

Lowe's 1996 Annual Report

LOWE'S
1946 • 1996
50th
ANNIVERSARY



Financial Highlights

\$ In thousands, except for per share data

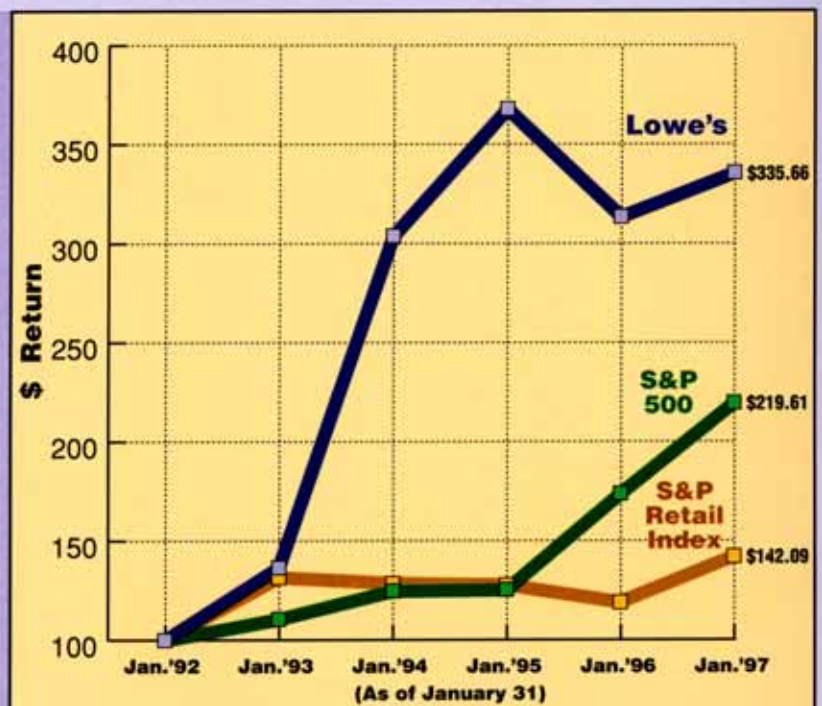
	Change From 1995	Fiscal 1996	Fiscal 1995
Sales	+ 22%	\$8,600,241	\$7,075,442
Net Earnings	+ 29%	292,150	226,027
Return on Beginning Equity	+ 11%	17.63%	15.92%
Earnings Per Share:			
Primary	+ 23%	\$1.74	\$1.41
Fully Diluted	+ 26%	1.71	1.36
Cash Dividends Per Share	+ 8%	\$.205	\$.190
EBITDA			
Pre-tax Earnings	+ 29%	\$ 453,606	\$ 352,107
+ Interest	+ 29%	49,067	38,040
+ Depreciation	+ 32%	198,115	150,011
+ Amortization*		—	—
= Total	+ 30%	\$ 700,788	\$ 540,158

*\$403 and \$296 amortization of deferred loan costs included in interest for 1996 and 1995, respectively.

EBITDA: This acronym stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It is not an alternative measure of operating results as determined in accordance with generally accepted accounting principles. However, it is useful in evaluating the inherent profitability of an enterprise. It measures the earnings generated before taxes, and adds back the non-cash charges for depreciation and amortization, and the financing costs of interest.

Comparison of 5-Year Cumulative Total Return of Lowe's, the S&P 500, and the S&P Retail Index

As of Jan. 31	Lowe's	S&P 500	S&P Retail Index
1997	\$335.66	\$219.61	\$142.09
1996	313.52	173.85	118.94
1995	367.88	125.41	127.68
1994	303.87	124.76	128.53
1993	136.55	110.57	131.48
1992	\$100.00	\$100.00	\$100.00



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Robert L. Strickland



Robert L. Tillman

Dear Shareholders:

1996 was Lowe's Golden Anniversary year, and we celebrated by working successfully to make it the very best year in Lowe's history.

Sales were \$8.6 billion, up from \$7.1 billion in 1995—a 22% increase which shows the impact of 66 new large stores and of merchandising initiatives which yielded a comparable store sales increase of 7%. Earnings per share grew to \$1.71, up 26% from last year's \$1.36. In the Nineties so far, we have achieved a compound sales growth rate of 20% and compound earnings per share growth of 24%. Sales and earnings growth of more than twenty percent—now *that's* a celebration that all Lowe's shareholders can enjoy!

The Power of One

Once a year, Lowe's store managers gather from every compass point to meet with corporate merchants and marketing staff, review the events of the past year, and make plans for the year ahead. As Lowe's grows toward our millennial goal of 600 stores, our annual gathering gets larger and larger. It is increasingly impressive to realize that each store manager runs a unique operation, yet they all share a primary objective: to make Lowe's the acknowledged leader at providing products to build, improve, and maintain American homes.

The theme of this year's meeting was "The Power of One." It emphasized not only the ability of each individual to make a difference, but also the strength we find when we work together as one, with one common purpose.

This theme is equally applicable to Lowe's relationships with our partners-in-interest, a designation which embraces our customers, our suppliers, the communities we serve, and our shareholders, as well as our employees. Each partner's progress on the road to excellence contributes to the advancement of the rest. As Lowe's expertise and outreach increase, we strengthen our relationship with a growing number of partners.

For Our Customers

America is now in its sixth year of economic expansion. Unemployment figures are the lowest in a decade; inflation is the lowest it's been in three decades; interest rates are low and relatively stable. Yet despite this encouraging context, the pace of retail sales remains modest. Why? Because Americans are anxious about their financial future.

Leading-edge Baby Boomers are turning fifty now, and they are starting to think seriously about retirement. They're concerned about the Social Security system and health-related costs. They know they need to get their financial houses in order. Meanwhile, Generation X is coming on board with great potential but also with great uncertainty and its own causes for concern. The job market is not the cornucopia for them that it was for Boomers: although there are jobs out there, there seem to be fewer good ones.

All this explains—and justifies—the consumer's obsession with *value*. Value doesn't just mean low prices. In focus groups and in our stores today, we're hearing that our customers "want it all." They want,

expect, and deserve nothing less than low prices, large selections, quality merchandise, and great service. That's the definition of value, and we've made it the recipe for our enduring goal of Superior Customer Satisfaction.

To achieve Superior Customer Satisfaction, we have to "give it all" without giving it all away. As a dedicated low-cost operator, our strategy is to lower operating costs as a percent of sales, which will enable us to lower our retail prices. Lower prices will bring us more customers, which will increase sales and allow us to lower prices even more. To deliver not just price but the other components of value as well, we are focused on leveraging our investment in our store facilities, our technical systems, and our people.

For Our Suppliers

Lowe's transformation into a chain of large stores continued in 1996, and we finished the year with 30.4 million square feet of selling space—an incremental gain of 27%. Of the 402 stores in our chain at year-end, 317 were built in this decade. Large stores (80,000 square feet and up), which lead Lowe's growth in sales and profitability, now number 224 units and represent 78.5% of our total square footage. These stores accounted for 61% of sales and 53% of operating profits, which is particularly satisfying because most of the new store projects completed in 1996 were in new markets, which generally take longer than relocations to reach our goals for profitability.

In 1997, we will complete 60 to 65 new store projects. Between 40 and 45 of these will be new stores in new markets, taking Lowe's product selection to millions of new consumers. More than 80% of our \$1.2 billion capital budget for 1997 will be dedicated to funding this expansion.

Lowe's Supplier of the Year awards recognize manufacturers who contribute to Lowe's success through product development, marketing, packaging, distribution, and support services. At the National Hardware Show in Chicago last summer, we announced that our Suppliers of the Year were Valspar Paint; Pennington Seed; DeVilbiss Air Power Company; The Spectrum Group (United Industries); NHB Industries; Canfor; Bretlin, Inc.; and Weiser Lock. The President's Award for overall excellence went to DeVilbiss Air Power.

We congratulate and thank these vendor partners, and we encourage all of Lowe's vendors to emulate their teamwork—and their success!

For Our Communities

A Lowe's store is more than just a big box stuffed with merchandise. It is a place for people to work and build careers, an information center for home owners and home improvers at every level of expertise, and a responsible corporate citizen backed by a fifty-year tradition of neighborliness and community involvement that doesn't stop at the edge of the parking lot.

Since 1957, Lowe's Charitable and Educational Foundation has given a helping hand in communities where Lowe's operates. With the participation of Lowe's store managers, the foundation consolidates funds from all our stores and distributes them back to local communities in the form of grants to qualified recipients. The foundation has disbursed millions of dollars to thousands of deserving organizations and institutions, and the good work continues.

In 1993, we founded Lowe's Home Safety Council (LHSC) to help American families make home life safer and more secure for their loved ones. Forging an alliance with home center suppliers and other national safety organizations, the LHSC has used innovative methods to educate and motivate consumers. High-profile safety makeovers, Safety Watch kiosks in all Lowe's stores, and "Home Watch" television specials on Home & Garden Television are just a few of the LHSC's successful safety programs.

For Our Employees

Lowe's employees numbered 54,000 at the end of 1996, and there will be at least 10,000 more by this time next year. As an employer, Lowe's is proud to offer skills training and career development options that far exceed the norm in our industry. Our new "Lowe's University" is putting employees on the fast track to promotion within our organization, encouraging them in the vision of a career where they might have seen only a job.

Employee stock ownership has been a major part of Lowe's corporate culture for decades. Every new person we hire becomes eligible for ESOP membership following the completion of one year's work, and we closed 1996 with more than 30,000 employee-owners motivated and dedicated to Lowe's growth and progress, knowing that corporate success and personal success are intertwined.

Last July, in another major augmentation of our executive management team, we welcomed Tom Whiddon to Lowe's as executive vice president and

chief financial officer.

In August, Leonard Herring retired as president and chief executive officer. He was Lowe's most senior employee, having joined as our first financial officer in 1955. After the death of Lowe's founder, Carl Buchan, Leonard served on Lowe's Executive Committee and played a pivotal role in taking the company public. He is a founding member of Lowe's Board of Directors, and was a member of the Office of the President until a vote of the board made him president and CEO in 1978.

He led our company through years of dynamic change and growth. He can be succeeded, but he can never be replaced.

To learn more about the history of Lowe's, you may send in the request form for our book, *No Place Like Lowe's*, inserted at page 16.

For Our Shareholders

Lowe's first shareholders were a handful of employees who helped finance Lowe's early expansion one store at a time. Since the company went public in 1961, share ownership has made thousands of friends for Lowe's all over the world.

The table at the top of the next column shows what has happened to 100 shares of Lowe's stock bought for \$12.25 per share on the initial offering date in 1961 and held as a long-term investment. At \$38 per share, 12,000 shares have a market value of \$456,000, or 372 times the original investment.

The graph inside our front cover reveals that in terms of total return to shareholders, Lowe's five-year annual compound growth rate at the end of 1996 exceeded the Standard & Poor's 500 average by 10% and the S&P Retail Index by 20%.

The graph plots the curve of a growth company, not what you'd expect from a fifty-year-old retailer. Lowe's is fifty years old, but as a big-box retailer we are only one-tenth that age. In fact, 86% of our total

Date	Action	Shares Received	Total Shares
Oct. 1961	Bought 100 shares	100	100
May 1966	100% Dividend (2 for 1)	100	200
Nov. 1969	Stock Split (2 for 1)	200	400
Dec. 1971	50% Dividend (3 for 2)	200	600
Aug. 1972	33 1/3% Dividend (4 for 3)	200	800
June 1976	50% Dividend (3 for 2)	400	1,200
Oct. 1981	50% Dividend (3 for 2)	600	1,800
Apr. 1983	66 2/3% Dividend (5 for 3)	1,200	3,000
June 1992	100% Dividend (2 for 1)	3,000	6,000
Mar. 1994	Stock Split (2 for 1)	6,000	12,000

square footage is new since 1991, when a \$71 million restructuring charge signaled our commitment to becoming a chain of large stores.

In 1996, Gordon Cadwgan, one of the best friends Lowe's has ever had, retired as a founding member of our board of directors. Two more long-time esteemed friends and valued colleagues, Pete Kulynych and Senator Russell Long, will be leaving the board in 1997.

During 1996 we also welcomed two new board members. Jim Halpin is president and CEO of the successful computer products retailer CompUSA Inc. He was previously president of HomeBase, and has more than twenty years' experience in retailing. Paul Fulton is Dean of the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. Previously, he was president of the Sara Lee Corporation, the global packaged food and consumer products company.

We are proud of the leadership role our board has taken in corporate governance. For a discussion of governance and the 28 guidelines that our board has adopted, we invite your attention to pages 14 and 15.

We salute and thank all our partners-in-interest, who have made Lowe's fiftieth anniversary truly golden. May you find individual satisfaction and all the fruits of successful teamwork in whatever you undertake.

Cordial good wishes,



Robert L. Strickland
Chairman of the Board



Robert L. Tillman
President and Chief Executive Officer
North Wilkesboro, NC

A Message from Leonard Herring

Successful Teamwork in the Management of Change

When I became Lowe's president and CEO in 1978, we had 199 stores and less than two million square feet of selling space. At the end of 1996, Lowe's had 402 stores and more than 30 million square feet of retail space.

In the years of my presidency, Lowe's evolved from a small company into a large one—not just in the size and number of our stores, but in all its business functions and support systems. Not even a visionary like Lowe's founder, Carl Buchan, could have predicted everything that has influenced our growth. However, Lowe's of 1997 is a company that I believe Carl Buchan would still recognize, and of which he would be proud.

Progress is the art of maintaining order in change, and change in order. If one characteristic has been dominant in Lowe's success, it is our ability to manage change—and there's been a lot of change in the years since 1978!

In 1978, we did \$800 million in sales;

in 1996, we did \$8.6 billion.

In 1978, we made \$24 million in profits;

last year we made \$292 million.

In 1978, shareholder equity was \$140 million;

in 1996, it surpassed \$2 billion.

In 1978, we had 6,000 employees;

now we have nearly 60,000.

In 1978, Lowe's market cap was a quarter of a

billion dollars;

in 1996, it was approximately \$6 billion.

We worked for every one of those numbers. Not a single one was an accident; not a single one was a

gift. They all testify to successful teamwork in the management of change.

When I retired as Lowe's president and CEO last August, Bob Tillman was elected to succeed me. Between 1989 and 1996, Bob spearheaded Lowe's transformation into a chain of big stores. We prepared together for the transition of leadership, and he has my wholehearted support.

Bob is supported by the executive management committee, an able group in which I place the utmost confidence. Its eleven members are talented and dedicated professionals, and they are leading a company that has never been stronger or more sure of its course.

They are guided by one of the best boards of directors in the country. From the beginning, Lowe's board has been extraordinarily active and committed. Our current board is the strongest and most diversified in our history, and it is my pleasure and privilege to continue as a board member in such distinguished company.

I owe a debt of gratitude to all my fellow Lowe's employees. Thank you for your hard work, your support, and your friendship.

Finally, my thanks to all Lowe's shareholders. It has been my goal as president to justify and reward your faith in Lowe's, and I look forward to sharing with you a brilliant and enriching future.

Best wishes,



Leonard G. Herring



Teamwork in Action

It's early on a windy March morning in Huntersville, North Carolina. Greg Bridgeford and Greg Wessling, the one-two punch behind Lowe's merchandising, are leading their staff on a walk-through of the new 115,000-square-foot store due to open the following week. This store incorporates the latest enhancements to Lowe's sales floor



Lowe's Heroes, a program of volunteer projects by Lowe's employees in their communities, is funded by Lowe's Home Safety Council. This team of Heroes in Tyler, Texas worked with a local Boy Scout troop to install carbon monoxide detectors in schools.



design, product selection, and presentation. Some changes are obvious, some are very subtle—but all are important to Lowe's merchandising team.

"We ask our customers what they want," says Greg Wessling, "and our response to what they tell us is right here, on our sales floor."

Greg Bridgeford adds, "Our customers have a world of choices available to them. We have to prove that Lowe's will do what it takes to win their business."

In 1996, "doing what it takes" meant upgrading Lowe's selections of carpet, ceramic tile, and laminate flooring products. It meant expanding the kitchen



Above: Lisa Carroll discusses product display with Greg Bridgeford at Lowe's of Huntersville, NC.

Right: Mayor Bob Jones performs the board-cutting at the opening of Lowe's 400th store in Danville, IL.



cabinet assortment and adding major new lines of paint. It meant finding new sources for high quality ready-to-assemble furniture. We completely re-engineered our line of outdoor power equipment, and we developed and introduced Top Choice™ Lumber as a “branded” commodity exclusive to Lowe’s.

The Top Choice™ story is a good illustration of the customer focus and dedicated teamwork that made 1996 the best year in Lowe’s history.

