

Dear Shareholders,

Lowe's watchword for 1987 was straight talk from the nineteenth century philosopher, Thomas Carlyle: "Know thy work and do it."

Continued Inside



A MID THE STORM OF UPHEAVAL IN THE STOCK MARKET THAT ROCKED 1987 AND SEEMED TO CAST LONG SHADOWS INTO THE FUTURE, WE TOOK OUR COMPASS BEARINGS FROM CARLYLE'S PRECEPT, "Know what thou canst work at, and work at it, like a Hercules!" We examined Lowe's position, our markets, and our competition, and sharpened our strategic focus. We defined more clearly the three businesses that are both essential to Lowe's and uniquely served by us: the building contractor business, the consumer durables business, and the do-it-yourself home center business. Then, confident that we knew Lowe's work better than ever, we attacked it with renewed energy and determination.

Lowe's is the leader in our industry, but that leadership is no lullaby to our ears. We realize that nothing is more vulnerable than complacent success, and we will not be caught napping. To ourselves and to all who share our fortunes — our stockholders, customers, vendors, directors, employees, and friends — we pledge that Lowe's will never be a passive giant or an unwary victim of economic circumstance. We know our work and we will continue to do it, keeping Lowe's on course toward a future of our own making.

Earnings Perspective

In 1987 we regained our benchmark level of \$61 million in earnings, which is more than any other company in our industry has ever reported. It was our second best year ever for earnings, with a 17% improvement over last year's disappointing results.

We are especially pleased to report such positive results for a year in which we bit a major bullet and closed some stores in the oil patch of Texas and Oklahoma that had proven consistently unprofitable. In addition to the operating losses from those stores prior to the closing, we absorbed a \$9.8 million closing charge which was the cost of "eliminating the negative." The downward impact of the closing charge was 14 cents per share.

Besides the store closing cost, we also absorbed a LIFO charge of \$3.8 million attributable to mild inflation. By comparison, last year we had a LIFO credit of \$3.0 million, as well as a one-time credit of \$4.9 million from the settlement of the plywood anti-trust litigation.

1987's earnings were augmented by our election to adopt Statement of Financial Accounting Standards No. 96, a newly authorized method of accounting for deferred taxes. This had a positive impact of 13 cents per share on an annual basis.

Our earnings themselves "accentuate the positive" for 1987, because the real earnings growth that we experienced came largely from retrofitted and relocated stores, and from our newer Lowe's stores with more than 20,000 square feet of retail space. We have begun to reap the rewards of our investment in expansion since 1984, and these gains will continue into the future.

We are proud that our earnings per share increased so substantially in a difficult year, and we anticipate continued improved performance in 1988.



Robert L. Strickland



Leonard G. Herring

Cash Flow

Cash flow is considered an important vital sign in the health of a corporation, and Lowe's 1987 cash flow was the highest ever.

The major components of cash flow are earnings after taxes, depreciation, and deferred income taxes. As shown on page 5, after year-end adjustments our 1987 cash flow was up 23% to \$108 million from \$88 million last year.

For long-term trends in Lowe's cash flow, please refer to the 26-year review found on the inside back cover of this report.

Sales Performance

Despite the fragmented and fiercely competitive market environment, Lowe's sales increased 7% in 1987 to \$2.44 billion. That's the highest sales figure ever recorded in our industry, and more than double what we reported only five years ago, in 1982.

Our retail sales increased 9%, ending the year at \$1.38 billion. Contractor sales rose 5% to finish at \$1.07 billion. Sales from 300 comparable stores (stores that were open more than a year on January 31, 1988) realized a 4% sales gain.

As part of our mission to "know our work and do it," in 1987 we sharpened our focus on Lowe's three businesses. These businesses are defined by discrete sets of customers and competitors, and Lowe's is unique among its competitors in pursuing all three from the same store. The three are the building contractor business, the consumer durables business, and the do-it-yourself home center business.

The building contractor business originally accounted for as much as 70% of Lowe's total sales. It now accounts for 44% as a result of our emphasis on retail development, and we plan an even more retail-weighted sales mix for the future, while still encouraging contractor sales growth.

We have always been in the big-ticket consumer durables business, as anyone will know who has been in a Lowe's store and seen our refrigerators, riding lawnmowers, and similar product categories. Consumer durables will account for about 15% of Lowe's total sales in the years ahead.

According to findings released by the Do-It-Yourself Research Association, the home center business is now a \$100 billion industry, and we project it to grow to \$140 billion by the early 1990's. Ten years ago, sales from Lowe's home center business provided less than 20% of our total sales. In fiscal 1988, for the first time, our home center business will be the largest of our three businesses in terms of sales. By 1990, according to our plan for Lowe's future, it will account for 50% of our total sales volume.

As we articulate our newly focused sense of Lowe's identity, we are providing for Lowe's future sales growth by promoting selected product categories and deleting others that don't belong in any of our three businesses. We are liberating valuable retail space and improving the look of our stores. Our new "Rack & Roll" sales floor racking system, with its expanded capacity for inventory rollout, is another way we are adding sales potential on our retail floors.

By carefully targeting our merchandising emphasis and by expanding and improving our presentation of Lowe's product lines, we will gain increasing sales momentum from our own strengths in the months and years ahead.

Strategic Market Growth

In 1987 we launched a new expansion plan that we call "10+X," where "10" represents our goal in percentage of space added to existing stores, while "X" is the opportunity for new stores and timely small acquisitions. Ongoing retrofits and relocations are included in the 10% growth, as is space added to our smaller, mature stores in the Southeast through our "Phoenix" program.

In last year's letter we announced our intention to finish 1987 with more than five million square feet of retail space, more than double our size only four years earlier. We achieved this goal prior to our decision to close 21 stores, most of which were in the oil patch.

Completion of our 1987 expansion plan included 16 new stores, two relocations, and 10 retrofits representing 590,000 square feet of incremental space, a 13% increase over 1986. The 21 store closings reduced that figure to 321,000 square feet, so total expansion including closings gave us a 7% increase. We finished the year with 4.8 million square feet of retail selling space in 295 stores in 21 states.

Considering our market strategy in terms of Lowe's three businesses, we have realized that although we could conduct our building materials business and our consumer durables business in small stores with 5,000 to 7,000 square feet, our home center business requires a minimum of 20,000 square feet.

In Lowe's first growth transition, we learned to be better retailers. A second transition is now in progress, a physical transition in which our goal is to bring our smaller, pre-home center Lowe's stores up to the retailing potential of our newer sales floors. Our expansion plan for 1988 calls for seven new stores, nine relocations, and 21 store enlargements.

Financial Position

Shareholders' equity reached \$582 million in 1987, nearly double the level reached just four years ago and 8% higher than last year's \$541 million.

Dividends increased 7% to 43 cents per share, a new high for Lowe's. The company paid out \$17 million in dividends last year, which nearly equals the total net earnings we reported in 1981.

We think Lowe's stock is a great buy these days. That's why last December we announced plans to repurchase up to \$50 million of Lowe's common stock in the open market. The repurchasing program began in January 1988.

Our ESOP trust is Lowe's largest shareholder, and we are proud that our employees own 24% of Lowe's equity. Last June we announced plans to purchase up to \$18 million in common stock before October 15 as part of the company's 1986 ESOP contribution. On October 21 we further announced that we would purchase up to \$17 million in common stock to fund in advance the Lowe's 1987 ESOP contribution for the year ending January 31, 1988.

The Edinburgh Perspective

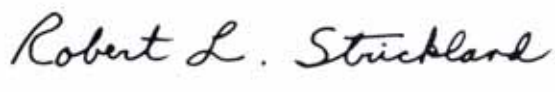
Thomas Carlyle was born in Scotland and attended Edinburgh University. More than a century later, in 1978, a group of Scottish investors assembled not far from that ancient seat of learning and decided to buy stock in Lowe's at \$8 per share.

During the following four years, the United States experienced double-digit inflation and double-digit unemployment. The economy weakened as the Seventies waned. The price of gasoline went as high as \$2 a gallon, mortgage rates soared from 8% to 16%, and housing starts plummeted from two million to one million per year.

Without the benefit of hindsight, one might be excused for concluding that the Edinburgh investors lost their pants. They did not. In fact, between 1978 and 1982 Lowe's stock increased from \$8 to \$22 per share. The Edinburgh group, tough-minded and experienced, understood how to make money in a bear market. They recognized a good value when they saw it. We trust you will find this true story as uplifting as we do.

We take this opportunity to welcome new shareholders and friends of Lowe's to the group that we call Lowe's Partners-In-Interest. If, as Thomas Carlyle said, "Labor is Life," then we can confidently promise that 1988 will be a lively year for Lowe's, full of hard work and profit-building achievement.

Cordial good wishes,



Robert L. Strickland
Chairman of the Board



Leonard G. Herring
President and
Chief Executive Officer

North Wilkesboro, North Carolina

The Power of Three: Lowe's Chooses Its Future

1987 was a year of dramatic and diverse economic events whose long-term effects will shape the judgment of posterity. Let history deliver its verdict on the year at large; at Lowe's we choose to remember 1987 as the year that we achieved a new self-realization and set our course for our chosen future.

Financial Highlights

Fiscal Years End on January 31 of Following Year

	Change	Fiscal 1987	Fiscal 1986
Sales	+ 7%	\$2,442,177,000	\$2,283,480,000
Net Earnings	+17	61,180,000	52,219,000
Cash Flow ¹	+23	108,089,000	87,858,000
Per Share:			
Earnings	+15	1.54	1.34
Cash Dividends	+ 7	.43	.40
At Year-End:			
Shareholders' Equity	+ 8	582,436,000	540,534,000
Total Assets	+ 6%	\$1,027,329,000	\$ 969,219,000

¹ Equivalent to "funds from operations" in the consolidated statements of changes in financial position after extraordinary item and the cumulative effect of a change in accounting principle.

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We are launching that future from a foundation of strength that is apparent in our 1987 financial highlights. Lowe's sales last year were the highest ever recorded in our industry, and our cash flow has never been healthier. Net earnings were only half a percent shy of the best in Lowe's history, and earnings per share recovered ground after two years in decline. We paid our highest cash dividends ever, and shareholders' equity attained new levels. Our total assets broke the \$1 billion mark. We finished the year with fewer stores than we began it, but the circumstances behind the store count are actually a positive chapter in the story of Lowe's 1987.

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HANGE IS MORE THAN A TEMPORARY CONDITION OF OUR RETAIL

MARKETPLACE; IT IS AN ESSENTIAL CHARACTERISTIC. The constantly changing needs and desires of the American consumer challenge us to anticipate trends and respond with maximum flexibility to all the economic influences which affect buying habits. In 1987, not for the first time, we examined Lowe's position and strategic direction in the light of current marketplace conditions. We articulated Lowe's identity and goals in terms that are already transforming our future. But even as we began making new strategic resolutions, we realized that the time had come to fulfill an old promise.

For more than a year we had been promising ourselves and our partners-in-interest that we would stem the losses from stores acquired in 1985 in the oil patch states of Texas and Oklahoma. When we bought those stores, their profitability was based almost solely on contractor business, and we saw an opportunity to build retail strength just as we had in the rest of our chain through Lowe's RSVP program. But in January 1986 the price of crude oil dropped by two thirds, and contractor spending in the oil patch dried up before we had a chance to develop a retail customer franchise to cushion the blow. Despite our remerchandising efforts and some notable success at trimming overhead, we were still losing money in Texas and Oklahoma in 1987. Housing starts, which had fallen more than 50 percent in that region, showed few signs of recovering quickly. So one of the first major actions undertaken as part of our new self-awareness was to close 17 oil patch stores, 15 of which had been part of the 1985 acquisition. We swallowed a bitter pill, along with a certain amount of pride, but the knowledge that we gained from the experience is already being put to good use.

HERE IS WHAT WE LEARNED FROM OUR 1987 SELF-EXAMINATION. **LOWE'S IS IN THREE BUSINESSES:** the building contractor business, the consumer durables business, and the do-it-yourself home center business. These businesses are defined by discrete sets of customers and competitors. We are the only company in our industry to pursue all three businesses from the same store, and in each store our merchandising strategy for each business is determined by the market, which we first generalize into three categories based on population density.

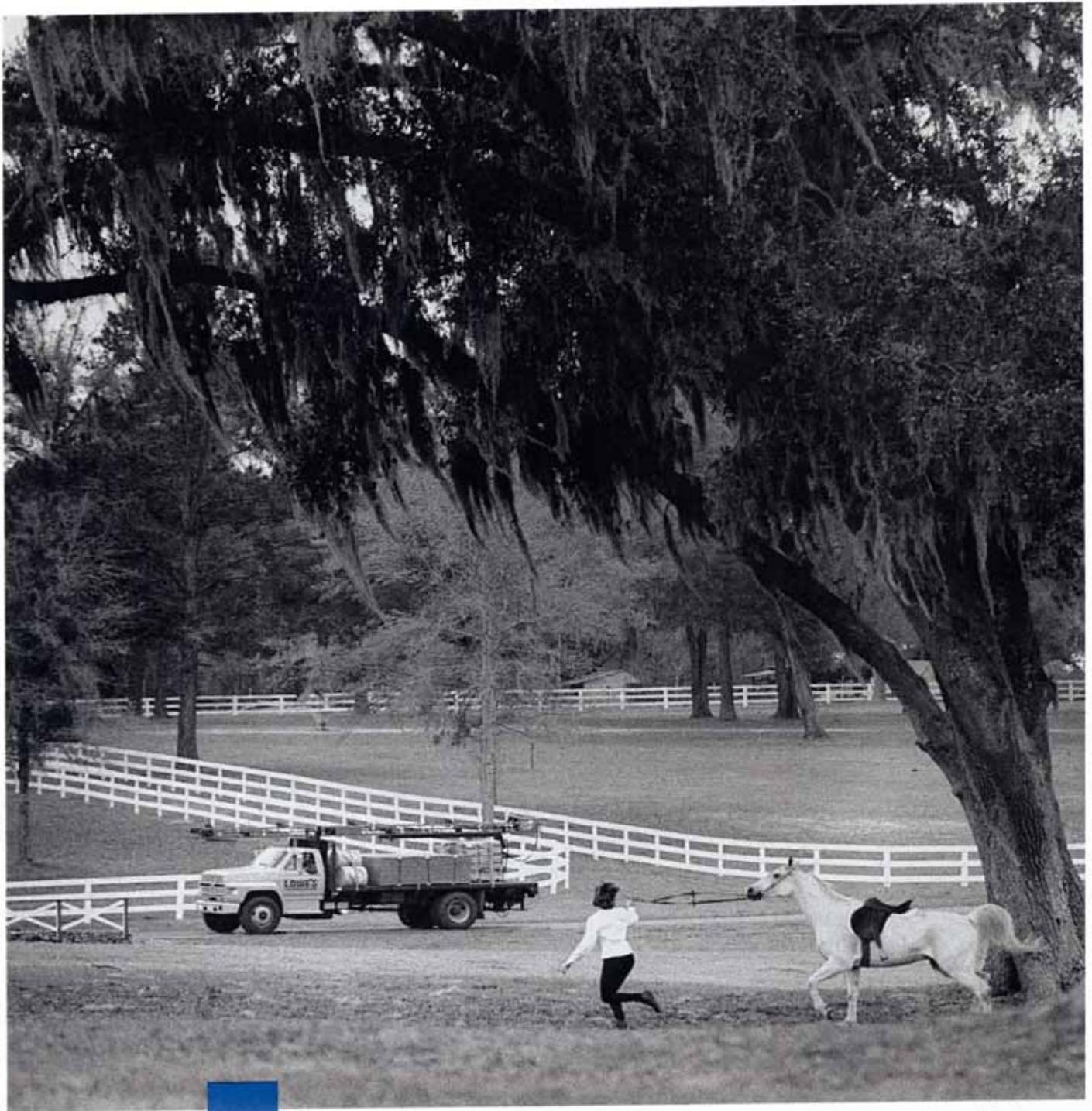
Lowe's unique character is the combined result of natural evolution and visionary guidance over the course of our company's history. Lowe's began as a renegade retailer of heavy hardware and building materials, back in the days of the post-World War II building boom when Carl Buchan bypassed wholesalers to establish the tradition of "Lowe's Low Prices." There are Lowe's customers who still remember buying refrigerators and building supplies directly from a freight car on the railway siding serving the North Wilkesboro store.

From those modest but distinctive beginnings, Lowe's grew into a regional chain of stores selling building supplies and big-ticket consumer durables. Although we did have some retail customers, the majority of our business came from professional contractors in residential construction.

It was this customer franchise that most influenced the appearance and attributes of Lowe's stores until well into the Seventies. The typical Lowe's store evolved as a free-standing building located near railroad tracks. It had a small retail floor displaying very limited inventory, and a lumber yard out



Merchandising strategists and store operations vice presidents meet regularly to coordinate growth objectives.



A delivery to the Lucky Chance horse farm from our store in Ocala, Florida, a market whose size typifies the majority of Lowe's store locations.

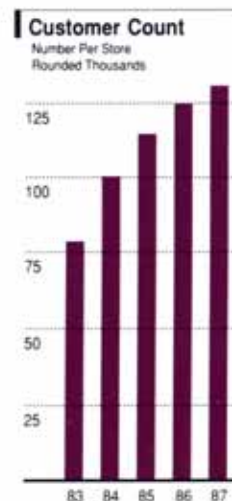
back. Building contractors appreciated Lowe's low prices, credit offerings, and delivery services, but retail customers were sometimes made inadvertently to feel like amateurs whose business was more trouble than it was worth.

With the growth of the do-it-yourself home improvement and home repair industry in the Seventies, it became apparent that if Lowe's became a better retailer, every homeowner would be a potential Lowe's customer. By encouraging the growth of our retail customer franchise, we could increase our profitability through higher margins and also begin to insulate ourselves from the dramatic mood swings of the housing construction market.

Thus we entered Lowe's first transition, determined to bring ourselves up to speed as retailers who could attract and sell to upscale homeowners as well as to professional contractors. One obvious challenge was to communicate our new orientation to the public, but an even bigger challenge was the adjustment necessary for Lowe's employees. Our merchandising staff had to acquire a different kind of market savvy. For store managers, retail expansion meant planograms and other new headaches. Once our employees became more comfortable with our retail emphasis, the final phase of the transition was our Lowe's RSVP program (Retail Sales Volume and Profit). Through RSVP, which was initiated in 1980, Lowe's sales floors were enlarged and given an attractive new look designed to appeal to our retail customers.

NOW WE WERE IN THE DO-IT-YOURSELF HOME CENTER BUSINESS AS WELL AS THE BUILDING CONTRACTOR AND CONSUMER DURABLES BUSINESSES. Our timing couldn't have been better. The first children of the Baby Boom were beginning to marry and start families, and as first-time homeowners they turned to do-it-yourself (DIY) projects when inflation in the late Seventies placed other home improvement options beyond their means. Inflation hasn't been a major economic factor for several years now, but DIY consumerism has steadily risen due to a growing demand for home improvement and maintenance materials. Home ownership continues to increase, and by 1990 more than two thirds of American families will live in a home they own. But housing starts peaked 10 years ago at two million, and are predicted to hover around the current level of 1.65 million for at least the next couple of years. This means that an estimated 70% of all the homes which will be occupied in the year 2000 are already built. The young married couples who are now buying their first homes will spend more time there as children come, and their houses will need progressively more upkeep.

According to a report released by the Do-It-Yourself (DIY) Research Institute, in the last 10 years the national DIY market has grown from \$38 billion to \$100 billion dollars annually. Lowe's retail sales have more than quintupled during the same period, from \$250 million in 1977 to nearly



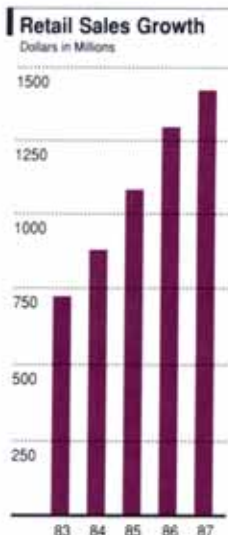
\$1.4 billion last year. Right now the DIY home center industry is growing at twice the pace of our gross national product, and we predict that it will reach \$140 billion by the early 1990's. In 1988, for the first time, our DIY home center business will be the largest of Lowe's three businesses.

