

1999 Annual Report

re: evolve





Corporate Profile

Founded in 1978, The Home Depot® is the world's largest home improvement retailer and the third largest retailer in the United States, with fiscal 1999 sales of \$38.4 billion. At the close of fiscal 1999, the Company was operating 930 stores, including 854 Home Depot stores, 15 EXPO Design Center® stores and 2 Villager's HardwareSM stores in the United States; 53 Home Depot stores in Canada; 4 Home Depot stores in Chile; and 2 Home Depot stores in Puerto Rico. In addition, the Company was operating wholly-owned subsidiaries Apex Supply CompanySM, Georgia Lighting®, Maintenance Warehouse® and National Blinds and WallpaperSM. The Company employed approximately 201,000 associates at the end of fiscal 1999.

The Company has been publicly held since 1981. The Home Depot stock trades on the New York Stock Exchange under the ticker symbol "HD" and is included in the Dow Jones Industrial Average and the Standard & Poor's 500 Index.

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Responding and changing to meet customer needs is what The Home Depot is all about. Our evolution continues, as we work to become a total solutions provider to all home improvement customers.



Financial Highlights

amounts in millions, except per share data

	1999	Increase	1998	Increase	1997*	Increase
Net sales	\$38,434	27.2%	\$30,219	25.1%	\$24,156	23.7%
Gross profit	11,411	32.6%	8,605	26.9%	6,781	24.8%
Earnings before income taxes	3,804	43.3%	2,654	32.6%	2,002	30.4%
Net earnings	2,320	43.7%	1,614	31.9%	1,224	30.5%
Diluted earnings per share	1.00	40.8%	0.71	29.1%	0.55	27.9%

Net Earnings as a Percent of Sales



Pretax Earnings as a Percent of Sales



Return on Invested Capital



*Excludes the effect of a \$104 million non-recurring charge.

Fiscal 1999 was a year of significant competitive, financial and strategic achievements:

- > Completed best year of net earnings gains since 1992, and best year of net earnings as a percent of sales in the Company's history.**
- > Opened 160 Home Depot stores and 7 EXPO Design Center stores.**
- > Opened first two Villager's Hardware test stores.**
- > Acquired Georgia Lighting and Apex Supply Company.**
- > Launched an environmentally responsible wood purchasing policy.**
- > Introduced enhanced Home Depot Web site.**
- > Became a member of the Dow Jones Industrial Average.**
- > Declared a 3-for-2 stock split.**
- > Celebrated Home Depot's 20th anniversary.**
- > Named one of the Top Ten Most Admired Companies by *Fortune* magazine, which also ranked The Home Depot as America's Most Admired Specialty Retailer for the seventh consecutive year.**

re: view



To Our Stockholders, Customers and Associates:

On the heels of fiscal 1998's record performance, many of our investors wondered, "What will The Home Depot do for an encore?" The encore we performed during fiscal 1999 is worthy of a "Bravo!" response. We are extremely proud of our accomplishments during fiscal 1999, particularly because they demonstrate the ongoing commitment of 201,000 associates who understand that superior customer service is the key to success for them, the Company and our investors.

We entered fiscal 1999 with confidence and a list of goals, which fit into three main categories:

1. To continue a pattern of strong and consistent sales and earnings growth.
2. To increase our ability to be a total solutions provider to do-it-yourself and professional home improvement customers.
3. To lead the marketplace to a better world.

We achieved all of our goals, exceeding most of them. As a result, we further strengthened our competitive position in the home improvement industry and solidly positioned the Company for long-term success.

Strong and Consistent Growth

Net earnings grew 44% during fiscal 1999, a key area where we exceeded our goal.

One hundred sixty-nine new stores and a 10% increase in sales at existing stores contributed to a 27% total sales gain for the year. A healthy economic environment helped, but the strength in sales was due mainly to new products and services, sharper product assortments and customer service enhancements.

We reduced product costs through efforts such as product line reviews, and imports and logistics efficiencies. These improvements gave us the financial flexibility to make further customer service-related investments in our stores, as well as invest in long-term growth initiatives, even as we recorded our 14th consecutive year of record earnings and our strongest year-over-year earnings gain since 1992.

We are firmly positioned to continue this pattern of consistent growth. New stores are planned to open at a steady rate of 21-22%. When combined with many new initiatives to enhance customer service, sales and productivity in our existing stores, we

During fiscal 1999, The Home Depot was recognized for its industry and stock market leadership by being added to the Dow Jones Industrial Average.



are confident in our ability to continue the consistent sales and earnings growth our stockholders have come to expect.

Providing Total Solutions

We reached further into our industry to find new ways to serve customers.

Our commitment to new and existing customers has expanded inside and outside the walls of Home Depot stores. As the North American home-ownership base has grown and become more diverse, so have our customers' needs. Plain vanilla is not enough – our customers want what they want, when they want it and where they want it.

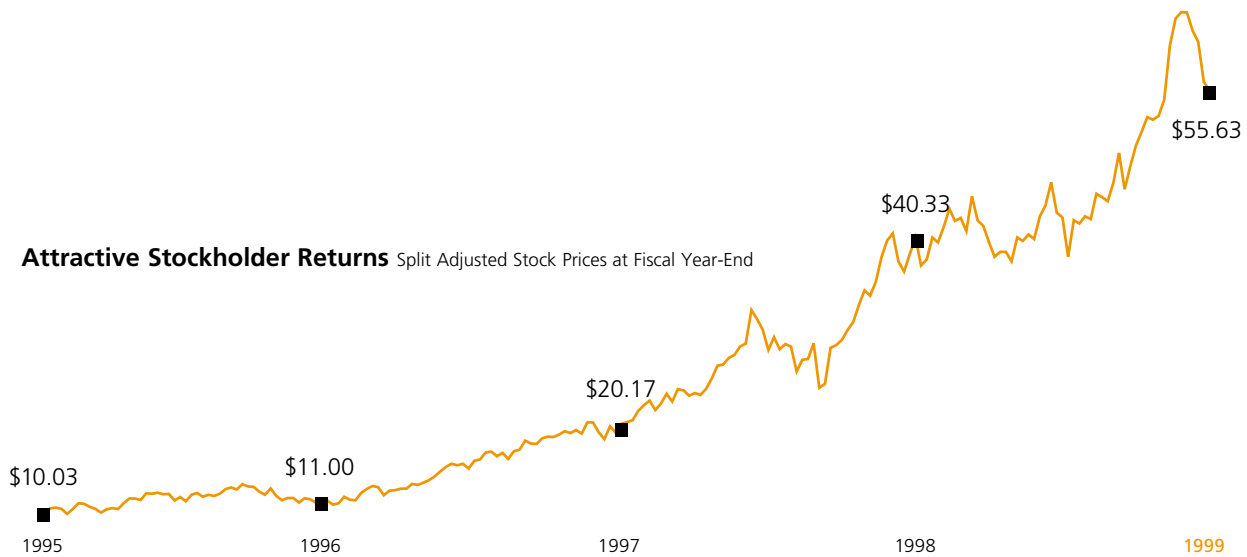
In response, we added new products and services to our stores during the year. For example, we introduced a broad assortment of major appliances at nearly 150 Home Depot stores. Appliances are a natural extension of the products and services we currently offer. They also provide us with another opportunity to extend the trusting relationship we have with our customers. We expect to offer appliances in all remaining U.S. Home Depot stores during fiscal 2000.

