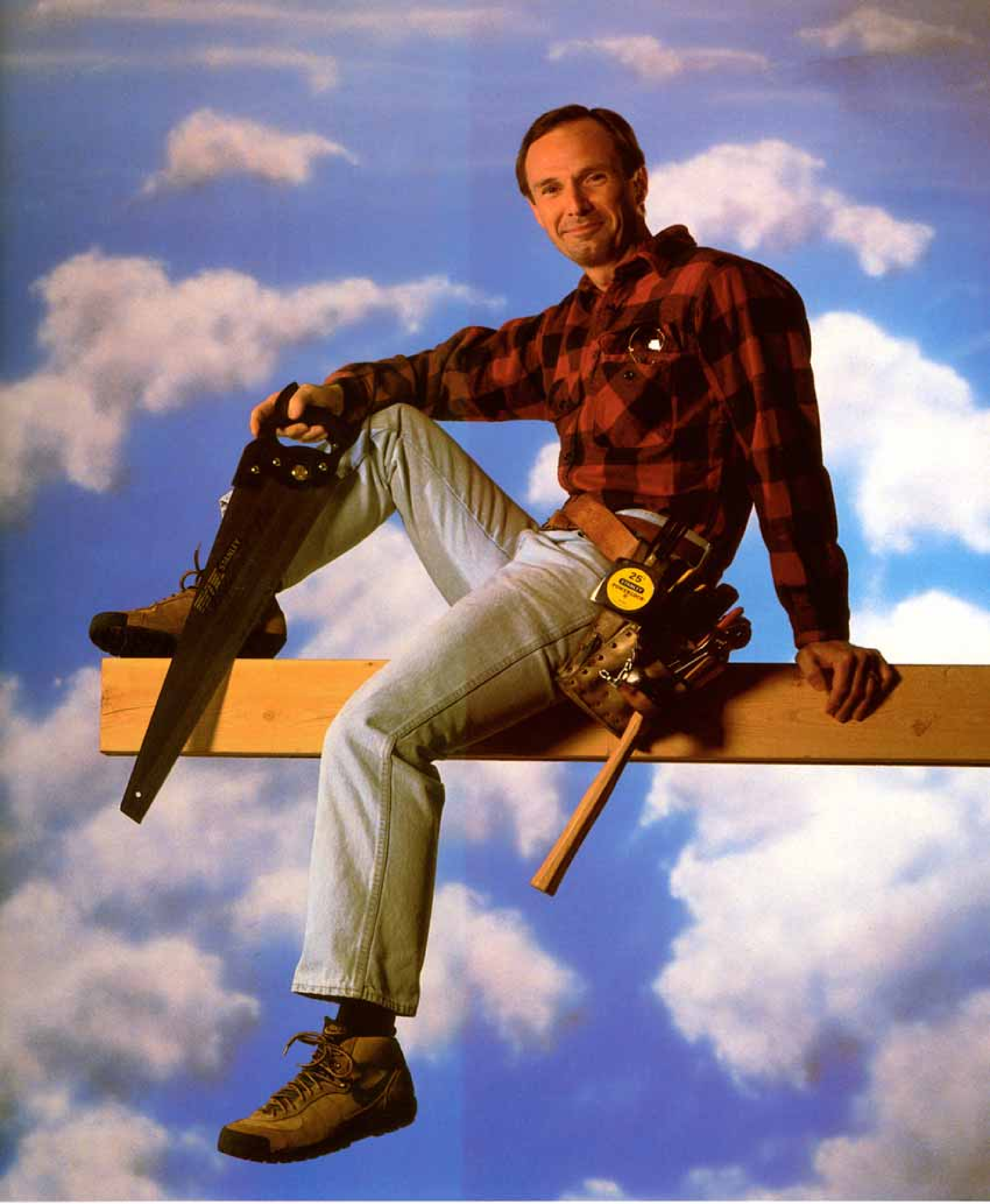
"There's an obvious trend back to things of lasting value," according to Dick Ayers, who's not going out on a limb when he says that the home will be the center of American life in the Nineties. "People want quality and value at the core of their lives, and that's where opportunities exist for companies like Lowe's and Stanley, who have a reputation for those things.

"There was a period when people based their buying decisions on price alone; now they're fed up with low quality, and they're coming back to products that perform well and endure. At Stanley, what we want to do with our product line is to ensure that the customer has a good experience with us, and will come back again. That's the same thing Lowe's does as a retailer. When people have good experiences with Stanley tools, they will come to us for other products that carry the Stanley name."

New products carrying the Stanley name into the Nineties are diverse indeed, from closet organizers to garage door openers. "Safety, security, and convenience— those are priorities," says Dick. "As people spend more time in their homes, they want them to be more convenient. As they invest more in their homes, they want them to be more secure. Stanley tools and fastening products make do-it-yourself projects easier and ensure superior results. Our garage and entry doors are designed for safety and energy efficiency; our hardware and home automation products help homeowners add value, convenience, and security.

"The Stanley Light Maker system can be programmed to turn lights on and off when you're away from home, using the regular internal wiring of your house to send a signal to small receivers on your light fixtures. And the same system that provides security can be used to turn on your coffeemaker from your bedside in the morning. Like all Stanley products, our Steel Plank closet organizer and our newly designed door hinges have been designed to provide dependable performance using the best materials and technology. The closet organizer can more than double usable closet space, while the hinges perform flawlessly and make homes more attractive."

Even the most sophisticated Stanley products can be installed by do-it-yourselfers with the help of a newly popular instructional aid: the VHS tape. Stanley now provides instructional videos with some of its products, and Dick promises, "There will be more. For years Stanley project planners have helped people with DIY projects. Helping people 'do things right' furthers our goal of customer satisfaction. When people do a job right, they have fun."


25'
STANLEY

"Americans want to do their lawns right — and do them quickly."

— Curtis Moll, Chairman and CEO
MTD Products, Inc.

"When both husband and wife have jobs during the week, they don't want to spend lots of time taking care of their lawn," says Curt Moll, last seen cutting a swath aboard an MTD 12 h.p. lawn tractor. "People are concerned with the aesthetics of their homes and yards, but they want the best possible results from the least possible labor.

"In this new decade, we're going to see great variety in lot sizes. Some families will be leaving the city and moving to the country, while others will be moving into townhouses with small yards. Their lawn equipment needs will be very different. As manufacturers and retailers, we have to be alert to what's happening, so that we can adapt and respond to changing consumer needs.

"Our latest lawn tractors are more maneuverable than older models; some of our units are smaller and more compact. Today, forty percent of all riding lawn equipment is purchased by women: that means, among other things, that our lawn tractors should be easy for anyone to get on and off. Visibility is a safety concern: headlights are essential for people who need to blow snow on dark winter mornings, as well as for people who like to cut their summer grass in the evening when it's cooler."

Curt believes that consumers of the Nineties will be increasingly influenced by environmental issues. "People are worried about air and noise pollution, so they want their engines to run cleanly and quietly. Also, in some areas there's growing interest in having totally biodegradable lawns."

The best way for manufacturers and retailers to stay in tune with changing consumer preferences, says Curt, is "for ourselves to be users of the products that we make and sell. That will make us more responsive, and that's the key."


LOWE'S
Lowe's

"We are providing simple, inexpensive ways of making people feel good."

— Herbert Kohler, Jr., Chairman and President
Kohler Company

"Our mission is to improve the level of gracious living across a broad income range," says Herb Kohler. "You don't have to spend a fortune to feel good mentally and physically."

Seen here in a showcase room at the Kohler Design Center, he explains that technology is making luxury accessible to the average person. "We are just seeing the beginning of the fusion between electronics and water. The proximity faucet is now available. Soon people will be able to use an upscale public washroom without touching a single fixture with their hand.

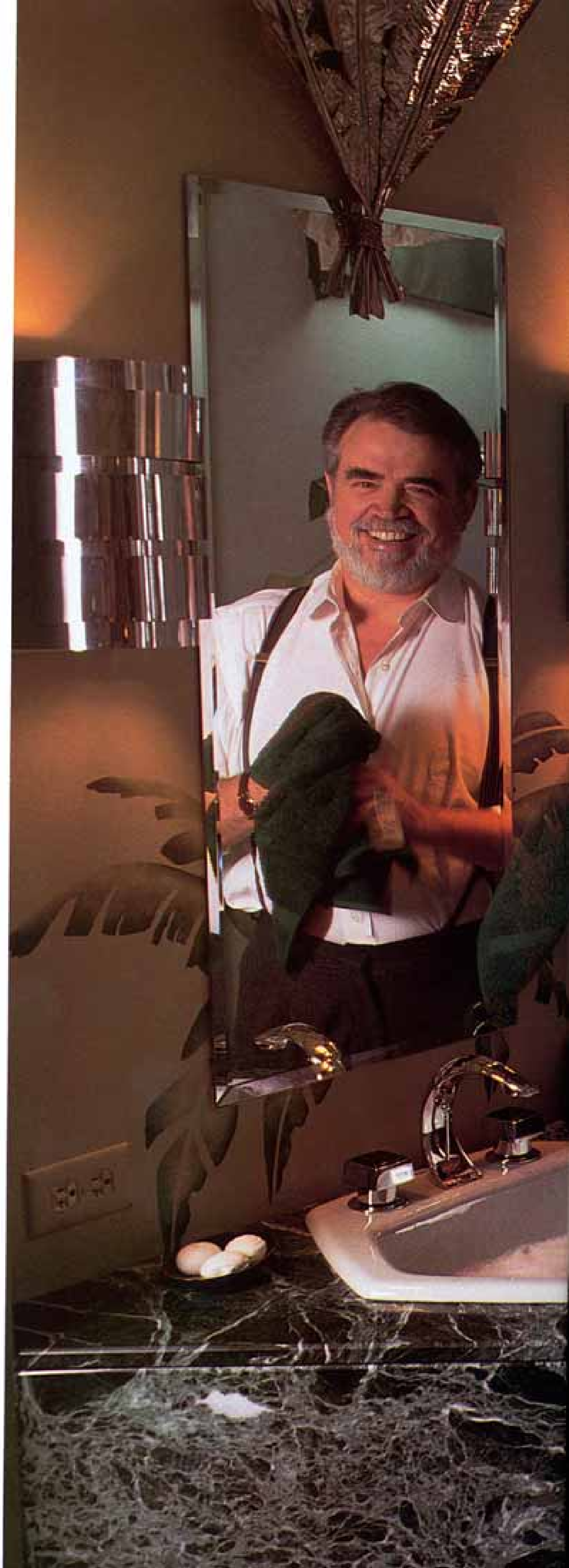
"At home, automatic shower controls will bring water to a preset temperature at the touch of a button; that's a comfort and convenience feature which will also protect against scalds.

"Already you can have your bath drawn automatically at whatever time you choose. You can dial in a time that coincides with your alarm; electronics will close the drain and fill your tub to an ideal depth and temperature, so when you get out of bed you can pop right into a hot bath. It's a great way to wake up, and we have developed a system that can be retrofitted to any bathtub. It will be available soon as a do-it-yourself kit.

"The bathroom isn't the forgotten room any longer. It's getting a fair amount of attention as perhaps the most exciting room of the house, and we see that increasing with the use of electronics and our ability to do more things with water."

Kohler products are known for their elegance of design as well as durability. "We believe very strongly in the combination of form and function. They must advance hand in hand," says Kohler. "Toward that end, we have designers working with consultants to develop the electronic components and other new functions of our products. They, in turn, work with manufacturing engineers to make production cost-effective.

"I consider myself a change agent— to make sure that we are never complacent, that we are moving forward on all of our product and service fronts. We try to push out the frontier of our industries. That's what moves this company forward; that's how we live up to our mission."



"Do-It-Yourselfers want the finest quality products for their homes."

— William W. Adams, Chairman and President
Armstrong World Industries, Inc.

"As we move into the Nineties, we see a great opportunity to sell upgrade products through stores like Lowe's," says Bill Adams of Armstrong. Shown here with some of Armstrong's most popular sheet flooring for kitchens, he emphasizes the importance of fashion to the Nineties consumer.

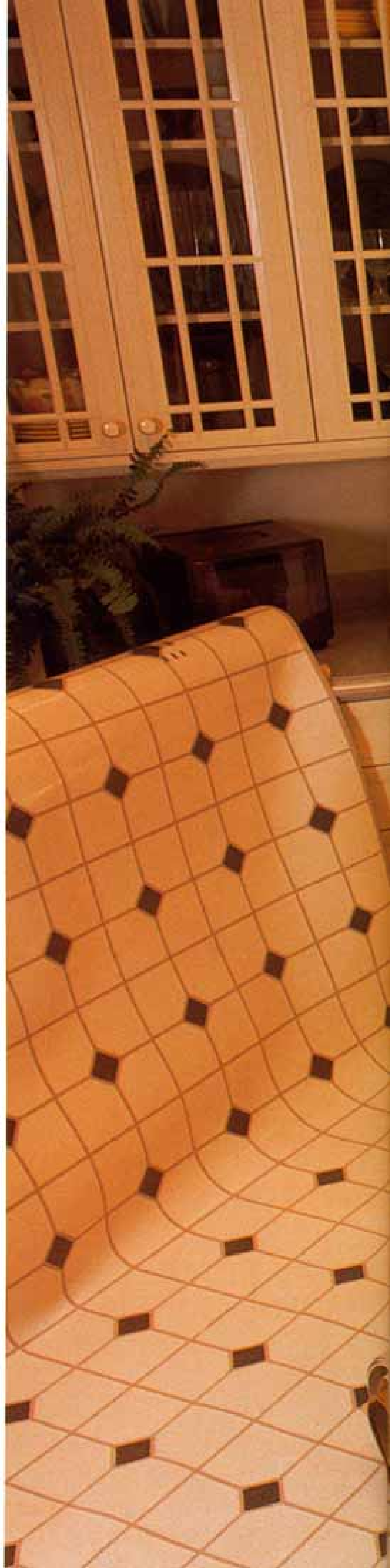
"Color choice is the customer's top priority in a flooring purchase. As people spend more time in their homes, they want a pleasant atmosphere. They know what they're looking for, and they'll shop until they find it. Armstrong has expanded its color offering, because when color is driving the purchase, people need to see color options."

Gone are the days of thinking that do-it-yourself customers have less sophisticated tastes than people who have all the work done for them. "They're part of the same customer base," says Adams. "They just prefer to do it themselves, either as a creative hobby or because they choose not to pay installation costs. Sometimes, what they save on installation enables them to buy a more expensive floor. And given an appealing array of options, the do-it-yourselfer will trade up more often than the customer who pays for installation."

Improved and simplified installation methods are putting more consumers at ease with the idea of installing their own floor. "We have taken the worry out of sheet flooring installation," Adams says. "Armstrong's Trim And Fit kit (which Lowe's carries) helps you to make a pattern of the room, place the pattern on the flooring, then use appropriate tools to cut it. It's easy to follow, and it's a great merchandising tool for retailers because it helps people feel comfortable with their DIY project. And it carries a guarantee: if you goof up in spite of the pattern, Armstrong will replace your flooring at no charge. So customers will buy a more expensive floor because they know they won't lose their investment."

In addition to sheet flooring, Armstrong offers upscale products in fashionable ceramic tile for floors and counters, as well as a wide selection of ceiling tile for use not only in homes but also in small-scale commercial interior design.

For Bill Adams, this is the ideal scenario: "When a customer walks into a Lowe's store, he or she sees a great selection and says 'I want that floor because it's the right color and pattern, it's the right material, and gee, isn't it nice that it's an Armstrong product and I found it at Lowe's.' "



Changes In Attitudes, Changes In Altitudes

The chart below portrays the results of Lowe's strategy to emphasize quality over quantity. Specifically, it shows our continuing efforts to enlarge and relocate our existing stores, and a specific 1986 decision to intensify that effort at the expense of new stores in new markets. Since 1986 our store count is up just 2%, but the average sales floor space has grown by 37%!

This investment in new facilities is yielding planned dividends in sales growth in two of our three customer business segments (see lines 6 through 9). The home center business became our sales leader in 1988 with 44% of total sales, and it increased to 47% in 1989. We expect this business to grow to 50% of a larger total in 1990.

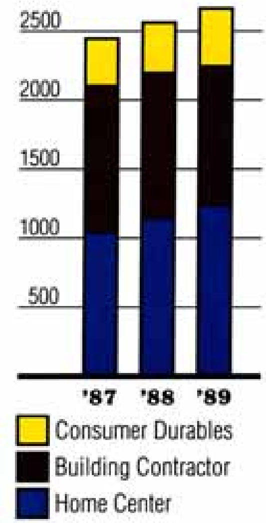
The consumer durables business has also posted back-to-back sales increases, and its 12% gain in 1989 was the leader of the three. This is a "heritage" business at Lowe's, and in the face of new competition such as Circuit City, and old competition such as Sears, we plan to increase our trading area dominance and market share in these product categories.

Our building contractor business has been flat-to-down for the last few years. We have increased our market penetration, but it has not been enough to overcome an 11% decline in housing starts in our trading area in 1989, following a 9% decline in 1988. Starts are projected to increase slightly in our area in 1990, and this would be a welcome turnaround. We are pleased to have maintained contractor sales of about $3.5 million per store during the weakness of the past few years.

Looking ahead, we expect our two retail businesses to account for 65% -70% of total volume, while maintaining and increasing contractor sales per store.

The shift in Lowe's overall sales mix is important because home center sales offer improved margins, stability in the face of housing start fluctuations, and overall market growth potential. However, home center products must be seen to be purchased. Because we are determined not to cramp the growth that we are culti-

Lowe's 3 Businesses
Dollars in Millions



Sales Floor Size and Three Business Performance
Dollars in Millions, Except Sales Per Square Foot

		1989		1988		1987	1984
1. Stores Open Year-End		306		296		295	248
2. Stores Open During Year[1]		298.7		296.4		306.9	240.5
Sales Floor Square Footage							
3. Total Year-End		6,219,018		5,062,865		4,773,743	2,980,000
4. Average, Year-End[2]		**20,324**		**17,104**		**16,182**	**12,016**
5. Weighted Avg. During Year[3]		5,589,872		4,932,985		4,760,479	2,722,701
Sales Results	% Change*		% Change*		% Change*		
6. Home Center	+11%	$1,237	+ 9%	$1,117	+11%	$1,027	$ 677
7. Consumer Durables	+12	413	+ 6	368	+ 4	348	204
8. Building Contractor	− 3	1,001	− 3	1,032	+ 5	1,067	808
9. Total Sales	+ 5%	$2,651	+ 3%	$2,517	+ 7%	$2,442	$1,689
Sales Per Square Foot							
10. Home Center & Consumer Durables[4]		$ 295		$ 301		$ 289	$ 324
11. Total[5]		$ 474		$ 510		$ 513	$ 620
Sales Per Average Store							
12. Home Center[6]	+10%	$ 4.1	+13%	$ 3.8	+ 5%	$ 3.3	$ 2.8
13. Consumer Durables[7]	+11	1.4	+10	1.2	− 2	1.1	.8
14. Building Contractor[8]	− 4	3.4	—	3.5	− 1	3.5	3.4
15. Total[9]	+ 4%	$ 8.9	+ 7%	$ 8.5	+ 2%	$ 8.0	$ 7.0

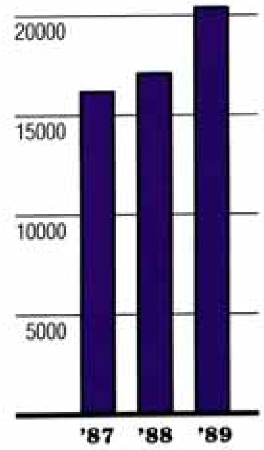
* Change from prior year, computed from unrounded numbers.
[1] Stores open at beginning of year; plus stores opened and closed during year computed by adding total store months of operation for new stores and closed stores and dividing by 12.
[2] Line 3 divided by line 1.
[3] Line 4 current year, plus line 4 prior year, divided by 2, multiplied by line 2.
[4] Line 6 & 7 divided by line 5.
[5] Line 9 divided by line 5.
[6] Line 6 divided by line 2.
[7] Line 7 divided by line 2.
[8] Line 8 divided by line 2.
[9] Line 9 divided by line 2.

vating, we have retrofitted or relocated half of our stores since 1984. As these stores recover from the trauma of expansion, their sales results confirm our belief that large sales floors return large sales growth.

Our merchandising strategies and sales floor expansion are driven by this mandate: to offer the best selection of the right products at attractive prices, so that we can be our customers' first choice. As Lowe's evolves into a fleet of larger stores, we are expanding our merchandise assortment and displaying products for easier customer self-service. Reviewing Lowe's 1989 performance, we see the greatest sales growth in the product groups which have benefitted most from increased exposure on our sales floors.

In cumulative terms, every one of Lowe's product categories has grown over the last five years. As we look at each group's sales results as a percentage of total sales, however, a significant shift in our sales mix is revealed. Home decorating and illumination accounted for 13% of total sales in 1989, up from 11% in 1984. Home entertainment sales were 5% of last year's total sales, up from 3% five years ago. Our outdoor category (which includes yard, patio, and garden products) has grown from 7% to 10% over the last five years, while tool sales have doubled from 2% to 4% as a percentage of total sales.

Growth In Sales Floor Size
Average Square Footage Per Store at End of Year



In 1989, for the first time, the average size of Lowe's sales floors exceeded 20,000 square feet. As we anticipated, the scale and speed of our recent expansion has resulted in a decline in total sales per square foot, from $513 in 1987 to $474 in 1989. This is a purposeful and fruitful trade to gain total sales per store by yielding sales per square foot. We have found that last year, in comparable markets, our stores with sales floors smaller than 20,000 square feet averaged $7.4 million in annual sales. Our larger stores, however, averaged $10.2 million in sales for 1989 — and the outer limits of their potential have yet to be charted, because they are still growing.