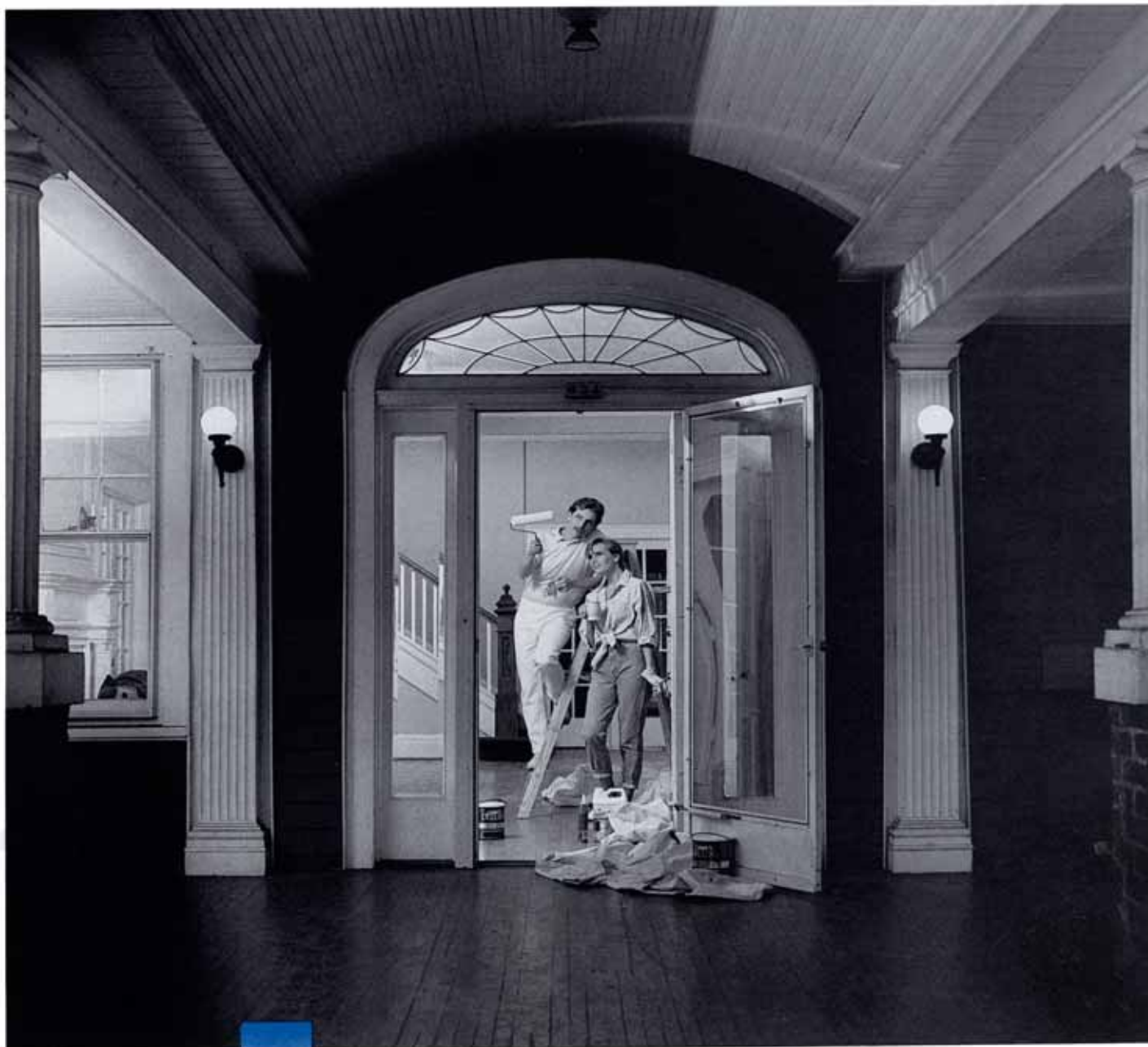
L **OWE'S HAS BEEN SELLING BIG-TICKET CONSUMER DURABLES SINCE BEFORE COLOR TELEVISION WAS MARKETING.** Nowadays the category embraces a wide variety of Lowe's products from VCRs to riding lawn mowers and microwave ovens. Like our DIY selection and our building contractor business, our consumer durables identify Lowe's in the minds of our customers. We regard our durables business as complementary to our other businesses in furthering Lowe's goal of providing all the home products desirable for the way we live now.

The biggest single factor behind the growth of Lowe's consumer durables business has been our continued marketing of famous brand names at Lowe's Low Prices. Also, our retail emphasis has more than doubled Lowe's customer count per store within the last five years, exposing more customers to our durables selection. And as we energetically pursued expansion of our retail sales floors in an upscale environment, to meet the needs of our home center business, our durables received enhanced space for expanded product lines.

Our research indicates that the market for durables categories such as washers, dryers, and refrigerators will remain relatively stable over the next several years. This follows a period of growth when the new homes of the Seventies were being equipped with their first-generation appliances. The need to replace those aging appliances, added to the needs of new home purchasers, should keep the sales growth rate of appliances in the neighborhood of GNP growth.

Electronics is by far the most dynamic of Lowe's durables categories, showing a 25% compound growth rate over the last five years. Thanks to the falling value of the dollar and the momentary absence of compelling new technology, our electronics sales in 1987 declined 4% from the giddy heights of 1986. But who knows what the next electronics revolution will bring? Perhaps CD recorders? Stereo televisions? How about interactive televisions that will allow viewers to send as well as receive signals? Timing is the key to electronics merchandising: success depends on our ability to accurately identify trends, respond quickly with the appropriate product assortment, and exit at the last moment before the consumer tide turns away. Consumer electronics are among America's most valued home entertainment items, and will only become more important in the future.





Lowe's has grown up with the children of the Baby Boom, who will continue to form households and to buy and improve homes for years to come.



Lowe's will continue to be the dealer of choice for our durable goods customers by meeting the product assortment and pricing needs of our three market sizes.

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HE UNCHANGING

GOAL OF LOWE'S BUILDING CONTRACTOR BUSINESS IS TO DOMINATE OUR MARKETS

IN VARIETY, DEPTH, SERVICE, AND PRICING OF BUILDING SUPPLIES. Building contractors are among our most valued partners-in-interest, and we have won their continued patronage through the years by providing products suited to the needs and tastes of

the new home buyer, as well as services to help boost the efficiency of their operations and minimize their labor costs. Nationally, housing starts are not predicted to surge within the next few years; however, the U.S. Bureau of Census predicts that between 1990 and the millennium, the population of the South will increase by roughly 13% while some other areas, notably the Northeast and Midwest, experience declines.

Even if housing starts remain flat, Lowe's can win the battle for higher sales per start. For one thing, the median square footage in new single-family houses is higher than it's ever been. New construction is likely to be weighted toward step-up homes that include more amenities. This trend gives Lowe's an opportunity to sell higher-margin items such as quality light fixtures. In 1987, our contractor sales per housing start rose 17% over the previous year.

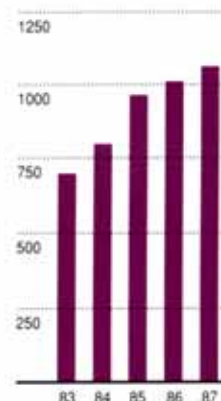
Lowe's Contractor Sales Per U.S. Housing Start

	Total U.S. Private Housing Starts (In Millions)	Lowe's Contractor Sales (\$ Millions)	Lowe's Contractor Sales Per Start
1977	1.987	\$ 412	\$207
1978	2.020	469	232
1979	1.745	512	293
1980	1.292	464	359
1981	1.084	427	394
1982	1.062	463	436
1983	1.703	707	415
1984	1.750	808	462
1985	1.742	973	558
1986	1.805	1,020	564
1987p	1.617	\$1,067	\$659

Source: U.S. Department of Commerce; NAHB Forecast of Housing Activity
p=preliminary

Contractor Sales Growth

Dollars in Millions



Merchandise Sales Trends

Dollars in Millions

Category	Total Sales 5-Year CGR	Change From 1986	1987		1986		1985		1984		Base Year 1982	
			Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%
1. Structural Lumber	+ 22%	+ 14%	\$ 476	20	\$ 419	18	\$ 364	18	\$ 303	18	\$ 177	17
2. Building Commodities & Millwork	+ 15	+ 4	723	30	698	30	664	32	567	33	357	34
3. Home Decorating & Illumination	+ 19	+ 7	284	12	265	11	239	11	183	11	117	11
4. Kitchens, Bathrooms & Laundries	+ 16	—	221	9	221	10	197	9	170	10	105	10
5. Heating, Cooling & Water Systems	+ 12	+ 9	120	5	110	5	104	5	93	6	69	7
6. Home Entertainment	+ 25	— 4	103	4	107	5	78	4	59	3	34	3
7. Recreation, Yard, Patio, Garden & Farm	+ 25	+ 17	207	8	177	8	163	8	117	7	69	7
8. Tools	+ 37	+ 26	82	3	65	3	56	3	36	2	17	2
9. Special Order Sales (SOS)	+ 20	+ 2	226	9	221	10	208	10	161	10	89	9
Totals	+ 19%	+ 7%	\$2,442	100	\$2,283	100	\$2,073	100	\$1,689	100	\$1,034	100



Bea Melton is a professional building contractor and a Lowe's shareholder. She has been a loyal contractor customer, she says, "since before the company went public" in 1961.

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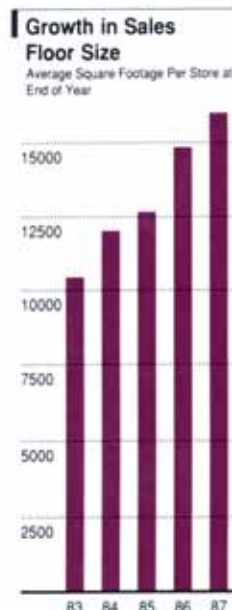
ECOMING A MORE ATTRACTIVE RETAILER WAS LOWE'S FIRST MAJOR

TRANSITION; TRANSFORMING OURSELVES INTO A CHAIN OF LARGE STORES IS THE CHALLENGE WE NOW FACE.

Our first transition is complete, and it is obvious that the DIY home center business is the engine powering Lowe's future. But it's never advisable to mount a powerful engine on a cigar-box chassis. While it was possible to run a successful contractor business and consumer durables business from sales floors in the range of 5,000 to 7,000 square feet, a home center cannot be accommodated in such a small space. The minimum effective size for home center inventory presentation is roughly 20,000 square feet. Right now, approximately one third of Lowe's stores meets that size criterion, and that means we still have some serious growing to do.

One of the stores we opened in 1987 was a 60,000 square foot store in Knoxville, Tennessee. That store is our touchstone for Lowe's future. The product mix on its huge sales floor has been customized for the Knoxville market, and additionally we equipped it with "Rack & Roll," our new taller and deeper sales floor racking system designed for maximum capacity, flexibility, and customer self-service ease.

Not all of our markets presently require sales floors as large as Knoxville's, but we are pursuing various ways of bringing the smaller, mature stores in our traditional trading area into the productivity range of our new and retrofitted stores. Our Phoenix program, which expands retail floors economically by moving a single wall with minimal disruption of business, is proceeding on schedule. We are also continuing to retrofit and relocate stores where



Sales Floor Size and Productivity

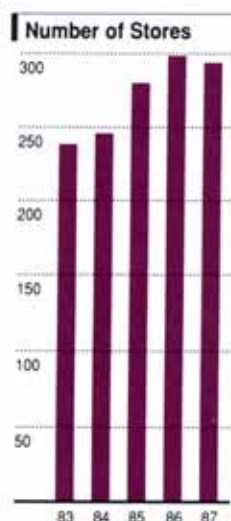
Dollars in Thousands, Except Sales Per Square Foot

	1987	1986	1985	1984	1983
1. Stores Open at End of Year	295	300	282	248	238
2. Weighted Average Stores Open During Year ¹	306.9	291.4	273.3	240.5	235.6
Average Sales Floor Size					
3. Total Sales Floor Square Footage, End of Year	4,773,743	4,452,161	3,641,762	2,980,000	2,529,040
4. Average Sales Floor Size, End of Year ²	16,182	14,841	12,914	12,016	10,626
5. Weighted Average Sales Floor Square Footage During Year ³	4,760,479	4,043,904	3,406,684	2,722,701	2,423,382
Sales Results					
6. Total Sales	\$2,442,177	\$2,283,480	\$2,072,569	\$1,688,738	\$1,430,576
7. Retail Sales	1,375,428	1,263,411	1,099,933	880,924	723,585
8. Contractor Sales	1,066,749	1,020,069	972,636	807,814	706,991
Sales Per Square Foot					
9. Total Sales Per Square Foot ⁴	513	565	608	620	590
10. Retail Sales Per Square Foot ⁵	289	312	323	324	299
Average Store Sales					
11. Total Sales Per Average Store ⁶	7,958	7,836	7,584	7,022	6,072
12. Retail Sales Per Average Store ⁷	4,482	4,336	4,025	3,663	3,071
13. Contractor Sales Per Average Store ⁸	\$ 3,476	\$ 3,500	\$ 3,559	\$ 3,359	\$ 3,001

¹ Stores open at beginning of year; plus stores opened and closed during year computed by adding total store months of operation for new stores and closed stores and dividing by 12.
² Line 3 divided by line 1.

³ Line 4 current year, plus line 4 prior year, divided by 2, multiplied by line 2.
⁴ Line 6 divided by line 5.
⁵ Line 7 divided by line 5.

⁶ Line 6 divided by line 2.
⁷ Line 7 divided by line 2.
⁸ Line 8 divided by line 2.



The Top 10 Building Supply Giants	
1987	1977
Rank	Rank
1 Lowe's	1 Wickes
2 Wickes	2 Kmart
3 Payless Cashways	3 Lowe's
4 The Home Depot	4 Evans Products
5 Builder's Square	5 National Building Centers
6 Grossman's	6 84 Lumber
7 84 Lumber	7 Diamond Lumber
8 Hechinger	8 Payless Cashways
9 Channel Home Centers	9 Handy Dan
10 Home Club	10 Handyman

Source: Building Supply Home Centers

needed, according to our "10 + X" expansion plan. The "10" stands for percentage of space added to existing stores, while "X" is the opportunity for new stores and appropriate acquisitions. In 1987 we completed our planned expansion projects, which included 16 new stores, two relocations, and 10 retrofits. This added 590,000

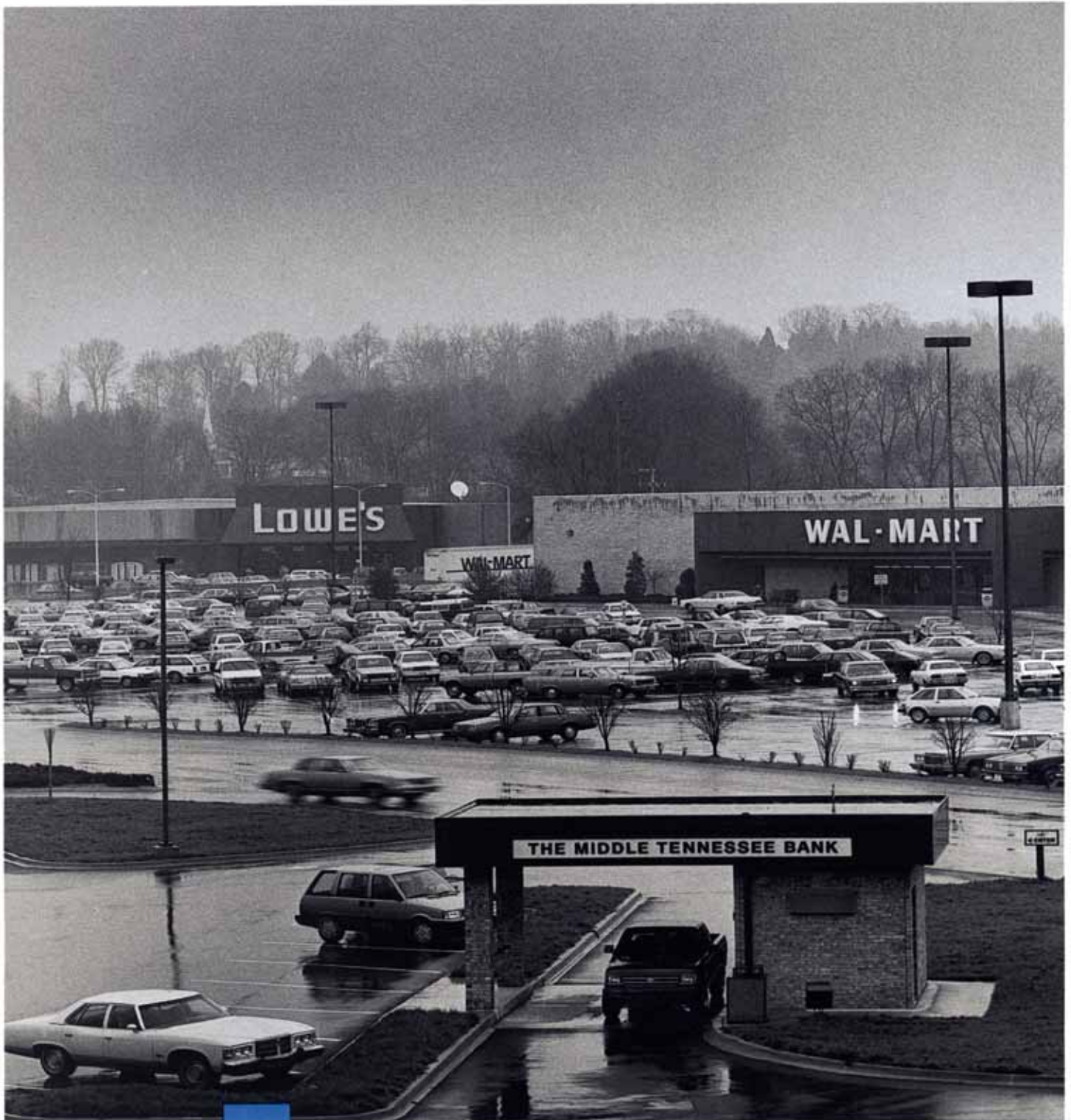
square feet of sales floor space for a total 13% increase over 1986 (before store closings). Our 1988 growth program calls for seven new stores, two each in North Carolina and West Virginia and one each in Alabama, Georgia, and Kentucky. It also calls for nine relocations and 21 store enlargements, all part of our plan to "store up" in our existing 21-state trading area.

LOWE'S THREE BUSINESSES ARE PARTLY DEFINED BY THE MAIN PURPOSES THAT BRING CUSTOMERS INTO OUR STORES; THEY ARE ALSO DEFINED BY OUR MAJOR COMPETITORS. It is interesting to examine the list of Top Ten Building Supply Giants as ranked by *Building Supply Home Center* magazine. This annual ranking reflects the evolution of building supply retailers since the days when the major players were either primarily lumber yards or mass merchandisers with hardware departments. The 1987 list confirms the present dominance of dedicated home center retailers. These are our present competitors in the DIY home center business, and anyone familiar with the size of their average sales floors will acknowledge the wisdom of Lowe's expansion emphasis. Future rankings will show more clearly the impact of the warehouse store concept.

Sales Analysis: Comparable vs New Stores

Dollars in Millions	1987	1986	1985	1984	1983
Stores Open at End of Year	295	300	282	248	238
Percent Change Total Sales	+7	+10	+23	+18	+38
Total Sales	\$2,442.2	\$2,283.5	\$2,072.6	\$1,688.7	\$1,430.6
Number of Comparable Stores	300	281	248	238	235
Percent Change Comparable Store Sales	+4	+6	+10	+17	+38
Sales of Comparable Stores	\$2,368.7	\$2,187.1	\$1,857.4	\$1,672.0	\$1,428.1
Sales of Comparable Stores Previous Year*	\$2,276.6	\$2,055.1	\$1,688.7	\$1,426.8	\$1,034.0
Number of New Stores	16	21	38	10	5
Sales of New Stores	\$ 73.5	\$ 96.4	\$ 215.2	\$ 16.7	\$ 2.5

*The company has closed 30 stores since fiscal 1983: two in January, 1984; four in January, 1986; one in October, 1986; two in January, 1987; one in July, 1987; one in August, 1987; two in October, 1987; one in November, 1987; and 16 in December, 1987.