We expanded our line of proprietary brands to include highly recognized names, such as

General Electric® and Thomasville®. During fiscal 1999, we completed the introduction of GE SmartWater™ water heaters into all our stores. We also reached agreements to begin selling a new line of kitchen cabinets under the Thomasville name beginning in fiscal 2000. These new product lines are excellent examples of our merchants' creativity in developing proprietary brands that provide our customers with more choices of quality products at value prices – available only at The Home Depot.

Nearly 50,000 customers sharpened their do-it-yourself skills at Home Depot UniversitySM, a four-week customer education program that premiered in all our stores during fiscal 1999. In addition, we added tool rental centers to 104 stores during the year, bringing the total to 150. We also further refined our test of new services for professional customers in three markets, and we added this package of services to ten additional markets.

Behind the scenes, we worked to enhance the customer service experience in our stores. We implemented new systems, tested new store formats and tweaked our staffing models, all with the mission to make our stores easier to shop and our associates more accessible to customers. We firmly believe that there is always room for improvement.



Developing Our Capabilities

We're smart enough to know what we don't know. If we don't have the expertise or experience we need, we get it. During fiscal 1999, we acquired two companies for the purpose of developing our capabilities in two important segments of the home improvement business. Georgia Lighting, purchased in June 1999, is known throughout the lighting industry for its expertise in lighting design, sourcing, merchandising and training programs. Home Depot and EXPO Design Center stores are benefiting today from this acquisition in all four areas.

In January 2000, we acquired Apex Supply Company, a wholesale distributor of plumbing, HVAC and related products. Going forward, we plan to leverage Apex's expertise and resources to better serve the needs of professional plumbers shopping in Home Depot stores.

Exploring E-Commerce

As the world watched the developments of electronic commerce, we were busy laying the foundation for our own e-commerce efforts. We view the Internet not as an *alternate* channel but as an *additional* channel to provide flexibility and convenience

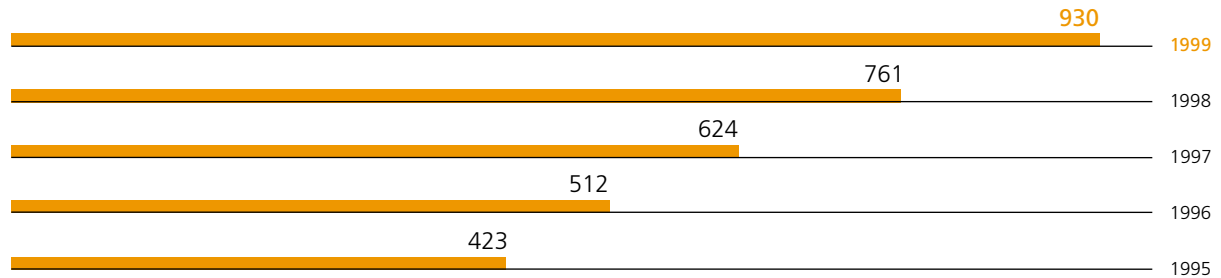
to our customers. Therefore, our e-commerce strategy starts with our stores.

Beginning in fiscal 2000, Home Depot customers in our initial launch markets will be able to purchase electronically all of the products available in their local Home Depot store. If they want the products delivered, we'll deliver them. If they want to pick them up at the store, we'll have the order ready for them. With nearly 1,000 Home Depot stores spread across North America, we will have the inventory and delivery systems instantly in place to serve e-commerce customers. During this period of dot-com mania, we firmly believe that, in the long run, the most successful online retailers will be those who know how to extend to the Internet the power of their brands, the leverage of their bricks-and-mortar assets and the value of their customer service.

Launching New Ventures

Outside the walls of Home Depot, we made great progress with EXPO Design Center. We opened seven EXPO Design Center stores during fiscal 1999, and each store opening was more successful than the one before it. More customers doing remodeling and decorating projects are attracted by EXPO's ability to complete design work, product

Consistent Store Growth Number of Stores at Fiscal Year-End



selection and installation coordination – all under one roof. Like Home Depot 20 years ago, EXPO is poised to revolutionize this segment of the home improvement market.

We also learned more about serving the hardware convenience customer. During fiscal 1999, we opened two Villager's Hardware test stores in New Jersey. Designed primarily to serve smaller project or home enhancement customers, Villager's Hardware complements Home Depot stores with its product mix differences and a different type of shopping experience. We plan to open two more test stores in fiscal 2000. Villager's Hardware is a good example of our willingness to test new ideas and prove their success before rolling them out. By doing this, our customers and our stockholders win.

Expanding Globally

Global expansion will become a more important part of our growth plans during the next decade. Like the Internet, trends in global retailing are accelerating, as retailers consolidate, capitalize on the power of their brands throughout the world and create the scale to achieve greater operating efficiencies. The opportunities we see to serve homeowners around the world, combined with our

experiences to-date in Canada, Chile and Puerto Rico, make us excited about our long-term prospects for successful expansion outside North America. Our primary focus continues to be on growing our presence in Latin America. However, we are also exploring other opportunities around the world for further international growth.