Merchandise Sales Trends
Dollars in Millions

			1989		1988		1987		Base Year 1984	
Category	**Total Sales 5-Year CGR**	**Change From 1988**	**Total Sales**	**%**	**Total Sales**	**%**	**Total Sales**	**%**	**Total Sales**	**%**
1. Structural Lumber	+ 8%	− 3%	$ 455	17	$ 470	19	$ 476	20	$ 303	18
2. Building Commodities & Millwork	+ 6	+ 6	761	29	720	29	723	30	567	33
3. Home Decorating & Illumination	+ 14	+ 13	346	13	307	12	284	12	183	11
4. Kitchen, Bathroom & Laundry	+ 7	+ 2	237	9	233	9	221	9	170	10
5. Heating, Cooling & Water Systems	+ 9	+ 12	144	5	129	5	120	5	93	6
6. Home Entertainment	+ 16	+ 5	125	5	119	5	103	4	59	3
7. Yard, Patio & Garden	+ 17	+ 17	261	10	223	9	207	8	117	7
8. Tools	+ 25	+ 27	112	4	88	3	82	3	36	2
9. Special Order Sales	+ 5	− 8	210	8	228	9	226	9	161	10
Totals	**+ 9%**	**+ 5%**	**$2,651**	**100**	**$2,517**	**100**	**$2,442**	**100**	**$1,689**	**100**

Store Space

We think of our growing store space in evolutionary terms, because over the nearly fifty years of Lowe's existence our stores have evolved adaptively to meet the needs of our changing markets. The original Lowe's was a hardware store with a fifty-foot frontage on C Street in North Wilkesboro. During the post-World War II building boom, there were times when demand for building supplies was so great that sales were made directly from a freight car on the railway siding serving the North Wilkesboro store.

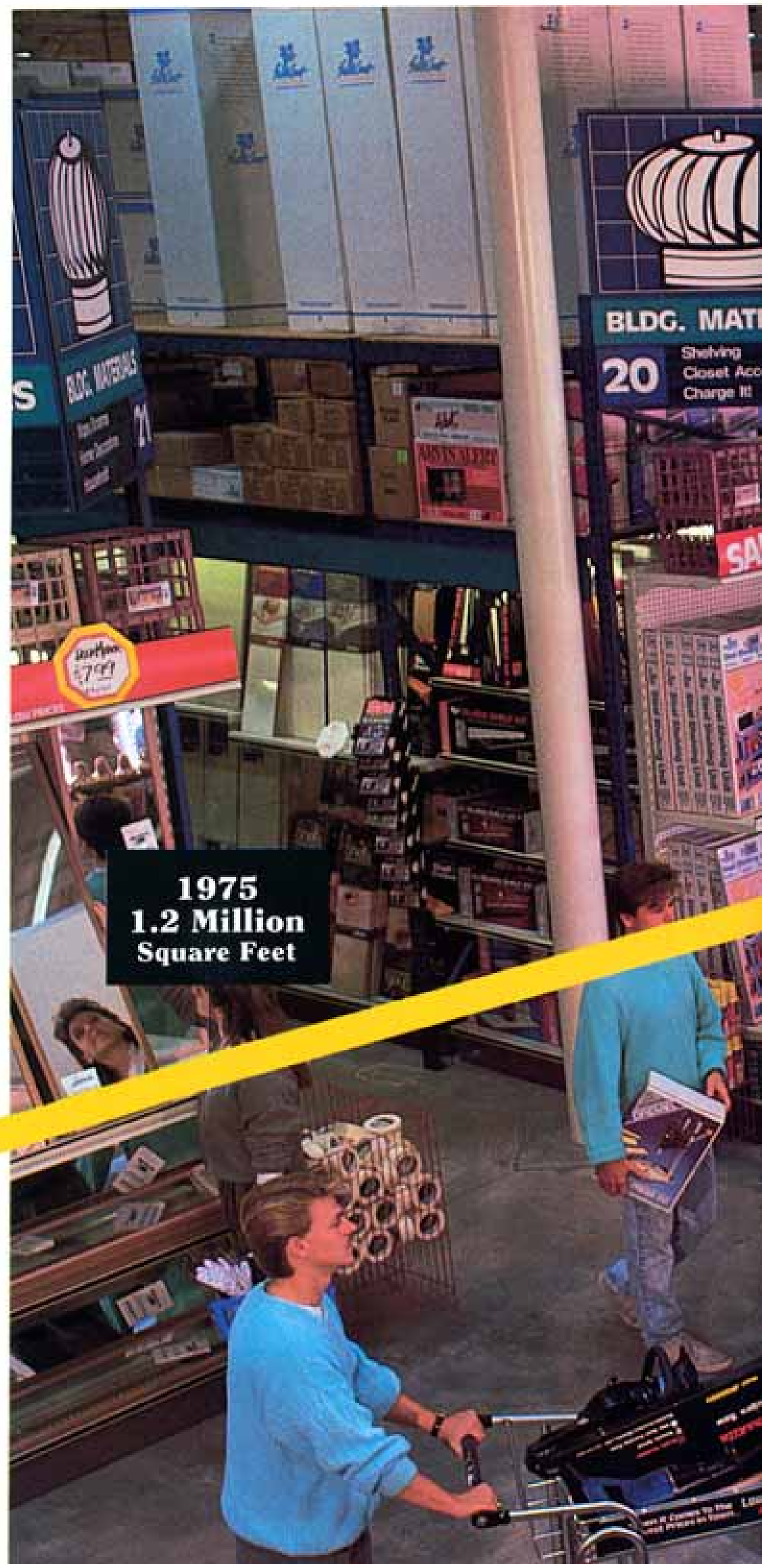
As Lowe's grew into a regional chain of stores known for building supplies and big-ticket consumer durables, the size and configuration of our stores reflected the needs of our customer franchise, which at that time consisted mainly of professional contractors in residential construction. Until well into the 1970's, the typical Lowe's store had a small retail floor displaying very limited inventory. It had a lumber yard out back, and it was located near railroad tracks.

The late 1970's saw burgeoning growth in the do-it-yourself home improvement and home repair industry, and we recognized an opportunity for Lowe's to expand our customer franchise and increase profitability by becoming a better retailer. We developed merchandising strategies to attract upscale homeowners, and we underscored our new retail emphasis with the RSVP program (Retail Sales Volume and Profit), which reorganized and rationalized our sales floors and gave them a more inviting look.

In the 1980's the numerically irresistible Baby Boom generation became homeowners, and Lowe's suppliers expanded their home improvement offerings. We loaded Lowe's sales floors until they groaned under the weight; however, the time for quantitative expansion had undeniably arrived. In 1984 we announced our intention to increase our total sales floor square footage from 2.5 million to 5 million within four years. We shifted into high gear, retrofitting many of our older, smaller stores and developing larger prototypes for new store construction. When 1984 began, the average Lowe's sales floor was 10,626 square feet; by the end of 1988, the average was 17,104 square feet, and our total exceeded our stated goal of 5 million square feet.

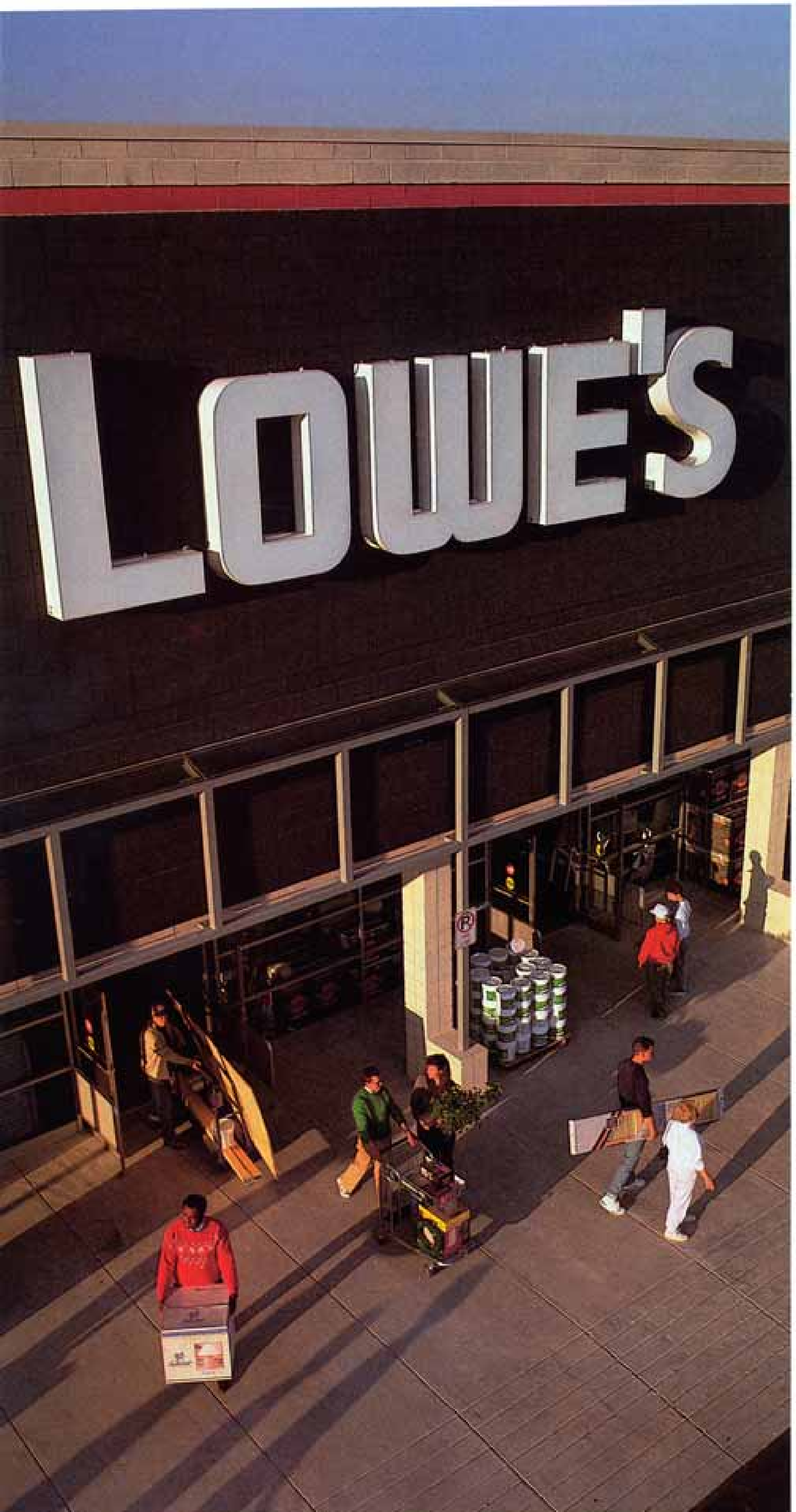
1970
.4 Million
Square Feet

It wasn't enough. The home center retailing industry was growing and expanding, influenced by changing consumer expectations and buying



habits. New competitors were launching new store formats with huge sales floors designed for easy self-service. The choice was ours: evolve and prosper, or face the possibility of eventually being squeezed into a no-growth mode or worse! We chose to evolve.

In 1988 we announced our plan to increase our total sales space from 5 million to 8 million square feet by the end of 1991— a 60% expansion. We would do this by updating our older, smaller fleet of stores (sales floors smaller than 20,000 square feet) into a "Battleship" fleet more in keeping with our current new store prototypes for sales floors of 45,000 and 65,000 square feet. Our new stores incorporate other



improvements as well: twenty-foot ceilings, brighter lighting, taller and deeper product racking, wide aisles, colorful graphics, and enhanced self-service features.

In 1989 we gained 1.2 million square feet of selling space through the addition of twelve relocations, six retrofits and twelve new stores. During 1990 we will add yet another 1.2 million feet in the form of four new stores, a contractor yard and 22 relocations. One of the new stores will be Lowe's first 100,000 square foot store, a prototype for larger markets and a research store for smaller stores and markets. By the end of the year, Lowe's total sales space will exceed 7.4 million square feet. We are hard at work on expansion plans for 1991; at our current pace we will obviously meet and pass our goal of 8 million square feet by the end of 1991.

Retail expansion of this degree usually implies forays into new territories and unknown markets, and carries a risk factor. Lowe's, however, is expanding within its existing twenty-state trading area. We intend to fully explore the growth potential of our familiar markets before considering any ventures into new states or regions.

Here's a riddle: how do you triple the size of a sales floor without increasing the perimeter of a building? Lowe's answer is to reconfigure the store so that what used to be warehouse is now self-service sales space. Specifically, our prototype for a 33,000-foot store has been reconfigured to yield 65,000 feet without altering the perimeter. Sales floor space thus grows from 47% of the total building to 93%. In this way, Lowe's is becoming a lean, mean selling machine without bursting through its outer garments like the Incredible Hulk!

Store Space By Demi-Decade

1986 — 1989

Stores Opened	56
Stores Closed	32
Stores Net	24
Stores To Date	306
Square Footage Opened	3,053,181
Square Footage Closed	475,925
Square Footage Added During Period	2,577,256
Square Footage To Date	6,219,018

1981 — 1985

Stores Opened	74
Stores Closed	6
Stores Net	68
Stores To Date	282
Square Footage Opened	1,686,130
Square Footage Closed	42,607
Square Footage Added During Period	1,643,523
Square Footage To Date	3,641,762

1976 — 1980

Stores Opened	90
Stores Closed	6
Stores Net	84
Stores To Date	214
Square Footage Opened	853,467
Square Footage Closed	64,228
Square Footage Added During Period	789,239
Square Footage To Date	1,998,239

1971 — 1975

Stores Opened	67
Stores Closed	1
Stores Net	66
Stores To Date	130
Square Footage Opened	833,547
Square Footage Closed	4,200
Square Footage Added During Period	829,347
Square Footage To Date	1,209,000

1966 — 1970

Stores Opened	31
Stores Closed	2
Stores Net	29
Stores To Date	64
Square Footage Opened	188,066
Square Footage Closed	7,950
Square Footage Added During Period	180,116
Square Footage To Date	379,653

1961 — 1965

Stores Opened	20
Stores Closed	0
Stores Net	20
Stores To Date	35
Square Footage Opened	127,857
Square Footage Closed	0
Square Footage Added During Period	127,857
Square Footage To Date	199,537

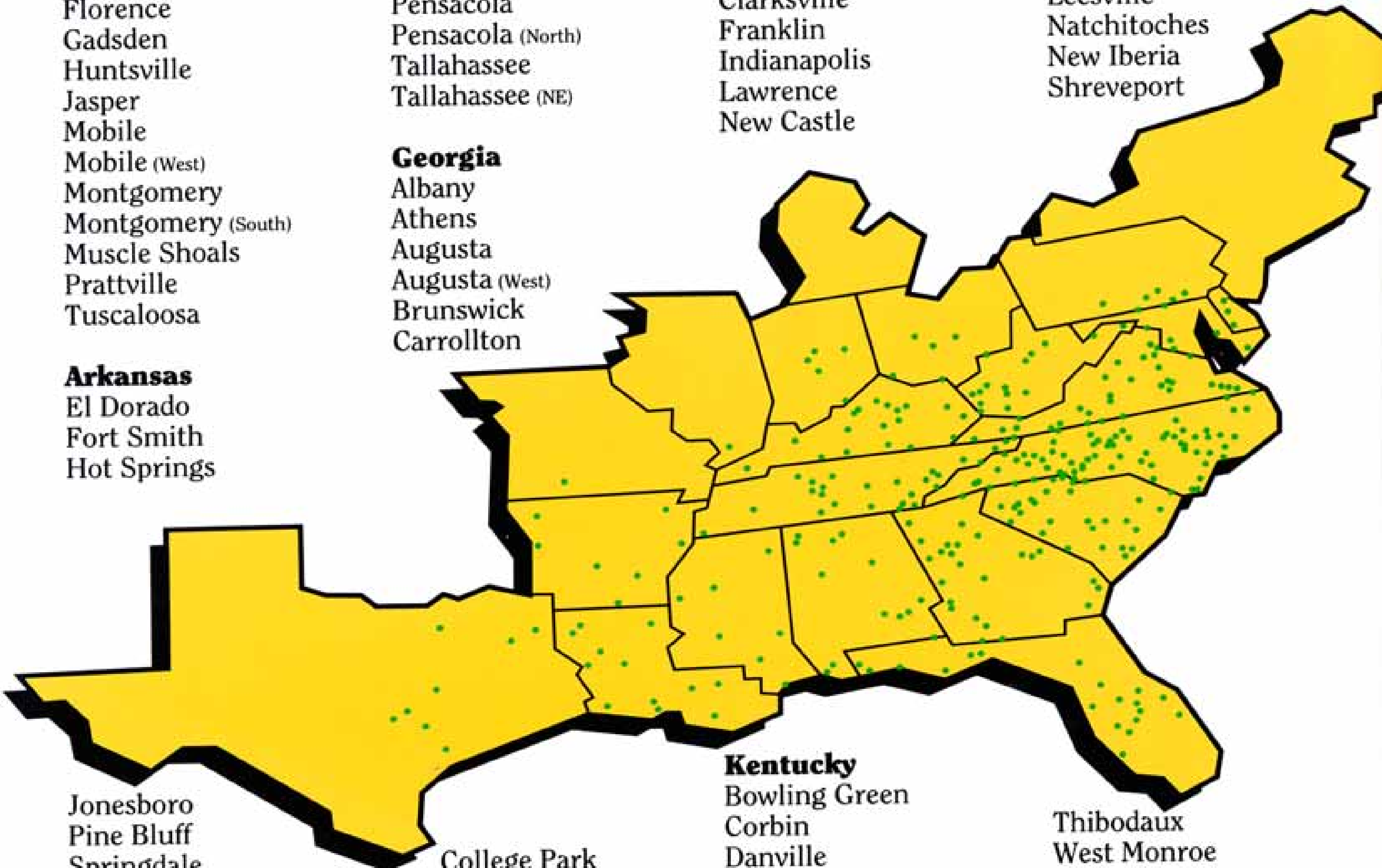
1960 and Before

Stores Opened	16
Stores Closed	1
Stores Net	15
Stores To Date	15
Square Footage Opened	74,880
Square Footage Closed	3,200
Square Footage Added During Period	71,680
Square Footage To Date	71,680

The Changing Store "Footprint"

As the diagrams below show, the overall perimeter of our 33,000-square-foot sales floor prototype has not changed, yet it now gives us 65,000 square feet of selling space.

Store Locations



Alabama
Auburn
Decatur
Dothan
Florence
Gadsden
Huntsville
Jasper
Mobile
Mobile (West)
Montgomery
Montgomery (South)
Muscle Shoals
Prattville
Tuscaloosa

Arkansas
El Dorado
Fort Smith
Hot Springs
Jonesboro
Pine Bluff
Springdale
West Memphis

Delaware
Dover
Sussex County
Wilmington

Florida
Bradenton
Fort Pierce
Fort Walton Beach
Gainesville
Inverness
Kissimmee
Lake County
Lake Wales
Lakeland
Maitland (Contractor Yard)
Melbourne
Ocala
Orange City
Orlando
Panama City
Pensacola
Pensacola (North)
Tallahassee
Tallahassee (NE)

Georgia
Albany
Athens
Augusta
Augusta (West)
Brunswick
Carrollton
College Park (Contractor Yard)
Columbus
Columbus (North)
Doraville (Contractor Yard)
Douglasville
Fort Oglethorpe
Gainesville
Griffin
LaGrange
Macon
Moultrie
Rome
Savannah
Savannah (South)
Smyrna (Contractor Yard)
Thomasville
Thomson
Valdosta
Warner Robins

Illinois
Marion

Indiana
Clarksville
Franklin
Indianapolis
Lawrence
New Castle

Kentucky
Bowling Green
Corbin
Danville
Elizabethtown
Frankfort
Glasgow
Lexington
Lexington (East)
Louisville
Owensboro
Paducah
Paintsville
Pikeville
Richmond
Saint Matthews
Somerset
Whitesburg
Winchester

Louisiana
Alexandria
Baker
Bossier City
Hammond
Lafayette
Lake Charles
Leesville
Natchitoches
New Iberia
Shreveport
Thibodaux
West Monroe

Maryland
Bowie
Charles County
Cumberland
Easton
Frederick
Hagerstown
Saint Mary's County
Salisbury

Mississippi
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

Missouri
Springfield

North Carolina
Albemarle
Asheboro
Asheville
Asheville (West)
Banner Elk
Boone
Burlington
Cary
Chapel Hill
Charlotte (#1)
Charlotte (#2)
Charlotte (North)
Charlotte (Contractor Yard)
Concord
Durham
Elizabeth City
Fayetteville
Forest City
Franklin
Garner
Gastonia
Gastonia (East)
Goldsboro
Greensboro
Greensboro (North)
Greenville
Henderson
Hendersonville
Hickory
High Point
High Point (North)
Jacksonville
Kannapolis
Kinston
Lenoir
Lexington
Lincolnton
Lumberton
Matthews
Monroe
Mooresville
Morehead City
Morganton
Mount Airy
Murfreesboro
New Bern
North Wilkesboro
Raleigh
Raleigh (North)
Reidsville
Rockingham
Rocky Mount
Salisbury
Sanford
Shelby
Smithfield
Southern Pines
Southport
Sparta
Statesville
Washington
Waynesville
Whiteville
Wilmington
Wilmington (Central)
Wilson
Winston-Salem
Winston-Salem (Metro)
Zebulon

Ohio
Athens
Cincinnati (Contractor Yard)
Circleville
Lancaster
Springfield
Wheelersburg

Pennsylvania
Altoona
Chambersburg
Hanover
Harrisburg
Lancaster
Mechanicsburg
York

South Carolina
Aiken
Anderson
Charleston
Charleston (North)
Columbia (NE)
Columbia (West)
Easley
Florence
Gaffney
Greenville
Greenwood
Irmo
Laurens
Manning
Mauldin
Mount Pleasant
Myrtle Beach
Orangeburg
Rock Hill
Spartanburg
Sumter
Taylors
Westgate

Tennessee
Athens
Bartlett
Chattanooga
Chattanooga (North)
Clarksville
Cleveland
Columbia
Cookeville
Crossville
Gallatin
Greeneville
Hermitage
Jackson
Johnson City
Kingsport
Knoxville
Knoxville (North)
Knoxville (West)
Lebanon
Madison
Maryville
Morristown
Murfreesboro
Nashville
Tullahoma

Texas
Dallas
Fredericksburg
Longview
Marble Falls
San Marcos
Shiner
Temple
Tyler

Virginia
Bluefield
Bristol
Charlottesville
Charlottesville (North)
Chesapeake
Chester
Christiansburg
Churchland
Claypool Hill
Danville
Denbigh
Dublin
Fredericksburg
Galax
Harrisonburg
Leesburg
Lynchburg
Manassas
Marion
Martinsville
Midlothian Pike
Newport News
Richmond
Richmond (West)
Roanoke
Salem
South Boston
Staunton
Suffolk
Vienna
Virginia Beach
Winchester
Wise County
Woodbridge

West Virginia
Barboursville
Beckley
Belle
Chapmanville
Charleston
Clarksburg
Fairmont
Huntington
Matewan
Morgantown
Parkersburg
Princeton
Summersville
Teays Valley

Outer Space
Our Universe of Opportunity

Our latest market research data, condensed and interpreted here for our partners-in-interest, has greatly expanded our concept of Lowe's universe. For a year or so we have been estimating that the home center market potential would reach $200 billion by the year 2000. We were thinking too small: after compiling information collected from all around our merchandise cosmos, we have realized (in awe and delight) that the year 2000 may bring a *$500 billion* market!