“It all started by asking customers how we could make our store better in the lumber and building materials area,” Greg Wessling (senior vice president and general merchandise manager) explains. “Our customers said, ‘Make Lowe’s a source for better quality products.’

“So we began at grassroots level—literally! We started with the process of selecting the right trees to produce the wood we need. We worked with mills to develop the combination of strength and appearance that we wanted for a product that would uphold the brand name, ‘Top Choice™.’ We forged a real partnership with suppliers of softwood lumber—Georgia Pacific, International Paper, Weyerhaeuser and

Canadian Forest Products. We’re buying all the lumber of that grade that they can produce.

“We worked with Lowe’s marketing staff to develop an identity for the product. They came up with Top Choice™ colors of purple and gold—very regal, and unique for a commodity like lumber.

“Then our store operations people had to put the program on the sales floor. They had to get the signage up and communicate to our customers that this is what they had asked for. The message of Top Choice™ is, ‘Every time you need lumber, you’ll find great quality at Lowe’s.’

“We have Top Choice™ now in about three hundred of our stores, and we’ll have it throughout the chain by the end of 1997. I recently met with our regional vice presidents, and they all think it’s great.

“Top Choice™ is gaining the acceptance we need, because it’s what our customers want.”



Left: Greg Wessling and Theresa Anderson of Lowe's merchandising department.
Below: Lowe's store employees in Vero Beach, Florida.



Greg Bridgeford checks his watch to see if he's still on schedule. As usual, the day is booked solid for this senior vice president and general merchandise manager. Yesterday he was in Philadelphia, giving a speech to a convention of remodeling contractors. His topic, appropriately, was today's perpetually busy consumers and how Lowe's can serve their needs.

"Baby Boomers are time-starved," he says. "As a result, they're less likely to undertake do-it-yourself (DIY) projects, and more likely to outsource. They're ready to delegate time-consuming activities; on the other hand, they want things done right. There's a big opportunity here for providers of goods and services who can gain their trust.

"We have to start brokering more services for the Boomers. Every year there are more turn-key home improvement projects conceived by homeowners but completed by professional contractors.

"This means that Lowe's can serve homeowners either directly or by serving the contractors entrusted with their home improvement projects. Lowe's wants

to be the store of choice for these repair and remodeling (R&R) contractors.

"Toward that end, we're currently implementing a complete redesign of our basic plumbing and electrical departments as a result of successful market testing that we did last year. We're re-assorting, adding products, and developing new presentations. We're also expanding the paint department in our fifty stores that do the highest sales volume. We're enlarging the area devoted to customer service, and adding new color-matching, tinting, and mixing equipment. We're going to offer more services to more time-pressured customers, more quickly."

Right: Celeste Orr makes a point at a meeting of Lowe's Women in Leadership, a corporate development initiative.
Below: (L to R) Larry Stone with store employees Linda Burcham, Gary Sprouse, and Jim Weinel in Vero Beach, FL.

Opposite page, left: Regional vice president Nick Canter talks with employees in a garden center.
Opposite page, right: (L to R) Regional vice president Bill Pelon with Larry Stone and store manager Jon Waddingham at Lowe's of Galesburg, IL.



Lowe's employees. We refined some of our core processes to make it easier for employees to spend more time with customers and less on tasks.

Larry Stone is listening to a customer at Lowe's store in Galesburg, Illinois. She is giving the store and its employees a rave review, and Larry is in no hurry for her to finish; but he would be just as attentive if she had a complaint. For Larry, Lowe's executive vice president of store operations, this kind of situation is doubly productive: he gets to hear what's on a customer's mind, and the store employees learn from his example that when a customer talks, Lowe's listens.

"Customer service was the primary focus of our store operations team in 1996," Larry says. "We addressed the issue in a number of ways. Management discussed our commitment to customer service in live teleconferences on our satellite network for all

"Most of all, our regional vice presidents, district managers, and store managers were on our floors every day, setting an example that everyone could see. They were on the front line, proving that our commitment to customer service is not just lip-service; it's what we're all about.

"The need to emphasize customer service is not surprising when you consider everything that has to be done to keep a big store clean and well-merchandised. You can't neglect those tasks. But there's nothing more important than taking care of the customer. If the customer doesn't come back to Lowe's, none of that other stuff matters anyway.

"There's no task and no conversation that can't be interrupted and resumed later. That's how we let customers know they're our top priority."



In an editing suite at the HGTV studios in Knoxville, Tennessee, Dale Pond applies finishing touches to the post-production stage of a Lowe's commercial. The spot will be aired alongside commercials for some of Lowe's best vendors, with whom Dale (Lowe's senior vice president for marketing) has forged a strategic alliance to help Lowe's get the most bang out of each TV advertising buck.

"Lowe's is a low-cost operator," Dale says. "That's how we keep our prices competitive and still make a profit. So there's an ongoing quest within the company to keep our costs down.

"Lowe's marketing team is doing that by becoming more resourceful at exploring all the opportunities available to us.

"For instance, we approached HGTV, a new network whose target audience is made up of Lowe's customers and the customers that our vendors want to reach. We offered to bring HGTV a group of well-known, reputable national companies as advertisers if they would agree to sell us a substantial portion of their air time at a very attractive rate.

"Then we asked our vendors to buy some time on HGTV, where their commercials are sure to reach their target customers (who are Lowe's customers as

well). They were already buying national advertising, generally at higher rates. We became the broker for their air time and ours, and everyone got a better deal as a result.

"There's another winner in this scenario, and that's the consumer. As a result of the financial success that HGTV has experienced to date, the network is putting more and more original programming into its schedule. So consumers are getting more high-quality programs produced with their tastes and preferences in mind.

"In this kind of strategic alliance, everybody wins."

HGTV is just one of the marketing initiatives that achieves its goal through a real understanding of Lowe's customers. Our Team Lowe's NASCAR sponsorship, our participation in the Southern Living Show Homes program, and the wide-ranging activities of Lowe's Home Safety Council all serve to deepen our relationship with our customers.



Above: Lowe's #31 NASCAR at the Daytona 500.

Right: Stacey Case of HGTV views a Lowe's commercial with Dale Pond.

Far right: Zone manager Joe Cloutier and Debbie Buchanan hanging out with rugs.



“‘Relationship marketing’ means forming bonds with customers by giving them added value both within the store and outside it,” says Dale. “Our NASCAR sponsorship is a great example of that. Lowe’s doesn’t sell automotive products, and we don’t sell products that relate directly to racing events; but because many of our customers are interested in racing, our NASCAR involvement has made them think more highly of Lowe’s—and they prove it by spending more money with us.

“In order to know our customers better and better, Bob Tillman (Lowe’s president and CEO) goes out at least once a month for dinner with a group of randomly selected customers somewhere in Lowe’s 24-state area. He calls them Lowe’s Gold Advisory Board. After talking to them casually over dinner, he comes back with a better understanding of what our customers need and want. If everyone on Lowe’s team finds ways of strengthening relationships with our customers, we’ll be able to anticipate their needs more

accurately and satisfy them better.

“So while it sounds almost bizarre to say that a \$10 billion company is going to develop one-on-one relationships with its customers from the president on down, that’s exactly what we have to do. That’s the goal of marketing for the future.”

The grand opening of the Huntersville store is a huge success—one of the best in Lowe’s history. Thanks to effective advertising, thousands of customers show up; thanks to savvy merchandising, they find the products that they want on Lowe’s shelves; and thanks to Lowe’s store employees, they have a pleasant and productive shopping experience that means they’ll come again.

“It’s been a tremendous grand opening,” says Larry Stone. “I asked the store manager if there was anything that didn’t work, and he said ‘Only that we



Left: Some of Lowe's merchandising staff.
Below: Assistant store manager James Williams at Lowe's of Lake County, FL.



almost couldn't handle it all.'

"We're doing more and more to train our employees; in 1996, our Leadership School was expanded and renamed Lowe's University. But no matter how much training you get, there will always be that moment when a customer has a question you can't answer, a product isn't where it should be on the shelf, you make a mistake handling a return, or you don't place a special order correctly.

"One day of active duty on the sales floor will test every aspect of the system. That's why, in 1997, we're examining all our store processes with the goal of updating our whole methodology.

"Our goal is to increase the yield from our stores.

We've got the best stores in our industry: they're well-designed and well-merchandised, in great locations with plenty of parking. We want to be sure we're making the most of their potential in every market.

"Lowe's just celebrated its fiftieth anniversary year, but we're fairly new to this big-box retailing format. We built our first big store in 1989, and until 1991 we weren't fully committed to becoming a chain of big stores.

"In the last four years, we've had some growing pains. Now we have the stores, we have the programs, we have the product rollouts, and there's real teamwork in action."

Lowe's In Our Marketplace

Lowe's has always believed in the importance of market research as a tool not only to help us pinpoint our current position in the retailing universe, but also to help us chart our course into the

future. Back in 1972, we said in our annual report that the role of Lowe's market research was "to perceive opportunities, to forecast changes, and to measure performance." That role hasn't changed, although the information gathering techniques of 1996 would make our 1972 methods seem primitive by comparison.

Our commitment to state-of-the-art market research was confirmed in 1981, when Lowe's co-founded the Home Improvement Research Institute with other leaders of our industry. HIRI has since become the authoritative informational resource for home improvement retailing.

The tables and graphs on these pages have a lot to say about who we are, where we stand among our current competitors, how we got there, and where we're headed. In addition, since this is our fiftieth anniversary, we thought our shareholders might be interested in the following historical factoids:

- In 1946, there were roughly 35 million family households in America. In the past fifty years, that

Top Ten World Powers of DIY Retailing

Rank	Company	Country	1996 Sales US \$Billions
1	Home Depot	United States	\$19.54
2	Lowe's	United States	8.60
3	Castorama	France	3.42*
4	OBI	Germany	3.23
5	Menard	United States	3.10
6	Canadian Tire	Canada	2.77
7	Praktiker	Germany	2.43*
8	Payless Cashways	United States	2.64
9	Builders Square	United States	2.55
10	B & Q	United Kingdom	\$ 2.48

Source: National Home Center News
Conversion rates as of December 30, 1996
* Preliminary NHCN estimate

Lowe's Total Market Potential



Dollars in Billions

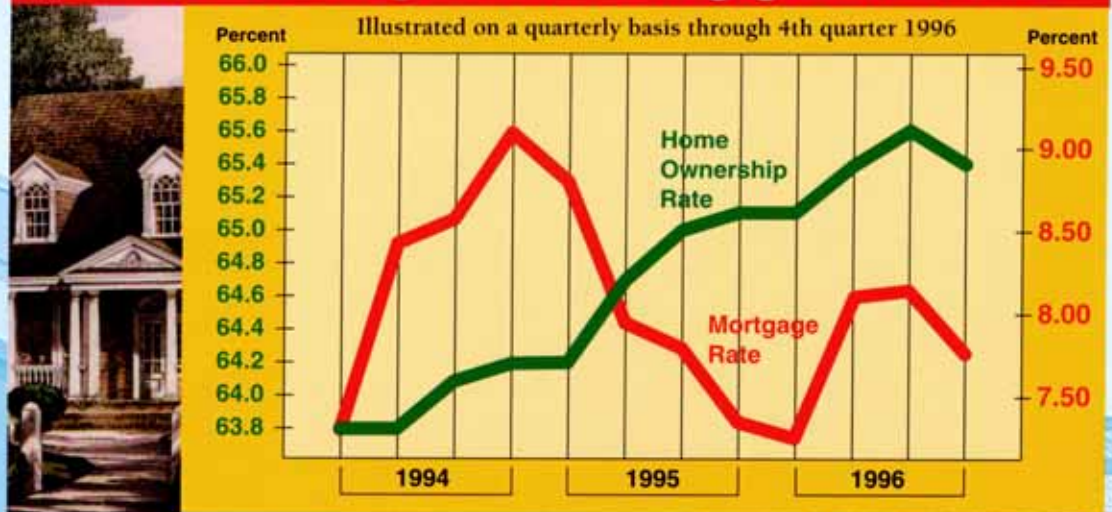
Home Center Market

	Building Contractor		Home Owner		Total
	New Housing	R & R*	DIY	Durables	
2001e	\$75.4	\$46.4	\$121.2	\$73.6	\$316.6
2000e	73.5	45.3	113.8	68.6	301.2
1999e	71.3	44.1	108.7	64.2	288.3
1998e	68.4	42.8	103.8	60.7	275.7
1997e	67.5	41.5	99.3	59.4	267.7
1996e	67.8	40.3	95.1	58.3	261.5
1995	62.0	37.3	90.1	54.7	244.1
1994	61.4	38.0	87.7	48.1	235.2
1993	52.3	35.6	79.3	40.7	207.9
1992	45.5	33.0	73.9	35.8	188.2
1991	38.9	31.6	68.4	33.6	172.5
1990	45.1	35.7	69.8	33.0	183.6
1985	40.3	25.4	53.1	25.1	143.9
1980	24.4	15.6	38.1	13.9	92.0
1977	\$26.8	\$10.7	\$27.5	\$10.0	\$ 75.0

* R & R = Repair and Remodeling e = estimate

Source: Home Improvement Research Institute; Management Horizons

Home Ownership Rate vs. Mortgage Rate Trends



Source: Bureau of the Census, *Current Housing Reports*; Department of Housing and Urban Development

number has doubled.

- In 1946, nearly half the houses in America lacked complete plumbing; in some areas, that number exceeded 80%! By 1990, only 1% still lacked plumbing facilities.

- In 1996, the fuel of choice for home heating was gas. Before 1950, the most common home heating fuel was coal.

- In the first half of the 20th century, many southern states had very low home ownership rates.

Since 1946, however, such states as Alabama, Georgia, Louisiana, Mississippi, and South Carolina have experienced a tremendous boom in home ownership and now rank above the national average of 65%.

- Are Americans more mobile now than they were thirty years ago? According to the U.S. Census Bureau, renters are more mobile, but homeowners move less frequently now than they did in 1960.

Merchandise Sales Trends

Dollars in Millions		Change From 1995		1996		1995		1994		Base Year 1990	
Total Sales	6-Year CGR			Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%
+10%			- 3%	\$ 815	9	\$ 839	12	\$ 930	15	\$ 466	16
+12											
+39			+24	1,866	21	1,508	22	1,457	24	969	34
+19			+36	528	6	388	5	303	5	73	3
+30			+14	992	12	871	12	717	12	355	12
+27			+31	645	8	493	7	386	6	133	5
+30			+28	776	9	607	9	480	8	185	7
+32			+26	707	8	559	8	442	7	148	5
+28			+34	487	6	364	5	301	5	94	3
+23			+28	493	6	386	5	290	5	110	4
+37			+19	728	8	610	9	497	8	213	8
+20%			+25	563	7	450	6	308	5	87	3
			+22%	\$8,600	100	\$7,075	100	\$6,111	100	\$2,833	100

On Lowe's Corporate Governance

Appropriately for a company whose first or second largest shareholder group has always been our employees, Lowe's has been attuned to corporate governance and shareholder concerns for decades. In the 1970's, our CEO was a multi-person Office of the President, and we established our board's audit committee three years before this was mandated by the New York Stock Exchange.

In the mid-Eighties, we attracted additional highly qualified outside directors. Since then, independent directors have always constituted the majority on our board and the majority on every board committee except the executive committee. Indeed, we formed a committee of outside directors in 1986.

Then in 1994, in a series of sessions, our board devoted time and care to the formalization of written corporate governance guidelines. We adopted 28 specific ones, and would be pleased to send a copy to those who complete the inserted request form. These guidelines are reviewed by the board periodically and updated when necessary.

We've found that the process of thoughtful evaluation of these issues was and is highly beneficial.

Independent authorities have commended Lowe's for our leadership in adopting these guidelines, and for our sensitivity to the growing importance of corporate governance as a subject of discussion and concern.

The current interest in corporate governance is partly a by-product of the way America's corporations have evolved since the end of World War II. During the post-war era, control of many major corporations passed from the founding generation of entrepreneurs and innovators into the hands of professional managers. Their life experience and education, no less than the postwar environment in which they operated, guaranteed that their methodology would differ substantially from that of the previous generation.

In the 1950's, with most of the world still recovering from the war, America's corporations grew and prospered as if it were their manifest destiny. Not until

the Sixties did these icons of the American establishment (like so many others) begin to come under attack. The Seventies brought increasing criticism and concern about the declining competitiveness of American industry.

Al Sommers, former commissioner of the Securities and Exchange Commission, recalls that "There was a growing perception that American industry was expensive, outmoded, and inferior. Fiduciaries [trustees of large amounts of equity] took renewed interest in the performance of the companies whose stocks they held."