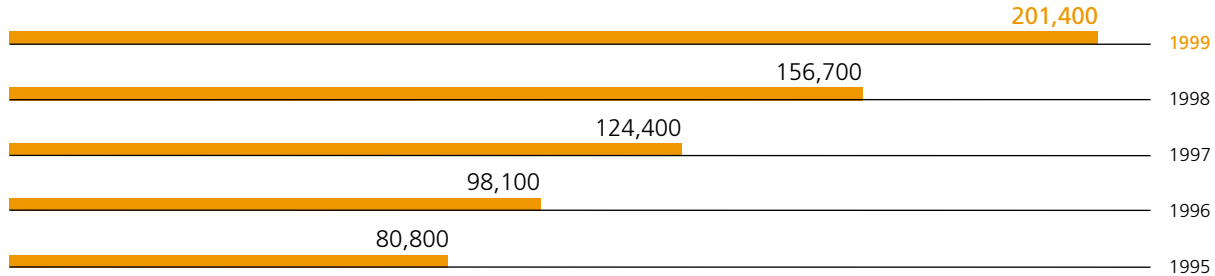
These and many other initiatives support our goal of providing total solutions to our customers. Coupled with this goal is our objective that every initiative maintain or enhance our current return on invested capital. Given this high hurdle, for every initiative we undertake, many others have been discarded. Even so, there are still many opportunities for us to continue to widen our leadership position in the industry.

Leading the Marketplace to a Better World

Every day, we have the ability to touch millions of lives.

During fiscal 1999, we completed 797 million customer transactions. With each transaction, we had the opportunity to touch the lives of our customers by providing them with a wide assortment of low-priced home improvement products. In many cases, we also gave our do-it-yourself customers the knowledge and confidence to complete their own projects.

Career Opportunities Number of Associates at Fiscal Year-End



At the end of fiscal 1999, we employed over 201,000 associates. We have the opportunity to touch each of their lives by building a better workplace in which every associate understands the culture and values upon which this Company was built. We have a responsibility to build an inclusive and diverse organization of the very best people, and foster an environment that supports diversity, providing the opportunity for everyone to excel.

During fiscal 1999, The Home Depot gave \$15 million to support disaster relief and the building of affordable housing, to aid youth at risk and to protect the environment. We touched thousands of lives through our financial support and thousands more through our volunteer efforts.

Our actions today in protecting the environment will touch millions of lives for many years to come. Last year, we told you about our commitment to leadership in addressing sustainable forestry and certification issues. This year, we put the stake in the ground by pledging to stop selling any wood products from endangered regions by the end of 2002. Further, we will give preference to vendors that supply us with products made from certified wood. We will use the power of our purchasing dollars to promote products that do the most to

preserve environmentally sensitive areas and make the most efficient use of wood.

The key to our success in this area is in the partnerships we develop with environmental groups and suppliers. I am happy to report that many environmental organizations have publicly voiced their support of our efforts, and our vendors are quickly climbing on the bandwagon. As The Home Depot expands its global presence, sustaining the environment will become an even more important issue for the Company and our vendor partners.

During fiscal 1999, The Home Depot celebrated its 20th year of business. We have achieved so much in just 20 years of history. But even more opportunity exists for us in the next 20 years. The encore performance in fiscal 1999 was outstanding – but the curtain remains wide open.

Arthur M. Blank
President & Chief Executive Officer
February 25, 2000



The Home Depot views the Internet as an opportunity to expand its multi-channel approach to serving customers. Our goal is to be the definitive supplier of home improvement information, products and services over the Internet, just as we are in our stores. To provide our customers with the flexibility they want in obtaining products and information, we are implementing an Internet strategy that integrates and leverages our bricks-and-mortar assets. The Company expects to begin offering a full range of products for sale on the Internet in select markets during fiscal 2000.

re: new



During fiscal 1999, 65 stores participated in a test offering of home improvement loans. Based on the success of this test in driving and supporting major product sales, the Company is finalizing plans to expand this program to more stores during fiscal 2000.



The Home Depot has finalized plans to offer a full range of major appliances in its stores. Customers can choose from a selection of models available in the stores, or from more than 1,000 other models and colors through an Intranet kiosk system. Appliances are expected to be available in all U.S. Home Depot stores by the end of fiscal 2000.

One of the keys to The Home Depot's success is its constant focus on serving customers in new and innovative ways.

Customers can expect to discover something new in Home Depot stores with just about every shopping trip. Our merchandising-driven organization places a priority on searching for new, quality products at value prices. In addition, we constantly seek new service opportunities to add value to the shopping experience. If it's related to home improvement or maintenance, we want customers to find it at The Home Depot.

The Home Depot continuously improves its product mix through new or expanded vendor partnerships, and import or proprietary brand programs. Our strategy is to offer the best national and regional brands and to supplement them with proprietary brands when we see an opportunity to enhance assortments. By the end of fiscal 1999, all Home Depot stores offered RIDGID® benchtop and stationary power tools and GE SmartWater water heaters – two of the latest quality products found only at The Home Depot.

During the year, we made it easier for professional and do-it-yourself customers to complete projects, as we continued our expansion of tool rental centers in Home Depot stores. With more than 200 products available to rent, professional customers increasingly find Home Depot a one-stop shop, and do-it-yourselfers are more comfortable undertaking larger or one-time projects. Tool rental centers were in 150 stores at the end of fiscal 1999, and are expected to be in more than 350 stores by the end of fiscal 2000.

We also continued to enhance our home services programs, primarily by making the entire process smoother for customers. The Home Depot currently offers nine core installation programs in all of its stores, and is in the process of expanding additional installation services for roofing, vinyl siding and replacement windows. As the population ages, we expect more customers will want products installed for them. We're currently the largest installer of products in the industry, but we have less than two percent of the product installation market. Therefore, we have a significant opportunity to continue to grow this piece of the business at a rapid rate.





Logistics efficiencies are reducing the cost of shipping products to our stores. The Home Depot plans to reduce freight costs by consolidating less-than-full truckload shipments in cross-docking transit facilities. With current plans to utilize two transit facilities during fiscal 2000, we ultimately expect to be operating 15 facilities across North America.

Continuous improvement is a way of life at The Home Depot.

Entrepreneurs abound at The Home Depot. Throughout the Company, we are always testing new ways to enhance service to our customers and to become more efficient at what we do. We believe there is always room for improvement.