Lowe's continuing growth as a star system has resulted from our ability to identify our customers and their housing-related needs, and to provide products that satisfy those needs. We constantly explore and research the changing universe of our marketplace so that we can plan, develop, and implement marketing strategies that maximize our appeal to the American consumer.

U.S. Population
Thousands

	Total U.S.	Total South	% Total U.S.
1970	203,302	62,800	31
1980	226,546	75,400	33
1990e	249,900	87,200	35
2000e	267,700	96,900	36
% Change*	32	54	

*1970 - 2000 e = Estimate
Source: U.S. Bureau of the Census, *Current Population Report*

U.S. Households
Thousands

	Total U.S.	Total South	% Total U.S.
1970	63,450	19,259	30
1980	80,390	26,487	33
1990e	94,562	31,485	33
2000e	101,783	37,077	37
% Change*	15	18	

*1970 - 2000 e = Estimate
Source: U.S. Bureau of the Census, *Current Population Report, Series P-20 and P-25*

Population and the American Household

The last decade saw tremendous demographic change. Children of the Baby Boom became adults, population shifted in new patterns, and our country enjoyed the longest sustained economic expansion since the end of World War II. All those changes influenced Lowe's, and the next ten years are expected to have perhaps even greater implications for our company and our industry. Our continuing challenge is to spot significant trends and to respond appropriately.

Population

The 1990 census is likely to show that the nation's population has reached and perhaps passed 250 million. While the number itself will come as no surprise, the distribution of this population has changed dramatically over the last twenty years.

In 1970, 20% of all Americans were living in industrial Midwestern cities such as Detroit, Cleveland, and Chicago. Today the largest concentration of people is in the South Atlantic region,

which is Lowe's heartland. The combined attractions of greater employment opportunity, more hospitable climates, and better lifestyle quality will continue to draw migration to this region in the next ten years. By the year 2000, one quarter of all Americans will be living in Lowe's trading area.

Households

Customers come to Lowe's for products to improve and maintain their home and garden living space. For this reason, we consider the household to be the primary consumer unit when we are determining market size. By monitoring the growth and behavior of American households (especially Southeastern households) we can anticipate the needs of our customers and respond with products they want when they want them.

Although the post-war population explosion subsided in the early 1960's, the corresponding surge in the rate of household formation was delayed until the Baby Boomers came of age and began to leave home. So it was during the 1970's and 1980's that the number of American households grew by 1.9% every year, while the general population increased by only slightly more than 1% annually. In other words, between 1970 and 1990 Lowe's market grew nearly twice as fast as the total population. These figures are just national averages. In Lowe's heartland, the number of households increased by almost 70% during the same two decades. As we enter the Nineties, there are more households in Lowe's trading area than in any other area of the country. If the projected population growth trends are accurate, Lowe's potential market will continue to grow at a healthy rate.

Household Characteristics

What are the needs of American households? What activities occupy the modern consumer's domestic time? To answer these questions and respond with appropriate merchandising, we must consider some characteristics of households in the 1990's.

One important characteristic is the age of our consumer. In the 1990's, the fastest-growing segment of the population will be the Baby Boom generation, which will be turning fortysomething. The implications of this aging are significant for Lowe's, as we respond to shelter-related needs and concerns of this large population group.

Time is replacing money as the most limited (and therefore most valuable) household commodity. Since 1970, the number of women employed outside the home has increased to more than 50% of all married women. In the 35-44 age group, nearly 75% of married couples have two incomes.

While this development has eased domestic fiscal constraints, it has also put pressure on time budgeting. Making the time equation even more of a balancing act has been the "baby boomlet," in which those two-income couples have added babies to their households at a rate only exceeded during the original Baby Boom.

The children of the Baby Boom grew up in single family homes and were influenced by media images of the American family lifestyle as typified on television shows such as "Leave It To Beaver," "The Donna Reed Show," and "Father Knows Best." Now as adults they want to provide that quality of life (or something even better) for their children. Lowe's recognizes that desire and is responding with merchandising for better living environments.

Population Age Distribution

Millions

Age Group	1970	1980	1990e	2000e	%Change 1990-2000
<25	93.9	93.3	90.2	90.8	+ 1
25-34	25.2	37.4	43.8	36.9	-16
35-44	22.8	25.8	37.8	43.9	+16
45-54	23.0	22.7	25.5	37.2	+46
55-64	18.5	21.7	21.2	24.1	+14
65-74	19.9	25.6	31.4	34.8	+11
75 >	7.5	10.0	13.2	16.6	+26

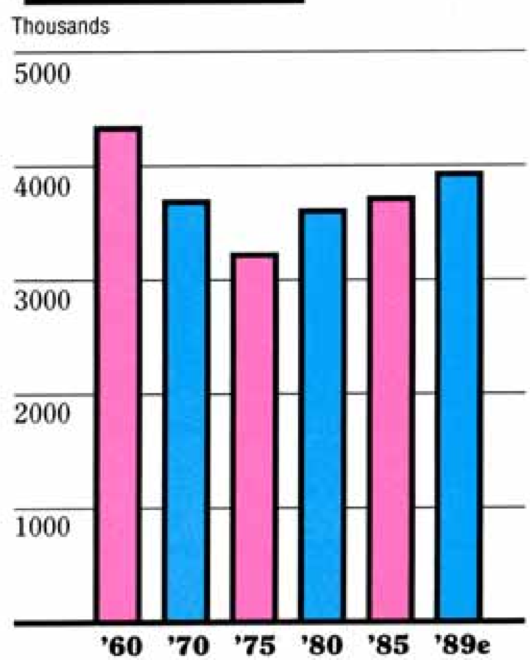
Source: U.S. Bureau of the Census, *Current Population Report*, Series P-25 e=Estimate

Working Women Age Distribution

Age Group	1970	1988
16-19	36.0%	46.8%
20-24	47.4	65.9
25-34	39.3	68.6
35-44	47.2	72.7
45-64	44.1	52.7
65 >	7.9	7.4
Total	41.4%	56.8%

Source: U.S. Bureau of the Census, *Current Population Report*, Series P-20 and P-25

U.S. Birth Rate



Source: U.S. National Center for Health Statistics, *Vital Statistics of the United States*
e = Estimate

Gross National Product, Disposable Personal Income and Saving Rate

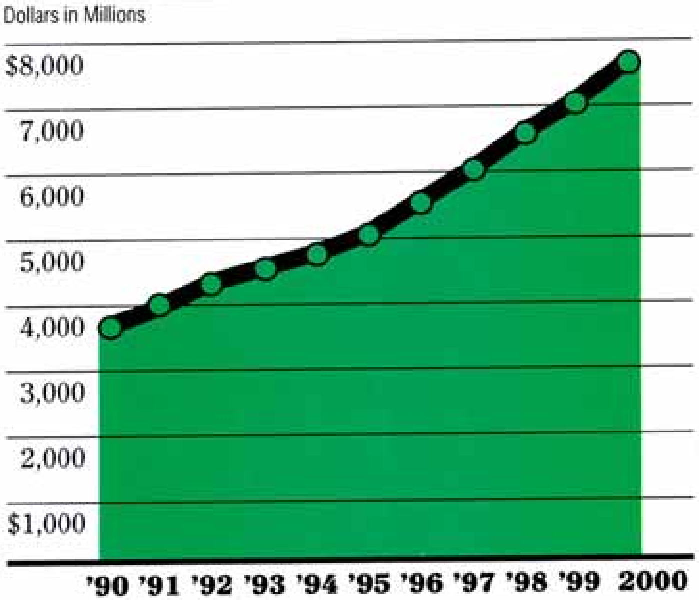
Dollars in Millions

Year	GNP	DPI	Saving Rate As % of DPI
1970	$1,015.5	$ 715.6	8.1
1980	2,732.0	1,918.0	7.1
1981	3,052.6	2,127.6	7.5
1982	3,166.0	2,261.4	6.8
1983	3,405.7	2,428.1	5.4
1984	3,772.2	2,668.6	6.1
1985	4,014.9	2,838.7	4.4
1986	4,231.6	3,019.6	4.1
1987	4,524.3	3,201.3	3.2
1988	4,880.6	3,472.9	4.2
1989p	$5,233.2	$3,780.0	5.5

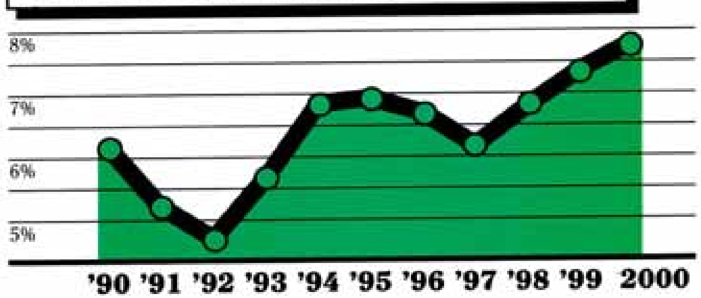
Source: U.S. Bureau of the Census, *Current Population Report*, Series P-25; Management Horizons, Division of Price Waterhouse

p = preliminary

Estimated DPI



Estimated Saving Rate As % Of DPI



Money and Spending

Disposable Personal Income

The growth of our home improvement and home construction industries is largely dependent on the household money available for these types of projects. During the 1970's, disposable personal income nominally grew at an annual rate of 10.36%. However, the economy was growing even faster at 10.4% annually, so actual purchasing power did not increase.

During the 1980's the picture reversed. While the GNP grew by about 7.5% annually, disposable income increased annually by nearly 8%. In the 1990's disposable income is projected to grow at a rate equal to or exceeding the growth of the economy as a whole.

Two important events contributed to the turnaround in household spending power, and one of these events will continue to affect household spending in the Nineties. Lower tax rates have meant that the average American household now retains more of its total income. More important, however, is the entry of the Baby Boom generation into its peak earning years.

In 1988, households headed by persons 45-55 years old had an average income of almost $44,000. Having accomplished major furniture and appliance purchases in previous years, these households have a greater portion of their healthy incomes available for discretionary spending.

Since 1970 the portion of household income earmarked for shelter has hovered around 15%, making it the second largest household expense (behind food). There is nothing to indicate that this percentage will decrease in the new decade. Anticipating how households will spend this income is the essential challenge to be met by Lowe's in the 1990's.

Saving

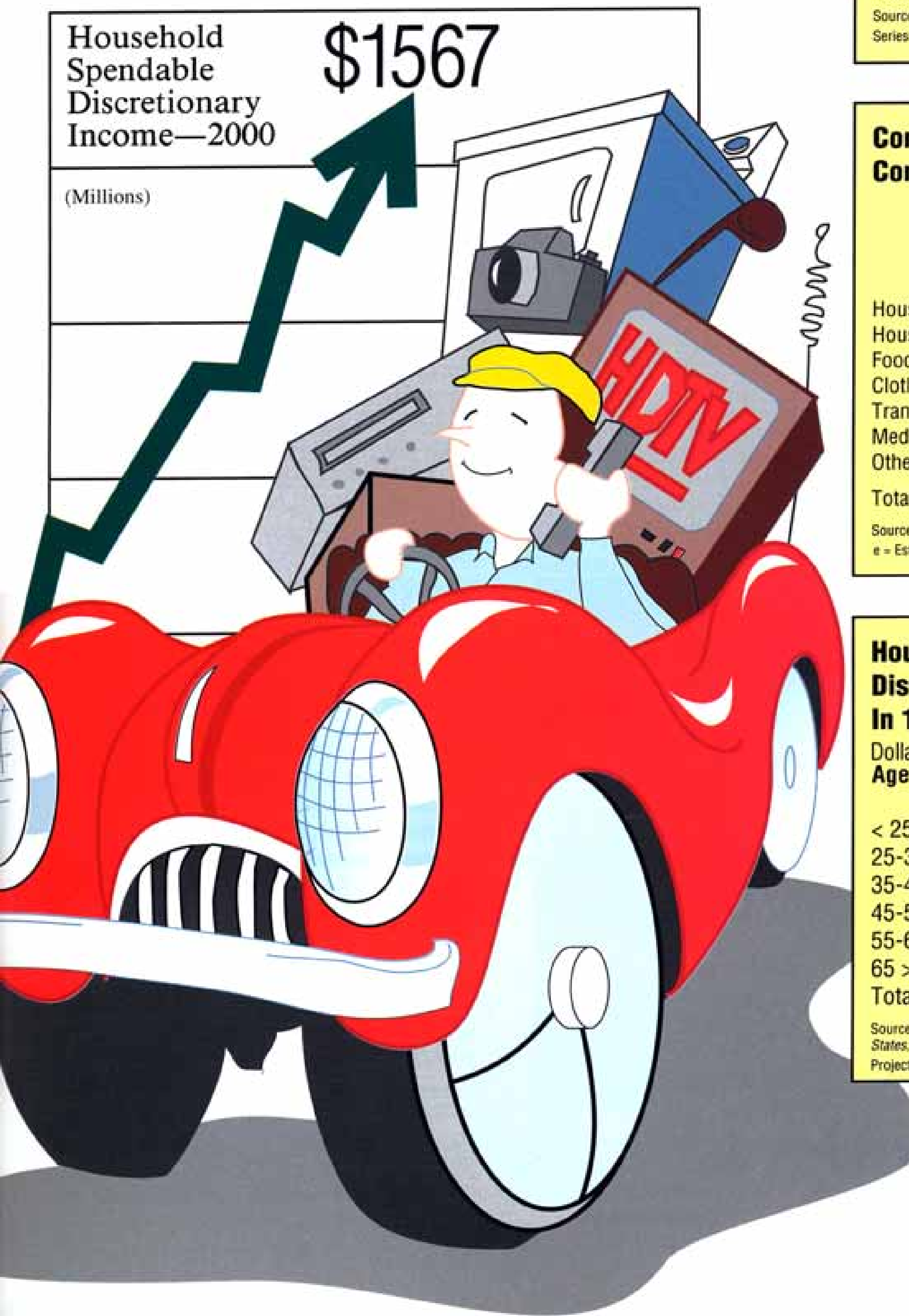
Saving will gain popularity in maturing households of the Nineties. Household consumption is linked to the family life cycle. During the 1970's and 1980's, the households formed by young adult Baby Boomers were spending large amounts on houses, cars, big-ticket appliances, and the other major possessions necessary to a home. They were also spending money to start families. Once these major expenditures are behind them, families can begin providing for future needs such as college tuition and retirement income. Saving becomes a much more important line in the household budget. Thus, after a decade of steadily falling savings rates, the Nineties should see a return to higher rates of household saving, perhaps nearing the 8% level by the year 2000.

These higher saving rates will have important implications for the housing industry, which has always been influenced by the availability of mortgage money. Stocks, bonds, real estate, and other kinds of investments will also receive infusions of funds from household saving. If the track record of the Baby Boom generation is any indication of its future saving behavior, there are exciting times ahead for some of these investment arenas. Baby Boomers are educated, wary consumers who will take their skeptical, activist habits with them when they invest their savings.

Discretionary Spending

Discretionary income is the money that people use to pursue and enjoy the good life after the essential household bills are paid. Improving the comfort and beauty of the domestic environment has always been a popular use of discretionary income in America. As a large percentage of Americans enter their peak earning years, money to spend on the pursuit of the good life will increase significantly, approaching 20% of disposable household income by the end of the decade.

Fortunately for us all— retail strategists included— everybody ages exactly one year at a time. Socioeconomic changes related to the aging of one large generation do not occur so rapidly as to preclude planning. Like other far-sighted companies, Lowe's is adjusting its marketing strategies to prepare for these changes in an opportune manner.



Household Income By Age Distribution

Dollars in Millions

Age of Household	Aggregate Income 1987	2000e
15-24	$ 102	$ 207
25-34	622	1,041
35-44	764	1,953
45-54	597	1,832
55-64	447	1,133
65 >	396	962
All Households	$2,928	$7,128

Source: U.S. Bureau of the Census, *Current Population Report*, Series P-60, No. 161 e = Estimate

Consumer Spending Personal Consumption Expenditures

	% of Personal Consumption Expenditures 1975	1980	2000e
Housing	15	15	15
Household Operations	7	10	6
Food	21	21	17
Clothing	7	8	6
Transportation	13	14	12
Medical	—	11	13
Other	37	21	31
Total	100	100	100

Source: *Survey of Current Business* July Issue
e = Estimate

Household Spendable Discretionary Income: Expressed In 1984 Dollars

Dollars in Millions

Age	Discretionary Income 1982	2000e
< 25	$ 7.7	$ 43.9
25-34	49.1	277.3
35-44	56.7	319.6
45-54	55.2	311.8
55-64	59.2	332.1
65 >	50.0	282.0
Total	$277.9	$1,566.7

Source: U.S. Bureau of the Census, *Statistical Abstract of the United States, 1989*
Projections, Lowe's Companies, Inc. e = Estimate

U.S. Housing Characteristics Household and Home Ownership Rates Thousands	**U.S. Households**	**Home Ownership Rate**
1980	80,390	65.6%
1981	82,368	65.4
1982	83,527	64.8
1983	83,918	64.6
1984	85,290	64.5
1985	86,789	63.9
1986	88,458	63.8
1987	90,033	64.0
1988	93,882	64.2
1989e	94,150	65.0
2000e	101,783	72.0%

Source: U.S. Bureau of the Census, *Current Population Report;* Current Housing Reports; Management Horizons
e = Estimate

Total Private U.S. Housing Starts Thousands	**Total Starts**	**Single Family Starts**	**Multi-Family Starts**
1979	1,745	1,194	551
1980	1,292	852	440
1981	1,084	705	379
1982	1,062	663	400
1983	1,703	1,067	635
1984	1,750	1,084	665
1985	1,742	1,072	669
1986	1,805	1,180	625
1987	1,621	1,146	474
1988	1,374	1,081	407
1989	1,459	1,002	373
1991e	1,442	1,064	378
1992e	1,461	1,085	376

Sources: U.S. Commerce Department and National Association of Home Builders e = Estimate

Housing and Construction

Housing

The home construction industry is one of the three main businesses Lowe's wishes to pursue. It was formerly the largest of our three businesses, and the new housing construction of today will have a major impact on the home center business of tomorrow.

Over the last ten years, housing starts have ridden a roller coaster from just over a million new units in 1982 to a giddy high of more than 1.8 million units in 1986, followed by annual declines to 1.3 million units in 1989. The current trend isn't likely to reverse itself within the next few years; rather, predictions favor stability around the level of 1.4 million units annually.

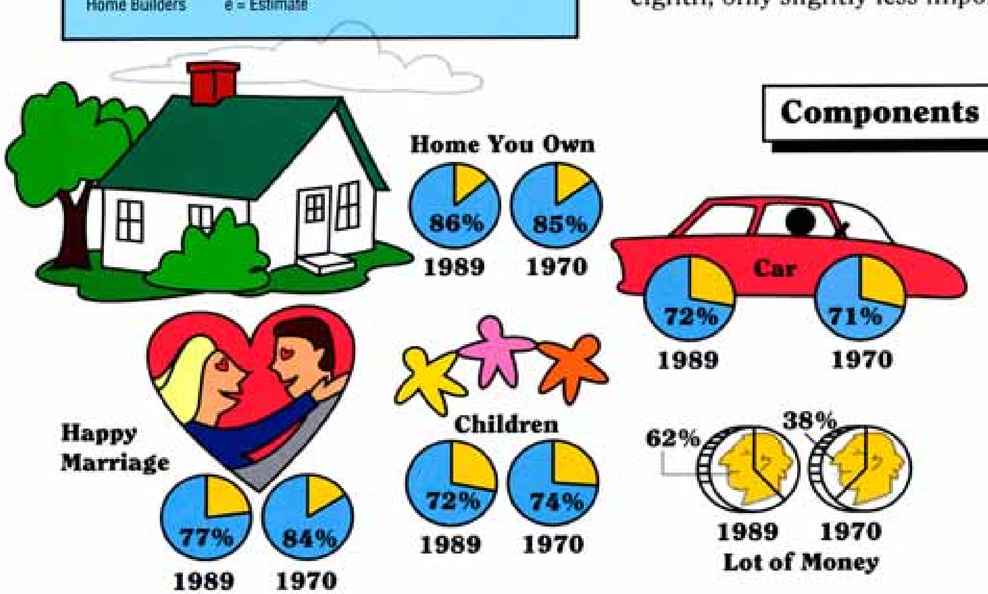
Analysis of the industry reveals that single-family and multi-family segments have not shared the same experience. Multi-family housing starts have fallen much farther than single-family starts, due partly to changing demands for shelter, and partly to changes in the tax code. In 1989, multi-family starts fell to their lowest level in a decade. In contrast, single-family starts have dropped only about 8% from their decade high level, and should actually begin an upward trend over the next few years. The single-family story is good news for Lowe's contractor business, because most of our contractor customers build single-family residences.