Professor Walter J. Salmon of Harvard agrees. "By the mid-Seventies, everything was up for grabs. All institutions were being strongly questioned. With the near-collapse of certain corporate titans in the 1980's, corporate governance became a hot topic."

Concurrent with the takeovers and mergers that were commonplace in the 1980's, the ownership of public corporations became increasingly concentrated in pension plans and mutual funds. Al Sommers says, "The pension plans were particularly vocal. They used traditional tools, such as proxy contests, as well as newer tactics, such as negative publicity, to pressure corporate boards to accede to their demands."

The Council for Institutional Investors was founded in 1985 with a membership of some twenty pension funds. Today, the Council has more than a hundred members, and their combined assets exceed \$1 trillion.

Anne Hansen is the Council's deputy director. "We are best known as a shareholders' rights group," she says, "but the Council's

stated mission is to protect our members' assets. We encourage our members, who are all pension funds, to take an active role. Whether they are a public employee pension fund (such as CalPERS, the California Public Employees Retirement System), an organized labor pension fund, or a corporate pension fund, they are all accountable to their pensioners.

"Institutional investors are responsible for roughly



Al Sommers

half of all the stock held in 1996," Anne continues. According to some estimates, that figure could rise to eighty percent by the year 2000. "Our members can't just walk away from a corporation anymore when they don't like what it is doing. They can't dispose of large blocks of stock without losing a lot of money."

Walt Salmon and Al Sommers agree. "Large funds such as CalPERS and TIAA-CREF can't trade in and out of indexed funds," says Walt Salmon. "Instead, they must enhance the performance of the

companies in the index, in order to raise the performance of the funds." Says Al Sommers, "This has stimulated reviews of corporate governance bodies and procedures."

One early and influential case in point was that of General Motors during the tenure of former chairman John Smale. In 1992, in response to shareholder concern about the performance of GM's board and the true independence of some of its directors, the company became one of the first to articulate and codify its principles for corporate governance.

Not to be outdone by General Motors or anyone else, Lowe's soon followed with the adoption of our own set of corporate governance guidelines. "Lowe's motives were more pure," Anne Hansen remarks. "You did it without being pressured, because it was the right thing to do.

"Your guidelines cover all the bases," she continues. "They deal with things shareholders care about—the right mix of employee directors and independent directors, the appropriate size of the board, the board's interaction with institutional investors, and the provision for board committees such as the corporate governance committee."

In 1994, CalPERS challenged corporate America to undertake a self-analysis of corporate governance structures. Subsequently, Lowe's sent CalPERS a copy of its corporate governance guidelines.

Richard Koppes, who was then CalPERS's deputy executive officer and general counsel, wrote to Lowe's chairman Bob Strickland. "I sincerely commend you

for your diligence in responding, and for the thoroughness of your review," he said. When CalPERS published the final results of its survey, Lowe's was placed on the "A+" list for "having demonstrated exceptional initiative in this effort."

Says Walt Salmon, "As in so many other areas, Lowe's is a leader in



Anne Hansen

corporate governance activities. Lowe's guidelines are good for the stockholder without interfering with the conduct of Lowe's business.

"Every company should develop its unique path to better corporate governance, consistent with its history and corporate culture," he states. "That's why governance guidelines should not be legislated, but should evolve to suit the individual company."

Al Sommers concurs. "Most good corporate governance practices have spread not because they have been mandated by law, but because corporations have realized that they are good and desirable," he says. He believes that in the future, corporate governance may feel the impact of more and more 401(k) plans coming on-line. He also believes that mutual funds, "which have not traditionally been active in corporate governance issues," may change their stance.

In the office of the Council for Institutional Investors, Anne Hansen excuses herself to close her office door because another employee's young child is running up and down the corridor with a pull-toy. She emphasizes the influence of women as shareholders who wield increasing power in America's boardrooms.

"There are lots of women in shareholders' rights groups," she says. "In fact, all of the Council's staff are women. We all want the best for our children's future, and the future is inextricably linked to America's corporations."



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- 12. Richard Petty endorsed Lowe's riding mowers in early advertisements.
- 13. Edwin Duncan served Lowe's as president in the 1960's-'70's.
- 14. Lowe's cheerleaders at a sales meeting in the 1960's.
- 15. Arthur Smith and his Cracker Jacks perform at a store opening.
- 16. Lowe's Office of the President.
- 17. Dwight Pardue headed store operations in the 1980's.
- 18. Richard Spivey was Lowe's computer wizard in the 1970's.
- 19. An early IBM sales ticketing machine.
- 20. In 1981, Lowe's listed on The Stock Exchange in London.
- 21. Dick Griffin as Robin, Boy Wonder, put in an appearance at a Hootenanny.
- 22. Johnny Walker gives car keys to contest winner Max Garrett.



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LOWE'S 1946 - 1996 50 ANNIVERSARY

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William A. Andres



John M. Belk



Carol A. Farmer



Paul Fulton



James F. Halpin



Leonard G. Herring



Petro Kulynych



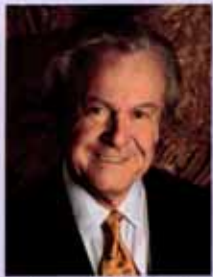
Russell B. Long



Claudine B. Malone



Robert G. Schwartz



Robert L. Strickland



Robert L. Tillman

Lowe's Board of Directors

William A. Andres

Director since 1986, age 70. Chairman of Governance Committee, Member of Compensation Committee and Executive Committee of the Company. Previously Chairman of the Board and Chief Executive Officer (1976-1983), Chairman of Executive Committee (1983-1985) of Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. (Mr. Andres retired in September 1985.) Other directorships: Hannaford Bros., Scarborough, Me., since 1986.

John M. Belk

Director since 1986, age 77. Chairman of Audit Committee, Member of Compensation Committee and Governance Committee of the Company. Chairman of the Board, Belk Stores Services, Inc. (Retail Department Stores), Charlotte, N.C., since 1980. Other directorships: Coca-Cola Bottling Company Consolidated, Charlotte, N.C., since 1972; Chaparral Steel, Midlothian, Tex., since 1987.

Carol A. Farmer

Director since 1994, age 52. Member of Audit Committee, Governance Committee and Government/Legal Affairs Committee of the Company. President, Carol Farmer Associates, Inc. (Trend Forecasting and Consulting), Boca Raton, Fla., since 1985. Other directorships: The Sports Authority, Inc., Ft. Lauderdale, Fla., since 1995.

Paul Fulton

Director since 1996, age 62. Member of Audit Committee and Governance Committee of the Company. Dean, Kenan-Flagler Business School, University of North Carolina, Chapel Hill, N.C., since 1994. President, Sara Lee Corporation (Manufacturer and Marketer of Consumer Products), Chicago, Ill., 1988-1993. Other directorships: Sonoco Products Company, Hartsville, S.C., since 1989; NationsBank Corporation, Charlotte, N.C., since 1993; Bassett Furniture Industries, Inc., Bassett, Va., since 1993; The Cato Corporation, Charlotte, N.C., since 1994; Winston Hotels, Inc., Raleigh, N.C., since 1994.

James F. Halpin

Director since 1996, age 46. Member of Compensation Committee and Governance Committee of the Company. President and Chief Executive Officer, CompUSA Inc. (Computer Superstores), Dallas, Tex. since 1993; President, HomeBase, Irvine, Cal., (Home Improvement Retail Chain), 1990-1993. Other directorships: Interphase Corporation, Dallas, Tex., since 1995; Invincible Technologies Corp., Boston, Mass., since 1995; ToyBiz, Inc., New York, N.Y., since 1995; Prime Source Building Products, Dallas, Tex., 1995-Feb. 1997.

Leonard G. Herring

Director since 1956, age 69. Lowe's President and Chief Executive Officer 1978-July 1996, (Mr. Herring resigned as President and CEO effective August 1, 1996 and retired as an employee of the Company January 31, 1997), Member of Executive Committee and Government/Legal Affairs Committee of the Company. Other directorships: First Union Corporation, Charlotte, N.C., since 1986.

Petro Kulynych

Director since 1952, age 75. Member of Audit Committee, Executive Committee and Government/Legal Affairs Committee of the Company, having previously served as Managing Director (1978-1983). (Mr. Kulynych retired in December, 1983.) Other directorships: Local Board, Wachovia Bank of North Carolina, N.A., North Wilkesboro, N.C., since 1988; Carolina Motor Club, Inc.

Russell B. Long

Director since 1987, age 78. Chairman of Government/Legal Affairs Committee, Member of Compensation Committee and Governance Committee of the Company. Partner, Long Law Firm (Attorneys-at-Law), Washington, D.C., since 1988. Other directorships: Catalyst Vidalia Corp., Vidalia, La., since 1989. Other: Member of Advisory Board, Metropolitan Life Insurance Company, New York, N.Y. since 1992; United States Senator 1948-1987; Member, Senate Finance Committee 1952-1987 (Chairman 1965-1981).

Claudine B. Malone

Director since 1995, age 60. Member of Audit Committee, Governance Committee and Government/Legal Affairs Committee of the Company. President and Chief Executive Officer, Financial & Management Consulting, Inc., McLean, Va., since 1984. Other directorships: Chairman, Federal Reserve Bank, Richmond, Va., since 1996 (Member since 1994); Dell Computer Corporation, Austin, Tex., since 1993; Hannaford Bros., Scarborough, Me., since 1991; Hasbro, Inc., Pawtucket, R.I., since 1992; Houghton Mifflin, Boston, Mass., since 1982; LaFarge Corporation, Reston, Va., since 1994; The Limited, Inc., Columbus, Oh., since 1982; Mallinckrodt Group Inc., St. Louis, Mo., since 1994; SAIC-Science Applications International Corporation, San Diego, Calif., since 1993; Union Pacific Resources Corporation, Fort Worth, Tex., since 1995.

Robert G. Schwartz

Director since 1973, age 69. Chairman of Compensation Committee, Member of Audit Committee and Governance Committee of the Company. Director of Metropolitan Life Insurance Company, New York, N.Y., since 1980, having previously served as Chairman of the Board (1983-1993), President and Chief Executive Officer (1989-1993) of that company. (Mr. Schwartz retired in March 1993.) Other directorships: Potlatch Corporation, San Francisco, Calif., since 1973; Comsat Corporation, Washington, D.C., since 1986; Mobil Corporation, New York, N.Y., since 1987; The Reader's Digest Association, Inc., Pleasantville, N.Y., since 1989; Consolidated Edison Company of New York, New York, N.Y., since 1989; Lone Star Industries, Inc., Stamford, Conn., since 1994; Ascent Entertainment Group, Inc., Denver, Colo., since 1995.

Robert L. Strickland

Director since 1961, age 66. Chairman of the Board since 1978, Chairman of Executive Committee and Member of Government/Legal Affairs Committee of the Company. Other directorships: Deputy Chairman, Federal Reserve Bank, Richmond, Va., since 1996; T. Rowe Price Associates, Inc., Baltimore, Md., since 1991; Hannaford Bros., Scarborough, Me., since 1994.

Robert L. Tillman

Director since 1994, age 53. President and Chief Executive Officer since August 1996, having previously served as Senior Executive Vice President and Chief Operating Officer (1994-July 1996) and Executive Vice President - Merchandising (1991-1994), Member of Executive Committee and Government/Legal Affairs Committee of the Company. Other directorships: Wachovia Bank of North Carolina, N.A., Winston-Salem, N.C., since 1995; International Mass Retail Association, Arlington, Va., since 1996.



Gordon Cadwgan has been a true friend and trusted advisor to Lowe's ever since he helped take our company public in 1961. Through the decades, his cool head and warm heart have been among our most valuable corporate assets. He retired from Lowe's board in 1996 and was elected director emeritus. We wish him all the benefits of a long and happy retirement.

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, 1997, 1996 and 1995, and the related consolidated statements of current and retained earnings and of 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, 1997, 1996 and 1995, 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 LLP
Charlotte, North Carolina
February 20, 1997

Audit Committee Chairman's Letter

The Audit Committee of the Board of Directors is composed of the following six independent directors: John Belk, Chairman, Carol Farmer, Paul Fulton, Petro Kulynych, Claudine Malone, and Robert Schwartz. The committee held four meetings during Fiscal 1996.

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

John Belk
Chairman, Audit Committee

Management's Responsibility for Financial Reporting

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

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

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

Robert L. Tillman
President & Chief Executive Officer

Thomas E. Whiddon
Exec. VP & Chief Financial Officer

Richard D. Elledge
Sr. VP & Chief Accounting Officer

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

This discussion summarizes the significant factors affecting the Company's consolidated operating results, financial condition and liquidity/cash flows during the three-year period ended January 31, 1997 (i.e., Fiscal 1996, 1995, and 1994). This discussion should be read in conjunction with the Letter to Shareholders, financial statements and financial statement footnotes included in this annual report.

Net earnings for 1996 were \$292.2 million or 3.4% of sales compared to \$226.0 million or 3.2% for 1995; return on beginning assets was 8.2% compared to 7.3% for 1995; and return on beginning shareholders' equity was 17.6% compared to 15.9% for 1995. These increases were primarily the result of record sales and improved gross margin as discussed below.

OPERATIONS

Record sales of \$8.6 billion were achieved during 1996, a 22% increase over 1995 sales of \$7.1 billion. Sales for 1995 were 16% higher than 1994 levels. Comparable store sales increased 7% in 1996 and were flat in 1995. The increases in sales are attributable to the Company's expansion program and comparable stores sales growth. These sales increases are the result of a strategy employing an expanded inventory assortment, everyday competitive prices and an emphasis on customer service. The following table presents sales and store information:

	Fiscal			
	1996	1995	1994	1993
Sales (M)	\$8,600	\$7,075	\$6,110	\$4,538
Sales Increases	22%	16%	35%	18%
Stores	402	365	336	311
Sales Floor Square Footage (M)	30.4	24.0	18.6	14.2
Average Store Size	76K	66K	55K	46K

Gross margin in 1996 increased to 25.9% from 24.9% in 1995. Both of these years were an improvement over the 24.8% posted in 1994. In 1996, the Company's Everyday Competitive Pricing Strategy was maintained with a special emphasis on careful pricing disciplines. As more large stores open each year, the expanded merchandise selection has improved gross margin together with the continued shift from contractor to retail sales. Additionally, the Company reduced its exposure in lower margin consumer electronics and is in the process of replacing these items with less seasonal, stronger margin products.

LIFO charges were \$1.4 million, \$8.3 million and \$435 thousand for 1996, 1995 and 1994, reducing gross margins by 1, 12, and 1 basis point, respectively. Note 3 to the financial statements provides further information.

Selling General and Administrative (SG&A) expenses for 1996 were \$1.4 billion or 16.2% of sales. SG&A in the two previous years was 15.9% and 15.4% of sales. The 1996 increase of 30 basis points primarily resulted from full achievement of annual bonus performance goals by management in 1996 compared to partial achievement in 1995. Additionally, prior to fiscal 1996, costs associated with relocating and closing stores that amounted to \$13.8 and \$19.7 million in 1995 and 1994, were charged against a restructuring reserve, established in 1991; in 1996, similar costs were expensed and had a negative 13 basis point impact.

Store opening costs were \$59.2 million for 1996. These costs were \$49.6 and \$40.7 million for 1995 and 1994, respectively.

As a percentage of sales, store opening costs were 0.7% for all 3 years presented. These costs currently average about \$900 thousand per store and are expensed as incurred.

Depreciation, reflecting continuing fixed asset expansion, increased 32% to \$198 million. There was a 37% and 36% increase for 1995 and 1994, respectively. Depreciation as a percentage of sales was 2.3% for 1996, 2.1% for 1995 and 1.8% for 1994. Approximately one-half of new stores opened in the last three years were leased. Of these leased locations, approximately 93%, 60% and 57% in 1996, 1995 and 1994 were under capital leases.

Employee retirement plans for 1996 were \$68.3 million or .8% to sales. This cost is consistent with .7% for 1995 and .8% for 1994. See Note 10 to the financial statements for further disclosure.

Interest costs as a percent of sales were .6% for 1996 and .5% for 1995 and 1994. Interest totaled \$49 million in 1996, \$38 million in 1995 and \$27.9 million for 1994. Interest costs as represented by capital leases were \$29.1, \$16.9 and \$7.4 million for 1996, 1995 and 1994, respectively. See Note 6 to the financial statements for particulars on long-term indebtedness and the discussion below on liquidity and capital resources.

Income tax rates were 35.6%, 35.8% and 34.9% in 1996, 1995 and 1994, respectively. The lower rates in 1996 and 1994 were primarily due to utilization of available state net operating losses.

