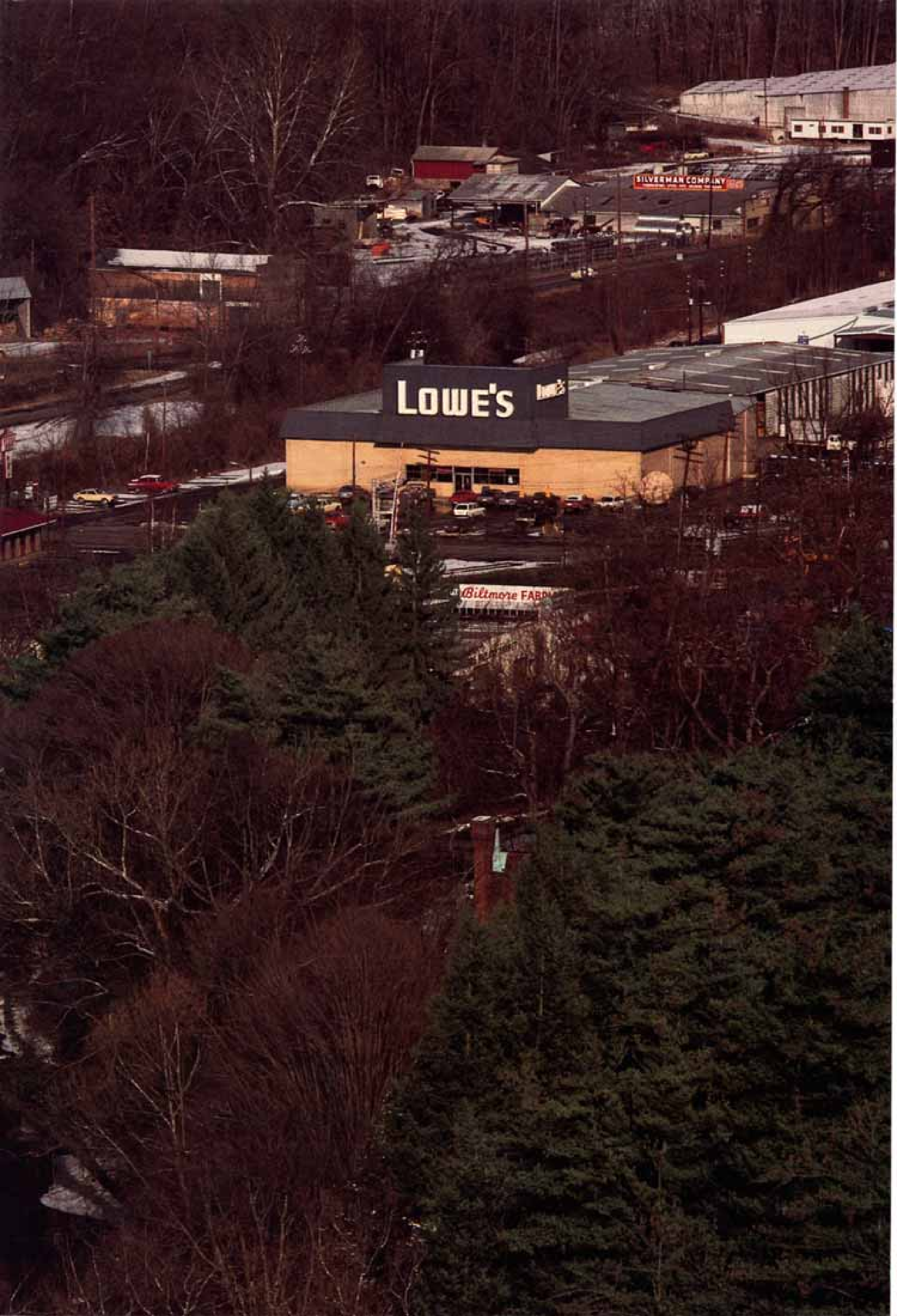
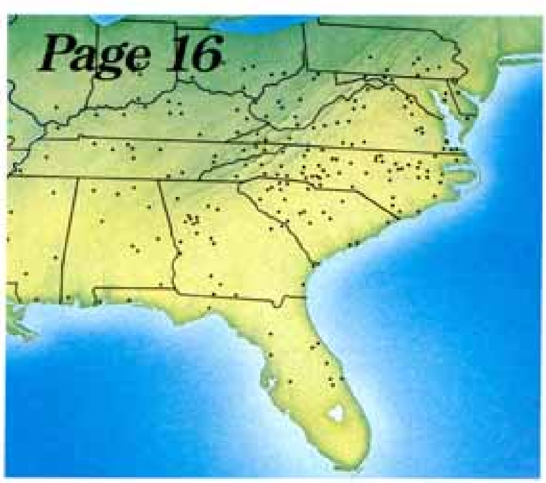
Lowe's 1984 Annual Report

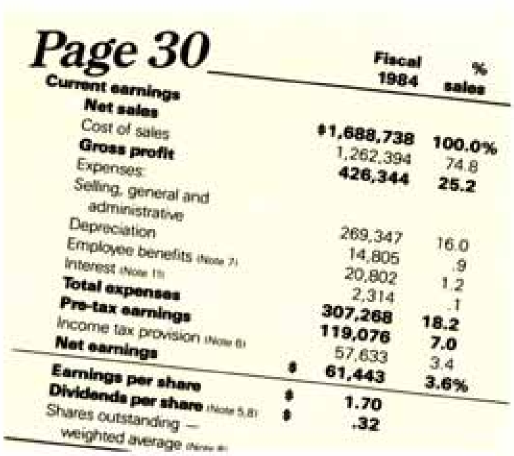

SILVERMAN COMPANY
LOWE'S
Biltmore

Contents


Page 4


Page 14
Boise Cascade
Building
Materials Center


Page 16


Page 30

Current earnings		Fiscal 1984	% sales
Net sales		$1,688,738	100.0%
Cost of sales		1,262,394	74.8
Gross profit		426,344	25.2
Expenses:			
Selling, general and administrative		269,347	16.0
Depreciation		14,805	.9
Employee benefits (Note 7)		20,802	1.2
Interest (Note 11)		2,314	.1
Total expenses		307,268	18.2
Pre-tax earnings		119,076	7.0
Income tax provision (Note 6)		57,633	3.4
Net earnings	$	61,443	3.6%
Earnings per share	$	1.70	
Dividends per share (Note 5,8)	$	.32	
Shares outstanding — weighted average (Note 8)			

Company profile

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

Lowe's presently operates a total of 248 retail stores in 19 states, located principally in the South Atlantic and South Central regions of the United States.

Each store combines the merchandise, service and functions of
- — a lumber yard,
- — a building materials supplier,
- — an air conditioning, heating, plumbing and electrical supply center,
- — a hardware store,
- — an appliance and home electronics dealer,
- — a hard goods discounter, and
- — a professional marketing company.

Merchandise items, many of which are nationally advertised brand names, are counted in stockkeeping units (SKUs) which currently number in excess of 20,000. The typical store stocks approximately 12,000 of these. These items are sold to two major customer groups — Retail Customers and Professional Customers — within the same store facility. The average store in Fiscal 1984 did $7.02 million in business of which 52% was to the Retail Customer and 48% to the Professional Customer.

The company employed 10,727 persons or an average of 43.3 per store at the end of the fiscal year.

Lowe's has been a publicly owned company since October 10, 1961. Its stock has been listed on the New York Stock Exchange since Dec. 19, 1979, on the Pacific Stock Exchange since Jan. 26, 1981, and on The Stock Exchange (London) since Oct. 6, 1981. The shares are traded under the ticker symbol of LOW.

Lowe's general offices are located in the western North Carolina town of North Wilkesboro.

LOWE'S

Lowe's Companies, Inc
Box 1111, North Wilkesboro, NC 28656-0001

Financial Highlights

Fiscal years end on January 31 of following year

	Change	Fiscal 1984	Fiscal 1983
Sales	+18%	$1,688,738,000	$1,430,576,000
Net earnings	+21	61,443,000	50,615,000
Cash flow[1]	+20	79,691,000	66,575,000
Per share:			
Earnings	+21	1.70	1.40
Cash flow[1]	+20	2.20	1.84
Cash dividends	—	.32	.32
At year-end:			
Shareholders' equity	+17	341,348,000	291,505,000
Total assets	+22	$ 635,344,000	$ 520,910,000
Number of stores	+ 4%	248	238

[1] Equivalent to "Funds from operations" in the Consolidated Statements of Changes in Financial Position.

Lowe's 1984 Annual Report

Mr. William A.V. Cecil
President, Biltmore Company

About the cover

Biltmore Estate, three miles from Lowe's store number three in Asheville, North Carolina, at the heart of Lowe's Heartland, is the largest privately owned household in the world. As the largest single purveyor of building materials to householders in the world, Lowe's is proud to feature Biltmore House on our cover, and we're proud to count them as a customer.

After all, a home may or may not be a castle, but the customer is always King!

Robert L. Strickland

Leonard G. Herring

Dear Shareholders:

In last year's letter to you we said that 1983 had been Lowe's greatest year. That is no longer accurate. 1984 surpassed 1983 in substantial measure. Speaking of those two years, in April of '83, we announced to the New York Society of Security Analysts that "1983 and 1984 are in the bag" — that we would achieve increased record sales and earnings in both years, and that we were planning our strategy for 1985 and beyond. So how did that statement hold up? Very well. In fact, the $112 million earned after tax in those two years, surpassed the $111 million earned in total in the five years 1978 through 1982.

Strategic Planning

During 1984, we completed Lowe's first formal and comprehensive five-year Strategic Plan. It was the culmination of work over a period of a year by a carefully selected group of Lowe's executives. The strategic planning process itself, which will be repeated annually, turned out to have enormous intrinsic merit over and above the specific strategies. It was both a management tool and a leadership exercise. Each meeting was a forum — a bully pulpit — a place where ideas could be discussed on their merits and prioritized in the same fashion by the people responsible for carrying them out. So we feel that this work represents a major milestone in the organizational and leadership growth of Lowe's.

Basic Strategic Redirection

This process reemphasized that we now look to retail sales as the driving force for Lowe's growth in sales and earnings, both now and in the future.

And we have formulated several strategies and tactics that are pertinent. However, we have no intention of abandoning our professional business. We are aware that leverage works both ways, as 1983 proved. With the exception of the integrated merchant builders, we are the only full service and full assortment company of major size serving this business in the nation! The challenge is to work out strategies that enable us to participate, and increase earnings during years of upside leverage, and ways to minimize the effects on earnings during times of downside leverage. In summary, Retail is now our Core business; Pro is now our Plus business.

New Market Growth Strategy

We are implementing our new market strategy, called "5+10." We plan to grow the company by 5% per year in new store units, which will be "two-gun" stores, serving both traditional customer groups. We plan to further grow the company by an additional 10% in additional sales floor square footage in existing markets. The mathematics of this work out to be that 5+10 equals 20, because our new stores are so much larger than chain average that we will gain an additional 20% in square footage per year. Consider the growth investment implications of 5+10. This means that we are growing our capacity to serve builders by 5% per year (the new store units). We are growing our ability to increase retail sales by 20% (the additional square footage).

We began 1984 with 238 stores and 2,529,000 square feet of sales floor square footage. We closed the year with 248 stores and 2,980,000 square feet of retail sales space. This modest shortfall in achieving 5+10 goals will be erased by the spring building and grass mowing season in 1985.

New Directions

While our internal expansion growth will continue to be driven by the ambitious "Lowe's Math" outlined above, the company in Fiscal Year 1984 took a bold step in external expansion. In a move that reestablished Lowe's position as an aggressively expanding specialty retailer, we announced in late January an agreement to acquire 23 retail units from Boise Cascade Corporation's Building Materials Distribution Division. This acquisition included 17 units in Central and Northeast Texas and 6 units in Oklahoma. These units offer immediate return as a group of profitable merchants to the professional builder customer in the hottest construction market area in the country. Great potential exists in these stores to increase sales to consumers as Lowe's applies the highly successful RSVP program. Additionally, we look forward to welcoming the employees of these stores into our Lowe's family.

Competitive Profitability

In our own standard of high-level performance — competitive profitability — we continued to improve. We define competitive profitability as a simultaneous increase in market share, and in gross margin. Lowe's has been doing that on a sustained basis, as the table below shows:

	'80–'84 dollar growth rate	Fiscal year				
		1984	1983	1982	1981	1980
Market size (billions)						
United States	+36%	$ 68.7	$ 59.7	$ 50.9	$ 52.1	$ 50.7
South	+55%	$ 26.2	$ 22.7	$ 18.1	$ 17.3	$ 16.9
Lowe's Sales	**+91%**	**$1.689**	**$1.430**	**$1.034**	**$ .888**	**$ .884**
Lowe's LIFO gross margin $	**+107%**	**25.2%**	**25.1%**	**25.2%**	**24.8%**	**23.3%**

In our industry, some people have seemed to think that warehouse retailing would defoliate all competition, and at the very least, a "secular margin erosion" would affect everyone. Therefore, we are particularly pleased with our 1984 increases in both gross margin and market share.

Financial Position

Our financial position remains strong: Shareholders' equity increased to $341 million from $292 million over the previous year, an increase of 17%. And, the total value of shares outstanding, our market capitalization, exceeds one billion dollars every time the share price is $27.75 or higher.

Stock Investment, Splits, and Dividends

As a matter of historical record, here is what has happened to a $1,225.00 investment in 100 shares of Lowe's, bought on the offering date in October, 1961, and held as a long-term investment. At $27.75, 3,000 shares have a market value of $83,250.00, sixty-eight times the original investment.

Date	Action	Received	Total Shares
Oct. 1961	Bought 100 shares	100	100
May 1966	100% Dividend (2 for 1)	100	200
Nov. 1969	Stock Split (2 for 1)	200	400
Dec. 1971	50% Dividend (3 for 2)	200	600
Aug. 1972	33⅓% Dividend (4 for 3)	200	800
June 1976	50% Dividend (3 for 2)	400	1,200
Oct. 1981	50% Dividend (3 for 2)	600	1,800
Apr. 1983	66⅔% Dividend (5 for 3)	1,200	3,000

We are pleased to report that a dividend of 8 cents was paid in each quarter of 1984, bringing the dividend payment for the year to 32 cents per share. Again, historically, one share, which cost $12.25 in 1961 is now thirty shares with a cost basis of just about 41 cents each. Therefore, the 1984 cash dividend rate of 32 cents per share is a 78% yield on the original investment!

Outlook

Ben Gordon, guru editor of *Inside Retailing* has said: "The toughest thing to do is to invest in new strategy." Ben is taking the often made observation (and criticism) that too often American managements concentrate exclusively on the short term at the expense of the long term, and expressing it in a way that we can all understand and relate to. Yet, investing in new strategy is exactly what Lowe's did in 1981 and 1982 that simultaneously curtailed earnings in those years, and laid the foundation for the superior results of 1983 and 1984.

We are currently investing in major new strategic directions for the first time really since 1981 and 1982. 5+10 is an investment in new strategy. The Boise Cascade store purchase is an investment in new strategy. Our strategic planning effort is also. Our 30,000-foot sales floor stores are an investment in new strategy. Our IBM Series I is an investment in increased capacity. Our investment in the Villa Rica Distribution Center is an investment in increased capacity. And increased capacity is per se strategic. None of these things are free of course, because no investment is really free. They represent a concrete expression of management's faith in the long range growth of this industry, the long range consolidation of this industry into fewer but more professionally run chains, and the belief by us that Lowe's qualifies — not only as one of them, but as *the* one.

Partners-In-Interest

In our Mission Statement we identify our customers, our suppliers, our employees and our shareholders as Lowe's Partners-In-Interest. We appreciate the support from our partners, and we will strive to merit your continuing confidence.

Cordial good wishes,

Robert L. Strickland

Leonard G. Herring

Robert L. Strickland
Chairman of the Board

Leonard G. Herring
President and Chief Executive Officer

North Wilkesboro, North Carolina

From Castles to Cattle, to Condos, to Cotton — Lowe's Customers Reign

One of the best known lines in the American language is the one about a home being a castle.

Derived from the legal concept that homes are secure from government invasion, search and seizure, this saying, like so many others in our richly evolving linguistic tradition, has taken on new, different, more colorful meanings. The happy fiction we salute today in the phrase is the comforting thought that really means "what's mine is mine and whatever form it takes it is as good as any king's castle." Not a bad thought for a plural democratic society.

American public policy, for more than four decades, has promoted the goal of home ownership as an important public good — the good flowing from having a nation well-housed. That public policy has given us mortgage exemptions and a related tax system through which savers finance construction.

The remarkable diversity in America is visible at every turn and on every straightaway on every road and every street. Anyone who drives America with eyes beyond traffic signals and oncoming traffic sees this richness in the mosaic our homes contribute.

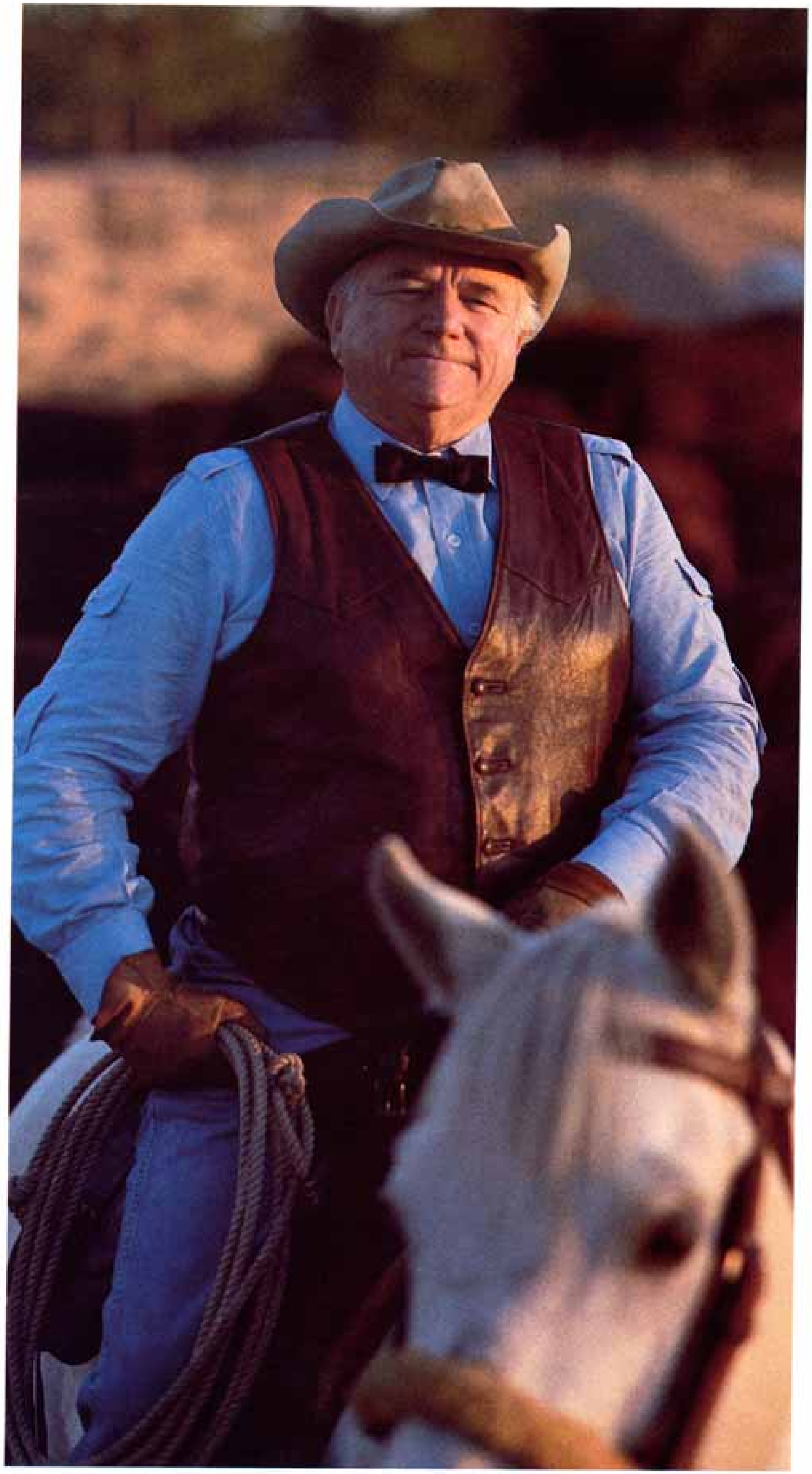
We have created for ourselves something grand and wondrous, unlike any other nation. Today we create homes for routine and daily family life, but we also create other homes. We create homes for vacations — condominiums and hotels. We create homes for travelers — motels, hotels and lodges. We create homes for others — rental property. We create homes for worship — churches, cathedrals, synagogues. We create homes where work is performed — shops, offices, factories. We create homes for fantasy, for fun and adventure; homes for escape and protection. We create homes for those of us who are mighty and for those of us who are not so mighty; for those who are old and for those who are young.

Regardless of the ostensible purpose of the building — whether for sleep, eating, traveler's rest, pilgrim's worship or player's fun, parents' retirement or child's day care — we seek to imbue each of these with a real sense of "home."

Lowe's Land, that region running from the beaches of the Atlantic shore to the far reaches of the Texas plains, encompasses twenty states and more than a quarter of America's millions. Each morning the sun awakens and first energizes

Ken Richards, the beret-wearing Director of Educational Services at Biltmore Estate in Asheville, N.C., and Philippe Jourdain, the French-born and trained winemaker who now directs the new Biltmore Estate Wine Co., are companions in the quest of Biltmore owner William A.V. Cecil to continue to make Biltmore into a working and producing estate. Richards runs a massive educational program, one of whose primary targets is North Carolina school children, and Jourdain directs the building of the winery and the cultivation of the vineyards leading to the winemaking at Biltmore. The multi-million dollar winery project comes 90 years after Mr. Cecil's grandfather, the legendary George Vanderbilt, built Biltmore House with architect Richard Morris Hunt and landscape architect Frederick Law Olmstead. Celebrated as the greatest home in America, it is still operated as a private residence which attracts thousands of amazed and appreciative visitors annually. The magnificent chateau is sited in the mountains of western North Carolina on lands which are now being turned into vineyards for the production of fine table wines in a winery built with materials from Lowe's.

Governor Bill he is called and Governor Bill he is — larger than life in every respect except human size. To recite only one-word descriptions of the careers he's had would take pages; to write one-page synopses of his accomplishments would fill a large book; to dramatize his life on film would take a serial of greater scope and duration than "Dallas." Bill Daniel was the appointed Governor of the U.S. Territory of Guam for President John F. Kennedy and instead of running that Pacific Island like it had been for years, he taught the Guamanians how to farm and ranch, and build schools, hospitals, roads, and a four-year college. He made far-reaching advances in the general economic, social, educational and political development of the entire Territory and taught them a good bit about American democracy — Texas-style — in the process. Lawyer, lawmaker, prosecutor, educator, historical scholar, actor of three parts in the John Wayne movie "The Alamo," showman, cattleman and creator of a new breed of cattle, philanthropist, landman, oilman, farmer, banker, and on and on and on. He is known as Mister Texas. A dynamo of physical energy and mental vitality, born in a November hurricane in 1915, Governor Bill, a Lowe's of Liberty customer, is the persona of Liberty and the personification of liberty.