Lowe's store in Columbia, Tennessee occupies a prime retail location in a thriving market.



Our main competition for contractor business has always been the independent local lumber yard operator. But in the past 10 years that local guy has become an increasingly sophisticated businessman. Weak competitors have been decimated by back-to-back recessions, and the majority of survivors are savvy marketers who understand that the keys to success in selling building commodities are sales volume, cost control, and sound inventory management. Fortunately, nobody understands that better than we do.

The competition for Lowe's consumer durables business varies with the size of the market. In small towns our competitors are independent appliance and electronics dealers; in larger towns and cities, we take on Circuit City and other new-wave electronics competitors, as well as mass retailers such as Sears. It's a fast and fierce pack to run with, and our best strategy lies in targeting our potential customers and continuing to offer brand-name product assortments priced competitively and promoted energetically.

In those large towns with more than 40,000 households, we want Lowe's to be a highly focused destination store. In our most metropolitan markets we will feature assortments that are narrower but very deep. In small-town



Our 7,400 square foot store in Wilson, North Carolina has done good business since its opening in 1978, but has now outgrown its present location. Construction of a new 33,000 square foot store is scheduled for the summer.

America, where Lowe's was born and where we grew, we will continue to be the store of choice for the entire range of home and garden needs. Our newly honed sense of Lowe's identity will bring us higher profitability as we eliminate product categories and marketing strategies that no longer fit our chosen image. Our industry remains largely fragmented, but Lowe's is the beneficiary of a unique evolutionary history and more than four decades of nurturing management. We can compete successfully in all three of Lowe's businesses, keeping an eagle eye on our competition from beneath our unifying (and expanding) store roof. We know Lowe's work and we are doing it, better and bigger than ever.

Lowe's Store Locations

Alabama

Auburn
Decatur
Dothan
Gadsden
Huntsville
Jasper
Mobile (2)
Montgomery (2)
Muscle Shoals
Prattville
Tuscaloosa

Arkansas

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

Delaware

Dover
Wilmington

Florida

Bradenton
Fort Myers
Fort Pierce
Fort Walton Beach
Gainesville
Inverness
Kissimmee
Lake County
Lakeland
Lake Wales
Maitland
Melbourne
Ocala
Orange City
Orlando
Panama City
Pensacola (2)
Port Orange
Sarasota
Tallahassee (2)

Georgia

Albany
Athens
Augusta (2)
Brunswick
Carrollton
College Park

Columbus
Doraville
Douglasville
Fort Oglethorpe
Gainesville
Griffin
La Grange
Lilburn
Macon
Moultrie
Rome
Savannah (2)
Smyrna
Thomasville
Thomson
Valdosta
Warner Robins

Illinois

Marion

Indiana

Clarksville
Franklin
Indianapolis
Lawrence
New Castle

Kentucky

Bowling Green
Corbin
Danville
Elizabethtown
Frankfort
Lexington (2)
Louisville
Owensboro
Paducah
Paintsville
Pikeville
Richmond
Somerset
St. Matthews
Whitesburg
Winchester

Louisiana

Alexandria
Baker
Bossier City
Hammond
Lafayette
Lake Charles
Leesville
Natchitoches

New Iberia
Shreveport
Thibodaux
West Monroe

Maryland

Bowie
Charles County
Cumberland
Easton
Frederick
Hagerstown
Salisbury

Mississippi

Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

Missouri

Springfield

North Carolina

Albemarle
Asheboro
Asheville
Banner Elk
Boone
Burlington
Cary
Chapel Hill
Charlotte (4)
Durham
Elizabeth City
Fayetteville
Forest City
Franklin
Garner
Gastonia
Goldsboro
Greensboro (2)
Greenville
Hendersonville
Hickory
High Point (2)
Jacksonville
Kannapolis
Kinston
Lenoir
Lexington
Lincolnton

Lumberton
Matthews
Monroe
Morehead City
Morganton
Mount Airy
Murfreesboro
New Bern
North Wilkesboro
Raleigh (2)
Reidsville
Rockingham
Rocky Mount
Salisbury
Sanford
Shelby
Southern Pines
Southport
Sparta
Statesville
Washington
Waynesville
Whiteville
Wilmington
Wilson
Winston-Salem (2)
Zebulon

Ohio

Athens
Belpre
Cincinnati
Circleville
Lancaster
Springfield
Wheelersburg

Oklahoma

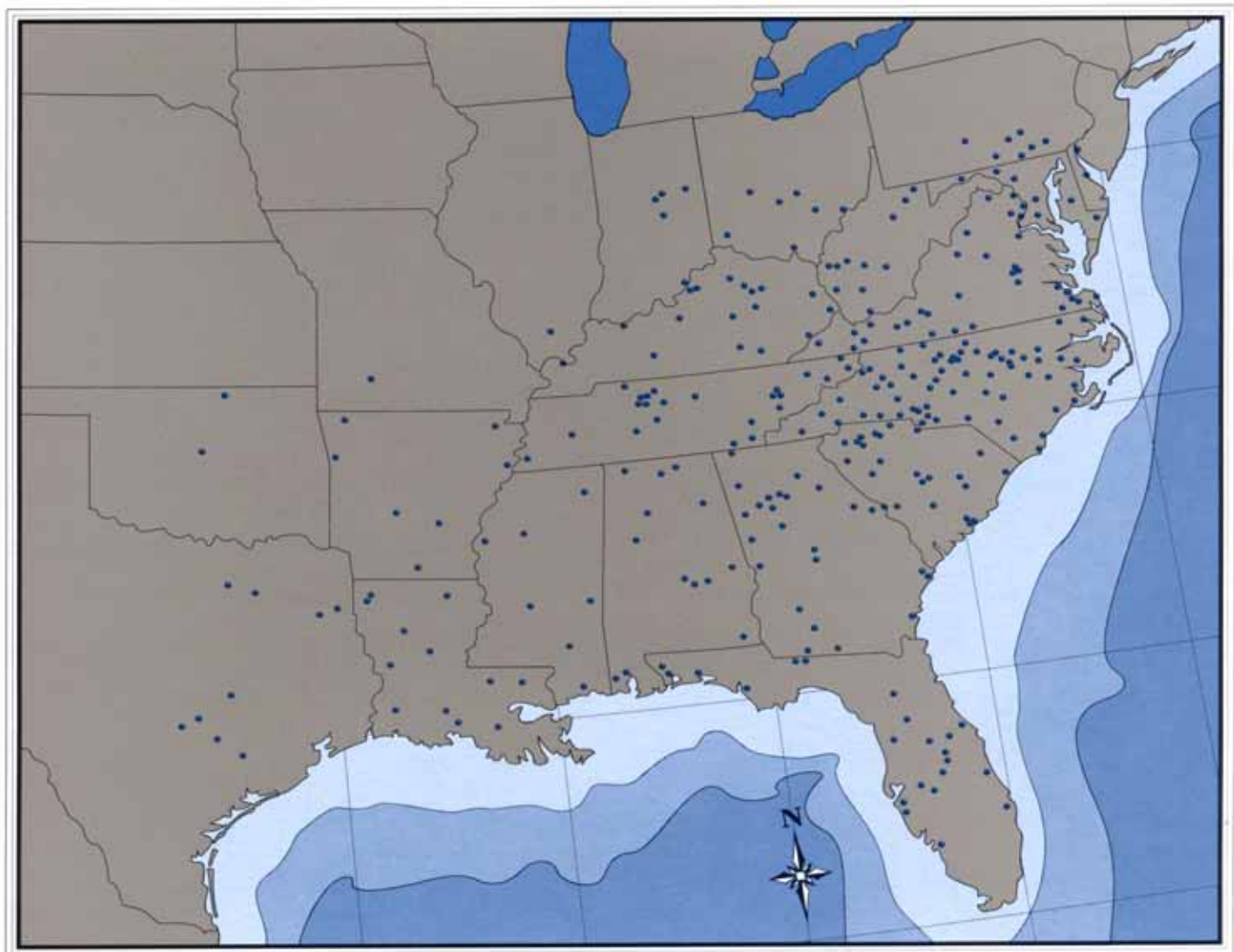
Oklahoma City
Ponca City

Pennsylvania

Altoona
Chambersburg
Hanover
Harrisburg
Lancaster
Mechanicsburg
York

South Carolina

Aiken
Anderson
Charleston (2)
Columbia (2)



Easley
 Florence
 Gaffney
 Greenville
 Greenwood
 Irmo
 Laurens
 Mauldin
 Manning
 Mount Pleasant
 Myrtle Beach
 Orangeburg
 Rock Hill
 Spartanburg
 Sumter
 Taylors
 Westgate

Tennessee
 Athens
 Bartlett
 Chattanooga
 Clarksville
 Cleveland

Columbia
 Cookeville
 Gallatin
 Greeneville
 Hendersonville
 Hermitage
 Jackson
 Johnson City
 Kingsport
 Knoxville (3)
 Lebanon
 Madison
 Maryville
 Morristown
 Murfreesboro
 Nashville

Texas
 Dallas Door & Millwork
 Fredericksburg
 Longview
 Marble Falls
 Saginaw Door & Millwork
 San Marcos
 Shiner

Temple
 Tyler

Virginia
 Bluefield
 Bristol
 Charlottesville
 Chesapeake
 Chester
 Christiansburg
 Churchland
 Claypool Hill
 Danville
 Denbigh
 Dublin
 Fredericksburg
 Harrisonburg
 Leesburg
 Lynchburg
 Manassas
 Marion
 Martinsville
 Midlothian Pike
 Newport News
 Roanoke

Richmond (2)
 Salem
 South Boston
 Staunton
 Suffolk
 Vienna
 Virginia Beach
 Winchester
 Wise County
 Woodbridge

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



Our new taller and deeper shelving, known as "Rack and Roll," helps maximize the retail potential of our new 60,000 square foot store in Knoxville, Tennessee.

Audited Financial Report

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Management's Responsibility for Financial Reporting

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

Lowe's maintains internal systems to assist in fulfilling our obligation for responsible financial reporting. These systems include an Internal Audit Department which monitors other internal controls and reports directly to the Audit Committee of our Board of Directors. We view the purpose of internal auditing as independent examination and assessment of company activities related to compliance with policy, procedures, and the law; the safeguarding of assets; the efficient use of resources; and the accomplishment of stated objectives and goals.

The Audit Committee of the Board of Directors consists of three outside directors who meet with the company's senior financial personnel, internal auditors, and independent accountants. They report their findings to the Board of Directors and make a recommendation of independent accountants. For details please see the Audit Committee Chairman's Letter which follows.

Deloitte Haskins & Sells has reviewed our internal accounting systems and examined Lowe's financial statements according to generally accepted auditing standards. Their report, below, provides an independent opinion on the fairness of our presentation of the statements.

Audit Committee Chairman's Letter

The Audit Committee of the Board of Directors is composed of three independent directors. Its members are John M. Belk, Robert G. Schwartz, and Gordon E. Cadwgan, Chairman. The committee held three meetings during fiscal 1987.

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

Gordon E. Cadwgan
Chairman, Audit Committee

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiary companies as of January 31, 1988, 1987 and 1986, and the related consolidated statements of current and retained earnings and of changes in financial position for each of the three fiscal years in the period ended January 31, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiary companies at January 31, 1988, 1987 and 1986, and the consolidated results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 31, 1988, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the year ended January 31, 1988 in the method of accounting for income taxes as described in Note 6 to the financial statements.

Deloitte Haskins & Sells
Charlotte, North Carolina
March 18, 1988

Consolidated Statements of Changes in Financial Position

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

Fiscal Years End on January 31 of Following Year

	Fiscal 1987	Fiscal 1986	Fiscal 1985
Funds Provided:			
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	\$ 55,954	\$ 55,104	\$ 59,714
Charges Not Requiring Funds:			
Depreciation	38,546	30,474	21,759
Deferred Income Taxes	8,363	5,165	2,386
Funds From Operations Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	102,863	90,743	83,859
Extraordinary Item Net of Tax	—	(2,885)	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	5,226	—	—
Funds From Operations	108,089	87,858	83,859
Long-Term Debt Borrowings	45,793	9,556	100,908
Disposals of Fixed Assets	7,168	4,294	1,684
Sale of Capital Stock	—	83,039	—
Stock Issued to ESOP	34,600	11,598	18,776
Tax Benefit of ESOP Dividend	—	1,039	721
Stock Options Exercised	129	917	13
Other	4,236	3,823	(6,438)
Total Funds Provided	\$200,015	\$202,124	\$199,523
Funds Applied:			
Cash Dividends	\$ 17,040	\$ 15,597	\$ 13,199
Fixed Assets Acquired	102,479	139,385	136,809
Current Maturities and Repayment of Long-Term Debt	12,551	40,488	9,487
Stock Purchased for ESOP Contribution	34,600	—	—
Stock Purchased for Treasury	2,367	—	—
Stock Retirement	—	54	—
Total Funds Applied	169,037	195,524	159,495
Increase in Working Capital	\$ 30,978	\$ 6,600	\$ 40,028
Changes in Working Capital Components:			
() = Decrease in Working Capital			
Accounts Receivable — Net	\$ (761)	\$ (8,910)	\$ 30,284
Merchandise Inventory	5,711	54,992	64,875
Deferred Income Taxes	9,472	—	—
Other Current Assets	(2,717)	3,329	4,134
Current Maturities of Long-Term Debt	(1,772)	(1,229)	(1,590)
Short-Term Borrowings	(240)	—	—
Accounts Payable	6,171	4,808	(43,065)
Employee Retirement Plans	19,204	(746)	(2,236)
Accrued Salaries and Wages	(1,368)	(744)	1,394
Other Current Liabilities	3,402	(7,723)	(16,754)
Working Capital Changes Before Cash *	37,102	43,777	37,042
Increase (Decrease) in Cash *	(6,124)	(37,177)	2,986
Cash,* Beginning of Year	50,013	87,190	84,204
Cash,* End of Year	\$ 43,889	\$ 50,013	\$ 87,190

*Cash and short-term investments.
See accompanying notes to consolidated financial statements.

Management Analysis: Lowe's Financial Strategies

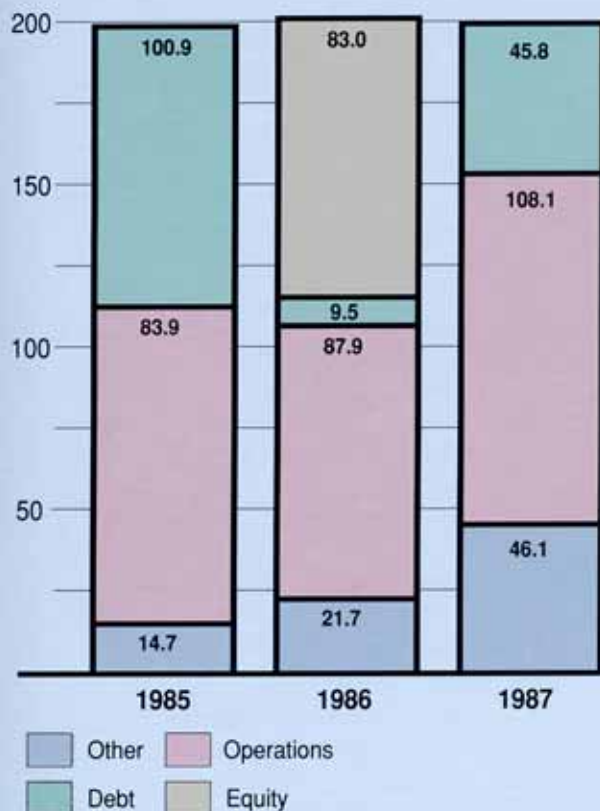
Statement of Changes in Financial Position

The financing of Lowe's strategic direction can be understood through an examination of the ways we raise and allocate funds. Our statement of changes in Lowe's financial position gives us an opportunity to discuss financial strategies and analyze trends.

The upper section of the statement identifies the sources of our funds. For a discussion of Lowe's 1987 earnings, see page 26.

Sources of Funds

Dollars in Millions



Total funds provided has maintained a relatively constant level for the past three years, but sources of those funds have varied considerably. As illustrated by the Sources of Funds graph (left), in 1985 we used \$101 million in long-term borrowings to augment funds from operations, but in 1986 we restrained long-term borrowings to \$10 million and chose instead to issue stock which provided funds of \$83 million. In 1987 we experienced a \$20 million increase in funds from operations and reduced capital spending by \$37 million, so additional long-term borrowings of \$46 million were sufficient for our needs.

Funds from operations rose an impressive 23% including the effect of an accounting principle change, finishing the year at \$108 million, the highest level ever reported by our company. This improvement is the single most significant change in the sources of Lowe's funds, because it represents the first fruits of our energetic investment in expansion. The graph of Lowe's Expansion Strategy (facing page) shows the relationship between the implementation of expansion programs and the growth of funds from operations. In 1987, for the first time since 1984, funds from operations surpassed the amount required to finance all of the year's fixed asset acquisitions.

In 1987 we paid \$17 million in cash dividends, nearly equal to the amount of Lowe's entire net earnings reported in 1981. Dividends per share increased to 43 cents. Over the past two years, dividends have achieved a compound growth rate of 14%.

As we continue to use diverse means to achieve corporate growth objectives, our fixed asset acquisition pattern will vary from year to year. In 1987 Lowe's fixed asset acquisitions

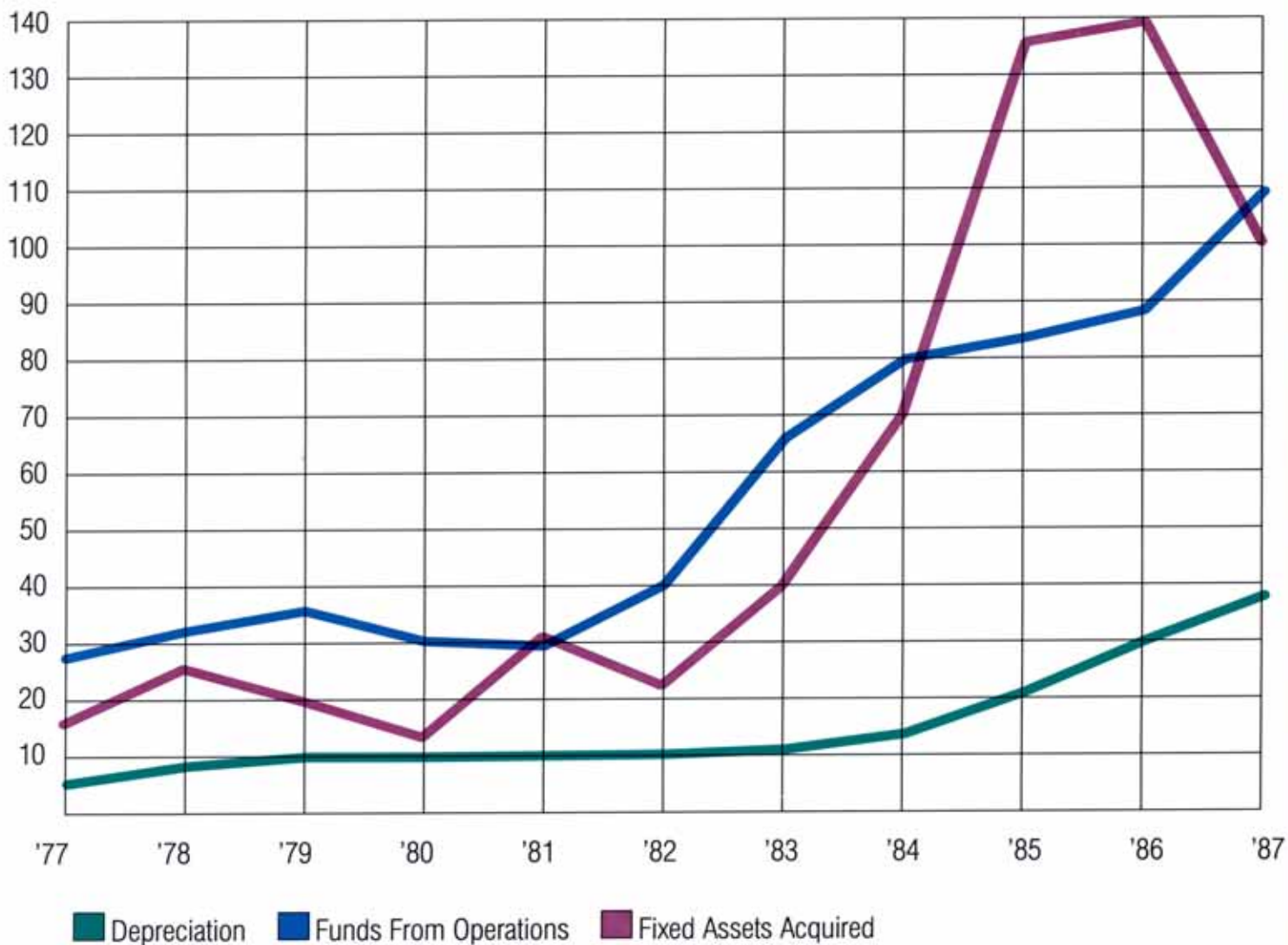
totalled \$37 million less than in 1986, while still exceeding the fixed asset outlay for any single year prior to the 1985 expansion program. Lowe's has invested 21% more in property and other fixed assets since the beginning of fiscal 1985 than the combined total from the other 23 years of our corporate history.