Cash dividends paid to common shareholders were \$34.7, \$30.5 and \$27.4 million in 1996, 1995 and 1994, respectively. The Company has paid cash dividends each quarter since becoming a public company in 1961. At January 31, 1997 there were 11,460 shareholders of record. Please refer to the Stock Performance Chart on page 38 for further details on dividends and stock performance.

BALANCE SHEET MANAGEMENT

Effective inventory management stems from efficient logistics and distribution of merchandise assortments based on sales plans and forecasts. Inventory turnover (cost of sales divided by average inventory) is an often used performance measurement. In 1996 and 1995, the Company's inventory turned 4.3 times, compared to 4.7 turns in 1994. These turn rates were accomplished while the Company increased its square footage in its distribution centers from 1.9 million square feet at January 31, 1994 to 5.7 million square feet at January 31, 1997. In addition a new distribution center, having approximately 785,000 square feet, received inventory prior to year end in preparation for operation in early 1997.

Accounts receivable were \$118 million at January 31, 1997 compared to \$113 million at January 31, 1996 and \$109 million at January 31, 1995. A program was in effect through first quarter 1995 wherein the Company sold an undivided fractional interest in a designated pool of receivables. At January 31, 1995, the interest in receivables sold was \$38.5 million. No receivables were sold at January 31, 1996 or 1997. Note 2 to the financial statements provides further information.

Property, less accumulated depreciation increased 34% to \$2.49 billion at January 31, 1997. At January 31, 1996 it increased 33% over January 31, 1995 levels. The majority of the increase stems from the Company's expansion program, including land, building, store equipment, fixtures and displays and investment in new state of the art distribution facilities.

Other assets primarily consist of land and buildings relating

to vacated stores which are available for sale or lease, investments in low income housing, and notes receivable relating to sales of excess properties. The vacated properties are carried at their estimated net realizable value. At January 31, 1997, the carrying value was approximately \$27 million compared to \$26 million one year ago and \$42 million two years ago. Investments in low income housing at January 31, 1997 and 1996 were \$13 million and at January 31, 1995, were \$11 million. Notes receivable relating to sales of excess properties were \$7.3 million at year-end, down \$2.4 million from the previous year.

Accounts payable, as a percentage of year-end inventory was 57% at January 31, 1997 compared to 52% at January 31, 1996 and 60% at January 31, 1995. The proportions reflect the result of changes in inventory product mix, sales velocity, and levels of purchases near year end.

Long-term debt, excluding current maturities, at January 31, 1997 was \$767.3 million, down 11% from January 31, 1996. This decrease resulted primarily from the conversion of \$284.7 million principal of the Company's 3% Convertible Subordinated Notes offset by increased capital lease obligations of \$182.7 million related to the Company's expansion program. The previous year had an increase of 27%.

Shareholders' equity continues to finance the biggest portion of assets. Total shareholders' equity increased by \$560.8 million in 1996 and financed 50% of assets at January 31, 1997. This compares to 46.6% at January 31, 1996 and 45.7% at January 31, 1995. (See Note 11 to the financial statements for further details and related comments under "**financing activities**" below.)

FINANCIAL MANAGEMENT

Liquidity and Capital Resources

Primary sources of liquidity are cash flows from operating activities and certain financing activities. Net cash provided by operating activities was \$543.0 million for 1996. This compared to \$303.3 and \$359.0 million for 1995 and 1994, respectively. Information on consolidated cash flows (operating, financing, and investing activities) is set forth in the Statements of Cash Flows on page 27.

Working capital at January 31, 1997, was \$502.9 million. This compares to \$653.8 million and \$611.3 million at January 31, 1996 and 1995.

Financing activities in 1996 included the conversion of \$284.7 million principal of 3% Convertible Subordinated Notes into common stock at a rate of 38.272 shares per each \$1,000 principal and \$17.7 million of scheduled debt repayments. In 1995, the Company issued \$100 million aggregate (net \$99 million) principal 6.375% Senior Notes and had scheduled debt repayments of \$25.1 million. In 1994, the Company had \$41.5 million of scheduled debt repayments.

In 1994, the Company sold 10,350,000 shares of common stock. This transaction realized \$315.7 million, net of the underwriting discount and other costs. The proceeds were used to finance the Company's expansion program and for general corporate purposes. At January 31, 1997, an uncommitted aggregate of \$74 million was available under a \$500 million shelf registration filed with the Securities and Exchange Commission (SEC) in 1994. During 1996, the Company filed with the SEC another shelf registration statement covering an additional \$275 million of "unallocated" debt or equity securities. This leaves the Company with an uncommitted aggregate of \$349 million available under shelf registrations filed with the SEC.

These registrations enable the Company to issue common stock, preferred stock, senior unsecured debt securities, or subordinated unsecured debt securities.

During 1996, 1995 and 1994, the Company entered into various leases for new store facilities. The majority of these leases were classified as capital leases, the result of which is to increase long-term debt. Amounts classified as capital leases (i.e. long-term debt) were \$182.7, \$96.9 and \$104.2 million for 1996, 1995 and 1994, respectively.

The Company has only limited involvement with derivative financial instruments, and does not use them for trading purposes. The Company enters into derivatives, exclusively interest rate swaps and caps, to lower funding costs or alter interest rate exposures for long-term liabilities. At January 31, 1997, the Company had 5 interest rate swap agreements outstanding with financial institutions, having notional amounts of \$10 million each and a total notional amount of \$50 million and was a party to 5 interest rate cap agreements, each with terms tied to the terms of the interest rate swap agreements. These interest rate swap and cap agreements will expire in 1997.

Major uses of cash will continue to be investments in new store facilities. In 1996, capital investment was \$860 million (cash outlays of \$677 million plus capital leases of \$183 million) which did not include operating leases of approximately \$119 million. The Company's 1997 capital budget is targeted at \$1.2 billion, inclusive of approximately \$300 million of operating or capital leases. More than 80% of this planned commitment is for store expansion.

Expansion plans for 1997 consist of approximately 60 to 65 new stores with about 70% in new markets and the balance being relocations of existing stores which will increase sales floor square footage by approximately 20%. Approximately one-half of the 1997 projects will be leased and one-half will be owned.

A new distribution center, having approximately 785,000 square feet, will be operational in early 1997. At year end, the Company operated five distribution centers and twelve smaller support facilities.

Present plans are to finance 1997's expansion program through funds from operations, leases and from external financing. (See related comments under "**financing activities**" above).

Short-term capital needs will be financed through utilization of the Company's bank credit agreements and commercial paper program. Formal bank credit agreements in place are discussed in Note 5 to the financial statements.

The ratio of long-term debt to equity plus long-term debt was 25.7%, 34.3% and 32.4% with fixed charge coverage at 6.3, 5.8 and 6.8 for 1996, 1995 and 1994, respectively. The decrease in long-term debt to equity plus long-term debt in 1996 is primarily a result of the conversion of debt to equity discussed above.

OTHER

General inflation has not had a material impact on the Company during the past three years. As noted above, the LIFO charge decreased to \$1.4 in 1996 from \$8.3 million in 1995, compared to the 1994 charge of \$435 thousand. Overall inventory inflation was .15%, .79% and .07% for 1996, 1995 and 1994, respectively. Lumber products have experienced substantially more volatility than other merchandise categories, due to supply-demand variability, weather constraints, environmental concerns, etc. The inflation (deflation) rates for lumber and building materials were 3.6%, (3.2%) and (0.4%) for 1996, 1995 and 1994.

STORE PERFORMANCE PERSPECTIVE – FISCAL YEAR 1996

In 1989, Lowe's started a transformation that is far from complete. As shown below we had an average of 70 small stores in 1996. The success of the relocation program justifies our commitment to this strategy. Our new territory expansion offers a means of increasing national market share that brings great value with a new customer base. In examining the performance of the Large stores it is important to consider store age and "store mix" (as referring to new stores, new markets versus relocations.) Relocations have a definite advantage with an established store presence and customer base. New stores, new markets must establish a customer base and name awareness. As Lowe's continues to expand into newer territories, the new stores, new markets are becoming a greater proportion of the total store projects.

Our Store Group Categories, presented in these two tables, are as follows:

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

Further, we are reporting our Large store sales on both a comparable (same-store) basis and new (open less than a year) basis.

Table 1 Store Group Unit Totals, Fiscal Year Average

	1996		1995		1994	
	% of Total	Units	% of Total	Units	% of Total	Units
Yards	6%	25	7%	25	7%	22
Small	18	70	27	97	37	121
Medium	24	95	27	96	31	100
Large Comp	33	124	20	71	8	25
Large New	19	74	19	68	17	59
Total	100%	388	100%	357	100%	327

Table 1 Comments: As shown, Large stores have grown from 25% of total just two years ago, to 52% now. Also, Small stores and Yards are just 24% of total now compared to 44% in 1994. These trends will continue.

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

	1996		1995		1994	
	Sales	O.P.*	Sales	O.P.*	Sales	O.P.*
Yards	4%	3%	5%	4%	5%	5%
Small	10	10	17	17	26	26
Medium	25	34	29	39	36	44
Large Comp	42	45	27	29	10	9
Large New	19	8	22	11	23	16
Total	100%	100%	100%	100%	100%	100%

*Operating profits before corporate expense and intercompany charges, interest, LIFO and income taxes. 1995 and 1994 are also before restructuring credits.

Table 2 Comments: Reflecting the changing mix of units shown in Table 1, Large stores contributed 61% of sales in fiscal '96, up from 33% in 1994. Also on trend, the Big Boxes contributed 53% of operating profits in '96, up from 25% in '94. Large New in 1996 are more than 70% new stores, new markets versus relocations. This compares to Large New of approximately 46% new stores, new markets in 1994. We are pleased with the profitability stamina of our Medium stores. These relatively new stores are still growing, benefiting from customer acceptance of remerchandised assortments.

Disclosure Regarding Forward-Looking Statements

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

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

Lowe’s Leadership

Executive Officers and Management

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

Corporate Officers, Regional Staff and Departmental Management

Bruce Ballard – Vice President, The Contractor Yard, Inc.
Frank A. Beam – Regional Vice President
Kevin D. Bennett – Senior Corporate Counsel and Assistant Secretary
Kenneth W. Black, Jr. – Contoller
Douglas L. Bowen – Regional Vice President
Nick Canter – Regional Vice President
Jeffrey E. Gray – Senior Corporate Counsel and Assistant Secretary
R. Vaughn Hayes – Vice President, Store Planning
Arnold N. Lakey – Vice President, Credit Management
Michael K. Menser – Vice President, Logistics
W. Nathan Mitchell – Assistant Secretary, Senior Director of Accounting
Kenneth A. Neal – Assistant Treasurer
James C. Neustadt – Vice President, Advertising
Robert A. Niblock – Vice President and Treasurer
Robert G. Oberosler – Vice President,
Loss Prevention and Safety
William D. Pelon – Regional Vice President
K. Scott Plemmons – Vice President, Store Operations
Robert D. Skees – Vice President, Internal Audit
Don T. Stallings – Regional Vice President
John W. Vining, Jr. – Vice President, Administration
William L. White – Regional Vice President
Karen R. Worley – Vice President, Managerial Accounting

Consolidated Statements of Current and Retained Earnings

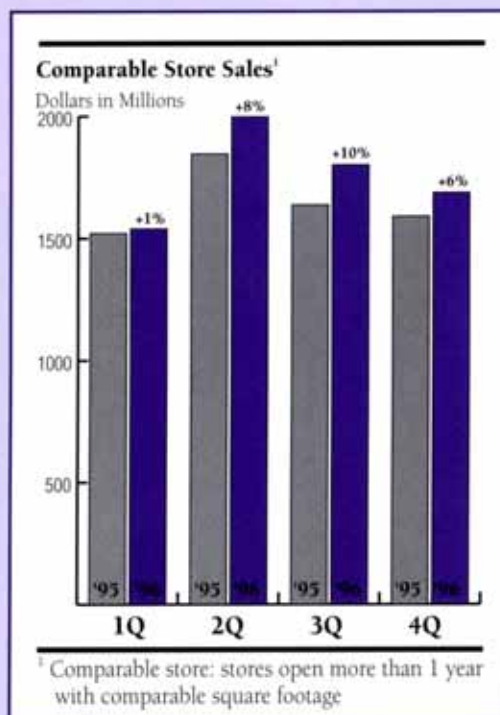
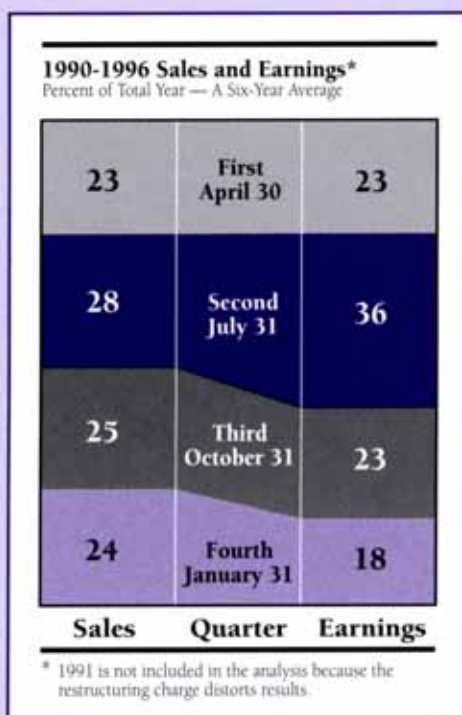
Lowe's Companies, Inc. and Subsidiary Companies

Dollars in Thousands, Except Per Share Data

Fiscal Years End on January 31 of Following Year

	Fiscal 1996	% Sales	Fiscal 1995	% Sales	Fiscal 1994	% Sales
Current Earnings						
Net Sales	\$8,600,241	100.0%	\$7,075,442	100.0%	\$6,110,521	100.0%
Cost of Sales	6,376,482	74.1	5,312,195	75.1	4,597,977	75.2
Gross Margin	2,223,759	25.9	1,763,247	24.9	1,512,544	24.8
Expenses:						
Selling, General and Administrative	1,395,523	16.2	1,127,333	15.9	941,079	15.4
Store Opening Costs	59,159	.7	49,626	.7	40,727	.7
Depreciation	198,115	2.3	150,011	2.1	109,647	1.8
Employee Retirement Plans (Note 10)	68,289	.8	46,130	.7	49,687	.8
Interest (Notes 7 and 16)	49,067	.6	38,040	.5	27,873	.5
Total Expenses	1,770,153	20.6	1,411,140	19.9	1,169,013	19.2
Pre-Tax Earnings	453,606	5.3	352,107	5.0	343,531	5.6
Income Tax Provision (Note 9)	161,456	1.9	126,080	1.8	119,971	1.9
Net Earnings	\$ 292,150	3.4%	\$ 226,027	3.2%	\$ 223,560	3.7%
Shares Outstanding - Weighted Average	167,678		160,453		154,926	
Earnings Per Common & Common Equivalent Share	\$ 1.74		\$ 1.41		\$ 1.44	
Earnings Per Common Share - Assuming Full Dilution	\$ 1.71		\$ 1.36		\$ 1.39	
Retained Earnings (Notes 6 and 11)						
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Balance at Beginning of Year	\$ 988,447		\$ 792,891		\$ 596,764	
Net Earnings	292,150	\$1.74	226,027	\$1.41	223,560	\$1.44
Cash Dividends	(34,709)	\$(.21)	(30,471)	\$(.19)	(27,433)	\$(.18)
Balance at End of Year	\$1,245,888		\$ 988,447		\$ 792,891	

See accompanying notes to consolidated financial statements.