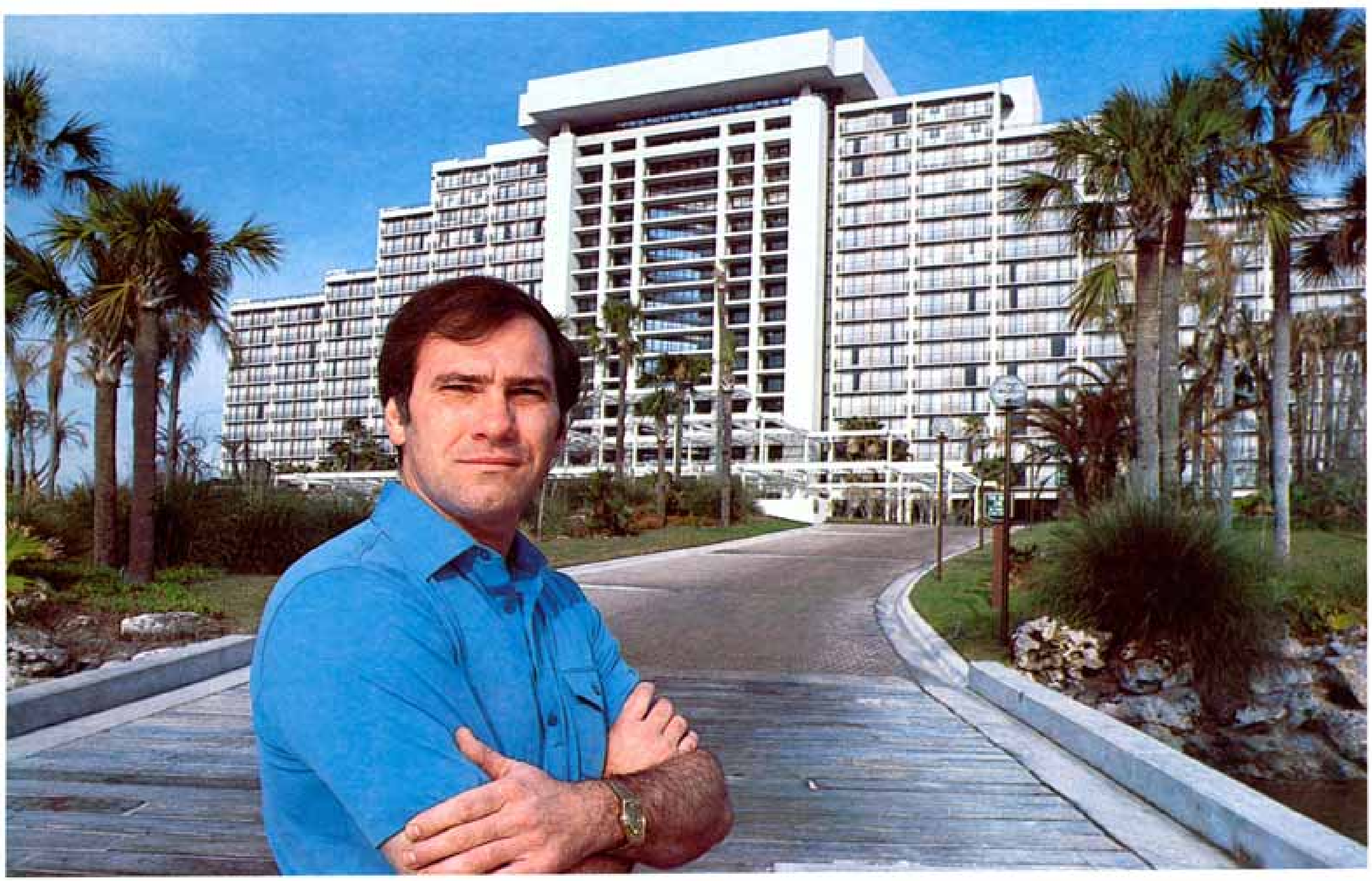
us when it comes over Maryland's eastern shore. It runs a quick course across this region where we live and serve until it banishes the night at our western border near Liberty, Texas, taking only one hour and eight minutes. Only our telecommunications systems can move as quickly and they do not provide nearly the power and the light.

Within this remarkable region — one which has contributed more than a full measure at every turn throughout every American age to the glory we enjoy and assume — is every unique thing we have been able to imagine and create.

Built by men and women, for noble or ordinary purposes, of wood and stone and steel, for practical or fanciful uses, for full or occasional use, for work or play, these structures are our homes.

In these nearly 40 years since Lowe's began, it is not possible to calculate how many homes Lowe's has helped build, how many children it has helped parents to shelter, how many jobs it has provided actively or made possible passively.

The interior of the Hyatt Regency Grand Cypress at Grand Cypress Resort in Orlando, a hotel managed by Hyatt and owned by Dutch Institional Holding Company in Atlanta, Georgia, is as spectacular inside as it is outside. Project Administrator, Steve Gardner, a University of Virginia engineering graduate, is a representative of the planning and development team responsible for the design and construction of the resort — one of the finest in America today. A spectacular feature of the hotel's front entrance is the mass of ceiling fans circulating the air in that area. It may be the world's largest collection of fans for such a novel use. The resort was built by PGGM, Holland's largest private pension fund, who saw the promise of central Florida. Grand Cypress Resort is well on its way to world-class status.



How do you calculate the value of the roof over heads bowed in prayer or voices raised in song, or the buildings where youngsters learn or parents live in relaxed and quiet dignity? How do you measure the value of the work place — the places of machines and mechanics, of shops, shopkeepers and shoppers, of trial and of toil?

From vibrantly dynamic vacation condos, built by young men of vision to ranches wrestled out of the Big East Texas Thicket to be built up, built on and shared in an open and giving fashion by a dynamo of human outreach, these homes Lowe's serves tend to serve all sorts and conditions of Americans.

Through these pages we have brought together an eclectic mixture of Lowe's customers — not the most unique nor the most ordinary we could have found, but ones who are uniquely representative of that wonderful diversity we have across Lowe's Land. It is as varied and exciting in its way as that to be found in a full-flavor ice cream parlor.

It's the mightiest home in America — Biltmore House

George Purnell and his partner Richard Jarvis are builders and developers of some of the finest condominium projects on the Atlantic Coast. Here they are in front of the first phase of Harbor Island, a new project underway at Ocean City, Md., the beach playground for the Washington-Baltimore metropolitan area. "We build things the way that people want them. Our reputation is built on the fact that we never run off and leave a customer after he's bought. We're there if anything goes wrong, but it

seldom does," Purnell says. In a business started by his father, Purnell has taken it over and built it into a mammoth organization which has been involved in apartment and condo construction in Ocean City since the place became popular after World War II. Now 46, Purnell has run the company since his father retired 23 years ago. The Salisbury, Md. Lowe's store serves Purnell-Jarvis and the rest of the eastern shore communities for miles around.

in Asheville, North Carolina, where George Vanderbilt's grandson, William A.V. Cecil, keeps this wonderful place alive for all to see, and where a new winery is bringing a new economic and social venture to this great land.

It's the quietly peaceful home of Mr. and Mrs. Daniel Tedder in Wilkesboro, North Carolina, where love flourishes.

It's in the hundreds of new condominiums along the sandy strand of Ocean City where a second-generation builder-developer, George Purnell, and his partner, Richard Jarvis, anticipate needs and fulfill dreams.

It's a spectacular new resort hotel, the Hyatt Regency Grand Cypress, at Grand Cypress Resort in Orlando, Florida, developed and owned by Dutch Institutional Holding Company of Atlanta, Georgia.

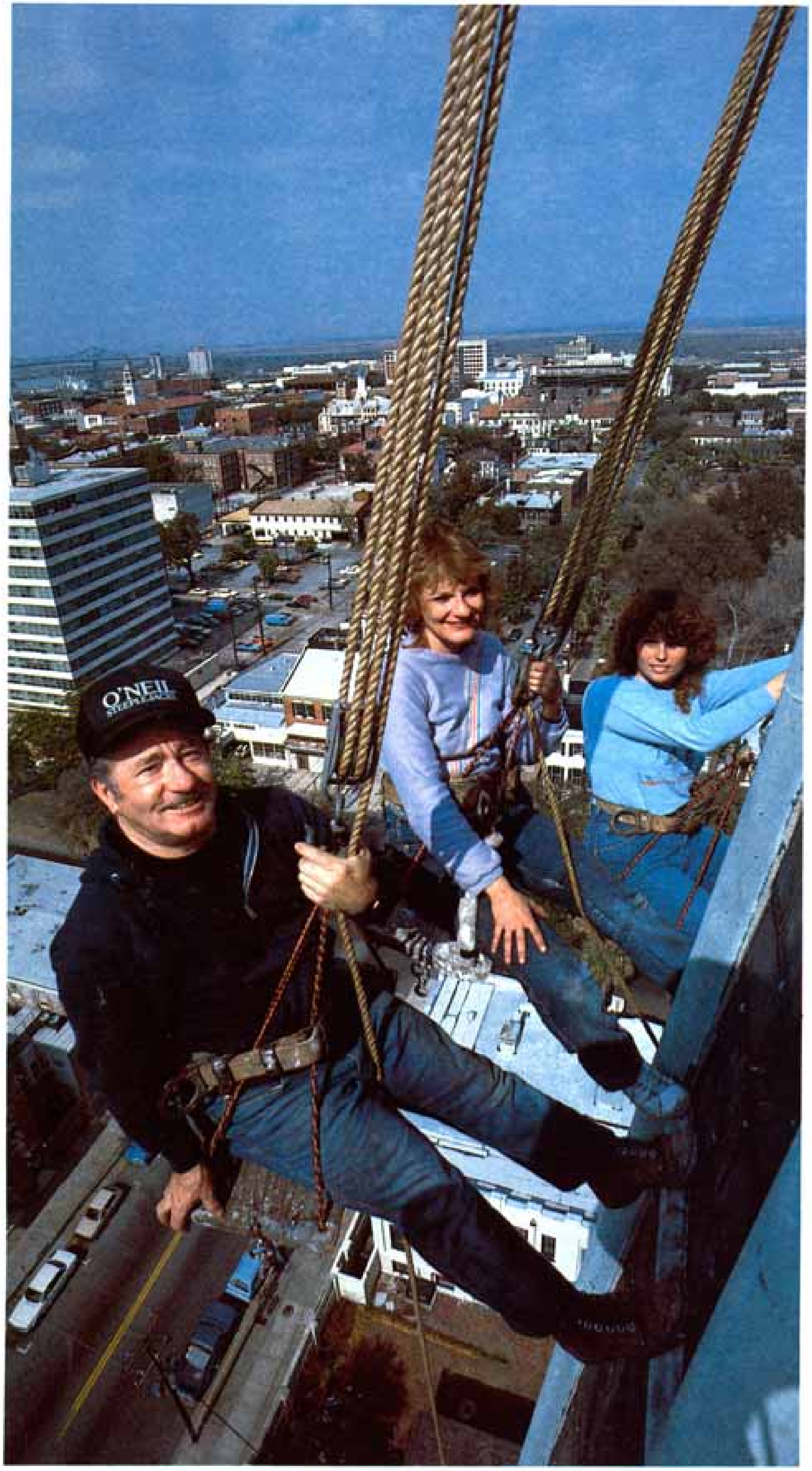
It's the magnificent work of craftsmen-artisan John Dyer in his furniture and cabinetry in Wilkes County, North Carolina; work of vitality and beauty — adding sunshine and substance to the home.

It's the 6000-acre cotton plantation in Cruger, Mississippi — a place called Egypt Plantation — run by William P. Thomas and his father, a place serving the needs of a community of cotton farmers who still grow and provide a unique natural product in an increasingly synthetic world.

It's the O'Neil family of steeplejacks — father, mother, sons and daughters-in-law — of Bay City, Michigan, and St. Augustine, Florida, who defy gravity, vertigo and sundry other hazards to repair roofs and steeples of churches including the century-old Cathedral of St. John the Baptist, the Victorian Gothic seat of the Catholic bishop of Savannah, Georgia.

And it is the ranches, in particular one called Plantation Ranch, of Governor Bill Daniel of Liberty, Texas, a one-man embodiment of the Jeffersonian ideal of citizen-lawyer-lawmaker-prosecutor-philosopher-surveyor-farmer/rancher-banker-public servant. He's that and more — a dash of Barnum and John Wayne, a politician who, when he was President Kennedy's Governor of the U.S. Territory of Guam, taught those Pacific Islanders how to farm and garden and govern themselves.

The comforts of a long life are enjoyed by Mr. and Mrs. Daniel Tedder of Wilkesboro, North Carolina, who have been shopping at Lowe's for three decades. Now that both are retired, except that he still drives a school bus for Woodward Junior High School, the two of them still depend on "the good people at Lowe's to give us good ideas and advice about what's best when we are ready to buy. I love my microwave from Lowe's," Mrs. Tedder says, "it makes things a lot easier."



Jerry O'Neil, a 60-year-old steeplejack from St. Augustine, Fla., hangs from one of the twin spires of the Catholic Cathedral of St. John the Baptist in Savannah, Ga., with his daughters-in-law Linda, 28, and Judy, 33. Three of a six-member steeplejack family, the O'Neils are helping restore the century-old cathedral in Savannah. Mr. O'Neil has worked on more than 90 churches in 11 states in his steeplejacking career. "If I'm where there's a Lowe's store we will definitely shop there for everything you carry that we need — and that's a lot. In 14 years on the road I've even had my wife drive 200 miles to get the right thing from one of your stores to do a job the right way," he says.

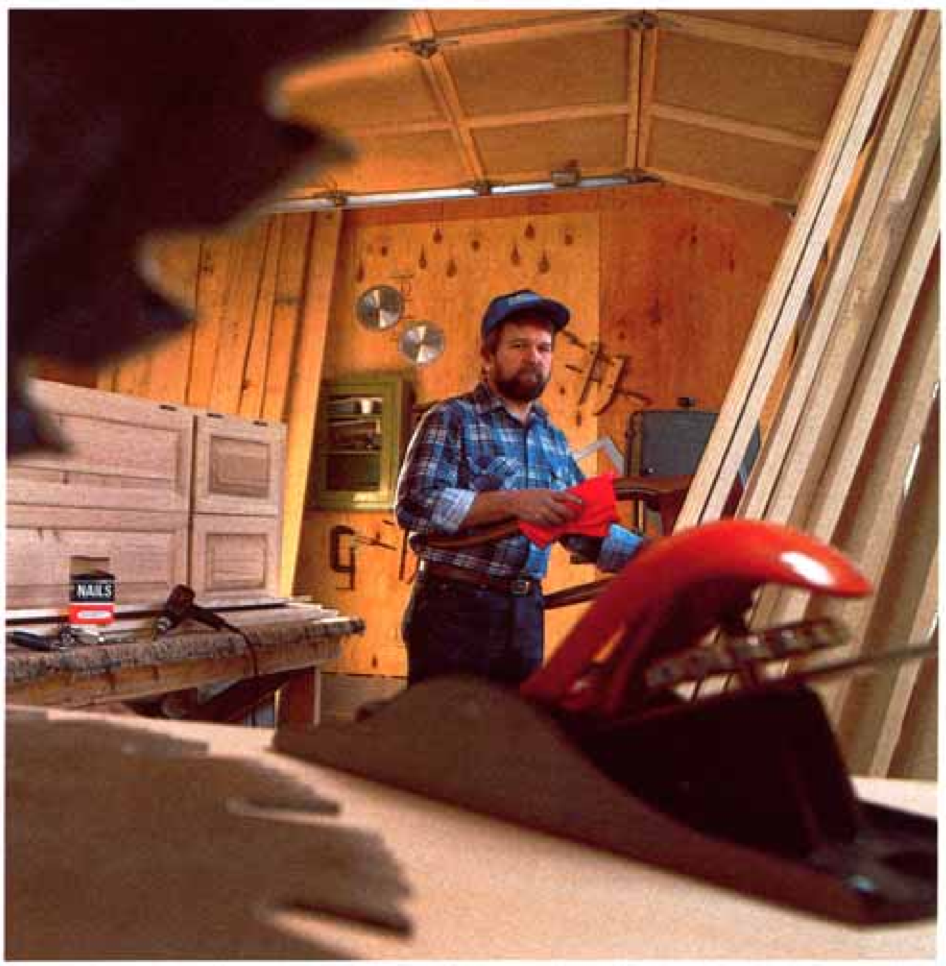

HOLMES GIN CO., INC.
TCHULA, MS

Who shops at Lowe's? Who buys what we sell? What is it used for?

Mr. and Mrs. Tedder shop at Lowe's for a television for their home. And John Dyer buys the materials he transforms into things of beauty and utility. The O'Neils seek out Lowe's stores along the highways wherever their steeplejacking takes them. Condo developers and hotel builders buy from us. That new winery at America's grandest home is being built with our products. Cottonman Bill Thomas in the Mississippi Delta and Gov. Bill, that personification of the spirit of Texas — and America — seek us out.

Wondrous projects our customers create from Lowe's ingredients. Some people think the ingredients are lumber, nails, paint, plumbing, fencing and fans. We know the real ingredients are quality, service, and value, all adding up to customer satisfaction. That's what Lowe's continues to be about.

Egypt Plantation in Cruger, Miss., was founded in 1835 and purchased in 1916 by Bill Thomas's ancestors. He and his father run the 6,000-acre cotton plantation. An attorney by training and profession, 32-year-old Thomas says, "In this business you get bigger or you get out." Last year Egypt Plantation raised, picked, ginned and baled 6,000 bales of cotton. Additionally, the gin and warehouse co-op served about 40 other Mississippi Delta farmers. While he is prepared to go back to a law career, Mr. Thomas, who sees cotton farmers facing stiff competition from foreign countries and the high value of the U.S. dollar, hopes to keep the plantation together and pass it along to another generation of Thomases.



John Dyer, master craftsman of cabinetry and furniture, works in his workshop with oak and walnut and cherry woods found in abundance and in quality in the North Carolina mountains. John has been fashioning wood into items of utility and beauty for 25 of his 40 years. He uses Lowe's as a major source for much of what he transforms from the raw into the finished.

Haltom City, Texas

Marble Falls, Texas

Temple, Texas

On January 28, 1985, Lowe's signed an agreement to purchase 27 operating units from Boise Cascade's Building Materials Distribution Division. This purchase included twenty-three retail locations, two door assembly plants, a large wholesale distribution facility and an auxiliary warehouse. Eight of these retail facilities are located in the general vicinity of Dallas and Fort Worth, nine are located in smaller towns and cities in Central and Northeast Texas and six operate in the state of Oklahoma. The total purchase price for the acquisition will approximate $50,000,000, with about $15,000,000 being paid for the real estate.

The twenty-three retail centers, most of which Boise acquired from Lone Star Industries in 1979, bear an amazing resemblance to a typical Lowe's store of the mid-'70s. The sales floors of these units range from 5,000 to 25,000 square feet, averaging 11,000 square feet — just under Lowe's current average. The average store site encompasses 4.5 acres, identical to Lowe's average and sufficient to serve both retail and professional customers.

The majority of these stores operate in small towns and medium size cities — a market size position that Lowe's has capitalized on since we opened our first store. Like Lowe's, these stores are the retailing force in both the professional customer and the consumer markets in most of their small town locations. In the large markets, Boise holds a strong market share in professional sales, while the clustered retail locations will be able to compete effectively for the consumer sales dollar. The average sales per store of the acquired units in 1984 were almost identical to Lowe's average sales per store. Lastly and most importantly, these stores — every one of them — made a healthy profit in 1984.

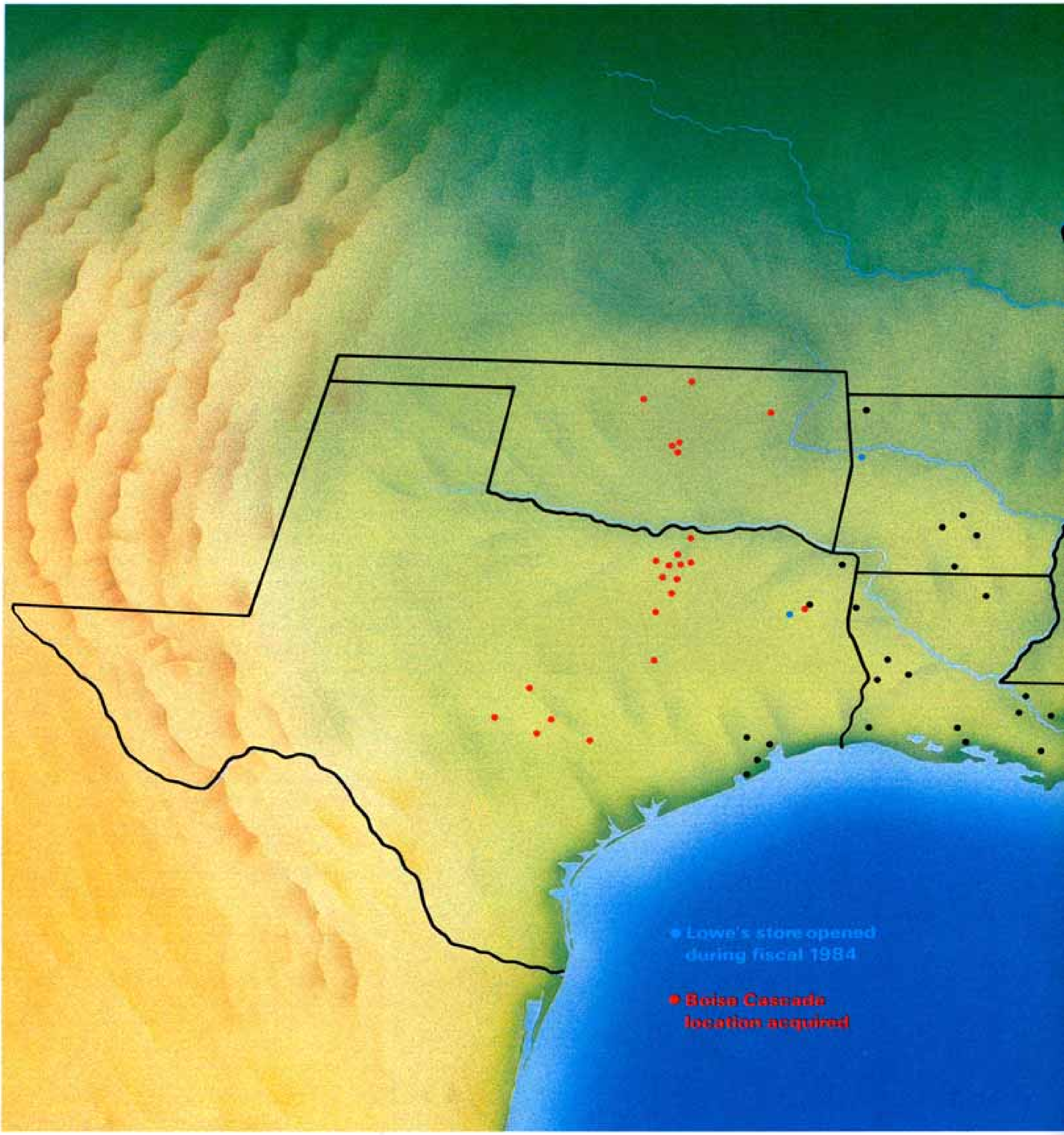
A look at the sales mix of the acquired stores will bring to mind not the typical Lowe's store of today, but a store from the era pre-dating RSVP, the store retrofit program which so successfully enhanced retail sales. The sales mix of 70% to the professional customer and 30% to the retail customer demonstrates an area of great strength for these stores and an area of opportunity. The proven ability of these units to compete in the professional market gives Lowe's a powerful entry into the most active professional sales market in the country. On the retail side, the opportunity exists to repeat the success of the RSVP program that helped double Lowe's retail sales per store during the five years of the program's roll-out. If anything, the impact of Lowe's RSVP should be greater given our five years experience with this retail program.