Home Ownership

Recently there has been considerable debate over the future of housing, based on concerns about affordability, the availability of financing, declining levels of demand, and data on home ownership rate trends.

As the number of households grew throughout the 1980's, home ownership rates began to slip, bottoming out around 63.8% in 1986. They have been inching upward since then, and may soon exceed 70%. One of the key factors for upward movement in home ownership levels is the entrance of the Baby Boom generation into their primary home ownership years. Among people between the ages of 45 and 54, the level of home ownership exceeds 75%.

There is very little reason to believe that the Baby Boomers will behave differently from preceeding generations with regard to home ownership. According to a recent Roper poll, when people were asked to list components of the "good life" they put home ownership at the top of the list, exactly where it ranked in a 1975 poll. Having a yard was ranked eighth, only slightly less important than having a high-paying job.



Components of the Good Life

% Maintaining	1989	1975
Home You Own	86	85
Happy Marriage	77	84
Children	72	74
Car	72	71
A Lot of Money	62	38
High Paying Job	61	45
Interesting Job	61	69
A Yard	60	62
College Education for Children	59	50
Color TV	56	46

Source: U.S. Department of Commerce, Characteristics of New Housing

Affordability

Some have argued recently that it will take more than a high-paying job for consumers to afford to buy a house in the future. Although home prices have risen steadily over the last decade, in 1989 average prices of new as well as existing homes began to moderate. In some of the hottest markets (for example, on certain parts of the West Coast), home prices actually have fallen slightly.

As we discussed earlier, both disposable income and saving levels will be increasing in the new decade. Since 1985 new mortgage interest commitments have been declining as a percent of disposable personal income, and in 1989 they reached their most favorable levels in a decade. Thus the burden of mortgage payments on the average household budget is reduced. Also, home mortgage interest is the major tax deduction available to the average American family, and remains a Congressionally sanctioned tax shelter.

With money available for housing expenditures, the construction industry of the new decade will see a continuing movement toward larger homes with more amenities. Much of this trend toward larger houses will occur as Baby Boomers move from their first homes to their dream homes. This will not only make "starter homes" available to younger and less affluent households, but will also result in higher materials sales per housing start. Already there has been an increase in the installation rate of features such as dishwashers and central air conditioning, and this trend will continue as homeowners require more appliances and electronic systems for energy and security management.

The new home construction industry is alive, and as the 1990's begin, it is poised to augment recent upward trends. Although starts may not reach the 2 million unit levels of the Seventies, neither will they drop drastically as in the early Eighties.

Housing Affordability — Interest Commitments As A Percent Of Disposable Personal Income

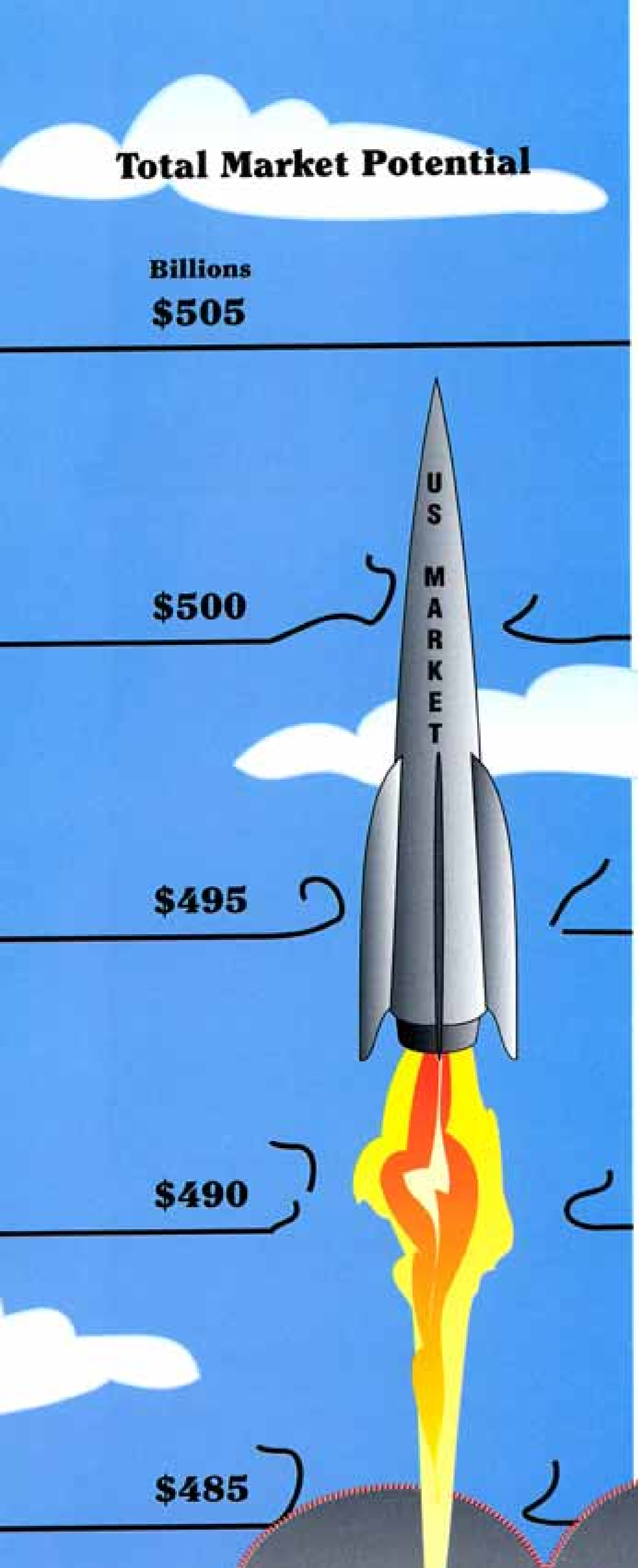
	Mortgage Interest Rate		Total New Interest Commitments			New Interest Commitment As % of DPI
	Existing Homes	New Homes	New Homes	Existing Homes (billions)	Total	
1980	12.95%	12.66%	$4.44	$28.0	$32.44	1.69%
1981	15.12	14.70	4.40	28.6	33.00	1.55
1982	15.38	15.14	4.41	24.6	29.01	1.28
1983	12.85	12.57	5.90	29.0	34.90	1.44
1984	14.49	12.38	6.33	30.8	37.13	1.39
1985	11.74	11.58	6.53	34.3	40.83	1.44
1986	10.26	10.26	7.05	36.0	43.05	1.43
1987	9.26	9.32	6.53	34.8	41.33	1.29
1988	9.30	9.17	6.98	36.8	39.78	1.15
1989p	9.29%	9.18%	$7.16	$29.7	$36.86	.97%

Sources: Federal Home Loan Bank Board and Salomon Brothers, Inc. p = Preliminary

U.S. Building Materials Market — U.S. Home Sales (Housing Turnover)

	Existing Home Unit Sales (thousands)	New Home Unit Sales (thousands)	Median Selling Price		Total Market Value (billions)	
			Existing Homes (thousands)	New Homes (thousands)	Existing Homes	New Homes
1980	3,159	545	$62.2	$ 64.4	$216.4	$35.1
1981	2,572	436	66.4	68.4	189.4	29.9
1982	2,120	420	67.8	69.3	160.2	29.1
1983	2,924	623	70.3	75.3	225.9	46.9
1984	3,098	639	72.4	79.9	246.6	51.1
1985	3,493	688	75.5	84.3	291.9	56.4
1986	3,897	750	80.3	92.0	351.1	68.7
1987	3,887	671	85.6	104,5	374.8	70.1
1988	3,951	676	89.3	112.5	405.4	76.1
1989	3,430	650	$93.1	$120.0	$369.7	$97.0

Source: National Association of Realtors, Existing Home Sales



Retailing and Competition

The last decade saw revolutionary changes in home center retailing. American consumers fueled a growth rate for the home center industry that has been significantly faster than the growth of the economy as a whole. The competitive landscape, the look of home center stores, and the accepted operating methods of 1990 are all radically different from their 1980 counterparts. The changes resulted from the retail community's varied attempts to devise appropriate responses to changing consumer needs.

The Home Center Market

The market courted by virtually all competitors in the industry is the residential building materials market. It comprises two primary customer target groups: professionals who do improvement and repair and the do-it-yourselfers. In the decade just ended, total sales of building materials rose 8.2% annually, while the economy grew at a nominal rate of 7.5%. Currently it appears that total sales of building materials exceeded $150 billion for 1989, and indications are that it will continue to outpace overall economic growth in the 1990's.

The professional builder market should be divided into two segments according to the nature of the building project being undertaken. One is the new housing segment; the other is the improvement and repair segment.

In 1988 contractors purchased roughly $48 billion of materials for new residential shelter. Growth in sales of materials for new housing was uneven during the 1980's, and has increased at an average of just 5.5% annually since the late 1970's. Offsetting that sluggish growth rate, however, has been the rise in sales of materials to contractors for use in repairing and improving existing housing, with 1988 sales of $35 billion, up from $15 billion in 1980. Both large and small-scale improvement and maintenance projects undertaken by professional builders have produced double-digit growth percentages over the last decade. As the houses built during the boom years of the Seventies begin to age, this segment of the professional contractor market should continue to grow vigorously.

The differing growth rates of the two professional market segments have ramifications for vendors of building materials. In 1977, nearly 75% of contractor expenditures for materials were for use in new housing.

	New Housing	Home Center			Consumer	Total
		Contractor		Homeowner		
	Contractor	Improve	Repair	DIY	Durables	Potential
2000e	$81	$62	$66	$168	$127	$504
1995e	65	39	36	114	79	333
1990e	51	24	20	77	49	221
1989e	47	22	17	71	48	205
1988	48	20	15	65	47	195
1985	40	15	12	54	29	150
1980	$24	$10	$ 5	$ 39	$ 14	$ 92

As we enter the Nineties, the proportion is moving toward a 50/50 split. If current trends continue, the dominant use of materials purchased by contractors will be home repair and home improvement projects. Because of this, retailers must adapt their marketing efforts to meet the needs of the repair and improvement segment of the professional market.

The other major customer group is the DIY homeowner. As households determine how best to spend their disposable income, some 80% are choosing to perform certain maintenance and improvement projects themselves. In 1988, sales to DIY homeowners were $65 billion. These sales doubled during the last decade, and are predicted to more than double in the 1990's.

Consumer Durables

Lowe's has been selling consumer durables since before color TV was marketed. Our offering of home appliances and consumer electronics is one of our distinguishing features as a home center retailer. Since the mid-1970's, national sales of items in these dynamic product groups have been growing at an annual pace of 12.6%, consistently outperforming other retail categories. Many analysts predict a continuation of this vigorous growth through the 1990's.

Ongoing introduction of new technologies will continue to drive the growth of the electronics industry. The CD (compact disc) is now a broadly accepted format, and DAT (digital audio tape) will be reaching U.S. markets as soon as legal issues concerning copyright protection are settled. The combined market for these two formats will rival or even exceed the LP and cassette market of the 1970's.

Big-ticket appliances have provided some of the most consistent sales results in Lowe's product mix. These products, principally kitchen and laundry appliances, are in a mature market where replacement and enhancement sales are reliably strong.

Kitchen remodeling is one of the more frequent home enhancement projects. According to a recent article in *Kitchen and Bath Business,* 79% of all remodeled kitchens contain at least one new appliance. Most frequently this is a basic kitchen appliance; however, some homeowners are choosing to add upscale items such as trash compactors or magnetic induction cooktops. We are expanding our product offering in order to satisfy our customers' needs for kitchen remodeling.

Riding lawn mowers are included among Lowe's big-ticket durables. During the 1990's the market for riding lawn mowers and lawn tractors is expected to grow rapidly. Because, riding mower ownership rises dramatically among consumers over age forty, and guess what major demographic group will be cresting the big 4-0 during this decade? Boom, boom, boom!

Appliance Frequently Replaced During Remodeling

	% Replacing
Dishwasher	38
Refrigerator	38
Vent Hood	36
Electric Range With Oven	25
Gas Range With Oven	21

Source: "Kitchen and Bath Business"

Riding Lawn Mower Purchasers

Age	% of Purchasers
< 25	3
25 - 34	20
35 - 44	30
45 - 59	29
> 60	18

Source:OPEI

The Competition

Competitors in the building materials retailing industry are a diverse and, for the most part, fragmented lot. In 1988 the total sales of all building materials reached $148 billion; yet according to government statistics, building materials retailers, hardware stores, and related supply stores accounted for only approximately $90 billion in sales. This means that at least $58 billion of merchandise moved through a variety of other channels, such as direct sales by manufacturers and diverse retail outlets — from grocery stores that sell light bulbs to discount department stores that sell hand tools and fasteners.

The Competitive Situation — Top Ten Building Supply/Home Centers

Dollars in Millions

Rank 1989	Rank 1979	Company	Sales 1989	Sales 1979	% of 1989 Building Material Store Sales
1.	NM	The Home Depot	$2,740	NM	3.1%
2.	2	Lowe's Companies	2,650	$ 904	2.9
3.	NM	Builder's Square	2,000	NM	2.2
4.	7	Payless Cashways	1,900	184	2.1
5.	21	Hechinger Co.	1,200	100	1.3
6.	3	Grossman's	1,100	420	1.2
7.	NM	Home Club	1,000	NM	1.1
8.	1*	Wickes Lumber*	1,000	1,000	1.1
9.	6	84 Lumber	800	300	.9
10.	1*	Wickes Companies*	$ 675	$1,100	.8%

*Two companies were previously one organization, Wickes Companies.
Source: *Building Supply Home Centers Annual Giants Issues*
NM = Not Meaningful

Even within the home center industry there is significant fragmentation. In more mature industries the top two or three competitors control an overwhelming percentage of the market: for instance, witness the automobile or discount retail industries. In our industry, however, in 1989 the top ten competitors controlled only $15 billion in total sales from building materials stores, and an even smaller portion of total building product sales.

Look at the list of 1989's top ten giants in our industry, as published in *Building Supply Home Center* magazine. Only five of the top ten companies were on that list a decade back; three of the current top ten didn't even exist ten years ago! Even more interesting are the fates that have befallen many of the stars that twinkled briefly in our heavens. Several companies have been through painful restructurings, some have been sold, and some have been dismantled into multiple separate companies. In fact, only Lowe's and 84 Lumber appear on both the 1979 and 1989 lists in their same form; and only Lowe's has maintained a high place in the ranking. Such long-term success has been hard won and is a challenge to sustain, but Lowe's is a true long-distance runner.

While most Lowe's watchers are familiar with our position and the composition of the building materials retail industry, not all may be aware of Lowe's marketplace performance in some other product categories such as white goods and consumer electronics. In its annual ranking of major appliance retailers, *H.F.D.* magazine (formerly *Home Furnishings Daily*) has consistently placed Lowe's among the top ten. In 1988 we rated a sixth place ranking nationally, despite the fact that our presence is limited to our twenty-state Southeastern trading area. Although small, our market share is virtually equal to that of most superstore chains.

Consumer electronics is another category in which Lowe's competes at high levels. Our ranking within the top forty volume retailers is especially impressive because we compete in a very limited number of electronics product categories. We sell no electronic office equipment (except telephones), and our offering of audio equipment is purposely limited.

Another fast-growing category is Lowe's power lawn equipment. In the last decade our national market share of riding lawn mower sales has more than doubled, from less than 3% in 1980 to 6% in 1989. In Lowe's older, smaller stores, our ability to display these large-ticket products has been severely restricted; as we continue to evolve into a chain of big stores, our national stature in this category will continue to grow.

Top Ten Major Appliance Retailers

Dollars in Millions

	1988 Sales	Market Share
1. Sears Roebuck	$5,600	37%
2. Montgomery Ward	650	4
3. Circuit City	344	2
4. Silo	206	1
5. Highland Superstores	200	1
6. Lowe's	163	1
7. P.C. Richard & Son	132	1
8. ABC Appliance Center	120	1
9. Tops Appliance City	119	1
10. The Price Club	$ 106	1%

Source: *H.F.D. Magazine*

Top Consumer Electronics Retailers

Dollars in Millions

	1988 Sales
1. Radio Shack	$2,968
2. K mart	2,475
3. Sears	2,063
4. Circuit City	1,377
5. Service Merchandise	1,250
10. Silo	610
20. The Federated Group	253
30. Trader Horn	160
40. Lowe's	120
40. Rose's Stores	$ 120

Source: *H.F.D. Magazine*

Directors of the Home Center Universe

This artwork was the cover of the Journal of the Eighth Annual Dinner for the City of Hope National Medical Center, sponsored and endowed by a broad cross section of individuals and companies in the Hardware and Home Improvement Industry, in August, 1989.

The City of Hope is a Medical Center and Research Institute near Los Angeles, renowned for its breakthrough research, its innovative treatment of major illnesses, its consultation services to physicians around the world, and the fact that its services to patients are provided free of charge.

Pictured here are recipients of the Spirit of Life award from the City of Hope for their support during the decade of the 80s: Donald Davis, Frank Denny, Peter Grace, Leonard Herring, Bernard Marcus, Ron Rashkow, David Stanley, and Robert Strickland.

Even though we members of the industry compete among ourselves, collectively we collaborate for the betterment of mankind.

Consolidated Statements of Current and Retained Earnings

Lowe's Companies, Inc. and Subsidiary Companies
Dollars in Thousands, Except Per Share Data

Fiscal Years End on January 31 of Following Year

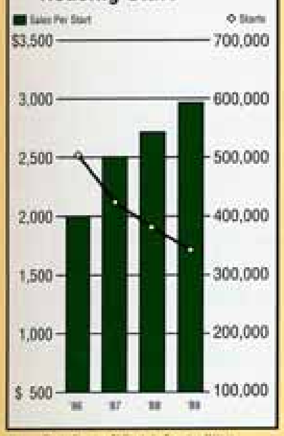
	Fiscal 1989	% Sales	Fiscal 1988	% Sales	Fiscal 1987	% Sales
Current Earnings						
Net Sales	**$2,650,547**	**100.0%**	**$2,516,879**	**100.0%**	**$2,442,177**	**100.0%**
Cost of Sales	2,004,164	75.6	1,916,433	76.1	1,858,240	76.1
Gross Margin	**646,383**	**24.4**	**600,446**	**23.9**	**583,937**	**23.9**
Expenses:						
Selling, General and Administrative	447,571	17.0	410,060	16.4	403,672	16.5
Depreciation	46,134	1.7	41,184	1.6	38,546	1.6
Employee Retirement Plans (Note 7)	24,654	.9	22,608	.9	21,700	.9
Interest (Note 12)	19,228	.7	20,990	.8	19,474	.8
Store Closings (Note 13)					9,758	.4
Total Expenses	**537,587**	**20.3**	**494,842**	**19.7**	**493,150**	**20.2**
Pre-Tax Earnings Before Cumulative Effect of a Change in Accounting Principle	108,796	4.1	105,604	4.2	90,787	3.7
Income Tax Provision (Note 6)	33,884	1.3	36,403	1.5	34,833	1.4
Earnings Before Cumulative Effect of a Change in Accounting Principle	74,912	2.8	69,201	2.7	55,954	2.3
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes (Note 1)	—		—		5,226	.2
Net Earnings	**$ 74,912**	**2.8%**	**$ 69,201**	**2.7%**	**$ 61,180**	**2.5%**
Shares Outstanding — Weighted Average	37,278		37,748		39,719	
Earnings Per Share:						
Before Cumulative Effect of a Change in Accounting Principle	$ 2.01		$ 1.83		$ 1.41	
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes					.13	
Earnings Per Share	**$ 2.01**		**$ 1.83**		**$ 1.54**	

Retained Earnings (Notes 5 and 8)	**Amount**	**Per Share**	**Amount**	**Per Share**	**Amount**	**Per Share**
Balance at Beginning of Year	**$ 440,334**		**$ 388,414**		**$ 344,274**	
Net Earnings	74,912	$ 2.01	69,201	$ 1.83	61,180	$ 1.54
Cash Dividends (Notes 5 and 8)	(18,228)	$ (.49)	(17,281)	$ (.46)	(17,040)	$ (.43)
Balance at End of Year	**$ 497,018**		**$ 440,334**		**$ 388,414**	

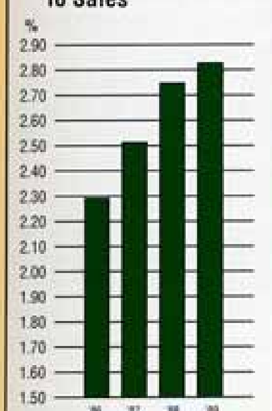
See accompanying notes to consolidated financial statements.

1. Retail Sales & Square Footage Growth Trends

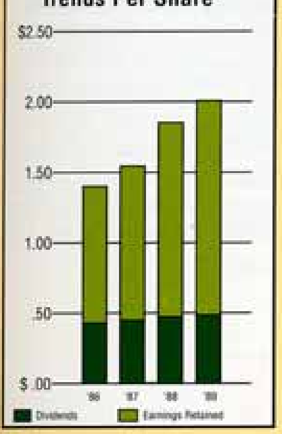
2. Contractor Sales Per Housing Start



3. Earnings As A Percent To Sales



4. Earnings & Dividends Trends Per Share



Management's Discussion and Analysis

Earnings

In fiscal 1989 Lowe's achieved record sales, record earnings, record cash flow from operations, and record dividends. Sales reached $2.65 billion, up $134 million over 1988. Net earnings were up $6 million over last year, reaching $75 million. In addition, earnings per share increased 10% to $2.01, and dividends per share increased 7% to $.49. Cash dividends to shareholders were increased for the fifth straight year to reach an $18 million payout.

Lowe's continues to serve three principal customer groups: the do-it-yourself retail customer, the consumer durables customer, and the professional contractor. In 1989 retail sales to those first two customer groups increased 11%, providing 62% of total sales. Contractor sales decreased 3%, providing 38% of total sales. This is a complete reversal of Lowe's 1977 customer mix, in which contractor sales represented 62% of the total. We expect retail sales to continue increasing its share of total sales, while we also work to increase our contractor sales and market share.