Consolidated Balance Sheets

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

	January 31, 1997	% Total	January 31, 1996	% Total	January 31, 1995	% Total	
Assets							
Current Assets:							
Cash and Cash Equivalents	\$ 40,387	.9%	\$ 63,868	1.8%	\$ 150,319	4.8%	
Short-Term Investments	30,103	.7	107,429	3.0	118,155	3.8	
Accounts Receivable – Net (Note 2)	117,562	2.7	113,483	3.2	109,214	3.5	
Merchandise Inventory (Note 3)	1,605,880	36.2	1,267,077	35.6	1,132,282	36.5	
Deferred Income Taxes (Note 9)	19,852	.4	19,168	.5	18,129	.6	
Other Current Assets	37,682	.8	32,659	.9	29,069	.9	
Total Current Assets	1,851,466	41.7	1,603,684	45.0	1,557,168	50.1	
Property, Less Accumulated Depreciation (Notes 4 and 6)	2,494,396	56.3	1,858,274	52.3	1,397,713	45.0	
Long-Term Investments (Note 8)	35,615	.8	41,059	1.2	83,459	2.7	
Other Assets	53,477	1.2	53,369	1.5	67,652	2.2	
Total Assets	\$4,434,954	100.0%	\$3,556,386	100.0%	\$3,105,992	100.0%	
Liabilities and Shareholders' Equity							
Current Liabilities:							
Short-Term Notes Payable (Note 5)	\$ 80,905	1.8%	\$ 16,617	.5%	\$ 1,903	.1%	
Current Maturities of Long-Term Debt (Note 6)	22,566	.5	14,127	.4	26,913	.9	
Accounts Payable	914,167	20.6	655,399	18.4	675,436	21.7	
Employee Retirement Plans (Note 10)	60,770	1.4	44,924	1.3	43,950	1.4	
Accrued Salaries and Wages	71,662	1.6	67,370	1.9	63,356	2.0	
Other Current Liabilities	198,461	4.5	151,494	4.2	134,334	4.4	
Total Current Liabilities	1,348,531	30.4	949,931	26.7	945,892	30.5	
Long-Term Debt, Excluding Current Maturities (Note 6)	767,338	17.3	866,183	24.4	681,184	21.9	
Deferred Income Taxes (Note 9)	101,609	2.3	83,557	2.3	49,211	1.6	
Accrued Store Restructuring Costs (Note 15)	—	—	—	—	9,815	.3	
Total Liabilities	2,217,478	50.0	1,899,671	53.4	1,686,102	54.3	
Commitments, Contingencies and Litigation (Notes 13 and 14)							
Shareholders' Equity (Notes 11 and 12)							
Preferred Stock – \$5 Par Value, none issued	—		—		—		
Common Stock – \$.50 Par Value;							
Fiscal	Issued and Outstanding						
1996	173,403,639						
1995	160,918,046						
1994	159,527,389	86,702	2.0	80,459	2.3	79,764	2.6
Capital in Excess of Par	903,661	20.3	596,828	16.7	554,838	17.9	
Retained Earnings	1,245,888	28.1	988,447	27.8	792,891	25.5	
Unearned Compensation – Restricted Stock Awards	(18,434)	(.4)	(8,076)	(.2)	(5,949)	(.2)	
Unrealized Loss on Available For Sale Securities (Note 11)	(341)	—	(943)	—	(1,654)	(.1)	
Total Shareholders' Equity	2,217,476	50.0	1,656,715	46.6	1,419,890	45.7	
Total Liabilities and Shareholders' Equity	\$4,434,954	100.0%	\$3,556,386	100.0%	\$3,105,992	100.0%	

See accompanying notes to consolidated financial statements.

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 1996	Fiscal 1995	Fiscal 1994
Cash Flows from Operating Activities:			
Net Earnings	\$292,150	\$226,027	\$223,560
Adjustments to Reconcile Net Earnings to Net Cash Provided By Operating Activities:			
Depreciation	198,115	150,011	109,647
Amortization of Original Issue Discount	1,671	3,601	3,205
Increase in Deferred Income Taxes	17,043	32,924	18,108
(Gain) Loss on Disposition/Writedown of Fixed and Other Assets	9,892	(1,171)	5,924
Decrease (Increase) in Operating Assets:			
Accounts Receivable – Net	(4,079)	(4,269)	(60,714)
Merchandise Inventory	(338,803)	(134,795)	(278,575)
Other Operating Assets	(4,788)	(3,298)	31,170
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	258,768	(20,037)	208,158
Employee Retirement Plans	59,736	38,196	41,257
Accrued Store Restructuring	—	(8,304)	(10,000)
Other Operating Liabilities	53,288	24,424	67,236
Net Cash Provided by Operating Activities	542,993	303,309	358,976
Cash Flows from Investing Activities:			
Decrease (Increase) in Investment Assets:			
Short-Term Investments	98,754	18,538	(83,374)
Purchases of Long-Term Investments	(27,259)	(30,906)	(74,614)
Proceeds from Sale/Maturity of Long-Term Investments	12,203	66,588	29,452
Other Long-Term Assets	3,456	(2,656)	(2,438)
Fixed Assets Acquired	(677,160)	(520,362)	(414,103)
Proceeds from the Sale of Fixed and Other Long-Term Assets	11,615	20,856	15,179
Net Cash Used in Investing Activities	(578,391)	(447,942)	(529,898)
Cash Flows from Financing Activities:			
Sources:			
Long-Term Debt Borrowings	—	98,959	500
Net Increase in Short-Term Borrowings	64,288	14,714	—
Proceeds from Issuance of Common Stock	—	—	315,697
Stock Options Exercised	—	44	1,100
Total Financing Sources	64,288	113,717	317,297
Uses:			
Repayment of Long-Term Debt	(17,662)	(25,064)	(41,498)
Net Decrease in Short-Term Borrowings	—	—	(378)
Cash Dividend Payments	(34,709)	(30,471)	(27,433)
Total Financing Uses	(52,371)	(55,535)	(69,309)
Net Cash Provided by Financing Activities	11,917	58,182	247,988
Net Increase (Decrease) in Cash and Cash Equivalents	(23,481)	(86,451)	77,066
Cash and Cash Equivalents, Beginning of Year	63,868	150,319	73,253
Cash and Cash Equivalents, End of Year	\$ 40,387	\$ 63,868	\$150,319

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lowe's Companies, Inc. and Subsidiary Companies
Fiscal Years Ended January 31, 1997, 1996 and 1995

Note 1, Summary of Significant Accounting Policies:

The Company is one of America's largest retailers serving the do-it-yourself home improvement, home decor, and home construction markets. The Company serves customers in 402 stores in 24 states predominantly located in the eastern half of the United States. Below are those accounting 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.

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

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

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

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

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

Premiums paid for purchased interest rate cap agreements are being amortized to interest expense over the terms of the caps. Unamortized premiums are included in other assets in the consolidated balance sheet. Amounts to be received under the cap agreements are accounted for on an accrual basis, and are recognized as a reduction of interest expense.

Accounts Receivable – The majority of the accounts receivable arise from sales to professional building contractors predominantly located in the eastern half 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 cards are not reflected in receivables. These credit card receivables are sold, with limited recourse, to an outside finance company.

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

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

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

Leases – Assets under capital leases are amortized in accordance with the Company's normal depreciation policy for owned assets or over the lease term if shorter. 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. The tax effects of such differences are reflected in the balance sheet at the enacted tax rates expected to be in effect when the differences reverse.

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

Store Closing Costs – In Fiscal 1996, the Company adopted Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," (SFAS 121). SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets. Under provisions of the Statement, impairment losses are recognized when expected future cash flows are less than the assets' carrying value. At the time management commits to close or relocate a store location, the Company evaluates the carrying value of the assets in relation to its expected future cash flows. If the carrying value of the assets is greater than the expected future cash flows, a provision is provided for the impairment of the assets.

Prior to adoption of SFAS 121, the Company charged to expense, upon the closing or relocation of a store, costs considered to be unrecoverable, such as the book value of certain fixtures and equipment and the estimated loss on sale of land and buildings. There was no material effect on the financial statements resulting from the adoption of SFAS 121.

When a leased location closes, a provision is provided for the present value of future lease obligations, net of sublease income.

The estimated realizable value of closed store real estate owned is included in other assets. See Note 15 regarding the store restructuring accrual in Fiscal 1991.

Advertising – Costs associated with advertising are charged to operations as incurred. Advertising expenses were \$99.8, \$87.8 and \$71.0 million for Fiscal 1996, 1995 and 1994, respectively.

Earnings Per Share – Earnings per share are calculated on the weighted average shares of common stock and dilutive common stock equivalents outstanding each year. The Company's 3% Convertible Subordinated Notes, which were called July 22, 1996, were potentially dilutive securities for purposes of calculating fully diluted earnings per share.

Note 2, Accounts Receivable:

Until termination in April 1995, the Company had an agreement to sell, with limited recourse, an undivided fractional interest in a designated pool of receivables. Under the agreement, as collections reduced previously sold interests in receivables, an interest in new receivables could be sold. At January 31, 1995, the interest in receivables sold totaled \$38.5 million. Due to hold-back provisions of the agreement, the Company was due \$8.5 million at January 31, 1995 for interests sold. These receivables were included in Accounts Receivable – Net in the consolidated balance sheet. The costs associated with selling the interest in receivables were \$.5 and \$1.7 million for Fiscal 1995 and 1994, respectively. The Company maintained an allowance for doubtful accounts because it retained substantially the same risk of credit loss as if the receivables had not been sold.

The allowance for doubtful accounts was \$2.3, \$1.9 and \$2.3 million at January 31, 1997, 1996 and 1995, respectively.

Note 3, Merchandise Inventory:

If the FIFO method had been used, inventories would have been \$74.6, \$73.2 and \$65.0 million higher at January 31, 1997, 1996 and 1995, respectively.

Note 4, Property and Accumulated Depreciation:

Net property includes \$421.9, \$248.9 and \$159.0 million in assets from capital leases at January 31, 1997, 1996 and 1995, respectively.

Property is summarized below by major class:

	January 31		
	1997	1996	1995
<i>(Dollars in Thousands)</i>			
Cost:			
Land	\$ 484,100	\$ 355,701	\$ 290,312
Buildings	1,324,323	939,120	686,737
Store, Distribution and Office Equipment	1,175,411	913,225	666,885
Leasehold Improvements	120,269	109,850	98,217
Total Cost	3,104,103	2,317,896	1,742,151
Accumulated Depreciation and Amortization	(609,707)	(459,622)	(344,438)
Net Property (Note 13)	\$2,494,396	\$1,858,274	\$1,397,713

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

Note 5, Short-Term Borrowings and Lines of Credit:

The Company has a \$300 million revolving credit facility with a syndicate of 13 banks. The facility has \$200 million expiring November 27, 2001, with the remaining \$100 million expiring November 26, 1997. The facility is used to support the Company's commercial paper program and for short-term borrowings. Facility fees ranging from .06% to .075% are paid on the unused amount of these facilities. At January 31, 1997, there were no borrowings outstanding under this revolving credit facility.

Several banks have extended lines of credit aggregating \$200.7 million for the purpose of issuing documentary letters of credit and standby letters of credit. These lines do not have termination dates but are reviewed periodically. Commitment fees from .12% to .50% per annum are paid on the amounts of standby letters of credit used. At January 31, 1997, outstanding letters of credit aggregated \$86.1 million.

A \$60 million revolving credit and security agreement, expiring in September 1997 and renewable annually, is available from a financial institution. A portion of the Company's accounts receivable is pledged as collateral. At January 31, 1997, there was \$59.9 million outstanding under this credit and security agreement and \$67.1 million of the Company's accounts receivable were pledged as collateral.

In addition, \$55 million is available, on an unsecured basis, for the purpose of short-term borrowings on a bid basis from various banks. These lines are uncommitted and are reviewed periodically by both the banks and the Company. At January 31, 1997, there were no borrowings outstanding under these lines of credit.

Note 6, Long-Term Debt:

Debt Category	Interest Rates	Fiscal Year of Final Maturity	January 31		
			1997	1996	1995
(Dollars in Thousands)					
Secured Debt¹:					
Industrial Revenue Bonds	3.55% to 6.27%*	2020	\$ 5,497	\$ 6,726	\$ 7,997
Industrial Revenue Bonds ²	3.70%*	2005	5,400	8,000	8,800
Insurance Company Notes	6.75%	1998	161	286	414
Other Notes	9.50%	2005	388	470	561
Unsecured Debt:					
Medium Term Notes	6.50% to 8.20%	2022	249,985	249,979	249,972
Convertible Subordinated Notes ³				255,554	254,505
Senior Notes ⁴	6.38%	2005	99,072	98,968	
Bank Notes				6,000	23,863
Capital Leases (Note 13)	6.12% to 13.17%	2033	429,401	254,327	161,985
Total Long-Term Debt			789,904	880,310	708,097
Less Current Maturities			22,566	14,127	26,913
Long-Term Debt, Excluding Current Maturities			\$767,338	\$866,183	\$681,184

* Interest rate varies as a percentage of prime rate or other interest index.
Interest rates shown are as of January 31, 1997.
Prime rate was 8.25% at January 31, 1997.

Debt maturities, exclusive of capital leases (see Note 13), for the next five fiscal years are as follows (in millions): 1997, \$13.0; 1998, \$1.5; 1999, \$46.4; 2000, \$74.2; 2001, \$15.7.

Notes:

- ¹ Real properties pledged as collateral for secured debt had net book values (in millions) at January 31, 1997, as follows: industrial revenue bonds - \$19.4; insurance company notes - \$3.4; other notes - \$2.1.
- ² With certain restrictions, the floating rate demand industrial revenue bonds can be converted to a fixed interest rate based on a fixed interest index at the Company's option.
- ³ The Company's 3% Convertible Subordinated Notes with a conversion rate of 38.272 shares of common stock per each \$1,000 principal amount were called for redemption on July 22, 1996. During Fiscal 1996 (prior to the redemption date), 1995 and 1994, \$284,724,000, \$2,532,000 and \$224,000 in principal of the Company's 3% Convertible Subordinated Notes were converted into 10,896,910, 96,904 and 8,570 shares of the Company's common stock, respectively. In addition, \$20,000 in principal was redeemed at \$910.78 per \$1,000 during Fiscal 1996.
- ⁴ On December 15, 1995, the Company issued \$100 million of 6.375% Senior Notes due December 15, 2005. The notes were issued at an original price of \$989.55 per \$1,000 principal amount, which represented an original issue discount of .395% payable at maturity and an underwriters' discount of .65%. Annual interest on the notes at 6.375% and accretion of the original issue discount represents an annual yield to maturity of 6.429%. The notes may not be redeemed prior to maturity.

Note 7, Derivative Financial Instruments:

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

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

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

Note 8, Disclosures about Fair Values of Financial Instruments:

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

(Dollars in Thousands)	January 31, 1997		January 31, 1996		January 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:						
Long-Term Debt:						
Convertible Subordinated Notes	—	—	\$255,554	\$348,455	\$254,505	\$402,186
Other	\$789,904	\$818,508	624,756	670,313	453,592	456,914
Off-Balance Sheet Financial Instruments -						
Unrealized Gains (Losses):						
Interest Rate Swap Agreements	—	84	—	758	—	(6,482)
Interest Rate Cap Agreements	—	—	—	9	—	3,915

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

Interest rate swap agreements and interest rate cap agreements - The fair value of interest rate swaps and caps are the amounts at which they could be settled, based on estimates obtained from dealers.

The amortized cost, gross unrealized gains and losses and fair values of investment securities, all of which are classified as available-for-sale securities, at January 31, 1997, 1996 and 1995 are as follows:

(Dollars in Thousands)	Type	Amortized Cost	Gross Unrealized		Fair Value
			Gains	Losses	
	Municipal Obligations	\$ 19,514	\$ 1	—	\$ 19,515
	Adjustable Rate Preferred Stock	11,010	—	\$ (422)	10,588
	Classified as Short-Term	30,524	1	(422)	30,103
	Municipal Obligations -				
	Classified as Long-Term	35,718	139	(242)	35,615
	Total at January 31, 1997	\$ 66,242	\$ 140	\$ (664)	\$ 65,718
	Municipal Obligations	\$ 29,298	\$ 6	\$ (1)	\$ 29,303
	Auction Rate and Adjustable				
	Rate Preferred Stock	79,879	8	(1,761)	78,126
	Classified as Short-Term	109,177	14	(1,762)	107,429
	Municipal Obligations	39,762	332	(35)	40,059
	Auction Rate Preferred Stock	1,000	—	—	1,000
	Classified as Long-Term	40,762	332	(35)	41,059
	Total at January 31, 1996	\$149,939	\$ 346	\$(1,797)	\$148,488
	Municipal Obligations	\$ 33,234	\$ 1	\$ (228)	\$ 33,007
	Auction Rate and Adjustable				
	Rate Preferred Stock	86,476	13	(1,341)	85,148
	Classified as Short-Term	119,710	14	(1,569)	118,155
	Municipal Obligations	50,944	989	(1,902)	50,031
	Auction Rate Preferred Stock	33,500	—	(72)	33,428
	Classified as Long-Term	84,444	989	(1,974)	83,459
	Total at January 31, 1995	\$204,154	\$1,003	\$(3,543)	\$201,614

The proceeds from sales of available-for-sale securities were \$15.1, \$60.4 and \$79.9 million for Fiscal 1996, 1995 and 1994, respectively.

Gross realized gains and (losses) on the sale of available-for-sale securities were \$80 thousand and \$(535) thousand for Fiscal 1996, \$326 thousand and \$(426) thousand for Fiscal 1995 and \$112 thousand and \$(836) thousand for Fiscal 1994.