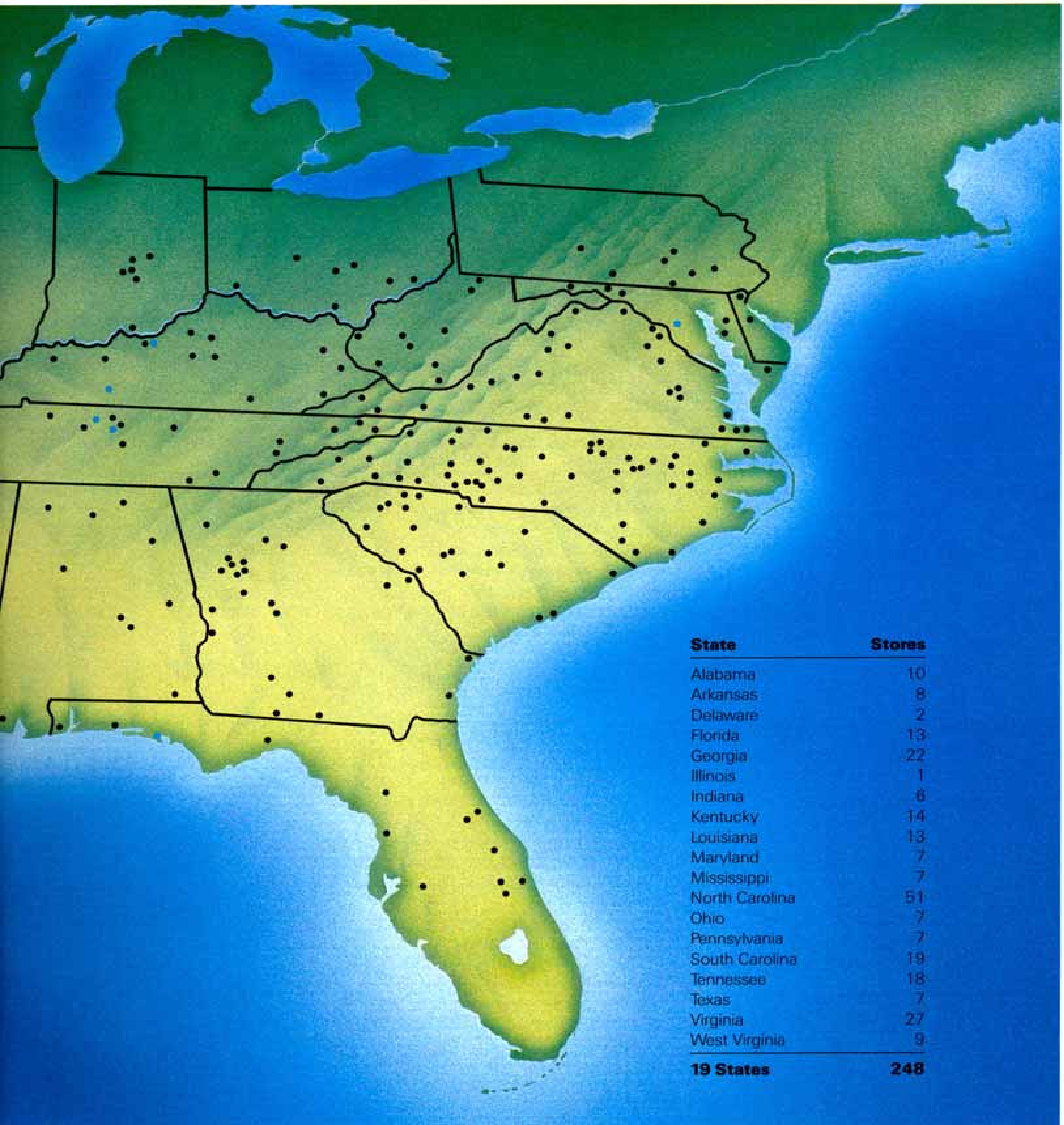
The most important factor in this acquisition is the one which offers the least, if any, opportunity for improvement. This factor is the former Boise Cascade employees. Their high level of motivation and dedication is evident to anyone who visits these twenty-three retail locations. There are 51 employees (out of 800 total) with 20 years or more service with these stores. That percentage of experienced professionals is as high as can be found in any chain in this industry.

This acquisition has two major implications for Lowe's. The immediate and obvious one is the addition of 10% more operating units and the incremental sales, which in 1985 will probably exceed 10% of Lowe's 1984 total.

The second implication is more profound. Lowe's has sent a signal to our investors, and competitors alike that the company will commit to the profitable growth in quantum leaps that opportunistic, compatible acquisitions provide. In the past few years, one analyst has referred to Lowe's as a "sleeping giant" when characterizing our expansion posture. With this opportune, strategic move, we have shed this title. Our growth profile has increased, and we hope our competitors' comfort level has decreased.

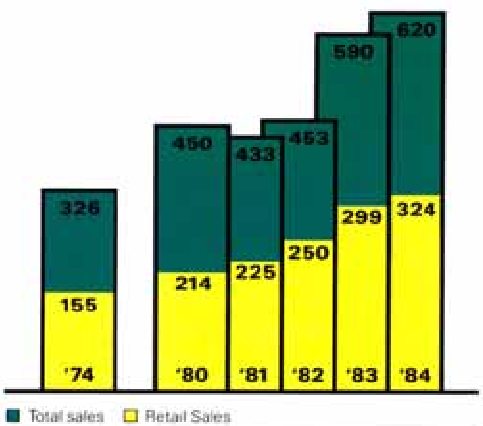
The "sleeping giant" is awake.


Lowe's store opened during fiscal 1984
Boise Cascade location acquired



State	Stores
Alabama	10
Arkansas	8
Delaware	2
Florida	13
Georgia	22
Illinois	1
Indiana	6
Kentucky	14
Louisiana	13
Maryland	7
Mississippi	7
North Carolina	51
Ohio	7
Pennsylvania	7
South Carolina	19
Tennessee	18
Texas	7
Virginia	27
West Virginia	9
19 States	**248**

Sales per square foot
Dollars in thousands



Quietly residing in the middle of page 8 in last year's Investor's Review (the Annual Report part of the Annual Report) is a paragraph about Lowe's new math, which says that 5+10 equals 20! The company states our intention to grow the chain by five percent in new units and by ten percent in additional square footage, added to existing stores and in added stores in existing markets. The "new math" works because the outcome of this twin approach will yield a twenty percent increase in square footage due to the significantly larger size of the new sales floors.

Lowe's embarked on this program in 1984, beginning the year with 238 stores and 2,529,000 square feet of sales floor. We closed the year with 248 stores and 2,980,000 square feet, for an 18% increase in square footage. Certain zoning and construction delays caused three stores to be late in opening; however, they will be open for business by the spring selling season of 1985, and we will be comfortably ahead of our 3,000,000 square foot target at that time.

If Lowe's new math is a recent subject, Lowe's expansion geography is a traditional favorite course. As we have done so successfully in the past, Lowe's spent the majority of its capital for expansion in small cities and a portion in a few larger markets that have proven successful for us. The company invested in the high performing markets of Nashville (three new stores and relocating our

Sales analysis: comparable vs new stores
Dollars in millions

	1984
Stores open at end of year	248
Percent change total sales	**+18**
Total sales	$1,688.7
Number of comparable stores	238
Percent change comparable store sales	**+17**
Sales of comparable stores	$1,672.0
Sales of comparable stores previous year*	$1,426.8
Number of new stores	10
Sales of new stores	$ 16.7

*The company has closed six stores since Fiscal 1978: one each in May, 1979; September, 1979; January, 1980; June, 1980; and two in January, 1984.

Sales floor size and productivity
Dollars in thousands

	1984
1. Stores open at end of year	248
2. Weighted average stores open during year (1)	240.5
Average sales floor size	
3. Total sales floor square footage, end of year	2,980,000
4. Average sales floor size, end of year (2)	**12,016**
5. Weighted average sales floor square footage during year (3)	2,722,701
Sales results	
6. Total sales	$1,688,738
7. Retail sales	880,924
8. Pro sales	807,814
Sales per square foot	
9. Total sales per square foot (4)	620
10. Retail sales per square foot (5)	**324**
Average store sales	
11. Total sales per average store (6)	7,022
12. Retail sales per average store (7)	3,663
13. Pro sales per average store (8)	$ 3,359

(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.

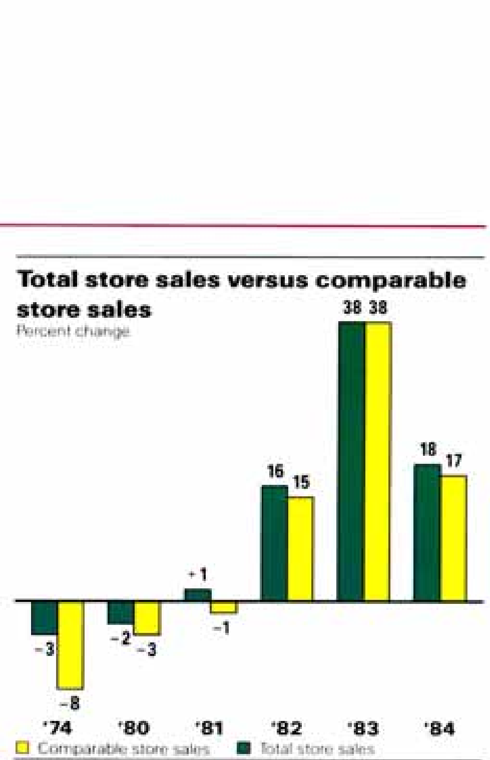
original store). And, Lowe's continued a longtime love affair with smaller markets by expanding in such markets as Tyler, Texas; Bowling Green, Kentucky; Panama City, Florida; and Ft. Smith, Arkansas.

Amidst the numbers and the locations, two other events of significance mark the 1984 expansion program. The first is the beginning of the "super-retrofit" program as a tool to extend the capacity and reposition a store in a good Lowe's market. This program which brings the store's sales floor up to a "super" size of 25,000 square feet and infuses the latest in sales floor merchandising, proved successful in the first three units opened in the spring, and was further refined in the later 1984 super-retrofit stores.

The second event worthy of note was the opening in November of an experimental 54,000 square foot store in the St. Matthews suburb of Louisville, Kentucky. This store, the foremost example of upscale discounting in the industry, provides the company with a large store — large market prototype utilizing previously existing retail space, and serves as a market research store.

With the blending of the Boise Cascade acquisition with our 5+10 plan, and the early success of our larger stores, Lowe's expansion has gained profitable momentum.

Total store sales versus comparable store sales
Percent change

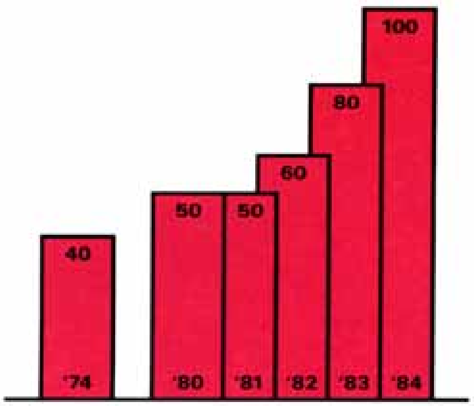


1983	1982	1981	1980	1974
238	235	229	214	125
+38	**+16**	**+1**	**-2**	**-3**
$1,430.6	$1,034.0	$888.0	$883.6	$346.3
235	229	214	208	105
+38	**+15**	**-1**	**-3**	**-8**
$1,428.1	$1,020.9	$875.9	$871.1	$326.7
$1,034.0	$ 888.0	$881.6	$902.0	$356.0
5	6	15	6	20
$ 2.5	$ 13.1	$ 12.2	$ 12.5	$ 19.6

1983	1982	1981	1980	1974
238	235	229	214	125
235.6	232.2	216.0	211.9	115.8
2,529,040	2,337,351	2,232,008	1,998,239	1,145,000
10,626	**9,946**	**9,703**	**9,290**	**9,160**
2,423,382	2,281,249	2,051,244	1,963,385	1,061,365
$1,430,576	$1,034,032	$ 888,042	$ 883,614	$ 346,343
723,585	570,744	461,212	419,775	164,326
706,991	463,288	426,830	463,839	182,017
590	453	433	450	326
299	**250**	**225**	**214**	**155**
6,072	4,453	4,111	4,170	2,991
3,071	2,458	2,135	1,981	1,419
$ 3,001	$ 1,995	$ 1,976	$ 2,189	$ 1,572

(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.

Customer count growth
Number per store in rounded thousands



Lowe's Marketing Basic

During 1984, we made official policy out of a trend and a course of action that has been noticeable to Lowe's observers for the last few years. We stated, "Retailing is now our Core business, and the Professionals are now our Plus business." Undergirding this strategic redirection are the dynamics of the changing markets summarized on pages 24 and 25, and Lowe's success in this new environment as portrayed in the table below.

At Lowe's, we are seeing change not only in our customer mix, but also in a broadening cross section of customers within the mix. Likewise, change of a refining nature is visually and operationally apparent in our stores ... derived from variations and subtle transitions in consumer tastes, shopping habits and individual interests. We also recognize that our customers have much in common. They appreciate prompt and courteous attention, they expect value at the time of their purchase and efficient service both during and after the sale. Our combined response to these ongoing shifts in consumer diversification and similar customer value traits is the apex of our success ... a desire met and gratification for the customer ... the lifeblood of this enterprise. In keeping, our goal is to satisfy want and need ... the stuff which flows deep through the veins of American lifestyle.

Customers Served

Who are these people trading with Lowe's? They are men and women, young to old, from all social and economic levels and from both retail and commercial market segments who, because they want to or have to perform home repairs, improvements, special projects, or new construction look to Lowe's for merchandise and assistance. Who we service, what we serve, and how we serve it is such an important measurement that we track our total transactions every day for every store. Growth in the number of customers served measures acceptance of our products and services, and Lowe's customer transactions grew from 5.35 million in 1974 to 23.4 million in 1984. Our average store rang up 100,000 transactions this year, an all-time historical mark for Lowe's and a record over twice that of the average Lowe's store doing business in the mid-1970s.

Retail Customers

Our retail customers are principally the myriad of homeowners and do-it-yourselfers who, by the sheer joy of personal satisfaction in accomplishing a task and by the realization of economic value in eliminating the repairman, have a need or desire to enhance something in or about their living space. From replacing a water heater, to fixing a leaking faucet or repairing a roof, to hanging wallpaper or laying carpet, to adding a garage or building a doghouse ... Lowe's is there to help them. How do we satisfy the demands of our retail customers? ... through product, service and convenience. We have extended our hours of operation, we

Customer purchase trends Dollars in thousands	**1984**
Total sales	$1,688.7
Percent change from prior year	+18
Retail sales	**$ 880.9**
Percent change from prior year	+22
Percent of total	**52**
Pro sales	**$ 807.8**
Percent change from prior year	+14
Percent of total	**48**

have added more employees to our sales force and to our checkout counters, we have expanded our lines of merchandise and we have established a variety of credit offerings . . . all of which are part of our integrated store merchandising plan. The results? . . . the realization of our goal in having more people shop Lowe's and shop more often.

Professional Customers

In the past, we have defined professional builders as those customers who purchase the products we sell in the course of their business, for nonpersonal use. This group includes home builders, developers, contractors, carpenters, electricians, painters, plumbers, and industrial and institutional purchasing agents. Today this definition still applies but in a vernacular sense. In addition to the "professional builder" who has been and continues to be a cornerstone in the foundation of this company, we are witnessing an emerging new commercial business that is expanding the breadth of our professional customer base. These new customers range from small specialized subcontractors, to film studios, to governmental agencies and private office complexes, to national restaurant chains, hotels, and other retailers. We continue to serve our "professional builders" with diligence as we seek out these "new" professional customers, giving us an opportunity for broadening of our professional business. In doing so, we are developing a portfolio of customers that lessens the vulnerability of our professional business to housing and economic downturns.

Lowe's Customer Purchase Trends

The table below is a five-year recap of Lowe's annual sales to retail and professional customer groups. The results illustrate the positive effects of our RSVP program (an abbreviation for Retail Sales Volume and Profit) which was designed to maximize sales by upgrading the retail sales floor of our stores through remodeling, retrofitting and remerchandising. In 1984, continued and sustained growth in sales was posted by both customer groups representing an 18% cumulative increase over last year. This is significant in that 1983 was a stellar year in sales and profit performance. Retail sales, which have accounted for more than 50% of Lowe's total sales since 1981, again topped the mark with 1984 retail sales reaching 52% of the total. Our emphasis will be to continue increasing our retail sales base without diminishing market share with our professional customers.

Outlook

Most positive. We project 1985 will continue with the same basic trends as shown in 1984. Lowe's will maintain its leadership position and will continue to grow as the premier merchandiser of building materials and selected products in the markets we serve.

1983	1982	1981	1980	1974
$1,430.6	$1,034.0	$ 888.0	$ 883.6	$ 346.3
+38	+16	+1	−2	−3
$ 723.6	**$ 570.7**	**$461.2**	**$419.8**	**$164.3**
+27	+24	+10	+7	+7
51	**55**	**52**	**48**	**47**
$ 707.0	**$ 463.3**	**$426.8**	**$463.8**	**$182.0**
+53	+9	−8	−9	−10
49	**45**	**48**	**52**	**53**

Over the past four years, all categories of Lowe's merchandise have attained compound annual growth rates in excess of 14% with the total average equaling 18%. Listed here is the merchandise we sell, grouped in nine major categories. Our merchandise sales trends table below shows the sales results in each category for 1980 through 1984, with the inclusion of 1974 for purposes of a ten-year historical reference point.

Structural lumber: dimensional lumber, framing, studs, joists, posts, boards, and treated lumber.

Building commodities and millwork: roofing, gypsum, insulation, cement, masonry, plywood, siding, nails, polyethylene, doors, windows and moldings, door and window hardware.

Home decorating and illumination: paint, paneling, floor coverings, wall coverings, window coverings, cabinet hardware, light fixtures, electrical fittings, switchgear, bulbs and chimes.

Kitchens, bathrooms and laundries: refrigerators, dishwashers, freezers, ovens, microwaves, sinks, kitchen cabinets, counter tops, disposals, trash compactors, medicine cabinets, vanities and tops, plumbing fixtures and tile board, washers and dryers, and home care safety products.

Heating, cooling and water systems: water heaters, pipe, fittings, pumps and tanks, room air conditioners, ceiling fans, central heating and cooling, fireplaces and accessories.

Home entertainment: stereo equipment, color and black and white televisions, radios, video tape equipment, telephones, communication product accessories.

Recreation, yard, patio, garden and farm: bicycles, wheel goods, lawn mowers, tillers, gym sets, storage buildings, lawn care products, residential and farm fence, outdoor furniture and metal roofing.

Merchandise sales trends
Dollars in millions

		1984		
	Total sales 4-year CGR	Change from 1983	Total sales	%
Category				
1. Structural lumber	+16%	+12%	$ 303	18
2. Building commodities and millwork	+14	+15	567	33
3. Home decorating and illumination	+21	+23	183	11
4. Kitchens, bathrooms and laundries	+18	+20	170	10
5. Heating, cooling and water systems	+18	+ 9	93	6
6. Home entertainment	+33	+16	59	3
7. Recreation, yard, patio, garden and farm	+23	+36	117	7
8. Tools	+32	+44	36	2
9. Special order sales (SOS)	+20	+25	161	10
Totals	**+18%**	**+18%**	**$1,689**	**100**

*1974 categories not directly comparable to 1980-84 categories. In 1974 mobile homes accounted for $4 million i

Tools: power and hand tools, and accessories.

Special order sales: merchandise not regularly inventoried.

These customer purchase trends illustrate why we have emphasized the expansion and upgrading of our retail sales space. All categories of Lowe's merchandise achieved substantial sales increases in 1984, but the strongest gains were recorded by products predominantly associated with retail sales and the do-it-yourself customer. Tools attained the greatest percentage sales gain posting a 44% improvement over last year. Our recreation, yard, patio, garden and farm category scored another impressive year with a 36% increase in sales. Special order sales, those which represent merchandise not stocked in the stores, were up 25% representing 10% of total sales. Kitchens, bathrooms and laundries rose 20% in sales for another solid year. Structural lumber sales grew 12% and slipped one percentage point in relation to total sales. Building commodities and millwork had another growth year with a 15% advance in sales comprising 33% of our total business. Home decorating and illumination reached impressive results noted by a 23% rise in sales over the previous year.

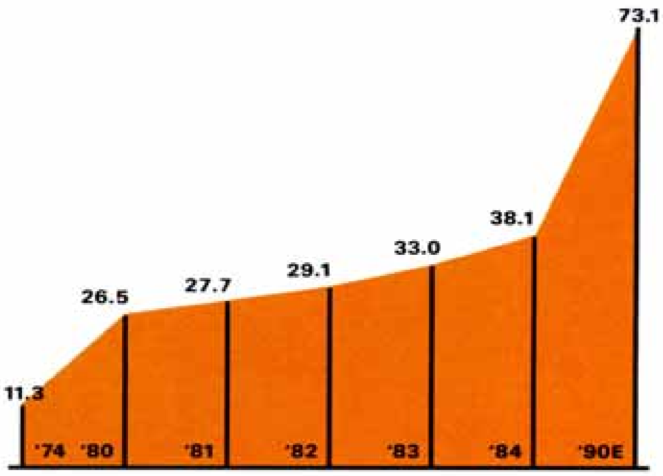
1984 total sales increased by 18% over 1983. Three of our merchandise categories — home decorating and illumination; recreation, yard, patio, garden and farm; and special order sales improved their representation as a percentage to total sales. Three categories — kitchens, bathrooms and laundries; heating, cooling and water systems; and tools did not change in their percentage to total sales. And, three categories — structural lumber; building commodities and millwork, and home entertainment declined in their percentage to total sales, due primarily to price deflation.

We recognize the importance in monitoring our merchandise sales trends to determine the mix of our business and the relationship of the customers we serve and the materials we supply. Our goal is to meet the needs of our customers and to maximize purchasing of materials from both customer groups.

1983		1982		1981		1980		1974*	
Total sales	%	Total sales	%	Total sales	%	Total sales	%	Total sales	%
$ 270	19	$ 177	17	$ 157	18	$ 166	19	$ 55	16
493	34	357	34	316	36	338	38	157	45
149	10	117	11	92	10	86	10	—	—
142	10	105	10	93	10	87	10	23	7
85	6	69	7	62	7	48	5	34	10
51	4	34	3	23	3	19	2	12	3
86	6	69	7	56	6	51	6	24	7
25	2	17	2	14	2	12	1	—	—
129	9	89	9	75	8	77	9	37	11
$1,430	**100**	**$1,034**	**100**	**$888**	**100**	**$884**	**100**	**$346**	**100**

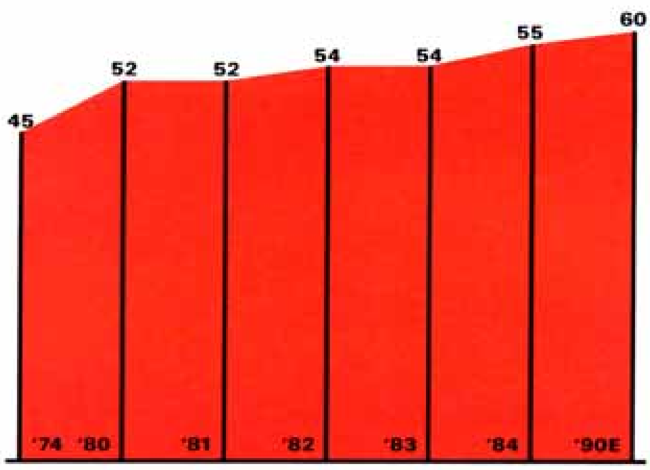
total.

