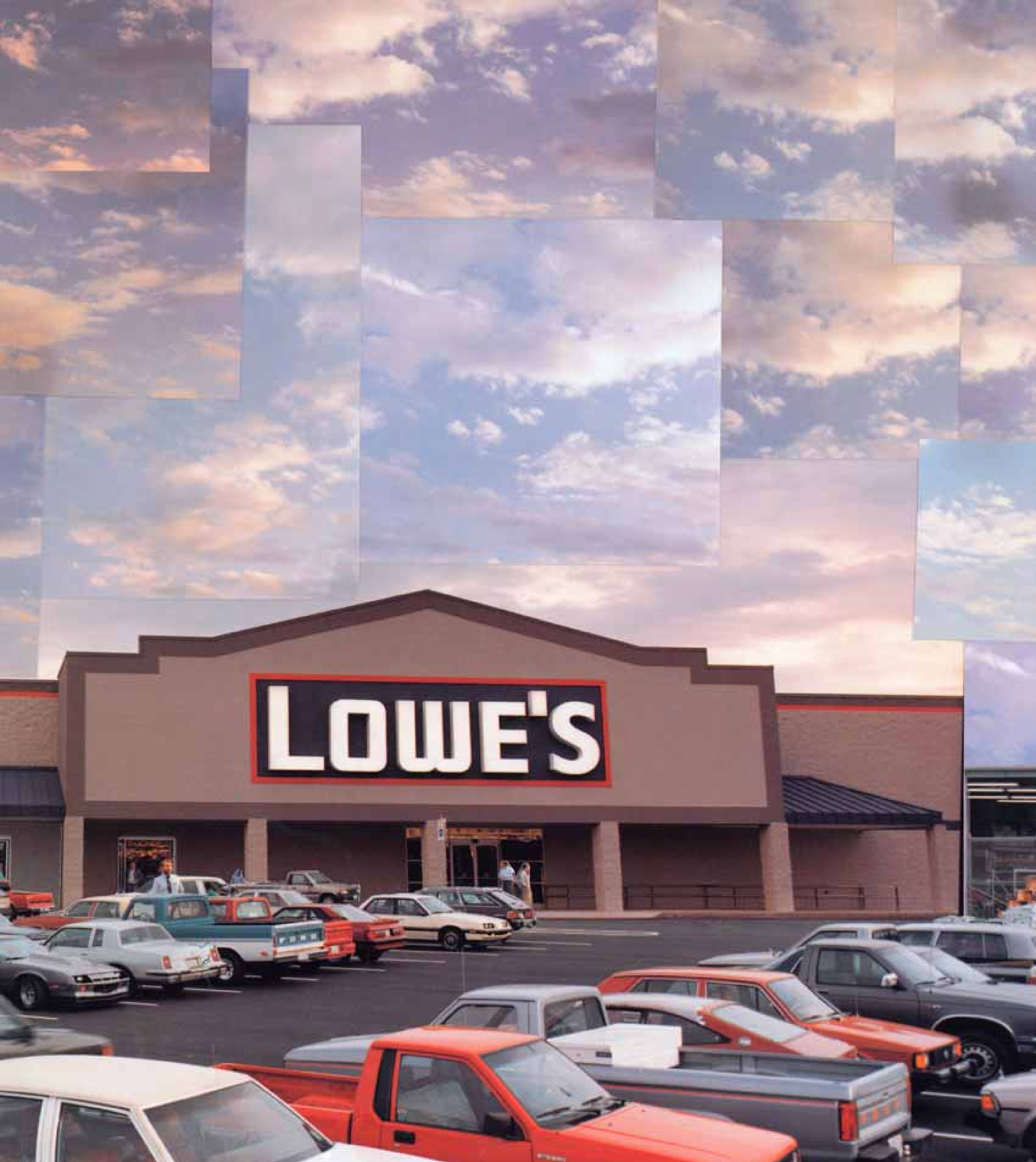
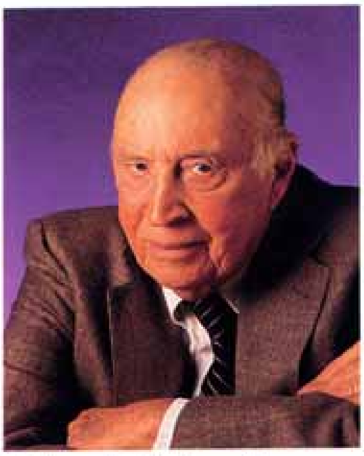


1990 Annual Report



William H. McElwee, Sr.

Dedication to William H. McElwee, Sr.

For longer than Lowe's Companies has existed, Bill McElwee has been our friend, our mentor, and our trusted advisor. He was the company's first legal counsel, and he became a founding director when he helped bring Lowe's public in 1961. Since 1980 he has been a managing director and our general counsel; lately he has served as chairman of the Government/Legal Affairs Committee and as a member of the Non-Employee Directors' Stock Option Committee.

Now Bill McElwee has become Lowe's first Director Emeritus. We congratulate him on his distinguished and fruitful career in the firm of McElwee, McElwee & Warden, and we dedicate this annual report to him as a token of our appreciation for his decades of wise counsel and guidance. Of Bill McElwee it may be truly said that "law is the art of the good and the just."

—JUS EST ARS BONI ET AEQUI—

Lowe's Profile

Lowe's is a retailer of home center products, consumer durables, and contractor building supplies. Our 309 stores serve customers in 20 states, principally in the South Atlantic and South Central regions of the United States.

In *Fortune* magazine's latest listing of America's top retailers, Lowe's ranked:

- 43rd in Sales
- 27th in Profits
- 15th in Total Return to Investors

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 LOW.

Contents

Letter To Shareholders 2
Photo Feature 6
Performance Review 16
Store Locations 18
Market Research 20
Financial Report 28
Investor Information 45
Board Of Directors 46
30-Year Review 48
Index .... Inside Back Cover

Financial Highlights

	Change	Fiscal 1990	Fiscal 1989
Sales	+ 7%	$2,833,108,000	$2,650,547,000
Net Earnings	(5)	71,087,000	74,912,000
Per Share:			
Earnings	(5)	1.91	2.01
Cash Dividends	+ 6	.52	.49
Year-End Share Price	(6)%	$ 25.50	$ 27.25

Robert L. Strickland

Dear Shareholders:

In 1990 Lowe's reached new heights in sales volume and cash dividends paid, but we did not sustain the benchmark earnings achieved in 1989. Earnings per share fell 5%, from $2.01 to $1.91, due to a steep fourth quarter drop that dragged earnings growth into decline for the year. We would like to note that it was still the second best earnings performance in Lowe's history.

Earnings Perspective

During the fourth quarter of 1989, Lowe's southeastern heartland was rebuilding after Hurricane Hugo. In contrast to that flush of repair activity, the fourth quarter of 1990 was a time of numbed inaction as a national consumer recession deepened, housing starts continued to fall, and the troop buildup in Saudi Arabia took a heavy toll on military households. Regional news media estimated that 20% of all U. S. troops in the Persian Gulf came from the Carolinas, where 30% of Lowe's stores are located. With domestic economies upset and attention focused halfway around the globe, it's not surprising that Lowe's fourth quarter sales declined, causing quarterly earnings to take a 50% dive from 1989 levels. The $5 million difference in fourth quarter net earnings was somewhat offset by gains from previous quarters, so net earnings finished the year down $3.8 million.

In last year's letter we said that we were positioning Lowe's for margin improvement based on a higher percentage of retail sales in our total sales mix. In 1990 the margin did indeed increase, through a combination of factors which included retail sales growth and our expanded merchandise offering. Our LIFO gross margin percentage for the year was 24.80%, an improvement over last year's 24.39%.

Ten years ago, as we embarked on Lowe's third decade as a public company, we reported just under $19 million in earnings for fiscal 1980. The Eighties were not completely free of setbacks, but on the whole they were years of unprecedented growth. Lowe's earnings grew at a compound rate of 14.2% per year, from $18.9 million in 1980 to $71.1 million in 1990.

Cash Flow

Many observers believe that trends in cash flow are more important than trends in earnings. Indeed, the respected investment publication *VALUE LINE* does. Their "value line" for the price of a company's shares is computed from cash flow per share times a multiple. In our public financial reports, including this one, we report our cash flow from operations, whose main components are earnings after taxes, depreciation, deferred income taxes, and disposition of fixed and other long-term assets. Lowe's 1990 cash flow from operations was $123.5 million, nearly a hundred million dollars more than just a decade ago, in 1980.

Leonard G. Herring

Sales Mix

Originally, building contractors accounted for as much as 70% of Lowe's total sales. Just six years ago, in 1984, sales to professional builders were still 48% of Lowe's sales mix. Seeking greater profitability from the higher growth rate of the do-it-yourself market sector, since 1984 we have given top priority to retail sales growth. We have achieved that growth through sales gains in existing stores, store relocations, sales floor expansion, and the accelerated evolution of our merchandising. In 1990, retail customers accounted for 66% of our total $2.8 billion in sales, while contractor sales provided 34%. That's a 14% shift in our customer base, accomplished in seven years, during a period of energetic overall growth for our store chain.

Were we right to dedicate ourselves to retail growth? Sales to retail customers increased 13% in 1990, while contractor sales decreased 3%. In the prevailing economic climate, no group is having a tougher time than professional contractors. Housing starts fell 17% for the year in our 20-state trading area, and a big rebound in the near future is not expected.

Lowe's thriving retail business has two major components: home center (do-it-yourself) and consumer durables. In 1987 we reported that according to the DIY Research Association, the home center business was a $100 billion industry. We predicted that it would continue to grow, and that by 1990 Lowe's home center business would provide 50% of our total sales volume. That's exactly what has happened, with consumer durables providing the remaining 16% of total sales. For further discussion of Lowe's three businesses, please see pages 16 and 17.

Strategic Market Expansion

Lowe's ended 1990 with 309 stores and more than 7 million square feet of sales floor. Our 1990 expansion included 5 new stores, 3 new contractor yards, 11 store relocations, 1 retrofit, and 2 contractor yard conversions, representing a total of 869,659 square feet of incremental space. We also closed 5 older, small stores totaling 26,752 square feet.

Every new Lowe's store that we open now is a large destination home center, and selling space is growing much faster than store count. During the first part of 1990, we thought that we would attain 7.3 million square feet by the end of the year, moving toward 9 million square feet by the end of 1991. We planned to realize this greater growth through a combination of owned stores and leased stores, but some of the leased projects were delayed by external factors. As the year progressed, banks and other lending institutions became increasingly cautious in making real estate development loans. Widespread perception of the consumer recession did nothing to ease the problem, and the growth curve of shopping center development took a plunge. Environmental issues also occasioned some delays. In this more difficult climate, we're pleased to announce our plan to open between 20 and 25 new projects in 1991, most of which are in progress as of this writing. We expect to finish 1991 with between 1 million and 1.25 million incremental square feet of selling space, raising our total to more than 8 million square feet.

Financial Position

We invite your attention to the continued strength of our balance sheet and an attractively conservative ratio of debt to capital. We forecast no liquidity problems at Lowe's.

Shareholders' equity topped $682 million in 1990. That's more than quadruple the 1980 figure of $169 million, and represents a compound growth rate of 15% per year during the past decade.

In 1990 the company paid out more than $19.3 million in dividends of $ .52 per share—a record high for Lowe's.

Last September our Board of Directors authorized a $65 million program to repurchase shares of Lowe's common stock, primarily in the open market, over a twelve-month period. Up to $15 million will be used to partially fund our fiscal 1990 ESOP contribution, while the stock purchased with the remaining $50 million will be held as authorized but unissued shares. As of January 31, 1991, we had repurchased 1.3 million shares at an average cost of $20.29 per share.

Our 1991 capital expenditures will be funded primarily with internal cash flow, augmented as necessary with short-term borrowings through our bank lines and commercial paper. We have no plans for equity or debenture offerings, but we know our solid balance sheet is a corporate strength, and we always keep open our options for capital sourcing.

Lowe's Knows Lowe's

Five years ago, in this letter, we said that Lowe's planned no "grass is greener" diversifications, but would continue on the path of controlled strategic growth for the sake of profitability. We still stand by that declaration. We did not succumb to the Eighties' temptations of debt-laden mergers or LBO's, nor are we in the business of manufacturing saunas or lawn mowers. Lowe's stores are what we make best, and only we can make them. We will continue to make them bigger and better, and to strive to make them more profitable.

Thanks

To our customers, suppliers, shareholders, employees, and directors, and particularly to our first director emeritus, Bill McElwee, we would like to express our appreciation and gratitude. You are Lowe's partners-in-interest and our companions on the path of Lowe's corporate adventure. Without you, Lowe's is nothing; with you, there is nothing we cannot achieve. Your greater prosperity is our worthiest goal.

Cordial good wishes,

Robert L. Strickland   Leonard G. Herring

Robert L. Strickland
Chairman of the Board

Leonard G. Herring
President and
Chief Executive Officer

North Wilkesboro, NC


TOYOTA
JUST FORGIVEN


LOWE'S

Welcome to one of Lowe's destination stores where American families can find thousands of products to help them build, repair, maintain, improve and enjoy their homes.


LOWE'S
Lighting Center
Ceiling-Fans
3
Ceiling Lights
Sale
14.97
Motion Detecto
3
44
GOODSENSE
U.S. FLAG SETS
LEVOLOR


Home Security
Lowe's Low Price!
#39.94
42" Ceiling Fan
Nails
Hardware
5
Weather-Stripping
Sale!
#10.49
Foundation Vents
Organizer
Mailboxe
Numbers & Letters
Door Locks
Door Hardware


Hardware
Lowe's
Low Price
6
Cabinet-Hardware
Wild Bird Feed
Lowe's Super-store Welcomes You!
LOWE'S
Tools
Home Decor.
55
66
EVEREADY

Every day, 100,000 Americans move to a different home.

- *It takes four experienced builders ten 40-hour weeks to build an average house.*
- *In one day, Americans saw up 100 million board feet of wood, nail down 400 acres of asphalt roofing, and apply 3 million gallons of paint and other coatings—enough to repaint the White House 10,000 times.*
- *Three-quarters of all Americans, or 70 million households, participate in some form of gardening.*
- *Last Year, American living rooms made space for more than 21 million new TV sets and 10 million video cassette recorders.*

• Nearly four-fifths of all Americans between the ages of 30 and 49 say they are environmentalists.

• Americans use 126 million glass bottles and jars in one day. Placed side by side, these glass bottles and jars would stretch from the Atlantic to the Pacific. More than 50% of all Americans say they now recycle.

• Of 1000 working Americans between the ages of 25 and 49, 62% defined success as "happy family life." Ranking second was "doing good in the world."

Sources: *American Demographics* magazine; *In One Day* by Tom Parker; *Rules of Thumb* by Tom Parker

Performance Review

Store Space

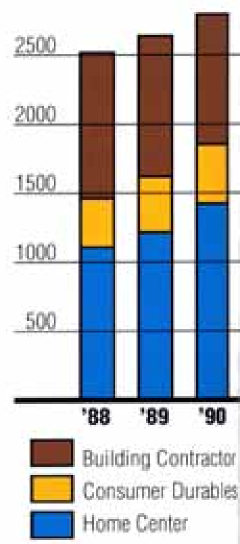
The evolution of Lowe's stores continues, with an ongoing emphasis on growth of sales floor square footage rather than increased store count. Our top priority is to expand our sales floors in proven markets, so that we can most effectively implement our merchandising strategies for greater retail growth. Within the past five years, our store count has increased 10% while our total sales space has grown 94%.

In 1984, Lowe's didn't have a single prototype store larger than 33,000 square feet, and our average sales floor at the beginning of that year was 10,626 square feet. Since then our average sales floor has doubled in size to 22,854 square feet, and our prototype stores for the Nineties are all 45,000 square feet or larger. If human beings had evolved as quickly as Lowe's stores, we wouldn't have spent nearly as long dragging our knuckles on the ground!

As mentioned in the letter to shareholders, our 1990 expansion included 5 new stores, 3 new contractor yards, 2 contractor yard conversions, 11 relocations, and 1 retrofit. These projects added 869,659 square feet to our total selling space. We also closed 5 smaller stores totaling 26,752 square feet, so we ended the year with 309 stores and 7,061,925 square feet. We also remerchandised 76 stores in 1990.

By the end of 1990, the average size of Lowe's sales floors was just under 23,000 square feet. As planned, our larger units are conceding sales per square foot but reaping higher total sales per store. Last year, our stores with sales floors smaller than 20,000 square feet averaged $7.4 million in sales; in 1990, their average was $7.5 million. Stores with sales floors between 20,000 and 40,000 square feet averaged $11 million in sales for 1990, up from $10.2 million in 1989. That's a quite respectable increase, but our largest stores are doing even better, averaging nearly $13 million in sales per store and still growing toward their full potential.

Lowe's 3 Businesses
Dollars in Millions



Our capital investment was $133 million in 1990, including $38 million in operating leases. Lowe's Board of Directors has authorized a capital budget range of $175 to $190 million for 1991, including about $70 million to $80 million for operating leases. More than 80% of this budget is for store expansion, confirming our continued strategic commitment. Th

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

	% Change*	1990	% Change*	1989	% Change*	1988	1985
1. Stores Open Year-End		309		306		296	282
2. Stores Open During Year[1]		305.8		298.7		296.4	273.3
Sales Floor Square Footage							
3. Total Year-End		7,061,925		6,219,018		5,062,865	3,641,762
4. Average, Year-End[2]		**22,854**		**20,324**		**17,104**	**12,914**
5. Weighted Avg. During Year[3]		6,601,916		5,589,872		4,932,985	3,406,684
Sales Results							
6. Home Center	+15%	$1,423	+11%	$1,240**	+ 9%	$1,117	$ 842
7. Consumer Durables	+ 7	437	+12	410**	+ 6	368	258
8. Building Contractor	(3)	973	(3)	1,001	(3)	1,032	973
9. Total Sales	+ 7%	$2,833	+ 5%	$2,651	+ 3%	$2,517	$2,073
Sales Per Square Foot							
10. Home Center & Consumer Durables[4]		$ 282		$ 295		$ 301	$ 323
11. Total[5]		$ 429		$ 474		$ 510	$ 608
Sales Per Average Store							
12. Home Center[6]	+12%	$ 4.65	+10%	$ 4.15	+13%	$ 3.77	$ 3.08
13. Consumer Durables[7]	+ 4	1.43	+11	1.37	+10	1.24	.94
14. Building Contractor[8]	(5)	3.18	(4)	3.35	—	3.48	3.56
15. Total[9]	**+ 4%**	**$ 9.26**	**+ 4%**	**$ 8.87**	**+ 7%**	**$ 8.49**	**$ 7.58**

* Change from prior year, computed from unrounded numbers.
** In 1989 sales have been restated to reflect a revision in assortment classification.
[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.