Maturities of municipal obligations classified as long-term are \$33.6 million after 1 year through 5 years, \$0 after 5 years through 10 years and \$2.1 million after 10 years.

Note 9, Income Taxes:

Fiscal Years End on January 31 of Following Year	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
(Dollars in Thousands)						
Statutory Rate Reconciliation						
Pre-Tax Earnings	\$453,606	100.0%	\$352,107	100.0%	\$343,531	100.0%
Federal Income Tax at Statutory Rate	158,762	35.0	123,237	35.0	120,236	35.0
State Income Taxes – Net of Federal Tax Benefit	7,968	1.8	8,093	2.3	4,248	1.2
Other	(5,274)	(1.2)	(5,250)	(1.5)	(4,513)	(1.3)
Total Income Tax Provision	\$161,456	35.6%	\$126,080	35.8%	\$119,971	34.9%
Components of Tax Provision						
Current						
Federal	\$135,075	83.7%	\$ 86,347	68.5%	\$ 98,432	82.0%
State	9,338	5.8	6,809	5.4	3,431	2.9
Total Current	144,413	89.5	93,156	73.9	101,863	84.9
Deferred						
Federal	14,122	8.7	27,282	21.6	15,004	12.5
State	2,921	1.8	5,642	4.5	3,104	2.6
Total Deferred	17,043	10.5	32,924	26.1	18,108	15.1
Total Income Tax Provision	\$161,456	100.0%	\$126,080	100.0%	\$119,971	100.0%

The tax effect of cumulative temporary differences and carryforwards that gave rise to the deferred tax assets and liabilities and the related valuation allowance at January 31, 1997, 1996 and 1995 is as follows (in thousands):

	January 31, 1997			January 31, 1996			January 31, 1995		
	Assets	Liabilities	Total	Assets	Liabilities	Total	Assets	Liabilities	Total
Accrued Excess Property and Store Closing Costs	\$13,966	—	\$ 13,966	\$ 6,245	—	\$ 6,245	\$17,077	—	\$ 17,077
Insurance	9,470	—	9,470	6,725	—	6,725	4,568	—	4,568
Depreciation	—	\$(117,779)	(117,779)	—	\$(92,280)	(92,280)	—	\$(67,461)	(67,461)
Property Taxes	5,371	—	5,371	4,859	—	4,859	6,230	—	6,230
Other, Net	17,081	(9,555)	7,526	17,156	(5,529)	11,627	14,265	(5,612)	8,653
Less Valuation Allowance	(311)	—	(311)	(1,565)	—	(1,565)	(149)	—	(149)
Total	\$45,577	\$(127,334)	\$ (81,757)	\$33,420	\$(97,809)	\$(64,389)	\$41,991	\$(73,073)	\$(31,082)

The valuation allowance decreased \$1,254,000, increased \$1,416,000 and decreased \$3,577,000 for Fiscal 1996, 1995, and 1994, respectively.

Note 10, Employee Retirement Plans:

The Company's contribution to its Employee Stock Ownership Plan (ESOP) is determined annually by the Board of Directors. The ESOP covers all employees after completion of one year of employment and 1,000 hours of service during that year. Contributions are allocated to participants based on their eligible compensation relative to total eligible compensation. The Board authorized contributions totaling 14% of eligible compensation for Fiscal 1996 and 1995 and 13% of eligible compensation for Fiscal 1994. Contributions may be made in cash or shares of the Company's common stock and are generally made in the following fiscal year. ESOP expense for Fiscal 1996, 1995 and 1994 was \$61.1, \$40.1 and \$44.8 million, respectively.

At January 31, 1997, the Employee Stock Ownership Trust held approximately 12.8% of the outstanding common stock of the Company and was its second largest shareholder.

Shares allocated to ESOP participants' accounts are voted by the trustee according to the participants' voting instructions. Unallocated shares and shares for which no voting instructions are received are voted by the trustee as directed by a management committee. At January 31, 1997, there were no unallocated shares.

The Board of Directors determines contributions to the Company's Employee Savings and Investment Plan (ESIP) each year based upon a matching formula applied to employee contributions. All employees are eligible to participate in the ESIP on the first day of the month following completion of one year of employment. Company contributions to the ESIP for Fiscal 1996, 1995 and 1994 were \$7.2, \$6.0 and \$4.9 million, respectively. The Company's common stock is an investment option for participants in the ESIP. At January 31, 1997, the ESIP held approximately .9% of the outstanding common stock of the Company. Shares held in the ESIP are voted by the trustee as directed by an administrative committee of the ESIP.

The Company does not believe that it has any material liability for postemployment or postretirement benefits.

Note 11, Shareholders' Equity:

Authorized shares of common stock were 700 million at January 31, 1997, 1996 and 1995.

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	Unearned Compensation Restricted Stock Awards	Unrealized Loss on Available For Sale Securities	Total Equity
Balance January 31, 1994	147,887	\$73,943	\$202,962	\$ 596,764			\$ 873,669
Net Earnings				223,560			223,560
Tax Effect of Non-qualified Stock Options Exercised (Note 12)			2,344				2,344
Cash Dividends				(27,433)			(27,433)
Stock Sale	10,350	5,175	310,522				315,697
Stock Options Exercised (Note 12)	172	86	1,219				1,305
Stock Received for Exercise of Stock Options	(6)	(3)	(202)				(205)
Stock Issued to ESOP (Note 10)	922	461	31,268				31,729
Conversion of 3% Notes	8	4	193				197
Shares Issued to Directors	4	2	124				126
Unearned Compensation-Restricted Stock Awards (Note 12)	190	96	6,408		\$ (5,949)		555
Unrealized Loss on Available for Sale Securities, Net of Income Taxes of \$886						\$(1,654)	(1,654)
Balance January 31, 1995	159,527	79,764	554,838	792,891	(5,949)	(1,654)	1,419,890
Net Earnings				226,027			226,027
Tax Effect of Non-qualified Stock Options Exercised (Note 12)			25				25
Cash Dividends				(30,471)			(30,471)
Stock Options Exercised (Note 12)	4	2	42				44
Stock Issued to ESOP (Note 10)	1,182	591	36,631				37,222
Conversion of 3% Notes	97	49	2,183				2,232
Shares Issued to Directors	4	2	93				95
Unearned Compensation-Restricted Stock Awards (Note 12)	104	51	3,016		(2,127)		940
Unrealized Loss on Available for Sale Securities, Net of Income Tax Benefit of \$378						711	711
Balance January 31, 1996	160,918	80,459	596,828	988,447	(8,076)	(943)	1,656,715
Net Earnings				292,150			292,150
Cash Dividends				(34,709)			(34,709)
Stock Issued to ESOP (Note 10)	1,215	607	43,283				43,890
Conversion of 3% Notes	10,897	5,448	251,350				256,798
Shares Issued to Directors	4	2	135				137
Unearned Compensation-Restricted Stock Awards (Note 12)	370	186	12,065		(10,358)		1,893
Unrealized Loss on Available for Sale Securities, Net of Income Tax Benefit of \$325						602	602
Balance January 31, 1997	173,404	\$86,702	\$903,661	\$1,245,888	\$(18,434)	\$ (341)	\$2,217,476

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

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

Note 12, Stock Incentive Plans:

The Company has two stock incentive plans, referred to as the "1994" and "1997" Incentive Plans, under which incentive and non-qualified stock options, stock appreciation rights, restricted stock awards and incentive awards may be granted to key employees. The 1997 plan has been approved by the Board of Directors and is subject to shareholder approval at the Annual Meeting in May 1997. No awards may be granted after January 31, 2004 under the 1994 plan and 2007 under the 1997 plan. Stock options generally have terms ranging from 5 to 10 years, vest evenly over 3 years and are assigned an exercise price of not less than the fair market value on the date of grant. At January 31, 1997, there were 576,990 and 4,910,000 (subject to shareholder approval) shares available for grants under the 1994 and 1997 plans, respectively.

Key Employee Stock Option Plans	Shares	Weighted-average Exercise Price Per Share
	(In Thousands)	
Outstanding January 31, 1994	154	\$ 7.117
Granted	20	\$38.750
Canceled or Expired	(2)	\$ 6.375
Exercised	(152)	\$ 7.128
Outstanding January 31, 1995 and 1996	20	\$38.750
Canceled or Expired	(10)	\$38.750
Granted	1,215	\$39.125
Outstanding January 31, 1997	1,225	\$39.122
Exercisable January 31, 1997, expiring 2004	10	\$38.750

Of the 1,225,000 options outstanding at January 31, 1997, the exercise prices per share range from \$38.750 to \$39.125 and their weighted-average remaining term is 4.8 years.

Stock appreciation rights are denominated in units, which are comparable to a share of common stock for purposes of determining the amount payable under an award. An award entitles the participant to receive the excess of the final value of the unit over the fair market value of a share of common stock on the first day of the performance period. The final value is the average closing price of a share of common stock during the last month of the performance period. Limits are established with respect to the amount payable on each unit. A total of 758,950 stock appreciation rights, with performance periods of three years and a maximum payout of \$4,782,000, were outstanding at January 31, 1997. The costs of these rights are being expensed over the performance periods and have reduced pre-tax earnings by \$1.0, \$1.0 and \$2.1 million in Fiscal 1996, 1995 and 1994, respectively.

Restricted stock awards of 388,550, 133,500 and 192,000, with per share weighted-average fair values of \$33.139, \$31.251 and \$34.202, were granted to certain executives in Fiscal 1996, 1995 and 1994, respectively. These shares are nontransferable and subject to forfeiture for periods prescribed by the Company. These shares may become transferable and vested earlier based on achievement of certain performance measures. During Fiscal 1996, a total of 18,250 shares were forfeited and 35,000 shares became vested and transferable. At January 31, 1997, grants totaling 664,300 shares are included in Shareholder's Equity and are being amortized as earned over periods not exceeding seven years. Related amortization expense for Fiscal 1996, 1995 and 1994 was \$1.9, \$.6 and \$.4 million, respectively.

The Company had a Non-Employee Directors' Stock Option Plan that expired at the end of Fiscal 1993. This Plan provided stock options to each outside Director following the Annual Meetings of 1989 through 1993. Options representing 140,000 shares were granted under this Plan of which options representing 56,000 shares have been exercised. The option price per share was \$6.375 for Fiscal 1989, \$10.906 for Fiscal 1990, \$8.625 for Fiscal 1991, \$10.969 for Fiscal 1992 and \$18.875 for Fiscal 1993. At January 31, 1997, options for 84,000 shares (expiration dates range from 1999 through 2003) were exercisable under the Non-Employee Directors' Stock Option Plan.

The Company has a Directors' Stock Incentive Plan. This Plan provides that at the first Board meeting following each annual meeting of shareholders, the Company shall issue each non-employee Director 500 shares of common stock. Up to 25,000 shares may be issued under this Plan. In Fiscal 1996, 1995 and 1994, 4,000, 3,500 and 4,000 shares, respectively, were issued under this Plan.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant, other than for restricted stock grants and stock appreciation rights. No stock options were granted in Fiscal 1995. Had compensation for Fiscal 1996 stock options granted been determined consistent with Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," the Company's net earnings and earnings per common share amounts for Fiscal 1996 would approximate the following proforma amounts (dollars in thousands except per share data):

	As Reported	Proforma
Net Earnings	\$292,150	\$291,411
Earnings per Common & Common Equivalent Share	\$ 1.74	\$ 1.74
Earnings per Common Share - Assuming Full Dilution	\$ 1.71	\$ 1.71

The fair value of each option granted during Fiscal 1996 is estimated as \$16.99 on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 38%, expected dividend yield of .2%, risk-free interest rate of 6%, and an expected life of 5 years. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

Note 13, Leases:

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

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

Fiscal Year	Operating Leases		Capital Leases		Total
	Real Estate	Equipment	Real Estate	Equipment	
(Dollars in Thousands)					
1997	\$ 56,366	\$ 497	\$ 46,908	\$197	\$ 103,968
1998	56,364	325	46,790	193	103,672
1999	50,648	278	46,780	193	97,899
2000	49,595	56	46,798	120	96,569
2001	49,338	—	46,817	—	96,155
Later Years	645,237	—	649,896	—	1,295,133
Total Minimum Lease Payments	\$907,548*	\$1,156	\$883,989	\$703	\$1,793,396
Total Minimum Capital Lease Payments			\$884,692		
Less Amount Representing Interest			455,291		
Present Value of Minimum Lease Payments			429,401		
Less Current Maturities			9,546		
Present Value of Minimum Lease Payments, Less Current Maturities			\$419,855		

*Total minimum payments have not been reduced by minimum sublease rentals of \$9.8 million to be received in the future under noncancelable subleases.

Rental expenses under operating leases for real estate and equipment were \$59.2 million, \$54.1 million and \$40.2 million in Fiscal 1996, 1995 and 1994, respectively.

Note 14, Commitments, Contingencies and Litigation:

The Company had purchase commitments at January 31, 1997, of approximately \$43.5 million for land, buildings and construction of facilities, and \$16.6 million for supplies and 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.

The Company is subject to various environmental protection laws and regulations and is operating within such laws or is taking action aimed at assuring compliance with such laws and regulations. The Company has been identified as a potentially responsible party in connection with two landfill sites at which environmental damage is alleged. Management believes that it is a very remote possibility that any associated costs to the Company will have a material impact on the Company's financial condition or results of operations.

Note 15, Store Restructuring:

In Fiscal 1991, the Company recorded a pre-tax fourth quarter charge of \$71.3 million for the expected costs and expenses required to accelerate the Company's conversion from a chain of small stores to a chain of large stores. The charge included stores closed and relocated under the restructuring plan in the fourth quarter of Fiscal 1991 through Fiscal 1995. All costs associated with relocations and closings during 1994 and 1995 were charged against the restructuring accrual and did not have an effect on earnings. All such costs in Fiscal 1996 were included in selling, general and administrative expenses since the store restructuring accrual was depleted as of January 31, 1996.

Note 16, Other Information:

Net interest expense is composed of the following:

Fiscal Years End On January 31 of Following Year	1996	1995	1994
(Dollars in Thousands)			
Long-Term Debt	\$31,300	\$34,536	\$ 36,001
Capitalized Leases	29,076	16,872	7,436
Short-Term Debt	4,368	3,001	1,056
Amortization of Loan Costs	403	296	295
Short-Term Interest Income	(8,765)	(10,897)	(12,237)
Interest Capitalized	(7,315)	(5,768)	(4,678)
Net Interest Expense	\$49,067	\$38,040	\$ 27,873

Supplemental Disclosures of Cash Flow Information:

Fiscal Years End On January 31 of Following Year	1996	1995	1994
Cash Paid for Interest (Net of Amount Capitalized)	\$ 66,350	\$55,231	\$ 43,145
Cash Paid for Income Taxes	\$125,266	\$77,858	\$108,064

Noncash Investing and Financing Activities:

Fixed Assets Acquired Under Capital Leases	\$182,676	\$96,948	\$104,207
Common Stock Issued to ESOP (Notes 10 and 11)	43,890	37,222	31,729
Common Stock Issued to Executives and Directors, net of Unearned Compensation	2,030	1,035	681
Common Stock Received for Exercise of Stock Options	—	—	205
Conversion of Debt to Common Stock	256,798	2,232	197
Notes Received in Exchange for Property	\$ —	\$ 1,450	\$ 6,067

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 (Unaudited)

	1996	1995	1994	1993	1992
Selected Income Statement Data:					
Net Sales	\$8,600,241	\$7,075,442	\$6,110,521	\$4,538,001	\$3,846,418
Net Earnings	292,150	226,027	223,560	131,786	84,720
Earnings Per Share – Full Dilution	1.71	1.36	1.39	.89	.58
Cash Dividends Per Share	\$.21	\$.19	\$.18	\$.16	\$.14
Selected Balance Sheet Data:					
Total Assets	\$4,434,954	\$3,556,386	\$3,105,992	\$2,201,648	\$1,608,877
Long-Term Debt, Including Current Maturities	\$ 789,904	\$ 880,310	\$ 708,097	\$ 641,880	\$ 335,283
Selected Quarterly Data (Unaudited)*					
Three Months Ended	January 31	October 31	July 31	April 30	
Fiscal 1996					
Net Sales	\$2,041,496	\$2,193,239	\$2,459,008	\$1,906,498	
Gross Margin	552,301	566,166	628,792	476,500	
Net Earnings	55,626	75,183	114,279	47,062	
Earnings Per Share – Full Dilution	\$.32	\$.43	\$.67	\$.28	
Fiscal 1995					
Net Sales	\$1,696,702	\$1,765,992	\$1,978,058	\$1,634,690	
Gross Margin	418,622	428,943	493,572	422,110	
Net Earnings	38,175	43,919	85,007	58,926	
Earnings Per Share – Full Dilution	\$.23	\$.27	\$.51	\$.36	
Fiscal 1994					
Net Sales	\$1,487,489	\$1,579,005	\$1,647,019	\$1,397,008	
Gross Margin	391,130	381,146	403,560	336,708	
Net Earnings	46,265	54,191	71,351	51,753	
Earnings Per Share – Full Dilution	\$.28	\$.33	\$.45	\$.34	

*** LIFO Adjustment:**

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

Fiscal 1995 – The total LIFO effect for the year was a charge of \$8.3 million. A charge of \$10.8 million was made against earnings through the first nine months, resulting in a fourth quarter credit of \$2.5 million.