Working capital components are the dynamic elements of current assets and liabilities which are employed as necessary to generate sales and profits. Lowe's management of these elements for maximum efficiency and profitability is evaluated in the balance sheet management section which follows our analysis of the earnings statement.

Expansion Strategy

Long-Term Funding Implications

Dollars in Millions



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 1987	% Sales	Fiscal 1986	% Sales	Fiscal 1985	% Sales
Current Earnings						
Net Sales	\$2,442,177	100.0%	\$2,283,480	100.0%	\$2,072,569	100.0%
Cost of Sales	1,858,240	76.1	1,724,370	75.5	1,560,373	75.3
Gross Margin	583,937	23.9	559,110	24.5	512,196	24.7
Expenses:						
Selling, General and Administrative	403,672	16.5	382,812	16.8	343,346	16.6
Depreciation	38,546	1.6	30,474	1.3	21,759	1.0
Employee Retirement Plans (Note 7)	21,700	.9	23,950	1.1	22,719	1.0
Interest (Note 12)	19,474	.8	13,748	.6	11,507	.6
Store Closings (Note 13)	9,758	.4	—	—	—	—
Total Expenses	493,150	20.2	450,984	19.8	399,331	19.2
Pre-Tax Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	90,787	3.7	108,126	4.7	112,865	5.5
Income Tax Provision (Note 6)	34,833	1.4	53,022	2.3	53,151	2.6
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	55,954	2.3	55,104	2.4	59,714	2.9
Extraordinary Item:						
Debt Retirement Net of Taxes of \$2,798 (Note 5)	—	—	(2,885)	(.1)	—	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes (Note 6)	5,226	.2	—	—	—	—
Net Earnings	\$ 61,180	2.5%	\$ 52,219	2.3%	\$ 59,714	2.9%
Shares Outstanding — Weighted Average	39,719		39,029		36,509	
Earnings Per Share:						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	\$ 1.41		\$ 1.41		\$ 1.64	
Effect of Extraordinary Item	—		(.07)		—	
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	.13		—		—	
Earnings Per Share	\$ 1.54		\$ 1.34		\$ 1.64	
Retained Earnings (Notes 5 and 8)		Per Share		Per Share		Per Share
Balance at Beginning of Year	\$ 344,274		\$ 306,613		\$ 259,377	
Net Earnings	61,180	\$ 1.54	52,219	\$ 1.34	59,714	\$ 1.64
Cash Dividends (Notes 5 and 8)	(17,040)	\$ (.43)	(15,597)	(.40)	(13,199)	(.36)
Tax Benefit of ESOP Dividend (Note 6)	—		1,039	\$.03	721	\$.02
Balance at End of Year	\$ 388,414		\$ 344,274		\$ 306,613	

See accompanying notes to consolidated financial statements.

Management Analysis: Lowe's Financial Strategies

Earnings Statement

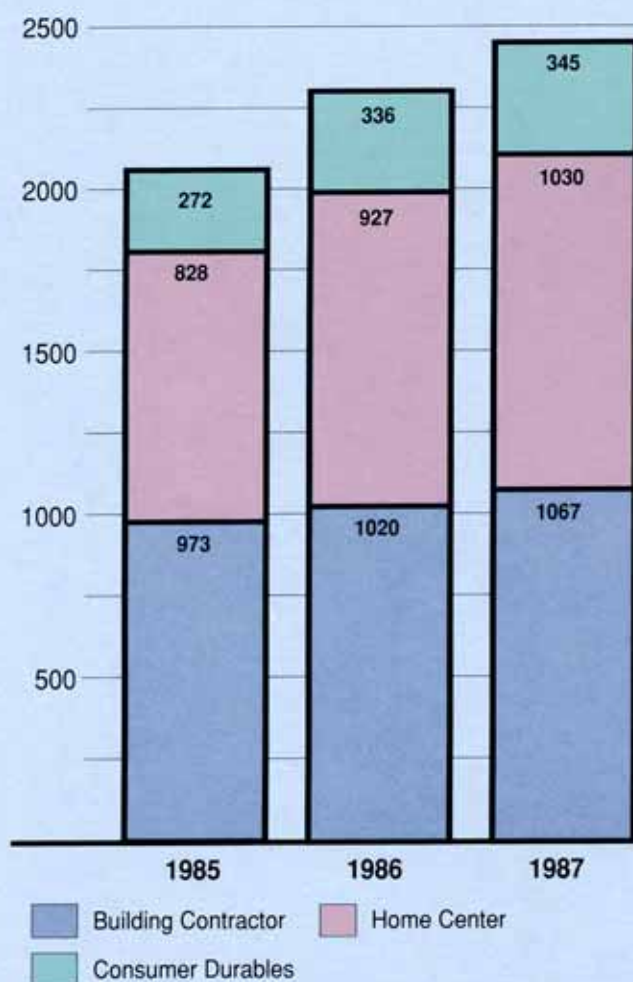
Sales growth brings earnings growth, and in 1987 Lowe's sales grew \$159 million. Sales have increased at a compound rate of 8.6% over the past two years, and we are pleased to report that most of the growth has come from new and retrofitted stores. Almost a third of Lowe's stores are either new or have undergone major renovation and expansion since the beginning of 1985. As shown by the graph on the facing page, this group of 94 stores is responsible for 96% of our two-year \$370 million sales increase. By the end of 1988, we will have added another 37 stores to this dynamic group of "new or improved" stores. Our sales results confirm our belief that strategic internal expansion leads to greater sales and earnings potential. Another way to analyze our sales growth is by reviewing our three businesses in the chart below.

Our gross margin for fiscal 1987 increased \$25 million, but decreased approximately .6% of sales. A major factor in the decline was our decision to subtract certain buying costs from sales before calculating the gross margin, in order to maintain consistency between our financial accounting and our tax accounting. This accounting change was responsible for a margin decline of .2%.

Inflation in some of our product categories is revealed by an adjustment from FIFO to LIFO margin. The swing between last year's LIFO credit of .1% and this year's LIFO charge of .2% accounts for most of the remaining margin decrease.

Sales Analysis: Lowe's Three Businesses

Dollars in Millions



Selling, general, and administrative expenses for fiscal 1987 increased only 5.4% over 1986, the smallest percentage increase in this decade. We are proud of our success at controlling costs even under the budget stress of continuing expansion and renovation. SG&A did benefit from the same reclassification of buying costs which had a downward impact on margin, but that benefit of .3% could be considered as having an impact on this year's expenses similar to the nonrecurring credit received last year from the settlement of a plywood antitrust suit.

Depreciation increased 26% in 1987, compared with a 40% increase in 1986. Depreciation is related to Lowe's fixed assets, which grew 11% in 1987 and have reflected a compound growth rate of 20% over the last two years.

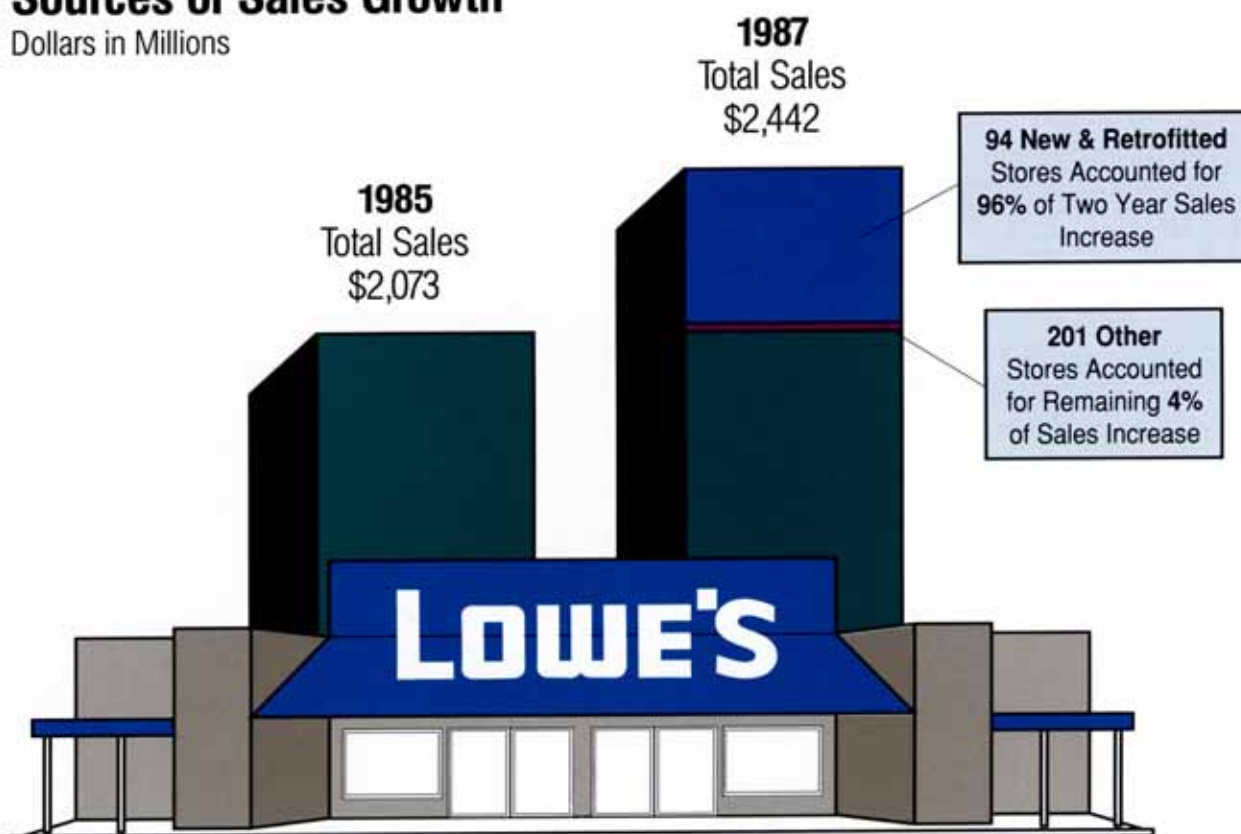
Contributions to the Employee Stock Ownership Plan as a percentage of eligible employee compensation remained at 13% in 1987. However, the cost of our employee benefits decreased by \$2.25 million. One contributing factor was the legislative repeal of PAYSOP, the payroll-based tax credit employee stock ownership plan, as of January 1, 1987. Another factor was a decline in Lowe's eligible employee compensation base for ESOP, which was due to store closings. Also, the bylaws for Lowe's ESOP were amended to require a longer period of employment before admission to the plan.

Interest expenses for fiscal 1987 rose by \$5.7 million, reflecting an increase in average debt outstanding during the year. Whereas in 1986 our April stock offering satisfied a large part of our seasonal need for working capital, in 1987 we supplied those requirements through the sale of commercial paper, which incurred short-term interest. An additional \$46 million in long-term debt was also acquired during the year. We were required to capitalize less of our interest in 1987 than in 1986 because we had less construction in progress.

Store closing expenses of \$9.76 million include accruals for all expenses directly related to the December 1987 closing of 16 unprofitable stores, 13 in Texas and one each in Georgia, Oklahoma, and South Carolina.

Sources of Sales Growth

Dollars in Millions



Note: Since February 1, 1985, there have been 58 new stores constructed, and 36 retrofits and relocations have been completed.

Lowe's income tax provision shows a remarkable \$18 million decrease for fiscal 1987, attributable to a change in an accounting principle, increased investment tax credits, and changes in our effective income tax rate.

We elected to adopt Statement of Financial Accounting Standards No. 96 (SFAS No. 96), which provided for implementation of a lower tax rate in accounting for deferred taxes. Since we did not elect to restate financial statements from prior years, the \$5.2 million cumulative effect of SFAS No. 96 appears in fiscal 1987.

Also changed by SFAS No. 96 is the tax benefit which results from Lowe's paying ESOP dividends. Under previous accounting standards, this benefit appeared as a direct credit to retained earnings. Beginning in 1987 it is reflected as a reduction of income tax expense. In fiscal 1987 it reduced our income tax provision by \$1.1 million.

Investment tax credits for 1987 resulted in an income tax reduction of \$1.9 million. These credits were recorded in 1987 by applying transitional rules issued by the Internal Revenue Service in 1987.

Excluding the credits discussed above, Lowe's effective combined federal and state tax rate for 1987 was 42.17%, down 7.15% from last year's 49.32%. The decrease was primarily due to the lowering of the federal tax rate from 46% to 34% in mid-1987. The result was an effective rate of 39% for 1987.

Consolidated Balance Sheets

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

	January 31,					
	1988	%	1987	%	1986	%
Assets						
Current Assets:						
Cash and Short-Term Investments (Note 12)	\$ 43,889	4.3%	\$ 50,013	5.2%	\$ 87,190	10.2%
Accounts Receivable — Net (Note 12)	117,932	11.5	118,693	12.2	127,603	14.9
Merchandise Inventory (Note 2)	373,846	36.4	368,135	38.0	313,143	36.6
Deferred Income Taxes (Note 6)	9,472	.9	—	—	—	—
Other Current Assets	7,325	.7	10,042	1.0	6,713	.7
Total Current Assets	552,464	53.8	546,883	56.4	534,649	62.4
Property, Less Accumulated Depreciation (Notes 3 and 5)	453,008	44.1	413,220	42.6	308,603	36.0
Other Assets	21,857	2.1	9,116	1.0	12,939	1.6
Total Assets	\$1,027,329	100.0%	\$969,219	100.0%	\$856,191	100.0%
Liabilities and Shareholders' Equity						
Current Liabilities:						
Current Maturities of Long-Term Debt (Note 5)	\$ 11,674	1.1%	\$ 9,902	1.0%	\$ 8,673	1.0%
Short-Term Notes Payable	240	—	—	—	—	—
Accounts Payable	157,089	15.3	163,260	16.8	168,068	19.6
Employee Retirement Plans (Note 7)	3,767	.4	22,971	2.4	22,225	2.6
Accrued Salaries and Wages	15,370	1.5	14,002	1.4	13,258	1.5
Other Current Liabilities	43,766	4.3	47,168	4.9	39,445	4.7
Total Current Liabilities	231,906	22.6	257,303	26.5	251,669	29.4
Long-Term Debt, Excluding Current Maturities (Note 5)	186,219	18.1	152,977	15.8	183,909	21.5
Deferred Income Taxes (Note 6)	26,768	2.6	18,405	1.9	13,240	1.5
Total Liabilities	444,893	43.3	428,685	44.2	448,818	52.4
Commitments, Contingencies and Litigation (Note 11)	—	—	—	—	—	—
Shareholders' Equity (Note 8)						
Common Stock — \$.50 Par Value; Issued and Outstanding:						
1988 39,497,950	19,815	1.9	19,812	2.0	18,541	2.2
1987 39,624,025	176,574	17.2	176,448	18.2	82,219	9.6
1986 37,082,448	388,414	37.8	344,274	35.6	306,613	35.8
Capital in Excess of Par	584,803	56.9	540,534	55.8	407,373	47.6
Retained Earnings						
Less Treasury Stock of 132,100 Shares at Cost	2,367	.2	—	—	—	—
Total Shareholders' Equity	582,436	56.7	540,534	55.8	407,373	47.6
Total Liabilities and Shareholders' Equity	\$1,027,329	100.0%	\$969,219	100.0%	\$856,191	100.0%

See accompanying notes to consolidated financial statements.

Management Analysis: Lowe's Financial Strategies

Balance Sheet

Lowe's year-end balance sheet provides a financial snapshot of our company, reflecting the relationship between asset components and asset financing as it stands on the last day of the fiscal year. However, cash moves continually through the various components of a balance sheet like blood moves through the body's circulatory system. A single snapshot, therefore, cannot fully reveal how we manage Lowe's cash stream for maximum corporate health and growth.

A large portion of Lowe's assets is invested in a sort of circulatory system driven by sales. We invest cash in inventory which, when sold to retail customers, returns to cash, but when sold to contractors first goes into accounts receivable which when paid converts back into cash. The shorter the period required for assets to complete this cycle, the more vigorous our corporate cash stream and the less investment required for working capital.

As represented on the balance sheet, inventory is valued using the LIFO accounting method. However, the FIFO method better represents current market values, so we use FIFO for some internal evaluations. In 1987, the average time spent in FIFO inventory (year-end inventory divided by the average daily FIFO cost of sales) was less than 79 days, the best level in six years. Another contributor to the greater efficiency of our cash cycle is increased supplier financing of our inventory, which was even higher in 1987 than the 38% average we have achieved over the past three years (based on inventory and accounts payable quarterly averages).

Accounts receivable are generated by Lowe's credit offerings to professional builders, which give us a competitive advantage in the marketplace. To speed up Lowe's cash cycle, the average time spent by sales in accounts receivable can be shortened in a couple of different ways. One way is to manage receivables more efficiently. In 1987, days receivable for contractor sales (ending net accounts receivable divided by average daily sales for the fourth quarter) were 50 days, the best result in more than a decade. Another way to lessen the relative investment in receivables is to increase cash sales at a faster rate than sales on credit. In 1987, we did this by increasing retail sales by 9% while contractor sales increased 5%.

Net fixed assets consist of property and equipment minus accumulated depreciation. These assets have increased 132% since the beginning of 1985, as we increased our total number of stores from 248 to 295. In 1987, fixed assets were acquired at a cost of \$102 million. When fixed assets are represented as a percent of total assets, we see the dramatic change from 30.8% at the start of 1985 to 44.1% by the end of fiscal 1987.

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

The balance sheet snapshot of Lowe's accounts payable shows a decline of 4% from \$163 million last year to \$157 million at the end of 1987. But while sales rose slightly in the fourth quarter, purchases actually decreased by 8% during the period. Lowe's suppliers were bearing the cost of financing 44 days of purchases for the fourth quarter of 1987, compared with 42 days in 1986.

From 1985 to 1986, our debt decreased from 23% to 17% of total assets due to the early retirement of \$30 million of long-term debt coupled with the sale of \$83 million of common stock. Accordingly, shareholders' equity increased from 48% to 56% of total assets.