U.S. DIY expenditures
Dollars in billions



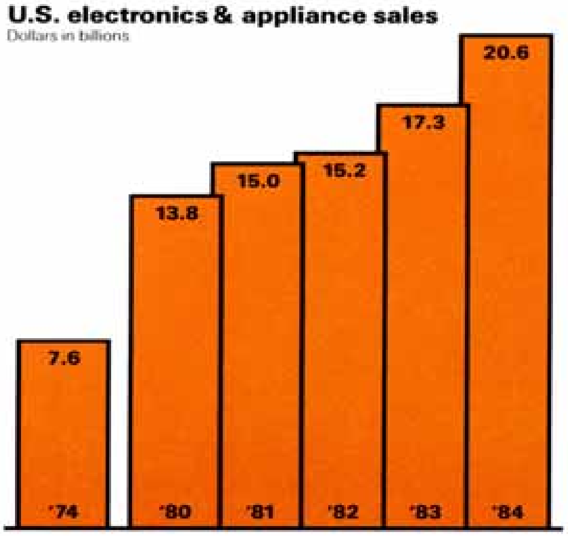
Source: Do-It-Yourself Research Institute

DIY as a percent of total home improvement



Source: Do-It-Yourself Research Institute

U.S. electronics & appliance sales
Dollars in billions



Source: *Retail Sales*, U.S. Dept. of Commerce

In 1974, the do-it-yourself market represented $11 billion in sales and new home construction sales equaled $20 billion. Eight years later, by 1982, the do-it-yourself market had increased over 150%, attaining $29 billion in sales, and new home construction improved 30%, achieving sales of $26 billion. Today, with evidence of continued market growth, we forecast new home construction sales to top $55 billion and do-it-yourself sales to approach $73 billion by the year 1990. Our reasons for predicting such a healthy outlook for the remainder of this decade focus on consumer trends that are both economic and attitudinal.

A recent study by the Do-It-Yourself Research Institute found that 74% of all U.S. households engaged in some form of do-it-yourself activity. Perhaps most significant is that 85% of DIYers feel that spending to increase the value of one's home is a good idea, and 84% think the appearance of one's home represents a true reflection of individual taste, style, social position and personal identity. Further proof of the growth in DIY is the fact that 76% of those polled think the cost of professional labor is too high.

Lowe's retail strength is largely a function of the do-it-yourself phenomenon. Members of the 25-54 year-old age group are more likely to fix up their existing living space than other age groups. Many of their homes were built or inhabited in the 1970's and early 1980's. In fact *6 million* homes were built between 1971 and 1973 and the "fix it" or "fix it up" stage for many items such as roofs, water heaters, televisions, kitchen appliances, carpeting, wallpaper and paint, just to mention a few, has come into play.

There is a distinct difference in the terms "fix it" and "fix it up." Our definition of "fix it" centers around something that needs, out of necessity, to be replaced, serviced or repaired. The homes built in the early 1970's are coming into a major renovation time for new windows, insulation, new heating systems, home security and other elements. For example, asphalt shingles, fortunately for Lowe's, do not last much longer than 15 years. So back in the early 1970's when the professional business was the driving force, we sold the shingles for the first time, and now that DIY is the driving force, we are going to sell the replacements.

Our definition of the term "fix it up" refers to the attitudinal trends of the consumer — the wants and desires that are not necessarily in direct relationship with necessity, such as food-shelter-survival. What we are referring to are the wants and desires akin to the values of satisfaction, fulfillment and accomplishment. For example, we reference the joy in having new electronics and appliances, the pleasure of freshly painted walls, the added comfort of an extra bath, or the rewards of a new family room. These "fix it up" projects play an important role in the lifestyles of today's consumer.

Most of us seek out the "good life" — we want it, we work for it, and we express it by the clothes we wear, the cars we drive, and the homes we live in.

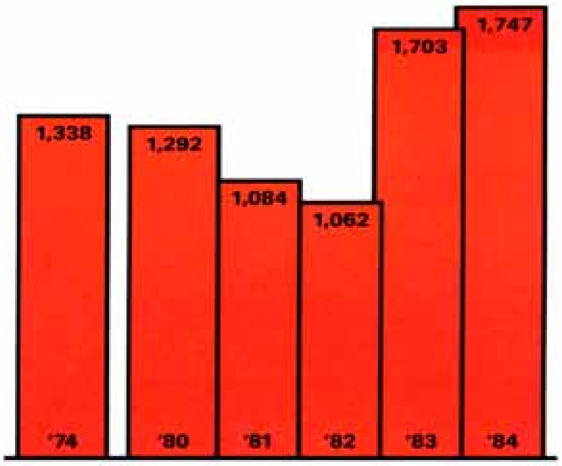
Total U.S. market opportunity

References to the total market for Building Materials/Home Improvement products often cite the convenient and well-known Lumber, Building Materials, Hardware etc. (LBH) figures published by the U.S. Department of Commerce. In 1984 it totaled over $68 billion. We feel this amount understates the total Building Materials/Home Improvement products market.

Basically the LBH number considers a company's primary business rather than sales by product group. Thus, it does not include DIY sales through nontraditional outlets such as mass merchandisers, floor coverings stores and other general merchandise retailers. Also the amount of LBH sold directly to the contractor through wholesalers or other nonretail distribution channels is excluded from the Department of Commerce's LBH totals.

The chart below estimates the total U.S. market opportunity for Building Materials/Home Improvement products, Electronics and Appliances.

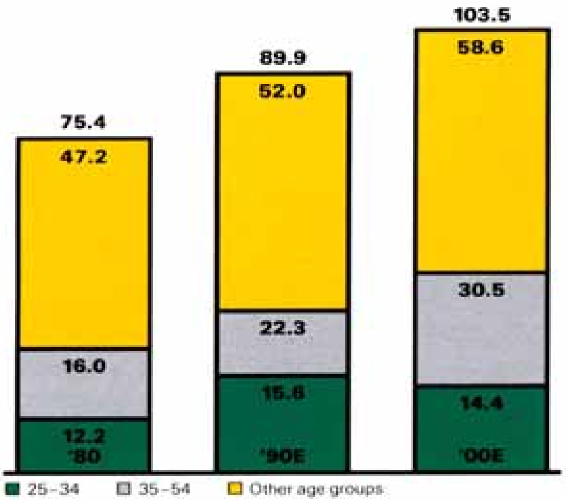
U.S. housing starts
Units in thousands



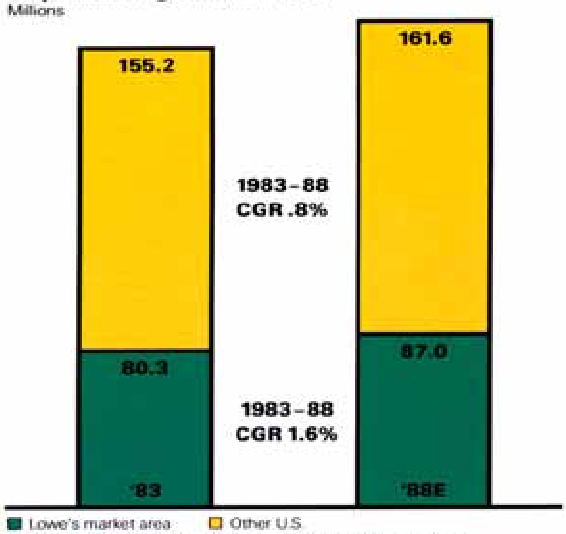
Source: *Housing Starts*, U.S. Dept. of Commerce

Source: Do-it-yourself Research Institute; *Retail Trade*, *Value of New Construction Put In Place*, U.S. Dept. of Commerce
Estimates: Do-it-yourself Research Institute and Lowe's

Demographic trends in Lowe's market area
Millions

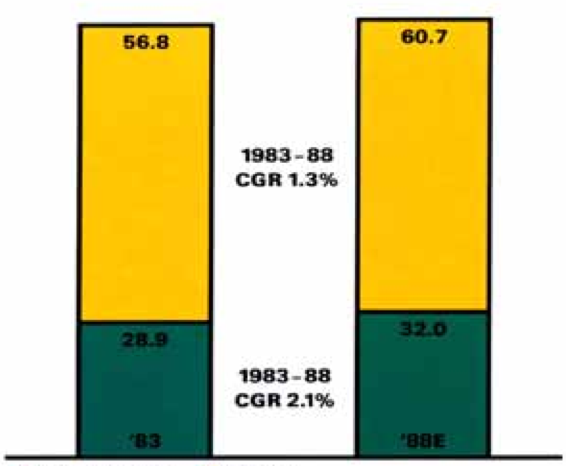


Population growth trends
Millions



Source: *Data Service 1984, Sales & Marketing Management*

Household formation trends
Millions



Source: *Data Service 1984, Sales & Marketing Management*

The phenomenon of the post-war baby boom is important to Lowe's because 25-54 year olds will be in abundance from now until the year 2000 in the Southern region, which we refer to as our market area in this report. These individuals are not only likely to be in the household formation stage but they are prime candidates for repair and fix-up projects. Even though this group rebelled against traditional values in the 60s and 70s, we project they will be just as traditional in values relating to *home* and work, if not more so, than their parents.

Demographic trends
In millions

	Lowe's market area			Other U.S.		
	25–34	35–54	All ages	25–34	35–54	All ages
1980	12.2	16.0	75.4	24.9	32.5	151.1
1990	15.6	22.3	89.9	28.6	40.4	162.0
2000	14.4	30.5	103.5	23.4	50.9	170.2
1980–1990 CGR	**+2.5%**	**+3.4%**	+1.8%	**+1.4%**	**+2.2%**	+.7%
1990–2000 CGR	−.8%	**+3.2%**	+1.4%	−2.0%	**+2.3%**	+.5%

Source: *The Changing Population of States and Regions*, Joint Center for Urban Studies of MIT and Harvard University

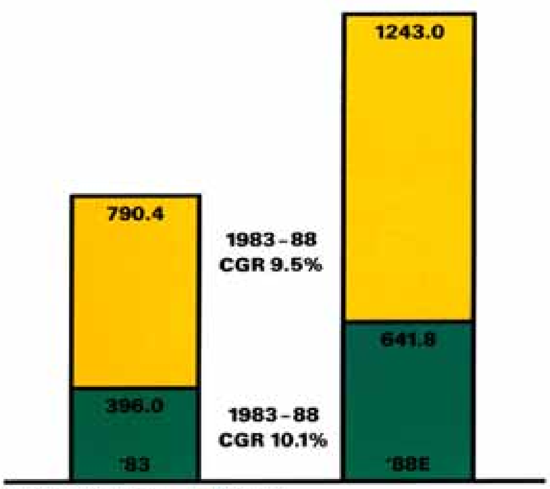
In terms of population growth of 25-54 year olds, two of the fastest growing regions in the country are the East South Central region of Kentucky, Tennessee, Alabama and Mississippi and the West South Central region of Arkansas, Louisiana, Oklahoma and Texas. The growth of these states has been fueled by high rates of inmigration. In fact, some of the southward migration of the 1970s that settled in the South Atlantic states of Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, and to some extent Delaware, will be diverted somewhat in the last decades of the century to the East South and West South Central regions. The migration rates in the South Atlantic states will continue to be high, just slightly behind these other two fast growing regions. All of these states, of course, are in the Lowe's Heartland.

To Lowe's further advantage is the fact that nonmetropolitan growth is expected to continue to outpace growth in the metropolitan areas in most of these states. These "small town booms" are occurring in Tennessee, Kentucky and West Virginia. An increasing nonmetropolitan rate of growth which accompanies a declining rate of growth in the metropolitan areas is occurring in North Carolina, Virginia and Maryland. Georgia, South Carolina, Florida, Alabama, Mississippi, Arkansas, Oklahoma and Texas are showing substantial increases in both metropolitan and nonmetropolitan areas. Pennsylvania, Ohio, Indiana, and Illinois, while showing generally net outmigration patterns, all have shown growth in nonmetropolitan areas in the last two decades.

The end result of these demographic shifts is greater market potential. Effective buying income (personal income less personal tax and nontax payments) should increase as will total retail trade.

Thus, Lowe's position as a dominant merchandiser of building materials and home supplies will rely on successful marketing to this 25-54 year-old age group. Because whether it be toothpaste or two-by-fours, the business history of the latter quarter of the 20th century will look favorably upon those companies that most successfully adapt to this trend.

Retail sales growth
Dollars in billions



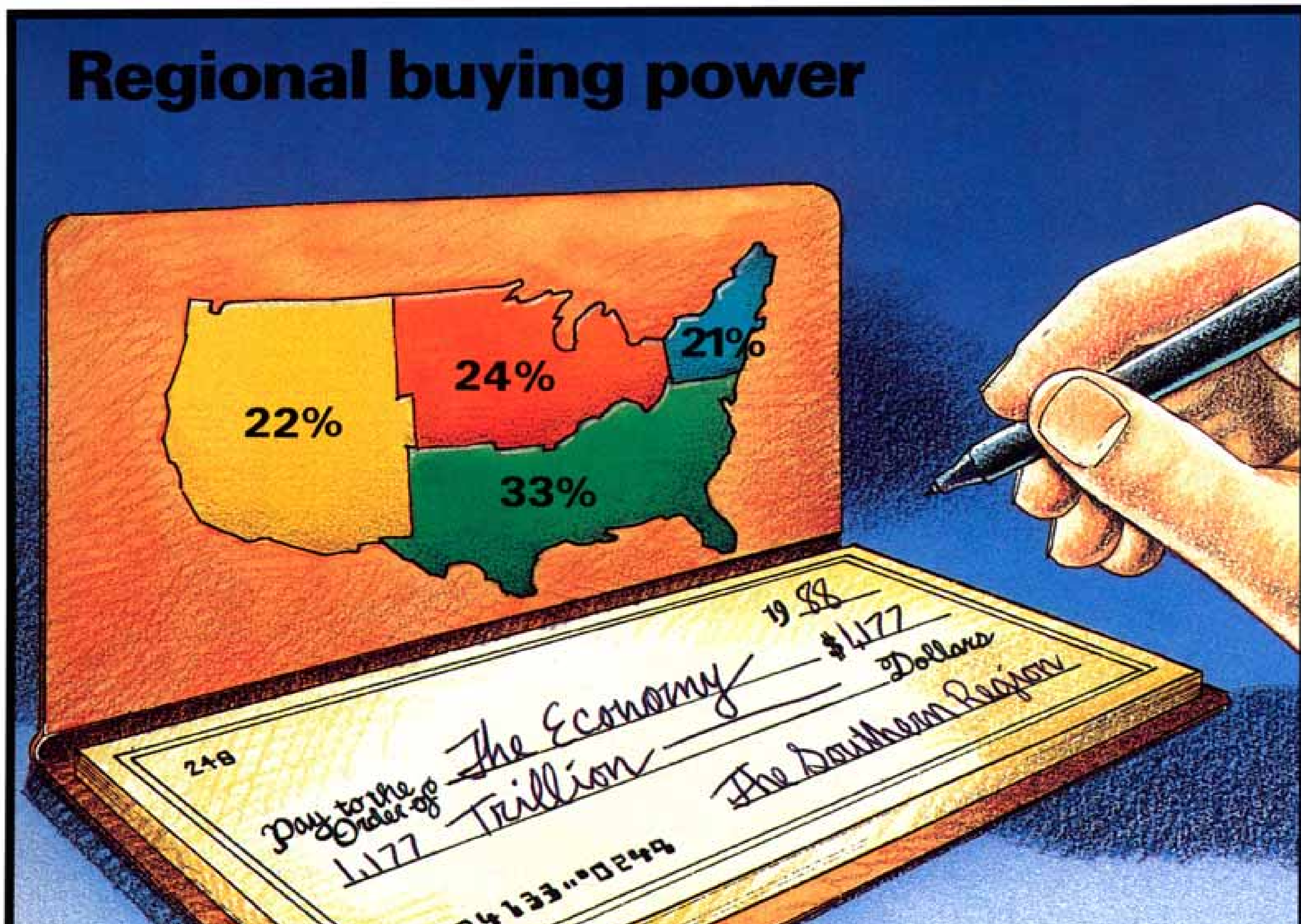
■ Lowe's market area ☐ Other U.S.
Source: *Data Service 1984, Sales & Marketing Management*

Lowe's market share gains
Dollars in millions

	Lumber, building materials, hardware, etc.* Southern region	Lowe's total sales	% of total
1978	$14,909	$ 793	5.3
1980	16,870	884	5.2
1981	17,260	888	5.1
1982	18,114	1,034	6.0
1983	22,710	1,431	6.3
1984	$26,184	$1,689	6.5
6-year CGR	**+10%**	**+13%**	

Source: *Retail Sales*, U.S. Dept. of Commerce

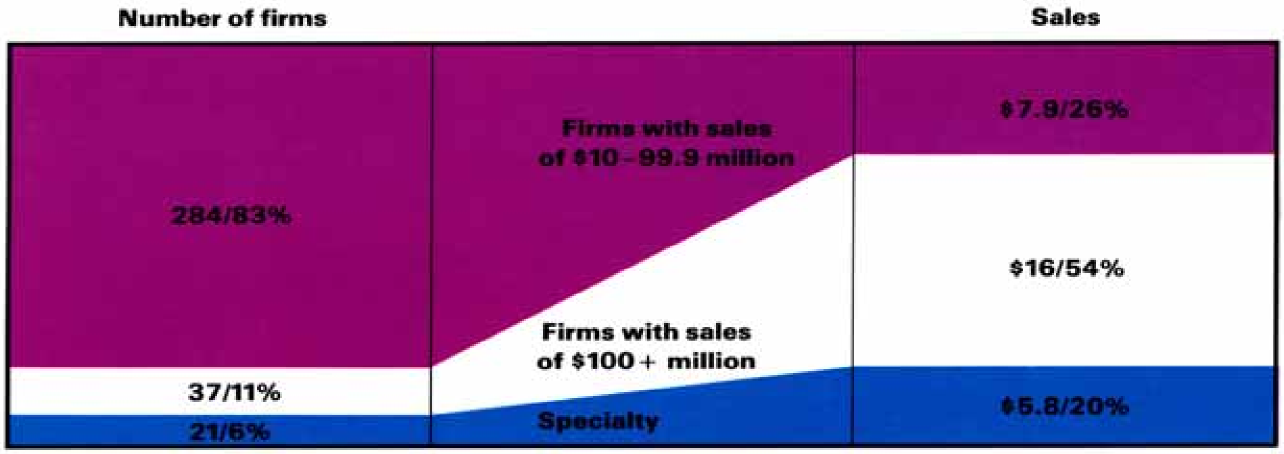
*See page 25 for discussion.



Source: *Data Service 1984, Sales & Marketing Management*

Dynamics of the competition

Fragmentation of the competition
Dollars in billions



Source: *Building Supply & Home Centers*

Fragmentation of the competition
Dollars in billions

	Sales of $100 million plus	Sales of $50-99.9 million	Sales of $25-49.9 million	Sales of $15-24.9 million	Sales of $10-14.9 million	Specialty and mass merchandisers*	Total
Number of firms	37	35	78	96	75	21	342
Percent of total giants	11	10	23	28	22	6	100
Sales of group	$16.0	$2.5	$2.6	$1.9	$.9	$5.8	$29.7
Percent of total giants	54	8	9	6	3	20	100

*Home center chains that do not carry building material commodities or lumber, includes Sears, Sherwin Williams, Montgomery Ward, Standard Brands, Color Tile, etc.
Source: *Building Supply & Home Centers*

The top 10 building supply giants*
Dollars in billions

Ranking	1984	1983	1982	1981	1980	1974
First	**Lowe's**	Kmart	Kmart	Wickes	Wickes	Wickes
Second	Kmart	**Lowe's**	**Lowe's**	Kmart	Kmart	National
Third	W.R. Grace	W.R. Grace	Wickes	**Lowe's**	**Lowe's**	**Lowe's**
Fourth	Wickes	Wickes	W.R. Grace	W.R. Grace	Evans	Evans
Fifth	Payless Cashways	Payless Cashways	Evans	Carter	W.R. Grace	Kmart
Sixth	Evans	Evans	84 Lumber	Evans	84 Lumber	84 Lumber
Seventh	84 Lumber	84 Lumber	Cook United	84 Lumber	Boise Cascade	Diamond
Eighth	Pay 'N Save	Scotty's	Payless Cashways	Payless Cashways	Diamond	Vornado
Ninth	Sutherland	Sutherland	Pay 'N Save	Pay 'N Save	Payless Cashways	Triangle
Tenth	Home Depot	Hechinger	Scotty's	Boise Cascade	Scotty's	Handy Dan
Sales of the group	**$10.0**	**$8.5**	**$7.6**	**$6.8**	**$6.3**	**$2.4**

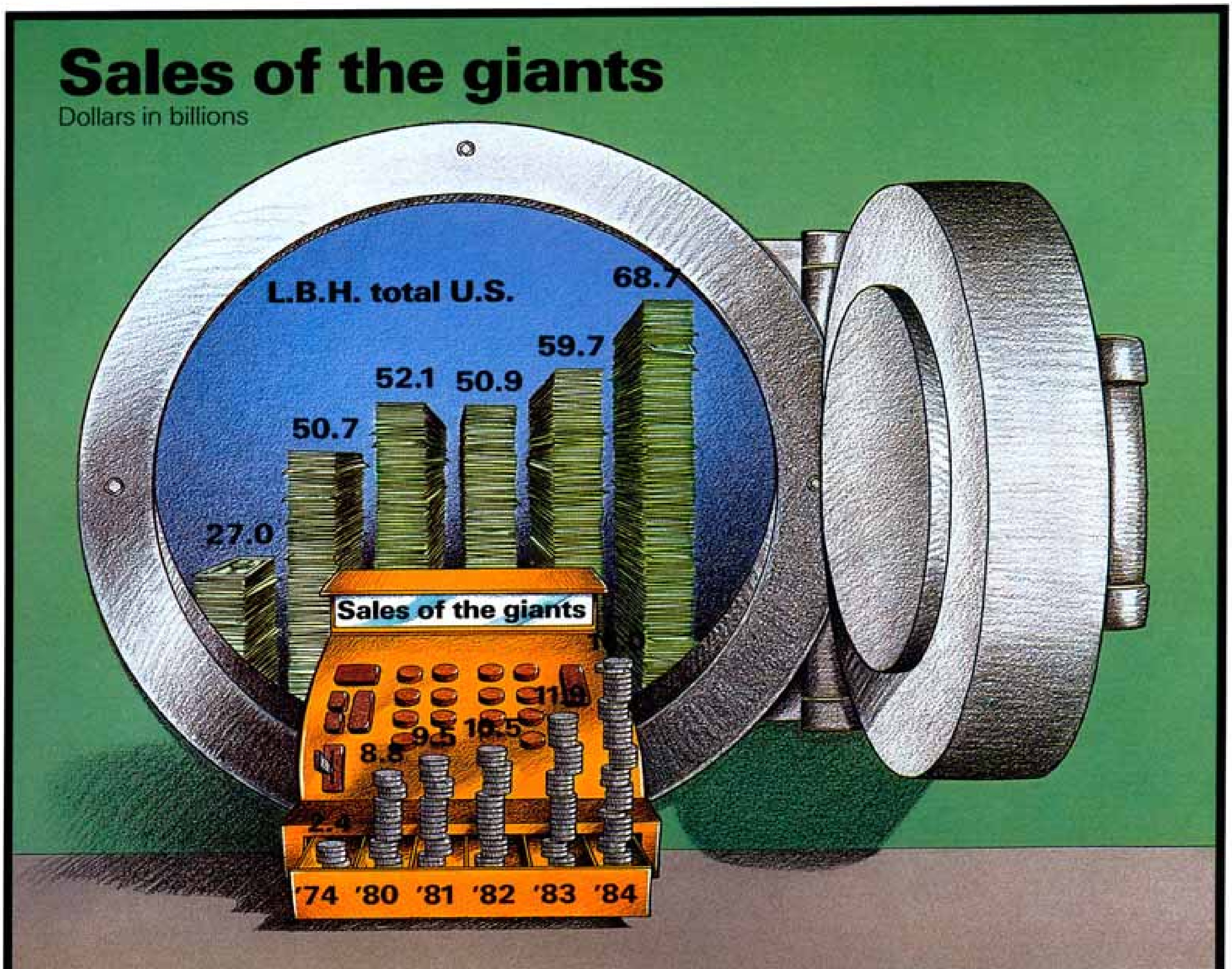
*Does not include "specialty and mass merchandisers".
Source: *Building Supply & Home Centers*

In prior annual reports, this spread used to be called fragmentation of the competition. The competition is still fragmented and Lowe's at $1.7 billion did under 3% of the total LBH market, compared to K mart who does more than 30% of the total discount industry. In fact, the 37 chains in the home center industry with $100 million in sales collectively do only 23% of the total market. The problem is that we are not the only firm that knows that! The industry is in a time of both accelerated growth and accelerating competition. The phenomenon of "warehouse retailing," burst into the national consciousness in Atlanta in 1978 with a company called the Home Depot. Strategized and led by industry veterans, the Home Depot has vaulted into 10th place in annual volume in seven short years. Their success has not gone unnoticed, and several other companies, most notably, K mart, W.R. Grace, and Service Merchandise, all have purchased or developed warehouse chains of their own, and have announced plans for rapid growth. This action, it seems to us, has permanently changed the growth and maturity cycle in this industry.