Fiscal 1994 – The total LIFO effect for the year was a charge of \$.4 million. A charge of \$9.5 million was made against earnings through the first nine months, resulting in a fourth quarter credit of \$9.1 million.

Stock Performance

Lowe's Quarterly Stock Price Range and Cash Dividend Payment

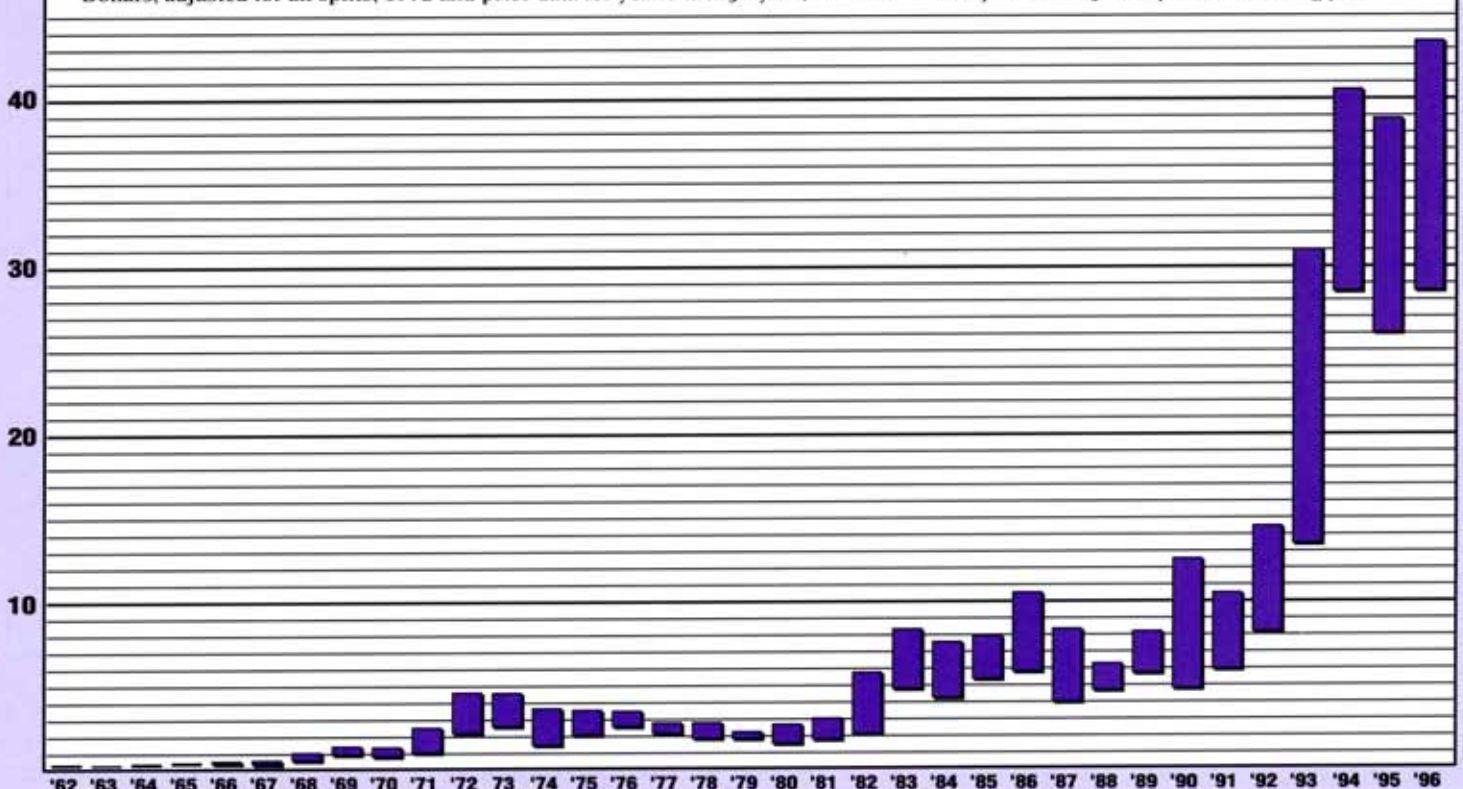
	Fiscal 1996			Fiscal 1995			Fiscal 1994		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$36 1/4	\$29 3/8	\$.050	\$38 7/8	\$27 1/2	\$.045	\$36 1/2	\$27 3/4	\$.040
2nd Quarter	39	28 5/8	.050	37 1/4	26	.045	37 3/4	30 1/2	.045
3rd Quarter	43 5/16	32 3/8	.050	37 7/8	26 1/4	.050	40 7/8	30	.045
4th Quarter	\$43 1/2	\$31 5/8	\$.055	\$34 7/8	\$27 7/8	\$.050	\$41 3/8	\$33 1/8	\$.045

Monthly Stock Price and Trading Volume

	Fiscal 1996			Fiscal 1995		
	High	Low	Shares Traded	High	Low	Shares Traded
February	\$34 1/2	\$29 7/8	11,750,100	\$38 7/8	\$33 1/2	11,795,700
March	36 1/4	31 1/2	13,173,100	34 5/8	31 1/4	16,022,200
April	36 1/4	29 3/8	22,577,000	35 3/4	27 1/2	19,984,000
May	36	31 5/8	16,221,300	30 3/8	26 1/8	20,533,900
June	39	33 3/4	17,061,200	30	26	19,802,000
July	37 3/8	28 5/8	16,017,600	37 1/4	29 3/4	19,425,000
August	38 1/8	32 3/8	16,408,800	37 7/8	32 7/8	14,939,500
September	42 5/8	34 1/2	18,599,100	34 3/8	29 5/8	17,574,600
October	43 5/16	38 3/4	9,774,900	30	26 1/4	20,922,800
November	43 1/2	37 5/8	16,788,200	33	27 7/8	12,222,700
December	41 1/4	35 1/2	8,351,100	34 1/2	30 1/8	10,799,500
January	\$36 1/2	\$31 5/8	21,062,400	\$34 7/8	\$28 5/8	14,845,100

High-Low Stock Price

Dollars; adjusted for all splits; 1972 and prior data for year ended July 31; 1973-1996 fiscal year ended January 31 of following year



Source: The Wall Street Journal

Quarterly Review of Performance

Earnings Statement

Dollars in Thousands, Except Per Share Data

Quarter Ended	Fiscal 1996				Fiscal 1995			
	1/31/97	10/31/96	7/31/96	4/30/96	1/31/96	10/31/95	7/31/95	4/30/95
Net Sales	\$2,041,496	\$2,193,239	\$2,459,008	\$1,906,498	\$1,696,702	\$1,765,992	\$1,978,058	\$1,634,690
FIFO Gross Margin	543,241	566,666	634,251	480,991	416,076	432,455	498,293	424,673
LIFO (Charge) Credit	9,060	(500)	(5,459)	(4,491)	2,546	(3,512)	(4,721)	(2,563)
LIFO Gross Margin	552,301	566,166	628,792	476,500	418,622	428,943	493,572	422,110
Expenses:								
S,G & A	358,556	356,074	361,915	318,978	286,364	284,828	290,677	265,464
Store Opening Costs	18,111	15,995	12,560	12,493	13,275	16,322	11,438	8,591
Depreciation	54,969	50,744	47,767	44,635	42,363	38,867	35,811	32,970
Employee Retirement Plans	21,313	16,254	17,051	13,671	7,829	11,574	13,188	13,539
Interest	13,223	10,540	12,115	13,189	10,636	9,145	8,929	9,330
Total Expenses	466,172	449,607	451,408	402,966	360,467	360,736	360,043	329,894
Pre-Tax Earnings	86,129	116,559	177,384	73,534	58,155	68,207	133,529	92,216
Income Tax Provision	30,503	41,376	63,105	26,472	19,980	24,288	48,522	33,290
Net Earnings	55,626	75,183	114,279	47,062	38,175	43,919	85,007	58,926
Earnings Per Common & Common Equivalent Share	.32	.43	.70	.29	.24	.27	.53	.37
Earnings Per Common Share - Assuming Full Dilution	\$.32	\$.43	\$.67	\$.28	\$.23	\$.27	\$.51	\$.36

Earnings Statement Changes

Changes from Same Quarter Previous Year, to Nearest Tenth Percent

Quarter Ended	Fiscal 1996				Fiscal 1995			
	1/31/97	10/31/96	7/31/96	4/30/96	1/31/96	10/31/95	7/31/95	4/30/95
Net Sales	20.3%	24.2%	24.3%	16.6%	14.1%	11.8%	20.1%	17.0%
FIFO Gross Margin	30.6	31.0	27.3	13.3	8.9	12.9	22.6	24.4
LIFO (Charge) Credit	255.9	(85.8)	15.6	75.2	(71.9)	92.3	56.0	(45.0)
LIFO Gross Margin	31.9	32.0	27.4	12.9	7.0	12.5	22.3	25.4
Expenses:								
S,G & A	25.2	25.0	24.5	20.2	11.9	19.1	21.2	28.7
Store Opening Costs	36.4	(2.0)	9.8	45.4	(13.6)	53.6	55.7	16.2
Depreciation	29.8	30.6	33.4	35.4	37.4	35.6	36.8	37.4
Employee Retirement Plans	172.2	40.4	29.3	1.0	(35.7)	(12.7)	.4	21.9
Interest	24.3	15.3	35.7	41.4	69.0	56.3	21.6	11.3
Total Expenses	29.3	24.6	25.4	22.2	12.5	21.2	22.6	28.3
Pre-Tax Earnings	48.1	70.9	32.8	(20.3)	(17.6)	(18.4)	21.6	15.8
Income Tax Provision	52.7	70.4	30.1	(20.5)	(17.9)	(17.3)	26.3	19.5
Net Earnings	45.7	71.2	34.4	(20.1)	(17.5)	(19.0)	19.1	13.9
Earnings Per Common & Common Equivalent Share	33.3	59.3	32.0	(20.8)	(18.2)	(19.6)	13.3	5.6
Earnings Per Common Share - Assuming Full Dilution	39.1%	59.3%	32.0%	(20.1%)	(17.4%)	(18.9%)	13.2%	5.7%

Earnings Statement Percentages

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

Quarter Ended	Fiscal 1996				Fiscal 1995			
	1/31/97	10/31/96	7/31/96	4/30/96	1/31/96	10/31/95	7/31/95	4/30/95
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
FIFO Gross Margin	26.61	25.83	25.79	25.23	24.52	24.49	25.19	25.98
LIFO (Charge) Credit	.44	(.02)	(.22)	(.24)	.15	(.20)	(.24)	(.16)
LIFO Gross Margin	27.05	25.81	25.57	24.99	24.67	24.29	24.95	25.82
Expenses:								
S,G & A	17.56	16.24	14.73	16.72	16.88	16.13	14.69	16.23
Store Opening Costs	.89	.73	.51	.66	.78	.92	.58	.53
Depreciation	2.69	2.30	1.94	2.34	2.49	2.20	1.81	2.02
Employee Retirement Plans	1.04	.74	.69	.72	.46	.66	.67	.83
Interest	.65	.48	.49	.69	.63	.52	.45	.57
Total Expenses	22.83	20.49	18.36	21.13	21.24	20.43	18.20	20.18
Pre-Tax Earnings	4.22	5.32	7.21	3.86	3.43	3.86	6.75	5.64
Income Tax Provision	35.42	35.50	35.58	36.00	34.36	35.61	36.34	36.10
Net Earnings	2.73%	3.43%	4.65%	2.47%	2.25%	2.49%	4.30%	3.60%

36-Year Review

LIFO accounting

Fiscal Years End January 31, of Following Calendar Year
Except Fiscal Years Prior to 1978 Which Ended July 31.

	6-Year CGR	Fiscal 1996	Fiscal 1995	Fiscal 1994	Fiscal 1993	Fiscal 1992
Stores and People						
1 Number of Stores	4.5%	402	365	336	311	303
2 Square Footage	27.5	30,381,529	23,945,111	18,604,368	14,174,889	9,975,537
3 Number of Employees	22.9	53,492	44,546	37,555	28,843	21,269
4 Customers Served (Thousands)	21.7%	176,206	146,957	122,847	92,932	80,461
5 Average Customer Purchase		\$48.81	\$48.15	\$49.74	\$48.83	\$47.80
Comparative Income Statement (Thousands)						
6 Total Sales	20.3%	\$8,600,241	\$7,075,442	\$6,110,521	\$4,538,001	\$3,846,418
7 Depreciation	25.2	198,115	150,011	109,647	80,530	69,820
8 LIFO Credit (Charge)	NM	(1,390)	(8,250)	(435)	(15,524)	(9,514)
9 Store Restructuring	—	—	—	—	—	—
10 Operating Income ¹	26.7	700,788	540,158	481,051	297,132	211,311
11 Pre-Tax Earnings ²	28.6	453,606	352,107	343,531	198,324	125,892
12 Taxes on Income	33.0	161,456	126,080	119,971	66,538	41,172
13 Net Earnings	26.6	292,150	226,027	223,560	131,786	84,720
14 Cash Dividends Paid	10.2	34,709	30,471	27,433	23,571	21,153
15 Earnings Retained	30.7%	\$ 257,441	\$ 195,556	\$ 196,127	\$ 107,731	\$ 63,554
Dollars Per Share (Weighted Average Number of Shares)						
16 Sales	18.0%	\$51.29	\$44.10	\$39.44	\$30.79	\$26.32
17 Earnings	24.1	1.74	1.41	1.44	.89	.58
18 Cash Dividends	8.1	.21	.19	.18	.16	.14
19 Earnings Retained	28.1	1.54	1.22	1.27	.73	.43
20 Shareholders' Equity	19.3%	\$13.22	\$10.33	\$ 9.16	\$ 5.93	\$ 5.02
Strategic Profit Model³						
21 Asset Turnover (Sales Per Asset Dollar)		\$ 2.42	\$ 2.28	\$ 2.78	\$ 2.82	\$ 2.67
22 Return on Sales (Net Earnings as Percent of Sales)		x 3.40%	x 3.19%	x 3.66%	x 2.90%	x 2.20%
23 Return on Assets		= 8.21%	= 7.28%	= 10.15%	= 8.19%	= 5.88%
24 Leverage Factor (Asset Dollars Per Equity Dollar)		x 2.15	x 2.19	x 2.52	x 2.19	x 2.16
25 Return on Shareholders' Equity		= 17.63%	= 15.92%	= 25.59%	= 17.97%	= 12.67%
Comparative Balance Sheet (Thousands)						
26 Total Current Assets	20.1%	\$1,851,466	\$1,603,684	\$1,557,168	\$1,083,907	\$ 745,554
27 Cash and Short-Term Investments	5.8	70,490	171,297	268,474	108,468	54,849
28 Accounts Receivable — Net	3.4	117,562	113,483	109,214	48,500	53,288
29 Inventories (Lower of Cost or Market)	23.1	1,605,880	1,267,077	1,132,282	853,707	594,195
30 Other Current Assets	26.6	37,682	32,659	29,069	60,932	34,710
31 Fixed Assets	29.0	2,494,396	1,858,274	1,397,713	1,020,234	787,197
32 Other Assets	2.9	53,477	53,369	67,652	57,099	52,856
33 Total Assets	24.3	4,434,954	3,556,386	3,105,992	2,201,648	1,608,877
34 Total Current Liabilities	26.0	1,348,531	949,931	945,893	681,176	499,634
35 Accounts Payable	30.3	914,167	655,399	675,436	467,278	330,584
36 Other Current Liabilities	28.3	198,461	151,494	134,334	81,765	72,626
37 Long-Term Debt (Excluding Current Portion)	30.0	767,338	866,183	681,184	592,333	313,562
38 Total Liabilities	27.3	2,217,478	1,899,671	1,686,102	1,327,979	875,657
39 Shareholders' Equity	21.7%	\$2,217,476	\$1,656,715	\$1,419,890	\$ 873,669	\$ 733,220
40 Equity/Long-Term Debt (Excluding Current)		2.89	1.91	2.08	1.47	2.34
41 Year-End Leverage Factor: Assets/Equity		2.00	2.15	2.19	2.52	2.19
Shareholders, Shares and Book Value						
42 Shareholders of Record, Year-End		11,460	11,299	9,765	7,470	7,257
43 Shares Outstanding, Year-End (Thousands) ⁴		173,404	160,918	159,527	147,886	145,946
44 Weighted Average Shares, Year-End (Thousands)		167,678	160,453	154,926	147,398	146,152
45 Book Value		\$12.79	\$10.30	\$ 8.90	\$ 5.91	\$ 5.02
Stock Price During Year⁵						
46 High (Adjusted for Stock Splits)		\$43.50	\$38.88	\$41.38	\$31.00	\$14.38
47 Low (Adjusted for Stock Splits)		\$28.63	\$26.00	\$27.75	\$13.32	\$ 8.00
48 Closing Price December 31		\$35.63	\$33.50	\$34.75	\$29.75	\$12.07
Price Earnings Ratio						
49 High		25	28	29	35	25
50 Low		16	18	19	15	14