We made significant progress during fiscal 1999 in refining a program designed to increase sales to professional business customers. A package of customized offerings, including enhanced ordering, pick-up and delivery services; credit programs; and associates dedicated to the professional business customer generated incremental sales and operating profits in three test markets, and was expanded to 10 more markets during the year. By the end of fiscal 1999, The Home Depot was finalizing plans for a three-year company-wide rollout, which is expected to begin in fiscal 2000. The stronger relationships we are creating with professional customers will enable us to capture a greater share of this \$75 billion market.

The Home Depot's decentralized organization is designed to allow us to stay close to our customers. It also supports an entrepreneurial spirit and fosters an environment that encourages creativity and change. We listen and respond to customer needs and preferences market by market, and even store by store. During fiscal 1999, we established four new Home Depot divisional offices in North America, putting the leadership and resources in place to support future store openings. We also tested and refined a system that closely matches associate staffing hours with customer demand, while taking into consideration training schedules and other events, as well as personal needs. We plan to implement this system in all stores during fiscal 2000.

We understand that the associates in the aisles of our stores hold the keys to strong customer relationships. The training, tools and support they receive, coupled with their desire to serve customers, allow us to maintain a competitive advantage in the industry.



Home Depot University debuted in all stores during fiscal 1999. This comprehensive, four-week program enhances the skills of our customers in areas such as planning and completing kitchens, bathrooms or decks.

re: think

Store associates attend weekly product knowledge classes, gaining knowledge about new products or techniques that they can share with customers.





During fiscal 1999, The Home Depot acquired Apex Supply Company and Georgia Lighting. These companies have the expertise and resources to allow The Home Depot to increase its penetration of the professional plumbing and lighting markets.

re: create





Villager's Hardware test stores feature six Solutions Centers to aid customers in product selection or project completion. In the center of the store is a Project Solutions Center where associates answer questions, and customers peruse a library of over 250 home repair and décor books or view how-to videos related to home enhancement projects.

The Home Depot's focus has always been on serving home improvement needs. Every day we look for opportunities to do it in a bigger way.

At the end of fiscal 1999, 74 Home Depot stores were open 24 hours a day to serve customers. One hundred seventy-one stores were testing new staffing formulas designed to enhance sales and service, and 11 stores were part of a décor merchandising experiment. Through these and many other initiatives, we look for new ways to serve more home improvement customers and increase sales in our stores.

We also look for new ways to offer different shopping experiences. EXPO Design Center completed its first year of aggressive growth in fiscal 1999, opening seven new stores and ending the year with a total of 15 stores. EXPO's showroom environment, décor orientation and project focus are a winning formula for homeowners undertaking remodeling or decorating projects. EXPO expects to open 11 more stores during fiscal 2000 and plans to have approximately 200 stores in operation during the next five to six years.

During fiscal 1999, we began to test a new store format for serving the hardware convenience segment of the home improvement market. Villager's Hardware is designed to attract customers undertaking smaller repair or room enhancement projects, or customers who simply want the convenience of a smaller local store. Customer response to the first two test stores in East Brunswick and Garwood, New Jersey has been positive, and the initial results at both stores are encouraging. We plan to open two more Villager's Hardware stores in New Jersey during fiscal 2000, as we continue to refine this store format and its product offerings.



Team Depot volunteers joined National Football League® players and other volunteers in rehabilitating a low-income family home as part of a Super Bowl® project sponsored by Christmas in April®, the largest community revitalization team in America.



Caring for the customer and caring for each other are vital components of The Home Depot culture.

We believe in giving our time, talents, energy and resources to worthwhile causes in the communities we serve. We're there to help when our customers and associates need us most.

When Hurricane Floyd ripped through North Carolina, The Home Depot was there. We extended disaster relief credit to more than 50 communities, offered how-to clinics on repairing water damage, donated nearly \$100,000 in clean-up and rebuilding supplies to relief agencies, and sent more than 50,000 gallons of water to affected people. We were also in Oklahoma City following devastating tornadoes, rebuilding roofs, planting trees and clearing roads.

Home Depot associates extend helping hands more often than just in times of disaster. We finished another year of outstanding partnerships with national and regional organizations such as Habitat For Humanity®, KaBOOM!® and YouthBuild U.S.A.®, as part of our focus on building affordable housing and assisting at-risk youth.

We also expanded our commitment to preserving the environment. The Home Depot increased its assortment of wood products obtained from certified forests as part of our pledge to discontinue selling products sourced from endangered regions by the end of 2002. We are proud of our leadership position in this area as we work toward creating a better world for years to come.



Home Depot associates help to build a better world through disaster relief efforts and participation in programs such as Habitat for Humanity.

Wood studs certified by the Forest Stewardship Council premiered in Home Depot stores in the Northeast region during fiscal 1999.



re: solve



The Home Depot is the world's largest home improvement retailer, but has less than a 10% share of the total home improvement and other housing and building-related products market in North America. Our large and growing industry provides significant opportunities for continued growth.

re: grow

During fiscal 1999, The Home Depot opened 169 new stores, the equivalent of one new store every 52 hours. We currently plan to grow to more than 1,900 stores by the end of fiscal 2003.





The EXPO Design Center division will continue its aggressive expansion, growing from 15 to 26 stores by the end of fiscal 2000, and to approximately 200 stores over the next five to six years.

New stores will continue to drive the majority of The Home Depot's growth.

We ended fiscal 1999 with 930 stores, an increase of 22% from the previous year. Our current plans call for consistent 21–22% annual growth in store openings going forward, taking us to more than 1,900 stores by the end of fiscal 2003.

Most of the Company's new store growth during this time will continue to come from Home Depot stores in North America. Even though we are the largest home improvement retailer in the world, The Home Depot's market share of the home improvement and other housing and building-related products market in North America is less than 10%. We see many opportunities to increase our market share in both the United States and Canada, where the industry is currently expected to grow at a steady pace.

At the same time, we are moving forward with plans for expansion outside North America. During fiscal 1999, we opened two additional stores in Chile – one in Santiago and one in Concepcion – for a total of four. We also opened our second store in San Juan, Puerto Rico. During fiscal 2000, we plan to open one additional store in Chile, as well as our first stores in Buenos Aires, Argentina. Our experience outside of North America has shown us that Home Depot-style customer service is valued in other areas of the world, providing encouragement for successful long-term international growth.