Lowe's is insulated, to a certain degree, from the warehouse retailers because of our small-town location strategy. Not counting the Boise Cascade store acquisition, we have just 10% of our stores in major metropolitan markets where the competition in warehouse retailing is most intense. Our strategy is to maintain market share in those big markets where we operate and to grow the chain in small-town America where we can dominate with Lowe's traditional strengths.

Therefore, Lowe's has chosen not to join the industry's mad dash to open stores that are little more than attempted clones of successful operators in warehouse retailing. Instead, we have a positioning strategy for our stores as specialty retailers and upscale discounters. We have always liked Richway's advertising slogan, "We don't look like a discount store, but our low prices give us away."

During the next decade it is anticipated that the total number of firms in the home center industry will continue to decrease as smaller chains are merged with larger home center retailing giants. As this consolidation occurs, the retail home center industry is projected to achieve significant sales growth and market penetration in all segments of home improvement, repair, and new construction. Our belief in the twin trends of growth and consolidation is underscored by our purchase of the Boise Cascade stores in Texas and Oklahoma. In the future, we will continue to grow and be aggressively competitive.



Source: Building Supply & Home Centers; Retail Trade, U.S. Dept. of Commerce
Note: Illustration represents sales of the giants, the 37 chains with sales of $100 million or more

Audit committee introduction

In 1974, Lowe's Board of Directors authorized the establishment of an Audit Committee of the Board of Directors to consist of three directors. A motion thereto was unanimously adopted. The primary responsibility of the Audit Committee is to review the functioning of Lowe's internal and external auditing in order to assure all shareholders of the adequacy and effectiveness of these procedures. Presently, the Board of Directors has designated three of its members, two outside members and one former managing director, as the Audit Committee. The committee meets regularly to review with management and the independent auditors the Company's accounting policies and internal and external audit plans and results.

Report of audit committee

Submitted by:
Petro Kulynych
Robert G. Schwartz
Gordon E. Cadwgan, Chairman

1984 was a productive and busy year for the Audit Committee. In addition to continual appraisal of the effectiveness of our internal auditing and accounting controls, as well as the objectivity and independence of our public accountants, we expanded the scope of the Internal Audit Department. This department was established in 1977 primarily to review the internal control and procedural compliance of the stores. In September, 1984, the reporting relationship of the department was changed by the Board of Directors, restructuring the staff to report directly to the Audit Committee.

The objective of this reorganization was to expand the function of the department so as to provide comprehensive service to the entire Company. We view internal auditing as an independent appraisal activity within Lowe's Companies, Inc. to examine and evaluate its activities, especially in areas involving the review and compliance of policies, procedures, and laws; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of stated objectives and goals.

We have confidence in the accuracy of the Company's records, accounting procedures, internal controls and systems security; and, we appreciate the professionalism and cooperation of the Company's officers and employees.

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, 1985, 1984 and 1983, 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, 1985. 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, 1985, 1984 and 1983, 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, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells
Lenoir, North Carolina
March 15, 1985

Funds strategy

The financial health and strength of a company is most apparent in its Statement of Changes in Financial Position. A company generates cash from its operations and to survive and prosper retains or reinvests a portion of that cash. The company which achieves greater cash flow and can retain or reinvest a greater portion of that cash profitably, prospers more than its competitors and has the greater prospect for future growth and opportunity.

The financial statement which best presents a capsule summary of the company's total results and positioning during a year is the Statement of Changes in Financial Position, which is found on page 33. The format selected highlights the changes in working capital but reconciles to the change in cash. As such, it highlights liquidity trends and discloses the adequacy of cash resulting from the Company's operations and asset management.

A strong, growing company generates funds in excess of its immediate needs permitting investment in additional high return assets. It also generates and maintains sufficient cash to be flexible in implementing short-term financial and asset management strategies and tactics to maximize its market opportunities. An analysis of the Statement of Changes in Financial Position shows Lowe's effective funds strategies.

Cash at the end of 1984 increased 232% over the 1982 year-end level, while funds from operations increased 100% to reach $80 million. This demonstrates an increase in liquidity as the Company's sales grew from 1982 to 1984 by 63%. Lowe's is thus well-positioned to fund its rapid expansion strategy, of approximately 5% in new store units, in new markets, and approximately 10% more in selling space in existing markets.

The most significant source of funds provided is operations, the profitable sale of goods and services which is detailed on the Statement of Current and Retained Earnings. An analysis of the results of operations accompanies that statement, but it is important to observe that net earnings grew to $61 million in 1984, an increase of 21% over 1983. Depreciation and deferred income taxes resulting from increased investments in fixed assets continued to grow and when added to net earnings resulted in funds from operations reaching a record $80 million in 1984, a 19% increase from 1983.

Lowe's systematically employs external sources of capital in its invested funds. During 1984, such funds principally came from the addition of $49 million of long-term debt while during 1983 a significant addition of external capital was added in the form of $54 million from the sale of common stock.

Working capital components are the dynamic elements of current assets and liabilities which are employed daily to generate sales and profits. The management of these assets in terms of their profitability and turnover is critical to the Company's success and is reviewed in the description of balance sheet management.

In Fiscal 1978, Lowe's changed from FIFO to LIFO accounting. To achieve comparability, we employ an easy to understand method to compare the real internal cash flow during years of LIFO inventory accounting, with the years of FIFO inventory accounting, 1963 through 1977, some of which are presented in the review beginning on page 58. The formula for 1978 and subsequent years is:

From: FIFO Net Earnings Before Taxes
Subtract: Actual Taxes (from the audited financials)
Add: Depreciation and Deferred Income Taxes
Result: Real Cash Flow

The reason this formula is valid is that all the cash flow that was present under FIFO still flows in under LIFO, and was augmented by decreased tax liability.

Earnings statement

Sales and margins. Lowe's sells to two customer groups. Sales to professional builders carry a generally lower margin and are more cyclical, while sales to retail customers have a typically higher margin and are less sensitive to fluctuations in the business cycle. In Fiscal 1982 when interest rates were at a record high level for the first half of the year, the mix between these two components was 45% professional/55% retail. In Fiscal 1983, we increased our sales to retail customers by 27%, continuing to position Lowe's as a leader in the do-it-yourself market, while sales to builders rose 53% as the Company took advantage of the favorable housing market resulting from declining mortgage interest rates. Fiscal 1984 showed a year of solid growth, as builder sales increased 14% and retail sales increased 22%. In Fiscal 1984, we opened 10 new stores, which accounted for less than $17 million in sales since most of them opened at the very end of the year. The rest of the $258 million sales increase came from increased sales at existing stores.

Gross profit on a FIFO (first-in, first-out) basis increased from 25.40% of sales in Fiscal 1982 to 25.50% in Fiscal 1983. This trend reflected the Company's emphasis on its margins, particularly on sales to the retail market. By the end of Fiscal 1983, we had converted 170 of our stores to our new retail-oriented format (RSVP), which is designed to increase the types of sales which typically carry a higher margin. In Fiscal 1984, FIFO margin decreased to 25.09% of sales, reflecting increased competitive pricing in the industry, and deflation in lumber, other commodities and electronics products.

The LIFO charge, a measure of inflation in the cost of inventory purchased, is the single adjustment from FIFO to LIFO margin. This charge represented .16% of sales in Fiscal 1982, .40% of sales in Fiscal 1983, and a credit of .16% to sales in Fiscal 1984. The increase in the LIFO charge for 1983 was primarily due to inflation in basic building materials. The LIFO credit in Fiscal 1984 represents the above-mentioned deflation in the prices of lumber, other commodities, and electronic products.

Expenses. Selling, general and administrative expense increased 24% from Fiscal 1982 to Fiscal 1983 and 16% from Fiscal 1983 to Fiscal 1984. These increases compare with sales gains of 38% and 18%, respectively. This reflects the leverage effect of our fixed costs. The largest component of S, G & A expense is salaries, which have increased in dollars but decreased as a percent of sales in each of the last three years. Increased sales per existing store have enabled us to generate more sales and profit volume without a proportional increase in employee cost.

Employee benefits represents the Company's contribution to its Employee Stock Ownership Plan (ESOP), its Employee Savings and Investment Plan (ESIP), and its Tax Credit Employee Stock Ownership Plan (PAYSOP). Contribution to the ESOP, which represents 91% of the employee benefits line in Fiscal 1984 and 100% in all prior years, increased 60% from Fiscal 1982 to Fiscal 1983 due to a 20% increase in the contribution rate and a salary increase commensurate with a 38% increase in sales, and only 11% from Fiscal 1983 to Fiscal 1984 due to more modest increases in salary expense.

Depreciation increased 8% from Fiscal 1982 to Fiscal 1983 due to an increase of 15% in total fixed assets at cost, and 23% from Fiscal 1983 to Fiscal 1984 due to an increase of 30% in total fixed assets at cost.

For analysis of interest changes, see Note 11 to the financial statements.

For further discussion of the effect of inflation on the income statements, see the "Supplemental Information on the Effects of Changing Prices."

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 1984	Fiscal 1983	Fiscal 1982
Funds provided:			
Net earnings	$ 61,443	$ 50,615	$ 25,131
Charges not requiring funds:			
Depreciation	14,805	12,034	11,178
Deferred income taxes	3,443	3,926	3,485
Funds from operations	**79,691**	**66,575**	**39,794**
Deferred income	—	1,273	—
Long-term debt borrowings	48,944	11,699	14,501
Disposals of fixed assets	990	7,517	690
Stock issued to ESOP	—	—	5,951
Sale of common stock	—	53,740	—
Total funds provided	**$129,625**	**$140,804**	**$60,936**
Funds applied:			
Dividends paid	$ 11,600	$ 11,600	$ 9,800
Fixed assets acquired	69,794	39,383	22,601
Current maturities and repayment of long-term debt	8,347	16,041	7,132
Redemption of fractional shares of common stock	—	33	—
Other	5,674	1,541	38
Total funds applied	**95,415**	**68,598**	**39,571**
Increase in working capital	**$ 34,210**	**$ 72,206**	**$21,365**
Changes in working capital components: ( ) = Decrease in working capital			
Accounts receivable	$ 2,661	$ 19,270	$ 27,281
Merchandise inventory	43,168	37,565	54,006
Other current assets	(986)	294	1,607
Current maturities of long-term debt	(1,225)	(227)	(1,215)
Accounts payable	(14,588)	(19,835)	(42,621)
Employee benefits payable	(2,697)	(6,421)	(1,828)
Accrued salaries and wages	(990)	(4,552)	(3,455)
Other current liabilities	(5,612)	(3,192)	(3,009)
Income taxes payable	4,524	396	(2,672)
Working capital changes before cash*	**24,255**	**23,298**	**28,094**
Increase (decrease) in cash*	**9,955**	**48,908**	**(6,729)**
Cash,* beginning of year	**74,249**	**25,341**	**32,070**
Cash,* end of year	**$ 84,204**	**$ 74,249**	**$25,341**

*Cash and cash equivalents
See accompanying notes to consolidated financial statements

Balance sheet management

Two major financial strategies strongly influence Lowe's balance sheet and reflect our financial strength. The first strategy is to develop and maintain a balance of various asset components which best contribute to our profits and growth.

We maintain the major portion of our assets in items having the greatest turnover to sales — specifically, inventory and accounts receivable were 62% of total assets in 1982. The ending Fiscal 1984 and 1983 cash and short-term investment positions were very strong resulting in a proportional shifting of the asset components. Consequently, the inventory and accounts receivable components were 54% and 58% of total assets, respectively, in those years.

Our inventory has been valued using the LIFO method of accounting since 1978. During inflationary periods the LIFO method lowers the stated value of inventory, thus, reducing it as a percent of total assets. Inventory is the single most important asset to our Company for it is the raw material of sales and profitability. Consequently, its management receives continuous attention in terms of product composition, component turnover and, of course, dollar value. The additional $43 million in ending inventory for Fiscal 1984 versus 1983 was in direct response to increasing sales and preparation for additional growth in Fiscal 1985.

Accounts receivable are generated from sales to professional customers since our retail customers pay cash or use non-recourse credit cards and credit programs. Our ending receivables increased by only $2.7 million or by 3% following a 26% increase in Fiscal 1983. The $97 million on January 31, 1985, was equal to 56% of sales to professional customers during the preceding 90 days, compared to 57% one year ago, and 62% two years ago. Thus, during two highly expansive years for the home building industry, we have been able to reduce the number of days of sales outstanding in accounts receivable. Similarly, reflecting good management, the allowance for doubtful accounts was only 4.1% of gross accounts receivable in both Fiscal 1984 and 1983.

We manage our fixed assets with the knowledge that whereas they form the infrastructure to facilitate sales, they are a more permanent investment. Thus, we subject fixed asset acquisitions to a discounted cash flow return-on-investment analysis prior to their inclusion in the annual capital budget. Fixed assets, principally land, store buildings, fixtures and mobile equipment, were acquired at a cost of $70 million this year reflecting the addition of 10 new stores opened in the fiscal year, and a continuing existing-store retrofitting program.

The remaining assets are principally comprised of cash and short-term investments. These key asset components, which may fluctuate seasonally, increased by $10 million, principally from our $80 million cash flow from operations, as compared to $67 million for 1983, and an additional $49 million from external financings.

The second major balance sheet strategy is involved with the structuring and management of liabilities and shareholders' equity, which, of course, finance total assets. The most important components are shareholders' equity, accounts payable, and long-term debt.

Shareholders' equity was financing 54% of total assets on January 31, 1985, compared to 56% a year earlier. These balances were influenced by the issuance on February 8, 1983, of 2.917 million shares of common stock (1.75 million before the adjustment for the 5-for-3 stock split described in Note 8) for net proceeds of $54 million. Such proceeds were used principally to finance the cost of land,

Consolidated statements of current and retained earnings

Lowe's Companies, Inc. and subsidiary companies
In thousands except per share data

Fiscal years end on January 31 of following year	Fiscal 1984	% sales	Fiscal 1983	% sales	Fiscal 1982	% sales
Current earnings						
Net sales	**$1,688,738**	**100.0%**	**$1,430,576**	**100.0%**	**$1,034,032**	**100.0%**
Cost of sales	1,262,394	74.8	1,071,437	74.9	772,986	74.8
Gross profit	**426,344**	**25.2**	**359,139**	**25.1**	**261,046**	**25.2**
Expenses:						
Selling, general and administrative	269,347	16.0	231,732	16.2	187,199	18.1
Depreciation	14,805	.9	12,034	.8	11,178	1.1
Employee benefits (Note 7)	20,802	1.2	17,114	1.2	10,666	1.0
Interest (Note 11)	2,314	.1	1,368	.1	4,478	.4
Total expenses	**307,268**	**18.2**	**262,248**	**18.3**	**213,521**	**20.6**
Pre-tax earnings	**119,076**	**7.0**	**96,891**	**6.8**	**47,525**	**4.6**
Income tax provision (Note 6)	57,633	3.4	46,276	3.3	22,394	2.2
Net earnings	**$ 61,443**	**3.6%**	**$ 50,615**	**3.5%**	**$ 25,131**	**2.4%**
Earnings per share	**$ 1.70**		**$ 1.40**		**$ .75**	
Dividends per share (Note 5,8)	**$ .32**		**$ .32**		**$ .29**	
Shares outstanding — weighted average (Note 8)	36,248		36,193		33,333	
Retained earnings (Note 5,8)						
Balance at beginning of year	**$ 209,534**		**$ 171,134**		**$ 155,959**	
Adjustment for five-for-three stock split:						
On shares issued to ESOP February 1, 1982					(156)	
On shares sold on February 8, 1983			(583)			
Redemption of fractional shares			(32)			
Net earnings	61,443		50,615		25,131	
Cash dividends	(11,600)		(11,600)		(9,800)	
Balance at end of year	**$ 259,377**		**$ 209,534**		**$ 171,134**	

See accompanying notes to consolidated financial statements

Balance sheet management

buildings and equipment for new and existing stores and to fund working capital requirements. Internally generated equity alone cannot always finance the total assets required to maximize Lowe's opportunities and growing operations. Other sources of financing are needed and obtained, some on a short-term basis and some long-term.

Accounts payable are principally a function of inventory levels, payment terms upon purchase, and purchasing trends. Consequently, they fluctuate as a percent of inventory and as a source of financing. It should be noted here that payables are stated in current dollars even though inventory valued using the LIFO method is stated at less than current cost.

Long-term debt has consistently been used to finance a portion of our store expansion. During Fiscal 1984, we financed one new store and our new distribution center in Villa Rica, Georgia with industrial revenue bonds in the amount of $12 million. This long-term debt has a most attractive interest rate because the interest is tax-exempt to the bond holder. We expect to finance several more stores in Fiscal 1985 by this method. In December we secured $30 million in a private debt placement with an insurance company. These funds have a term of 10 years at a 12.75% interest rate. The liability for capitalized equipment leases added the remaining $7 million in long-term debt in Fiscal 1984.

After declining well below our historical average in Fiscal 1983, our long-term debt as percent of capital structure, has increased to 15% of total assets at January 31, 1985. At this level, Lowe's continues to have a significant long-term borrowing capacity of several tens of millions of dollars without being too highly leveraged. This degree of borrowing reserve is a direct reflection of our financial strength and an indication of our financial flexibility to respond to business needs and opportunities.

The remaining liabilities, which were funding 12% of our assets on January 31, 1985, represent various obligations including current and deferred income taxes payable, other current liabilities and accruals, and employee retirement benefits. During Fiscal 1983 and Fiscal 1984, no short-term borrowings were required.

To support its announced expansion program, the Company as of January 31, 1985, has committed to purchase approximately $8.9 million for land, buildings and construction of store facilities, approximately $8.2 million for equipment and construction of the distribution center in Villa Rica, Georgia and $8.5 million for equipment. The distribution center construction and equipment will be financed from the proceeds of an industrial revenue bond and the store facilities will be funded from general corporate funds. The Company also intends to purchase computer systems and point-of-sale registers for our stores for approximately $20.7 million over the next 36 months. Such equipment is expected to be financed through third-party leases.

In summary, balance sheet management is one of the most important of Lowe's corporate strategies and obviously essential to our growth. We continue to be proud of the strength of our balance sheet at the close of this fiscal year.

Consolidated balance sheets

Lowe's Companies, Inc. and subsidiary companies
In thousands except per share data

	January 31, 1985	%	1984	%	1983	%
Assets						
Current assets:						
Cash	$ 1,740	.3%	$ 12,622	2.4%	$ 2,035	.5%
Short-term investments	82,464	13.0	61,627	11.8	23,306	5.9
Accounts receivable–net (Note 11)	97,319	15.3	94,658	18.2	75,388	19.2
Merchandise inventory (Note 2)	248,268	39.1	205,100	39.4	167,535	42.6
Other current assets	2,579	.4	3,565	.7	3,271	.8
Total current assets	**432,370**	**68.1**	**377,572**	**72.5**	**271,535**	**69.0**
Property, less accumulated depreciation (Notes 3 and 5)	195,237	30.7	141,238	27.1	121,406	30.9
Other assets	7,737	1.2	2,100	.4	559	.1
Total assets	**$635,344**	**100.0%**	**$520,910**	**100.0%**	**$393,500**	**100.0%**
Liabilities and shareholders' equity						
Current liabilities:						
Current maturities of long-term debt (Note 5)	$ 7,083	1.1%	$ 5,858	1.1%	$ 5,631	1.4%
Accounts payable	125,003	19.7	110,415	21.2	90,580	23.0
Employee benefits payable (Note 7)	19,989	3.1	17,292	3.3	10,871	2.8
Accrued salaries and wages	14,652	2.3	13,662	2.6	9,110	2.3
Other current liabilities	22,141	3.5	16,529	3.2	13,337	3.4
Income taxes payable	550	.1	5,074	1.0	5,470	1.4
Total current liabilities	**189,418**	**29.8**	**168,830**	**32.4**	**134,999**	**34.3**
Long-term debt, excluding current maturities (Note 5)	**92,488**	**14.6**	**51,891**	**10.0**	**56,233**	**14.3**
Deferred income taxes (Note 6)	10,854	1.7	7,411	1.4	3,485	.9
Total liabilities	**292,760**	**46.1**	**228,132**	**43.8**	**194,717**	**49.5**
Deferred income (Note 9)	1,236	.2	1,273	.2	—	—
Commitments, contingencies and litigation (Note 10)						
Shareholders' equity (Note 8):						
Common stock–$.50 par value; issued and outstanding 1985 36,248,475; 1984 36,248,475; 1983 33,333,333	18,124	2.9	18,124	3.5	16,667	4.2
Capital in excess of par	63,847	10.0	63,847	12.3	10,982	2.8
Retained earnings	259,377	40.8	209,534	40.2	171,134	43.5
Total shareholders' equity	**341,348**	**53.7**	**291,505**	**56.0**	**198,783**	**50.5**
Total liabilities and shareholders' equity	**$635,344**	**100.0%**	**$520,910**	**100.0%**	**$393,500**	**100.0%**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc. and subsidiary companies
Fiscal years ended January 31, 1985, 1984 and 1983

Note 1, Summary of Significant Accounting Policies:

The Company is a specialty retailer of building materials and related products for home improvement and home construction markets serving both the do-it-yourself retail customer and the professional builder. The accounting policies of Lowe's Companies, Inc. and subsidiary companies are in accordance with generally accepted accounting principles. Below are those policies considered particularly significant.

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 coupled with a review of existing receivables. Installment receivables arising from consumer sales are sold, without recourse, to outside finance companies.

Merchandise inventory — Inventory is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method.

Property and depreciation — Property is recorded at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Upon disposal, cost of properties and related accumulated depreciation are removed from the accounts. Gains and losses on retired properties are 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 (Note 9).