The continued addition of sales floor square footage forms the foundation of our strategic plan for retail sales growth. Total square footage is increased either by adding new stores or by remodeling or relocating existing stores. We ended 1989 with 306 store locations, six more than our starting figure for 1987. During the last three years, our retrofitted and relocated stores have been the main focus of our sales floor growth. In 1988 retail sales increased 21% over the previous year for the 34 stores that had been retrofitted or relocated in 1988 or 1987. In 1989 a similar 45 stores enjoyed a 17% retail sales increase. Chart 1 shows the relationship between retail sales, and growth trends in total average square footage from 1983 to 1989. Since 1983, both retail sales and average square footage have grown at a 15% compound growth rate, and in 1990 our average square footage will increase 21% over 1989! We plan to complete fiscal 1990 with an estimated 7.4 million square feet, more than three times the 2.3 million level at the beginning of 1983.

Emphasis on retail sales has paid off, but not at the expense of contractor sales. Between 1982 and 1986, contractor sales increased from $463 million to $1.02 billion — a 21% compound growth rate. From 1986 to 1989, contractor sales were flat. However, housing starts, which are a key indicator of contractor sales opportunity, actually declined in our market area an average of 12% per year during this period. So our sales per housing start, which increased from $2,000 to $2,900 between 1986 and 1989, represent a 44% increase in Lowe's market share.

Gross margin (LIFO) increased $46 million in 1989 to 24.4% of sales, an increase of .5% of sales over both 1988 and 1987. This increase reflects the success of our marketing strategy, which enhances margins by emphasizing sales of higher margin products. The adjustment from FIFO to LIFO margin reflects the effect of inflation on the cost of inventory. With an inflation rate of only 1% in 1989, 1988, and 1987, our 1989 FIFO margin of 24.5% was .5% higher than comparable margin rates for the previous two years.

Selling, General and Administrative (SG&A) expense increased to 17% of sales in 1989, up from 16.4% in 1988 and 16.5% in 1987. This increase is attributable to three factors. First, planned increases in advertising expense, had the most significant impact on SG&A. From 1987 to 1989, advertising expenditures increased 24%. Since contractor sales were flat during this period, advertising costs rose as a percent of sales. The second factor, store salaries, increased as we added employees in our larger stores. Finally, employee health insurance costs increased 29% from 1988 to 1989, in line with the average national increases in the cost of health care.

Depreciation increased 12% in 1989, up from a 7% gain in 1988. This increase highlights Lowe's aggressive investment in expansion. Our average total square footage rose 11% from 1988 to 1989 and 5% from 1987 to 1988, both paralleling the depreciation increases.

Contributions to the Employee Stock Ownership Plan as a percentage of eligible compensation have remained 13% since 1987. The $2 million increase from 1988 to 1989 reflects increased outlays for salaries and wages as more employees qualify for the plan.

Interest Expense decreased $2 million to .7% of sales in 1989. Two factors caused this decrease. First, we accelerated the retirement of $17 million of our 11.5% unsecured notes, incurring $824,000 in early retirement costs. These costs were more than offset by the elimination of interest expense on the retired notes. Second, less short-term financing was required during the year, thanks to strong cash flow.

In December 1987, we incurred a one-time charge of $9.8 million by closing 16 nonprofitable stores primarily in the oil patch. Expenses associated with closing two stores in 1989, six stores in 1988, and an additional five stores in 1987 were treated as normal operating expenses.

The $34 million income tax provision was derived from a tax rate of 31.1% of pre-tax earnings, down from 34.5% in 1988 and 38.4% in 1987. The change from 1987 to 1988 was largely due to a decrease in the federal statutory tax rate from 39% to 34%. The 1989 decrease was the result of restructuring several of our wholly-owned subsidiaries, which reduced state taxes, and a tax benefit from an investment in low-income housing.

In fiscal 1987, we elected to adopt Statement of Financial Accounting Standards No. 96, which provided for implementation of a lower tax rate in accounting for deferred taxes. Since we did not elect to restate financial statements for prior years, the $5 million cumulative effect is reflected in the 1987 net earnings of $61 million.

Net earnings totaled $75 million in 1989, an 8% increase over 1988; this followed the 13% increase from 1987 to 1988. Net earnings as a percent of sales (chart 3) have increased in each of the last three years, from 2.29% in 1986 to 2.83% in 1989.

Consolidated Balance Sheets

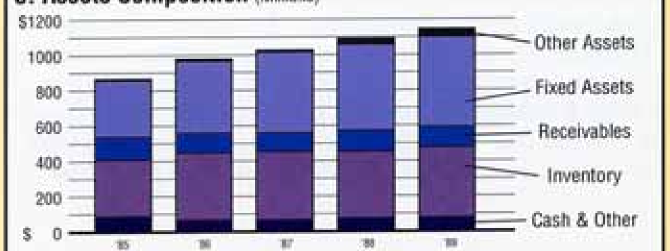
Lowe's Companies, Inc. and Subsidiary Companies
Dollars in Thousands

Fiscal years end on January 31 of following year

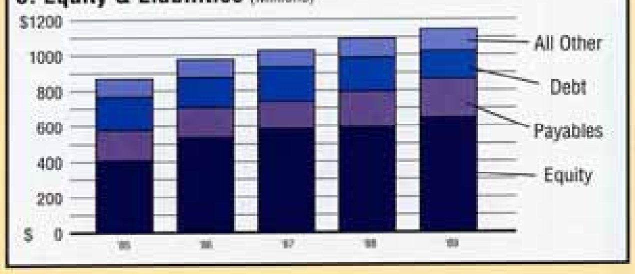
	Fiscal 1989	%	Fiscal 1988	%	Fiscal 1987	%
Assets						
Current Assets:						
Cash and Cash Equivalents (Note 12)	$ 55,566	4.8%	$ 60,257	5.5%	$ 43,889	4.3%
Accounts Receivable — Net (Note 12)	121,897	10.6	127,738	11.8	117,932	11.5
Merchandise Inventory (Note 2)	407,677	35.5	379,383	34.9	373,846	36.4
Deferred Income Taxes (Note 6)	1,196	.1	706	.1	9,472	.9
Other Assets	9,610	.9	9,466	.9	7,325	.7
Total Current Assets	**595,946**	**51.9**	**577,550**	**53.2**	**552,464**	**53.8**
Property, Less Accumulated Depreciation (Notes 3 and 5)	507,811	44.3	479,886	44.2	453,008	44.1
Other Assets (Note 13)	43,637	3.8	28,361	2.6	21,857	2.1
Total Assets	**$1,147,394**	**100.0%**	**$1,085,797**	**100.0%**	**$1,027,329**	**100.0%**
Liabilities and Shareholders' Equity						
Current Liabilities:						
Current Maturities of Long-Term Debt (Note 5)	$ 10,658	.9%	$ 12,391	1.1%	$ 11,674	1.1%
Short-Term Notes Payable	1,994	.2	256		240	
Accounts Payable	210,197	18.3	203,956	18.9	157,089	15.3
Employee Retirement Plans (Note 7)	21,131	1.8	6,537	.6	3,767	.4
Accrued Salaries and Wages	21,225	1.8	18,382	1.7	15,370	1.5
Other Current Liabilities	42,685	3.8	44,211	4.1	43,766	4.3
Total Current Liabilities	**307,890**	**26.8**	**285,733**	**26.4**	**231,906**	**22.6**
Long-Term Debt, Excluding Current Maturities (Note 5)	167,896	14.6	190,056	17.5	186,219	18.1
Deferred Income Taxes (Note 6)	26,050	2.3	23,157	2.1	26,768	2.6
Total Liabilities	**501,836**	**43.7**	**498,946**	**46.0**	**444,893**	**43.3**
Commitments, Contingencies and Litigation (Note 11)	—		—		—	
Shareholders' Equity (Notes 8 and 9)						
Common Stock — $.50 Par Value;						
Issued / Outstanding						
1990 39,756,499 / 37,255,169						
1989 39,637,900 / 37,138,950						
1988 39,630,050 / 39,497,950	19,878	1.7	19,819	1.8	19,815	1.9
Capital in Excess of Par	178,733	15.6	176,698	16.3	176,574	17.2
Retained Earnings	**497,018**	**43.3**	**440,334**	**40.6**	**388,414**	**37.8**
Subtotal	**695,629**	**60.6**	**636,851**	**58.7**	**584,803**	**56.9**
Less Treasury Stock of 2,501,330 Shares at 1990 and 2,498,950 Shares at 1989 and 132,100 Shares at 1988 at Cost	50,071	(4.3)	50,000	(4.7)	2,367	(.2)
Total Shareholders' Equity	**645,558**	**56.3**	**586,851**	**54.0**	**582,436**	**56.7**
Total Liabilities and Shareholders' Equity	**$1,147,394**	**100.0%**	**$1,085,797**	**100.0%**	**$1,027,329**	**100.0%**

See accompanying notes to consolidated financial statements.

5. Assets Composition (Millions)



6. Equity & Liabilities (Millions)



Management's Discussion and Analysis

Balance Sheet

Lowe's balance sheet presents the static measure of the company's assets along with liabilities and shareholders' equity as of the last day of the fiscal year. The balance sheet can be analyzed in terms of two perspectives: the structural balance of asset components and the financing of these assets through an appropriate mix of equity, debt, and accounts payable. The analysis should be viewed in line with our strategy of growth through larger sales floors and expanded inventory assortments.

Top priority is given to inventory, the most important asset for any retailer. Lowe's manages its cash cycle to generate margin dollars. We turn cash into inventory, which when sold is turned back into cash (some via accounts receivable). The less time this cycle takes, the more cycles we can complete each year, each time realizing the margin between cost and selling price. In order to service our customers with the broad range of items they demand, some permanent level of inventory is required. Our task is to keep this level of inventory as low as possible while at the same time insuring that we have the products our customers want, when they want them. We can analyze our management of inventory by reviewing inventory turnover. For the last three years, our inventory turn rate (cost of sales divided by the average of beginning and ending inventory) has moved from 5.0 times in fiscal 1987 to 5.1 times in fiscal 1988 and 1989. This increase has occurred in spite of two factors that should tend to reduce turnover: the shift in mix away from faster-turning contractor sales and the broadening of our product line which provides our customers with a greater selection. Our sophisticated computerized ordering and replenishing systems have made this inventory control possible.

For contractor charge sales, the cash cycle includes a "turn" through another current asset, accounts receivable. Receivables give Lowe's an advantage in the market for contractor customers. The faster our accounts receivable turn, the quicker we are making cash available for more inventory purchases, to fuel sales. Management's task is to keep the amount of time needed to turn accounts receivable back into cash as short as possible without affecting the service level to our contractor customers. The number of contractor days' sales in year-end accounts receivable has fluctuated between 49 and 58 days during the last ten years. The fiscal 1989 year-end level of 49 days was the lowest in a decade.

The largest single component of assets is property. The investment in larger stores, which provides the foundation for Lowe's growth into the 1990's, is reflected here. Property, Less Accumulated Depreciation has increased 160% in the last five years. During this same period, there has been a net addition of 3.2 million square feet of selling space, more than doubling the 1984 year-end level.

The major component in Other Assets is the net book value of land and buildings from closed and relocated stores. During the next few years, as Lowe's relocates more stores to advantageous retail locations, additional properties will be added to Other Assets. However, we expect no material losses resulting from their eventual sale. From the nine vacated properties sold in fiscal 1989, we realized a total profit of $1.5 million.

The financing of Lowe's assets is accomplished through liabilities and shareholders' equity. The most important components are accounts payable, long-term debt and shareholders' equity.

Accounts payable is our major short-term financing source. The balance of accounts payable on the last day of each year was $157 million, $204 million and $210 million for fiscal 1987, 1988 and 1989 respectively. At the end of fiscal 1989, vendors were financing 51.6% of our inventory, as compared with 53.8% at the end of fiscal 1988 and 42.0% at the end of fiscal 1987.

Long-term debt decreased $24 million between January 31, 1989 and January 31, 1990 and dropped as a percent of total assets to 15.5%. This resulted from accelerating the retirement of $17 million of our 11.5% notes. Due to laws which gave favorable tax treatment to lenders for loans made to finance ESOP contributions, we were able to obtain long-term financing at advantageous interest rates in 1987, 1988 and 1989. However, with recent tax law changes, similar borrowings are not currently available. Our Cash Flow From Operations was strong enough to finance our operating and expansion needs without major new long-term financing in fiscal 1989. We anticipate the same for 1990.

Shareholders' equity financed 56.3% of assets at the end of fiscal 1989, compared to 54.0% at the end of fiscal 1988 and 56.7% at the end of fiscal 1987. The purchase of $50 million of treasury stock during fiscal 1987 and 1988 reduced the number of shares outstanding. Book value rose from $14.75 on January 31, 1988 to $17.33 on January 31, 1990. Retained earnings increased 28% from fiscal 1987 to fiscal 1989.

The "Commitments, Contingencies and Litigation" line of our balance sheet refers to outstanding purchase commitments and litigation. Lowe's was committed to invest approximately $7.5 million for land, buildings and construction and $6.5 million for equipment as of January 31, 1990, as compared to $28 million and $5 million as of January 31, 1989. The decrease is due to a change in the method of financing new store acquisitions for next year. Many of fiscal 1990's new and relocated stores will be leased rather than purchased; the rent for these properties will be expensed monthly. Leasing is advantageous to Lowe's because it requires no large up-front outlay of cash. Note 10 details the future minimum lease payments for current operating leases. There are no law suits that are not covered by insurance for which we believe there will be any significant monetary exposure to Lowe's. Reference should be made to Note 11 for specific information regarding these contingencies.

Consolidated Statements of Cash Flows

Lowe's Companies, Inc. and Subsidiary Companies
Dollars in Thousands

Fiscal Years End on January 31 of Following Year

	Fiscal 1989	Fiscal 1988	Fiscal 1987
Cash Flows From Operating Activities:			
Net Earnings	$ 74,912	$ 69,201	$ 61,180
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	46,134	41,184	38,546
Deferred Income Taxes	2,403	5,155	(1,109)
(Gain) Loss on Disposition of Fixed Assets	(1,758)	(627)	4,689
Cash Flow From Operations*	**$121,691**	**$114,913**	**$103,306**
Changes in Assets and Liabilities:			
Accounts Receivable — Net	5,841	(9,806)	761
Merchandise Inventory	(28,294)	(5,537)	(5,711)
Accounts Payable	6,241	46,867	(6,171)
Employee Retirement Plans	20,594	20,633	15,396
Other Current Assets	(144)	(2,141)	2,717
Other Current Liabilities	1,317	3,457	(2,034)
Net Cash Provided by Operating Activities	**$127,246**	**$168,386**	**$108,264**
Cash Flows From Investing Activities:			
Fixed Assets Acquired	(91,673)	(81,611)	(92,248)
Proceeds From the Sale of Fixed Assets	3,216	5,232	2,479
Other Long-Term Assets	880	2,502	4,236
Net Cash Used in Investing Activities	**$ (87,577)**	**$ (73,877)**	**$ (85,533)**
Cash Flows From Financing Activities:			
Sources:			
Long-Term Debt Borrowings	$ 6,000	$ 18,691	$ 35,562
Net Short-Term Borrowings	1,738	16	240
Stock Options Exercised	2,023	127	129
Total Financing Sources	**$ 9,761**	**$ 18,834**	**$ 35,931**
Uses:			
Repayment of Long-Term Debt	$ (29,893)	$ (14,198)	$ (10,779)
Cash Dividends	(18,228)	(17,281)	(17,040)
Common Stock Purchased for Treasury	0	(47,633)	(2,367)
Common Stock Purchased for ESOP Contribution	(6,000)	(17,863)	(34,600)
Total Financing Uses	**(54,121)**	**(96,975)**	**(64,786)**
Net Cash Used In Financing Activities	**$ (44,360)**	**$ (78,141)**	**$ (28,855)**
Net Increase (Decrease) in Cash**	$ (4,691)	$ 16,368	$ (6,124)
Cash** Beginning of Year	60,257	43,889	50,013
Cash End of Year**	**$ 55,566**	**$ 60,257**	**$ 43,889**

*Before adjustments for changes in related current assets and liabilities
**Cash and cash equivalents
See accompanying notes to consolidated financial statements.

Management's Discussion and Analysis

Cash Flow

In 1988 we adopted Statement of Financial Accounting Standards No. 95, providing "Statements of Cash Flows" to replace the "Statements of Changes in Financial Position" used in previous years. This new statement classifies cash receipts and payments according to their sources and uses in operating activities, investing activities, and financing activities. It also considers changes in current assets and liabilities as part of "Net Cash Provided By Operating Activities." However, our major current assets and liabilities (receivables, payables, and inventory) fluctuate from month to month as much as 30% due to seasonal purchase trends and payment terms. Therefore, we prefer the subtotal "Cash Flow From Operations" as a more stable measure of our long-term cash flow trends.

Our analysis will, therefore, concentrate on Cash Flow From Operations (Earnings plus Depreciation plus Deferred Taxes, less Gain on Disposition of Fixed Assets). Cash Flow measured in this way increased 11% from 1987 to 1988 and 6% in 1989. The major component of this increase is Net Earnings, which grew 13% and 8% in 1988 and 1989 respectively.

Depreciation and Deferred Income Taxes are adjustments to Net Earnings because they are charges for which no cash is required. Depreciation is the periodic expensing of assets over their estimated useful lives. Since 1980, we have more than tripled our retail sales floor square footage and we are still depreciating assets from our expansion program. Deferred Taxes represent state and federal income taxes which are postponed to a later year due to deductions or other adjustments allowed on our tax returns (e.g. accelerated depreciation). The Gain or Loss on Disposition of Fixed Assets is removed from the total because it is not considered an operating activity.

For readers who would like to compare our Cash Flow with that of companies which report on a FIFO basis, we present the following formula:

From:	FIFO Pre-Tax Earnings
Subtract:	Actual Taxes (from the Earnings Statement)
Add:	Depreciation and Deferred Taxes
Result:	Comparative Cash Flow

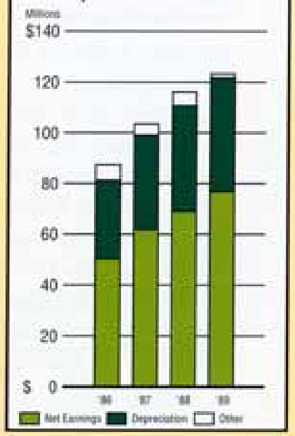
In order to illustrate the other parts of the Statement of Cash Flows, we present graphs 8 and 9. Graph 8 shows that Cash Flow From Operations, has been our largest source of funding for the past three years. In 1987, we obtained long-term debt financing to fund our ESOP contribution because of advantageous tax treatment, as discussed in the balance sheet analysis. We also obtained other ESOP related debt at lower levels in 1988 and 1989. Our other major source of cash during the three-year period was the large increase in accounts payable for 1988.

In addition to sources of funds currently in use, we have agreements and lines of credit aggregating $190 million for short-term borrowing and letters of credit. Also, based on restrictions of current loan covenants, we could borrow up to an additional $84 million of long-term debt.

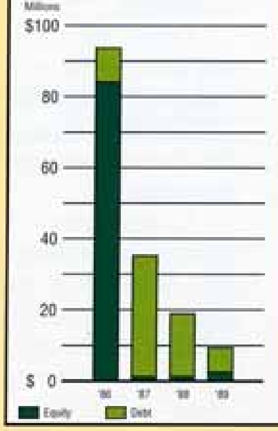
Graph 9 illustrates the changes in our uses of cash over the past four years. Two constant uses are fixed asset purchases and dividend payments. Over the last three years, we have invested $266 million in fixed assets. This is more than our total fixed assets at the end of 1984, reflecting our continued commitment to our expansion program. Dividends increased from $17 million in 1987 to $18 million in 1989 even after the effect of the treasury stock repurchase. Dividends per share increased from $.43 to $.49 from 1987 to 1989. It should be noted that the combined Cash Flow From Operations for 1987, 1988 and 1989 exceeded the total fixed asset purchases and the total dividend payments during this period.

The other material uses of cash have varied each year as opportunities arose. In 1989, we accelerated the retirement of $17 million of our 11.5% notes in addition to normal debt retirements. In 1987 and 1988 we repurchased a portion of our common stock following the October 1987 stock market crash at an average price of $20.01 per share. Another use of funds in each of the three years was the purchase of stock for our ESOP contribution using the previously mentioned specialized financing.

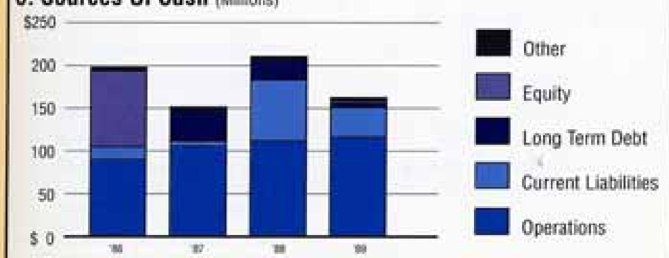
7a. Cash Flow From Operations



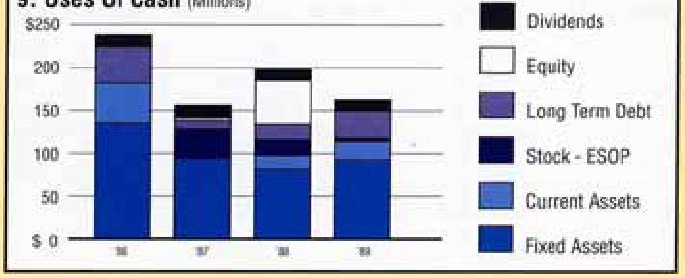
7b. External Sources Of Cash



8. Sources Of Cash (Millions)



9. Uses Of Cash (Millions)



Notes to Consolidated Financial Statements

Lowe's Companies, Inc. and Subsidiary Companies
Fiscal Years Ended January 31, 1990, 1989 and 1988

Note 1, Summary of Significant Accounting Policies:

The Company is a specialty retailer in the do-it-yourself home center business, the consumer durables business and the building contractor business. Below are those policies considered significant.