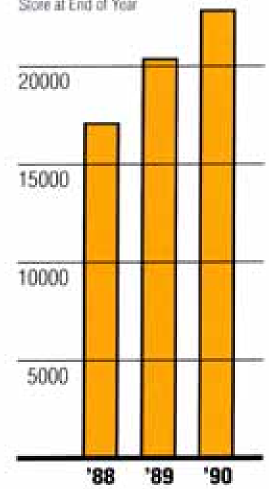
budget was authorized in anticipation of just over 30 major store projects. We wish we could expect the completion of all these projects in fiscal 1991; however, because of delays occasioned by external economic and environmental factors, we are more likely to complete between 20 and 25 large store projects for a gain of approximately 1 to 1.25 million square feet.

Merchandise Sales Trends

In 1990 our continuing investment in sales floor expansion paid off handsomely in two of our three customer business segments. Home center sales grew 15%, fulfilling our 1989 prediction that our home center business would account for 50% of Lowe's total sales in 1990. Our consumer durables sales increased 7% despite a slowdown in the national marketplace for big-ticket durables.

These gains have been led by product categories that have received the greatest benefit from our new larger sales floors. As the accompanying table reveals, home decor and illumination sales grew 21% in 1990. Clearly, lighting fixtures must be seen to be sold. Sales of hardware, cabinets, and home storage systems are also rewarding our investment in sales floor display space. Kitchen, bathroom, and laundry sales increased 15% in 1990, led by sales gains for free-standing kitchen ranges and refrigerators. Sales of tools, lawn and garden products, and heating and cooling systems also experienced double-digit percentage growth. Stereos, video and disc equipment, and radios recorded significant revenue growth, as did power lawn equipment. Healthy gains in all these product categories represent the realization of our plan for margin improvement as well as growth in total sales.

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



Although Lowe's total sales of structural lumber and millwork increased only slightly, the retail component of those sales was dynamic indeed. Structural lumber sales to home center customers rose by 12% in 1990, while retail sales of millwork gained 14%. These retail gains were offset by sluggish contractor sales.

Our building contractor business declined for the third consecutive year in 1990, dragged irresistibly downward by its relationship to housing starts. We have successfully competed for increased market penetration, but that has not been enough to offset a 17% drop in housing starts in Lowe's trading area, on top of last year's 11% decline and a 9% decrease in 1988. We will continue to pursue contractor sales growth, hoping that the National Association of Homebuilders is correct in its prediction that annual housing starts will regain the 1.4 million level within two years.

In 1990 our retail businesses accounted for 66% of our total sales volume. Our goal is to make retail sales 70% of our total mix, while not neglecting any opportunity to increase contractor sales per store.

Merchandise Sales Trends
Dollars in Millions

			1990		1989		1988		Base Year 1985	
Category	Total Sales 5-Year CGR	Change From 1989	Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%
1. Structural Lumber	+ 5%	+ 3%	$ 469	16	$ 455	17	$ 470	19	$ 364	18
2. Building Commodities & Millwork	+ 3	+ 1	766	27	761	29	720	29	664	32
3. Home Decorating & Illumination	+ 12	+ 21	419	15	346	13	307	12	239	11
4. Kitchen, Bathroom & Laundry	+ 7	+ 15	272	10	237	9	233	9	197	9
5. Heating, Cooling & Water Systems	+ 9	+ 10	158	6	144	5	129	5	104	5
6. Home Entertainment	+ 11	+ 5	131	5	125	5	119	5	78	4
7. Yard, Patio & Garden	+ 12	+ 12	293	10	261	10	223	9	163	8
8. Tools	+ 18	+ 13	127	4	112	4	88	3	56	3
9. Special Order Sales	(1)	(6)	198	7	210	8	228	9	208	10
Totals	**+ 6%**	**+ 7%**	**$2,833**	**100**	**$2,651**	**100**	**$2,517**	**100**	**$2,073**	**100**

Store Locations

Alabama 14
Auburn
Decatur
Dothan
Florence
Gadsden
Huntsville
Jasper
Mobile
Mobile (West)
Montgomery
Montgomery (South)
Muscle Shoals
Prattville
Tuscaloosa

Arkansas 7
El Dorado
Fort Smith
Hot Springs
Jonesboro
Pine Bluff
Springdale
West Memphis

Delaware 3
Dover
Sussex County
Wilmington

Florida 19
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 22
Albany
Athens
Augusta
Augusta (West)
Brunswick
Carrollton
Columbus
Columbus (North)
Doraville (Contractor Yard)
Douglasville
Fort Oglethorpe
Gainesville
Griffin
LaGrange
Macon
Rome
Savannah
Savannah (South)
Thomasville
Thomson
Valdosta
Warner Robins

Illinois 1
Marion

Indiana 4
Clarksville
Franklin
Indianapolis
Lawrence

Kentucky 18
Bowling Green
Corbin
Danville
Elizabethtown
Frankfort
Glasgow
Lexington
Lexington (East)
Louisville
Owensboro
Paducah
Paintsville
Pikeville
Richmond
Saint Matthews
Somerset
Whitesburg
Winchester

Louisiana 13
Alexandria
Baker
Bossier City
Hammond
Lafayette
Lafayette (Acadiana Square)
Lake Charles
Leesville
Natchitoches
New Iberia
Shreveport
Thibodaux
West Monroe

Maryland 9
Bowie
Charles County
Cumberland
Easton
Frederick
Frederick (Contractor Yard)
Hagerstown
Saint Mary's County
Salisbury

Mississippi 7
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

Missouri 1
Springfield

North Carolina 71
Albemarle
Asheboro
Asheville
Asheville (West)
Banner Elk
Boone
Burlington
Cary
Chapel Hill
Charlotte (#1)
Charlotte (#2)
Charlotte (North)
Charlotte (Contractor Yard)
Charlotte (Crown Point)
Concord
Durham
Durham (Contractor Yard)
Durham (Oxford Commons)
Elizabeth City
Fayetteville
Forest City
Franklin
Garner
Gastonia
Gastonia (Franklin Square)
Goldsboro
Greensboro
Greensboro (North)
Greenville
Henderson
Hendersonville
Hickory
High Point
High Point (North)
Jacksonville
Kannapolis
Kinston
Lenoir
Lexington
Lincolnton
Lumberton
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 (University Centre)

Wilson
Winston-Salem
Winston-Salem (Hanes Mall)
Zebulon

Ohio 6
Athens
Cincinnati (Contractor Yard)
Circleville
Lancaster
Springfield
Wheelersburg

Pennsylvania 7
Altoona
Chambersburg
Hanover
Harrisburg
Lancaster
Mechanicsburg
York

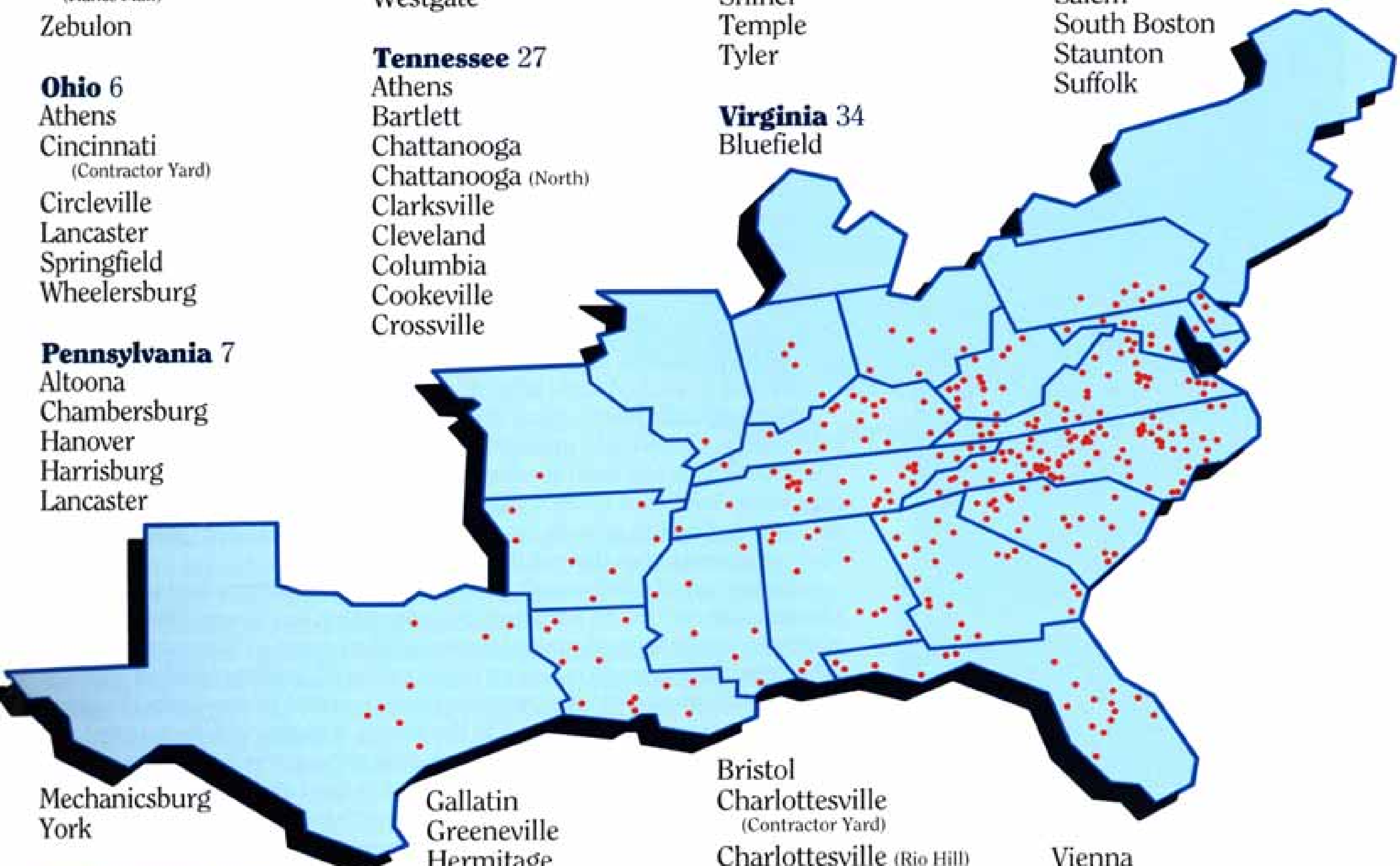
South Carolina 23
Aiken
Anderson
Charleston
Charleston (North)
Columbia (NE)
Columbia (West)
Easley
Florence
Gaffney
Greenville
Greenwood
Irmo
Laurens
Manning
Mauldin
Mount Pleasant
Myrtle Beach
Orangeburg
Rock Hill
Spartanburg
Sumter
Taylors
Westgate

Tennessee 27
Athens
Bartlett
Chattanooga
Chattanooga (North)
Clarksville
Cleveland
Columbia
Cookeville
Crossville
Gallatin
Greeneville
Hermitage
Jackson
Johnson City
Kingsport
Knoxville
Knoxville (North)
Knoxville (South)
Knoxville (West)
Lebanon
Madison
Maryville
Morristown
Murfreesboro
Nashville
Nashville (Contractor Yard)
Tullahoma

Texas 8
Dallas
Fredericksburg
Longview
Marble Falls
San Marcos
Shiner
Temple
Tyler

Virginia 34
Bluefield
Bristol
Charlottesville (Contractor Yard)
Charlottesville (Rio Hill)
Chesapeake
Chester
Christiansburg
Churchland
Claypool Hill
Danville
Denbigh
Dublin
Fredericksburg
Galax
Harrisonburg
Leesburg
Lynchburg
Manassas
Marion
Martinsville
Midlothian Pike
Newport News (Contractor Yard)
Richmond
Richmond (West)
Richmond (Victorian Square)
Roanoke
Salem
South Boston
Staunton
Suffolk
Vienna
Winchester
Wise County
Woodbridge

West Virginia 15
Barboursville
Beckley
Belle
Chapmanville
Charleston
Clarksburg
Cross Lanes
Fairmont
Huntington
Matewan
Morgantown
Parkersburg
Princeton
Summersville
Teays Valley



Home Improvement Research Institute

Lowe's market research section has been a feature of our annual reports since 1967. We have always believed that good market research is essential to strategic planning. Over the years these reports have become a resource for research into the American marketplace, and we have appreciated queries from manufacturers and even our competition.

Along with Black & Decker, Color Tile, Masco, The Stanley Works, and W. R. Grace, Lowe's is proud to have been a founder of the organization now known as the Home Improvement Research Institute. "Knowledge is power," according to the adage, and it is certainly true that the knowledge disseminated by HIRI is a powerful asset to the home improvement industry.

U.S. Population
Thousands

	Total U.S.	Total South	% Total U.S.
1970	203,302	62,800	31
1980	226,546	75,400	33
1990	249,900	87,200	35
2000e	268,266	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
1990	94,227	32,454	34
2000e	105,933	37,883	36
Change*	+67%	+97%	

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

Market Research

Population and the American Household

As the Baby Boom generation has matured, its sheer weight of numbers has made it a dominant influence on the decades through which it passes. In the Sixties, Baby Boomers were the students and dissidents who articulated the social unrest of that era. In the Seventies and Eighties they were Yuppies, establishing careers and pursuing the good life through conspicuous consumption. In the Nineties they are (so far, at least) concerned parents, taxpayers, and citizens with a growing awareness that their choices shape the future. Like other major retailers, Lowe's pays special attention to the desires and expectations of this group that throws so much demographic weight around.

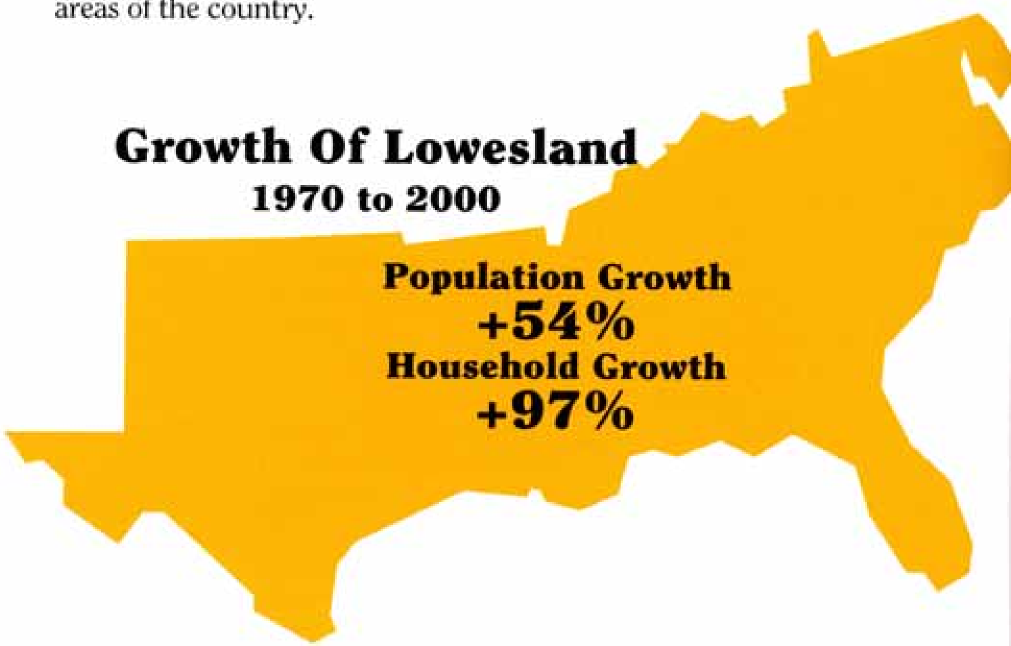
Population

While legislators, mayors, and the Census Bureau argue over details, the fact remains that our national population has reached a quarter of a billion.That's nearly double what it was at the end of World War II.

Much of that growth came during the 1950's when the Baby Boom combined with post-war immigration to swell the population by 18.5%. The growth rate has been slowing since then: in the Eighties our population increased by about 10%, and in the Nineties we expect to see the first single-digit growth rate since the Great Depression, as female Baby Boomers grow out of their childbearing years.

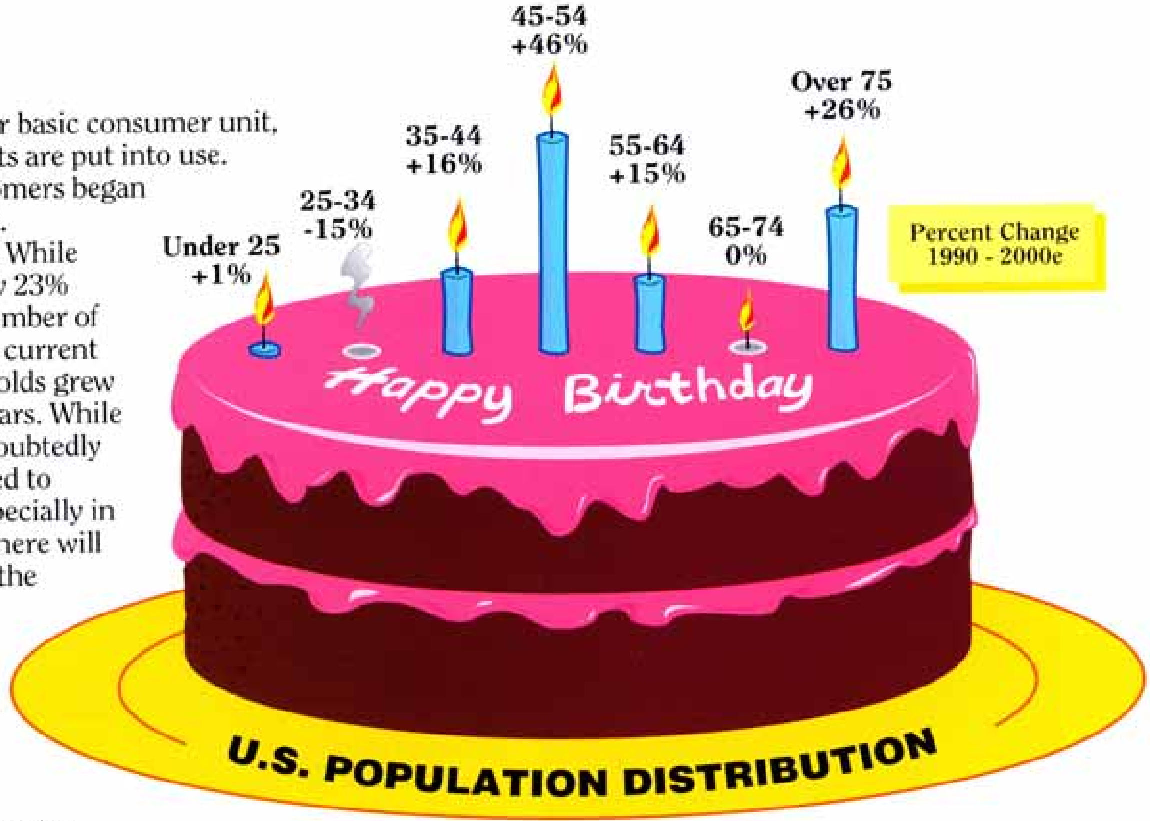
Slower population growth has important implications for retailers who can no longer count on a burgeoning population to increase their customer headcount. More and more, retailers must win new customers away from the competition. It's a buyer's market, and the retailers who will grow are those who can best anticipate and respond to consumer demands.