Income taxes — Income taxes are provided on pre-tax earnings as reported in the consolidated financial statements. Deferred income taxes result from timing differences between pre-tax earnings reported in the consolidated financial statements and taxable income. Investment tax credits are accounted for as a reduction of income tax expense in the year in which the credits are utilized.

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

Service charges — Service charges arising from customer accounts are treated as a reduction of selling, general and administrative expenses in the consolidated statements of earnings.

Start-up expenses — Expenses associated with the opening of new stores and service facilities are charged to earnings as incurred.

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 outstanding each year.

Note 2, Merchandise Inventory:

The Company uses the LIFO method to determine inventory costs. If the FIFO method had been used, inventories would have been $28.180 million, $30.866 million and $25.183 million higher at January 31, 1985, 1984 and 1983, respectively; net earnings would have decreased $1.343 million or 4 cents per share in Fiscal 1984, increased $2.891 million or 8 cents per share in Fiscal 1983 and increased $825 thousand or 2 cents per share in Fiscal 1982.

Note 3, Property and Accumulated Depreciation:

Property is summarized below by major classes with estimated lives in years as follows: buildings, 20 to 30; store and office equipment, 5 to 10; transportation equipment, 3 to 7; and leasehold improvements, generally over the remaining life of the lease.

Dollars in thousands	January 31, 1985	1984	1983
Cost:			
Land	$ 36,610	$ 22,929	$ 19,390
Buildings	120,109	95,016	81,225
Store and office equipment	52,142	37,045	32,907
Transportation equipment	46,461	39,231	34,839
Leasehold improvements	25,233	21,042	19,532
Total cost	**280,555**	**215,263**	**187,893**
Accumulated depreciation	85,318	74,025	66,487
Net property (Note 9)	**$195,237**	**$141,238**	**$121,406**

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

The Company has a line of credit agreement with a bank which provides for short-term unsecured borrowings of up to $30 million with interest at the lower of prime or bank transaction rate, none of which was outstanding at January 31, 1985, 1984 or 1983. There were no short-term borrowings during the years ended January 31, 1985 and 1984.

During the year ended January 31, 1983, the Company had short-term bank borrowings with an average amount outstanding (based on weighted daily average) of $4.238 million at a weighted average interest rate (ratio of actual interest expense to average amount outstanding) of 14.2% with the maximum amount outstanding at any month-end being $20 million.

Note 5, Long-Term Debt:

Long-term debt is summarized as follows:

Debt category	Interest rates	Debt retirement: Payment cycle	Debt retirement: Year of maturity	January 31, 1985	1984	1983
Dollars in thousands						
Secured debt [1]:						
Insurance company notes	8% to 9%	quarterly	1993	$ 20,391	$ 23,429	$ 25,990
Bank notes	7% to 12%	quarterly	1994	822	955	1,087
Industrial revenue bonds	7% to 7.5%	annually	1991	900	1,030	1,155
Industrial revenue bonds	64%–70% of prime	monthly	1998	8,535	8,159	5,650
Other notes	8% to 10.75%	monthly	2004	25	66	104
Unsecured debt:						
Insurance company [2]	8.25% to 12.75%	annually	1994	42,300	14,400	16,500
Bank notes [3]	9.25%	maturity	1984	—	—	10,000
Industrial revenue bonds	62%–63% of prime	quarterly	1999	12,000	—	—
Capital leases (Note 9)	**6.1% to 16.5%**	**monthly**	**2018**	**14,598**	**9,710**	**1,378**
Total long-term debt				**99,571**	**57,749**	**61,864**
Less current maturities [4]				**7,083**	**5,858**	**5,631**
Long-term debt, excluding current maturities				**$92,488**	**$51,891**	**$56,233**

[1] Real properties pledged as collateral for secured debt had net book values at January 31, 1985, as follows (in millions): Insurance company notes — $29.877; Bank notes — $2.267; Industrial revenue bonds — $8.283; and Other notes — $.125. In addition, $7.389 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.

[2] The notes covering the insurance company loans place certain requirements as to the financial condition to be maintained, restrict other borrowing, and limit the payment of dividends. After giving effect to the most restrictive provisions, approximately $87.5 million of consolidated retained earnings is available for payment of dividends.

[3] Under terms of a revolving credit agreement with a bank, the Company may borrow up to $10 million with interest at the lower of prime or bank transaction rate.

[4] Debt maturities, exclusive of capital leases (see Note 9), for the next five fiscal years are as follows (in millions): 1985 — $5.807; 1986 — $5.870; 1987 — $6.390; 1988 — $6.172; 1989 — $6.429.

Note 6, Income Taxes:

The provision for income taxes shown in the consolidated statements of current and retained earnings is reconciled to both the federal tax at the statutory rate and the breakdown between current and deferred taxes as follows:

Fiscal years end on January 31 of following year	Fiscal 1984 Amount	Fiscal 1984 %	Fiscal 1983 Amount	Fiscal 1983 %	Fiscal 1982 Amount	Fiscal 1982 %
Dollars in thousands						
Income before income taxes	**$119,076**	**100.0%**	**$96,891**	**100.0%**	**$47,525**	**100.0%**
Federal tax at statutory rate	54,775	46.0	44,570	46.0	21,862	46.0
State income taxes —						
net of federal tax benefit	3,803	3.2	3,034	3.1	1,618	3.4
Investment tax credits	(1,513)	(1.3)	(1,328)	(1.4)	(1,086)	(2.3)
Other	568	.5	—	—	—	—
Total tax provision	**57,633**	**48.4**	**46,276**	**47.7**	**22,394**	**47.1**
Currently payable:						
Federal	47,489	82.4	37,194	80.4	16,401	73.3
State	6,701	11.6	5,156	11.1	2,558	11.4
Total currently payable	**54,190**	**94.0**	**42,350**	**91.5**	**18,959**	**84.7**
Deferred:						
Federal	3,102	5.4	3,463	7.5	2,997	13.4
State	341	.6	463	1.0	438	1.9
Total deferred	**3,443**	**6.0**	**3,926**	**8.5**	**3,435**	**15.3**
Total tax provision	**$ 57,633**	**100.0%**	**$46,276**	**100.0%**	**$22,394**	**100.0%**

Deferred income taxes arise principally because depreciation is treated differently for financial reporting than for income tax purposes.

The Company's consolidated federal tax returns for the years ended January 31, 1982 and 1983 are currently under examination by the Internal Revenue Service. The Company is not in agreement with certain adjustments proposed in connection with the examination. While an agreement has not been reached, management of the Company does not anticipate that the final adjustment will significantly affect the Company's consolidated financial statements.

Note 7, Employee Benefit Plans:

Lowe's Companies Profit-Sharing Plan and Trust held approximately 7% of the outstanding shares of the Company as of January 31, 1985. Contributions to this Plan were discontinued effective December 31, 1977, and accounts of members became fully vested at that time.

The Board of Directors adopted an Employee Stock Ownership Plan effective January 1, 1978. The amount contributed by the Company to the Plan is determined annually by the Board of Directors. The Board authorized a contribution of 15%, 15% and 12.5% of eligible compensation for Fiscal 1984, 1983 and 1982, respectively. The Plan was amended to include a tax credit employee stock ownership plan which is fully funded by a federal income tax credit. At January 31, 1985, the Employee Stock Ownership Trust held approximately 17% of the outstanding stock of the Company and was its largest shareholder.

The Company established an Employee Savings and Investment Plan during Fiscal 1984. Annually, the Board of Directors approves contributions to the Plan based upon a matching formula applied to employee contributions.

Note 8, Shareholders' Equity:

Authorized shares of common stock were 60 million at January 31, 1985, 1984 and 1983.

On February 8, 1983, the Company sold 2.917 million shares of common stock (1.75 before the adjustment for the five-for-three stock split described below). The net proceeds of $53.74 million was added to the general funds of the Company and was used principally to finance the cost of land, buildings and equipment for new and existing stores and to fund working capital requirements.

On March 18, 1983, the Board of Directors declared a five-for-three stock split in the form of a dividend distributed to shareholders of record on April 14, 1983. Accordingly, in the accompanying financial statements, an amount equal to the par value ($6.511 million) of the additional shares issued has been transferred from Retained Earnings to Common Stock retroactive to January 31, 1982. Shares and per share amounts have been adjusted to give retroactive effect to the split.

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**	**Total equity**
Balance Jan. 31, 1982	**32,555**	**$16,278**	**$ 5,264**	**$155,959**	**$177,501**
Shares issued to ESOP (after 5-for-3 split)	778	389	5,718	(156)	5,951
Net earnings				25,131	25,131
Cash dividends				(9,800)	(9,800)
Balance Jan. 31, 1983	**33,333**	**16,667**	**10,982**	**171,134**	**198,783**
Sale of common stock:					
Shares issued	1,750	875	52,865		53,740
Effect of 5-for-3 split	1,167	583		(583)	—
Redemption of fractional shares (5-for-3 split)	(2)	(1)		(32)	(33)
Net earnings				50,615	50,615
Cash dividends				(11,600)	(11,600)
Balance Jan. 31, 1984	**36,248**	**18,124**	**63,847**	**209,534**	**291,505**
Net earnings				61,443	61,443
Cash dividends				(11,600)	(11,600)
Balance Jan. 31, 1985	**36,248**	**$18,124**	**$63,847**	**$259,377**	**$341,348**

Note 9, Leases:

In February 1983, the Company entered into sale-leaseback arrangements for eight store properties, resulting in capital leases of $8.6 million and deferred gains of $1.3 million. Assets under capital leases, included in property in the consolidated balance sheets, are as follows:

	January 31, 1985	1984	1983
Dollars in thousands			
Capital leases:			
Buildings	$ 9,884	$ 9,884	$ 1,360
Store and office equipment	6,316	371	371
Total capitalized leases	16,200	10,255	1,731
Less accumulated amortization	2,287	977	613
Net capital lease property	**$13,913**	**$ 9,278**	**$ 1,118**

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

	Operating leases		Capital	
Fiscal year	**Real estate**	**Equipment**	**leases**	**Total**
Dollars in thousands				
1985	$ 3,029	$ 1,350	$ 2,564	$ 6,943
1986	2,641	824	2,511	5,976
1987	2,233	337	2,493	5,063
1988	1,687	—	1,557	3,244
1989	1,469	—	1,319	2,788
Later years	6,677	—	27,075	33,752
Total minimum lease payments	**$17,736**	**$2,511**	**$37,519**	**$57,766**
Less amount representing interest			22,921	
Present value of minimum lease payments			14,598	
Less current maturities			1,276	
Present value of minimum lease payments, less current maturities			**$13,322**	

Rental expenses charged to earnings are as follows:

Fiscal years end on January 31 of following year	Fiscal 1984	Fiscal 1983	Fiscal 1982
Dollars in thousands			
Rental expenses:			
Real estate	$ 2,894	$ 2,386	$ 2,312
Equipment	3,103	2,434	1,792
Total	**$5,997**	**$4,820**	**$4,104**

Note 10, Commitments, Contingencies and Litigation:

The Company had purchase commitments as of January 31, 1985, of approximately $15 million for land, buildings and construction of facilities, and $11 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.

On January 28, 1985, the Company entered into an agreement to purchase 23 stores and 4 support operations from Boise Cascade Corporation for approximately $50 million. The transaction is a purchase of assets for cash. The purchased assets include real estate, fixtures and rolling equipment, all at the seller's net book value, along with certain inventories and accounts receivable. The purchase is being financed with funds generated principally from operations supplemented by short-term borrowings.

Note 11, Other Information:

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

Year ended January 31,	1985	1984	1983
Dollars in thousands			
Allowance for doubtful accounts:			
Balance beginning of year	$ 4,047	$ 3,397	$ 2,800
Additions charged to expenses	2,964	2,469	2,730
Deductions for accounts charged off	(2,849)	(1,819)	(2,133)
Balance end of year	**$ 4,162**	**$ 4,047**	**$ 3,397**

Interest expense is comprised of the following:

Year ended January 31,	1985	1984	1983
Dollars in thousands			
Long-term debt	$ 6,049	$ 5,216	$ 4,746
Short-term debt	—	—	602
Amortization of loan costs	30	29	23
Short-term interest income	(2,765)	(3,540)	(712)
Interest capitalized	(1,000)	(337)	(181)
Net interest expense	**$ 2,314**	**$ 1,368**	**$ 4,478**

Advertising expenses were $26.2 million, $21.6 million and $18.1 million for Fiscal 1984, 1983 and 1982, respectively.

Explanatory Notes to Supplemental Information

As required by Financial Accounting Standards Board Statement No. 33 (as amended by Statement No. 82 dated November, 1984), the Company must provide supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to present the effect of specific price changes (current cost) in certain assets used by the Company. The Company believes that the following information is necessary and should be considered and understood by users of the financial statements for a proper evaluation of the data presented.

Partial application — The supplemental data includes the effect of specific price changes on inventories, properties, cost of sales, and depreciation expense, and the effect of general inflation on net monetary assets or liabilities.

Net earnings — The supplemental statement of earnings, found on page 45, presents earnings using two methods of measurement. Such methods are as follows:

1. Historical cost basis — Earnings reported on the historical cost basis of accounting are the same amounts as reported in the primary financial statements.
2. Current cost accounting — Earnings reported under current cost accounting are intended to give effect to current cost measures of inventories and properties at their current cost as of the balance sheet date; cost of sales is measured at the current cost on the date of sale; and depreciation expense is computed on various indexes as described below.

Income taxes — Income tax expense is the same for current cost accounting as that reported in the historical financial statements. Deduction for additional depreciation expense resulting from the effects of inflation is not allowable for income tax purposes, consequently, taxes are provided at rates in the supplemental statements greater than amounts provided in the historical statements. During periods of inflation and increasing prices, taxes provided in excess of the statutory rates in effect result in a tax on shareholders' equity.

Purchasing power gain from holding net monetary liabilities during the year — Purchasing power gain results when monetary liabilities exceed monetary assets, because the amount of money necessary to pay such net liabilities is represented by dollars of diminishing purchasing power. Purchasing power gain has been computed on average net monetary liabilities for the year multiplied by the change in the CPI-U for the year. Such gain does not represent earnings nor funds available for dividends.

Current cost measurements — Current cost amounts of inventories were estimated by using FIFO values adjusted for price changes which were reflected in the company's perpetual inventory records. Current cost of sales was determined using the LIFO method (same method used in historical statements) adjusted for prior year layer liquidation, resulting in an increase in current cost of sales of $26,000.

Current cost of properties was determined by the use of various indexes as follows:

Land — Consumer Price Index — U.S. Department of Labor.

Building and Leasehold Improvements — Composite Construction Cost Index — U.S. Department of Commerce.

Store and Office Equipment — Producer Price Index for Durable Consumer Goods — U.S. Department of Labor.

Transportation Equipment — Commodity Price for Motor Vehicles — Bureau of Census.

The indexes were applied to the historical cost of properties and accumulated depreciation to determine current cost amounts and depreciation expense. The depreciation methods and useful lives are the same as those used in preparing the historical financial statements.

Data reported under current cost measurements is not intended to be a precise measurement of the assets or costs and expenses involved, rather such data is intended to present reasonable approximations of the effects of changing prices. In addition, the amounts of current costs of inventories and properties do not necessarily represent amounts at which the assets could be sold.

Increase in current costs of inventories and properties — Increases in specific prices of inventories and properties held during the year are not included in net earnings. Current cost increases in inventories and properties are reduced by the effect of general inflation measured by multiplying the beginning and end of the year current cost balances of inventories and properties by the ratio of the average CPI-U for the year ended January 31, 1985, to the year-end CPI-U for the respective periods. The increase in the general price level in excess of the increase in specific prices consists of the following:

	Inventories	**Properties**	**Total**
Dollars in thousands			
Current cost increases:			
Realized	$ 26	$ 2,874	$ 2,900
Unrealized	(1,894)	2,277	383
Total	**(1,868)**	**5,151**	**3,283**
Less general inflation	8,869	7,361	16,230
Excess of general inflation over current cost increases	$(10,737)	$(2,210)	$(12,947)

FASB No. 33 does not require a reduction in unrealized current cost increases for income taxes that would become payable if such increases were realized. Based on present state and federal tax rates, approximately $38.7 million of income taxes would be applicable to unrealized current cost increases ($78.6 million at January 31, 1985) of which $.2 million is applicable to the year ended January 31, 1985.

Supplemental information on the effects of changing prices

Statement of earnings adjusted for changing prices; dollars in thousands

Year ended January 31, 1985	Historical	Current
Net sales	**$1,688,738**	**$1,688,738**
Cost of sales	1,262,394	1,262,420
Gross profit	**426,344**	**426,318**
Expenses:		
Selling, general and administrative	269,347	269,347
Depreciation	14,805	17,679
Employee benefits	20,802	20,802
Interest	2,314	2,314
Total expenses	**307,268**	**310,142**
Pre-tax earnings	**119,076**	**116,176**
Income tax provision	57,633	57,633
Net earnings	**$ 61,443**	**$ 58,543**
Effective income tax rate	**48.40%**	**49.61%**
Other information:		
Purchasing power gain from holding net monetary liabilities during the year		$ 2,588
Increase in specific prices (current costs) of inventories and property, improvements, and equipment held during the year*		$ 3,283
Effect of increase in general price level of inventories and property, improvements, and equipment		16,230
Excess of increase in the general price level over increase in specific prices		$ 12,947

*At January 31, 1985, current cost of inventory was $277,688 (historical amount, $248,268) and current cost of property, improvements, and equipment, net of accumulated depreciation, was $244,387 (historical amount, $195,237)

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices (in average Fiscal 1984 constant dollars):

Dollars in thousands, except per share data

Year ended January 31,	1985	1984	1983	1982	1981
Net sales					
Historical dollars	$1,688,738	$1,430,576	$1,034,032	$ 888,042	$ 883,614
Adjusted for general inflation	1,688,738	1,490,256	1,111,474	1,012,720	1,106,207
Net earnings:					
Historical dollars	61,443	50,615	25,131	17,859	18,891
Current cost dollars	58,543	49,547	23,200	10,837	18,826
Net assets (shareholders' equity) at year-end:					
Historical dollars	341,349	291,505	198,783	177,501	169,018
Current cost dollars	414,539	377,907	292,868	274,623	283,014
Purchasing power gain from holding net monetary liabilities during the year	2,588	3,076	2,118	4,277	6,686
Excess of increase in the general price level over increase in specific prices	12,947	10,774	2,795	12,950	14,443
Earnings per share:					
Historical dollars	1.70	1.40	.75	.55	.58
Current cost dollars	1.62	1.37	.70	.33	.58
Net assets (shareholders' equity) at year-end per share:					
Historical dollars	9.41	8.04	5.96	5.45	5.19
Current cost dollars	11.44	10.43	8.77	8.44	8.69
Cash dividends declared per common share:					
Historical dollars	.32	.32	.29	.29	.24
Adjusted for general inflation	.32	.33	.32	.33	.30
Market price per common share at year-end:					
Historical dollars	27.75	20.75	19.27	8.40	7.95
Adjusted for general inflation	$ 27.39	$ 21.21	$ 20.51	$ 9.28	$ 9.52
Average Consumer Price index — urban[1]	312.0	299.4	289.9	274.2	249.1

[1]Base period, 1967=100

Selected financial data

Lowe's Companies, Inc. and subsidiary companies
Dollars in thousands

Year ended January 31,	1985	1984	1983	1982	1981
Selected income statement data:					
Net sales	$1,688,738	$1,430,576	$1,034,032	$ 888,042	$ 883,614
Cost of sales	1,262,394	1,071,437	772,986	667,610	677,974
Gross profit	**426,344**	**359,139**	**261,046**	**220,432**	**205,640**
Expenses:					
Selling, general and administrative	269,347	231,732	187,199	164,786	144,312
Depreciation	14,805	12,034	11,178	10,522	10,320
Employee benefits	20,802	17,114	10,666	8,932	10,528
Interest	2,314	1,368	4,478	2,966	4,203
Total expenses	**307,268**	**262,248**	**213,521**	**187,206**	**169,363**
Pre-tax earnings	**119,076**	**96,891**	**47,525**	**33,226**	**36,277**
Income tax provision:					
State	7,042	5,619	2,996	2,009	2,128
Federal	50,591	40,657	19,398	13,358	15,258
Total income taxes	**57,633**	**46,276**	**22,394**	**15,367**	**17,386**
Net earnings	**$ 61,443**	**$ 50,615**	**$ 25,131**	**$ 17,859**	**$ 18,891**
Earnings per common share*	**$ 1.70**	**$ 1.40**	**$ .75**	**$ .55**	**$ .58**
Shares outstanding**	36,248	36,193	33,333	32,555	32,555
Dividends paid per share*	**$ .32**	**$ .32**	**$ .29**	**$ .29**	**$ .24**
Investment tax credit recognized	$ 1,513	$ 1,328	$ 1,086	$ 993	$ 519
Selected balance sheet data:					
Current assets	$ 432,370	$ 377,572	$ 271,535	$ 195,370	$ 209,756
Current liabilities	189,418	168,830	134,999	80,199	80,781
Working capital	**$ 242,952**	**$ 208,742**	**$ 136,536**	**$115,171**	**$128,975**
Total assets	**$ 635,344**	**$ 520,910**	**$ 393,500**	**$306,564**	**$301,728**
Long-term debt, including current maturities	**$ 99,571**	**$ 57,749**	**$ 61,864**	**$ 53,280**	**$ 56,086**
Shareholders' equity	**$ 341,348**	**$ 291,505**	**$ 198,783**	**$177,501**	**$169,018**

Selected quarterly data

Three months ended	January 31	October 31	July 31	April 30
Fiscal 1984				
Net sales	$375,858	$447,702	$484,880	$380,298
Gross profit	98,960	112,785	120,358	94,241
Net earnings	10,505	17,665	20,543	12,730
Earnings per share*	.29	.49	.57	.35
Fiscal 1983				
Net sales	$331,026	$381,961	$418,057	$299,532
Gross profit	85,701	95,941	103,870	73,627
Net earnings	9,514	14,173	18,258	8,670
Earnings per share*	.26	.39	.50	.24
Fiscal 1982				
Net sales	$250,069	$277,627	$291,576	$214,760
Gross profit	64,304	70,892	72,895	52,955
Net earnings	5,365	8,040	8,513	3,213
Earnings per share*	.16	.24	.25	.10

*Retroactive effect has been given to the five-for-three stock split in the form of a dividend payable to shareholders of record on April 14, 1983, and the three-for-two stock split in the form of a dividend in Fiscal 1981.
**Weighted average

Fiscal 1984 figures*; dollars in thousands

Sales, profit assets, equity	Organization (Stock symbol)	Sales	Profit	Beginning assets	Ending assets	Beginning shareholder equity	Ending shareholder equity
	Lowe's (LOW)	**$1,688.7**	**$ 61.4**	**$ 520.9**	**$ 635.3**	**$ 291.5**	**$ 341.3**
	Payless (PCI)	1,222.4	35.5	457.7	591.2	231.0	299.3
	Pay 'N Pak (PNP)	305.2	10.1	164.5	190.8	93.7	97.8
	Sears (S)	38,828.0	1,455.0	46,176.1	57,073.0	9,786.9	10,911.0
	K mart (KM)	21,095.9	499.1	8,183.1	9,261.8	2,940.1	3,233.8
	Penney (JCP)	$13,451.0	$ 435.0	$ 7,438.0	$ 8,170.0	$ 3,559.0	$ 3,812.0