Subsidiaries and 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.

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.

Short-Term Investments — The Company has a cash management program which provides for the investment of excess cash balances in short-term instruments which generally mature within 30 days. These investments are stated at cost which approximates market. Interest is accrued when earned.

Accounts Receivable — The allowance for doubtful accounts is based on historical experience and a review of existing receivables. Sales generated through the Company's private label credit card and consumer installment sales are not reflected in receivables. These receivables are sold, without recourse, to outside finance companies.

Merchandise Inventory — Inventory is stated at the lower of cost or market. 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.

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 are removed from the accounts with gains and losses reflected in earnings.

Depreciation is provided over the estimated useful lives of the depreciable assets. Assets placed in service prior to January 31, 1981 were generally on an accelerated method of depreciation. Subsequent property additions are depreciated on the straight-line method. Leasehold improvements are depreciated over the shorter of their estimated useful lives or term of the subject lease.

Leases — Assets under capital leases are amortized in accordance with the Company's normal depreciation policy for owned assets. The charge to earnings resulting from amortization of these assets is included in depreciation expense in the consolidated financial statements.

Income Taxes — In Fiscal 1987, the Company changed its method of accounting for income taxes to conform with the provisions of Statement of Financial Accounting Standards No. 96 (SFAS No. 96), "Accounting for Income Taxes" which was issued in December 1987. SFAS No. 96 requires the use of the liability method of accounting for income taxes wherein a deferred tax liability or asset is determined based on temporary differences between the tax and financial accounting bases of assets and liabilities as of the balance sheet date multiplied by the statutory tax rate in effect at the time the differences will reverse. Prior to Fiscal 1987, deferred income taxes resulted from timing differences between pre-tax financial accounting income and taxable income using tax rates in effect when the timing difference originated. As permitted by SFAS No. 96, the Company chose not to restate the financial statements of years prior to Fiscal 1987 and, accordingly, the cumulative effect of the accounting change on prior years is included in Fiscal 1987 earnings (Note 6).

Employee Retirement Plans — Since 1957 the Company has maintained benefit plans for its employees as described in Note 7. The plans are funded annually.

Interest Costs — Interest costs associated with construction are capitalized and charged to earnings over the lives of the new assets.

Earnings Per Share — Earnings per share are calculated on the weighted average shares of common stock and dilutive common stock equivalents outstanding each year.

Reclassification — Certain amounts in Fiscal 1987 and 1988 have been reclassified to conform with the Fiscal 1989 classification.

Note 2, Merchandise Inventory:

The Company uses the LIFO method to determine inventory costs. If the first-in, first-out (FIFO) method had been used, inventories would have been $34.2 million, $30.7 million and $25.6 million higher at January 31, 1990, 1989 and 1988, respectively. Under FIFO, net earnings would have been $2.4 million or 7 cents per share higher for Fiscal 1989, $3.2 million or 8 cents per share higher for Fiscal 1988, and $2.2 million or 6 cents per share higher for Fiscal 1987.

Note 3, Property and Accumulated Depreciation:

Net property includes $17.3 million, $21.7 million and $27.0 million in assets from capital leases for Fiscal 1989, 1988 and 1987, respectively.

Property is summarized below by major class:

	January 31, 1990	1989	1988
Dollars in Thousands			
Cost:			
Land	$ 94,081	$ 96,916	$ 87,439
Buildings	354,300	316,620	285,477
Store and Office Equipment	221,311	195,551	185,046
Leasehold Improvements	36,486	32,506	29,553
Total Cost	**706,178**	**641,593**	**587,515**
Accumulated Depreciation	(198,367)	(161,707)	(134,507)
Net Property (Note 10)	**$507,811**	**$479,886**	**$453,008**

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

The Company has agreements with a group of banks which provide for short-term unsecured borrowings of up to $40 million with interest at the lower of prime or bank transaction rate.

In addition, several banks have extended lines of credit aggregating $150 million for the purpose of issuing documentary letters of credit, standby letters of credit or other short-term borrowings.

The following relates to aggregate short-term borrowing from banks and to the use of the Company's commercial paper in Fiscal 1989, 1988 and 1987, none of which were outstanding at January 31, 1990, 1989 and 1988:

Category of Aggregate Short-Term Borrowings	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
Dollars in Thousands			
Fiscal 1989			
Commercial Paper	$71,000	$17,573	9.6%
Bank Borrowings	55,000	25,038	9.5
Fiscal 1988			
Commercial Paper	68,733	37,777	7.6
Bank Borrowings	85,000	28,836	8.0
Fiscal 1987			
Commercial Paper	75,950	52,328	6.7
Bank Borrowings	$56,500	$10,195	7.8%

Note 5, Long-Term Debt:

Debt Category	Interest Rates January 31, 1990	Year of Maturity	January 31, 1990	1989	1988
Dollars in Thousands					
Secured Debt [1]:					
Insurance Company Notes	6.75% to 9%	1994	$ 7,378	$ 9,853	$ 12,739
Bank Notes	8.75% to 11%	1994	230	282	352
Industrial Revenue Bonds	10.625%	2014	2,100	2,410	2,570
Industrial Revenue Bonds	64% to 85.5% of Prime	1998	4,163	5,163	6,173
Other Notes	2% to 10%	1998	998	1,813	2,069
Unsecured Debt:					
Insurance Company Notes [2]	8.25% to 12.75%	1994	31,800	33,900	36,000
Industrial Revenue Bonds	75.8% to 77% of Prime	2000	15,285	16,924	17,245
Industrial Revenue Bonds [3]	6.5%	2005	11,700	11,700	11,700
Unsecured Notes	11.5%	1995	27,789	44,882	44,863
Bank Notes [2]	7.01% to 7.43%	1990	57,955	51,955	34,600
Capital Leases (Note 10)	**4.14% to 15.98%**	**2018**	**19,156**	**23,565**	**29,582**
Total Long-Term Debt			**178,554**	**202,447**	**197,893**
Less Current Maturities			**10,658**	**12,391**	**11,674**
Long-Term Debt, Excluding Current Maturities			**$167,896**	**$190,056**	**$186,219**

The Company, in a public offering on April 1, 1985, issued $75 million of 11.5% unsecured notes at a discount of .426%. The discount and issuance costs are being amortized over the life of the notes. In January 1987, the Company accelerated the retirement of $30 million of this debt. During February and March of 1989, an additional $17.15 million retirement was accelerated, incurring $824 thousand of early retirement costs. The remaining notes may be redeemed in whole or in part, without penalty, by the Company at any time after April 1, 1992 at the principal amount and accrued interest to the date fixed for redemption. The notes are governed by an indenture which, among other things, places certain restrictions on the issuance or guarantee of additional indebtedness.

In 1988, the Company entered into two interest rate agreements (interest rate swaps) with a bank for initial aggregate amounts of $9 million and $11.9 million. Under the first agreement, the Company is required to pay interest at a fixed rate of 9.49%. In return, the Company will receive interest payments on the same declining principal balance calculated at prime rate, fixed quarterly. Under the second agreement, the Company is required to pay interest at 70% of prime rate, fixed quarterly. In return, the Company will receive interest payments on the same declining principal balance at a fixed rate of 7.29%.

Debt maturities, exclusive of capital leases (see Note 10), for the next five fiscal years are as follows (in millions): 1990, $6.2; 1991, $5.8; 1992, $15.1; 1993, $13.7; 1994, $12.7.

[1] Real properties pledged as collateral for secured debt had net book values, in millions, at January 31, 1990, as follows: insurance company notes — $43.6; bank notes — $.7; industrial revenue bonds — $13.0; and other notes — $17.7.

[2] The unsecured bank loans were obtained for the purpose of acquiring the Company's common stock to fund the ESOP. These loans and the insurance company notes require that certain financial conditions be maintained, restrict other borrowings, and limit the payment of dividends. After giving effect to the most restrictive provisions, approximately $212.3 million of consolidated retained earnings is available for payment of dividends, limited to $40 million during any one year.

[3] The Company issued notes to secure $11.7 million floating rate monthly demand industrial revenue bonds in Fiscal 1985. The interest rates are tied to an interest index based on comparable securities traded at par and other pertinent financial market rates. With certain restrictions the bonds can be converted to a fixed interest rate based on a fixed interest index at the Company's option.

Note 6, Income Taxes:

Fiscal Years End on January 31 of Following Year	Fiscal 1989 Amount	Fiscal 1989 %	Fiscal 1988 Amount	Fiscal 1988 %	Fiscal 1987 Amount	Fiscal 1987 %
Dollars in Thousands			**Statutory Rate Reconciliation**			
Before Cumulative Effect of a Change in Accounting Principle (1987 only)						
Income Before Income Taxes	**$108,796**	**100.0%**	**$105,604**	**100.0%**	**$ 90,787**	**100.0%**
Federal Income Tax at Statutory Rate	36,991	34.0	35,905	34.0	35,407	39.0
State Income Taxes — Net of Federal Tax Benefit	1,853	1.7	3,951	3.7	3,323	3.7
Investment Tax Credits	78	.1	(391)	(.3)	(1,916)	(2.1)
Other	(5,038)	(4.7)	(3,062)	(2.9)	(1,981)	(2.2)
Total Tax Provision Before Cumulative Effect of a Change in Accounting Principle	**33,884**	**31.1**	**36,403**	**34.5**	**34,833**	**38.4**
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes					(5,226)	(5.8)
Total Income Tax Provision	**$ 33,884**	**31.1%**	**$ 36,403**	**34.5%**	**$ 29,607**	**32.6%**
			Components of Income Tax Provision			
Before Cumulative Effect of a Change in Accounting Principle:						
Current						
Federal	$ 29,370	86.7%	$ 26,102	71.7%	$ 25,674	86.7%
State	2,111	6.2	5,146	14.1	5,042	17.0
Total Current	**31,481**	**92.9**	**31,248**	**85.8**	**30,716**	**103.7**
Deferred						
Federal	1,706	5.0	4,315	11.9	3,563	12.1
State	697	2.1	840	2.3	554	1.9
Total Deferred	**2,403**	**7.1**	**5,155**	**14.2**	**4,117**	**14.0**
Total Tax Provision Before Cumulative Effect of a Change in Accounting Principle	**33,884**	**100.0**	**36,403**	**100.0**	**34,833**	**117.7**
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes					(5,226)	(17.7)
Total Tax Provision	**$ 33,884**	**100.0%**	**$ 36,403**	**100.0%**	**$ 29,607**	**100.0%**

Deferred income taxes arise principally from the temporary differences between financial reporting and income tax reporting of depreciation, accrued store closing costs, and certain other accrued expenses.

The Company's consolidated Federal income tax returns for Fiscal 1981 through Fiscal 1984 have been examined by the Internal Revenue Service, a routine occurrence for companies of Lowe's size. Certain of the issues raised by the Internal Revenue Service are currently in the appeals process. Collectively, the issues under appeal, if settled as proposed, would not have a material effect on the Company's consolidated financial statements. Federal income tax returns for Fiscal 1985 and Fiscal 1986 are currently under examination. No material adjustments are expected to be received for these years.

Note 7, Employee Retirement Plans:

The Company's contribution to its Employee Stock Ownership Plan (ESOP) is approved annually by the Board of Directors. The Board authorized contributions totalling 13% of eligible compensation for each of the Fiscal Years 1989, 1988 and 1987.

During Fiscal 1989, to complete funding of the Company's Fiscal 1988 ESOP contribution, the Company purchased on the open market and simultaneously contributed to the ESOP 221,600 shares at a cost of $6.0 million. In January 1990, the Company prefunded, in cash, $1.0 million of its Fiscal 1989 ESOP contribution. At January 31, 1990 the Employee Stock Ownership Trust held approximately 24.5% of the outstanding stock of the Company and was its largest shareholder.

The Board of Directors approves contributions to the Company's Employee Savings and Investment Plan each year based upon a matching formula applied to employee contributions. Company contributions to this plan for Fiscal 1989, 1988 and 1987 were $2.6, $2.0 and $1.9 million, respectively.

Note 8, Shareholders' Equity:

Authorized shares of common stock were 120 million at January 31, 1990, 1989 and 1988.

Transactions affecting the shareholders' equity section of the consolidated balance sheets are summarized as follows:

In Thousands	Shares	Dollars in Thousands				Shareholders' Equity
	Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total Equity
Balance January 31, 1987	**39,624**	**$19,812**	**$176,448**	**$344,274**		**$540,534**
Net Earnings				61,180		61,180
Cash Dividends				(17,040)		(17,040)
Stock Options Exercised (Note 9)	6	3	126			129
Treasury Stock Purchases	(132)				$(2,367)	(2,367)
Balance January 31, 1988	**39,498**	**19,815**	**176,574**	**388,414**	**(2,367)**	**582,436**
Net Earnings				69,201		69,201
Cash Dividends				(17,281)		(17,281)
Stock Options Exercised (Note 9)	8	4	124			128
Treasury Stock Purchases	(2,367)				(47,633)	(47,633)
Balance January 31, 1989	**37,139**	**19,819**	**176,698**	**440,334**	**(50,000)**	**586,851**
Net Earnings				74,912		74,912
Cash Dividends				(18,228)		(18,228)
Stock Options Exercised (Note 9)	119	59	2,035			2,094
Treasury Stock Received for Exercise of Stock Options	(3)				(71)	(71)
Balance January 31, 1990	**37,255**	**$19,878**	**$178,733**	**$497,018**	**$(50,071)**	**$645,558**

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 stockholders) 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.

In December 1987, the Board of Directors approved a $50 million treasury stock program allowing the Company's common stock to be repurchased on the open market and held in the treasury for future issuance and reflected as such in the balance sheet. At January 31, 1988, 132,100 shares had been purchased at a cost of $2.4 million or an average of $17.91 per share. In Fiscal 1988, 2,366,850 shares were purchased at a cost of $47.6 million or an average of $20.12 per share. The total purchases under the program aggregated 2,498,950 shares at a purchase cost of $50 million or an average of $20.01 per share.

On September 9, 1988, the Board of Directors adopted 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. Each unit is 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.

Note 9, Stock Options:

During Fiscal 1985, shareholders approved a stock option plan under which incentive and non-qualified stock options may be granted to key employees. One million common shares were reserved for option purposes. Options granted are exercisable from the date of grant through expiration dates which range from 1991 through 1994.

Option information is summarized as follows:

Key Employee Stock Option Plan	Shares	Option price Per share
	In Thousands	
Outstanding January 31, 1987	**163**	**$21.375 to $23.375**
Granted*	223	16.25
Cancelled or Expired	(20)	16.25 to 21.375
Exercised	(6)	21.375
Outstanding January 31, 1988	**360**	**16.25 to 23.375**
Cancelled or Expired	(12)	16.25 to 21.375
Exercised	(8)	16.25
Outstanding January 31, 1989	**340**	**16.25 to 23.375**
Granted	252	Variable to 25.50
Cancelled or Expired	(7)	16.25 to 25.50
Exercised	(119)	16.25 to 25.50
Outstanding January 31, 1990	**466**	**Variable to $25.50**

*During Fiscal 1987, the Company made three grants with the aggregate number of shares granted under each of the second and third grants issued as substitutions being equal to and replacing each preceding grant adjusted for forfeitures and cancellations.

Prior to Fiscal 1989, all options granted were incentive options whereby the option prices were at least equal to the fair market values of the stock at the grant dates. During Fiscal 1989, however, all options granted were adjustable nonqualified options exercisable at a maximum price of $25.50 per share. The actual option price, if lower than $25.50, is determined on the date each option is exercised according to a formula stipulated by the Plan.

During Fiscal 1989, shareholders approved a Non-Employee Directors' Stock Option Plan. This Plan provides that adjustable non-qualified options representing 1,000 shares of Lowe's common stock shall be granted to each outside Director following the Annual Meeting in 1989, 1990, 1991, 1992 and 1993. Fifty thousand shares of common stock are reserved to fulfill the requirements of this Plan. Options representing seven thousand shares were granted under this Plan during Fiscal 1989 at a maximum option price of $25.50 per share, none of which have been exercised.

Note 10, Leases:

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

	Operating Leases		Capital Leases		
Fiscal Year	**Real Estate**	**Equipment**	**Real Estate**	**Equipment**	**Total**
Dollars in Thousands					
1990	$ 6,452	$ 2,734	$ 1,066	$ 5,227	$ 15,479
1991	7,777	2,528	1,066	4,001	15,372
1992	7,090	2,185	1,058	1,882	12,215
1993	6,278	1,500	1,029	436	9,243
1994	5,750	170	1,008	246	7,174
Later years	59,583	224	20,767	46	80,620
Total Minimum Lease Payments	**$92,930**	**$9,341**	**$25,994**	**$11,838**	**$140,103**
Total Minimum Capital Lease Payments			$ 37,832		
Less Amount Representing Interest			18,676		
Present Value of Minimum Lease Payments			19,156		
Less Current Maturities			4,360		
Present Value of Minimum Lease Payments, Less Current Maturities			**$14,796**		

Rental expenses under operating leases for real estate and equipment were $8.8 million, $7.2 million and $6.6 million in Fiscal 1989, 1988 and 1987, respectively.

Note 11, Commitments, Contingencies and Litigation:

The Company had purchase commitments at January 31, 1990 of approximately $7.5 million for land, buildings and construction of facilities, and $6.5 million for equipment. The Company is a defendant in several legal proceedings which are considered to be in the normal course of business and none of which, singularly or collectively, are considered material to the Company as a whole. Potential liability under these lawsuits is covered by insurance. There are, however, two separate lawsuits each in excess of $10 million not considered above in which the Company is a co-defendant among several defendants. These lawsuits involve sales or alleged sales of a certain specialty building product which has been alleged faulty. This product was not manufactured or processed by the Company. In addition, there are a few lesser significant related product liability claims or proceedings. Sales of the product mentioned above spans approximately eight years. Insurance protection that may be available to the Company has not been specifically determined. The Company has generally experienced limited financial exposure in product liability claims. Management does not believe the Company has any significant monetary exposure and has not provided loss reserves for the two legal proceedings or claims in question except for a provision to cover potential litigation costs.

Note 12, Other Information:

The allowance for doubtful accounts, which is netted with accounts receivable in the consolidated balance sheets, is summarized as follows:

Years Ended January 31,	1990	1989	1988
Dollars in Thousands			
Allowance for Doubtful Accounts:			
Balance Beginning of Year	$ 4,179	$ 3,852	$ 4,327
Additions Charged to Expenses	3,771	4,439	5,897
Deductions for Accounts Charged Off	(3,881)	(4,112)	(6,372)
Balance End of Year	**$ 4,069**	**$ 4,179**	**$ 3,852**

Net interest expense is comprised of the following:

Years Ended January 31,	1990	1989	1988
Dollars in Thousands			
Long-Term Debt	$ 18,095	$ 18,936	$ 18,634
Short-Term Debt	4,074	5,183	4,312
Amortization of Loan Costs	243	125	110
Cost of Early Debt Retirement	824		
Short-Term Interest Income	(1,787)	(1,784)	(1,779)
Interest Capitalized	(2,221)	(1,470)	(1,803)
Net Interest Expense	**$19,228**	**$20,990**	**$19,474**

Cash and cash equivalents are comprised of the following:

As of January 31,	1990	1989	1988
Dollars in Thousands			
Cash	$ 15,156	$ 3,757	$ 13,889
Short-Term Investments	40,410	56,500	30,000
Total	**$55,566**	**$60,257**	**$43,889**

Supplemental disclosures of cash flow information:

Years Ended January 31,	1990	1989	1988
Dollars in Thousands			
Cash Paid for Interest			
(Net of Amount Capitalized)	$ 23,944	$ 24,159	$ 20,953
Cash Paid for Income Taxes	34,061	32,147	35,504
Fixed Assets Acquired Under			
Capital Leases		62	10,231
Stock Issued to ESOP (Note 7)	6,000	$ 17,863	$ 34,600
Treasury Stock Received for			
Exercise of Stock Options	$ 71		

Advertising expenses were $48.3, $37.0 and $39.1 million for Fiscal 1989, 1988 and 1987, respectively.

Note 13, Closed Stores:

On the Consolidated Balance Sheets the Company has classified closed stores' land and buildings under the "other assets" caption at their net estimated realizable value.

In December 1987, the Company closed 16 nonprofitable stores. Closing expenses of $9.8 million for these 16 stores is shown separately in the 1987 Consolidated Statement of Current and Retained Earnings and include accruals for all incurred and anticipated expenses directly related to these closings. Of the 16 stores, 13 were owned and 3 were leased. Five other stores were closed during Fiscal 1987 prior to December with the expenses associated with these closings considered normal operating expenses.

The Company closed 6 stores in Fiscal 1988 and 2 stores in Fiscal 1989. The expenses associated with these closings were considered normal operating expenses.

Management's Responsibility for Financial Reporting

Lowe's management is responsible for the preparation of the financial statements, which conform to generally accepted accounting principles and include amounts representing our best judgments and estimates. Lowe's management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. Lowe's Internal Audit Department monitors the internal control system and reports directly to the Audit Committee of our Board of Directors. We view the purpose of internal auditing as independent examination and assessment of company activities related to compliance with policy, procedures, and the law; the safeguarding of assets; the efficient use of resources; and the accomplishment of stated objectives and goals.

The Audit Committee of the Board of Directors consists of four independent directors. They report their findings to the Board and make a recommendation of independent accountants. For details please see the Audit Committee Chairman's Letter which follows.

Deloitte & Touche has reviewed our internal accounting systems and audited Lowe's financial statements in accordance with generally accepted auditing standards. Their report provides an independent opinion on the fairness of our presentation of the statements.

Audit Committee Chairman's Letter

The members of the Audit Committee of the Board of Directors are William A. Andres, John M. Belk, Robert G. Schwartz, and Gordon E. Cadwgan, Chairman. The committee held four meetings during fiscal 1989.