Lowe's stores are almost all in the South, a region which saw great population growth during the Sunbelt migration of the Seventies and early Eighties. No region is completely immune to the current slowdown in population growth rate; however, we believe that Lowe's heartland will continue to attract migration from regions with harsher climates and higher costs of living. As a result, it will remain one of the fastest growing areas of the country.



Households

We consider the household to be our basic consumer unit, because that's where Lowe's products are put into use. Since 1970, when the first Baby Boomers began leaving the nest, the number of U. S. households has grown significantly. While the national population increased by 23% over that twenty-year period, the number of households grew by 49%. In Lowe's current trading area, the number of households grew by an amazing 69% during those years. While the household growth rate will undoubtedly slow during the 1990's, it is projected to outpace the overall population—especially in Lowe's southern heartland, where there will be nearly 38 million households by the year 2000.



Household Characteristics

The growing number of households represents great market opportunity for Lowe's, in part because we understand the diversity of the growth. In addition to the numerous traditional families formed by Baby Boomers, there has been a huge increase in single person households, single parent households, non-traditional households, and two-worker households. The resulting marketplace for household products is not only larger than it used to be but also more complex.

The archetypal American house is a free-standing one-family dwelling with a garage or (in the South) a carport. Its front yard is planted with bushes and maybe a few trees; the back yard may be fenced for the kids or the dog, and there's probably some kind of garden producing flowers or those home-grown tomatoes that really taste like tomatoes!

That's the archetype, and for many families in Lowe's heartland it's also a literal description. But although the needs of such a household may not have changed much since Beaver Cleaver was teething, today's homeowners are satisfying those needs in some very different ways.

During the Baby Boom era, Rosie the Riveter and her sisterhood left the labor pool permanently to have babies and raise their families. Today, by contrast, more than half of all adult females are in the workforce, and the number may well reach 60% by the end of the decade. Female Baby Boomers are swelling the workforce in record numbers: virtually three-quarters of all women of prime child-bearing age now hold jobs. After having babies, they are more likely to return to their careers than were their mothers.

This social change means that regardless of whether a household includes one, two, or more adults, there is probably nobody at home during the day to do the household chores. Instead, adults are appropriating traditional leisure time (weekends and evenings) for the demands of childrearing and home maintenance. They may get help with these responsibilities from a grandparent or other adult not part of the nuclear family. They also get help from modern home care products designed to decrease the drudgery of chores and increase leisure time for the enjoyment of family and home.

Population Age Distribution
Millions

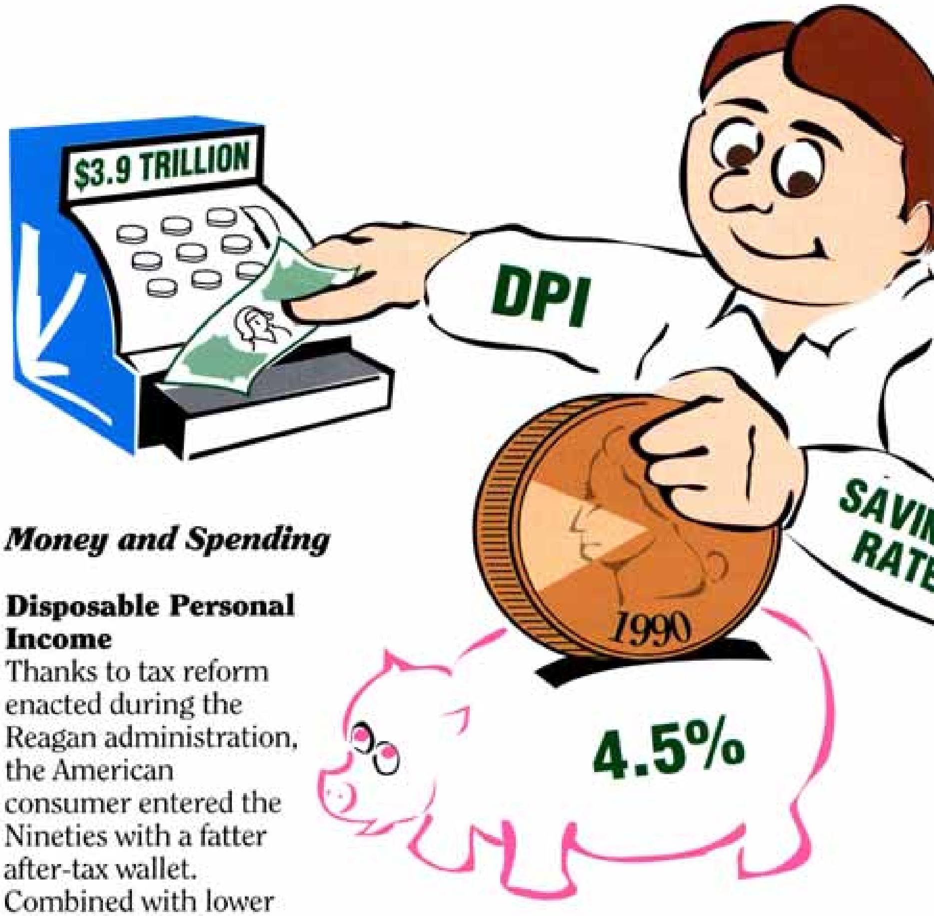
Age Group	1970	1980	1990	2000e	%Change 1990-2000e
<25	93.9	93.3	90.2	90.9	+1
25-34	25.2	37.4	43.8	37.1	-15
35-44	22.8	25.8	37.8	43.9	+16
45-54	23.0	22.7	25.5	37.3	+46
55-64	18.5	21.7	21.2	24.3	+15
65-74	12.4	15.6	18.2	18.2	—
75 >	7.5	10.0	13.2	16.6	+26
Total	203.3	226.5	249.9	268.3	+7

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

Working Women Age Distribution
Millions

Age Group	% of Age Group Employed 1970	1988	1990	2000e
16-19	44.0	52.9	55.4	59.6
20-24	57.7	68.9	73.6	77.6
25-34	45.0	65.5	74.5	82.4
35-44	51.0	65.5	77.1	84.9
45-54	54.4	59.9	70.6	76.5
55-64	43.0	41.3	44.4	49.0
65 >	9.7	8.1	7.8	7.6
Total Over 16	43.3	51.5	57.8	62.6

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



Gross National Product, Disposable Personal Income and Savings Rate
Dollars in Billions

Year	GNP	DPI	Savings 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	3,013.3	4.1
1987	4,515.6	3,194.7	3.2
1988	4,873.7	3,479.2	4.2
1989	5,200.8	3,725.5	4.6
1990p	$5,463.0	$3,945.8	4.5

Source: U.S. Bureau of the Census, *Current Population Report*, Series P-25; Management Horizons, Division of Price Waterhouse; Economic Indicators Council of Economic Advisors p = preliminary

Money and Spending

Disposable Personal Income

Thanks to tax reform enacted during the Reagan administration, the American consumer entered the Nineties with a fatter after-tax wallet. Combined with lower inflation, that means more buying power to fuel the consumer economy.

Despite financial challenges such as high installment debt and the recent decline in the overall rate of housing appreciation, most Americans seem to feel very positive about their own finances. According to a Gallup poll published in the April 1991 issue of *Money* magazine, 76% of the 500 Americans surveyed said that they were very satisfied or fairly satisfied with their current financial situation. In the years 1983 through 1987, when *Money* sponsored a similar poll annually, only between 54% and 56% of those surveyed felt so positive. This may seem to contradict widespread reports of wilting consumer confidence, but according to *Money*, their poll "concentrated on respondents' feelings about their own finances, not about the economy as a whole."

One factor contributing to the "I'm alright, Jack" cheerfulness is the rising income of our demographic bigfoot group, the Baby Boomers. Having successfully cleared such hurdles as starting a family and buying a first home, they are now entering or approaching their years of greatest income potential. After factoring in low inflation, forecasts indicate that real household income could grow as fast as 7% annually during this decade. In the recent *Money* poll, 27% of those surveyed said that after paying for basics like food, shelter, and clothing, they still have 30% or more of their household income left. In 1985, only 23% responded similarly.

Savings

With the phaseout of tax deductibility for non-mortgage consumer debt, cleaning up household balance sheets has risen in priority for many consumers. Some of the new disposable income will doubtless go toward paying down balances such as credit card debt; after that, or maybe even simultaneously, an upturn in the rate of saving is expected as Baby Boomers begin planning for retirement and for their children's college educations. Indeed, after bottoming out at just 3.2% of disposable personal income in 1987, savings have been slowly creeping up over the past three years.

Financial institutions will be competing for these savings and will be looking for productive uses for the money. These funds will fuel growth in the credit market and the stock market and will help ease the tightening of mortgage funds availability that was caused by the savings and loan debacle.

Discretionary Spending
No matter how good people feel about their personal finances, economic and world events can have a significant short-term impact on the way they spend, save, and think about the future. As recent months have illustrated, consumer confidence in the larger economic picture can shift rapidly and take a real toll on marketplace activity. However, the absolute unpredictability of events like the Persian Gulf War places them outside the realm of strategic planning. For Lowe's, long-term trends and underlying consumer attitudes take priority over short-term fluctuations.

Even after paying off debts and increasing their savings, Baby Boomers are going to have money for discretionary spending. Many long-term forecasters currently believe that by the year 2000, money spent on second homes, home enhancements, and vacations could account for 20% of disposable personal income.

Housing and Construction

Housing
Lowe's sells materials used in building, maintaining, and improving American homes. Our sales to professional builders tend to rise and fall with the rate of housing starts, while our home center DIY (Do-It-Yourself) sales grow with our customers' desire to maintain and enhance their home environment.

Last year we believed that housing starts, which had already declined, would stabilize around 1.4 million units annually for the next several years. In the second half of 1990 the economy softened, financial institutions tightened up their lending policies in reaction to the S&L situation, and consumer confidence in the economy faltered. As a result, housing starts in 1990 hit an eight-year low. The immediate future looks less rosy than we had hoped, but the National Association of Home Builders predicts that housing starts will regain the 1.4 million mark within the next two years.

Home Ownership
We've said before that short-term influences can disguise but not reverse long-term trends. Home ownership is a traditional component of the American Dream and consistently appears at the top of any list of consumers' material goals. Despite the short-term impact of factors such as economic uncertainty and financing difficulties, Americans will continue to pursue home ownership until they achieve it.

The Baby Boomers are approaching the decade of their lives when home ownership numbers historically peak. In fact, between the ages of 45 and 55 the level of home ownership exceeds 75%. When considered in conjunction with the healthy growth rate of American households, this implies that we will soon see more dynamic home ownership growth. If the number of households continues to rise as expected, more than 8 million newly formed households will be looking for homes within the next decade.

Household Income By Age Distribution
Dollars in Billions

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	1987	2000e
Housing	15	15	17	15
Household Operations	7	10	14	14
Food	21	21	17	17
Clothing	7	8	6	6
Transportation	13	14	18	12
Medical	—	11	14	13
Other	37	21	14	23
Total	100	100	100	100

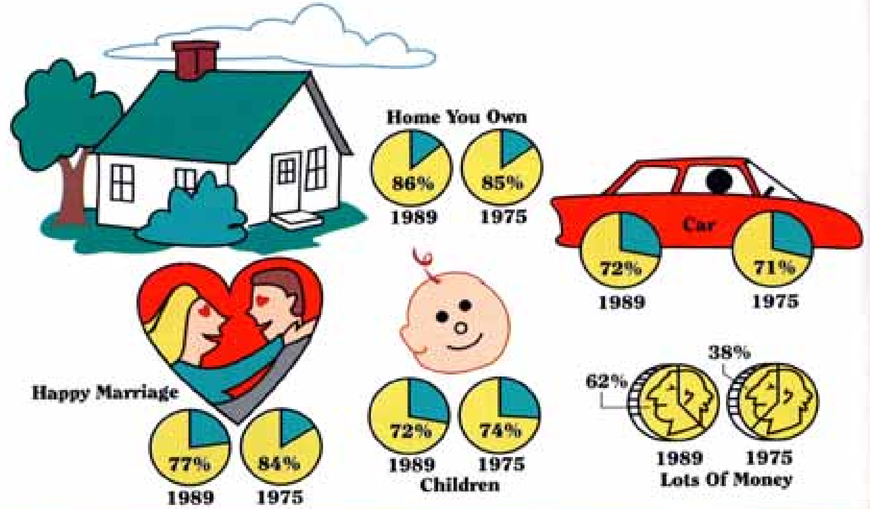
Source: *Survey of Current Business* July Issue
e = Estimate

Household Spendable Discretionary Income
Dollars in Billions

Age of Households	Discretionary Income 1986	2000e
< 25	$ 7.6	$ 43.9
25-34	61.5	277.3
35-44	78.0	319.6
45-54	60.4	311.8
55-64	59.3	332.1
65 >	52.2	282.0
Total	$319.0	$1,566.7

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

	1989	1975
	% Maintaining	
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



There is very little reason to believe that the Baby Boomers will behave differently from preceding 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.

U.S. Housing Characteristics Households and Home Ownership Rates

Households in Thousands

	U.S. Households	Home Ownership Rate
1980	80,776	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	89,479	64.0
1988	91,066	63.8
1989	92,830	63.9
1990p	94,227	64.0
2000e	101,783	70.0%

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

Total Private U.S. Housing Starts

Thousands

	Total Starts	Single Family Starts	Multi-Family Starts
1980	1,292	852	440
1981	1,084	705	379
1982	1,062	663	399
1983	1,703	1,068	635
1984	1,750	1,084	666
1985	1,742	1,072	670
1986	1,805	1,180	625
1987	1,620	1,146	474
1988	1,488	1,081	407
1989	1,376	1,003	373
1990	1,193	895	298
1991e	1,051	807	244
1992e	1,253	944	309
1993e	1,420	1,080	340

Sources: U.S. Bureau of Census Construction Reports Series C-20; Projections – Housing Economics, NAHB e = Estimate

Affordability

Home ownership has always been a financial challenge for Americans, and much ink has been spilled in discussion of the difficulties encountered by first-time home buyers.

Actually, housing has become more affordable overall since the mid-Eighties. Why? For one thing, the upward spiral in home prices has slackened: the median price of existing homes rose only 2.5% in 1990 and will probably not exceed that rate in 1991. Mortgage interest levels are currently much lower than they were during much of the Eighties, when it was not unusual to pay 12% on a first mortgage. Also, as household income levels rise, mortgage interest represents a smaller percentage of disposable personal income.

Home mortgage interest on primary residences is one income tax shelter that has not been phased out or severely limited in recent years. In fact, financial institutions are promoting home equity loans as the last, best access to tax-deductible consumer credit. That reinforces the common conviction that a home is the single best investment the American consumer can make.

When value is considered as a component of affordability, it can be said that buyers of modern homes get much more house for their dollar than did home buyers a generation ago. Technology has made it possible to meet higher standards for insulation, vapor barriers, flame resistance, pest proofing, and energy efficiency; technology has also conditioned home buyers to expect built-in features that would have been high-ticket luxury items in houses built in 1970.

Retailing and Competition

Ten years ago, nobody talked about "home center retailers." The industry was in its infancy and DIY hadn't been named yet, although its business components were quietly gathering steam in other formats. What a difference a decade can make, especially in this century of accelerating change! The rapid evolution of home center/building materials retailers has littered the evolutionary path with failed store formats and fallen competitors who couldn't keep pace with consumer expectations. Because Lowe's has evolved, we have not only survived but also grown.

The Home Center Market

Between 1980 and 1990, home center retailing doubled in size from $54 billion to $107 billion in annual sales. That's an annual growth of 7%, compared with only 6.5% growth for retailing in general.

The most important aspect of that growth was the change in who was doing the buying. Throughout the Seventies, building materials were purchased primarily by professional builders (58% in 1975), and the bulk of their purchases went into new home construction (73% in 1975). As the housing stock built during the post-World War II boom years began to age, more and more building materials were purchased by Do-It-Yourself (DIY) homeowners who needed to repair and update their homes. Manufacturers saw a market opportunity and began to develop product lines catering to weekend handymen and women. Today the DIY market alone is nearly as big as total sales of building materials were just ten years ago.

Among professional builders there has also been a change. While nearly three quarters of their total purchases went into new homes back in 1975, only 57% were destined for new construction in 1990, while 43% went into home repair and home improvement projects.

Thus, manufacturers and retailers who were used to dealing with high-volume professional customers have had to adapt to new types of customers and new consumer needs. Price and selection are important, as always; terms and delivery are less so. In-stock, self-service, take-with inventory is now essential, while special orders and "Please allow six weeks for delivery" don't make it.

We believe that the home center market (here defined as DIY plus the repair/remodel segment) will approach $147 billion by 1995. We are even more certain that it will continue to change as it grows. The houses built during the boom years of the 1970's, when annual starts surpassed 2 million, are now about twenty years old. Homeowners are thinking about replacing the roof, buying a new energy efficient water heater, installing new stain resistant carpeting, and getting rid of that tacky gold and avocado sunflower wallpaper that was the last word in home decor when it was hung in 1971! They can do all those things by shopping only at Lowe's.