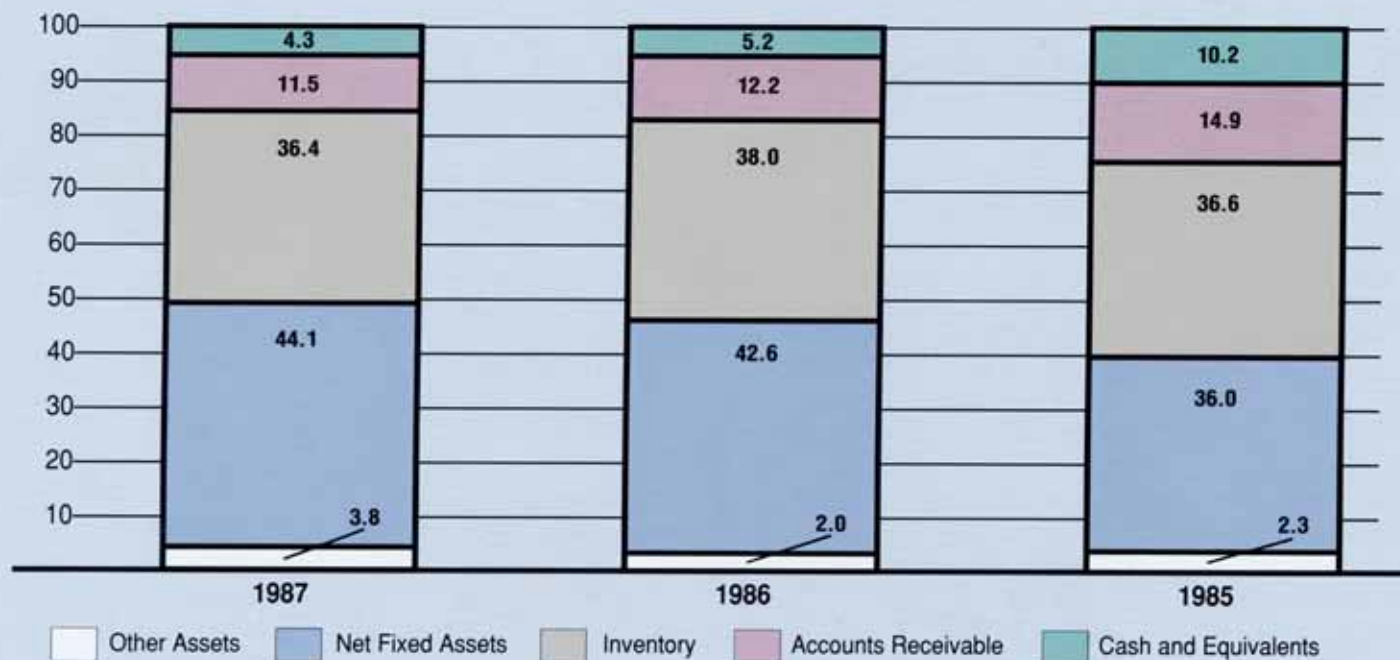
To outstanding debt of \$163 million at the start of 1987, we added \$46 million and retired \$11 million as normal payment on the principal of other long-term debt. At the close of fiscal 1987 our debt stood at \$198 million or 19.3% of total assets. Shareholders' equity increased only slightly in 1987 to 57% of total assets.

The remaining liabilities, which funded 10% of Lowe's assets for the previous two years and 8.3% in 1987, represent various obligations including current and deferred income taxes, ESOP, and other liabilities and accruals. Because of the value perceived in recent Lowe's equity prices, a portion of the 1987 ESOP contribution in the amount of \$17 million was funded. This reduced current liabilities by 1.7% of total assets.

The "commitments, contingencies, and litigations" line of our balance sheet refers to outstanding purchase commitments. Lowe's is committed to invest approximately \$22.3 million for land, building, and store facilities construction, and \$1.1 million for equipment.

Asset Components

Percent of Total



Asset Financing

Percent of Total



Notes to Consolidated Financial Statements

Lowe's Companies, Inc. and Subsidiary Companies
Fiscal Years Ended January 31, 1988, 1987 and 1986

Note 1, Summary of Significant Accounting Policies:

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

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

Accounts Receivable — Allowance for doubtful accounts is based on historical experience and a review of existing receivables. Installment receivables arising from consumer sales are sold, without recourse, to an outside finance company.

Merchandise Inventory — Inventory is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method. The Company includes in inventory cost the administrative, warehousing, and other costs directly associated with buying, distributing and maintaining the 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, cost of properties and related accumulated depreciation are removed from the accounts with gains and losses reflected in earnings.

The provision for depreciation is based generally on accelerated methods for assets placed in service before January 1, 1981; subsequent additions are depreciated on the straight-line method.

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

Income Taxes — Income taxes are provided on pre-tax earnings as reported in the consolidated financial statements. Deferred income taxes result from temporary differences between pre-tax earnings reported in the consolidated financial statements and taxable income. Investment tax credits were accounted for as a reduction of income tax expense in the year in which the credits were utilized (the flow-through method). The Company changed its method of accounting for income taxes in Fiscal 1987 to apply the provisions of Statement of Financial Accounting Standards No. 96 (SFAS No. 96), *Accounting for Income Taxes* which was issued in December 1987. As allowed by SFAS No. 96, the Company did not restate years prior to Fiscal 1987 and, accordingly, the cumulative effect of the accounting change on prior years is included in Fiscal 1987 earnings (Note 6). Fiscal 1987 quarterly earnings data has been restated to reflect adoption of SFAS No. 96 as of the beginning of the year.

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

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

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

Note 2, Merchandise Inventory:

The Company uses the LIFO method to determine inventory costs. If the first-in, first-out (FIFO) method had been used, inventories would have been \$25.6 million, \$21.8 million and \$24.7 million higher at January 31, 1988, 1987 and 1986, respectively. Under FIFO, net earnings would have increased \$2.2 million or 6 cents per share in Fiscal 1987, and decreased \$1.5 million or 4 cents per share in Fiscal 1986 and \$1.7 million or 5 cents per share in Fiscal 1985.

Note 3, Property and Accumulated Depreciation:

Property is summarized below by major class with estimated lives in years as follows: buildings, 20 to 30; store and office equipment, 3 to 10; and leasehold improvements, generally over the remaining life of the lease.

Net property includes \$27.0 million, \$22.4 million, and \$16.8 million in assets under capital leases for Fiscal 1987, 1986 and 1985, respectively.

	January 31,		
	1988	1987	1986
Dollars in Thousands			
Cost:			
Land	\$ 87,439	\$ 77,595	\$ 61,402
Buildings	285,477	258,559	189,408
Store and Office Equipment	185,046	165,838	131,202
Leasehold Improvements	29,553	28,097	27,959
Total Cost	587,515	530,089	409,971
Accumulated Depreciation	(134,507)	(116,869)	(101,368)
Net Property (Note 10)	\$453,008	\$413,220	\$308,603

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

The Company has agreements with a group of banks which provide for short-term unsecured borrowings of up to \$50 million with interest at the lower of prime or bank transaction rate, none of which were outstanding at January 31, 1988, 1987 or 1986.

In addition, several banks have extended to the Company \$90 million of lines of credit for the purpose of issuing letters of credit and bankers' acceptances or other short-term borrowings.

The following relates to aggregate short-term borrowing from the Company's commercial paper and from banks in Fiscal 1987, 1986 and 1985:

	Fiscal 1987	Fiscal 1986	Fiscal 1985
Dollars in Thousands			
Maximum Amount Outstanding at Any Month-End	\$89,000	\$15,000	\$29,900
Average Amount Outstanding (Based on Weighted Daily Average)	\$62,523	\$ 2,973	\$ 1,475
Weighted Average Interest Rate During the Year (Ratio of Actual Interest Expense to Average Amount Outstanding)	6.9%	6.6%	9.3%

Note 5, Long-Term Debt:

Debt			January 31,		
Category	Interest Rates	Year of			
	January 31, 1988	Maturity	1988	1987	1986
Dollars in Thousands					
Secured Debt ¹ :					
Insurance Company Notes	6.75% to 9%	1998	\$ 12,739	\$ 15,795	\$ 17,624
Bank Notes	7% to 12%	1994	352	493	832
Industrial Revenue Bonds	7% to 10.625%	2014	2,570	2,720	2,865
Industrial Revenue Bonds	64% to 77% of Prime	1998	6,173	7,007	7,799
Other Notes	2.0% to 10%	2004	2,069	1,395	1,652
Unsecured Debt:					
Insurance Company Notes ²	8.25% to 12.75%	1994	36,000	38,100	40,200
Industrial Revenue Bonds	62% to 63% of Prime	2000	17,245	17,245	17,400
Industrial Revenue Bonds ³	5.4%	2005	11,700	11,700	11,700
Unsecured Notes	11.5%	1995	44,863	44,843	74,707
Bank Notes ²	6.3% to 6.4%	1994	34,600	—	—
Capital Leases (Note 10)	5.74% to 15.98%	2018	29,582	23,581	17,803
Total Long-Term Debt			197,893	162,879	192,582
Less Current Maturities			11,674	9,902	8,673
Long-Term Debt, Excluding Current Maturities			\$186,219	\$152,977	\$183,909

The Company, in a public offering on April 1, 1985, issued \$75 million of 11.5% unsecured notes at a discount of .426%. The discount and issuance costs are being amortized over the life of the indebtedness. In January 1987, the Company accelerated the retirement of \$30 million of this debt and, as a result, incurred \$5.7 million of early retirement costs which reduced Fiscal 1986 earnings by 7 cents per share. These early retirement costs are shown net of related income tax effects as an extraordinary item in the accompanying consolidated statement of current and retained earnings for Fiscal 1986. The remaining notes may be redeemed in whole or in part, without penalty, by the Company at any time after April 1, 1992 at the principal amount and accrued interest to the date fixed for redemption. The notes are governed by an indenture which, among other things, places certain restrictions on the issuance or guarantee of additional indebtedness.

Debt maturities, exclusive of capital leases (see Note 10), for the next five fiscal years are as follows (in millions): 1988, \$7.2; 1989, \$7.5; 1990, \$5.9; 1991, \$16.0; 1992, \$15.1.

- † Real properties pledged as collateral for secured debt had net book values, in millions, at January 31, 1988, as follows: insurance company notes — \$43.0; bank notes — \$1.3; industrial revenue bonds — \$12.0; and other notes — \$10.1. In addition, \$2.2 million of unexpended industrial revenue bond proceeds are included in other assets in the accompanying financial statements and are restricted for acquisition of capital assets or repayment of the debt.
- ‡ The unsecured bank loans were obtained for the purpose of acquiring the Company's common stock for contribution to the ESOP. These loans and the insurance company notes require that certain financial conditions be maintained, restrict other borrowings, and limit the payment of dividends. After giving effect to the most restrictive provisions, approximately \$154.1 million of consolidated retained earnings is available for payment of dividends.
- § The Company issued notes to secure \$11.7 million of floating rate monthly demand industrial revenue bonds in Fiscal 1985. The interest rates are tied to an interest index based on comparable securities traded at par and other pertinent financial market rates. With certain restrictions, the bonds can be converted to a fixed interest rate based on a fixed interest index at the Company's option.

Note 6, Income Taxes:

Fiscal Years End on January 31 of Following Year	Fiscal 1987		Fiscal 1986		Fiscal 1985	
	Amount	%	Amount	%	Amount	%
Dollars in Thousands						
Statutory Rate Reconciliation						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle:						
Income Before Income Taxes	\$90,787	100.0%	\$108,126	100.0%	\$112,865	100.0%
Federal Income Tax at Statutory Rate	35,407	39.0	49,738	46.0	51,918	46.0
State Income Taxes — Net of Federal Tax Benefit	3,323	3.7	3,739	3.4	3,674	3.3
Investment Tax Credits	(1,916)	(2.1)	(306)	(.3)	(2,552)	(2.3)
Targeted Jobs Tax Credits	(401)	(.4)	—	—	—	—
Effect of ESOP Dividend Pass Through	(1,134)	(1.2)	—	—	—	—
Other	(446)	(.5)	(149)	(.1)	111	.1
Total Tax Provision Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	34,833	38.4	53,022	49.0	53,151	47.1
Extraordinary Item	—	—	(2,798)	49.2	—	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	(5,226)	(5.8)	—	—	—	—
Total Income Tax Provision	\$29,607	32.6%	\$ 50,224	49.0%	\$ 53,151	47.1%
Components of Income Tax Provision						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle:						
Current						
Federal	\$ 25,674	86.7%	\$ 41,517	82.7%	\$ 44,325	83.4%
State	5,042	17.0	6,340	12.6	6,440	12.1
Total Current	30,716	103.7	47,857	95.3	50,765	95.5
Deferred						
Federal	3,563	12.1	4,582	9.1	2,023	3.8
State	554	1.9	583	1.2	363	.7
Total Deferred	4,117	14.0	5,165	10.3	2,386	4.5
Total Tax Provision Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	34,833	117.7	53,022	105.6	53,151	100.0
Extraordinary Item:						
Current	—	—	(2,798)	(5.6)	—	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	(5,226)	(17.7)	—	—	—	—
Total Tax Provision	\$29,607	100.0%	\$ 50,224	100.0%	\$ 53,151	100.0%

The principal effect of adopting SFAS 96 in 1987 resulted from using lower current effective tax rates (Tax Reform Act of 1986) to provide deferred taxes on temporary differences between accounting and taxable income arising in the current year along with the effects of accumulations in prior years. Since the Company did not elect to restate prior years' financial statements, the cumulative effect on prior years of the change in accounting principle of \$5.2 million has been reflected in Fiscal 1987.

SFAS 96 also provides that the tax benefit resulting from a pass through in cash of ESOP dividends to employee-shareholders shall be reflected as a reduction of income tax expense (\$1.134 million in Fiscal 1987) rather than as a direct credit to retained earnings (\$1.039 million in Fiscal 1986 and \$721 thousand in Fiscal 1985) as required under previous accounting standards.

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

The Company's consolidated federal income tax returns for Fiscal 1981 through Fiscal 1984 have been examined by the Internal Revenue Service, a routine occurrence for companies of Lowe's size. Collectively, the Internal Revenue Service's proposed adjustments, if settled as proposed, would not materially affect the Company's consolidated financial statements.

Note 7, Employee Retirement Plans:

As of April 1, 1987 the Lowe's Companies Profit-Sharing Plan and Trust (PSP&T), to which contributions were discontinued effective December 31, 1977, was merged into the Employee Stock Ownership Plan (ESOP). The merger had no effect on the vested benefits or termination rights of the members of either the PSP&T or the ESOP. The Company's contribution to the ESOP is approved annually by the Board of Directors. For Fiscal 1987, 1986 and 1985, respectively, the Board authorized contributions of 13%, 13% and 14% of eligible compensation. In addition, the ESOP included a tax credit employee stock ownership plan which was fully funded by federal income tax credits of \$592 thousand and \$586 thousand in Fiscal 1986 and 1985, respectively. This credit was legislatively repealed as of January 1, 1987.

On October 10, 1985, the Company issued 833,373 common shares with an aggregate market value of \$18.8 million to the ESOP as part of the Company's Fiscal 1984 contribution. On May 15, 1986, the Company issued 300,000 shares of common stock with an aggregate market value of \$11.6 million to the ESOP as part of the Company's Fiscal 1985 contribution (Note 8). During Fiscal 1987, the Company instituted a program of planned, open market purchases of shares of its own common stock. Between June 1987 and October 1987, as part of the Company's Fiscal 1986 contribution, 656,748 shares at a cost of \$17.6 million were purchased and simultaneously contributed to the ESOP. Purchases toward funding a portion of the Company's Fiscal 1987 ESOP contribution began in October 1987. As of January 31, 1988, 950,418 shares at a cost of \$17.0 million had been purchased and contributed to the ESOP as a prefunding of the Fiscal 1987 contribution. At January 31, 1988, the Employee Stock Ownership Trust held approximately 24% of the outstanding stock of the Company and was its largest shareholder.

The Employee Savings and Investment Plan was established during Fiscal 1984. Annually, the Board of Directors approves contributions to this plan based upon a matching formula applied to employee contributions. The annual cost for this plan for Fiscal years 1987, 1986 and 1985 was \$1.9, \$1.7 and \$1.5 million, respectively.

Note 8, Shareholders' Equity:

Authorized shares of common stock were 120 million at January 31, 1988, 1987 and 1986.

On April 25, 1986, the Company sold 2.2 million shares of common stock. The net proceeds of \$83 million were added to the general funds of the Company and were used to finance the land, buildings and equipment for new and certain existing stores and to fund working capital.

In December 1987, the Board of Directors approved a \$50 million treasury stock program in which the Company's common stock is to be repurchased in the open market. Stock repurchased under this program will be held in the treasury for future needs of the Company. Treasury stock is reflected as such in the balance sheet. At January 31, 1988, 132,100 shares had been purchased at a cost of \$2.4 million or an average of \$17.91 per share. The Special Committee of the Board of Directors directs management regarding this repurchase program including guidance as to purchase price and approval for the span of time needed to consummate the repurchase.

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

In Thousands	Shares		Dollars in Thousands				Shareholders' Equity	
	Issued and Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total Equity		
Balance January 31, 1985	36,248	\$18,124	\$ 63,847	\$259,377		\$341,348		
Shares Issued to ESOP	833	417	18,359	—		18,776		
Net Earnings	—	—	—	59,714		59,714		
Cash Dividends	—	—	—	(13,199)		(13,199)		
Tax Benefit of ESOP Dividend Deduction	—	—	—	721		721		
Stock Options Exercised (Note 9)	1	—	13	—		13		
Balance January 31, 1986	37,082	18,541	82,219	306,613		407,373		
Sale of Stock	2,200	1,100	81,939	—		83,039		
Shares Issued to ESOP	300	150	11,448	—		11,598		
Net Earnings	—	—	—	52,219		52,219		
Cash Dividends	—	—	—	(15,597)		(15,597)		
Tax Benefit of ESOP Dividend Deduction	—	—	—	1,039		1,039		
Stock Options Exercised (Note 9)	43	22	895	—		917		
Shares Retired	(1)	(1)	(53)	—		(54)		

Balance January 31, 1987	39,624	19,812	176,448	344,274		540,534
Net Earnings	—	—	—	61,180		61,180
Cash Dividends	—	—	—	(17,040)		(17,040)
Stock Options Exercised (Note 9)	6	3	126	—		129
Treasury Stock Purchases	(132)	—	—	—	\$ (2,367)	(2,367)
Balance January 31, 1988	39,498	\$19,815	\$176,574	\$388,414	\$(2,367)	\$582,436

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 the stockholders) in one or more series, having such voting rights, dividend and liquidation preference and such conversion and other rights as may be designated by the Board of Directors at the time of issuance of the preferred shares.

Note 9, Stock Options:

During Fiscal 1985, shareholders approved a stock option plan under which incentive or non-qualified stock options may be granted to key employees of the Company; one million common shares were reserved for option purposes. Options granted are exercisable from date of grant through expiration dates which range from 1991 through 1993.

Option information is summarized as follows:

		Option price	
	Shares	Per share	Total
Dollars in Thousands, Except Per Share Data			
Outstanding January 31, 1985	—	—	—
Granted	220,250	\$21.375 to \$23.375	\$4,709
Exercised	600	21.375	13
Outstanding January 31, 1986	219,650	21.375 to 23.375	4,696
Cancelled or Expired	13,450	21.375	287
Exercised	42,890	21.375	917
Outstanding January 31, 1987	163,310	21.375 to 23.375	3,492
Granted*	223,350	16.25	3,780
Cancelled or Expired	20,500	16.25 to 21.375	518
Exercised	6,025	21.375	129
Outstanding January 31, 1988	360,135	\$16.25 to \$23.375	\$6,625

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

Note 10, Leases:

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

	Operating Leases		Capital Leases		
Fiscal Year	Real Estate	Equipment	Real Estate	Equipment	Total
Dollars in Thousands					
1988	\$ 2,702	\$613	\$ 1,066	\$ 6,293	\$ 10,674
1989	2,424	210	1,066	6,012	9,712
1990	2,194	49	1,066	5,628	8,937
1991	1,955	—	1,066	4,387	7,408
1992	1,817	—	1,058	2,264	5,139
Later years	5,313	—	22,810	826	28,949
Total Minimum Lease Payments	\$16,405	\$872	\$28,132	\$25,410	\$70,819
Total Minimum Capital Lease Payments			\$ 53,542		
Less Amount Representing Interest			23,960		
Present Value of Minimum Lease Payments			29,582		
Less Current Maturities			4,481		
Present Value of Minimum Lease Payments, Less Current Maturities			\$25,101		

Rental expenses under operating leases for real estate and equipment were \$6.6 million, \$6.8 million and \$6.6 million in Fiscal 1987, 1986, and 1985, respectively.