The Audit Committee oversees the company's financial reporting process on behalf of the Board of Directors. The committee has recommended the engagement of Deloitte & Touche as the company's independent public accountants, subject to shareholders' approval at the annual meeting. The committee discussed with the internal auditors and the independent accountants the overall scope and specific plans for their respective audits. The committee also met regularly with the internal auditors and independent public accountants, without management present, to discuss their assessments of internal controls and the accuracy, as well as the overall quality of Lowe's financial reporting.

Gordon E. Cadwgan
Chairman, Audit Committee

Independent Auditors' Report

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

We have audited the consolidated balance sheets of Lowe's Companies, Inc. and subsidiary companies as of January 31, 1990, 1989 and 1988, and the related consolidated statements of current and retained earnings and cash flows for the fiscal years then ended. 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, the consolidated financial statements referred to above present fairly, in all material respects the consolidated financial position of Lowe's Companies, Inc. and subsidiary companies at January 31, 1990, 1989 and 1988, the consolidated results of their operations and their cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for income taxes in the fiscal year ended January 31, 1988.

Deloitte & Touche
Charlotte, North Carolina
March 19, 1990

Selected Financial Data

Lowe's Companies, Inc. and Subsidiary Companies
Dollars in Thousands, Except Per Share Data

Fiscal Years End on January 31 of Following Year	1989	1988	1987	1986	1985
Selected Income Statement Data:					
Net Sales	$2,650,547	$2,516,879	$2,442,177	$2,283,480	$2,072,569
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	74,912	69,201	55,954	55,104	59,714
Extraordinary Item:					
Debt Retirement Net of Taxes of $2,798	—	—	—	(2,885)	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—	—	5,226	—	—
Net Earnings	74,912	69,201	61,180	52,219	59,714
Earnings Per Common Share:					
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	2.01	1.83	1.41	1.41	1.64
After Extraordinary Item and Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	$ 2.01	$ 1.83	$ 1.54	$ 1.34	$ 1.64
Selected Balance Sheet Data:					
Total Assets	$1,147,394	$1,085,797	$1,027,329	$ 969,219	$ 856,191
Long-Term Debt, Including Current Maturities	$ 178,554	$ 202,447	$ 197,893	$ 162,879	$ 192,582

Three Months Ended		January 31	October 31	July 31	April 30
Selected Quarterly Data*					
Fiscal 1989	Net Sales	$599,549	$702,670	$746,196	$602,132
	Gross Margin	146,074	168,336	183,770	148,203
	Net Earnings	10,121	20,277	29,928	14,586
	Earnings Per Share	.27	.54	.80	.39
Fiscal 1988	Net Sales	569,552	652,122	704,606	590,599
	Gross Margin	137,456	152,635	169,657	140,698
	Net Earnings	11,794	15,893	26,428	15,086
	Earnings Per Share	.32	.43	.70	.39
Fiscal 1987	Net Sales	502,427	645,558	725,057	569,135
	Gross Margin	121,612	152,876	171,398	138,051
	Earnings Before Cumulative Effect of a Change in Accounting Principle	648	16,932	24,528	13,846
	Cumulative Effect of a Change in Accounting Principle				5,226
	Net Earnings	648	16,932	24,528	19,072
	Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle	.02	.43	.62	.35
	Earnings Per Share After Cumulative Effective of a Change in Accounting Principle	$ .02	$ .43	$ .62	$ .48

*LIFO Adjustment

Fiscal 1989 — The total LIFO effect for the year was a charge of $3.5 million. A charge of $5.4 million against earnings was made through the first nine months, resulting in a fourth quarter credit of $1.9 million.
Fiscal 1988 — The total LIFO effect for the year was a charge of $5.1 million. A charge of $4.7 million against earnings was made through the first nine months, resulting in a fourth quarter charge of $.4 million.
Fiscal 1987 — The total LIFO effect for the year was a charge of $3.8 million. A charge of $2.6 million against earnings was made through the first nine months, resulting in a fourth quarter charge of $1.2 million.

Store Closings

In fiscal 1987, the fourth quarter includes expenses incurred of $9.8 million related to the closing of 16 stores in December 1987 as discussed in Note 13 to the consolidated financial statements.

Stock Performance

Lowe's Quarterly Stock Price Range and Cash Dividend Payment

	Fiscal 1989			Fiscal 1988			Fiscal 1987		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	$25 3/4	$22 1/8	$.12	$21	$18	$.11	$32 1/2	$25 1/8	$.10
2nd Quarter	27 1/4	24	.12	23 1/4	19	.11	28 1/2	23 5/8	.11
3rd Quarter	32 1/8	26 3/8	.12	24 3/8	18 3/4	.12	29 1/8	16 7/8	.11
4th Quarter	$31 1/4	$28 7/8	$.13	$24	$19 1/4	$.12	$21 5/8	$15 1/4	$.11

Source: *Wall Street Journal*

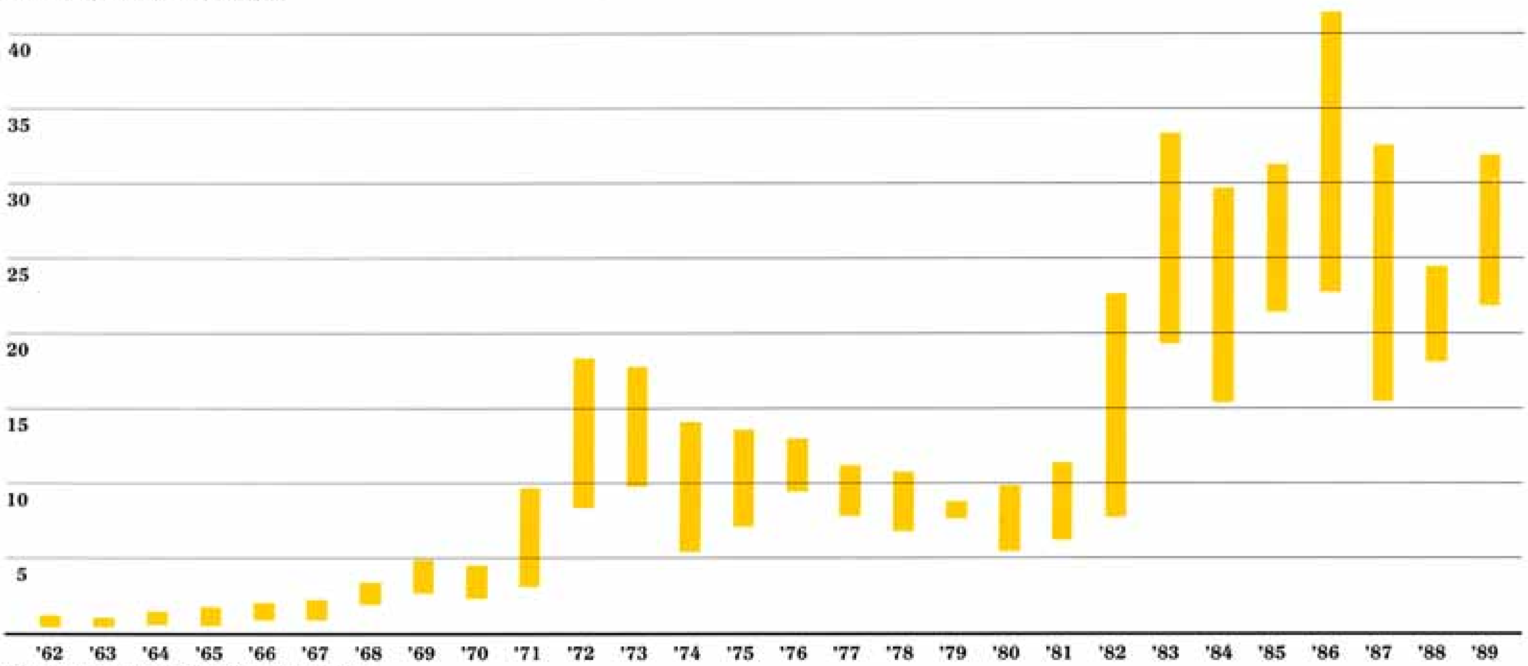
Monthly Stock Price and Trading Volume

	Fiscal 1989			Fiscal 1988		
	High	Low	Shares Traded	High	Low	Shares Traded
February	$24 1/2	$22 1/8	1,104,100	$20 1/4	$18	1,626,300
March	25 3/4	22 3/4	1,446,000	21	18 7/8	1,465,200
April	25 1/2	22 1/4	1,826,600	21	19	1,330,300
May	25 5/8	24	972,300	20 3/4	19	1,418,200
June	27 1/4	24 3/4	1,285,600	23 1/4	19 3/4	1,701,500
July	26 5/8	25	839,600	22 1/8	20	990,900
August	31 3/8	26 3/8	2,293,800	22	18 3/4	1,199,700
September	31 5/8	29 1/4	1,062,700	21 3/8	19 3/8	1,058,300
October	32 1/8	28 1/4	1,227,600	24 3/8	20 3/8	1,021,600
November	30 1/4	28 5/8	824,400	24	20 5/8	2,004,100
December	31 1/4	28 7/8	1,218,500	21 3/8	19 1/4	1,196,400
January	$29 3/4	$25 5/8	1,471,400	$23	$20 3/4	1,061,400

Source: *Wall Street Journal*

High–Low Stock Price*

Dollars; Adjusted for All Stock Splits



*Based on fiscal years; prior to '73, year-end was July 31.
Sources: *Monthly Market Statistics Report*, New York Stock Exchange, *The Wall Street Journal*

Quarterly Review of Performance

Earnings Statement
Dollars in Thousands

Quarter Ended	1/31/90	10/31/89	7/31/89	Fiscal 1989 4/30/89	1/31/89	10/31/88	7/31/88	Fiscal 1988 4/30/88
Net Sales	**$599,549**	**$702,670**	**$746,196**	**$602,132**	**$569,552**	**$652,122**	**$704,606**	**$590,599**
FIFO Gross Margin	144,214	169,336	185,824	150,558	137,810	153,835	171,600	142,259
LIFO Credit (Charge)	1,860	(1,000)	(2,054)	(2,355)	(354)	(1,200)	(1,943)	(1,561)
LIFO Gross Margin	**146,074**	**168,336**	**183,770**	**148,203**	**137,456**	**152,635**	**169,657**	**140,698**
Expenses:								
S, G & A	110,000	115,989	117,504	104,078	99,769	106,211	106,999	97,081
Depreciation	12,361	11,677	11,299	10,797	10,961	10,260	9,992	9,971
Employee Retirement Plans	6,017	6,347	6,594	5,696	6,316	5,663	5,505	5,124
Interest (Note 12)	3,929	4,709	4,664	5,926	4,930	5,678	5,531	4,851
Total Expenses	**132,307**	**138,722**	**140,061**	**126,497**	**121,976**	**127,812**	**128,027**	**117,027**
Pre-Tax Earnings	13,767	29,614	43,709	21,706	15,480	24,823	41,630	23,671
Income Tax Provision	3,646	9,337	13,781	7,120	3,686	8,930	15,202	8,585
Net Earnings	**10,121**	**20,277**	**29,928**	**14,586**	**11,794**	**15,893**	**26,428**	**15,086**
Earnings Per Share	**$ .27**	**$ .54**	**$ .80**	**$ .39**	**$ .32**	**$ .43**	**$ .70**	**$ .39**

Earnings Statement Changes
Changes From Same Quarter Previous Year, to Nearest Tenth Percent

Quarter Ended	1/31/90	10/31/89	7/31/89	Fiscal 1989 4/30/89	1/31/89	10/31/88	7/31/88	Fiscal 1988 4/30/88
Net Sales	**5.3%**	**7.8%**	**5.9%**	**2.0%**	**13.4%**	**1.0%**	**(2.8)%**	**3.8%**
FIFO Gross Margin	4.6	10.1	8.3	5.8	12.2	(.1)	(.5)	2.7
LIFO Credit (Charge)*	(625.4)	(16.7)	5.7	50.9	(71.0)	11.4	88.1	212.2
LIFO Gross Margin	**6.3**	**10.3**	**8.3**	**5.3**	**13.0**	**(.2)**	**(1.0)**	**1.9**
Expenses:								
S, G & A	10.3	9.2	9.8	7.2	8.5	1.4	(3.1)	.6
Depreciation	12.8	13.8	13.1	8.3	8.0	3.0	4.9	11.9
Employee Retirement Plans	(4.7)	12.1	19.8	11.2	85.2	4.7	(15.2)	(19.8)
Interest (Note 12)	(20.3)	(17.1)	(15.7)	22.2	(6.0)	8.4	6.7	27.6
Total Expenses	**8.5**	**8.5**	**9.4**	**8.1**	**1.2**	**1.9**	**(2.7)**	**1.2**
Pre-Tax Earnings	(11.1)	19.3	5.0	(8.3)	1371.5	(9.6)	4.6	5.4
Income Tax Provision	(1.1)	4.6	(9.3)	(17.1)	812.4	(15.3)	(.4)	(.4)
Net Earnings	**(14.2)%**	**27.6%**	**13.2%**	**(3.3)%**	**1720.1%**	**(6.1)%**	**7.7%**	**9.0%**

*Percentage change denotes increase (decrease) in expenses.

Earnings Statement Percentages
Percent of Sales to Nearest Hundredth; Income Tax is Percent of Pre-Tax Earnings

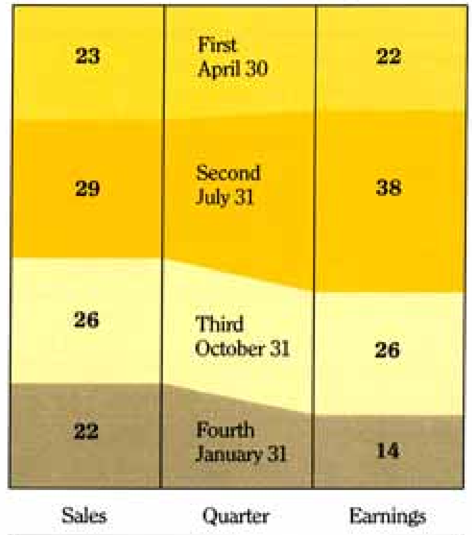
Quarter Ended	1/31/90	10/31/89	7/31/89	Fiscal 1989 4/30/89	1/31/89	10/31/88	7/31/88	Fiscal 1988 4/30/88
Net Sales	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
FIFO Gross Margin	24.05	24.10	24.91	25.00	24.19	23.59	24.36	24.08
LIFO Credit (Charge)	.31	(.14)	(.28)	(.39)	(.06)	(.18)	(.28)	(.26)
LIFO Gross Margin	**24.36**	**23.96**	**24.63**	**24.61**	**24.13**	**23.41**	**24.08**	**23.82**
Expenses:								
S, G & A	18.35	16.51	15.75	17.28	17.52	16.29	15.19	16.44
Depreciation	2.06	1.66	1.51	1.79	1.92	1.57	1.42	1.69
Employee Retirement Plans	1.00	.90	.88	.95	1.11	.87	.78	.87
Interest (Note 12)	.65	.68	.63	.99	.86	.87	.78	.81
Total Expenses	**22.06**	**19.75**	**18.77**	**21.01**	**21.41**	**19.60**	**18.17**	**19.81**
Pre-Tax Earnings	2.30	4.21	5.86	3.60	2.72	3.81	5.91	4.01
Income Tax Provision	26.48	31.53	31.53	32.80	23.81	35.97	36.52	36.27
Net Earnings	**1.69%**	**2.89%**	**4.01%**	**2.42%**	**2.07%**	**2.44%**	**3.75%**	**2.55%**

Customer Sales Profile
Dollars in Millions, Rounded Totals

		Fiscal 1989		Fiscal 1988	
	Change	Sales	% Total	Sales	% Total
1st Quarter					
HC[1]	+ 10%	$ 280.4	46%	$ 254.9	43%
CD[2]	+ 7	95.5	16	89.5	15
BC[3]	− 8	226.2	38	246.2	42
Totals	**+ 2**	**602.1**	**100**	**590.6**	**100**
2nd Quarter					
HC	+ 11	351.6	47	317.9	45
CD	+ 16	125.4	17	107.7	15
BC	− 3	269.2	36	279.0	40
Totals	**+ 6**	**746.2**	**100**	**704.6**	**100**
3rd Quarter					
HC	+ 13	339.0	48	299.4	46
CD	+ 6	85.8	12	81.0	12
BC	+ 2	277.9	40	271.7	42
Totals	**+ 8**	**702.7**	**100**	**652.1**	**100**
4th Quarter					
HC	+ 11	272.5	45	245.9	43
CD	+ 12	99.3	17	88.6	16
BC	− 3	227.7	38	235.1	41
Totals	**+ 5%**	**$599.5**	**100%**	**$569.6**	**100%**

[1] HC: sales to home center customers (cash or non-recourse credit).
[2] CD: sales to consumer durables customers (cash or non-recourse credit).
[3] BC: sales to building contractors (Lowe's-extended credit).

1984–1989 Sales and Earnings
Percent of Total Year — A Six-Year Average



Store Sales Profile
Dollars in Millions, Rounded Totals

	Fiscal 1989					Fiscal 1988				
	Change	Sales	% Total	Stores	Per Store Average	Change	Sales	% Total	Stores	Per Store Average
1st Quarter										
Comparable Stores[1]	**1%**	**$591.7**	**98%**	**290**	**$2.0**	**+ 4%**	**$571.4**	**97%**	**285**	**$2.0**
New Stores[2]		10.4	2	6	1.7		19.2	3	11	1.7
Total Stores Reported[3]	**2**	**602.1**	**100**	**296**	**2.0**	**+ 4**	**590.6**	**100**	**296**	**2.0**
Less Closed Stores[4]							(6.0)		(6)	
Comparable Stores[5]							**584.6**		**290**	**2.0**
2nd Quarter										
Comparable Stores	**5**	**734.5**	**98**	**293**	**2.5**	**− 1**	**692.7**	**98**	**291**	**2.4**
New Stores		11.7	2	7	1.7		11.9	2	8	1.5
Total Stores Reported	**6**	**746.2**	**100**	**300**	**2.5**	**− 3**	**704.6**	**100**	**299**	**2.4**
Less Closed Stores							(6.3)		(6)	
Comparable Stores							**698.3**		**293**	**2.4**
3rd Quarter										
Comparable Stores	**6**	**687.9**	**98**	**294**	**2.3**	**+ 2**	**639.2**	**98**	**292**	**2.2**
New Stores		14.8	2	7	2.1		12.9	2	7	1.8
Total Stores Reported	**8**	**702.7**	**100**	**301**	**2.3**	**+ 1**	**652.1**	**100**	**299**	**2.2**
Less Closed Stores							(5.0)		(5)	
Comparable Stores							**647.1**		**294**	**2.2**
4th Quarter										
Comparable Stores	**4**	**584.4**	**97**	**294**	**2.0**	**+14**	**559.4**	**98**	**291**	**1.9**
New Stores		15.1	3	12	1.3		10.2	2	7	1.5
Total Stores Reported	**5%**	**$599.5**	**100%**	**306**	**$2.0**	**+13%**	**569.6**	**100%**	**298**	**1.9**
Less Closed Stores							(5.1)		(4)	
Comparable Stores							**$564.5**		**294**	**$1.9**

[1] Comparable stores: stores which have been open for one year or more at the end of quarter.
[2] New stores: stores which have been open for less than a year, at end of quarter.
[3] Total stores reported: total stores reporting sales for the period.
[4] Closed stores: stores closed after the end of the period. Sales of closed stores must be subtracted in order to make the sales base comparable.
[5] Comparable stores (future): stores still open one year after the reporting period, i.e., those that are "comparable" to the next year's comparable stores.

Investor Information

Dividend Declaration Dates
Usually the middle of April, July, October and January.

Dividend Payment Dates
Usually the last of April, July, October and January.