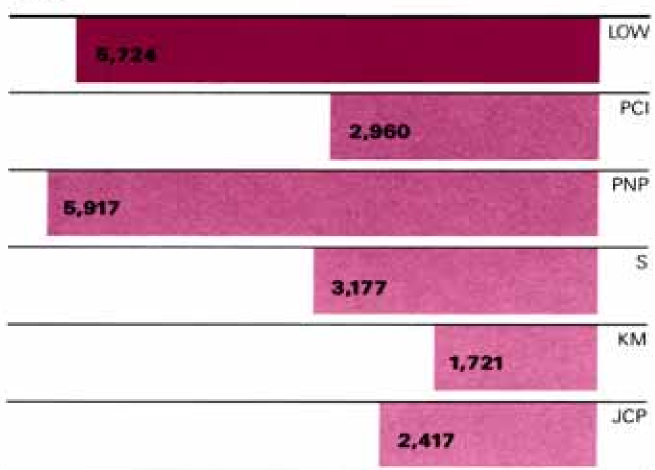
ROE calculation		Asset[1] turnover	×	Return[2] on sales	=	Return[3] on assets	×	Leverage[4] factor	=	Return[5] on equity
	Lowe's (LOW)	**3.24**		**3.64%**		**11.79%**		**1.79**		**21.1%**
	Payless (PCI)	2.67		2.90		7.76		1.98		15.4
	Pay 'N Pak (PNP)	1.86		3.31		6.14		1.76		10.8
	Sears (S)	.84		3.75		3.15		4.72		14.9
	K mart (KM)	2.58		2.37		6.10		2.78		17.0
	Penney (JCP)	1.81		3.23%		5.85%		2.09		12.2%

Employees		Number[6] of employees	Sales[7] per employee	Profit[8] per employee
	Lowe's (LOW)	**10,727**	**$157,425**	**$ 5,724**
	Payless (PCI)	11,994	101,918	2,960
	Pay 'N Pak (PNP)	1,707	178,793	5,917
	Sears (S)	458,000	84,777	3,177
	K mart (KM)	290,000	72,744	1,721
	Penney (JCP)	180,000	$ 74,728	$ 2,417

*Lowe's year ended 1/31. Payless ended 2/31, Pay 'N Pak ended 2/29 and Sears ended 12/31. K mart ended 1/30 and J.C. Penney ended 1/31.
[1] Total sales divided by beginning assets
[2] Total profit divided by total sales
[3] Total profit divided by beginning assets
[4] Beginning assets divided by beginning equity
[5] Total profit divided by beginning equity
[6] At year-end
[7] Total sales divided by number of employees
[8] Total profit divided by number of employees

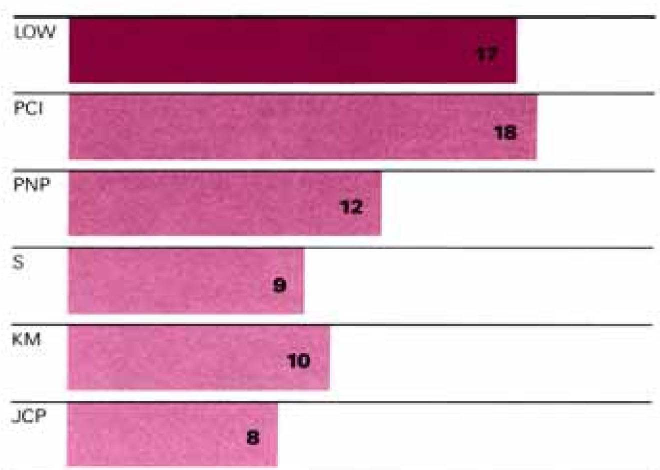
Profit per employee

Dollars



LOW Lowe's
PCI Payless Cashways
PNP Pay 'N Pak
S Sears
KM K mart
JCP Penney's

P/E ratio



LOW Lowe's
PCI Payless Cashways
PNP Pay 'N Pak
S Sears
KM K mart
JCP Penney's

Quarterly review of performance

Earnings statements

Dollars in thousands

Three months ended	1/31/85	10/31/84	7/31/84	4/30/84	1/31/84	10/31/83	7/31/83	4/30/83
	Fiscal 1984				Fiscal 1983			
Net sales	**$375,858**	**$447,702**	**$484,880**	**$380,298**	**$331,026**	**$381,961**	**$418,057**	**$299,532**
FIFO gross margin	96,274	111,184	120,558	95,642	85,314	97,014	106,603	75,892
LIFO credit (charge)	2,686	1,601	(200)	(1,401)	387	(1,073)	(2,733)	(2,265)
LIFO gross margin	**98,960**	**112,785**	**120,358**	**94,241**	**85,701**	**95,941**	**103,870**	**73,627**
Expenses:								
S, G & A	67,184	69,457	71,189	61,517	60,243	60,359	60,613	50,517
Depreciation	4,760	3,450	3,400	3,195	3,182	3,046	2,970	2,836
Employee benefits	4,973	5,256	5,863	4,710	4,755	5,010	4,292	3,057
Interest expense	620	573	561	560	52	217	518	581
Total expenses	**77,537**	**78,736**	**81,013**	**69,982**	**68,232**	**68,632**	**68,393**	**56,991**
Pre-tax earnings	21,423	34,049	39,345	24,259	17,469	27,309	35,477	16,636
Income tax provision	10,918	16,384	18,802	11,529	7,955	13,136	17,219	7,966
Net earnings	**$ 10,505**	**$ 17,665**	**$ 20,543**	**$ 12,730**	**$ 9,514**	**$ 14,173**	**$ 18,258**	**$ 8,670**

Earnings statement changes

Percent change from same quarter prior year

Three months ended	1/31/85	10/31/84	7/31/84	4/30/84	1/31/84	10/31/83	7/31/83	4/30/83
	Fiscal 1984				Fiscal 1983			
Net sales	**13.5%**	**17.2%**	**16.0%**	**27.0%**	**32.4%**	**37.6%**	**43.4%**	**39.5%**
FIFO gross margin	12.8	14.6	13.1	26.0	34.6	36.4	44.2	40.0
LIFO gross margin	**15.5**	**17.6**	**15.9**	**28.0**	**33.3**	**35.3**	**42.5**	**39.0**
Expenses:								
S, G & A	11.5	15.1	17.4	21.8	26.8	23.6	22.0	22.8
Depreciation	49.6	13.3	14.5	12.7	(4.4)	12.3	11.9	14.2
Employee benefits	4.6	4.9	36.6	54.1	65.9	83.0	55.8	32.6
Interest expense	1,092.3	164.1	8.3	(3.6)	(94.5)	(80.9)	(66.2)	(32.8)
Total expenses	**13.6**	**14.7**	**18.5**	**22.8**	**24.8**	**23.8**	**20.7**	**21.8**
Pre-tax earnings	22.6	24.7	10.9	45.8	81.1	76.6	118.3	169.9
Income tax provision	37.2	24.7	9.2	44.7	85.7	77.0	122.5	170.0
Net earnings	**10.4%**	**24.6%**	**12.5%**	**46.8%**	**77.3%**	**76.3%**	**114.5%**	**169.8%**

Earnings statement analysis

Percent total sales to nearest hundredth; income tax is percent of pre-tax earnings

Three months ended	1/31/85	10/31/84	7/31/84	4/30/84	1/31/84	10/31/83	7/31/83	4/30/83
	Fiscal 1984				Fiscal 1983			
Net sales	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
FIFO gross margin	25.61	24.83	24.86	25.15	25.77	25.40	25.50	25.34
LIFO credit (charge)	.72	.36	(.04)	(.37)	.12	(.28)	(.65)	(.76)
LIFO gross margin	**26.33**	**25.19**	**24.82**	**24.78**	**25.89**	**25.12**	**24.85**	**24.58**
Expenses:								
S, G & A	17.87	15.51	14.68	16.17	18.20	15.80	14.50	16.87
Depreciation	1.27	.77	.70	.84	.96	.80	.71	.95
Employee benefits	1.32	1.17	1.21	1.24	1.44	1.31	1.03	1.02
Interest expense	.17	.13	.12	.15	.02	.06	.12	.19
Total expenses	**20.63**	**17.58**	**16.71**	**18.40**	**20.62**	**17.97**	**16.36**	**19.03**
Pre-tax earnings	5.70	7.61	8.11	6.38	5.27	7.15	8.49	5.55
Income tax provision	50.96	48.12	47.79	47.52	45.54	48.10	48.54	47.88
Net earnings	**2.80%**	**3.95%**	**4.24%**	**3.35%**	**2.87%**	**3.71%**	**4.37%**	**2.89%**

Customer sales profile

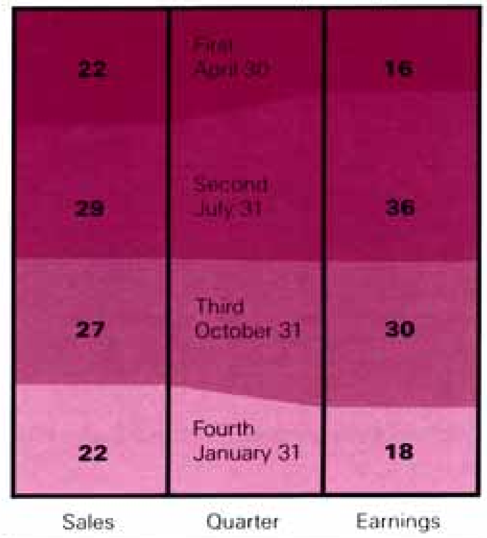
Dollars in millions, rounded totals

	Fiscal 1984			Fiscal 1983		
	Change	**Sales**	**% of Total**	**Change**	**Sales**	**% of Total**
1st Quarter						
RC[1]	+21%	$ 185.7	49%	+30%	$ 153.1	51%
PC[2]	+33	194.6	51	+51	146.4	49
Totals	**+27**	**380.3**	**100**	**+39**	**299.5**	**100**
2nd Quarter						
RC	+21	258.5	53	+28	214.4	51
PC	+11	226.4	47	+63	203.7	49
Totals	**+16**	**484.9**	**100**	**+43**	**418.1**	**100**
3rd Quarter						
RC	+23	233.7	52	+20	190.1	50
PC	+12	214.0	48	+60	191.9	50
Totals	**+17**	**447.7**	**100**	**+38**	**382.0**	**100**
4th Quarter						
RC	+22	203.1	54	+29	166.0	50
PC	+5	172.8	46	+35	165.0	50
Totals	**+14**	**$375.9**	**100%**	**+32**	**$331.0**	**100%**

1) RC: sales to retail customers (cash or non-recourse credit).
2) PC: sales to professional builder customers (Lowe's-extended credit).

1980–1984 sales and earnings

Percent of the total year — a five-year average



Store sales profile

Dollars in millions, rounded totals

	Fiscal 1984					Fiscal 1983[3]				
	Change	**Sales**	**% of Total**	**Stores**	**Per store Average**	**Change**	**Sales**	**% of Total**	**Stores**	**Per store Average**
1st Quarter										
Comparable stores[1]	**+25%**	**$374.3**	**98%**	**233**	**$1.6**	+37%	$ 295.5	99%	231	$ 1.3
New stores[2]		6.0	2	5	1.2		4.0	1	4	1.0
Totals	+27	380.3	100	238	1.6	**+39**	**298.7**	**100**	**233**	**1.3**
2nd Quarter										
Comparable stores	**+14**	**474.3**	**98**	**233**	**2.0**	+42	415.6	99	233	1.8
New stores		10.6	2	8	1.3		2.5	1	2	1.2
Totals	+16	484.9	100	241	2.0	**+43**	**416.8**	**100**	**233**	**1.8**
3rd Quarter										
Comparable stores	**+14**	**435.2**	**97**	**233**	**1.9**	+37	379.1	99	233	1.6
New stores		12.5	3	9	1.4		2.9	1	2	1.4
Totals	+18	447.7	100	242	1.9	**+38**	**380.9**	**100**	**233**	**1.6**
4th Quarter										
Comparable stores	**+12**	**369.6**	**98**	**238**	**1.6**	+31	328.5	99	235	1.4
New stores		6.3	2	10	.6		2.5	1	5	.5
Totals	+14%	$ 375.9	100%	248	$ 1.5	**+32%**	**$330.3**	**100%**	**238**	**$1.4**

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) Totals reflect a reduction for sales attributable to stores closed during the year.

Quarterly stock price and dividend payment*

	Fiscal 1984 High	Fiscal 1984 Low	Fiscal 1984 Dividend	Fiscal 1983 High	Fiscal 1983 Low	Fiscal 1983 Dividend	Fiscal 1982 High	Fiscal 1982 Low	Fiscal 1982 Dividend
1st quarter — NYSE, PSE	$21.75	$17.63	$.080	$25.00	$18.45	$.080	$ 9.15	$ 7.65	$.072
2nd quarter — NYSE, PSE	22.13	16.25	.080	32.75	22.63	.080	9.53	8.40	.072
3rd quarter — NYSE, PSE	24.50	17.25	.080	27.63	20.25	.080	16.28	8.93	.072
4th quarter — NYSE, PSE	$29.63	$23.13	$.080	$25.00	$20.25	$.080	$22.35	$15.15	$.078

*As restated for a five-for-three split to shareholders of record April 14, 1983.
NYSE: New York Stock Exchange
PSE: Pacific Stock Exchange

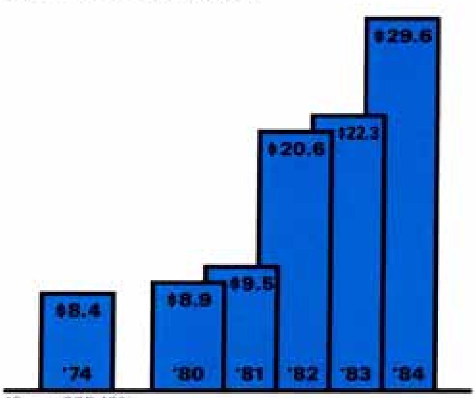
(Lowe's shares are also listed on the London Stock Exchange.)
Source: *Monthly Market Statistics Report*, New York Stock Exchange

Monthly stock price and trading volume

	Fiscal 1984 High	Fiscal 1984 Low	Fiscal 1984 Shares traded	Fiscal 1983 High	Fiscal 1983 Low	Fiscal 1983 Shares traded
February	$21 1/2	$17 5/8	1,900,600	$19.95	$18.45	1,071,700
March	21 3/4	18 1/2	1,997,900	23.63	19.88	1,064,400
April	20	18	1,475,000	25	21.83	1,315,400
May	21 1/4	17 1/2	835,500	32	22 5/8	2,009,800
June	22 1/8	17 5/8	1,319,770	32 3/4	27 1/4	1,756,000
July	21 1/4	16 1/4	1,178,600	30 5/8	26 5/8	1,015,800
August	23	17 1/4	2,945,720	27 5/8	23	1,514,400
September	22 3/4	19 1/4	1,184,100	27 3/8	23 1/4	1,367,800
October	24 1/2	20 3/8	1,629,200	26 3/8	20 1/4	1,745,500
November	25	23 1/8	1,737,400	25	20 3/4	1,102,500
December	25 1/8	23 3/4	946,500	24	20 5/8	1,006,200
January	$29 5/8	$24 3/8	2,307,400	$24 1/2	$20 1/4	1,725,600

Source: *Monthly Market Statistics Report*, New York Stock Exchange

Total return on common stock (before taxes)*

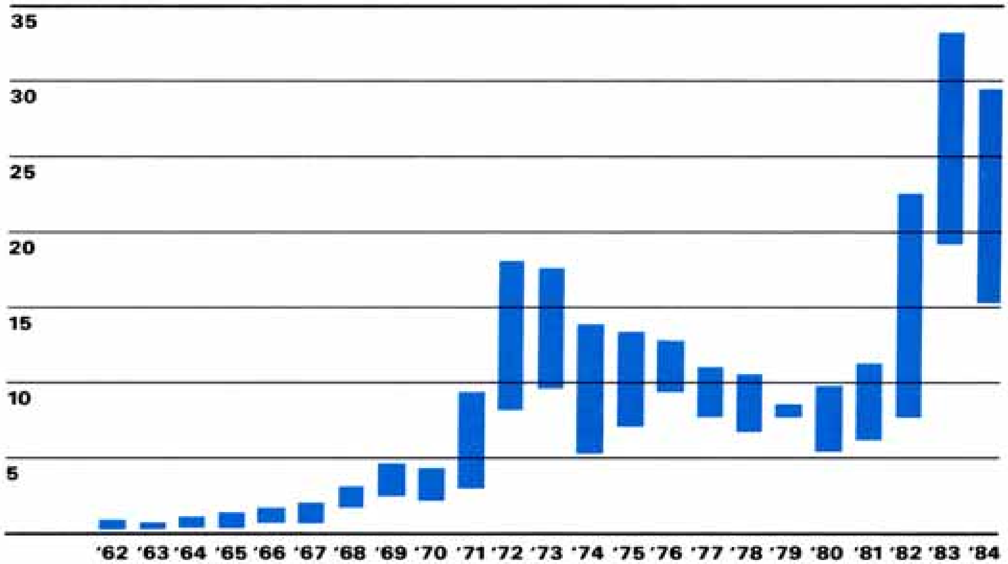


10-year CGR 13%

*Total return is defined as accumulated dividends paid and capital appreciation since January 31, 1975.

High–low stock price*

Dollars, adjusted for all stock splits



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

Results of 1983 shareholder survey

Which sections of the January 31, 1984, annual report did you read?	
All of the report	66%
Facts and figures	33
Investor's review	32
Map	27
Letter to investors	25
"Why Invest" essay	25
Terms defined	23
"Which Way" essay	22%

Ratings of the quality of the annual report sections (5-point scale) 5 = outstanding:	
All of the report	4.5
Facts and figures	4.5
Investor's review	4.2
Map	4.4
Letter to investors	4.3
"Why Invest" essay	4.4
Terms defined	4.6
"Which Way" essay	4.0

Overall rating on 5-point scale: 4.4

Status of respondent as a shareholder:	
Yes	65%
No	33
No response	2%

As a present or potential shareholder what is or would be your primary reason for holding or buying Lowe's stock?	
Price appreciation	63%
Appreciation and dividends	34
Dividend income	2
Other	2%

If you own stock, which category best describes your ownership interest?	
Individual	
Shareholder of record	45%
Street name	37
Employee stock ownership participant	7
More than one response	6
Brokerage firm	3
Financial institution	2%

Do you agree that the growth rate in dividends is the most important dividend criterion? Yes — 53%, No — 47%

How did you first become aware of Lowe's?	
Investment publication	22%
Annual reports	18
Other	18
Employee or store	17
News articles	14
Stockbroker	12
Shareholder	7
This is my first exposure	2%

From which of the following groups does your primary interest stem?	
Individual investor	59%
Financial advisor	11
Stockbroker	11
Other	10
Employee	9
Security analyst	8
Financial media	6
Financial institution	4
Supplier	3
Investment club	3
Trade media	2%

Are you male or female? Male — 90%, Female — 10%

In which age group would you be listed?	
Under 30	9%
30–40	25
41–50	24
51–65	26
Over 65	17%

Which of the following most closely describes your present occupation?	
Executive, administrator, manager	58%
Professional specialty/doctor, lawyer, etc.	24
Sales	7
Clerical	4
Technician	3
Protective service	1
Precision laborer	1
Machine operator	1
Transportation	1%

Shareholder analysis

State	Holders	Shares
Alabama*	112	15,522
Alaska	5	1,380
Arizona	15	2,569
Arkansas*	28	2,290
California	100	281,012
Colorado	12	3,096
Connecticut	48	31,630
Delaware*	39	14,645
District of Columbia	24	22,925
Florida*	193	116,869
Georgia*	240	161,858
Hawaii	2	386
Idaho	3	610
Illinois*	88	972,747
Indiana*	45	19,668
Iowa	8	8,465
Kansas	12	2,766
Kentucky*	95	27,216
Louisiana*	91	73,389
Maine	15	7,980
Maryland*	134	66,784
Massachusetts	112	140,766
Michigan	51	17,427
Minnesota	24	25,944
Mississippi*	72	15,443
Missouri	44	34,810
Montana	3	3,231
Nebraska	7	36,451
New Hampshire	14	6,691
New Jersey	108	36,706
New Mexico	5	1,594
New York	196	19,180,926
North Carolina*	2,797	4,614,767
Ohio*	119	54,471
Oklahoma	15	7,682
Oregon	10	1,108
Pennsylvania*	131	567,733
Rhode Island	82	139,247
South Carolina*	314	135,605
South Dakota	1	1
Tennessee*	225	106,620
Texas*	95	98,159
Utah	4	450
Vermont	5	17,215
Virginia*	464	431,154
Washington	11	1,626
West Virginia*	75	24,538
Wisconsin	25	10,052
Wyoming	1	300
Canada	26	108,858
International**	27	51,392
	6,372	**27,704,774**
Employees in profit-sharing trust***	1,579	2,436,723
Employees in stock ownership plan and trust***	7,800	6,106,978
Total	**14,172**	**36,248,475**

*Indicates state with Lowe's store.
**Does not include international holdings in New York-based street-name accounts.
***In computing total shareholders of record, the two trusts are counted as one shareholder each.

John Alexander Walker
1922 – 1984

The man, the vision, the dream.

It is impossible to capture in words the heart and soul of a man whose wit, charm, and zest for life genuinely captivated us all. John Walker was a singular man of great dimension . . . a being generously endowed with the gifts of intelligence, character, and able leadership. His life was synonymous with action and his span of accomplishments set a hallmark of epic proportion. Of all his qualities, the greatest was his love for family and his fellowman. To know John Walker was to know a man having a philosophy of life . . . an inspired vision to "Improve the quality of life by making a contribution towards the financial advancement and moral growth of people and our country, and to treat other individuals with respect and dignity."

John Walker joined Lowe's in 1958 and was charged with the responsibility of our young company's sales effort. For years he was the driving force of this enterprise, whose commanding guidance drove Lowe's stores to levels of unique greatness. He was the master of the game and the salesman extraordinaire. He served throughout the ranks of executive management and was a member of the Office of the President. He later held the position of managing director and, upon retirement, continued as an active member of the company's board of directors.

His service to the home center, building materials and home building industries was broad and deep. In 1978 he was honored by B'nai B'rith as the "Man of the Year" in the Home Center Industry, and in 1975 he was honored as the "Man of the Half Century" in the Home Center Industry by Lebhar-Friedman Publishers. In March of 1985, John Walker was honored posthumously with the Special Pioneer Recognition Award by the Home Center Leadership Council. He was a tireless speaker on behalf of Lowe's and was regarded by investment professionals as one of the most dynamic speakers in modern American finance and investment. John Walker was a director of Brad Ragan, Inc. of Spruce Pine, North Carolina, and a trustee of First Carolina Investors of Charlotte, North Carolina, as well as a member of the Plywood Advisory Council of the Chicago Board of Trade.

Long active in a myriad of community and professional activities, John Walker was a man of enormous generosity. He was the major benefactor of the John A. Walker Community Center at Wilkes Community College in North Wilkesboro, North Carolina, the John A. Walker College of Business at Appalachian State University in Boone, North Carolina, and of the Beryl Walker Coronary Care Unit at Wilkes General Hospital in North Wilkesboro, North Carolina. His other benefactions included a wing on the Texas Institute for Rehabilitation and Research at the Texas Medical Center in Houston, Texas.

John Walker was a member of the boards of trustees of Appalachian State University in Boone, North Carolina, and of Davidson College in Davidson, North Carolina, and a director of the North Carolina Veterinary Science Foundation, Inc. He was also a former trustee of St. Andrews Presbyterian College in Laurinburg, North Carolina.

The glory of John Walker was his life and his deeds. It was the mark of the man that despite his hard-driving pursuit of valued goals that he could be a quiet man . . . one given to writing poetry . . . one who spoke constantly in public and in private of the need of a "philosophy of life" . . . one who was always there to help the less fortunate.