Note 11, Commitments, Contingencies and Litigation:

The Company had purchase commitments at January 31, 1988 of approximately \$22.3 million for land, buildings and construction of facilities, and \$1.1 million for equipment.

The Company is defendant in various lawsuits incurred in the normal course of business. There is no material litigation pending not covered by insurance.

Note 12, Other Information:

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

Years Ended January 31,	1988	1987	1986
Dollars in Thousands			
Allowance for Doubtful Accounts:			
Balance Beginning of Year	\$ 4,327	\$ 4,531	\$ 4,162
Additions Charged to Expenses	5,897	5,135	4,594
Deductions for Accounts Charged Off	(6,372)	(5,339)	(4,225)
Balance End of Year	\$ 3,852	\$ 4,327	\$ 4,531

Interest expense is comprised of the following:

Years Ended January 31,	1988	1987	1986
Dollars in Thousands			
Long-Term Debt	\$ 18,634	\$ 19,691	\$ 17,138
Short-Term Debt	4,312	202	137
Amortization of Loan Costs	110	158	122
Short-Term Interest Income	(1,779)	(2,634)	(2,711)
Interest Capitalized	(1,803)	(3,669)	(3,179)
Net Interest Expense	\$19,474	\$13,748	\$11,507

Cash and short-term investments are comprised of the following:

As of January 31,	1988	1987	1986
Dollars in Thousands			
Cash	\$ 13,889	\$ 6,525	\$ 5,884
Short-Term Investments	30,000	43,488	81,306
Total	\$43,889	\$50,013	\$87,190

Advertising expenses were \$39.1, \$34.5 and \$33.0 million for Fiscal 1987, 1986 and 1985, respectively.

Note 13, Closed Stores:

In December 1987, the Company closed 16 nonprofitable stores: 13 in Texas and 1 each in Oklahoma, Georgia and South Carolina. Store closing expenses of \$9.8 million, shown separately in the 1987 Consolidated Statement of Current and Retained Earnings, include accruals for all incurred and anticipated expenses directly related to the closings. Of the 16 stores, 13 were owned and 3 were leased. Land and buildings for the 13 owned stores have been reclassified to other assets in the 1987 Consolidated Balance Sheet and have been reduced to 15.3 million, their net estimated realizable value.

Store closings in 1987 (prior to December), 1986 and 1985 were 5, 3 and 4, respectively. The expenses associated with closing these stores were considered normal operating expenses and, accordingly, were included in selling, general and administrative expenses in the respective Consolidated Statement of Current and Retained Earnings.

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

	1987	1986	1985	1984	1983
Selected Income Statement Data:					
Net Sales	\$2,442,177	\$2,283,480	\$2,072,569	\$1,688,738	\$1,430,576
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	55,954	55,104	59,714	61,443	50,615
Extraordinary Item:					
Debt Retirement Net of Taxes of \$2,798	—	(2,885)	—	—	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	5,226	—	—	—	—
Net Earnings	61,180	52,219	59,714	61,443	50,615
Earnings Per Common Share:					
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	1.41	1.41	1.64	1.70	1.40
After Extraordinary Item and Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	\$ 1.54	\$ 1.34	\$ 1.64	\$ 1.70	\$ 1.40

Selected Balance Sheet Data:

Total Assets	\$1,027,329	\$ 969,219	\$ 856,191	\$ 634,108	\$ 519,637
Long-Term Debt, Including Current Maturities	\$ 198,133	\$ 162,879	\$ 192,582	\$ 99,571	\$ 57,749

Three Months Ended

	January 31	October 31	July 31	April 30
Selected Quarterly Data ¹				
Fiscal 1987				
Net Sales	\$502,427	\$645,558	\$725,057	\$569,135
Gross Margin	121,612	152,876	171,398	138,051
Earnings Before Cumulative Effect of a Change in Accounting Principle	648	16,932	24,528	13,846
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—	—	—	5,226
Net Earnings	648	16,932	24,528	19,072
Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle	.02	.43	.62	.35
Earnings Per Share After Cumulative Effect of a Change in Accounting Principle	.02	.43	.62	.48
Fiscal 1986				
Net Sales	497,368	594,275	657,845	533,992
Gross Margin	124,849	144,756	159,752	129,753
Earnings Before Extraordinary Item	10,053	12,416	21,251	11,384
Net Earnings	7,168	12,416	21,251	11,384
Earnings Per Share Before Extraordinary Item	.25	.31	.54	.31
Earnings Per Share	.18	.31	.54	.31
Fiscal 1985				
Net Sales	475,572	549,031	595,636	452,330
Gross Margin	120,010	132,552	148,312	111,322
Net Earnings	11,318	15,588	20,920	11,888
Earnings Per Share	\$.31	\$.43	\$.58	\$.33

¹Accounting for Income Taxes

Earnings data presented herein for the first three quarters of fiscal 1987 differ from that previously reported in the company's 10-Q for those quarters. Such data has been restated to reflect the effect of the company's adoption of Statement of Financial Accounting Standards No. 96 as if it had been adopted in the first quarter of fiscal 1987. The effect of the restatement was to increase previously reported net earnings by \$6.1, \$1.7 and \$4.4 million or \$.15, \$.04 and \$.01 per share for the first, second and third quarters, respectively.

LIFO Adjustment

Fiscal 1987 — The total LIFO effect for the year was a charge of \$3.8 million. The company had previously charged \$2.6 million against earnings through the first nine months, resulting in a fourth quarter credit of \$1.2 million.

Fiscal 1986 — The total LIFO effect for the year was a credit of \$3.0 million. The company had previously charged \$6.6 million against earnings through the first nine months, resulting in a fourth quarter credit of \$3.6 million.

Fiscal 1985 — The total LIFO effect for the year was a credit of \$3.4 million. The company had no

charge against earnings through the first nine months, resulting in a fourth quarter credit of \$3.4 million.

Store Closings

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

Plywood Antitrust Litigation

In fiscal 1986 the fourth quarter included \$4.9 million income (before income taxes) from the settlement of a class action suit against several plywood manufacturers.

Property Tax Adjustment

In fiscal 1986 the company obtained permission from the Internal Revenue Service to accelerate its property tax expense accruals, without increasing actual property tax payments. This afforded the company an additional deduction in fiscal 1986 of \$2.5 million, of which \$1.4 million was charged to the fourth quarter and \$1.1 million to the third quarter. This created positive cash flow as a result of the additional tax deduction at the 46% federal income tax rate, which was particularly timely in view of the reduced 1987 tax rates applicable under the Tax Reform Act of 1986.

Profitability Model

Fiscal 1987 Figures*

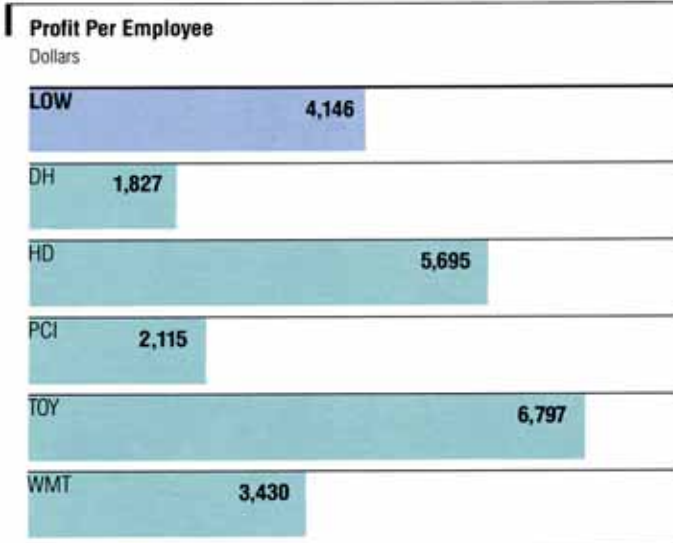
Sales, Profit, Assets, Equity						
Dollars in Millions						
Organization (Stock Symbol)	Sales	Profit	Beginning Assets	Ending Assets	Beginning Shareholders' Equity	Ending Shareholders' Equity
Lowe's (LOW)	\$2,442.2	\$ 61.2	\$ 969.2	\$1,027.3	\$ 540.5	\$ 582.4
Dayton Hudson (DH)	10,677.3	228.4	5,282.0	6,075.5	2,179.5	1,986.0
Home Depot (HD)	1,453.7	54.1	394.7	528.3	163.0	320.6
Payless Cashways (PCI)	1,768.1	28.1	707.7	815.2	369.8	379.4
Toys R Us (TOY)	3,136.6	203.9	1,523.0	2,028.0	901.0	1,135.3
Wal-Mart (WMT)	\$15,959.0	\$627.6	\$4,049.1	\$ 5,131.8	\$1,690.5	\$2,257.3

ROE Calculation	Asset ¹ Turnover	×	Return ² on Sales	=	Return ³ on Assets	×	Leverage ⁴ Factor	=	Return ⁵ on Equity
Lowe's (LOW)	2.52		2.51%		6.33%		1.79		11.33%
Dayton Hudson (DH)	2.02		2.14		4.32		2.42		10.45
Home Depot (HD)	3.68		3.72		13.69		2.42		33.13
Payless Cashways (PCI)	2.50		1.59		3.98		1.91		7.60
Toys R Us (TOY)	2.06		6.50		13.39		1.69		22.63
Wal-Mart (WMT)	3.94		3.93%		15.48%		2.40		37.15%

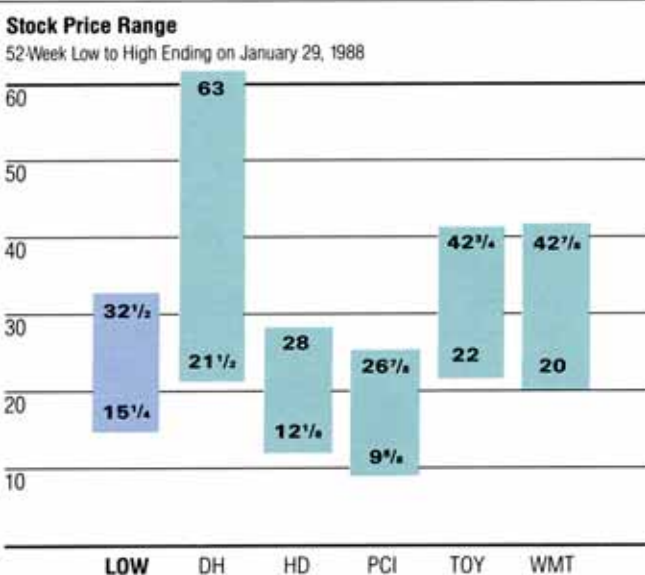
Employees			
Dollars			
	Number ⁶ of Employees	Sales ⁷ Per Employee	Profit ⁸ Per Employee
Lowe's (LOW)	14,761	\$165,449	\$4,146
Dayton Hudson (DH)	125,000	85,418	1,827
Home Depot (HD)	9,500	153,021	5,695
Payless Cashways (PCI)	13,287	133,070	2,115
Toys R Us (TOY)	30,000	104,553	6,797
Wal-Mart (WMT)	183,000	\$ 87,208	\$ 3,430

*LOW year ended 1/31; DH ended 1/30; HD ended 1/31; PCI ended 11/28; TOY ended 1/31, and WMT ended 1/31.
¹Total sales divided by beginning assets
²Total profit divided by total sales

³Total profit divided by beginning assets
⁴Beginning assets divided by beginning equity
⁵Total profit divided by beginning equity
⁶At year end
⁷Total sales divided by number of employees
⁸Total profit divided by number of employees



LOW Lowe's
DH Dayton Hudson
HD Home Depot
PCI Payless Cashways
TOY Toys R Us
WMT Wal-Mart



Stock Performance

Lowe's Quarterly Stock Price Range and Cash Dividend Payment*

	Fiscal 1987			Fiscal 1986			Fiscal 1985		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$32 1/2	\$25 1/8	\$.10	\$40 7/8	\$28 1/4	\$.10	\$29 5/8	\$25 3/4	\$.09
2nd Quarter	28 1/2	23 5/8	.11	40 7/8	29 3/8	.10	30 3/4	24 5/8	.09
3rd Quarter	29 1/8	16 7/8	.11	29 1/8	23 1/8	.10	25 5/8	21	.09
4th Quarter	\$21 5/8	\$15 1/4	\$.11	\$30	\$25 1/4	\$.10	\$28 1/2	\$22 1/8	\$.09

Source: Wall Street Journal

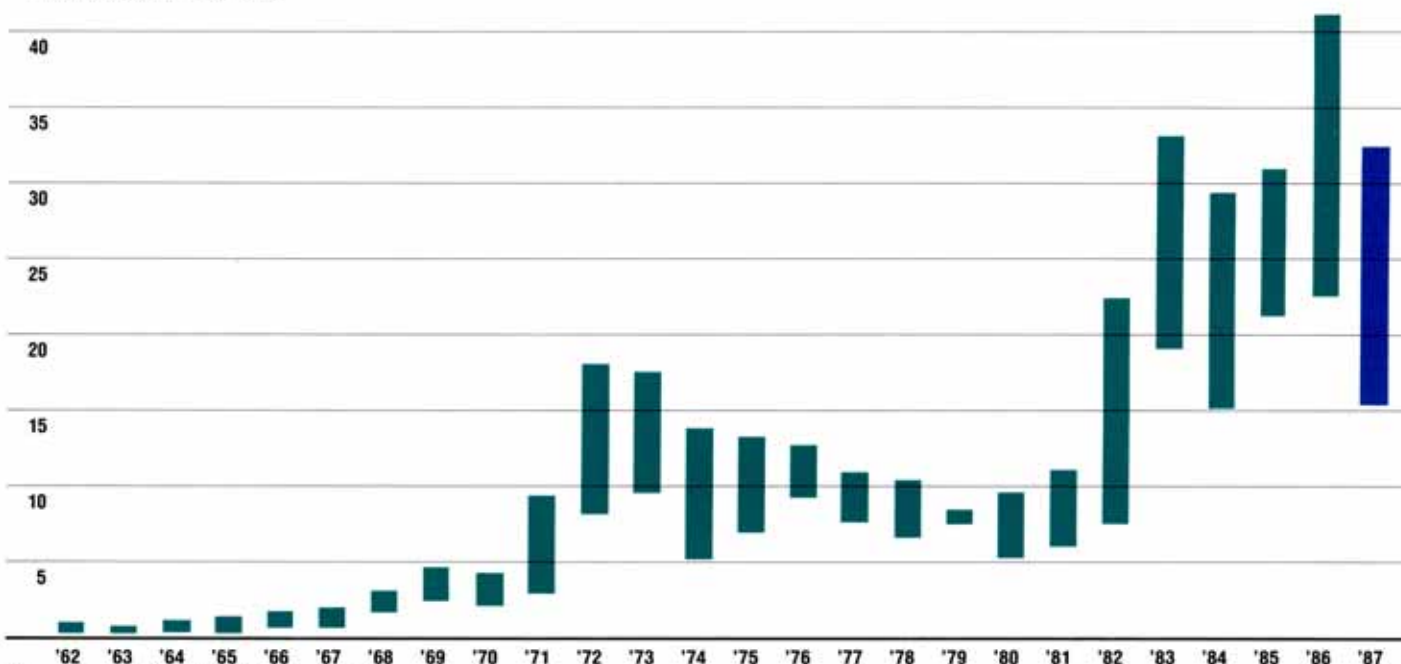
Monthly Stock Price and Trading Volume

	Fiscal 1987			Fiscal 1986		
	High	Low	Shares Traded	High	Low	Shares Traded
February	\$32 1/4	\$27 1/4	2,426,700	\$35 3/4	\$28 1/4	3,244,600
March	32 1/2	30 3/4	2,171,000	40 7/8	35	3,635,800
April	32 1/8	25 1/8	2,674,300	40 1/4	36 1/4	2,874,100
May	27 5/8	23 5/8	2,550,700	40 7/8	36 3/8	2,002,300
June	28 1/2	26 1/8	2,431,400	40 1/4	34 5/8	2,962,300
July	27 5/8	25 7/8	2,148,100	36	29 3/8	3,328,700
August	29 1/8	26 3/4	2,620,100	29 1/8	27 3/8	3,231,000
September	27 3/8	24 5/8	1,908,800	28	23 1/4	2,762,000
October	25 1/2	16 7/8	3,641,800	29 1/8	23 1/8	4,015,000
November	21 5/8	16 7/8	1,715,300	30	25 1/4	3,540,100
December	17 3/4	15 1/4	2,711,200	28 5/8	25 3/8	2,923,300
January	\$19 1/4	\$16 7/8	2,514,600	\$29 1/4	\$26	3,677,200

Source: Wall Street Journal

High-Low Stock Price*

Dollars; Adjusted for All Stock Splits



*Based on fiscal years; prior to '73, year-end was July 31.

Sources: Monthly Market Statistics Report, New York Stock Exchange, The Wall Street Journal

Quarterly Review of Performance

Earnings Statement

Dollars in Thousands

Three Months Ended	Fiscal 1987				Fiscal 1986			
	1/31/88	10/31/87	7/31/87	4/30/87	1/31/87	10/31/86	7/31/86	4/30/86
Net Sales	\$502,427	\$645,558	\$725,057	\$569,135	\$497,368	\$594,275	\$657,845	\$533,992
FIFO Gross Margin	122,831	153,953	172,431	138,551	121,225	144,756	160,122	130,047
LIFO Credit (Charge)	(1,219)	(1,077)	(1,033)	(500)	3,624	—	(370)	(294)
LIFO Gross Margin	121,612	152,876	171,398	138,051	124,849	144,756	159,752	129,753
Expenses:								
S, G & A	91,994	104,791	110,400	96,487	87,957	101,269	101,767	91,819
Depreciation	10,151	9,964	9,523	8,908	8,853	7,897	7,201	6,523
Employee Retirement Plans	3,411	5,407	6,493	6,389	5,066	5,764	6,719	6,401
Interest (Note 12)	5,246	5,240	5,185	3,803	3,713	3,396	3,114	3,525
Store Closings (Note 13)	9,758	—	—	—	—	—	—	—
Total Expenses	120,560	125,402	131,601	115,587	105,589	118,326	118,801	108,268
Pre-Tax Earnings*	1,052	27,474	39,797	22,464	19,260	26,430	40,951	21,485
Income Tax Provision*	404	10,542	15,269	8,618	9,207	14,014	19,700	10,101
Net Earnings*	648	16,932	24,528	13,846	10,053	12,416	21,251	11,384
Earnings Per Share*	\$.02	\$.43	\$.62	\$.35	\$.25	\$.31	\$.54	\$.31

Earnings Statement Changes

Changes From Same Quarter Previous Year, to Nearest Tenth Percent

Three Months Ended	Fiscal 1987				Fiscal 1986			
	1/31/88	10/31/87	7/31/87	4/30/87	1/31/87	10/31/86	7/31/86	4/30/86
Net Sales	1.0%	8.6%	10.2%	6.6%	4.6%	8.2%	10.4%	18.1%
FIFO Gross Margin	1.3	6.4	7.7	6.5	4.0	10.5	7.8	15.5
LIFO Credit (Charge)**	133.6	NM	179.2	70.1	(5.2)	(100.0)	96.8	(77.6)
LIFO Gross Margin	(2.6)	5.6	7.3	6.4	4.0	9.2	7.7	16.6
Expenses:								
S, G & A	4.6	3.5	8.5	5.1	3.2	15.1	9.6	18.8
Depreciation	14.7	26.2	32.2	36.6	37.7	42.6	28.8	55.3
Employee Retirement Plans	(32.7)	(6.2)	(3.4)	(.2)	(.5)	(3.0)	14.0	10.5
Interest (Note 12)	41.3	54.3	66.5	7.9	49.2	1.5	(20.7)	101.7
Store Closings (Note 13)	NM	—	—	—	—	—	—	—
Total Expenses	14.2	6.0	10.8	6.8	6.4	15.1	9.8	21.6
Pre-Tax Earnings*	(94.5)	4.0	(2.8)	4.6	(7.2)	(11.1)	2.2	(3.6)
Income Tax Provision*	(95.6)	(24.8)	(22.5)	(14.7)	(2.5)	(.9)	2.8	(2.9)
Net Earnings*	(93.6)%	36.4%	15.4%	21.6%	(11.2)%	(20.3)%	1.6%	(4.2)%

**Percentage change denotes increase (decrease) in expenses.

Earnings Statement Analysis

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

Three Months Ended	Fiscal 1987				Fiscal 1986			
	1/31/88	10/31/87	7/31/87	4/30/87	1/31/87	10/31/86	7/31/86	4/30/86
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
FIFO Gross Margin	24.44	23.85	23.78	24.35	24.37	24.36	24.34	24.36
LIFO Credit (Charge)	(.24)	(.17)	(.14)	(.09)	.73	—	(.06)	(.06)
LIFO Gross Margin	24.20	23.68	23.64	24.26	25.10	24.36	24.28	24.30
Expenses:								
S, G & A	18.31	16.23	15.22	16.95	17.68	17.04	15.47	17.20
Depreciation	2.02	1.54	1.31	1.57	1.78	1.33	1.09	1.22
Employee Retirement Plans	.68	.84	.90	1.12	1.02	.97	1.02	1.20
Interest (Note 12)	1.04	.81	.72	.67	.75	.57	.47	.66
Store Closings (Note 13)	1.94	—	—	—	—	—	—	—
Total Expenses	23.99	19.42	18.15	20.31	21.23	19.91	18.05	20.28
Pre-Tax Earnings*	.21	4.26	5.49	3.95	3.87	4.45	6.23	4.02
Income Tax Provision*	38.40	38.37	38.37	38.36	47.80	53.02	48.11	47.01
Net Earnings*	.13%	2.62%	3.38%	2.43%	2.02%	2.09%	3.23%	2.13%

*Before cumulative effect of a change in accounting principle in fiscal 1987 and before extraordinary item in fiscal 1986. See notes 5 and 6 of the notes to consolidated financial statements.