Dividend Disbursing Agent
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
Bill Kepley
(919) 770-6190

Dividend Reinvesting Agent
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
Larry E. Watkins
(919) 770-4075

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

Lowe's Telephone
(919) 651-4000

Lowe's Fax
(919) 651-4766

Lowe's Telex
510-922-5737

Lowe's Mailing Address
Box 1111
North Wilkesboro, NC 28656-0001

Lowe's Street Address
State Highway 268 East (Elkin Highway)
North Wilkesboro, NC 28659-1111

Annual Meeting Date
May 21, 1990 at 10:00 a.m.
Lowe's Corporate Offices
North Wilkesboro, NC

Stock Transfer Agent & Registrar
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
Ginger Lakey
(919) 770-5822

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

The Stock Exchange (London)
Old Broad Street
London, EC2N1HP England

General Counsel
McElwee, McElwee, Cannon & Warden
906 B Street Rear
North Wilkesboro, NC 28659
(919) 838-1111

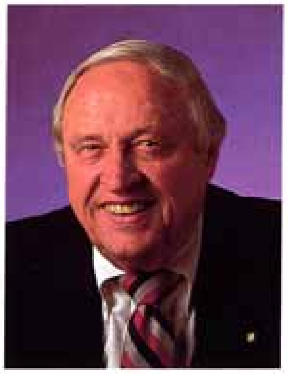
Certified Public Accountants
Deloitte & Touche
2000 First Citizens Bank Plaza
Charlotte, NC 28202
(704) 372-3560

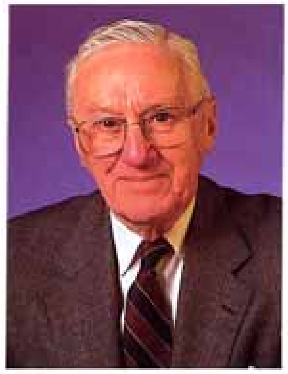
Shareholder Services
Shareholders' and security analysts' inquiries should be directed to:
W. Cliff Oxford, Vice-President, Corporate Relations
(919) 651-4631

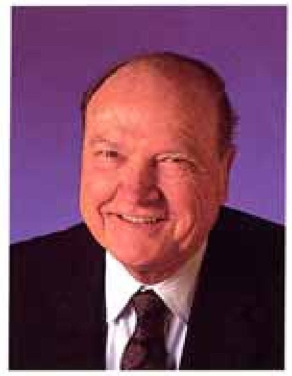
or Clarissa S. Felts, Manager, Investor Research
(919) 651-4254

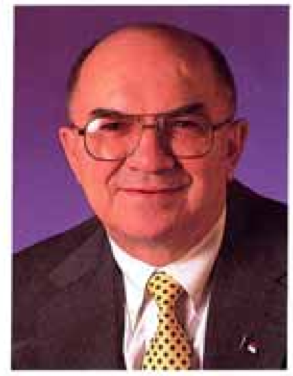
Board of Directors


Andres

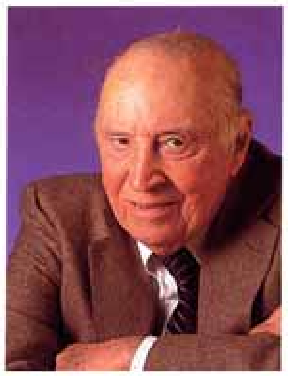

Belk


Cadwgan

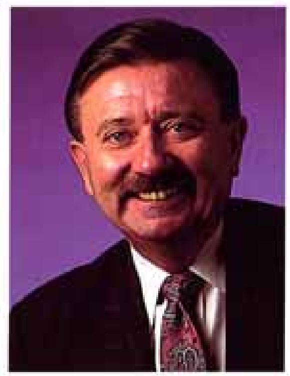

Herring

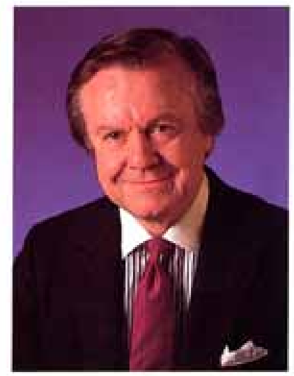

Kulynych


Long


McElwee


Schwartz


Shewmaker


Strickland

William A. Andres

Director since 1986, age 63. Chairman of Committee of Outside Directors, Member of Audit Committee and Compensation/Employee Stock Option Committee of the Company. Previously Chairman of the Board (1976–1985), Chairman of Executive Committee (1976–1985) of Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. (Mr. Andres retired in September, 1985.) Other directorships: Jostens, Inc., Minneapolis, Minn., since 1985; Exxon Corporation, New York, N.Y., since 1981; Scott Paper Company, Philadelphia, Penn., since 1983; The St. Paul Companies, St. Paul, Minn., since 1977; International Multifoods, Inc., Minneapolis, Minn., since 1978; Hannaford Bros., Scarborough, Maine, since 1986.

John M. Belk

Director since 1986, age 70. Member of Audit Committee, Compensation/Employee Stock Option Committee and Committee of Outside Directors 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; Southern Radio Corp., Charlotte, N.C., since 1963; Quantum Chemical Corp., New York, N.Y., since 1983; Chaparral Steel, Midlothian, Tex., since 1987. Other memberships: American Management Association; World Business Council; The Conference Board; American Retail Federation; National Retail Merchants Association; Board of Trustees, Davidson College; Board of Visitors, Johnson C. Smith University.

Gordon E. Cadwgan

Director since 1961, age 76. Chairman of Audit Committee, Member of Compensation/Employee Stock Option Committee, Executive Committee and Committee of Outside Directors of the Company. Trustee and Financial Consultant, affiliated with Tucker, Anthony & R.L. Day, Inc., Boston, Mass., since 1979. Other directorships: Third Century Fund, Inc., Providence, R.I., since 1981. Other memberships: Executive Committee, Third Century Fund, Inc. Other: Fellow Emeritus, Brown University.

Leonard G. Herring

Director since 1956, age 62. President and Chief Executive Officer since 1978, Chairman of Non-Employee Directors' Stock Option Committee, Member of Executive Committee and Government/Legal Affairs Committee of the Company. Other directorships: First Union Corporation, Charlotte, N.C., since 1986; First Brands Corporation, Danbury, Conn., since 1987; Northwestern Financial Corporation, North Wilkesboro, N.C., 1969–1985. Other memberships: Board of Visitors, University of North Carolina at Chapel Hill; North Carolina Business Council of Management and Development, Inc.; Executive Committee, Hardware Home Improvement Industry Council, The City of Hope National Medical Center. Other: Trustee, Pfeiffer College.

Petro Kulynych

Director since 1952, age 68. Member of Compensation/Employee Stock Option Committee and Executive Committee of the Company, having previously served as Managing Director (1978–1983). (Mr. Kulynych retired in December, 1983.) Other directorships: Local Board, Wachovia Bank & Trust Co., N.A., North Wilkesboro, N.C., since 1988; North Carolina Council on Economic Education; Carolina Motor Club, Inc. Other memberships: Medical Center Board of Visitors, Bowman Gray School of Medicine of Wake Forest University and North Carolina Baptist Hospital, Inc.

Russell B. Long

Director since 1987, age 71. Member of Compensation/Employee Stock Option Committee, Committee of Outside Directors and Government/Legal Affairs Committee of the Company. Partner, Long Law Firm (Attorneys-at-Law), Washington, D.C., since 1988; previously Partner, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey (Attorneys-at-Law), Washington, D.C., during 1987. Other directorships: Catalyst Vidalia Corporation, Vidalia, La., since 1989; Metropolitan Life Insurance Company, New York, N.Y., since 1987; The New York Stock Exchange, Inc., New York, N.Y., since 1987; Louisiana Land & Exploration Co., New Orleans, La., since 1987. Other memberships: Board of Advisors, Kelso and Company. Other: United States Senator, 1948–1987; Member, Senate Finance Committee, 1952–1987; Member, Joint Committee of Taxation, 1961–1987; Member, Senate Committee on Commerce, Science, and Transportation, 1966–1986; Member, Senate Select Committee on Ethics, 1985–1986; Member, Senate Finance Subcommittees on Health, Pensions and Investment Policy, and Social Security and Income Maintenance Programs, 1985–1986.

William H. McElwee, Sr.

Director since 1961, age 82. Managing Director and General Counsel since 1980 and Chairman of Government/Legal Affairs Committee, Member of Non-Employee Directors' Stock Option Committee of the Company. Partner, McElwee, McElwee, Cannon & Warden (Attorneys-at-Law), North Wilkesboro, N.C. Other memberships: Member Emeritus, North Carolina Board of Law Examiners; Local Board, North Carolina National Bank. Other: Trustee, Davis Hospital Endowment Fund; Fellow, American College of Trial Lawyers.

Robert G. Schwartz

Director since 1973, age 62. Chairman of Compensation/Employee Stock Option Committee, Member of Audit Committee and Committee of Outside Directors of the Company. Metropolitan Life Insurance Company, New York, N.Y. – Chairman of the Board since 1983, President and Chief Executive Officer since 1989 and Chairman of the Investment Committee since 1980. Other directorships: Potlatch Corporation, San Francisco, Calif., since 1973; Communications Satellite Corporation, Washington, D.C., since 1986; Mobil Corporation, New York, N.Y., 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; CS First Boston, Inc., New York, N.Y., since 1989; Vice-Chairman of the Board of Greater New York Councils Boy Scouts of America. Other: Trustee, Committee for Economic Development; Trustee, Economic Club of New York.

Jack C. Shewmaker

Director since 1985, age 52. Member of Compensation/Employee Stock Option Committee, Executive Committee and Committee of Outside Directors of the Company. Director of Wal-Mart Stores, Inc. (Discount Retail Chain), Bentonville, Ark., since 1977, having previously served as Vice-Chairman of the Board (1984–1988), Chief Financial Officer (1984–1988), President and Chief Operating Officer (1978–1984) of that company. (Mr. Shewmaker retired in February, 1988.) Other directorships: Vons Companies, Inc., El Monte, Calif., since 1988. Other memberships: Board of Trustees, Drury College.

Robert L. Strickland

Director since 1961, age 59. Chairman of the Board since 1978, Chairman of Executive Committee and Member of Government/Legal Affairs Committee and Non-Employee Directors' Stock Option Committee of the Company. Other directorships: Summit Communications, Atlanta, Ga., since 1987; The Wholesale Club, Indianapolis, Ind., since 1989; Elk River Development Corporation, Banner Elk, N.C., since 1981; Revelstoke Companies, Inc., Calgary, Alberta, Canada 1978-1988; Do-It-Yourself Research Institute since 1982; The Employee Stock Ownership Association since 1982; The Committee of Publicly Owned Companies since 1981. Other memberships: Home Center Leadership Council; Board of Trustees, the University of North Carolina at Chapel Hill since 1987. Other: Hardware Home Improvement Industry Council, The City of Hope National Medical Center, President 1988-1989, Executive Committee.

28-Year Review

Fiscal Years End January 31 of Following Calendar Year Except Fiscal Years Prior to 1978 Which Ended July 31.	LIFO accounting 10-Year CGR	Fiscal 1989	Fiscal 1988	Fiscal 1987	Fiscal 1986	Fiscal 1985
Stores and People						
1 Number of Stores	3.9%	306	296	295	300	282
2 Square Footage	12.4	6,219,018	5,062,865	4,773,743	4,452,161	3,641,762
3 Number of Employees	10.2	15,271	14,774	14,761	14,783	13,317
4 Customers Served (Thousands)	15.7%	47,246	43,744	40,739	36,346	31,477
5 Average Customer Purchase		$56.10	$57.54	$59.95	$62.83	$65.84
Comparative Income Statement (Thousands)						
6 Total Sales	**11.3%**	**$2,650,547**	**$2,516,879**	**$2,442,177**	**$2,283,480**	**$2,072,569**
7 LIFO Credit (Charge)	NM	(3,549)	(5,058)	(3,829)	2,960	3,445
8 Pre-Tax Earnings [1]	8.7	108,796	105,604	90,787	108,126	112,865
9 Taxes on Income	4.2	33,884	36,403	34,833	53,022	53,151
10 Extraordinary Item Net of Tax	NM	—	—	—	(2,885)	—
11 Cumulative Effect on Prior Years of a Change in Accounting Principle	NM	—	—	5,226	—	—
12 Net Earnings	**11.6**	**74,912**	**69,201**	**61,180**	**52,219**	**59,714**
13 Cash Flow From Operations [2]	13.3	121,691	114,913	103,306	87,543	83,980
14 Cash Dividends Paid	10.8	18,228	17,281	17,040	15,597	13,199
15 Earnings Retained	11.9%	$ 56,684	$ 51,920	$ 44,140	$ 36,622	$ 46,515
Dollars Per Share (Weighted Average Number of Shares)						
16 Sales	9.9%	$71.10	$66.68	$61.49	$58.51	$56.77
17 Earnings	**10.1**	**2.01**	**1.83**	**1.54**	**1.34**	**1.64**
18 Cash Flow From Operations	11.7	3.26	3.04	2.60	2.24	2.30
19 Cash Dividends	**9.4**	**.49**	**.46**	**.43**	**.40**	**.36**
20 Earnings Retained	10.3	1.52	1.38	1.11	.94	1.27
21 Shareholders' Equity	13.5%	$17.32	$15.55	$14.66	$13.85	$11.16
Strategic Profit Model [3]						
22 Asset Turnover (Sales Per Asset Dollar)		$ 2.44	$ 2.45	$ 2.52	$ 2.67	$ 3.26
23 Return on Sales (Net Earnings as Percent of Sales)		× 2.83%	× 2.75%	× 2.51%	× 2.29%	× 2.88%
24 Return on Assets		= 6.90%	= 6.74%	= 6.31%	= 6.10%	= 9.39%
25 Leverage Factor (Asset Dollars Per Equity Dollar)		× 1.85	× 1.76	× 1.79	× 2.10	× 1.86
26 Return on Shareholders' Equity		=12.77%	=11.88%	=11.32%	=12.82%	=17.49%
Comparative Balance Sheet (Thousands)						
27 Total Current Assets	10.9%	$ 595,946	$ 577,550	$ 552,464	$ 546,883	$ 534,649
28 Cash and Short-Term Investments	9.2	55,566	60,257	43,889	50,013	87,190
29 Accounts Receivable — Net	6.3	121,897	127,738	117,932	118,693	127,603
30 Inventories (Lower of Cost or Market)	13.2	407,677	379,383	373,846	368,135	313,143
31 Other Current Assets	12.3	9,610	9,466	7,325	10,042	6,713
32 Fixed Assets	19.1	507,811	479,886	453,008	413,220	308,603
33 Other Assets	65.0	43,637	28,361	21,857	9,116	12,939
34 Total Assets	**14.4**	**1,147,394**	**1,085,797**	**1,027,329**	**969,219**	**856,191**
35 Total Current Liabilities	13.8	307,890	285,733	231,906	257,303	251,669
36 Accounts Payable	16.5	210,197	203,956	157,089	163,260	168,068
37 Other Current Liabilities	5.4	42,685	44,211	43,766	94,043	83,601
38 Long-Term Debt (Excluding Current Portion)	11.6	167,896	190,056	186,219	152,977	183,909
39 Total Liabilities	**13.6**	**501,836**	**498,946**	**444,893**	**428,685**	**448,818**
40 Shareholders' Equity	**15.0%**	**$ 645,558**	**$ 586,851**	**$ 582,436**	**$ 540,534**	**$ 407,373**
41 Equity Divided by Long-Term Debt (Excluding Current Portion)		3.84	3.09	3.13	3.53	2.22
42 Year-End Leverage Factor: Assets Divided by Equity		1.78	1.85	1.76	1.79	2.10
Shareholders, Shares and Book Value						
43 Shareholders of Record, Year-End		6,361	6,602	6,163	6,052	6,253
44 Shares Outstanding, Year-End (Thousands) [4]		37,255	37,139	39,498	39,624	37,082
45 Weighted Average Shares, Year-End (Thousands)		37,278	37,748	39,719	39,029	36,509
46 Book Value		$17.33	$15.80	$14.75	$13.64	$10.99
Stock Price Range During Year [5]						
47 High (Adjusted for Stock Splits)		$32.13	$24.38	$32.50	$40.88	$31.13
48 Low (Adjusted for Stock Splits)		$22.13	$18.00	$15.25	$23.13	$20.88
Price Earnings Ratio						
49 High		16	13	21	31	19
50 Low		11	10	10	17	13

	Fiscal 1984	Fiscal 1983	Fiscal 1982	Fiscal 1981	Fiscal 1980	Base Year Fiscal 1979	Supplemental Information FIFO accounting Fiscal 1977
	248	238	235	229	214	209	175
	2,980,000	2,529,040	2,337,351	2,232,008	1,998,239	1,931,419	1,570,000
	10,727	8,715	7,080	6,003	5,950	5,804	5,274
	23,938	18,889	15,075	11,973	11,376	11,024	8,224
	$70.55	$75.74	$68.59	$74.17	$77.67	$82.02	$72.27
	$ 1,688,738	**$ 1,430,576**	**$ 1,034,032**	**$ 888,042**	**$ 883,614**	**$ 904,651**	**$ 594,358**
	2,686	(5,684)	(1,626)	(920)	(6,686)	(7,484)	—
	119,076	96,891	47,525	33,226	36,277	47,331	42,487
	57,633	46,276	22,394	15,367	17,386	22,376	21,056
	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
	61,443	**50,615**	**25,131**	**17,859**	**18,891**	**24,955**	**21,431**
	79,489	66,501	39,686	28,391	28,959	35,019	27,643
	11,600	11,600	9,800	9,376	7,813	6,511	2,735
	$ 49,843	$ 39,015	$ 15,331	$ 8,483	$ 11,078	$ 18,444	$ 18,696
	$46.59	$39.53	$31.02	$27.28	$27.14	$27.79	$18.26
	1.70	**1.40**	**.75**	**.55**	**.58**	**.77**	**.66**
	2.19	1.84	1.19	.87	.89	1.08	.85
	.32	**.32**	**.29**	**.29**	**.24**	**.20**	**.08**
	1.38	1.08	.46	.26	.34	.57	.57
	$ 9.42	$ 8.05	$ 5.96	$ 5.45	$ 5.19	$ 4.89	$ 3.47
	$ 3.24	$ 3.64	$ 3.37	$ 2.94	$ 2.95	$ 3.35	$ 3.00
	× 3.64%	× 3.54%	× 2.43%	× 2.01%	× 2.14%	× 2.76%	× 3.61%
	=11.79%	=12.89%	= 8.19%	= 5.91%	= 6.31%	= 9.25%	=10.83%
	× 1.79	× 1.98	× 1.73	× 1.79	× 1.90	× 1.92	× 2.10
	=21.10%	=25.52%	=14.17%	=10.58%	=11.99%	=17.76%	=22.74%
	$432,370	$377,572	$271,535	$195,370	$209,756	$210,913	$186,198
	84,204	74,249	25,341	32,070	15,567	22,959	13,324
	97,319	94,658	75,388	48,107	68,172	66,442	76,162
	248,268	205,100	167,535	113,529	125,104	118,511	96,164
	2,579	3,565	3,271	1,664	913	3,001	548
	195,237	141,238	121,406	110,673	91,399	88,695	60,210
	6,501	827	559	521	573	291	401
	634,108	**519,637**	**393,500**	**306,564**	**301,728**	**299,899**	**246,809**
	189,418	168,830	134,999	80,199	80,781	84,690	87,709
	125,003	110,415	90,580	47,959	52,003	45,567	60,324
	64,415	58,415	44,419	32,240	28,778	25,245	27,385
	92,488	51,891	56,233	48,864	51,929	56,112	46,244
	292,760	**228,132**	**194,717**	**129,063**	**132,710**	**140,802**	**133,953**
	$341,348	**$291,505**	**$198,783**	**$177,501**	**$169,018**	**$159,097**	**$112,857**
	3.69	5.62	3.53	3.63	3.25	2.84	2.44
	1.86	1.78	1.98	1.73	1.79	1.89	2.19
	6,372	5,928	5,144	5,415	4,620	5,147	4,588
	36,248	36,248	33,333	32,555	32,555	32,555	32,555
	36,248	36,193	33,333	32,555	32,555	32,555	32,555
	$ 9.42	$ 8.04	$ 5.96	$ 5.45	$ 5.19	$ 4.89	$ 3.47
	$29.63	$32.75	$22.35	$11.36	$ 9.95	$ 8.20	$13.10
	$16.25	$18.45	$ 7.65	$ 6.30	$ 5.35	$ 6.50	$ 8.70
	17	23	30	21	17	11	20
	10	13	10	11	9	8	13

Fiscal 1975	Fiscal 1970	Fiscal 1965	Fiscal 1961
130	64	35	15
1,209,000	379,653	199,537	71,680
3,574	1,670	762	399
5,702	2,729	1,284	651
$59.78	$47.09	$44.44	$47.85
$340,882	**$128,491**	**$57,044**	**$31,128**
—	—	—	—
20,811	9,938	3,942	1,890
10,319	5,068	1,896	956
—	—	—	—
—	—	—	—
10,492	**4,870**	**2,046**	**934**
14,669	6,091	2,351	1,067
1,171	844	519	102
$ 9,321	$ 4,026	$ 1,527	$ 832
$10.47	$ 4.07	$ 1.87	$ 1.04
.32	**.15**	**.07**	**.03**
.45	.19	.08	.04
.04	**.03**	**.02**	**.03**
.29	.13	.05	.03
$ 2.40	$ .79	$ .31	$ .17
$ 2.26	$ 3.09	$ 3.20	$ 3.32
× 3.08%	× 3.79%	× 3.59%	× 3.00%
= 6.96%	=11.72%	=11.49%	= 9.96%
× 2.24	× 1.99	× 2.31	× 2.57
=15.60%	=23.34%	=26.55%	=25.60%
$108,784	$38,878	$19,187	$ 9,305
11,574	4,658	3,801	1,299
38,533	14,887	7,165	3,108
58,223	19,040	8,156	4,801
454	293	65	97
45,127	10,390	3,832	1,229
452	148	77	1,301
154,363	**49,416**	**23,096**	**11,835**
42,964	21,212	11,213	4,922
29,727	15,178	7,913	3,187
13,236	6,034	3,300	1,735
33,156	3,315	2,377	1,791
76,120	**24,527**	**13,606**	**6,792**
$ 78,243	**$24,889**	**$ 9,490**	**$ 5,043**
2.36	7.51	3.99	2.81
1.97	1.99	2.43	2.35
3,755	2,117	1,871	—
32,555	31,558	30,458	30,000
32,555	31,558	30,458	30,000
$ 2.40	$ .79	$ .31	$ .17
$12.40	$ 4.63	$ 1.02	—
$ 5.33	$ 2.47	$ .63	—
39	31	15	—
17	16	9	—

Stock splits and stock dividends since 1960

- A 100% stock dividend, effective April 5, 1966, (which had the net effect of a 2-for-1 stock split).
- A 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 33⅓% 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.

Explanatory notes

[1] Before extraordinary item in 1986 and cumulative effect on prior years of a change in accounting principle in 1987.

[2] Before adjustments for changes in related current assets and liabilities.

[3] Asset Turnover – Total Sales divided by beginning assets
Return on Sales – Total Profit divided by Total Sales
Return on Assets – Total Profit divided by Beginning Assets
Leverage Factor – Beginning Assets divided by Beginning Equity
Return on Shareholders Equity – Total Profit divided by Beginning Equity

[4] Variation in the outstanding shares is a result of the following:
1963 — Treasury Stock purchase
February 2, 1982 — 778,018 common shares issued to ESOP.
February 8, 1983 — 2.917 million common shares sold in public issuance.
October 10, 1985 — 833,373 common shares issued to ESOP.
April 25, 1986 — 2.2 million common shares sold in public issuance.
May 15, 1986 — 300,000 common shares issued to ESOP.
1987 — Treasury Stock purchase
1988 — Treasury Stock purchase
— Ongoing employee option transactions.

[5] Stock price source: *The Wall Street Journal*
NM = not meaningful
CGR = compound growth rate

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Credits

This annual report is dedicated to the late Mark J. Appleman, a great friend to Lowe's and an investor relations practitioner extraordinaire. His vision will always be with us.

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