Today, The Home Depot is the strongest home improvement brand in the world. From stores, to Home Depot home improvement books, to corporate gift certificate incentive programs, to powerful sponsorships like NASCAR's® Tony Stewart, CBS College Football and Hockey Night in Canada®, The Home Depot has become part of the fabric of North America, and we are starting to weave a similar tapestry in South America.

With so many opportunities to expand the power of the Home Depot brand, it's no wonder we're excited about our prospects for consistent, long-term growth. Our plans to continue to grow the Company, as well as our leadership position in the industry, are a key part of our ongoing commitment to our customers, associates and stockholders.

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

The Home Depot, Inc. and Subsidiaries

The data below reflect selected sales data, the percentage relationship between sales and major categories in the Consolidated Statements of Earnings and the percentage change in the dollar amounts of each of the items.

Selected Consolidated Statements of Earnings Data

	Fiscal Year ⁽¹⁾			Percentage Increase (Decrease) in Dollar Amounts	
	1999	1998	1997	1999 vs. 1998	1998 vs. 1997
Net Sales	100.0%	100.0%	100.0%	27.2%	25.1%
Gross Profit	29.7	28.5	28.1	32.6	26.9
Operating Expenses:					
Selling and Store Operating ⁽²⁾	17.8	17.7	17.8	27.9	24.1
Pre-Opening	0.3	0.3	0.3	28.4	35.4
General and Administrative	1.7	1.7	1.7	30.3	24.7
Non-Recurring Charge	–	–	0.4	NM⁽³⁾	NM ⁽³⁾
Total Operating Expenses	19.8	19.7	20.2	28.1	21.7
Operating Income	9.9	8.8	7.9	42.6	40.3
Interest Income (Expense):					
Interest and Investment Income	0.1	0.1	0.2	23.3	(31.8)
Interest Expense	(0.1)	(0.1)	(0.2)	(24.3)	(11.9)
Interest, net	–	–	–	(228.6)	(450.0)
Earnings Before Income Taxes	9.9	8.8	7.9	43.3	39.8
Income Taxes	3.9	3.5	3.1	42.7	40.9
Net Earnings	6.0%	5.3%	4.8%	43.7%	39.1%
Selected Sales Data⁽⁴⁾					
Number of Transactions (000s)	797,229	665,125	550,226	19.9%	20.9%
Average Sale per Transaction	\$ 47.87	\$ 45.05	\$ 43.63	6.3	3.3
Weighted Average Weekly Sales per Operating Store	\$ 876,000	\$ 844,000	\$ 829,000	3.8	1.8
Weighted Average Sales per Square Foot	\$ 422.53	\$ 409.79	\$ 405.56	3.1	1.0

⁽¹⁾Fiscal years 1999, 1998 and 1997 refer to the fiscal years ended January 30, 2000; January 31, 1999; and February 1, 1998, respectively.

⁽²⁾Minority interest has been reclassified to selling and store operating expenses.

⁽³⁾Not meaningful.

⁽⁴⁾Excludes wholly-owned subsidiaries: Apex Supply Company, Georgia Lighting, Maintenance Warehouse, and National Blinds and Wallpaper.

Forward-Looking Statements

Certain written and oral statements made by The Home Depot, Inc. and subsidiaries (the "Company") or with the approval of an authorized executive officer of the Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Words or phrases such as "should result," "are expected to," "we anticipate," "we estimate," "we project" or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company's historical experience and its present expectations or projections. These risks and uncertainties include, but are not limited to, unanticipated weather conditions; stability of costs and availability of sourcing channels; the ability to attract, train and retain highly-qualified associates; conditions affecting the availability, acquisition, development and ownership of real estate; general economic conditions; the impact of competition; and regulatory and litigation matters. Caution should be taken not to place undue reliance on any such forward-looking statements, since such statements speak only as of the date of the making of such statements. Additional information concerning these risks and uncertainties is contained in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K.

Results of Operations

For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements presented in this annual report.

Fiscal year ended January 30, 2000 compared to January 31, 1999

Net sales for fiscal 1999 increased 27.2% to \$38.4 billion from \$30.2 billion in fiscal 1998. This increase was attributable to, among other things, full year sales from the 138 new stores opened during fiscal 1998, a 10% comparable store-for-store sales increase, and 169 new store openings and 6 store relocations during fiscal 1999.

Gross profit as a percent of sales was 29.7% for fiscal 1999 compared to 28.5% for fiscal 1998. The rate increase was primarily attributable to a lower cost of merchandise resulting from product line reviews and increased sales of imported products, other merchandising initiatives begun in prior years and continued during fiscal 1999, and sales mix shifts to higher gross margin product categories and assortments. In addition, inventory and refund systems improvements and more effective training resulted in better inventory shrink results and lower product markdowns.

Operating expenses as a percent of sales were 19.8% for fiscal 1999 compared to 19.7% for fiscal 1998. Selling and store operating expenses as a percent of sales increased to 17.8% in fiscal 1999 from 17.7% in fiscal 1998. The increase was primarily attributable to higher store selling payroll expenses resulting from market wage pressures and an increase in employee longevity, as well as to the Company's continued investment in new customer service initiatives. In addition, medical costs increased due to higher family enrollment in the Company's medical plans, increased claims and higher prescription drug costs. The Company's strong financial performance during fiscal 1999 also resulted in higher bonus expenses as a percent of sales. Credit card discounts increased as a result of higher penetrations of credit card sales and increases in non-private label discount rates. Partially offsetting these increases were lower net advertising expenses resulting from higher cooperative advertising participation by vendors and economies realized from the increased use of national advertising.

Pre-opening expenses as a percent of sales were 0.3% for both fiscal 1999 and 1998. The Company opened 169 new stores and relocated 6 stores in fiscal 1999, compared to 138 new stores and 4 store relocations in fiscal 1998. Pre-opening expenses averaged \$643,000 per store in fiscal 1999 compared to \$618,000 per store in fiscal 1998. The higher average expense was primarily due to the opening of more EXPO Design Center stores and expansion into certain new Home Depot markets, which involved longer pre-opening periods and higher training, travel and relocation costs.

General and administrative expenses as a percent of sales were 1.7% for both fiscal 1999 and 1998. Incremental expenses related to long-term growth and business planning initiatives, including Internet development, international operations and the opening of four new divisional offices, were offset by efficiencies realized from increased sales.