Customer Sales Profile

Dollars in Millions, Rounded Totals

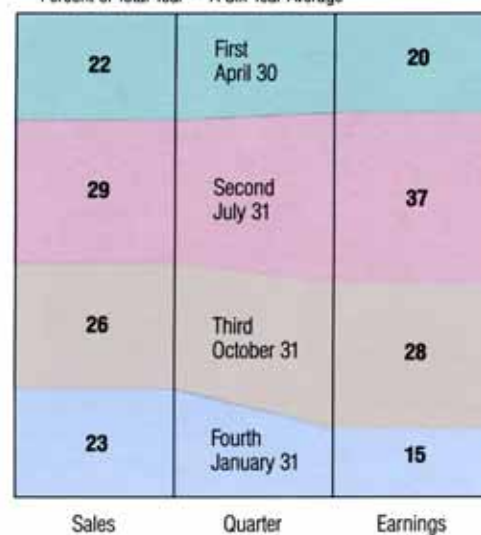
	Fiscal 1987			Fiscal 1986		
	Change	Sales	% Total	Change	Sales	% Total
1st Quarter						
RC ¹	+ 10%	\$ 317.2	54%	+ 17%	\$ 288.8	54%
CC ²	+ 3	252.0	46	+ 19	245.2	46
Totals	+ 7	569.2	100	+ 18	534.0	100
2nd Quarter						
RC	+ 13	416.2	57	+ 14	367.2	56
CC	+ 6	308.8	43	+ 6	290.6	44
Totals	+ 10	725.0	100	+ 10	657.8	100
3rd Quarter						
RC	+ 11	354.7	55	+ 12	319.6	54
CC	+ 6	290.9	45	+ 4	274.7	46
Totals	+ 9	645.6	100	+ 8	594.3	100
4th Quarter						
RC	—	287.3	57	+ 16	287.8	58
CC	+ 3	215.1	43	— 8	209.6	42
Totals	+ 1%	\$502.4	100%	+ 5%	\$497.4	100%

¹ RC: sales to retail customers (cash or non-recourse credit).

² CC: sales to contractor customers (Lowe's-extended credit).

1982-1987 Sales and Earnings

Percent of Total Year — A Six-Year Average



Store Sales Profile

Dollars in Millions, Rounded Totals

	Fiscal 1987					Fiscal 1986				
	Change	Sales	% Total	Stores	Per Store Average	Change	Sales	% Total	Stores	Per Store Average
1st Quarter										
Comparable Stores¹	+ 1%	\$538.6	95%	286	\$1.9	+ 8%	\$483.4	91%	254	\$1.9
New Stores ²		30.5	5	20	1.5		50.6	9	35	1.4
Total Stores Reporting³	+ 7	569.1	100	306	1.9	+ 18	534.0	100	289	1.8
Less Closed Stores ⁴							(3.2)		(3)	
Comparable Stores⁵							530.8		286	1.9
2nd Quarter										
Comparable Stores	+ 4	683.7	94	289	2.4	+ 5	622.3	95	274	2.3
New Stores		41.3	6	23	1.8		35.5	5	18	2.0
Total Stores Reporting	+ 10	725.0	100	312	2.3	+ 10	657.8	100	292	2.3
Less Closed Stores							(2.0)		(3)	
Comparable Stores							655.9		289	2.3
3rd Quarter										
Comparable Stores	+ 3	611.3	95	293	2.1	+ 3	559.9	94	276	2.0
New Stores		34.3	5	20	1.7		34.4	6	21	1.6
Total Stores Reporting	+ 9	645.6	100	313	2.1	+ 8	594.3	100	297	2.0
Less Closed Stores							(2.2)		(4)	
Comparable Stores							592.0		293	2.0
4th Quarter										
Comparable Stores	— 3	480.3	96	295	1.6	—	469.1	94	281	1.7
New Stores		22.2	4	16	1.4		28.2	6	21	1.3
Total Stores Reporting	+ 1%	\$502.5	100%	311	\$1.6	+ 5%	\$497.3	100%	302	\$1.6
Less Closed Stores							(4.6)		(7)	
Comparable Stores							\$492.8		295	\$1.7

¹ Comparable stores: stores which have been open for one year or more at the end of the quarter.

² New stores: stores which have been open for less than a year at the end of the quarter.

³ Total stores reporting: total stores reporting sales for the period.

⁴ Closed stores: stores closed after the end of the period. Sales of closed stores must be subtracted

in order to make the sales base comparable.

⁵ Comparable stores (future): stores still open one year after the reporting period, i.e., those that are "comparable" to the next year's comparable stores.

Board of Directors



Seated, left to right: Robert G. Schwartz, Leonard G. Herring, William A. Andres, Jack C. Shewmaker. Standing, left to right: Russell B. Long, Petro Kulynych, Gordon E. Cadwgan, Robert L. Strickland, William H. McElwee, Sr. John M. Belk is not pictured.

William A. Andres

Director since 1986, age 61. Member of Stock Option Committee of the Board. Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. — Chairman of the Board 1976–1985 (retired September, 1985); Chairman of the Executive Committee 1976–1985; Chief Executive Officer 1976–1983; Director, Jostens, Inc., Minneapolis, Minn., since 1985; Director, Exxon Corporation, New York, N.Y., since 1981; Director, Scott Paper Company, Philadelphia, Penn.; Director, The St. Paul Companies, St. Paul, Minn.; Director, International Multifoods, Inc., Minneapolis, Minn.; Director, Hannaford Bros., Scarborough, Maine, since 1986.

John M. Belk

Director since 1986, age 68. Member of Audit Committee of the Board. Chairman of the Board, Belk Stores Services, Inc. (Retail Department Stores), Charlotte, N.C., since 1980; Director, Wachovia Corporation, Winston-Salem, N.C., since 1958; Director, First Wachovia Corporation, Winston-Salem, N.C., since 1985; Director, Coca-Cola Bottling Company Consolidated, Charlotte, N.C., since 1972; Director, Southern Radio Corp., Charlotte, N.C., since 1963; Director, Quantum Chemical Corp., New York, N.Y., since 1983; Director, Southern Bell, Atlanta, Ga., since 1985; Member, American Management Association; Member, World Business Council; Member, The Conference Board; Member, American Retail Federation; Member, National Retail Merchants Association; Member, Board of Trustees, Davidson College; Member, Board of Visitors, Johnson C. Smith University.

Gordon E. Cadwgan

Director since 1961, age 74. Chairman of Audit Committee, Member of Compensation Committee and Member of Special Committee of the Board. Trustee and Financial Consultant, affiliated with Tucker, Anthony & R.L. Day, Inc., Boston, Mass., since 1979; Director, Bevis Industries, Inc., Providence, R.I.; Director and Member Executive Committee, Third Century Fund, Inc., Providence, R.I.; Fellow Emeritus, Brown University.

Leonard G. Herring

Director since 1956, age 60. President and Chief Executive Officer since 1978; Member of Special Committee of the Board. Director, First Union Corporation, Charlotte, N.C., since 1986; Director, Northwestern Financial Corporation, North Wilkesboro, N.C., 1969–1985; Director, First Brands Corporation, Danbury, Conn., since 1987; Trustee, Pfeiffer College; Member, North Carolina Business Council of Management and Development, Inc.; Member, Executive Committee, Hardware Home Improvement Industry Council, The City of Hope National Medical Center.

Petro Kulynych

Director since 1952, age 66. Chairman of Stock Option Committee of the Board; Managing Director, 1978–1983 (retired December, 1983). Director, North Wilkesboro Federal Savings & Loan Association, North Wilkesboro, N.C., since 1974; Director, North Carolina Council on Economic Education, Greensboro, N.C.; Member, Medical Center Board of Visitors, Bowman Gray School of Medicine, Wake Forest University and North Carolina Baptist Hospital, Inc.; Director, Carolina Motor Club, Inc.; Trustee, Wake Forest University.

Russell B. Long

Director since 1987, age 69. Member of Stock Option Committee of the Board. Partner, Long Law Firm (Attorneys-at-Law), Washington, D.C., since January, 1988; Partner, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey (Attorneys-at-Law), Washington, D.C., 1987; Director, Metropolitan Life Insurance Company, New York, N.Y., since 1987; Director, The New York Stock Exchange, New York, N.Y., since 1987; Director, Louisiana Land & Exploration Co., New Orleans, La., since 1987; Member, Board of Advisors, Kelso and Company, New York, N.Y., since 1987; United States Senator, 1948–1987; Member, Senate Finance Committee, 1952–1987; Member, Joint Committee of Taxation, 1961–1987; Member, Senate Committee on Commerce, Science, and Transportation, 1966–1986; Member, Senate Select Committee on Ethics, 1985–1986; Member, Senate Finance Subcommittees on Health, Pensions and Investment Policy, and Social Security and Income Maintenance Programs, 1985–1986.

William H. McElwee, Sr.

Director since 1961, age 80. Managing Director and General Counsel since 1980; Member of Compensation Committee and Member of Special Committee of the Board. Partner, McElwee, McElwee, Cannon & Warden (Attorneys-at-Law), North Wilkesboro, N.C.; Member Emeritus, North Carolina Board of Law Examiners; Trustee, Davis Hospital Endowment Fund; Member of Local Board, North Carolina National Bank; Member of the Board, Legal Advisors of the Southeastern Legal Foundation, Inc.; Fellow, American College of Trial Lawyers.

Robert G. Schwartz

Director since 1973, age 60. Chairman of Compensation Committee, Member of Audit Committee and Member of Stock Option Committee of the Board. Metropolitan Life Insurance Company, New York, N.Y. — Chairman of the Board since 1983; Chairman of the Investment Committee since 1980; Vice Chairman of the Board and Director, 1980–1983; Director, Potlatch Corporation, San Francisco, Cal., since 1973; Director, State Street Research and Management Company, Boston, Mass., since 1983; Director, Communications Satellite Corporation, Washington, D.C., since 1986; Director, Mobil Corporation, New York, N.Y., since 1987; Trustee, Committee for Economic Development; Trustee, Greater New York Councils Boy Scouts of America.

Jack C. Shewmaker

Director since 1985, age 50. Member of Compensation Committee of the Board. Wal-Mart Stores, Inc. (Discount Retail Chain), Bentonville, Ark. — Director since 1977; Vice Chairman of the Board, 1984–April, 1988; Chief Financial Officer 1984–1988 (retired February, 1988); President and Chief Operating Officer, 1978–1984; National Mass Retailing Institute — Director; Member of Executive Committee; Member of Convention Committee; Member, Board of Trustees, Drury College.

Robert L. Strickland

Director since 1961, age 57. Chairman of the Board since 1978; Chairman of Special Committee of the Board. Director, Revelstoke Companies, Ltd., Calgary, Alberta, Canada, since 1976; Director, Summit Communications, Winston-Salem, N.C., since 1987; Director and Past Chairman, Do-It-Yourself Research Institute; Director and Past Chairman, The Employee Stock Ownership Assn.; Director, Council of Better Business Bureaus, Inc.; Director, The Committee of Publicly Owned Companies; Member, Home Center Leadership Council; Member, Board of Trustees, The University of North Carolina at Chapel Hill; Member, Board of Advisors, Fuqua School of Business, Duke University; Member, Executive Committee; President, Hardware Home Improvement Industry Council, The City of Hope National Medical Center since 1987.

Officers

Richard D. Elledge

Vice President (Chief Accounting Officer), Secretary

Wendell R. Emerine

Executive Vice President

Leonard G. Herring

President and Chief Executive Officer

Arnold N. Lakey

Vice President, Credit

William H. McElwee, Sr.

Managing Director and General Counsel

W. Nathan Mitchell

Assistant Secretary

Dwight E. Pardue, Sr.

Senior Executive Vice President, Real Estate

William F. Reins

Assistant Treasurer

Leslie G. Shell, III

Controller

Robert L. Strickland

Chairman of the Board

Harry B. Underwood, II

Senior Vice President and Treasurer
(Chief Financial Officer)

John W. Vining, Jr.

Vice President, Administration

William C. Warden, Jr.

Assistant Secretary

Results of 1986 Shareholder Survey and Shareholder Analysis

Which sections of the Lowe's 1986 annual report did you read?		
All of the report	60%	
Letter to shareholders	38	
Lowe's investors want to know	28	
Directors feature	20	
Customer analysis	19	
Product analysis	20	
Stores and expansion	31	
Financial report	33	
Other	4%	
Ratings of the quality of the annual report sections (5-point scale), 5=outstanding:		
All of the report	4.4	
Letter to shareholders	4.3	
Lowe's investors want to know	4.2	
Directors feature	4.3	
Customer analysis	4.1	
Product analysis	4.2	
Stores and expansion	4.2	
Financial report	4.2	
Other	4.2	
Overall rating on 5-point scale:		
	4.3	
Status of respondent as a shareholder:		
Yes — 91%, No — 16%		
As a present or potential shareholder, what is or would be your primary reason for holding or buying Lowe's stock?		
Price appreciation	53%	
Dividend income	4	
Both	41	
Other	2%	
If you own stock, which category best describes your ownership interest?		
Individual		
Shareholder of record	43%	
Street name	36	
Employee stock ownership participant	26	
Analyst for company owning Lowe's stock	1	
Money manager for company owning Lowe's stock	3%	
Which of the following do you consider the most important criteria regarding dividends?		
Annual dividend growth	50%	
Yield on original investment	38	
Not interested in dividends	8	
Dividend never reduced	4%	
How long have you been a Lowe's shareholder?		
under 1 year	21%	
1 to 2 years	20	
3 to 5 years	23	
6 to 10 years	12	
Over 10 years	24%	
How did you first become aware of Lowe's?		
Employee or store	33%	
Stockbroker	19	
Other	14	
Investment publication	12	
News articles	9	
Annual reports	6	
Shareholder	5	
This is my first exposure	2%	
From which of the following groups does your primary interest stem?		
Individual investor	37%	
Employee	25	
Stockbroker	11	
Retired or former employee	8	
Security analyst	6	
Financial advisor	6	
Other	5	
Financial media	4	
Supplier	4	
Investment club	2	
Trade magazine	2	
Financial institution	2%	
Are you male or female?		
Male — 83%, Female — 17%		
In which age group would you be listed?		
Under 30	12%	
30-40	20	
41-50	16	
51-65	28	
Over 65	24%	
Which of the following most closely describes your present occupation?		
Executive, administrator, manager	34%	Laborer 4%
Retired	24	Transportation 3
Doctor/lawyer	13	Technician 2
Sales	10	Machine operator 1
Clerical	4	Protective service 1
Homemaker	4%	Precision laborer —9%

State	Holders	Shares
Alabama*	112	11,884
Alaska	4	841
Arizona	16	3,098
Arkansas*	33	342,864
California	77	20,334
Colorado	15	3,399
Connecticut	51	23,524
Delaware*	40	16,929
District of Columbia	11	4,646
Florida*	230	136,762
Georgia*	233	145,362
Hawaii	2	100
Idaho	2	40
Illinois*	120	1,202,956
Indiana*	43	5,970
Iowa	6	2,357
Kansas	13	3,364
Kentucky*	100	15,585
Louisiana*	87	13,960
Maine	11	5,105
Maryland*	136	79,841
Massachusetts	76	80,370
Michigan	41	15,192
Minnesota	21	24,243
Mississippi*	59	11,963
Missouri*	42	17,910
Montana	2	230
Nebraska	6	5,621
Nevada	2	200
New Hampshire	10	2,535
New Jersey	81	26,784
New Mexico	2	374
New York	147	22,169,787
North Carolina*	2,757	4,584,309
Ohio*	99	71,552
Oklahoma*	10	1,803
Oregon	8	15,067
Pennsylvania*	121	453,980
Rhode Island	66	77,246
South Carolina*	327	119,029
South Dakota	2	161
Tennessee*	226	92,231
Texas*	106	25,096
Utah	1	16
Vermont	2	2,683
Virginia*	491	239,819
Washington	9	439
West Virginia*	75	20,945
Wisconsin	15	2,582
Canada	6	64
International *	11	9,829
Shareholders of Record ²	6,163	30,110,981
Employees in Prior Plan ²	—	1,238,882
Employees in Stock Ownership Plan and Trust ²	12,100	8,280,187
Total Shareholders ³	18,263	39,630,050

* Indicates state with Lowe's store.

¹ Does not include international holdings in New York-based street-name accounts.

² In computing shareholders of record, the two trusts are counted as one shareholder each.

³ Total shareholders does not include 1,225 employees in the prior plan, as they are also ESOP participants.

Investor Information

Dividend Declaration Dates

Usually the middle of each quarter to shareholders of record approximately the middle of April, July, October and January.

Dividend Payment Dates

Usually the last of April, July, October and January.

Dividend Disbursing Agent

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

Dividend Reinvesting Agent

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

Dividend Policy

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

Lowe's Telephone

(919) 651-4000

Lowe's Telex

510-922-5737

Lowe's Mailing Address

Box 1111
North Wilkesboro, NC 28656-0001

Lowe's Street Address

State Highway 268 East (Elkin Highway)
North Wilkesboro, NC 28659-1111

Shareholder Services

Shareholders' and security analysts' inquiries should be directed to:

W. Cliff Oxford
(919) 651-4631

or Clarissa A. Story
(919) 651-4254

Lowe's Companies, Inc.
Box 1111
North Wilkesboro, NC 28656-0001
(919) 651-4000
Telex 510-922-5737

Annual Meeting Date

May 27, 1988 at 10:00 a.m.
Grove Park Inn
290 Macon Avenue
Asheville, NC

Stock Transfer Agents

Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
Vicki Decker
(919) 770-5822

Morgan Shareholders Services Trust Co.
30 West Broadway
New York, NY 10015
Information contact:
Sadie Griffo
(212) 587-6350

Stock Registrars

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

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, NY 10005

Lowe's Common Stock

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

Pacific Stock Exchange
301 Pine Street
San Francisco, CA 94104

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

General Counsel

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

Certified Public Accountants

Deloitte Haskins & Sells
2000 First Citizens Bank Plaza
Charlotte, NC 28202
(704) 372-3560

Disclosure Policy

Lowe's Companies, Inc., for more than 26 years, has maintained a policy of complete and free disclosure of all information needed by investors to determine whether they should buy, sell or hold Lowe's stock. The company seeks new and fresh ways of presenting financial and other information about itself to better inform the investor.