Supplemental Information
FIFO accounting

	Fiscal 1991	Base Year Fiscal 1990	Fiscal 1989	Fiscal 1984	Fiscal 1980	Fiscal 1977	Fiscal 1976	Fiscal 1975	Fiscal 1970
1	306	309	306	248	214	175	150	130	64
2	8,016,136	7,061,925	6,219,018	2,980,000	1,998,239	1,570,000	1,330,000	1,209,000	379,653
3	18,368	15,556	15,271	10,727	5,950	5,274	4,378	3,574	1,670
4	64,284	54,142	47,246	23,938	11,376	8,224	7,033	5,702	2,729
5	\$47.54	\$52.33	\$56.10	\$70.55	\$77.67	\$72.27	\$66.12	\$59.78	\$47.09
6	\$3,056,247	\$2,833,108	\$2,650,547	\$1,688,738	\$883,614	\$594,358	\$465,052	\$340,882	\$128,491
7	58,298	51,431	46,134	14,805	10,320	6,212	—	4,976	1,221
8	(5,979)	688	(3,549)	2,686	(6,686)	—	—	—	—
9	71,288	—	—	—	—	—	—	—	—
10	80,187	169,101	174,158	136,195	50,800	52,856	—	27,510	11,487
11	4,951	100,251	108,796	119,076	36,277	42,487	34,295	20,811	9,938
12	(1,536)	29,164	33,884	57,633	17,386	21,056	16,984	10,319	5,068
13	6,487	71,087	74,912	61,443	18,891	21,431	17,311	10,492	4,870
14	20,020	19,334	18,228	11,600	7,813	2,735	1,272	1,171	844
15	\$ (13,533)	\$ 51,753	\$ 56,684	\$ 49,843	\$ 11,078	\$ 18,696	\$ 16,039	\$ 9,321	\$ 4,026
16	\$20.93	\$19.03	\$17.78	\$11.65	\$6.79	\$4.56	\$3.57	\$2.62	\$1.02
17	.04	.48	.50	.42	.15	.16	.13	.08	.04
18	.14	.13	.12	.08	.06	.02	.01	.01	.01
19	NM	.35	.38	.34	.09	.14	.12	.07	.03
20	\$ 4.58	\$ 4.59	\$ 4.33	\$ 2.35	\$1.30	\$.87	\$.73	\$.60	\$.20
21	\$ 2.54	\$ 2.47	\$ 2.44	\$ 3.24	\$ 2.95	\$ 3.01	\$ 3.01	\$ 2.26	\$ 3.09
22	x .21%	x 2.51%	x 2.83%	x 3.64%	x 2.14%	x 3.61%	x 3.72%	x 3.08%	x 3.79%
23	= .54%	= 6.20%	= 6.90%	= 11.79%	= 6.31%	= 10.84%	= 11.21%	= 6.97%	= 11.72%
24	x 1.76	x 1.78	x 1.85	x 1.79	x 1.90	x 2.10	x 1.97	x 2.24	x 1.99
25	= .95%	= 11.01%	= 12.77%	= 21.10%	= 11.99%	= 22.71%	= 22.12%	= 15.60%	= 23.34%
26	\$ 770,078	\$ 616,461	\$595,946	\$432,370	\$209,756	\$186,198	\$146,448	\$108,784	\$38,878
27	30,814	50,144	55,566	84,204	15,567	13,324	15,620	11,574	4,658
28	115,739	96,354	121,897	97,319	68,172	76,162	52,322	38,533	14,887
29	602,795	460,804	407,677	248,268	125,104	96,164	77,963	58,223	19,040
30	14,275	9,159	9,610	2,579	913	548	544	454	293
31	612,955	541,464	507,811	195,237	91,399	60,210	50,434	45,127	10,390
32	46,845	45,127	43,637	6,501	573	401	859	452	148
33	1,441,228	1,203,052	1,147,394	634,108	301,728	246,809	197,741	154,363	49,416
34	588,951	337,676	307,890	189,418	80,781	87,709	66,705	42,964	21,212
35	307,814	186,860	210,197	125,003	52,003	60,324	42,942	29,727	15,178
36	61,400	44,578	42,685	64,415	28,778	27,385	23,764	13,236	6,034
37	113,650	159,204	167,896	92,488	51,929	46,244	36,664	33,156	3,315
38	772,674	520,380	501,836	292,760	132,710	133,953	103,370	76,120	24,527
39	\$ 668,554	\$ 682,672	\$645,558	\$341,348	\$169,018	\$112,857	\$ 94,371	\$ 78,243	\$24,889
40	5.88	4.29	3.84	3.69	3.25	2.44	2.57	2.36	7.51
41	2.16	1.76	1.78	1.86	1.79	2.19	2.10	1.97	1.99
42	6,216	6,261	6,361	6,372	4,620	4,588	3,846	3,755	2,117
43	145,760	145,838	149,020	144,992	130,220	130,220	130,220	130,220	126,232
44	146,052	148,856	149,112	144,992	130,220	130,220	130,220	130,220	126,232
45	\$ 4.59	\$ 4.68	\$ 4.33	\$ 2.35	\$ 1.30	\$.87	\$.73	\$.60	\$.20
46	\$10.35	\$12.41	\$ 8.03	\$ 7.41	\$ 2.49	\$ 3.28	\$3.43	\$ 3.10	\$ 1.16
47	\$ 5.75	\$ 4.60	\$ 5.53	\$ 4.07	\$ 1.34	\$ 2.18	\$2.65	\$ 1.33	\$.62
48	\$ 8.53	\$ 6.13	\$ 7.38	\$ 6.19	\$ 1.89	\$ 3.00	—	\$ 1.85	\$ 1.03
49	233	26	16	17	17	20	26	39	31
50	129	10	11	10	9	13	20	17	16

Fiscal 1965	Fiscal 1961	
35	15	1
199,537	71,680	2
762	399	3
1,284	651	4
\$44.44	\$47.85	5
\$57,044	\$31,128	6
305	133	7
—	—	8
—	—	9
4,413	2,185	10
3,942	1,890	11
1,896	956	12
2,046	934	13
519	102	14
\$ 1,527	\$ 832	15
\$.47	\$.26	16
.02	.01	17
—	—	18
.01	.01	19
\$.08	\$.04	20
\$ 3.20	\$ 3.32	21
x 3.59%	x 3.00%	22
= 11.49%	= 9.96%	23
x 2.31	x 2.57	24
= 26.55%	= 25.60%	25
\$19,187	\$ 9,305	26
3,801	1,299	27
7,165	3,108	28
8,156	4,801	29
65	97	30
3,832	1,229	31
77	1,301	32
23,096	11,835	33
11,213	4,922	34
7,913	3,187	35
3,300	1,735	36
2,377	1,791	37
13,606	6,792	38
\$ 9,490	\$ 5,043	39
3.99	2.81	40
2.43	2.35	41
1,871	—	42
121,832	120,000	43
121,832	120,000	44
\$.08	\$.04	45
\$.26	—	46
\$.16	—	47
\$.18	—	48
15	—	49
9	—	50

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 33 $\frac{1}{3}$ % stock dividend, effective July 25, 1972, (which had the net effect of a 4-for-3 stock split).
- A 50% stock dividend, effective June 2, 1976, (which had the net effect of a 3-for-2 stock split).
- A 3-for-2 stock split, effective November 2, 1981.
- A 5-for-3 stock split, effective April 29, 1983.
- A 100% stock dividend, effective June 29, 1992, (which had the net effect of a 2-for-1 stock split).
- A 2-for-1 stock split, effective April 4, 1994.

Explanatory notes

- ¹ Pretax earnings plus depreciation plus interest.
- ² Before extraordinary item in 1986 and cumulative effect on prior years of a change in accounting principle in 1987.
- ³ Asset Turnover – Total Sales divided by Beginning Assets.
Return on Sales – Total Profit divided by Total Sales.
Return on Assets – Total Profit divided by Beginning Assets.
Leverage Factor – Beginning Assets divided by Beginning Equity.
Return on Shareholders Equity – Total Profit divided by Beginning Equity.
- ⁴ Variation in the outstanding shares is a result of the following:
1963 – Treasury Stock purchase.
February 2, 1982 – 778,018 common shares issued to ESOP.
February 8, 1983 – 2,917 million common shares sold in public issuance.
October 10, 1985 – 833,373 common shares issued to ESOP.
April 25, 1986 – 2.2 million common shares sold in public issuance.
May 15, 1986 – 300,000 common shares issued to ESOP.
1987 – Treasury Stock purchase.
1988 – Treasury Stock purchase.
1990 – Shares purchased and retired.
1991 – Shares purchased and retired.
1993 – 1,696,000 common shares issued to ESOP.
1994 to 1996 – See Note 11 to the consolidated financial statements.
- ⁵ Stock price source: *The Wall Street Journal*
NM = not meaningful
CGR = compound growth rate

Investor Information

Stock Transfer Agent & Registrar

Wachovia Bank of North Carolina, N.A.
P.O. Box 3001
Winston-Salem, NC 27102
Information contact:
Christopher A. Spillare
(910) 770-5822 or (800) 633-4236

Dividend Disbursing Agent

Wachovia Bank of North Carolina, N.A.
P.O. Box 3001
Winston-Salem, NC 27102
Information contact:
Virginia C. Lakey
(910) 770-6116 or (800) 633-4236

Dividend Reinvesting Agent

Wachovia Bank of North Carolina, N.A.
P.O. Box 3001
Winston-Salem, NC 27102
Information contact:
Christopher A. Spillare
(910) 770-5822 or (800) 633-4236

Dividend Policy

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

Dividend Declaration Dates

Usually the middle of April, July, October and January

Dividend Payment Dates

Usually the last of April, July, October and January

Lowe's Telephone Numbers

Telephone (910) 658-4000
FAX (910) 658-4766

Lowe's Addresses

Mailing: P.O. Box 1111,
North Wilkesboro, NC 28656
Street:
State Highway 268 East (Elkin Highway)
North Wilkesboro, NC 28659
E-Mail: webeditor@lowes.com
Web: <http://www.lowes.com>

Annual Meeting Date

May 30, 1997 at 10:00 AM,
Lowe's Corporate Offices

Lowe's Common Stock

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

Pacific Stock Exchange
301 Pine Street
San Francisco, CA 94104

London Stock Exchange
Old Broad Street
London, ECNIHP England

General Counsel

William C. Warden, Jr.
Executive Vice President,
Chief Administrative Officer, Secretary
(910) 658-4497

Certified Public Accountants

Deloitte & Touche LLP
1100 Carillon
Charlotte, NC 28202
(704) 372-3560

Shareholder Services

Shareholders' and security analysts' inquiries should be directed to:
Carson Anderson - Manager, Investor Relations
(910) 658-4385
For copies of financial information:
(910) 658-4441

Lowe's Profile

Lowe's Companies, Inc. is the world's second largest home improvement retailer, serving the do-it-yourself home improvement, home decor, home repair, and home construction markets.

Lowe's 402 stores serve customers in 24 states located mainly in the East. In 1996 our average store did \$22.2 million in sales. Our large stores averaged \$26.1 million in sales.

At year-end, our retail sales space totaled approximately 30.4 million square feet. Our employees numbered 53,492.

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 London Stock Exchange since October 6, 1981. Shares are traded under the ticker symbol LOW.



Lowe's Stores

Alabama	16	Illinois	11	Mississippi	7	Pennsylvania	17
Arkansas	7	Indiana	18	Missouri	5	South Carolina	24
Delaware	3	Kentucky	19	North Carolina	69	Tennessee	25
Florida	14	Louisiana	13	New York	1	Texas	23
Georgia	19	Maryland	11	Ohio	34	Virginia	36
Iowa	3	Michigan	6	Oklahoma	8	West Virginia	13

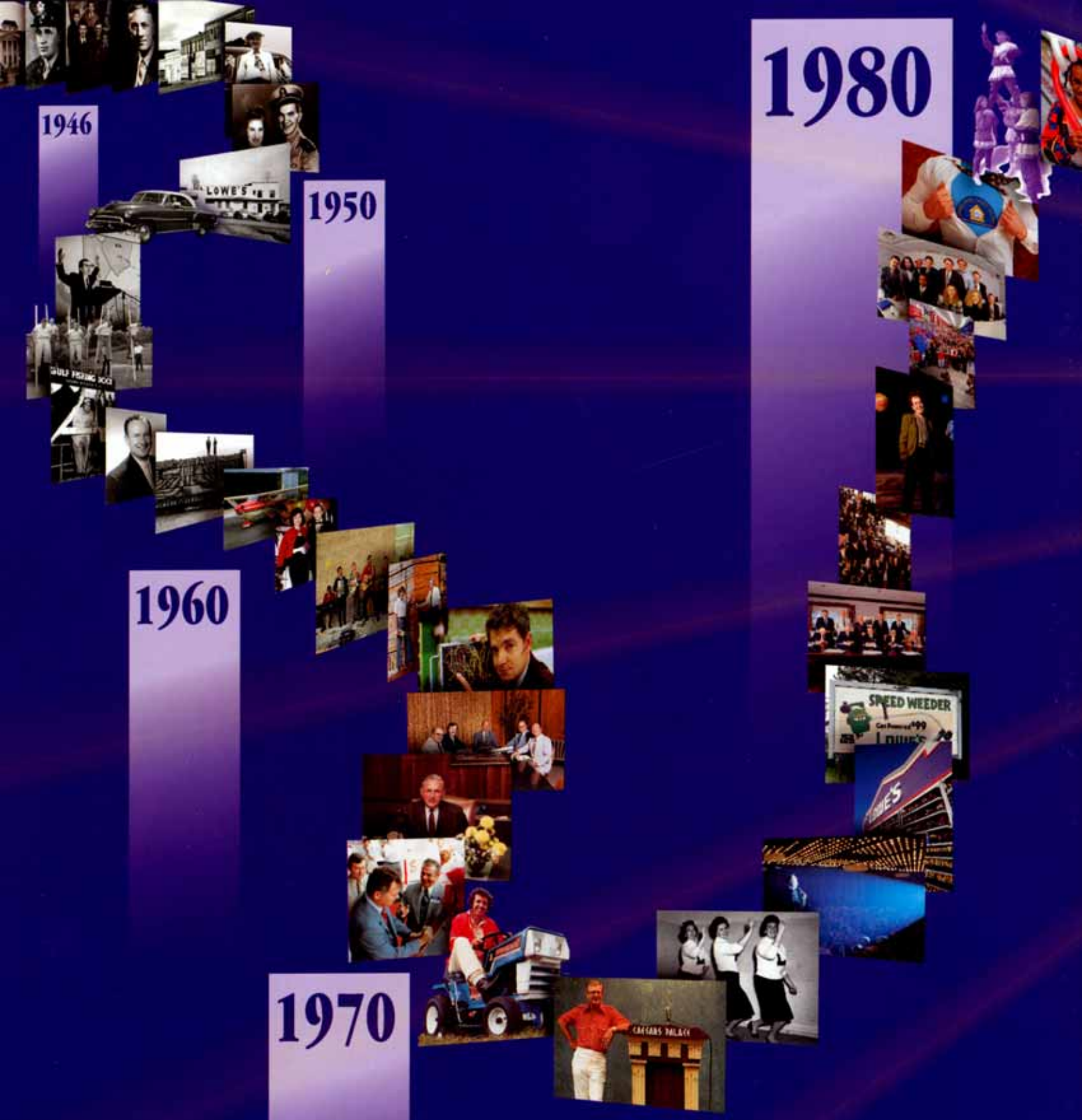
1980

1946

1950

1960

1970



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