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	43.78	1.26
1989	10.11	10.11	7.65	32.3	39.95	1.07
1990p	10.05%	10.04%	$6.50	$31.7	$38.20	.97%

Sources: Federal Home Loan Bank Board and Lowe's Companies, Inc. p = Preliminary

Home Ownership By Age Distribution 1990

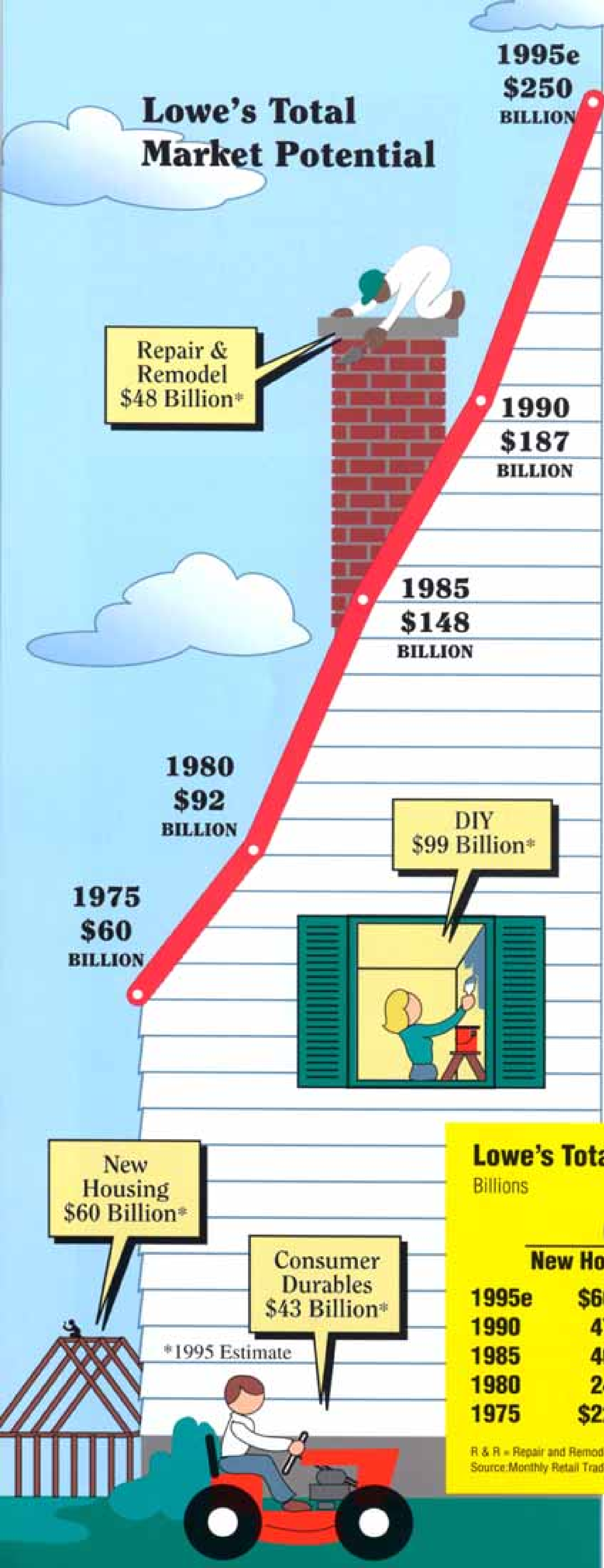
Age Group	% of Total Households Owning Home
< 25	17
25 - 29	35
30 - 34	53
35 - 39	63
40 - 44	70
45 - 49	74
50 - 54	77
55 - 59	79
60 - 64	80
65>	76
Total	64

Source: U.S. Bureau of the Census, *Home Ownership Trends in the 1980's* H-121, No.2

U.S. Home Sales (Housing Turnover)

	Existing Home Unit Sales (thousands)	New Home Unit Sales (thousands)	Median Selling Price: Existing Homes (thousands)	Median Selling Price: New Homes (thousands)	Total Market Value: Existing Homes (billions)	Total Market Value: New Homes (billions)
1980	3,159	545	$62.2	$ 64.4	$216.4	$35.1
1981	2,572	436	66.4	68.6	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	3,214	688	75.5	84.3	291.9	69.4
1986	3,565	750	80.3	92.0	351.1	83.9
1987	3,526	671	85.6	104.5	374.8	85.4
1988	3,594	676	89.3	112.5	405.4	93.5
1989	3,440	650	93.1	120.0	406.3	96.7
1990p	3,293	633	$95.5	$123.0	$390.2	$94.6

Source: National Association of Realtors, Existing Home Sales p = Preliminary



Consumer Durables

Lowe's has been selling consumer durables since wringer washing machines were the standard. We are the only major home center retailer to compete significantly in sales of home appliances and consumer electronics. The inclusion of such items as riding lawn mowers and color televisions in our product offering distinguishes Lowe's as a true destination home center retailer.

Since 1975, consumer durables sales have grown much faster than most other retail categories. In consumer electronics, growth has been driven by the introduction and rapid acceptance of new technologies such as compact discs. The temporary failure of the electronics industry to agree on world-wide standards for high definition television (HDTV) has delayed that format, but there is no question that the situation will be resolved; it's just not happening as quickly as expected. The key to success in this market will continue to be close monitoring of technological changes and shifts in consumer demand. The national market has already topped $33 billion and is projected to reach $43 billion by 1995.

Big-ticket appliances, principally for the kitchen and laundry, provide consistent sales in a mature market where replacement and enhancement purchases are reliably strong. Kitchen remodeling, one of the most popular home improvement projects, usually includes the replacement of at least one major appliance.

The Competition

Ten years ago, retailing of building materials to newly-defined DIY customers was the domain of lumber yards who were beginning to add expanded lines of hardware to their small offices/showrooms, and of hardware

Lowe's Total Market Potential

Billions

	Contractor	Home Center		Homeowner	
	New Housing	R & R*	DIY	Durables	Total
1995e	$60	$48	$99	$43	$250
1990	47	35	72	33	187
1985	40	25	54	29	148
1980	24	16	38	14	92
1975	$22	$ 8	$22	$ 8	$ 60

R & R = Repair and Remodeling e = Estimate

Source: Monthly Retail Trade, U.S. Department of Commerce, Bureau of the Census; Home Improvement Research Institute; Lowe's Estimates stores who were expanding sales floors to carry some "convenience" assortments of commodity-type items. Power tools were sold by Sears and other mass merchants; decorating items were sold by retailers who focused on one product category such as paint or floor covering and offered deep assortments at full markup.

As the decade unfolded, it became apparent that building material retailing was undergoing a revolution. New formats proliferated to take advantage of the rapid growth. The warehouse store with its huge assortments, self-service, and volume-driven profitability gave new meaning to the word "competition." Superstores were born, and drive-through lumber yards were tried. Some retailers attempted to combine different formats while others fought to protect their market niche.

In 1980 the current leader of our industry, Home Depot, had just come into existence and wasn't ranked in *Building Supply Home Center's* annual list of ten industry giants. Yet Home Depot is the oldest of the three warehouse operators now holding down places on that list.

Companies that failed to respond adaptively to change are the ones that have fallen from the list since 1980. Those that responded and evolved, like Lowe's, have been more likely to grow and prosper.

Despite the phenomenal growth of industry leaders over the past decade, not one has a market share of 5% or more. In fact, the top ten retailers all together have just an 18% share of the total market. There is still plenty of opportunity for these "giants" to grow, as their marketing efforts result in a greater share of a still-growing total market.

Consumer durables account for only about 16% of Lowe's total sales, yet here too we find ourselves among the industry leaders. Although our home electronics offering is not all-encompassing, we are among the top fifty electronics retailers in the nation. Among appliance retailers we do even better, ranking in the top ten according to the industry trade magazine *HFD* (formerly *Home Furnishings Daily*). Sears, at 37%, has by far the largest share of the appliance market. Below Sears the industry is highly fragmented, with the second largest retailer commanding only 5% of the total market. Because Lowe's competes daily with such well-known retailers as Circuit City and Sears/Brand Central in our largest markets, our customers in small and medium-sized markets also reap the good values usually associated with urban superstores.

The Competitive Situation — Top Ten Building Supply/Home Centers

Dollars in Millions

Rank 1990	Rank 1980	Company	Sales 1990	Sales 1980	% of 1990 Building Material Store Sales*
1.	NA	The Home Depot	$3,815	$ 22	4.1%
2.	2	Lowe's	2,833	884	3.0
3.	7	Payless Cashways	2,226	316	2.4
4.	NM	Builder's Square	1,900	NM	2.0
5.	19	Hechinger Co.	1,450	172	1.6
6.	NM	Home Club	1,260	NM	1.4
7.	1	Wickes Lumber	850	1,300	.9
8.	5	Grossman's	810	650	.9
9.	30	Menard	800	99	.9
10.	6	84 Lumber	$ 785	$ 555	.8%

Source: *Building Supply Home Centers Annual Giants Issues*
NM = Not Meaningful NA = Not Available *Based on SIC Code 52

Top Ten Major Appliance Retailers

Dollars in Millions	1989 Sales	Market Share
1. Sears/Brand Central	$5,800	37%
2. Montgomery Ward	750	5
3. Circuit City	420	3
4. Silo	202	1
5. Highland Superstores	179	1
6. Lowe's	169	1
7. Tops Appliance City	153	1
8. Lechmere	130	1
9. ABC Appliance Center	120	1
10. The Price Club	$ 111	1%

Source: *H.F.D. Magazine*, April 14, 1990

Top Consumer Electronics Retailers

Dollars in Millions	1989 Sales
1. Radio Shack	$2,932
2. K mart	2,300
3. Sears/Brand Central	2,269
4. Circuit City	1,680
5. Service Merchandise	1,400
10. Silo	690
20. Ames/Zayre	250
30. Macy's California	161
41. Lowe's	$ 123

Source: *H.F.D. Magazine*

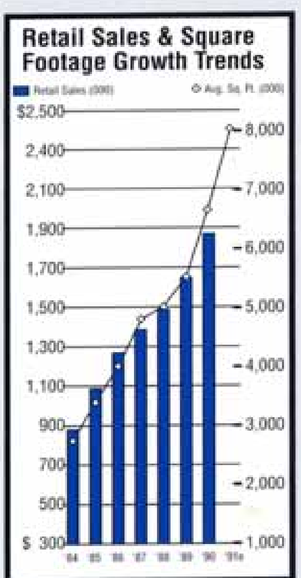
Consolidated Statements of Current and Retained Earnings

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

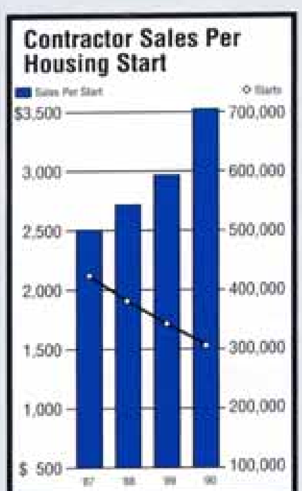
Fiscal Years End on January 31 of Following Year

	Fiscal 1990	% Sales	Fiscal 1989	% Sales	Fiscal 1988	% Sales
Current Earnings						
Net Sales	**$2,833,108**	**100.0%**	**$2,650,547**	**100.0%**	**$2,516,879**	**100.0%**
Cost of Sales	2,130,428	75.2	2,004,164	75.6	1,916,433	76.1
Gross Margin	**702,680**	**24.8**	**646,383**	**24.4**	**600,446**	**23.9**
Expenses:						
Selling, General and Administrative	505,918	17.9	447,571	17.0	410,060	16.4
Depreciation	51,431	1.8	46,134	1.7	41,184	1.6
Employee Retirement Plans (Note 7)	27,661	1.0	24,654	.9	22,608	.9
Interest (Note 12)	17,419	.6	19,228	.7	20,990	.8
Total Expenses	**602,429**	**21.3**	**537,587**	**20.3**	**494,842**	**19.7**
Pre-Tax Earnings	100,251	3.5	108,796	4.1	105,604	4.2
Income Tax Provision (Note 6)	29,164	1.0	33,884	1.3	36,403	1.5
Net Earnings	**$ 71,087**	**2.5%**	**$ 74,912**	**2.8%**	**$ 69,201**	**2.7%**
Shares Outstanding — Weighted Average	37,214		37,278		37,748	
Earnings Per Share	**$ 1.91**		**$ 2.01**		**$ 1.83**	
Retained Earnings (Notes 5 and 8)	**Amount**	**Per Share**	**Amount**	**Per Share**	**Amount**	**Per Share**
Balance at Beginning of Year	**$ 497,018**		**$ 440,334**		**$ 388,414**	
Net Earnings	71,087	$1.91	74,912	$2.01	69,201	$1.83
Cash Dividends (Notes 5 and 8)	(19,334)	$ (.52)	(18,228)	$ (.49)	(17,281)	$ (.46)
Retirement of Common Stock (Note 8)	(53,506)					
Balance at End of Year	**$ 495,265**		**$ 497,018**		**$ 440,334**	

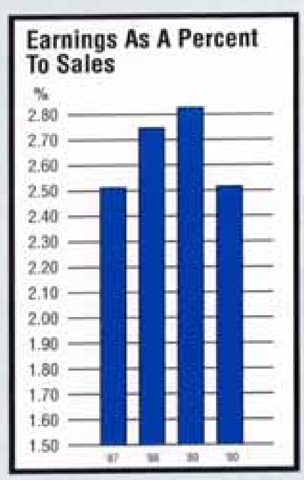
See accompanying notes to consolidated financial statements.

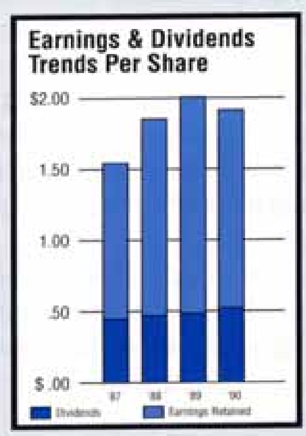


Avg. Sq. Ft.: Monthly Average Of Stores Open During The Year



Housing Starts: Number Of Starts In Counties Within Lowe's Market Areas





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

Sales and Earnings

Lowe's total sales in fiscal 1990 were $2,833,108,000 compared with $2,650,547,000 is fiscal 1989. This is a 7% increase for the year, an improvement on the 5% increase achieved in 1989.

Our sales to retail customers increased 13% and accounted for 66% of total sales. Lowe's retail business has two major components: home center (Do-It-Yourself) and consumer durables. Home center sales increased 15% in 1990, led by gains in such product categories as home decor and illumination, yard and garden, bathrooms, structural lumber, and millwork. Sales of consumer durables increased 7%, with kitchen appliances experiencing the greatest growth. Healthy sales gains were also recorded for stereos, video tape/disc equipment, radios, and power lawn equipment.

For the first time in Lowe's history, sales to contractors accounted for less than 35% of our total sales. The 34% in 1990 was down from 38% in 1989 and 41% in 1988. There are two principal reasons for this long-term trend: the contractor market opportunity has been declining, and the home center market has been growing. Sales to contractors, which decreased 3% in 1989, declined by another 3% in 1990. Building commodities and structural lumber sales were inevitably affected by the 17% decrease in housing starts experienced in Lowe's 20-state trading area. However, although housing starts in our area have declined by an average 14% per year from 1987 through 1990, our contractor sales per housing start have increased from $2,500 to $3600 in those four years. That increase in market share is indicative of our efforts to make the most of our contractor sales opportunity. For related market trends and growth rates, please see pages 20-27.

Sales from comparable stores (an average 276 stores open more than a year with comparable square footage) were $2,507,414,000, up 1% from the previous year. The continuing addition of sales floor square footage is the foundation of our strategic plan for retail sales growth. In 1990 we made progress on our multi-year, multi-million dollar plan to transform Lowe's from a chain of small stores into a chain of large stores. We ended the year with 309 stores and just under 7.1 million square feet of retail selling space. Our 1990 expansion included 5 new stores, 3 new contractor yards, 2 contractor yard conversions, 11 relocations, and 1 retrofit, for a total of 869,659 square feet of added retail space. Additionally, we closed 5 stores in 1990, totaling 26,752 square feet. We also remerchandised 76 stores. During the past three years, the main focus of our expansion plan has been the retrofitting and relocating of Lowe's stores within existing markets. Last year we reported that retail sales had increased 17% in the 45 stores that we had retrofitted or relocated in 1988 and 1989. In 1990, we are pleased to report, we achieved a 37% retail sales increase from the 31 stores that have been retrofitted or relocated since 1989 began.

We earned $71,087,000 in fiscal 1990, compared with $74,912,000 in 1989 and $69,201,000 in 1988. Earnings per share were $1.91 in 1990, down from $2.01 in 1989 but better than our 1988 earnings of $1.83 per share. In 1990, our LIFO gross margin was 24.80% of sales, surpassing the previous year's 24.39% and our 1988 margin of 23.91%. This improvement is the result of our expanded merchandise offering and the shift to more retail sales in our total sales mix. The margin rate was also enhanced by advertising allowances of $2.4 million in 1990. Another factor was the LIFO credit of $688,000, compared with the previous year's charge of $3,549,000 and the 1988 charge of $5,058,000. Commodities experienced deflation in 1990, primarily in the fourth quarter, while home center DIY merchandise underwent mild inflation, producing a blended deflation rate of .15%. On a FIFO basis, fiscal 1990's gross margin was 26 basis points higher than FIFO gross in 1989. As a percentage of sales, this annualized gross margin of 24.78% is the highest FIFO gross margin that we have achieved in six years.

Selling, general and administrative (SG&A) expenses, which had increased 9% from 1988 to 1989, rose 13% in 1990. The rise was attributable to a few key factors. Over the past two years, advertising expenditures increased as retail sales have grown. Store salaries increased both in dollars and as a percentage of sales, due to the additional staff requirements of new and relocated large Lowe's stores. More than half of our 1990 new and relocated stores are leased; therefore, rent increased faster than depreciation. Excess properties that we sold in 1990 brought in less gain than in 1989, and we wrote off certain store fixture assets. We have reserved for possible future losses on sales of excess properties. We also paid for new signage and labeling associated with our remerchandising program and the implementation of scanning.