Supplemental Information

26-Year Review

LIFO accounting

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

	5-year performance						Base Year Fiscal 1982
	5-Year CGR	Fiscal 1987	Fiscal 1986	Fiscal 1985	Fiscal 1984	Fiscal 1983	

Stores and People

1 Number of Stores	4.7%	295	300	282	248	238	235
2 Square Footage	15.4	4,773,743	4,452,161	3,641,762	2,980,000	2,529,040	2,337,351
3 Number of Employees	15.8	14,761	14,783	13,317	10,727	8,715	7,080
4 Customers Served (Thousands)	22.0%	40,739	36,346	31,477	23,938	18,889	15,075
5 Average Customer Purchase		\$59.95	\$62.83	\$65.84	\$70.55	\$75.74	\$68.59

Comparative Income Statement (Thousands)

6 Total Sales	18.8%	\$2,442,177	\$2,283,480	\$2,072,569	\$1,688,738	\$1,430,576	\$1,034,032
7 LIFO Credit (Charge)	NM	(3,829)	2,960	3,445	2,686	(5,684)	(1,626)
8 Pre-Tax Earnings ¹	13.8	90,787	108,126	112,865	119,076	96,891	47,525
9 Taxes on Income	9.2	34,833	53,022	53,151	57,633	46,276	22,394
10 Extraordinary Item Net of Tax	NM	—	(2,885)	—	—	—	—
11 Cumulative Effect on Prior Years of a Change in Accounting Principle	NM	5,226	—	—	—	—	—
12 Net Earnings	19.5	61,180	52,219	59,714	61,443	50,615	25,131
13 Cash Flow ²	22.1	108,089	87,858	83,859	79,691	66,575	39,794
14 Cash Dividends Paid	11.7	17,040	15,597	13,199	11,600	11,600	9,800
15 Earnings Retained	23.6%	\$ 44,140	\$ 36,622	\$ 46,515	\$ 49,843	\$ 39,015	\$ 15,331

Dollars Per Share (Weighted Average Number of Shares)

16 Sales	14.7%	\$61.49	\$58.51	\$56.77	\$46.59	\$39.53	\$31.02
17 Earnings	15.5	1.54	1.34	1.64	1.70	1.40	.75
18 Funds From Operations ²	18.0	2.72	2.25	2.30	2.20	1.84	1.19
19 Cash Dividends	8.2	.43	.40	.36	.32	.32	.29
20 Earnings Retained	19.3	1.11	.94	1.27	1.38	1.08	.46
21 Shareholders' Equity	19.7%	\$14.66	\$13.85	\$11.16	\$ 9.42	\$ 8.05	\$ 5.96

Strategic Profit Model ³

22 Asset Turnover (Sales Per Asset Dollar)		\$ 2.52	\$ 2.67	\$ 3.26	\$ 3.24	\$ 3.64	\$ 3.37
23 Return on Sales (Net Earnings as Percent of Sales)		× 2.51%	× 2.29%	× 2.88%	× 3.64%	× 3.54%	× 2.43%
24 Return on Assets		= 6.32%	= 6.11%	= 9.39%	= 11.79%	= 12.89%	= 8.19%
25 Leverage Factor (Asset Dollars Per Equity Dollar)		× 1.79	× 2.10	× 1.86	× 1.79	× 1.98	× 1.73
26 Return on Shareholders' Equity		= 11.31%	= 12.83%	= 17.47%	= 21.10%	= 25.52%	= 14.17%

Comparative Balance Sheet (Thousands)

27 Total Current Assets	15.3%	\$ 552,464	\$ 546,883	\$ 534,649	\$ 432,370	\$ 377,572	\$ 271,535
28 Cash and Short-Term Investments	11.6	43,889	50,013	87,190	84,204	74,249	25,341
29 Accounts Receivable — Net	9.4	117,932	118,693	127,603	97,319	94,658	75,388
30 Inventories (Lower of Cost or Market)	17.4	373,846	368,135	313,143	248,268	205,100	167,535
31 Other Current Assets	17.5	7,325	10,042	6,713	2,579	3,565	3,271
32 Fixed Assets	30.1	453,008	413,220	308,603	195,237	141,238	121,406
33 Other Assets	108.2	21,857	9,116	12,939	6,501	827	559
34 Total Assets	21.2	1,027,329	969,219	856,191	634,108	519,637	393,500
35 Total Current Liabilities	11.4	231,906	257,303	251,669	189,418	168,830	134,999
36 Accounts Payable	11.6	157,089	163,260	168,068	125,003	110,415	90,580
37 Other Current Liabilities	(.3)	43,766	94,043	83,601	64,415	58,415	44,419
38 Long-Term Debt (Excluding Current Portion)	27.1	186,219	152,977	183,909	92,488	51,891	56,233
39 Total Liabilities	18.0	444,893	428,685	448,818	292,760	228,132	194,717
40 Shareholders' Equity	24.0%	\$ 582,436	\$540,534	\$407,373	\$341,348	\$291,505	\$198,783
41 Equity Divided by Long-Term Debt (Excluding Current Portion)		3.13	3.53	2.22	3.69	5.62	3.53
42 Year-End Leverage Factor: Assets Divided by Equity		1.76	1.79	2.10	1.86	1.79	1.98

Shareholders and Shares

43 Shareholders of Record, Year-End	6,163	6,052	6,253	6,372	5,928	5,144
44 Shares Outstanding, Year-End (Thousands) ⁴	39,498	39,624	37,082	36,248	36,248	33,333

Stock Price Range During Year ⁵

45 High (Adjusted for Stock Splits)	\$32.50	\$40.88	\$31.13	\$29.63	\$32.75	\$22.35
46 Low (Adjusted for Stock Splits)	\$15.25	\$23.13	\$20.88	\$16.25	\$18.45	\$ 7.65

Price Earnings Ratio

47 High	21	31	19	17	23	30
48 Low	10	17	13	10	13	10

Base Year Fiscal 1982	Fiscal 1981	Fiscal 1980	Fiscal 1979	Fiscal 1978
235	229	214	209	199
2,337,351	2,232,008	1,998,239	1,931,419	1,817,000
7,080	6,003	5,950	5,804	5,809
15,075	11,973	11,376	11,024	10,013
\$68.59	\$74.17	\$77.67	\$82.02	\$79.20
\$1,034,032	\$888,042	\$883,614	\$904,651	\$793,125
(1,626)	(920)	(6,686)	(7,484)	(8,466)
47,525	33,226	36,277	47,331	45,865
22,394	15,367	17,386	22,376	22,141
—	—	—	—	—
—	—	—	—	—
25,131	17,859	18,891	24,955	23,724
39,794	28,381	29,211	35,019	32,437
9,800	9,376	7,813	6,511	5,209
\$ 15,331	\$ 8,483	\$ 11,078	\$ 18,444	\$ 18,515
\$31.02	\$27.28	\$27.14	\$27.79	\$24.36
.75	.55	.58	.77	.73
1.19	.87	.90	1.08	1.00
.29	.29	.24	.20	.16
.46	.26	.34	.57	.57
\$ 5.96	\$ 5.45	\$ 5.19	\$ 4.89	\$ 4.32
\$ 3.37	\$ 2.94	\$ 2.95	\$ 3.35	\$ 3.28
× 2.43%	× 2.01%	× 2.14%	× 2.76%	× 2.99%
= 8.19%	= 5.91%	= 6.31%	= 9.25%	= 9.81%
× 1.73	× 1.79	× 1.90	× 1.92	× 1.98
=14.17%	=10.58%	=11.99%	=17.76%	=19.42%
\$ 271,535	\$ 195,370	\$ 209,756	\$ 210,913	\$ 189,228
25,341	32,070	15,567	22,959	9,363
75,388	48,107	68,172	66,442	66,836
167,535	113,529	125,104	118,511	111,248
3,271	1,664	913	3,001	1,781
121,406	110,673	91,399	88,695	80,096
559	521	573	291	371
393,500	306,564	301,728	299,899	269,695
134,999	80,199	80,781	84,690	64,081
90,580	47,959	52,003	45,567	44,833
44,419	32,240	28,778	25,245	10,694
56,233	48,864	51,929	56,112	64,961
194,717	129,063	132,710	140,802	129,042
\$198,783	\$177,501	\$169,018	\$159,097	\$140,653
3.53	3.63	3.25	2.84	2.17
1.98	1.73	1.79	1.89	1.92
5,144	5,415	4,620	5,147	4,750
33,333	32,555	32,555	32,555	32,555
\$22.35	\$11.36	\$ 9.95	\$ 8.20	\$10.40
\$ 7.65	\$ 6.30	\$ 5.35	\$ 6.50	\$ 6.60
30	21	17	11	14
10	11	9	8	9

FIFO accounting

Fiscal 1977	Fiscal 1976	Fiscal 1975
175	150	130
1,570,000	1,330,000	1,209,000
5,274	4,378	3,574
8,224	7,033	5,702
\$72.27	\$66.12	\$59.78
\$594,358	\$465,052	\$340,882
—	—	—
42,487	34,295	20,811
21,056	16,984	10,319
—	—	—
—	—	—
21,431	17,311	10,492
27,643	22,288	14,669
2,735	1,272	1,171
\$ 18,696	\$ 16,039	\$ 9,321
\$18.26	\$14.29	\$10.47
.66	.53	.32
.85	.68	.45
.08	.04	.04
.57	.49	.29
\$ 3.47	\$ 2.90	\$ 2.40
\$ 3.00	\$ 3.01	\$ 2.26
× 3.61%	× 3.72%	× 3.08%
=10.83%	=11.22%	= 6.96%
× 2.10	× 1.97	× 2.24
=22.74%	=22.12%	=15.60%
\$ 186,198	\$ 146,448	\$ 108,784
13,324	15,620	11,574
76,162	52,322	38,533
96,164	77,963	58,223
548	544	454
60,210	50,434	45,127
401	859	452
246,809	197,741	154,363
87,709	66,705	42,964
60,324	42,942	29,727
27,385	23,764	13,236
46,244	36,664	33,156
133,953	103,370	76,120
\$112,857	\$ 94,371	\$ 78,243
2.44	2.57	2.36
2.19	2.10	1.97
4,588	3,846	3,755
32,555	32,555	32,555
\$13.10	\$13.73	\$12.40
\$ 8.70	\$10.60	\$ 5.33
20	26	39
13	20	17

Fiscal 1974	Fiscal 1973	Fiscal 1972	Fiscal 1971	Fiscal 1970	Fiscal 1969	Fiscal 1968	Fiscal 1967	Line #
116	100	86	75	64	58	53	44	1
1,046,000	832,000	635,000	489,000	379,653	316,000	294,678	263,317	2
3,598	3,296	2,630	2,071	1,670	1,450	1,223	1,017	3
5,321	4,717	3,820	3,194	2,729	2,290	2,034	1,755	4
\$68.12	\$69.29	\$61.40	\$53.13	\$47.09	\$51.98	\$47.70	\$43.14	5
\$362,453	\$326,846	\$234,556	\$169,723	\$128,491	\$119,053	\$97,031	\$75,695	6
—	—	—	—	—	—	—	—	7
29,287	25,393	18,143	13,027	9,938	9,514	7,202	5,151	8
14,670	12,665	9,022	6,479	5,068	4,906	3,609	2,381	9
—	—	—	—	—	—	—	—	10
—	—	—	—	—	—	—	—	11
14,617	12,728	9,121	6,548	4,870	4,608	3,593	2,770	12
18,075	15,519	11,416	8,174	6,091	5,559	4,419	3,564	13
1,045	1,017	946	907	844	780	756	661	14
\$ 13,572	\$ 11,711	\$ 8,174	\$ 5,641	\$ 4,026	\$ 3,828	\$ 2,837	\$ 2,109	15
\$11.22	\$10.27	\$ 7.40	\$ 5.38	\$ 4.07	\$ 3.77	\$ 3.08	\$ 2.45	16
.45	.40	.29	.21	.15	.15	.11	.09	17
.56	.49	.36	.26	.19	.18	.14	.12	18
.03	.03	.03	.03	.03	.02	.02	.02	19
.42	.37	.26	.18	.13	.12	.09	.07	20
\$ 2.08	\$ 1.63	\$ 1.24	\$.97	\$.79	\$.66	\$.54	\$.45	21
\$ 2.88	\$ 3.65	\$ 3.40	\$ 3.43	\$ 3.09	\$ 3.37	\$ 3.24	\$ 2.65	22
× 4.03%	× 3.89%	× 3.89%	× 3.86%	× 3.79%	× 3.87%	× 3.70%	× 3.66%	23
=11.63%	=14.22%	=13.20%	=13.25%	=11.72%	=13.03%	=11.98%	= 9.70%	24
× 2.43	× 2.28	× 2.26	× 1.99	× 1.99	× 2.08	× 2.15	× 2.42	25
=28.23%	=32.42%	=29.81%	=26.31%	=23.34%	=27.07%	=25.76%	=23.49%	26
\$ 111,943	\$ 96,391	\$ 70,110	\$ 54,911	\$ 38,878	\$ 33,433	\$ 28,617	\$ 24,164	27
12,986	7,859	7,802	6,304	4,658	4,640	4,129	4,814	28
36,850	37,603	27,440	20,944	14,887	14,559	11,880	9,675	29
61,775	50,639	34,475	27,332	19,040	14,183	12,475	9,532	30
331	290	393	331	293	51	133	143	31
38,552	29,238	19,330	14,087	10,390	7,918	6,546	5,729	32
140	85	45	88	148	209	205	99	33
150,634	125,714	89,485	69,086	49,416	41,560	35,368	29,992	34
50,228	55,694	40,217	31,198	21,212	18,505	14,911	12,503	35
32,640	36,101	27,684	21,999	15,178	10,997	9,703	8,425	36
17,588	19,593	12,533	9,199	6,034	7,508	5,208	4,078	37
33,158	18,238	10,014	7,296	3,315	2,192	3,434	3,527	38
83,386	73,932	50,231	38,494	24,527	20,697	18,346	16,033	39
\$ 67,248	\$ 51,782	\$ 39,254	\$ 30,592	\$ 24,889	\$ 20,863	\$ 17,022	\$ 13,959	40
2.03	2.84	3.92	4.19	7.51	9.52	4.95	3.95	41
2.24	2.43	2.28	2.26	1.99	1.99	2.08	2.15	42
3,698	3,704	3,038	2,463	2,117	1,916	1,976	2,154	43
32,293	31,828	31,708	31,573	31,558	31,550	31,523	30,938	44
\$16.27	\$19.20	\$17.70	\$ 9.30	\$ 4.63	\$ 4.86	\$ 3.36	\$ 1.55	45
\$ 8.73	\$12.47	\$ 8.00	\$ 3.33	\$ 2.47	\$ 2.93	\$ 1.55	\$.69	46
36	48	61	44	31	32	31	17	47
19	31	28	16	16	20	14	8	48

Fiscal 1966	Fiscal 1965	Fiscal 1964	Fiscal 1963	Fiscal 1962	Fiscal 1961
39	35	28	22	18	15
231,217	199,537	141,970	103,220	88,580	71,680
891	762	636	555	491	399
1,636	1,284	1,141	883	703	651
\$47.10	\$44.44	\$42.66	\$44.20	\$46.52	\$47.85
\$77,043	\$57,044	\$48,680	\$39,012	\$32,716	\$31,128
—	—	—	—	—	—
5,286	3,942	3,086	2,438	2,054	1,890
2,496	1,896	1,518	1,233	1,034	956
—	—	—	—	—	—
—	—	—	—	—	—
2,790	2,046	1,568	1,205	1,020	934
3,339	2,351	1,765	1,356	1,145	1,067
616	519	460	411	402	102
\$ 2,174	\$ 1,527	\$ 1,108	\$ 794	\$ 618	\$ 832
\$ 2.50	\$ 1.87	\$ 1.63	\$ 1.32	\$ 1.09	\$ 1.04
.09	.07	.05	.04	.03	.03
.11	.08	.06	.05	.04	.04
.02	.02	.02	.01	.01	.03
.07	.05	.04	.03	.02	.03
\$.38	\$.31	\$.26	\$.21	\$.19	\$.17
\$ 3.34	\$ 3.20	\$ 3.11	\$ 2.98	\$ 2.76	\$ 3.32
× 3.62%	× 3.59%	× 3.22%	× 3.09%	× 3.12%	× 3.00%
=12.09%	=11.49%	=10.03%	= 9.20%	= 8.62%	= 9.96%
× 2.43	× 2.31	× 2.47	× 2.31	× 2.34	× 2.57
=29.40%	=26.55%	=24.78%	=21.28%	=20.23%	=25.60%
\$ 23,396	\$ 19,187	\$ 15,350	\$ 13,976	\$ 11,702	\$ 9,305
3,024	3,801	3,374	2,735	1,956	1,299
9,310	7,165	5,586	4,968	3,769	3,108
10,931	8,156	6,337	6,214	5,868	4,801
131	65	53	59	109	97
5,058	3,832	2,381	1,531	1,261	1,229
105	77	73	123	134	1,301
28,559	23,096	17,804	15,630	13,097	11,835
13,630	11,213	7,454	7,123	5,696	4,922
9,496	7,913	5,149	5,036	4,255	3,187
4,134	3,300	2,305	2,087	1,441	1,735
3,127	2,377	2,615	2,139	1,680	1,791
16,765	13,606	10,097	9,304	7,435	6,792
\$11,794	\$ 9,490	\$ 7,707	\$ 6,326	\$ 5,662	\$ 5,043
3.77	3.99	2.95	2.95	3.37	2.81
2.42	2.43	2.31	2.47	2.31	2.35
1,985	1,871	1,967	2,034	2,047	—
30,793	30,458	29,798	29,640	30,000	30,000
\$ 1.38	\$ 1.02	\$.74	\$.42	\$.62	—
\$.87	\$.63	\$.37	\$.30	\$.31	—
15	15	15	11	21	—
10	9	7	8	10	—

Stock splits and stock dividends since 1960

- A 100% stock dividend, effective April 5, 1966, (which had the net effect of a 2-for-1 stock split).
- A 2-for-1 stock split, effective November 18, 1969.
- A 50% stock dividend, effective November 30, 1971, (which had the net effect of a 3-for-2 stock split).
- A 33⅓% stock dividend, effective July 25, 1972, (which had the net effect of a 4-for-3 stock split).
- A 50% stock dividend, effective June 2, 1976, (which had the net effect of a 3-for-2 stock split).
- A 3-for-2 stock split, effective November 2, 1981.
- A 5-for-3 stock split, effective April 29, 1983.

Explanatory notes

- ¹ Before extraordinary item in 1986 and cumulative effect on prior years of a change in accounting principle in 1937.
- ² Cash flow (funds from operations) is defined as the total of net earnings plus depreciation and deferred income taxes.
- ³ See page 36 for explanation of computational method.
- 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.
— Ongoing employee option transactions.
- ⁵ Stock price source:
The Wall Street Journal
NM = not meaningful
CGR = compound growth rate

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Lowe's Profile

Lowe's Companies, Inc. is America's largest specialty retailer of building materials and related products for the do-it-yourself home improvement and home construction markets.

Lowe's 295 stores serve the building and home center needs of customers in 21 states located mainly in the South Atlantic and South Central regions of the United States.

Each Lowe's store combines the merchandise, sales, and service of three businesses: the building contractor business, the consumer durables business, and the do-it-yourself home center business. Thus, uniquely in our industry, Lowe's markets to a triple customer franchise.

Our product assortment, which includes many upscale national brands, is counted in stockkeeping units which currently number more than 26,000. Our average store in 1987 did \$8 million in sales, of which 44% was to professional contractors, 42% to home center customers, and 14% to durables customers.

Our employees numbered 14,761, or an average of 50 per store at the end of 1987.

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

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