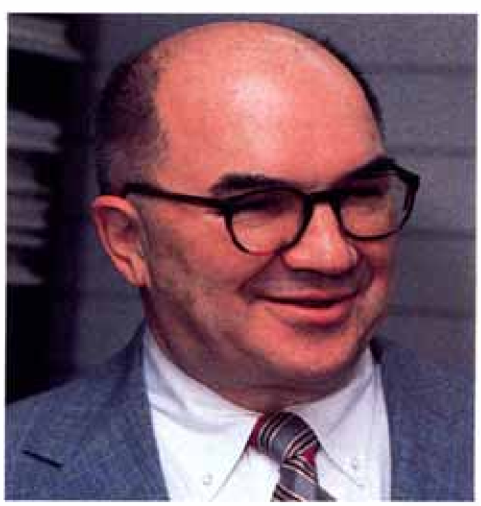
John Walker was a complete and loving man, whose enduring legacy of life and spirit will always be in our hearts.

Gordon E. Cadwgan
Director since 1961, age 71
Chairman of Audit Committee and Member of Compensation Committee.

Trustee and Financial Consultant; affiliated with Tucker, Anthony & R.L. Day, Inc., Boston, Mass., since February, 1979; Director, Leach & Garner Company, Attleboro, Mass.; Fellow Emeritus and Member, Investment Committee, Brown University, Providence, R.I.; Director, Bevis Industries, Inc. (Tubing, Rotary Blowers, and Pumps), Providence, R.I.

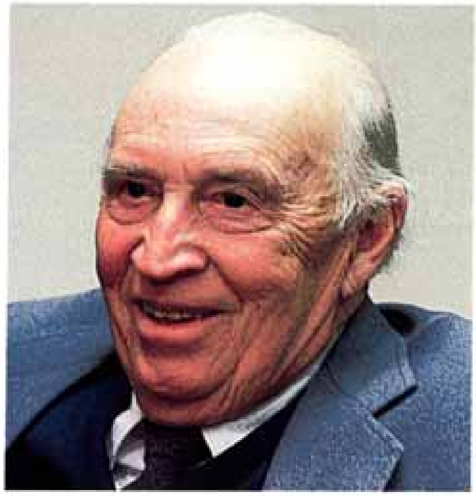
Leonard G. Herring
Director since 1956, age 57
President and Chief Executive Officer since 1978.

Director, Northwestern Financial Corporation, North Wilkesboro, N.C., since 1969; Trustee, Pfeiffer College, Misenheimer, N.C.; Member, Advisory Board, Duke University Hospital, Durham, N.C.; Member, Listed Company Advisory Committee to the New York Stock Exchange Board of Directors, New York, N.Y.



Petro Kulynych
Director since 1952, age 63
Member of Audit Committee; 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, North Carolina Baptist Hospital, Inc., Winston-Salem, N.C.; Member, North Carolina Council of Management and Development, Inc., Raleigh, N.C.; Chairman and Commissioner, Wilkes Airport Authority, Wilkesboro, N.C.; Director, Carolina Motor Club, Inc., Charlotte, N.C.; Trustee, Wake Forest University, Winston-Salem, N.C.



William H. McElwee, Sr.
Director since 1961, age 77
Managing Director and General Counsel since November, 1980; Senior Vice President and General Counsel 1972–1980; Member of Compensation Committee.

Partner, McElwee, McElwee, Cannon & Warden (Attorneys-at-Law), North Wilkesboro, N.C.; Member Emeritus, North Carolina Board of Law Examiners, Raleigh, N.C.; Trustee, Davis Hospital Endowment Fund, Statesville, N.C.; Chairman, Governor's Highway Safety Commission, Raleigh, N.C.; Member of Local Board, North Carolina National Bank, North Wilkesboro, N.C.; Member of the Board, Legal Advisors of the Southeast Legal Foundations, Inc., Atlanta, Ga.; Fellow, American College of Trial Lawyers, Los Angeles, Calif.

Robert G. Schwartz
Director since 1973, age 57
Chairman of Compensation Committee and Member of Audit Committee.

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; Executive Vice President, 1979–1980; Director, Potlatch Corporation (Paper and Forest Products), San Francisco, Calif., since 1973; Director, Kaiser Cement Corporation (Cement), Oakland, Calif., since 1977; Director, NL Industries, Inc. (Petroleum Services, Chemicals, Metals), New York, N.Y., since 1980; Director, R.H. Macy & Company, Inc. (Department Stores), New York, N.Y., since 1982; Director, State Street Research and Management Company, Boston, Mass., since 1983; Member, President's Export Council, Washington, D.C.; Trustee, Committee for Economic Development, Washington, D.C.; Director, Greater New York Councils of Boy Scouts.

Robert L. Strickland
Director since 1961, age 54
Chairman of the Board since 1978.

Director Revelstoke Companies, Ltd. (Lumber Mills, Retail Building Materials and Ready-Mix Concrete Plants), Calgary, Alberta, Canada, since 1976; Director and Past Chairman, Do-It-Yourself Research Institute, Indianapolis, Ind.; Director, The Home Center Institute, Indianapolis, Ind.; President, The Employee Stock Ownership Assn., Washington, D.C.; Director, Council of Better Business Bureaus, Inc., Washington, D.C.; Director, The Committee of Publicly Owned Companies, New York, N.Y.; Board of Visitors, Babcock Graduate School of Management, Wake Forest University, Winston-Salem, N.C.

J. Ross Burgess, Jr.
Executive Vice President — Merchandising

Richard D. Elledge
Vice President, Secretary and Controller

Clayton A. Griffing
Senior Vice President — Finance and Chief Financial Officer

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.
Executive Vice President — Store Operations

William F. Reins
Assistant Treasurer

Robert L. Strickland
Chairman of the Board

Harry B. Underwood II
Vice President and Treasurer

John W. Vining, Jr.
Vice President — Administration

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
Information contact:
Vicki Decker
919 748 6190

Dividend reinvesting agent
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102
Information contact:
Deborah Keaton
919 748 6000

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

Shareholder services
Shareholders and security analysts inquiries should be directed to:
W. Cliff Oxford
919 651 4631
or Henry C. Roemer
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 31, 1985 at 10:00 a.m.
Lowe's Corporate Offices
North Wilkesboro, NC

Stock transfer agents
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102
Information contact:
Victor Winterflood
919 748 6447

Morgan Guaranty Trust Co.
30 West Broadway
New York, NY 10015
Information contact:
Gregory S. Burns
212 587 6349

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

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
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Disclosure policy
Lowe's Companies, Inc., for more than 23 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.

Fiscal years end January 31 of following calendar year except fiscal years prior to 1975 which ended July 31.

	LIFO Accounting				
	4-Year CGR	Fiscal 1984	Fiscal 1983	Fiscal 1982	Fiscal 1981
Stores and people					
1 Number of stores	3.8%	248	238	235	229
2 Square footage	10.5	2,980,000	2,529,040	2,337,351	2,232,008
3 Number of employees	15.9	10,727	8,715	7,080	6,003
4 Customers served (thousands)	20.4%	23,938	18,889	15,075	11,973
5 Average customer purchase		$70.55	$75.74	$68.59	$74.17
Comparative income statement (thousands)					
6 Total sales	**17.6%**	**$1,688,738**	**$1,430,576**	**$1,034,032**	**$ 888,042**
7 Pre-tax earnings	34.6	119,076	96,891	47,525	33,226
8 Taxes on income	34.9	57,633	46,276	22,394	15,367
9 Net earnings	**34.3**	**61,443**	**50,615**	**25,131**	**17,859**
10 Cash flow[2]	28.5	79,691	66,575	39,794	28,381
11 Cash dividends paid	10.4	11,600	11,600	9,800	9,376
12 Earnings, minus dividends, reinvested	45.6%	$ 49,843	$ 39,015	$ 15,331	$ 8,483
Dollars per share (nearest cent)					
13 Sales	14.5%	$46.59	$39.47	$31.02	$27.28
14 Earnings	**30.8**	**1.70**	**1.40**	**.75**	**.55**
15 Cash flow[2]	25.0	2.20	1.84	1.19	.87
16 Cash dividends	**7.5**	**.32**	**.32**	**.29**	**.29**
17 Earnings retained and reinvested	41.9	1.38	1.08	.46	.26
18 Shareholders' equity	16.1%	$ 9.42	$ 8.04	$ 5.96	$ 5.45
Strategic profit model[5]					
19 Asset turnover (sales per asset dollar)		$ 3.24	$ 3.64	$ 3.37	$ 2.94
20 Return on sales (earnings as percent of sales)		× 3.64%	× 3.54%	× 2.43%	× 2.01%
21 Return on assets		= 11.79%	= 12.89%	= 8.19%	= 5.91%
22 Leverage factor (asset dollars per equity dollar)		× 1.79	× 1.98	× 1.73	× 1.79
23 Return on shareholders' equity		= 21.10%	= 25.52%	= 14.17%	= 10.58%
Comparative balance sheet (thousands)					
24 Current asset totals	19.8%	$ 432,370	$ 377,572	$ 271,535	$ 195,370
25 Cash and short-term investments	52.5	84,204	74,249	25,341	32,070
26 Accounts receivable – net	9.3	97,319	94,658	75,388	48,107
27 Inventories (lower of cost or market)	18.7	248,268	205,100	167,535	113,529
28 Other current assets	29.6	2,579	3,565	3,271	1,664
29 Fixed assets	20.9	195,237	141,238	121,406	110,673
30 Other assets	91.7	7,737	2,100	559	521
31 Total assets	**20.5**	**635,344**	**520,910**	**393,500**	**306,564**
32 Current liabilities totals	23.7	189,418	168,830	134,999	80,199
33 Accounts payable	24.5	125,003	110,415	90,580	47,959
34 Income tax payable	NM	550	5,074	5,470	2,798
35 Other current liabilities	21.3	63,865	53,341	38,949	29,442
36 Long-term debt	15.5	92,488	51,891	56,233	48,864
37 Total liabilities	**21.9**	**292,760**	**228,132**	**194,717**	**129,063**
38 Shareholders' equity	**19.2%**	**$341,348**	**$291,505**	**$198,783**	**$177,501**
39 Equity divided by long-term debt		3.69	5.62	3.53	3.63
40 Year-end leverage factor: assets divided by equity		1.86	1.79	1.98	1.73
Shareholders and shares					
41 Shareholders of record, year-end		6,372	5,928	5,144	5,415
42 Shares outstanding, year-end (thousands)[3]		36,248	36,248	33,333	32,555
Stock price range during year[4]					
43 High (adjusted for stock splits)		$29.63	$32.75	$22.35	$11.36
44 Low (adjusted for stock splits)		$16.25	$18.45	$ 7.65	$ 6.30
Price earnings ratio					
45 High		17	23	30	21
46 Low		10	13	10	11

	FIFO Accounting							20.5-year per
Fiscal 1980	4-Year CGR	Fiscal 1984*	Fiscal 1983*	Fiscal 1982*	Fiscal 1981*	Fiscal 1980*	Line #	20.5-year CGR[1]
214	3.8%	248	238	235	229	214	1	13.8%
1,998,239	10.5	2,980,000	2,529,040	2,337,351	2,232,008	1,998,239	2	17.6
5,950	15.9	10,727	8,715	7,080	6,003	5,950	3	14.7
11,376	20.4%	23,938	18,889	15,075	11,973	11,376	4	15.6%
$77.67		$70.55	$75.74	$68.59	$74.17	$77.67	5	
$ 883,614	**17.6%**	**$1,688,738**	**$1,430,576**	**$1,034,032**	**$ 888,042**	**$ 883,614**	**6**	**17.8%**
36,277	28.3	116,390	102,575	49,151	34,146	42,964	7	18.3
17,386	28.4	56,290	49,065	23,195	15,820	20,679	8	18.5
18,891	**28.1**	**60,100**	**53,510**	**25,956**	**18,326**	**22,285**	**9**	**18.2**
29,211	24.5	78,348	69,470	40,619	28,848	32,605	10	19.4
7,813	10.4	11,600	11,600	9,800	9,376	7,813	11	NM
$ 11,078	35.3%	$ 48,500	$ 37,465	$ 16,156	$ 8,950	$ 14,472	12	15.8%
$27.14	14.5%	$46.59	$39.47	$31.02	$27.28	$27.14	13	17.4%
.58	**25.0**	**1.66**	**1.48**	**.78**	**.56**	**.68**	**14**	**18.8**
.90	21.2	2.16	1.92	1.22	.89	1.00	15	18.7
.24	**7.5**	**.32**	**.32**	**.29**	**.29**	**.24**	**16**	**NM**
.34	32.1	1.34	1.16	.48	.27	.44	17	16.3
$ 5.19	15.4%	$ 9.81	$ 8.47	$ 6.34	$ 5.82	$ 5.54	18	20.6%
$ 2.95		$ 3.06	$ 3.42	$ 3.13	$ 2.74	$ 2.80	19	
× 2.14%		× 3.56%	× 3.74%	× 2.51%	× 2.06%	× 2.52%	20	
= 6.31%		=10.89%	=12.78%	= 7.86%	= 5.64%	= 7.06%	21	
× 1.90		× 1.80	× 1.98	× 1.74	× 1.80	× 1.90	22	
=11.99%		=19.60%	=25.31%	=13.68%	=10.16%	=13.41%	23	
$ 209,756	18.6%	$ 460,550	$ 408,438	$ 296,718	$ 218,926	$ 232,392	24	17.8%
15,567	52.5	84,204	74,249	25,341	32,070	15,567	25	19.0
68,172	9.3	97,319	94,658	75,388	48,107	68,172	26	16.7
125,104	17.0	276,448	235,966	192,718	137,085	147,740	27	18.2
913	29.6	2,579	3,565	3,271	1,664	913	28	21.8
91,399	20.9	195,237	141,238	121,406	110,673	91,399	29	23.3
573	91.7	7,737	2,100	559	521	573	30	11.8
301,728	**19.6**	**663,524**	**551,776**	**418,683**	**330,120**	**324,364**	**31**	**18.9**
80,781	21.9	203,405	184,160	147,541	91,939	92,068	32	15.4
52,003	24.5	125,003	110,415	90,580	47,959	52,003	33	15.3
(696)	8.2	14,537	20,404	18,012	14,538	10,592	34	15.8
29,474	21.3	63,865	16,529	38,949	29,442	29,474	35	15.5
51,929	15.5	92,488	51,891	56,233	48,864	51,929	36	22.1
132,710	**20.8**	**306,747**	**243,462**	**207,259**	**140,803**	**143,997**	**37**	**17.0**
$169,018	**18.5%**	**$355,541**	**$307,041**	**$211,424**	**$189,317**	**$180,367**	**38**	**21.0%**
3.25		3.84	5.92	3.76	3.87	3.47	39	
1.79		1.87	1.80	1.98	1.74	1.80	40	
4,620		6,372	5,928	5,144	5,415	4,620	41	
32,555		36,248	36,248	33,333	32,555	32,555	42	
$ 9.95		$29.63	$32.75	$22.35	$11.36	$ 9.95	43	
$ 5.35		$16.25	$18.45	$ 7.65	$ 6.30	$ 5.35	44	
17		18	22	29	20	15	45	
9		10	12	10	11	8	46	

formance

Fiscal 1980*	Fiscal 1975**	Fiscal 1970**	Fiscal 1965**	Base Yr. F 1960**
214	141	64	35	15
1,998,239	1,242,563	379,653	199,537	71,680
5,950	3,600	1,670	762	360
11,376	6,324	2,729	1,284	581
$77.67	$61.40	$47.09	$44.44	$52.80
$ 883,614	**$ 388,254**	**$ 128,491**	**$ 57,044**	**$ 30,679**
42,964	24,483	9,938	3,942	1,359
20,679	12,057	5,068	1,896	641
22,285	**12,426**	**4,870**	**2,046**	**718**
32,605	17,020	6,091	2,351	855
7,813	1,215	844	519	—
$ 14,472	$ 11,211	$ 4,026	$ 1,527	$ 718
$27.14	$11.93	$ 4.07	$ 1.87	$ 1.02
.68	**.38**	**.15**	**.07**	**.02**
1.00	.52	.19	.08	.03
.24	**.04**	**.03**	**.02**	**—**
.44	.34	.13	.05	.02
$ 5.54	$ 2.58	$ .79	$ .31	$ .12
$ 2.80	$ 2.90	$ 3.09	$ 3.20	$ 4.35
× 2.52%	× 3.20%	× 3.79%	× 3.59%	× 2.34%
= 7.06%	= 9.28%	=11.72%	=11.49%	=10.18%
× 1.90	× 1.85	× 1.99	× 2.31	× 2.40
=13.41%	=17.17%	=23.34%	=26.55%	=24.43%
$ 232,392	$ 117,383	$ 38,878	$ 19,187	$ 8,071
15,567	1,968	4,658	3,801	442
68,172	35,467	14,887	7,165	2,858
147,740	79,159	19,040	8,156	4,755
913	790	293	65	16
91,399	48,006	10,390	3,832	1,253
573	420	148	77	58
324,364	**165,809**	**49,416**	**23,096**	**9,382**
92,068	49,338	21,212	11,213	4,874
52,003	30,810	15,178	7,913	2,827
10,592	3,851	2,833	1,671	521
29,474	14,677	3,201	1,629	1,526
51,929	32,588	3,315	2,377	862
143,997	**81,926**	**24,527**	**13,606**	**5,736**
$180,367	**$ 83,883**	**$ 24,889**	**$ 9,490**	**$ 3,646**
3.47	2.57	7.51	3.99	4.23
1.80	1.98	1.99	2.43	2.57
4,620	3,686	2,117	1,871	—
32,555	32,555	31,558	30,458	30,000
$ 9.95	$13.75	$ 4.63	$ 1.02	—
$ 5.35	$ 7.74	$ 2.47	$ .63	—
15	36	31	15	—
8	20	16	9	—

Stock splits and stock dividends since 1960.

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

Explanatory notes

1 Compound growth rate is for 20.5 years due to the change of year-end from July 31 to January 31.

2 Cash flow (funds from operations) is defined as the total of net earnings plus depreciation and deferred income taxes.

3 Variation in the outstanding shares is the result of a Treasury Stock purchase in 1963, subsequent employee option transactions, and a stock issuance to the Employee Stock Ownership Plan of 778,018 common shares on February 1, 1982 and a public stock issuance of 2.917 million shares on February 8, 1983.

4 Stock price sources: *Monthly Market Statistics Report*, New York Stock Exchange; prior to 1980, *The Wall Street Journal*

5 See page 47 for explanation of computational method.

NM = not meaningful

CGR = compound growth rate

* Pro forma FIFO

** FIFO

Index

Credits

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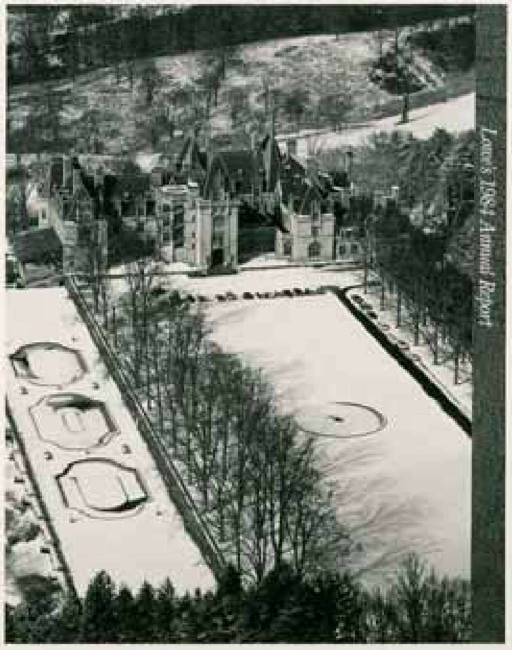

Lowe's 1984 Annual Report Survey

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Attention: Investor Relations Department

Lowe's 19th Annual Shareholder Survey

Dear Investor:

Thanks for reading the Lowe's 1984 Annual Report. Please take a few minutes to tell us what you thought of it by completing the following questions. Your opinions are important to us and help us to continue to improve our ability to serve you.

When you've completed the survey please drop it in the mail and return it to us. Postage is prepaid!

1. When reading Annual Reports, different people have different information needs. Check all the sections of this report you read by placing a mark on the line next to those sections.

____ All of the report
____ Photo feature
____ Boise Cascade article
____ Stores & expansion
____ Customer analysis
____ Product analysis
____ Dynamics of the changing market
____ Growth of the South
____ Dynamics of the competition
____ Financials
____ Other

2. Next we'd like you to rate the quality of the annual report sections you read. When making your judgements please consider the overall quality, understandability and readability of the sections you read.

	Low				High
All of the report	1	2	3	4	5
Photo feature	1	2	3	4	5
Boise Cascade article	1	2	3	4	5
Stores & expansion	1	2	3	4	5
Customer analysis	1	2	3	4	5
Product analysis	1	2	3	4	5
Dynamics of the changing market	1	2	3	4	5
Growth of the South	1	2	3	4	5
Dynamics of the competition	1	2	3	4	5
Financials	1	2	3	4	5
Other	1	2	3	4	5

Summing it up

3. In general and all things considered, please rate the overall Lowe's 1984 Annual Report by circling the number below which best describes your overall impression.

Overall, I feel the 1984 annual report is a
1 2 3 4 5

Now we'd like to ask a few questions about you. This information will be invaluable as we begin to analyze the answers you have given us to the previous questions and will allow us to more effectively respond to your informational needs.

4. Are you currently a Lowe's shareholder?
____ Yes ____ No

5. As a present or potential shareholder what is or would be your primary reason for holding or buying Lowe's stock.
____ Long term profit on original investment or for capital appreciation
____ Dividend income
____ Both capital appreciation and dividend income
____ Other (please state) ________

6. When you say that you own Lowe's does that mean you as an individual or you as the organization with which you are associated? Please check the box below that best describes your ownership interest in Lowe's.
____ I personally own the stock in my own name and have the certificates
____ I personally own the stock through — and the certificates are in — an employee stock plan
____ I personally own the stock but my broker keeps the certificates
____ The company I am associated with owns Lowe's stock and I am the analyst following the company
____ The company I am associated with owns Lowe's stock and I am a money manager in the company

7. Which of the following do you consider the *most* important criteria regarding dividends? Please answer only one.
____ Dividend growth on an annual basis
____ Yield on my original investment
____ Dividend never reduced
____ Not interested in dividends

8. How did you *first* become aware of Lowe's? Please answer only one.
____ Through my stockbroker
____ Through a Lowe's employee or store
____ Through a Lowe's shareholder
____ By reading previous annual reports
____ Newspaper or magazine article
____ Investment publication
____ This is my first exposure to Lowe's
____ Other ________

9. From which of the following groups does your interest in Lowe's stem?
____ Security analyst
____ Financial advisor
____ Employee
____ Individual investor
____ Stockbroker
____ Retired or former employee
____ Trade media
____ Investment club
____ Financial media
____ Financial institution
____ Supplier
____ Other ________

10. Are you a male ____ or a female ____ ?

11. In what age group would you be listed?
____ Under 30
____ 30–40
____ 41–50
____ 51–65
____ Over 65

12. Please check the line which most closely describes your present occupation.
____ Executive, administrator, manager
____ Handler, helper, laborer
____ Protective service
____ Precision production
____ Technician or related support
____ Sales occupation
____ Administrative support/clerical
____ Machine operator, assembler or inspector
____ Transportation and material moving occupations
____ Professional specialty/doctor, lawyer, etc.

Thanks again for reading the '84 Lowe's Report and especially for answering these questions.
Thank you.

Your name ________
Your address ________
City ________ State ________ Zip ________