Depreciation was $51.4 million for fiscal 1990, an 11% increase over the $46.1 million recorded in 1989. Increased depreciation is a natural concomitant of store expansion investment. Depreciation should increase to approximately $52 million in 1991.

Expense for employee retirement plans rose 12%, both because the salary base increased and because a larger number of employees qualified for eligibility. Since 1988, contributions to the plan have remained at 13% of eligible compensation. In 1991, employee retirement plan expenses (ESOP, ESIP) may reach $29 million.

Net interest expense in fiscal 1990 was $17.4 million versus $19.2 million in 1989 and $21.0 million in 1988. Less interest payments on long-term debt, the accelerated retirement in 1989 of $17 million of our unsecured 11.5% notes, increased short-term investment income and the inclusion of dividend investment income in 1990 are factors which have contributed to the reduction in net interest expense.

The effective tax rate was 29.09% for fiscal 1990, down from 31.14% in 1989 and 34.47% for fiscal 1988. The decreases in the effective rates were the results of three factors. First, the restructuring of several of the company's wholly owned subsidiaries in 1989 provided an overall lower favorable tax structure. Secondly, the company got a tax benefit from its increased investment in low income housing. Thirdly, in 1990 federal income tax issues subject to federal tax appeals for the company's fiscal years 1981 through 1986 were favorably resolved. Based on current tax laws, the combined effective tax rate should be about 30% for 1991.

Earnings as a percent of sales declined from 2.8% in 1989 to 2.5% in 1990 — the same level recorded in 1987. The important contributing factors, discussed in more detail above, are trends in gross margin, total expenses, and our income tax provision. Based on the current less-than-exuberant sales outlook, at least for the first half of fiscal 1991, earnings as a percent of sales will probably be no more than comparable to fiscal 1990.

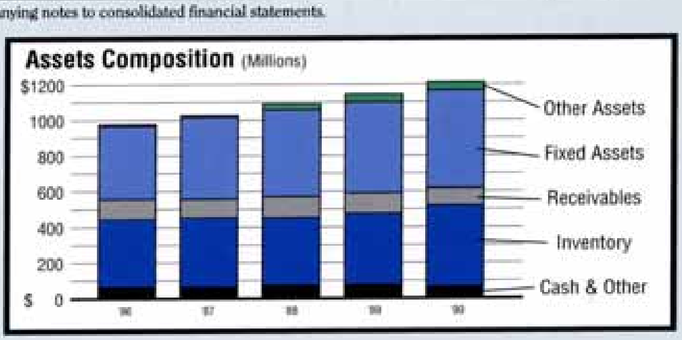
We expect a continuation of the current lackluster economy due to constrained consumer spending over the next few quarters. The restructuring of banking and lending institutions may cause continued softness in housing starts for several fiscal quarters. Despite this economic outlook, we continue to be pleased with Lowe's large prototype stores as a group, and we will proceed with our plans to add and relocate stores.

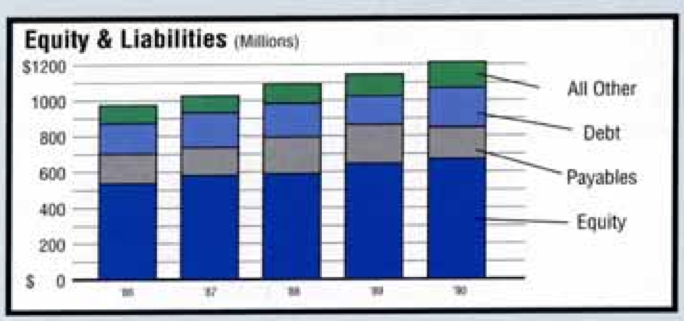
Consolidated Balance Sheets

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

Fiscal years end on January 31 of following year	Fiscal 1990	%	Fiscal 1989	%	Fiscal 1988	%
Assets						
Current Assets:						
Cash and Cash Equivalents (Note 12)	$ 15,034	1.2%	$ 55,566	4.8%	$ 60,257	5.5%
Short-Term Investments	35,110	2.9	—	—	—	—
Accounts Receivable — Net (Note 12)	96,354	8.0	121,897	10.6	127,738	11.8
Merchandise Inventory (Note 2)	460,804	38.3	407,677	35.5	379,383	34.9
Deferred Income Taxes (Note 6)	—	—	1,196	.1	706	.1
Other Current Assets	9,159	.8	9,610	.9	9,466	.9
Total Current Assets	**616,461**	**51.2**	**595,946**	**51.9**	**577,550**	**53.2**
Property, Less Accumulated Depreciation (Notes 3 and 5)	541,464	45.0	507,811	44.3	479,886	44.2
Other Long-Term Assets (Note 1)	45,127	3.8	43,637	3.8	28,361	2.6
Total Assets	**$1,203,052**	**100.0%**	**$1,147,394**	**100.0%**	**$1,085,797**	**100.0%**
Liabilities and Shareholders' Equity						
Current Liabilities:						
Current Maturities of Long-Term Debt (Note 5)	$ 10,237	.9%	$ 10,658	.9%	$ 12,391	1.1%
Short-Term Notes Payable (Note 4)	53,914	4.5	1,994	.2	256	—
Accounts Payable	186,860	15.5	210,197	18.3	203,956	18.9
Employee Retirement Plans (Note 7)	20,075	1.7	21,131	1.8	6,537	.6
Accrued Salaries and Wages	22,012	1.8	21,225	1.8	18,382	1.7
Other Current Liabilities	44,578	3.7	42,685	3.8	44,211	4.1
Total Current Liabilities	**337,676**	**28.1**	**307,890**	**26.8**	**285,733**	**26.4**
Long-Term Debt, Excluding Current Maturities (Note 5)	159,204	13.2	167,896	14.6	190,056	17.5
Deferred Income Taxes (Note 6)	23,500	2.0	26,050	2.3	23,157	2.1
Total Liabilities	**520,380**	**43.3**	**501,836**	**43.7**	**498,946**	**46.0**
Commitments, Contingencies and Litigation (Note 11)	—	—	—	—	—	—
Shareholders' Equity (Note 8)						
Common Stock — $.50 Par Value; Fiscal / Issued / Outstanding 1990 36,459,754 36,459,754 1989 39,756,499 37,255,169 1988 39,637,900 37,138,950	18,230	1.5	19,878	1.7	19,819	1.8
Capital in Excess of Par	169,177	14.1	178,733	15.6	176,698	16.3
Retained Earnings	**495,265**	**41.1**	**497,018**	**43.3**	**440,334**	**40.6**
Subtotal	**682,672**	**56.7**	**695,629**	**60.6**	**636,851**	**58.7**
Less Treasury Stock of 2,501,330 Shares at 1989 and 2,498,950 Shares at 1988 at Cost	—	—	50,071	4.3	50,000	4.7
Total Shareholders' Equity	**682,672**	**56.7**	**645,558**	**56.3**	**586,851**	**54.0**
Total Liabilities and Shareholders' Equity	**$1,203,052**	**100.0%**	**$1,147,394**	**100.0%**	**$1,085,797**	**100.0%**

See accompanying notes to consolidated financial statements.





Balance Sheet Management

Lowe's balance sheet is a financial snapshot of the company's assets, liabilities and shareholders' equity on the last day of the fiscal year — in this case, January 31, 1991. The balance sheet reveals the structural balance of Lowe's asset components as well as the financing of these assets through a flexible mix of equity, debt, and accounts payable. Lowe's balance sheet should be analyzed with an understanding of our strategy of growth through larger sales floors and expanded inventory assortments.

We manage Lowe's cash cycle to generate margin dollars. Since inventory is the most important asset for any retailer, we turn cash into inventory, which when sold is turned back into cash to buy more inventory. Some cash goes from inventory through accounts receivable before it comes back as cash.

The less time this cycle takes, the more cycles we can complete each year, each time realizing profit between the cost and the selling price of our inventory. That is why we customarily analyze our management of inventory by looking at inventory turnover: the higher the turn rate, the better use we have made of our profit potential.

Many factors can affect the rate of inventory turnover. In fiscal 1990 our inventory "turns" were affected by the general economic slowdown which began in late summer. The turnover rate was also affected by our commitment to expansion.

The economic downturn is an obvious slowing influence; the other factor requires some explanation. We have been working very hard to enlarge our sales floors so that our home center customers can find at Lowe's the entire range and depth of product lines that they expect from a destination superstore. This commitment to making more products available necessitates a higher permanent level of inventory investment. Our challenge is to have the products that our customers want, when they want them, without investing in too much inventory. Our inventory turn rate (cost of sales divided by the average of beginning and ending inventory) has slowed from 5.1 cycles in 1988 and 1989 to 4.9 cycles in 1990. The decrease is noticeable but also understandable and manageable.

For our contractor charge sales, the cash cycle includes a "turn" through another current asset, accounts receivable. Offering terms for payment gives Lowe's a competitive advantage in the market for contractor customers. Nonetheless, the faster our accounts receivable turn, the quicker we can make cash available to purchase more inventory to fuel sales. We must keep accounts receivable for as short a time as possible without reducing service to our contractor customers. The number of contractor days' sales in year-end accounts receivable has fluctuated between 47 and 58 during the last ten years. The fiscal 1990 year-end level of 47 days was the lowest in a decade.

Property is the largest single component of our assets. Our investment in larger stores, the foundation for Lowe's growth in the 1990's, is reflected here. Property Less Accumulated Depreciation has increased 75% over the past five years. During the same period there has been a net addition of 3.4 million square feet of selling space, almost doubling the 1985 year-end level. Because we are leasing many of our new stores, square footage (up 39%) has grown faster than property additions (up 12%) since 1988, and our goal is to continue that trend.

The major component of Other Long-Term Assets is the net book value of land and buildings from closed and relocated stores. From sixteen vacated properties sold in fiscal 1990, we realized a total profit of \$.7 million. During the next few years, as Lowe's relocates more stores to advantageous retail locations, more properties will be added to Other Long-Term Assets. We have established a reserve for possible losses which may result from property sales.

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

Shareholders' equity financed 56.7% of assets at the end of fiscal 1990, compared with 56.3% for fiscal 1989 and 54.0% for fiscal 1988. During those three years, the number of shares outstanding was reduced through stock repurchases of \$21.7 million in 1990 and \$47.6 million in 1988. Due to a change in North Carolina law, these shares are no longer shown as treasury stock but have been retired (authorized but unissued). Book value per share rose from \$15.80 at the end of fiscal 1988 to \$18.72 at the end of 1990. Retained earnings increased 27.5% for the years 1988 through 1990.

Accounts payable is our major source of short-term financing. Total accounts payable on the last day of the fiscal year were \$204 million in 1988, \$210 million in 1989, and \$187 million in 1990. That means that at the end of fiscal 1990, vendors were financing 40.6% of our inventory, compared with 51.6% in 1989 and 53.8% in 1988. The change was due to the broadening of our DIY-related merchandise offering in our new, relocated, and remerchandised stores, and to decreased inventory purchases that we made at the end of the fiscal year in response to unexpectedly low January sales.

Between January 31, 1990 and January 31, 1991, we decreased our long-term debt by \$9 million to 14.1% of our total assets. In 1989 we accelerated the retirement of \$17 million of our 11.5% notes. In 1988 and 1989, due to laws which gave lenders favorable tax treatment for loans made to finance ESOP contributions, we were able to obtain long-term financing at advantageous interest rates. However, due to 1989 tax law changes, similar borrowings are not available now. Our Cash Flow From Operations was strong enough to finance our operating and expansion needs without major new long-term financing in fiscal 1989 and 1990.

The "Commitments, Contingencies and Litigation" line of our balance sheet refers to outstanding purchase commitments and ongoing litigation. At the end of fiscal 1990, Lowe's was committed to invest approximately \$1.1 million for land, buildings, and construction and \$3.4 million for equipment. These purchase commitments have been decreasing for several years now, due to the changes in our preferred methods of financing new store construction. As in 1989 and 1990, many of 1991's new and relocated stores will be leased rather than purchased, and the rent for these properties will be expensed monthly. Leasing offers the advantage of not requiring Lowe's to make large outlays of cash up front. Note 10 details the future minimum lease payments for current operating leases.

Lowe's is a defendant in legal proceedings considered to be in the normal course of business. These proceedings are not, singularly or collectively, material to the company as a whole. Please refer 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 1990	Fiscal 1989	Fiscal 1988
Cash Flows From Operating Activities:			
Net Earnings	$ 71,087	$ 74,912	$ 69,201
Adjustments to Reconcile Net Earnings to Net Cash Provided By Operating Activities:			
Depreciation	51,431	46,134	41,184
Increase (Decrease) in Deferred Income Taxes	178	2,403	5,155
(Gain) Loss on Disposition of Fixed and Other Long-Term Assets	771	(1,758)	(627)
Cash Flow from Operations*	**$ 123,467**	**$121,691**	**$114,913**
Changes in Operating Assets and Liabilities:			
Decrease (Increase) in Operating Assets:			
Accounts Receivable — Net	25,543	5,841	(9,806)
Merchandise Inventory	(53,127)	(28,294)	(5,537)
Other Operating Assets	683	(144)	(2,141)
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	(23,337)	6,241	46,867
Employee Retirement Plans	3,780	20,594	20,633
Other Operating Liabilities	2,165	1,317	3,457
Net Cash Provided by Operating Activities	**$ 79,174**	**$127,246**	**$168,386**
Cash Flows from Investing Activities:			
Decrease (Increase) in Investment Assets:			
Short-Term Investments	$ (35,110)	$ —	$ —
Other Long-Term Assets	(3,267)	880	2,502
Fixed Assets Acquired	(91,024)	(91,673)	(81,611)
Proceeds from the Sale of Fixed and Other Long-Term Assets	11,424	3,216	5,232
Net Cash Used in Investing Activities	**$(117,977)**	**$ (87,577)**	**$ (73,877)**
Cash Flows from Financing Activities:			
Sources:			
Long-Term Debt Borrowings	$ —	$ 6,000	$ 18,691
Net Increase (Decrease) in Short-Term Debt Borrowings	51,920	1,738	16
Stock Options Exercised	6,004	2,023	127
Total Financing Sources	**$ 57,924**	**$ 9,761**	**$ 18,834**
Uses:			
Repayment of Long-Term Debt	(13,823)	(29,893)	(14,198)
Cash Dividend Payments	(19,334)	(18,228)	(17,281)
Common Stock Purchased for Retirement	(21,660)	—	(47,633)
Common Stock Purchased for ESOP Contribution	(4,836)	(6,000)	(17,863)
Total Financing Uses	**(59,653)**	**(54,121)**	**(96,975)**
Net Cash Used in Financing Activities	**$ (1,729)**	**$ (44,360)**	**$ (78,141)**
Net Increase (Decrease) in Cash and Cash Equivalents	$ (40,532)	$ (4,691)	$ 16,368
Cash and Cash Equivalents Beginning of Year	55,566	60,257	43,889
Cash and Cash Equivalents End of Year	**$ 15,034**	**$ 55,566**	**$ 60,257**

*Before adjustments for changes in related operating assets and liabilities
See accompanying notes to consolidated financial statements.

Cash Flow

Lowe's cash flow 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 operating assets and liabilities as part of "Net Cash Provided By Operating Activities." Companies were required to adopt this cash flow statement in 1988. However, Lowe's 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 significant measure of our long-term cash flow trends. Cash flow measured this way increased 5.9% from 1988 to 1989 and 1.5% in 1990. The major components of the increase were net earnings in 1989 and depreciation in 1990.

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. In our expansion since 1980, we have more than tripled our retail sales floor square footage and continue to increase our depreciating assets. 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 return (accelerated depreciation, for example). The Gain or Loss on Disposition of Fixed Assets is reversed in the computation because it is not considered an operating activity.

To facilitate comparison of our cash flow with that of companies which report on a FIFO basis, we offer the following formula:

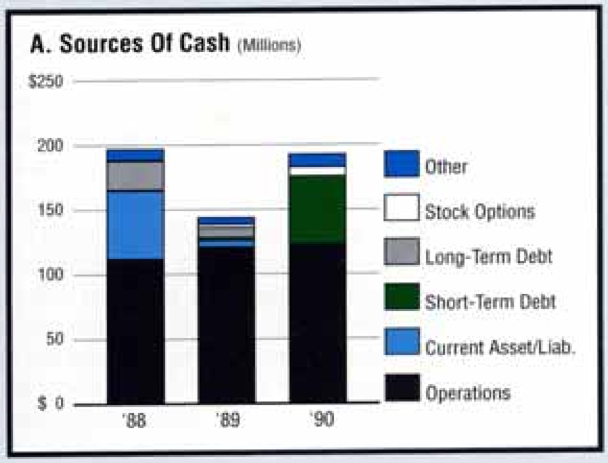
From:	FIFO Pre-Tax Earnings
Subtract:	Actual Taxes (from the Earnings Statement)
Add:	Depreciation and Deferred Taxes
Result:	Comparative Cash Flow

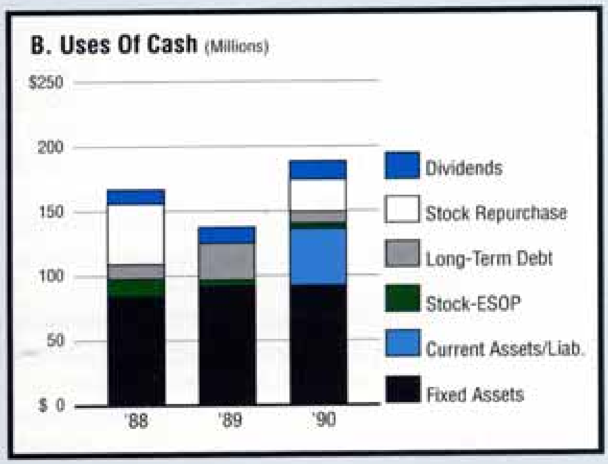
Please refer to graphs A and B for illustrations of the other parts of the cash flow statement. Graph A, "Sources of Cash," shows that "Cash Flow From Operations" continues to be our largest source of funding. Back in 1988, another significant source of cash was our net operating assets and liabilities, primarily accounts payable. In 1990, short-term borrowings were our secondary source of cash. The only other significant source of cash has been long-term debt financing which partially funded our ESOP contribution in 1988 and 1989.