Interest and investment income as a percent of sales was 0.1% for both fiscal 1999 and 1998. Interest expense as a percent of sales was 0.1% for both comparable periods.

The Company's combined federal and state effective income tax rate decreased to 39.0% for fiscal 1999 from 39.2% for fiscal 1998. The decrease was attributable to higher tax credits in fiscal 1999 compared to fiscal 1998.

Net earnings as a percent of sales were 6.0% for fiscal 1999 compared to 5.3% for fiscal 1998, reflecting a higher gross profit rate partially offset by higher operating expenses as a percent of sales as described above. Diluted earnings per share were \$1.00 for fiscal 1999 compared to \$0.71 for fiscal 1998.

Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

The Home Depot, Inc. and Subsidiaries

Fiscal year ended January 31, 1999 compared to February 1, 1998

Net sales for fiscal 1998 increased 25.1% to \$30.2 billion from \$24.2 billion in fiscal 1997. This increase was attributable to, among other things, full year sales from the 112 new stores opened during fiscal 1997, a 7% comparable store-for-store sales increase, and 138 new store openings and 4 store relocations during fiscal 1998. One store opened during fiscal 1998 was subsequently closed during the year and reopened during fiscal 1999.

Gross profit as a percent of sales was 28.5% for fiscal 1998 compared to 28.1% for fiscal 1997. The rate increase was primarily attributable to a lower cost of merchandise resulting from product line reviews and other merchandising initiatives begun in fiscal 1996 and continued through fiscal 1997 and 1998. In addition, sales mix changes, better inventory shrink results and benefits from import strategies contributed to the overall gross profit improvement.

Operating expenses as a percent of sales were 19.7% for fiscal 1998 compared to 20.2% for fiscal 1997. Operating expenses for fiscal 1997 included a \$104 million non-recurring charge related to the settlements of a class action gender discrimination lawsuit and three other gender discrimination lawsuits. Excluding the non-recurring charge, operating expenses as a percent of sales were 19.8% for fiscal 1997.

Selling and store operating expenses as a percent of sales decreased to 17.7% in fiscal 1998 from 17.8% in fiscal 1997. The decrease was primarily attributable to lower net advertising expenses resulting from higher cooperative advertising participation by vendors, increased use of national advertising and leverage achieved from opening stores in existing markets. In addition, improved claims management and focus on safety programs resulted in lower workers' compensation and general liability claims experience as a percent of sales. Also, minority interest decreased from fiscal 1997, mainly due to the purchase of the remaining 25% of The Home Depot Canada partnership from The Molson Companies during the first quarter of fiscal 1998. Partially offsetting these decreases were higher medical costs from increased family enrollment in the Company's medical plans and higher store selling payroll expenses as a percent of sales. The increase in store selling payroll expenses was primarily due to increased sales penetrations in higher margin décor categories, which require more hours and higher average pay rates to support. Overall productivity, in terms of sales per labor hour, increased from fiscal 1997.

Pre-opening expenses as a percent of sales were 0.3% for both fiscal 1998 and 1997. The Company opened 138 new stores and relocated 4 stores in fiscal 1998, and opened 112 new stores and relocated 5 stores in fiscal 1997. Pre-opening expenses averaged \$618,000 per store in fiscal 1998 compared to \$559,000 per store in fiscal 1997. The higher average expense resulted primarily from the Company's initial entry into markets such as Chile, Puerto Rico and Alaska, which involve longer pre-opening periods and higher travel and relocation costs.

General and administrative expenses as a percent of sales were 1.7% for both fiscal 1998 and 1997. Incremental expenses related to long-term growth and business planning initiatives incurred in fiscal 1998 were offset by efficiencies realized from increased sales.

Interest and investment income as a percent of sales decreased to 0.1% in fiscal 1998 from 0.2% in fiscal 1997 due to lower investment balances and lower interest rates. Interest expense as a percent of sales was 0.1% in fiscal 1998 compared to 0.2% in fiscal 1997. The decrease from fiscal 1997 was primarily attributable to economies realized from a 25.1% increase in sales for fiscal 1998 and higher capitalized interest resulting from a higher percentage of owned stores under construction.

The Company's combined federal and state effective income tax rate was 39.2% for fiscal 1998 compared to 38.9% for fiscal 1997. The increase was due to a reduction in tax-exempt interest income as investment balances declined during the year and to higher effective state tax rates.

Net earnings as a percent of sales were 5.3% for fiscal 1998 compared to 4.8% for fiscal 1997, reflecting a higher gross profit rate, lower selling and store operating expenses as a percent of sales and the non-recurring charge recorded in fiscal 1997. Diluted earnings per share were \$0.71 for fiscal 1998 compared to \$0.52 for fiscal 1997.

Liquidity and Capital Resources

Cash flow generated from store operations provides the Company with a significant source of liquidity. Additionally, a significant portion of the Company's inventory is financed under vendor credit terms.

The Company plans to open approximately 200 new stores and relocate 6 existing stores during fiscal 2000. It is anticipated that approximately 89% of these locations will be owned, and the remainder will be leased. The Company also plans to open approximately 240 stores, including relocations, in fiscal 2001.

The Company has two operating lease agreements totaling \$882 million for the purpose of financing construction costs of certain new stores. Under the operating lease agreements, the lessor purchases the properties, pays for the construction costs and subsequently leases the facilities to the Company. The leases provide for substantial residual value guarantees and include purchase options at original cost on each property. The Company financed a portion of its new stores in fiscal 1997, 1998 and 1999, as well as an office building in fiscal 1999, under the operating lease agreements and anticipates utilizing these facilities to finance selected new stores and an office building in fiscal 2000. In addition, some locations for fiscal 2000 will be leased individually, and it is expected that many locations may be obtained through the acquisition of land parcels and construction or purchase of buildings.

The cost of new stores to be constructed and owned by the Company varies widely, principally due to land costs, and is currently estimated to average approximately \$13.2 million per location. The cost to remodel and/or fixture stores to be leased is expected to average approximately \$4.3 million per store. In addition, each new store will require approximately \$3.2 million to finance inventories, net of vendor financing.

During fiscal 1999, the Company issued \$500 million of 6½% Senior Notes ("Senior Notes"). The Senior Notes are due on September 15, 2004, and pay interest semi-annually on March 15 and September 15 of each year commencing March 15, 2000. The Senior Notes may be redeemed by the Company at any time, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds from the offering were used to finance a portion of the Company's capital expenditure program, including store expansions and renovations, for working capital needs and for general corporate purposes.

During fiscal 1999, the Company redeemed its 3¼% Convertible Subordinated Notes. A total principal amount of \$1.1 billion was converted into 72 million shares of the Company's common stock. As a result, the total principal amount converted, net of unamortized expenses of the original debt issue, was credited to common stock at par and to additional paid-in capital in the amount of \$1.1 billion.

The Company has a commercial paper program that allows borrowings up to a maximum of \$800 million. As of January 30, 2000, there were no borrowings outstanding under the program. In connection with the program, the Company has a back-up credit facility with a consortium of banks for up to \$800 million. The credit facility, which expires in September 2004, contains various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

As of January 30, 2000, the Company had \$168 million in cash and cash equivalents. Management believes that its current cash position, the proceeds from short-term investments, internally generated funds, funds available from its \$800 million commercial paper program, funds available from the operating lease agreements, and the ability to obtain alternate sources of financing should enable the Company to complete its capital expenditure programs, including store openings and renovations, through the next several fiscal years.

Year 2000

During fiscal 1999, the Company addressed a universal situation commonly referred to as the "Year 2000 Problem." The Company implemented extensive testing of its own systems and also assessed the year 2000 compliance status of certain third parties, including vendors and infrastructure providers. To date, the Company has not experienced any material year 2000 system problems, nor does it believe there will be any future material adverse impact to the Company's business, operations or financial condition related to the Year 2000 Problem.

Quantitative and Qualitative Disclosures About Market Risk

The Company has not entered into any transactions using derivative financial instruments or derivative commodity instruments and believes that its exposure to market risk associated with other financial instruments (such as investments and borrowings) and interest rate risk is not material.

Impact of Inflation and Changing Prices

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe inflation has had a material effect on sales or results of operations.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which deferred implementation of SFAS 133 by one year. Consequently, SFAS 133 will be effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

SFAS 133 requires all derivatives to be carried on the balance sheet at fair value. Changes in the fair value of derivatives must be recognized in the Company's Consolidated Statements of Earnings when they occur; however, there is an exception for derivatives that qualify as hedges as defined by SFAS 133. If a derivative qualifies as a hedge, a company can elect to use "hedge accounting" to eliminate or reduce the income statement volatility that would arise from reporting changes in a derivative's fair value. Adoption of SFAS 133 is not expected to materially impact the Company's reported financial results.

Consolidated Statements of Earnings

The Home Depot, Inc. and Subsidiaries

amounts in millions, except per share data

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Net Sales	\$ 38,434	\$ 30,219	\$ 24,156
Cost of Merchandise Sold	27,023	21,614	17,375
Gross Profit	11,411	8,605	6,781
Operating Expenses:			
Selling and Store Operating	6,832	5,341	4,303
Pre-Opening	113	88	65
General and Administrative	671	515	413
Non-Recurring Charge (note 8)	—	—	104
Total Operating Expenses	7,616	5,944	4,885
Operating Income	3,795	2,661	1,896
Interest Income (Expense):			
Interest and Investment Income	37	30	44
Interest Expense (note 2)	(28)	(37)	(42)
Interest, net	9	(7)	2
Earnings Before Income Taxes	3,804	2,654	1,898
Income Taxes (note 3)	1,484	1,040	738
Net Earnings	\$ 2,320	\$ 1,614	\$ 1,160
Basic Earnings Per Share (note 7)	\$ 1.03	\$ 0.73	\$ 0.53
Weighted Average Number of Common Shares Outstanding	2,244	2,206	2,188
Diluted Earnings Per Share (note 7)	\$ 1.00	\$ 0.71	\$ 0.52
Weighted Average Number of Common Shares Outstanding Assuming Dilution	2,342	2,320	2,287

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

The Home Depot, Inc. and Subsidiaries

amounts in millions, except share data

	January 30, 2000	January 31, 1999
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 168	\$ 62
Short-Term Investments, including current maturities of long-term investments	2	–
Receivables, net	587	469
Merchandise Inventories	5,489	4,293
Other Current Assets	144	109
Total Current Assets	6,390	4,933
Property and Equipment, at cost:		
Land	3,248	2,739
Buildings	4,834	3,757
Furniture, Fixtures and Equipment	2,279	1,761
Leasehold Improvements	493	419
Construction in Progress	791	540
Capital Leases (notes 2 and 5)	245	206
	11,890	9,422
Less Accumulated Depreciation and Amortization	1,663	1,262
Net Property and Equipment	10,227	8,160
Long-Term Investments	15	15
Notes Receivable	48	26
Cost in Excess of the Fair Value of Net Assets Acquired, net of accumulated amortization of \$33 at January 30, 2000 and \$24 at January 31, 1999	311	268
Other	90	63
	\$ 17,081	\$ 13,465
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts Payable	\$ 1,993	\$ 1,586
Accrued Salaries and Related Expenses	541	395
Sales Taxes Payable	269	176
Other Accrued Expenses	763	586
Income Taxes Payable	61	100
Current Installments of Long-Term Debt (notes 2 and 5)	29	14
Total Current Liabilities	3,656	2,857
Long-Term Debt, excluding current installments (notes 2 and 5)	750	1,566
Other Long-Term Liabilities	237	208
Deferred Income Taxes (note 3)	87	85
Minority Interest	10	9
Stockholders' Equity (notes 2, 4 and 6)		
Common Stock, par value \$0.05. Authorized: 5,000,000,000 shares; issued and outstanding – 2,304,317,000 shares at January 30, 2000 and 2,213,178,000 shares at January 31, 1999	115	111
Paid-In Capital	4,319	2,817
Retained Earnings	7,941	5,876
Accumulated Other Comprehensive Income	(27)	(61)
	12,348	8,743
Less Shares Purchased for Compensation Plans (notes 4 and 6)	7	3
Total Stockholders' Equity	12,341	8,740
Commitments and Contingencies (notes 5 and 9)		
	\$ 17,081	\$ 13,465