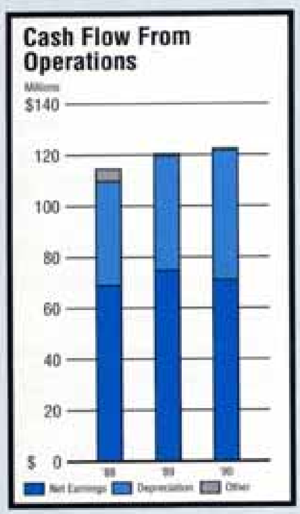
In addition to sources of funds currently in use, we have agreements and lines of credit aggregating $240 million for short-term borrowing and letters of credit. Also, after considering restrictions of current loan covenants, Lowe's could borrow up to $97 million in additional long-term debt.

Graph B shows how our uses of cash have changed over the past years. Fixed asset purchases and dividend payments have been two constant uses. Our commitment to expansion is evident in our outlay of $264 million for fixed asset purchases from 1988 through 1990. Dividends increased from $17.3 million to $19.3 million over the same period, even after the effect of our stock repurchases. Since 1988, dividends per share have increased from $.46 to $.52. It should be noted that the combined Cash Flow From Operations for the years 1988 through 1990 exceeded the total of fixed asset purchases and dividend payments for that period.

Other uses of cash vary each year as opportunities arise. In 1990, as in 1988, we repurchased a portion of our common stock. In 1989 we accelerated the retirement of $17 million of our 11.5% notes in addition to normal debt retirements. In 1990 the net change in "Operating Assets and Liabilities" was a use of cash primarily for inventory to broaden our home center DIY product lines in Lowe's new, relocated, and remerchandised stores.







Notes to Consolidated Financial Statements

Lowe's Companies, Inc. and Subsidiary Companies
Fiscal Years Ended January 31, 1991, 1990 and 1989

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 to be 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 that are readily convertible to cash within three months of purchase.

Short-Term Investments — The company has a cash management program which provides for the investment of excess cash balances in short-term instruments which have a maturity less than one year. These investments are stated at cost which approximates market. Interest is accrued when earned. Short-term investments that are readily convertible to cash within three months of purchase are classified as cash equivalents.

Accounts Receivable — The majority of the accounts receivable arise from sales to professional building contractors principally in the South Atlantic and South Central regions of the United States. 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 an outside finance company.

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 are 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 related lease.

Other Long-Term Assets — Real property representing closed stores are included in other assets at their estimated net realizable value.

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

Income Taxes — Income taxes are provided for temporary differences between the tax and financial accounting bases of assets and liabilities using the liability method under Financial Accounting Standard No. 96. The tax effects of such differences are reflected in the balance sheet at the tax rates expected to be in effect when the differences reverse.

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

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.

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 $33.5 million, $34.2 million and $30.7 million higher at January 31, 1991, 1990 and 1989, respectively. Under FIFO, net earnings would have been $.5 million or 1 cent per share lower for fiscal 1990, $2.4 million or 7 cents per share higher for fiscal 1989 and $3.2 million or 8 cents per share higher for fiscal 1988.

Note 3, Property and Accumulated Depreciation:

Net property includes $15.6 million, $17.3 million and $21.7 million in assets from capital leases for fiscal 1990, 1989 and 1988, respectively.

Property is summarized below by major class:

	January 31, 1991	1990	1989
Dollars in Thousands			
Cost:			
Land	$ 99,127	$ 94,081	$ 96,916
Buildings	371,947	354,300	316,620
Store and Office Equipment	263,281	221,311	195,551
Leasehold Improvements	42,178	36,486	32,506
Total Cost	**776,533**	**706,178**	**641,593**
Accumulated Depreciation	(235,069)	(198,367)	(161,707)
Net Property (Note 10)	**$541,464**	**$507,811**	**$479,886**

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 $60 million with interest at the lower of prime or bank transaction rate.

In addition, several banks have extended lines of credit aggregating $180 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 borrowings from banks and to the use of the company's commercial paper in fiscal 1990, 1989 and 1988:

Category of Aggregate Short-Term Borrowings	Balance at end of Year	Weighted Average Interest Rate	Maximum Amount Outstanding at Any Month End	Average Amount Outstanding During the Year[1]	Weighted Average Interest Rate During the Year[2]
Dollars in Thousands					
Fiscal 1990					
Commercial Paper	$30,000	7.3%	$ 72,466	$35,312	8.1%
Bank Borrowings	21,000	7.2	101,000	44,496	8.0
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

[1]Average of daily ending balances.
[2]Total interest expense for the year divided by average amount outstanding during the year (1).

Note 5, Long-Term Debt:

Debt Category	Interest Rates January 31, 1991	Year of Maturity	January 31, 1991	1990	1989
Dollars in Thousands					
Secured Debt[1]:					
Insurance Company Notes	8% to 9%	1998	$ 4,747	$ 7,378	$ 9,853
Bank Notes	8.75% to 11%	1994	177	230	282
Industrial Revenue Bonds[2]			—	2,100	2,410
Industrial Revenue Bonds	64% to 85.55% of Prime	1998	3,162	4,163	5,163
Other Notes	2% to 10%	2004	1,106	998	1,813
Unsecured Debt:					
Insurance Company Notes[3]	8.25% to 12.75%	1994	31,200	31,800	33,900
Industrial Revenue Bonds	64% to 77% of Prime	2020	13,963	15,285	16,924
Industrial Revenue Bonds[4]	6.125%	2005	11,700	11,700	11,700
Unsecured Notes	11.5%	1995	27,801	27,789	44,882
Bank Notes[3]	5.79% to 6.96%	1996	57,955	57,955	51,955
Capital Leases (Note 10)	**7.15% to 14.58%**	**2018**	**17,630**	**19,156**	**23,565**
Total Long-Term Debt			**169,441**	**178,554**	**202,447**
Less Current Maturities			**10,237**	**10,658**	**12,391**
Long-Term Debt, Excluding Current Maturities			**$159,204**	**$167,896**	**$190,056**

Note 5 Continued

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 fiscal 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%. In fiscal 1990, the company entered into two interest rate swaps with two financial institutions for notional amounts of $5 million each. Under both agreements, the company will pay interest at a fixed rate and will receive interest payments on the same notional amount at 85% of an interest rate index. The company is exposed to credit loss in the event of nonperformance by the banks and financial institutions. However, management does not anticipate such nonperformace.

Debt maturities, exclusive of capital leases (see Note 10), for the next five fiscal years are as follows (in millions): 1991, $5.8; 1992, $14.9; 1993, $13.6; 1994, $46.7; 1995, $48.2.

[1] Real properties pledged as collateral for secured debt had net book values (in millions) at January 31, 1991, as follows: insurance company notes — $44.1; bank notes — $.6; industrial revenue bonds — $10.7; and other notes — $11.4.

[2] The company repaid these industrial revenue bonds, which carried a fixed interest rate of 10.625% and a maturity date of 2014, during fiscal 1990.

[3] The unsecured bank notes were obtained for the purpose of acquiring the company's common stock to fund the ESOP. These notes 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 $239.2 million of consolidated retained earnings is available for payment of dividends, limited to $40 million during any one year.

[4] 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 1990		Fiscal 1989		Fiscal 1988	
Fiscal Years End on January 31 of Following Year	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Dollars in Thousands			**Statutory Rate Reconciliation**			
Pre-tax earnings	**$100,251**	**100.0%**	**$108,796**	**100.0%**	**$105,604**	**100.0%**
Federal Income Tax at Statutory Rate	34,085	34.0	36,991	34.0	35,905	34.0
State Income Taxes — Net of Federal Tax Benefit	55	.1	1,853	1.7	3,951	3.7
Other	(4,976)	(5.0)	(4,960)	(4.6)	(3,453)	(3.3)
Total Income Tax Provision	**$ 29,164**	**29.1%**	**$ 33,884**	**31.1%**	**$ 36,403**	**34.4%**
			Components of Income Tax Provision			
Current						
Federal	$ 28,903	99.1%	$ 29,370	86.7%	$ 26,102	71.7%
State	83	.3	2,111	6.2	5,146	14.1
Total Current	**28,986**	**99.4**	**31,481**	**92.9**	**31,248**	**85.8**
Deferred						
Federal	178	.6	1,706	5.0	4,315	11.9
State	—	—	697	2.1	840	2.3
Total Deferred	**178**	**.6**	**2,403**	**7.1**	**5,155**	**14.2**
Total Income Tax Provision	**$ 29,164**	**100.0%**	**$ 33,884**	**100.0%**	**$ 36,403**	**100.0%**

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

The company's consolidated federal income tax returns for fiscal 1981 through fiscal 1986 have been examined by the Internal Revenue Service, a routine occurrence for companies of Lowe's size. Settlement of the audits for all of those years was reached with the Internal Revenue Service during fiscal 1990. Collectively, the final adjustments did not materially affect the company's consolidated financial statements. The company has been advised that its federal income tax returns for fiscal 1987 and 1988 are to be audited. No material adjustments are expected.

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 ESOP covers substantially all employees of the company. The Board authorized contributions totaling 13% of eligible compensation for each of the fiscal years 1990, 1989 and 1988.

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. During fiscal 1990, the Board of Directors approved a $65 million stock repurchase program including up to $15 million for a partial prefunding of the company's fiscal 1990 contribution to the ESOP (See Note 8). During fiscal 1990, 238,920 shares costing $4.8 million were purchased and contributed to the ESOP. As of January 31, 1991, the Employee Stock Ownership Trust held approximately 24.4% of the outstanding common stock of the company and was its largest shareholder.

Note 7 Continued

The Board of Directors approves contributions to the company's Employee Savings and Investment Plan (ESIP) each year based upon a matching formula applied to employee contributions. Substantially all employees are eligible to participate in the ESIP. Company contributions to this plan for fiscal 1990, 1989 and 1988 were $2.7, $2.6, and $2.0 million, respectively. The company's common stock is an investment option for participants in the ESIP. As of January 31, 1991, the ESIP held 97,485 shares of the company's outstanding shares.

The company has evaluated the recently issued Statement of Financial Accounting Standards No. 106 ("Employers' Accounting for Postretirement Benefits Other Than Pensions") and does not believe that this new standard will have any material effect on the company's financial statements.

Note 8, Shareholders' Equity:

Authorized shares of common stock were 120 million at January 31, 1991, 1990 and 1989.

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

In Thousands	Shares	In Thousands				Shareholders' Equity
	Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total Equity
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**
Net Earnings				71,087		71,087
Tax Effect of Incentive Stock Options Exercised (Note 9)			1,017			1,017
Cash Dividends				(19,334)		(19,334)
Stock Options Exercised (Note 9)	272	136	5,878			6,014
Stock Received for Exercise of Stock Options					(10)	(10)
Treasury Shares Retired		(1,251)	(11,532)	(37,298)	50,081	
Shares Purchased and Retired	(1,067)	(533)	(4,919)	(16,208)		(21,660)
Balance January 31, 1991	**36,460**	**$18,230**	**$169,177**	**$495,265**	**$ nil**	**$682,672**

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

On September 9th, 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.

In December 1987, the Board of Directors approved a $50 million treasury stock program allowing the company's common stock to be repurchased in 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.

In September 1990, the Board of Directors approved a $65 million stock repurchase program, primarily in the open market, of the company's common stock, including up to $15 million for a partial prefunding of the company's fiscal 1990 contribution to the Employee Stock Ownership Plan (ESOP), with the remaining $50 million allocated to repurchase stock to be retired (authorized but unissued). The first 401,000 shares were repurchased at a cost of $8.2 million and were retired. Subsequent repurchases have been at a ratio of 26.4% allocated to the ESOP and 73.6% retired. This funding ratio will remain constant until the full $65 million stock repurchase program is completed. At January 31, 1991, 1,306,000 shares had been repurchased at a cost of $26.5 million or an average of $20.29 per share. Of these shares repurchased, 238,920 shares at a cost of $4.8 million had been contributed to the ESOP.

Recently enacted provisions of North Carolina law eliminate the concept of treasury shares. The company held 2,501,530 shares at a cost of $50.1 million at July 31, 1990, the effective date of the new law. The company has retired these treasury shares held at July 31, 1990 and subsequently has begun to retire certain shares as they are repurchased (See above).

Note 9, Stock Options:

During fiscal 1985, shareholders approved a stock option plan under which incentive and nonqualified 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. At January 31, 1991, there were 361,060 shares available for grant.

Option information is summarized as follows:

Key Employee Stock Option Plan	Shares	Option price Per share
	In Thousands	
Outstanding January 31, 1988	**360**	**$16.25 to $23.375**
Canceled 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
Canceled or expired	(7)	Variable to 25.50
Exercised	(119)	16.25 to 24.43
Outstanding January 31, 1990	**466**	**Variable to 25.50**
Canceled or expired	(3)	Variable to 25.50
Exercised	(272)	10.79 to 24.43
Outstanding January 31, 1991	**191**	**Variable to $25.50**

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, 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 one thousand shares of Lowe's common stock will 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 in both fiscal 1989 and fiscal 1990, none of which have been exercised. The maximum option price per share was $25.50 for fiscal 1989 and $43.625 for fiscal 1990.

Incentive stock options which are sold by the optionee within two years of grant or one year of exercise result in a tax deduction for the company equivalent to the taxable gain recognized by the optionee. For financial reporting purposes, the tax effect of this deduction is accounted for as a credit to capital in excess of par value rather than as a reduction of income tax expense. During fiscal 1990, such optionee sales resulted in a tax benefit to the company of approximately $1,017,000.

Note 10, Leases:

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

	Operating Leases		Capital Leases		
Fiscal Year	**Real Estate**	**Equipment**	**Real Estate**	**Equipment**	**Total**
Dollars in Thousands					
1991	$ 9,867	$3,361	$ 1,066	$4,917	$ 19,211
1992	11,105	2,779	1,058	3,205	18,147
1993	10,128	1,574	1,029	1,450	14,181
1994	9,426	211	1,013	339	10,989
1995	8,641	156	903	77	9,777
Later years	108,951	—	19,864	—	128,815
Total Minimum Lease Payments	**$158,118**	**$8,081**	**$24,933**	**$9,988**	**$201,120**
Total Minimum Capital Lease Payments			$ 34,921		
Less Amount Representing Interest			17,291		
Present Value of Minimum Lease Payments			17,630		
Less Current Maturities			4,465		
Present Value of Minimum Lease Payments, Less Current Maturities			**$13,165**		

Rental expenses under operating leases for real estate and equipment were $11.8 million, $8.8 million and $7.2 million in fiscal 1990, 1989 and 1988, respectively.

The company leases store facilities under agreements with original terms generally of twenty years. Generally these agreements provide for contingent rental based on sales performance in excess of specified minimums. To date, contingent rentals have not been significant. The leases typically contain provisions for four renewal options of five years each. Certain equipment is leased by the company under agreements ranging from three to five years. These agreements typically contain renewal options providing for a renegotiation of the lease, at the company's option, based on the fair market value at that time.

Note 11, Commitments, Contingencies and Litigation:

The company had purchase commitments at January 31, 1991 of approximately $1.1 million for land, buildings and construction of facilities, and $3.4 million for equipment.

The company is a defendant in legal proceedings 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 in excess of the company's self-insured retention under these proceedings is covered by insurance. Legal proceedings not included within the foregoing category in which the company is a defendant are discussed below.

The company is named as a codefendant in eight legal actions filed in Florida, Maryland, and Virginia involving the sale of allegedly defective fire-retardant treated plywood. The institution of litigation arising out of the sale of this product has been disclosed in previous reports to shareholders. One suit, filed in Maryland, was styled as a class action on behalf of all purchasers of the product; the suit was dismissed in December 1990. The company does not manufacture or process plywood, and the company has been advised by counsel that it has substantial defenses to liability.

The company previously disclosed a civil action, in which the company and certain of its officers and directors are defendants, pending in the United States District Court for the Western District of North Carolina. The plaintiff alleged violations of the Securities Exchange Act of 1934 and Rule 10b-5, included state law claims, and asked the court to certify a class including all purchasers of Lowe's stock between March 19, 1990 and July 25, 1990. The court denied class certification on January 18, 1991. The company does not anticipate any material financial exposure from this litigation.

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,	1991	1990	1989
Dollars in Thousands			
Balance Beginning of Year	$ 4,069	$ 4,179	$ 3,852
Additions Charged to Expenses	4,057	3,771	4,439
Deductions for Accounts Charged Off	(4,727)	(3,881)	(4,112)
Balance End of Year	**$ 3,399**	**$ 4,069**	**$ 4,179**

Net interest expense is comprised of the following:

Years Ended January 31,	1991	1990	1989
Dollars in Thousands			
Long-Term Debt	$ 16,428	$ 18,095	$ 18,936
Short-Term Debt	6,426	4,074	5,183
Amortization of Loan Costs	106	243	125
Cost of Early Debt Retirement	—	824	—
Short-Term Interest Income	(4,399)	(1,787)	(1,784)
Interest Capitalized	(1,142)	(2,221)	(1,470)
Net Interest Expense	**$17,419**	**$19,228**	**$20,990**

Cash and cash equivalents are comprised of the following:

As of January 31,	1991	1990	1989
Dollars in Thousands			
Cash	$ 8,113	$ 15,156	$ 3,757
Cash Equivalents	6,921	40,410	56,500
Total	**$15,034**	**$55,566**	**$60,257**

Supplemental disclosures of cash flow information:

Years Ended January 31,	1991	1990	1989
Dollars in Thousands			
Cash Paid for Interest (Net of Amount Capitalized)	$ 23,236	$ 23,944	$ 24,159
Cash Paid for Income Taxes	25,629	34,061	32,147
Fixed Assets Acquired Under Capital Leases	3,537	—	62
Stock Purchased Then Contributed to ESOP (Note 7)	4,836	6,000	17,863
Common Stock Received for Exercise of Stock Options	10	71	—
Notes Received in Exchange for Property	4,701	—	—

Supplemental disclosure of operating expenses:

Advertising expenses were $56.3, $48.3 and $37.0 million for Fiscal 1990, 1989 and 1988, respectively.

Management's Responsibility for Financial Reporting

Lowe's management is responsible for the preparation of the financial statements and for their integrity and objectivity. These statements conform to generally accepted accounting principles and include amounts which are based on management's best estimates and judgments. Lowe's management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

The company's financial statements have been audited by Deloitte & Touche. Management has made available to them all of the corporation's financial records and related data, and believes that all representations made to Deloitte & Touche during its audit were valid and appropriate. Their report provides an independent opinion upon the fairness of the financial statements.

Management has established and maintains a system of internal controls 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. Management believes that, as of January 31, 1991, the system of internal controls is adequate to accomplish these objectives. Lowe's maintains a strong internal auditing program that independently monitors the internal control system as well as assesses company activities related to compliance with policies and procedures, the safeguarding of assets, the efficient use of resources, and the accomplishment of stated objectives and goals. Management also recognizes its responsibility for fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct.

Audit Committee Chairman's Letter

The Audit Committee of the Board of Directors is composed of the following four independent directors: William A. Andres, John M. Belk, Robert G. Schwartz, and Gordon E. Cadwgan, Chairman. The committee held four meetings during fiscal 1990.

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

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 accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 31, 1991, 1990 and 1989, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Lowe's Companies, Inc. and subsidiaries at January 31, 1991, 1990 and 1989 and the results of their operations and their cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche
Charlotte, North Carolina
March 15, 1991

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	1990	1989	1988	1987	1986
Selected Income Statement Data:					
Net Sales	$2,833,108	$2,650,547	$2,516,879	$2,442,177	$2,283,480
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	71,087	74,912	69,201	55,954	55,104
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	71,087	74,912	69,201	61,180	52,219
Earnings Per Common Share:					
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	1.91	2.01	1.83	1.41	1.41
After Extraordinary Item and Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	$ 1.91	$ 2.01	$ 1.83	$ 1.54	$ 1.34
Selected Balance Sheet Data:					
Total Assets	$1,203,052	$1,147,394	$1,085,797	$1,027,329	$ 969,219
Long-Term Debt, Including Current Maturities	$ 169,441	$ 178,554	$ 202,447	$ 197,893	$ 162,879

Three Months Ended		January 31	October 31	July 31	April 30
Selected Quarterly Data*					
Fiscal 1990	Net Sales	$586,024	$708,124	$818,052	$720,908
	Gross Margin	152,409	174,751	202,337	173,183
	Net Earnings	5,064	14,081	29,960	21,982
	Earnings Per Share	.14	.38	.80	.59
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

***LIFO Adjustment**

Fiscal 1990 — The total LIFO effect for the year was a credit of $.7 million. A charge of $2.6 million against earnings was made thorugh the first nine months, resulting in a fourth quarter credit of $3.3 million.
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.

Stock Performance

Lowe's Quarterly Stock Price Range and Cash Dividend Payment

	Fiscal 1990			Fiscal 1989			Fiscal 1988		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	$35 3/8	$25 1/2	$.13	$25 3/4	$22 1/8	$.12	$21	$18	$.11
2nd Quarter	49 5/8	29 3/8	.13	27 1/4	24	.12	23 1/4	19	.11
3rd Quarter	30 1/2	19 1/8	.13	32 1/8	26 3/8	.12	24 3/8	18 3/4	.12
4th Quarter	$27 7/8	$18 3/8	$.13	$31 1/4	$28 7/8	$.13	$24	$19 1/4	$.12

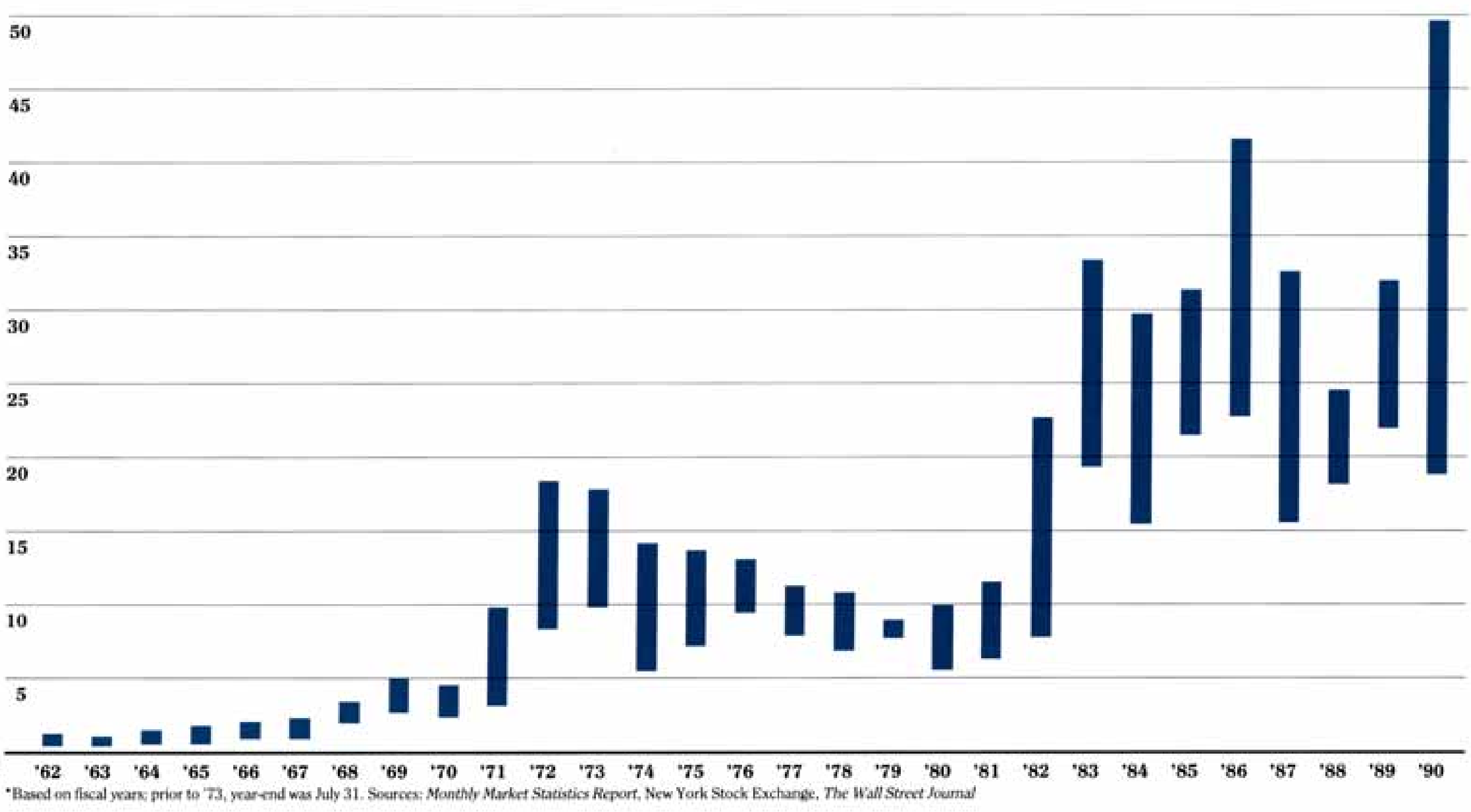
Source: *Wall Street Journal*

Monthly Stock Price and Trading Volume Fiscal 1990

	Fiscal 1990			Fiscal 1989		
	High	Low	Shares Traded	High	Low	Shares Traded
February	$27 3/4	$25 1/2	821,300	$24 1/2	$22 1/8	1,104,100
March	34 1/2	25 3/4	5,879,600	25 3/4	22 3/4	1,446,000
April	35 3/8	32	3,175,900	25 1/2	22 1/4	1,826,600
May	47 1/2	34 3/8	4,611,800	25 5/8	24	972,300
June	49 5/8	44 7/8	4,960,400	27 1/4	24 3/4	1,285,600
July	49 1/2	29 3/8	9,130,800	26 5/8	25	839,600
August	30 1/2	20 7/8	4,738,900	31 3/8	26 3/8	2,293,800
September	24 5/8	19 1/8	2,821,500	31 5/8	29 1/4	1,062,700
October	21 7/8	19 1/8	3,153,600	32 1/8	28 1/4	1,227,600
November	21 3/4	18 3/8	2,503,800	30 1/4	28 5/8	824,400
December	25 1/4	20 3/4	2,034,100	31 1/4	28 7/8	1,218,500
January	$27 7/8	$23 1/2	1,904,000	$29 3/4	$25 5/8	1,471,400

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	1/31/91	10/31/90	7/31/90	4/30/90	1/31/90	10/31/89	7/31/89	4/30/89
				Fiscal 1990				Fiscal 1989
Net Sales	**$586,024**	**$708,124**	**$818,052**	**$720,908**	**$599,549**	**$702,670**	**$746,196**	**$602,132**
FIFO Gross Margin	149,115	174,751	203,510	174,616	144,214	169,336	185,824	150,558
LIFO Credit (Charge)	3,294	—	(1,173)	(1,433)	1,860	(1,000)	(2,054)	(2,355)
LIFO Gross Margin	**152,409**	**174,751**	**202,337**	**173,183**	**146,074**	**168,336**	**183,770**	**148,203**
Expenses:								
S, G & A	120,270	130,191	136,378	119,079	110,000	115,989	117,504	104,078
Depreciation	13,673	13,105	12,481	12,172	12,361	11,677	11,299	10,797
Employee Retirement Plans	6,770	7,005	7,500	6,386	6,017	6,347	6,594	5,696
Interest (Note 12)	4,712	4,786	4,140	3,781	3,929	4,709	4,664	5,926
Total Expenses	**145,425**	**155,087**	**160,499**	**141,418**	**132,307**	**138,722**	**140,061**	**126,497**
Pre-Tax Earnings	6,984	19,664	41,838	31,765	13,767	29,614	43,709	21,706
Income Tax Provision	1,920	5,583	11,878	9,783	3,646	9,337	13,781	7,120
Net Earnings	**5,064**	**14,081**	**29,960**	**21,982**	**10,121**	**20,277**	**29,928**	**14,586**
Earnings Per Share	**$ .14**	**$ .38**	**$ .80**	**$ .59**	**$ .27**	**$ .54**	**$ .80**	**$ .39**

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

Quarter Ended	1/31/91	10/31/90	07/31/90	04/30/90	1/31/90	10/31/89	7/31/89	4/30/89
				Fiscal 1990				Fiscal 1989
Net Sales	**(2.3)%**	**.8%**	**9.6%**	**19.7%**	**5.3%**	**7.8%**	**5.9%**	**2.0%**
FIFO Gross Margin	3.4	3.2	9.5	16.0	4.6	10.1	8.3	5.8
LIFO Credit (Charge)	(77.1)	(100.0)	(42.9)	(39.2)	(625.4)	(16.7)	5.7	50.9
LIFO Gross Margin	**4.3**	**3.8**	**10.1**	**16.9**	**6.3**	**10.3**	**8.3**	**5.3**
Expenses:								
S, G & A	9.3	12.2	16.1	14.4	10.3	9.2	9.8	7.2
Depreciation	10.6	12.2	10.5	12.7	12.8	13.8	13.1	8.3
Employee Retirement Plans	12.5	10.4	13.7	12.1	(4.7)	12.1	19.8	11.2
Interest (Note 12)	19.9	1.6	(11.2)	(36.2)	(20.3)	(17.1)	(15.7)	22.2
Total Expenses	**9.9**	**11.8**	**14.6**	**11.8**	**8.5**	**8.5**	**9.4**	**8.1**
Pre-Tax Earnings	(49.3)	(33.6)	(4.3)	46.3	(11.1)	19.3	5.0	(8.3)
Income Tax Provision	(47.3)	(40.2)	(13.8)	37.4	(1.1)	4.6	(9.3)	(17.1)
Net Earnings	**(50.0)%**	**(30.6)%**	**.1%**	**50.7%**	**(14.2)%**	**27.6%**	**13.2%**	**(3.3)%**

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

Quarter Ended	1/31/91	10/31/90	7/31/90	4/30/90	1/31/90	10/31/89	7/31/89	4/30/89
				Fiscal 1990				Fiscal 1989
Net Sales	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
FIFO Gross Margin	25.45	24.68	24.88	24.22	24.05	24.10	24.91	25.00
LIFO Credit (Charge)	.56	—	(.15)	(.20)	.31	(.14)	(.28)	(.39)
LIFO Gross Margin	**26.01**	**24.68**	**24.73**	**24.02**	**24.36**	**23.96**	**24.63**	**24.61**
Expenses:								
S, G & A	20.53	18.38	16.66	16.52	18.34	16.51	15.75	17.28
Depreciation	2.33	1.85	1.53	1.69	2.06	1.66	1.51	1.79
Employee Retirement Plans	1.16	.99	.92	.89	1.00	.90	.88	.95
Interest (Note 12)	.80	.68	.51	.51	.66	.68	.63	.99
Total Expenses	**24.82**	**21.90**	**19.62**	**19.61**	**22.06**	**19.75**	**18.77**	**21.01**
Pre-Tax Earnings	1.19	2.78	5.11	4.41	2.30	4.21	5.86	3.60
Income Tax Provision	27.49	28.39	28.39	30.80	26.48	31.53	31.53	32.80
Net Earnings	**.86%**	**1.99%**	**3.66%**	**3.05%**	**1.69%**	**2.89%**	**4.01%**	**2.42%**

Customer Sales Profile

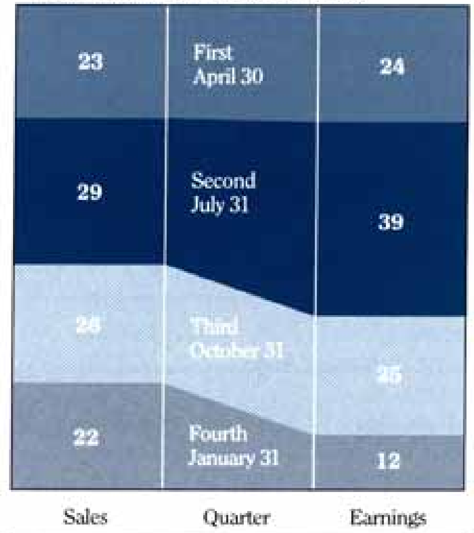
Dollars in Millions, Rounded Totals

	Change	Fiscal 1990 Sales	Fiscal 1990 % Total	Fiscal 1989 Sales	Fiscal 1989 % Total
1st Quarter					
HC[1]	+ 25%	$ 349.8	48%	$ 280.4	46%
CD[2]	+ 28	122.1	17	95.5	16
BC[3]	+ 10	249.0	35	226.2	38
Totals	**+20**	**720.9**	**100**	**602.1**	**100**
2nd Quarter					
HC	+ 16	407.9	50	351.6	47
CD	+ 3	129.5	16	125.4	17
BC	+ 4	280.7	34	269.2	36
Totals	**+10**	**818.1**	**100**	**746.2**	**100**
3rd Quarter					
HC	+ 8	364.6	51	339.0	48
CD	+ 5	89.8	13	85.8	12
BC	(9)	253.7	36	277.9	40
Totals	**+ 1**	**708.1**	**100**	**702.7**	**100**
4th Quarter[4]					
HC	+ 9	301.2	52	275.4	46
CD	(1)	95.0	16	96.4	16
BC	(17)	189.8	32	227.7	38
Totals	**(2)%**	**$586.0**	**100%**	**$599.5**	**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).
[4] Fourth quarter 1989 sales have been restated to reflect a revision in assortment classification.

1985–1990 Sales and Earnings

Percent of Total Year — A Six-Year Average



Store Sales Profile

Dollars in Millions, Rounded Totals

	Change	Fiscal 1990 Sales	Fiscal 1990 % of Total	Fiscal 1989 Sales	Fiscal 1989 % of Total
1st Quarter					
Comparable Stores[1]	**+ 13%**	**$633.9**	**88%**	**$563.3**	**94%**
New Projects[2]	+145	86.5	12	35.3	6
Closed Stores	—	.5	—	3.5	—
Total Sales	**+ 20**	**720.9**	**100**	**602.1**	**100**
2nd Quarter					
Comparable Stores	**+ 3**	**721.5**	**88**	**700.2**	**94**
New Projects	+134	96.6	12	41.3	5
Closed Stores	—	—	—	4.7	1
Total Sales	**+ 10**	**818.1**	**100**	**746.2**	**100**
3rd Quarter					
Comparable Stores	**(5)**	**628.3**	**89**	**658.1**	**94**
New Projects	+110	79.3	11	37.7	5
Closed Stores	—	.5	—	6.9	1
Total Sales	**+ 1**	**708.1**	**100**	**702.7**	**100**
4th Quarter					
Comparable Stores	**(7)**	**523.7**	**89**	**563.9**	**94**
New Projects	+ 98	62.0	11	31.3	5
Closed Stores	—	.3	—	4.4	1
Total Stores	**(2)%**	**$586.0**	**100%**	**$599.6**	**100%**

[1] Comparable stores: stores open more than 1 year with comparable square footage.
[2] New projects: New stores open less than 1 year and stores that have been retrofitted or relocated within the past 12 months.
Note: Prior years will not be restated.

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
Information contact:
Bill Kepley
(919) 770-6190

Dividend Reinvesting Agent
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102
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

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

Annual Meeting Date
May 31, 1991
Marriott Executive Park*
5700 Westpark Drive
Charlotte, NC

*If traveling on I-85 North/South, connect to I-77 South. The Marriott Executive Park is located at the interchange of I-77 South and Tyvola Road.

Stock Transfer Agent & Registrar
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102
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

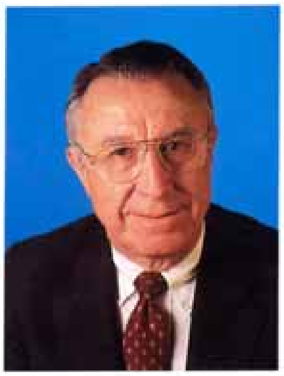
General Counsel
McElwee, McElwee & Warden
906 B Street Rear
North Wilkesboro, NC 28659
(919) 838-1111

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

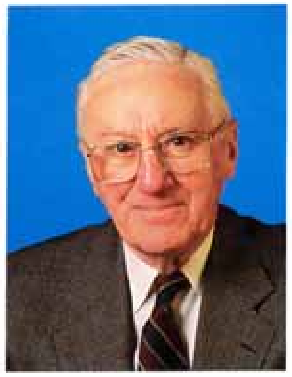
Shareholder Services
Shareholders' and security analysts' inquiries should be directed to:
W. Cliff Oxford, Vice-President, Corporate Relations
(919) 651-4631

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

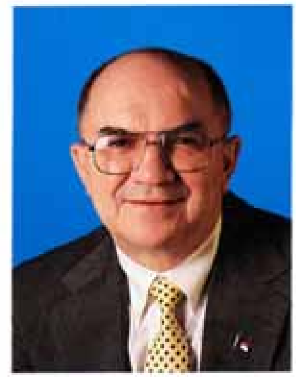
Board of Directors


Andres


Belk

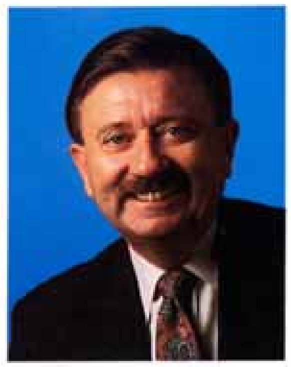

Cadwgan


Herring


Kulynych


Long


Schwartz


Shewmaker


Strickland

William A. Andres

Director since 1986, age 64. Chairman of Committee of Outside Directors, Member of Audit Committee and Compensation/Employee Stock Option Committee of the Company. Previously Chairman of the Board (1976–1983), Chairman of Executive Committee (1983–1985) of Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. (Mr. Andres retired in September, 1985.) Other directorships: Jostens, Inc., Minneapolis, Minn., since 1985; 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, Me., since 1986.

John M. Belk

Director since 1986, age 71. 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; Chaparral Steel, Midlothian, Tex., since 1987.

Gordon E. Cadwgan

Director since 1961, age 77. 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, Inc., Boston, Mass., since 1979. Other directorships: Third Century Fund, Inc., Providence, R.I., since 1981.

Leonard G. Herring

Director since 1956, age 63. 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.

Petro Kulynych

Director since 1952, age 69. 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; Carolina Motor Club, Inc.

Russell B. Long

Director since 1987, age 72. Chairman of Government/Legal Affairs Committee, Member of Compensation/Employee Stock Option Committee and Committee of Outside Directors 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 Corp., 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: United States Senator 1948–1987; Member, Senate Finance Committee 1952–1987; (Chairman 1965–1981).

Robert G. Schwartz

Director since 1973, age 63. 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. 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, N.Y., since 1989; CS First Boston, Inc., New York, N.Y., since 1989.

Jack C. Shewmaker

Director since 1985, age 53. 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), 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.

Robert L. Strickland

Director since 1961, age 60. Chairman of the Board since 1978, Chairman of Executive Committee, 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., 1989–1991; Revelstoke Companies, Inc., Calgary, Alberta, Canada 1978-1988; T. Rowe Price Associates, Inc., Baltimore, Md., since 1991.

Lowe's Leadership

Executive Management

I. W. Davis – Senior Vice President Real Estate
Wendell R. Emerine – Executive Vice President/Sales/Store Operations
Leonard G. Herring – President and Chief Executive Officer
Robert L. Strickland – Chairman of the Board
Robert L. Tillman – Senior Vice President – Merchandising
Harry B. Underwood, II – Senior Vice President and Treasurer (CFO)

Other Corporate Officers

Richard D. Elledge – Vice President/Chief Accounting Officer
Arnold N. Lakey – Vice President – Credit Management
W. Nathan Mitchell – Assistant Secretary, Director/Trades Payable
Kenneth A. Neal – Assistant Treasurer
Leslie G. Shell, III – Controller
John W. Vining, Jr. – Vice President – Administration
William C. Warden, Jr. – Assistant Secretary

Departmental Vice Presidents

Frank A. Beam – Store Operations
Gregory M. Bridgeford – Merchandising
Ralph G. Buchan, Jr. – Advertising
F. Don Davis – Senior Vice President – Sales Promotion
Frank W. Dooley – Corporate Information Services
Jerry W. Edwards – Merchandising
John L. Eikenberry – Internal Audit
A. Robert Gresham, III – Contractor Sales Promotion
Richard D. Griffin – Retail Sales Promotion
R. Vaughn Hayes – Merchandising
A. Lee Herring, II – Merchandising
W. Cliff Oxford – Corporate Relations
Ronnie L. Perry – Distribution
H. C. Poythress – Sterling Advertising
John V. Raley – Store Operations
David E. Shelton – Training/Pricing
Larry D. Stone – Store Merchandising
Charles E. Taylor – Store Operations
Gregory J. Wessling – Merchandising
William L. White – Store Operations

30-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 1990	Fiscal 1989	Fiscal 1988	Fiscal 1987	Fiscal 1986
Stores and People						
1 Number of Stores	3.7%	309	306	296	295	300
2 Square Footage	13.5	7,061,925	6,219,018	5,062,865	4,773,743	4,452,161
3 Number of Employees	10.1	15,556	15,271	14,774	14,761	14,783
4 Customers Served (Thousands)	16.9%	54,142	47,246	43,744	40,739	36,346
5 Average Customer Purchase		$52.33	$56.10	$57.54	$59.95	$62.83
Comparative Income Statement (Thousands)						
6 Total Sales	**12.4%**	**$2,833,108**	**$2,650,547**	**$2,516,879**	**$2,442,177**	**$2,283,480**
7 Depreciation	17.4	51,431	46,134	41,184	38,546	30,474
8 LIFO Credit (Charge)	NM	688	(3,549)	(5,058)	(3,829)	2,960
9 Operating Income [1]	12.8	169,101	174,158	167,778	158,565	152,348
10 Pre-Tax Earnings [2]	10.7	100,251	108,796	105,604	90,787	108,126
11 Taxes on Income	5.3	29,164	33,884	36,403	34,833	53,022
12 Extraordinary Item Net of Tax	NM	—	—	—	—	(2,885)
13 Cumulative Effect on Prior Years of a Change in Accounting Principle	NM	—	—	—	5,226	—
14 Net Earnings	**14.2**	**71,087**	**74,912**	**69,201**	**61,180**	**52,219**
15 Cash Flow From Operations[3]	15.6	123,467	121,691	114,913	103,306	87,543
16 Cash Dividends Paid	9.5	19,334	18,228	17,281	17,040	15,597
17 Earnings Retained	16.7	$ 51,753	$ 56,684	$ 51,920	$ 44,140	$ 36,622
Dollars Per Share (Weighted Average Number of Shares)						
18 Sales	10.9%	$76.13	$71.10	$66.68	$61.49	$58.51
19 Earnings	**12.7**	**1.91**	**2.01**	**1.83**	**1.54**	**1.34**
20 Cash Flow From Operations	14.1	3.32	3.26	3.04	2.60	2.24
21 Cash Dividends	**8.0**	**.52**	**.49**	**.46**	**.43**	**.40**
22 Earnings Retained	15.1	1.39	1.52	1.38	1.11	.94
23 Shareholders' Equity	13.5%	$18.34	$17.32	$15.55	$14.66	$13.85
Strategic Profit Model [4]						
24 Asset Turnover (Sales Per Asset Dollar)		$ 2.47	$ 2.44	$ 2.45	$ 2.52	$ 2.67
25 Return on Sales (Net Earnings as Percent of Sales)		× 2.51%	× 2.83%	× 2.75%	× 2.51%	× 2.29%
26 Return on Assets		= 6.20%	= 6.90%	= 6.74%	= 6.31%	= 6.10%
27 Leverage Factor (Asset Dollars Per Equity Dollar)		× 1.78	× 1.85	× 1.76	× 1.79	× 2.10
28 Return on Shareholders' Equity		=11.01%	=12.77%	=11.88%	=11.32%	=12.82%
Comparative Balance Sheet (Thousands)						
29 Total Current Assets	11.4%	$ 616,461	$ 595,946	$ 577,550	$ 552,464	$ 546,883
30 Cash and Short-Term Investments	12.4	50,144	55,566	60,257	43,889	50,013
31 Accounts Receivable — Net	3.5	96,354	121,897	127,738	117,932	118,693
32 Inventories (Lower of Cost or Market)	13.9	460,804	407,677	379,383	373,846	368,135
33 Other Current Assets	25.9	9,159	9,610	9,466	7,325	10,042
34 Fixed Assets	19.5	541,464	507,811	479,886	453,008	413,220
35 Other Assets	54.7	45,127	43,637	28,361	21,857	9,116
36 Total Assets	**14.8**	**1,203,052**	**1,147,394**	**1,085,797**	**1,027,329**	**969,219**
37 Total Current Liabilities	15.4	337,676	307,890	285,733	231,906	257,303
38 Accounts Payable	13.6	186,860	210,197	203,956	157,089	163,260
39 Other Current Liabilities	4.5	44,578	42,685	44,211	43,766	94,043
40 Long-Term Debt (Excluding Current Portion)	11.9	159,204	167,896	190,056	186,219	152,977
41 Total Liabilities	**14.6**	**520,380**	**501,836**	**498,946**	**444,893**	**428,685**
42 Shareholders' Equity	**15.0%**	**$ 682,672**	**$ 645,558**	**$ 586,851**	**$ 582,436**	**$ 540,534**
43 Equity Divided by Long-Term Debt (Excluding Current Portion)		4.29	3.84	3.09	3.13	3.53
44 Year-End Leverage Factor: Assets Divided by Equity		1.76	1.78	1.85	1.76	1.79
Shareholders, Shares and Book Value						
45 Shareholders of Record, Year-End		6,261	6,361	6,602	6,163	6,052
46 Shares Outstanding, Year-End (Thousands) [5]		36,460	37,255	37,139	39,498	39,624
47 Weighted Average Shares, Year-End (Thousands)		37,214	37,278	37,748	39,719	39,029
48 Book Value		$18.72	$17.33	$15.80	$14.75	$13.64
Stock Price Range During Year [6]						
49 High (Adjusted for Stock Splits)		$49.63	$32.13	$24.38	$32.50	$40.88
50 Low (Adjusted for Stock Splits)		$18.38	$22.13	$18.00	$15.25	$23.13
Price Earnings Ratio						
51 High		26	16	13	21	31
52 Low		10	11	10	10	17

Fiscal 1985	Fiscal 1984	Fiscal 1983	Fiscal 1982	Fiscal 1981	Base Year Fiscal 1980	Supplemental Information FIFO accounting Fiscal 1979	Fiscal 1977
282	248	238	235	229	214	209	175
3,641,762	2,980,000	2,529,040	2,337,351	2,232,008	1,998,239	1,931,419	1,570,000
13,317	10,727	8,715	7,080	6,003	5,950	5,804	5,274
31,477	23,938	18,889	15,075	11,973	11,376	11,024	8,224
$65.84	$70.55	$75.74	$68.59	$74.17	$77.67	$82.02	$72.27
$2,072,569	**$1,688,738**	**$1,430,576**	**$1,034,032**	**$888,042**	**$883,614**	**$904,651**	**$594,358**
21,759	14,805	12,034	11,178	10,522	10,320	10,064	6,212
3,445	2,686	(5,684)	(1,626)	(920)	(6,686)	(7,484)	—
146,131	136,195	110,293	63,181	46,714	50,800	64,412	52,856
112,865	119,076	96,891	47,525	33,226	36,277	47,331	42,487
53,151	57,633	46,276	22,394	15,367	17,386	22,376	21,056
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
59,714	**61,443**	**50,615**	**25,131**	**17,859**	**18,891**	**24,955**	**21,431**
83,980	79,489	66,501	39,686	28,391	28,959	35,019	27,643
13,199	11,600	11,600	9,800	9,376	7,813	6,511	2,735
$ 46,515	$ 49,843	$ 39,015	$ 15,331	$ 8,483	$ 11,078	$ 18,444	$ 18,696
$56.77	$46.59	$39.53	$31.02	$27.28	$27.14	$27.79	$18.26
1.64	**1.70**	**1.40**	**.75**	**.55**	**.58**	**.77**	**.66**
2.30	2.19	1.84	1.19	.87	.89	1.08	.85
.36	**.32**	**.32**	**.29**	**.29**	**.24**	**.20**	**.08**
1.27	1.38	1.08	.46	.26	.34	.57	.57
$11.16	$ 9.42	$ 8.05	$ 5.96	$ 5.45	$ 5.19	$ 4.89	$ 3.47
$ 3.26	$ 3.24	$ 3.64	$ 3.37	$ 2.94	$ 2.95	$ 3.35	$ 3.01
× 2.88%	× 3.64%	× 3.54%	× 2.43%	× 2.01%	× 2.14%	× 2.76%	× 3.61%
= 9.39%	=11.79%	=12.89%	= 8.19%	= 5.91%	= 6.31%	= 9.25%	10.83
× 1.86	× 1.79	× 1.98	× 1.73	× 1.79	× 1.90	× 1.92	× 2.10
=17.49%	=21.10%	=25.52%	=14.17%	=10.58%	=11.99%	=17.76%	=22.74%
$534,649	$432,370	$377,572	$271,535	$195,370	$209,756	$210,913	$186,198
87,190	84,204	74,249	25,341	32,070	15,567	22,959	13,324
127,603	97,319	94,658	75,388	48,107	68,172	66,442	76,162
313,143	248,268	205,100	167,535	113,529	125,104	118,511	96,164
6,713	2,579	3,565	3,271	1,664	913	3,001	548
308,603	195,237	141,238	121,406	110,673	91,399	88,695	60,210
12,939	6,501	827	559	521	573	291	401
856,191	**634,108**	**519,637**	**393,500**	**306,564**	**301,728**	**299,899**	**246,809**
251,669	189,418	168,830	134,999	80,199	80,781	84,690	87,709
168,068	125,003	110,415	90,580	47,959	52,003	45,567	60,324
83,601	64,415	58,415	44,419	32,240	28,778	25,245	27,385
183,909	92,488	51,891	56,233	48,864	51,929	56,112	46,244
448,818	**292,760**	**228,132**	**194,717**	**129,063**	**132,710**	**140,802**	**133,953**
$407,373	**$341,348**	**$291,505**	**$198,783**	**$177,501**	**$169,018**	**$159,097**	**$112,857**
2.22	3.69	5.62	3.53	3.63	3.25	2.84	2.44
2.10	1.86	1.78	1.98	1.73	1.79	1.89	2.19
6,253	6,372	5,928	5,144	5,415	4,620	5,147	4,588
37,082	36,248	36,248	33,333	32,555	32,555	32,555	32,555
36,509	36,248	36,193	33,333	32,555	32,555	32,555	32,555
$10.99	$ 9.42	$ 8.04	$ 5.96	$ 5.45	$ 5.19	$ 4.89	$ 3.47
$31.13	$29.63	$32.75	$22.35	$11.36	$ 9.95	$ 8.20	$13.10
$20.88	$16.25	$18.45	$ 7.65	$ 6.30	$ 5.35	$ 6.50	$ 8.70
19	17	23	30	21	17	11	20
13	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**
4,976	1,221	305	133
—	—	—	—
27,510	11,487	4,413	2,185
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**	—
.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] Pretax earnings plus depreciation plus interest.

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

[3] Before adjustments for changes in related operating assets and liabilities.

[4] 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

[5] 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.

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

Index

A

Annual Meeting	45
Assets, Total	30,31,48
Audited Financial Report	40
Average Sales Floor Size	16-17
Average Store Sales	16

B

Balance Sheets	30
Balance Sheet Management Analysis	31
Board of Directors	46-47
Book Value	48
Building Contractor Business	16,23

C

Cash Flows	32,33,48
Cash Flow Management Analysis	33
Certified Public Accountants	40,45
Common Stock Information	45
Company Profile	IFC
Competition	24,26
Consolidated Balance Sheets	30
Consolidated Statements of Cash Flows	32
Consolidated Statements of Current and Retained Earnings	28
Consumer Durables Business	16,26
Contractor Business	16,23
Customer Sales Profile	44

D

Directors	46-47
Discretionary Spending	23
Disposable Personal Income	22
Dividend Declaration Dates	45
Dividend Disbursing Agent	45
Dividend Payment Dates	45
Dividend Policy	45
Dividend Reinvesting Agent	45

E

Earnings Management Analysis	29

F

Financial Highlights	1

G

General Counsel	45
Gross National Product	22
Growth in Sales Floor Size	17

H

Highlights	1
Home Center Business	16-17
Home Ownership	23
Household Characteristics	21
Households	20-21
Housing Affordability	24,25
Housing and Construction	23
Housing Turnover	25

I

Inventories	30,34,48
Investor Information	45

L

Leadership	47
Letter to Shareholders	2-5
Liabilities, Total	30,31,48
Locations	18-19

M

Management's Discussion and Analysis	29,31,33
Map, Store Locations	19
Market Research	20
McElwee, William H., Dedication	IFC
Merchandise Sales Trends	17
Money and Spending	22

N

Notes to Consolidated Financial Statements	34-39

O

Officers/Management	47

P

Performance Review	16-17
Population and the American Household	20
Price Earnings Ratio	48

Q

Quarterly Review of Performance	43
Quarterly Stock Price and Dividend Payment	42

R

Retailing and Competition	24
Return on Assets	48
Return on Shareholders' Equity	48
Review, 30-Year	48

S

Sales Floor Size and Three Business Performance	16
Sales Floor Square Footage	16
Sales Per Average Store	16
Sales Per Square Foot	16
Sales Results	16
Savings	22
Selected Financial Data	41
Selected Quarterly Data	41
Shareholder Information	45
Shareholders' Equity	30,37,48
Shareholders' Letter	2-5
Stock Exchanges	45
Stock Investment, Splits and Dividends	48B
Stock Performance	42
Stock Price	42
Stock Registrar	45
Stock Splits and Stock Dividends Since 1961	48B
Stock Transfer Agent	45
Store Locations	18-19
Store Photo Feature	6-15
Store Sales Profile	44
Strategic Profit Model	48
Supplemental Information Review	48

T

Three Businesses	16
Top Ten Building Supply/Home Centers	27
Top Consumer Electronics Retailers	27
Top Ten Major Appliance Retailers	27
Total Market Potential	26
Trading Volume	42
Transfer Agent	45

Credits

Primary: All Lowe's People
Theme and Content: Robert L. Strickland, W. Cliff Oxford
Investor Research: Clarissa Felts
Market Research: Tom Smith
Design and Production: Henry Church, Freedom Graphics, Clemmons, NC

Photography: Will and Deni McIntyre, McIntyre Photography, Inc., Winston-Salem, NC
Feature Writer: Deni McIntyre
Illustration: Henry Church
Printing: Matt Phelan, Billy Glover, Annual Reports, Inc., Atlanta, GA
Contributing to the Report: Pat Anderson, Donna Dauenhauer, Richard Elledge, Noland Mewborn, Dan Parrish, Leslie Shell, Harry Underwood, Karen Worley

LOWE'S

Lowe's Companies, Inc.
PO Box 1111, North Wilkesboro, NC 28656 (919)651-4000