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

The Home Depot, Inc. and Subsidiaries

amounts in millions, except per share data

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income		Total Stockholders' Equity	Comprehensive Income ⁽¹⁾
	Shares	Amount			Income	Other		
Balance, February 2, 1997	2,163	\$ 108	\$ 2,439	\$ 3,407	\$ 2	\$ (1)	\$ 5,955	
Shares Sold Under Employee Stock Purchase and Option Plans, net of retirements (note 4)	12	1	123	–	–	–	124	
Tax Effect of Sale of Option Shares by Employees	–	–	26	–	–	–	26	
Net Earnings	–	–	–	1,160	–	–	1,160	\$ 1,160
Translation Adjustments	–	–	–	–	(30)	–	(30)	(30)
Immaterial Pooling of Interests	21	1	1	2	–	–	4	
Shares Purchased for Compensation Plans (notes 4 and 6)	–	–	–	–	–	(2)	(2)	
Cash Dividends (\$0.063 per share)	–	–	–	(139)	–	–	(139)	
Comprehensive Income for Fiscal 1997								\$ 1,130
Balance, February 1, 1998	2,196	\$ 110	\$ 2,589	\$ 4,430	\$ (28)	\$ (3)	\$ 7,098	
Shares Sold Under Employee Stock Purchase and Option Plans, net of retirements (note 4)	17	1	165	–	–	–	166	
Tax Effect of Sale of Option Shares by Employees	–	–	63	–	–	–	63	
Net Earnings	–	–	–	1,614	–	–	1,614	1,614
Translation Adjustments	–	–	–	–	(33)	–	(33)	(33)
Cash Dividends (\$0.077 per share)	–	–	–	(168)	–	–	(168)	
Comprehensive Income for Fiscal 1998								\$ 1,581
Balance, January 31, 1999	2,213	\$ 111	\$ 2,817	\$ 5,876	\$ (61)	\$ (3)	\$ 8,740	
Shares Sold Under Employee Stock Purchase and Option Plans, net of retirements (note 4)	19	1	273	–	–	–	274	
Tax Effect of Sale of Option Shares by Employees	–	–	132	–	–	–	132	
Conversion of 3 ¼% Convertible Subordinated Notes, net (note 2)	72	3	1,097	–	–	–	1,100	
Net Earnings	–	–	–	2,320	–	–	2,320	2,320
Translation Adjustments	–	–	–	–	34	–	34	34
Shares Purchased for Compensation Plans (notes 4 and 6)	–	–	–	–	–	(4)	(4)	
Cash Dividends (\$0.113 per share)	–	–	–	(255)	–	–	(255)	
Comprehensive Income for Fiscal 1999								\$ 2,354
Balance, January 30, 2000	2,304	\$ 115	\$ 4,319	\$ 7,941	\$ (27)	\$ (7)	\$ 12,341	

⁽¹⁾ Components of comprehensive income are reported net of related taxes.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Home Depot, Inc. and Subsidiaries

amounts in millions

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Cash Provided from Operations:			
Net Earnings	\$ 2,320	\$ 1,614	\$ 1,160
Reconciliation of Net Earnings to Net Cash Provided by Operations:			
Depreciation and Amortization	463	373	283
(Increase) Decrease in Receivables, net	(85)	85	(166)
Increase in Merchandise Inventories	(1,142)	(698)	(885)
Increase in Accounts Payable and Accrued Expenses	820	423	577
Increase in Income Taxes Payable	93	59	83
Other	(23)	61	(23)
Net Cash Provided by Operations	2,446	1,917	1,029
Cash Flows from Investing Activities:			
Capital Expenditures, net of \$37, \$41 and \$44 of non-cash capital expenditures in fiscal 1999, 1998 and 1997, respectively	(2,581)	(2,053)	(1,420)
Purchase of Remaining Interest in The Home Depot Canada	–	(261)	–
Payments for Businesses Acquired, net	(101)	(6)	(61)
Proceeds from Sales of Property and Equipment	87	45	85
Purchases of Investments	(32)	(2)	(194)
Proceeds from Maturities of Investments	30	4	599
Advances Secured by Real Estate, net	(25)	2	20
Net Cash Used in Investing Activities	(2,622)	(2,271)	(971)
Cash Flows from Financing Activities:			
(Repayments) Issuance of Commercial Paper Obligations, net	(246)	246	–
Proceeds from Long-Term Borrowings, net	522	–	15
Repayments of Long-Term Debt	(14)	(8)	(40)
Proceeds from Sale of Common Stock, net	267	167	122
Cash Dividends Paid to Stockholders	(255)	(168)	(139)
Minority Interest Contributions to Partnership	7	11	10
Net Cash Provided by (Used in) Financing Activities	281	248	(32)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1	(4)	–
Increase (Decrease) in Cash and Cash Equivalents	106	(110)	26
Cash and Cash Equivalents at Beginning of Year	62	172	146
Cash and Cash Equivalents at End of Year	\$ 168	\$ 62	\$ 172
Supplemental Disclosure of Cash Payments Made for:			
Interest, net of interest capitalized	\$ 26	\$ 36	\$ 42
Income Taxes	\$ 1,396	\$ 940	\$ 685

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Home Depot, Inc. and Subsidiaries

> Note 1

Summary of Significant Accounting Policies

The Company operates Home Depot stores, which are full-service, warehouse-style stores averaging approximately 108,000 square feet in size. The stores stock approximately 40,000 to 50,000 different kinds of building materials, home improvement supplies and lawn and garden products that are sold primarily to do-it-yourselfers, but also to home improvement contractors, tradespeople and building maintenance professionals. In addition, the Company operates EXPO Design Center stores, which offer products and services primarily related to design and renovation projects, and is currently testing two Villager's Hardware stores, a convenience hardware concept that offers products and services for home enhancement and smaller project needs. At the end of fiscal 1999, the Company was operating 930 stores, including 854 Home Depot stores, 15 EXPO Design Center stores and 2 Villager's Hardware stores in the United States; 53 Home Depot stores in Canada; 4 Home Depot stores in Chile; and 2 Home Depot stores in Puerto Rico. Included in the Company's Consolidated Balance Sheets at January 30, 2000 were \$707 million of net assets of the Canada, Chile and Argentina operations.

Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal years 1999, 1998 and 1997, which ended January 30, 2000, January 31, 1999 and February 1, 1998, respectively, consisted of 52 weeks.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and its majority-owned partnership. All significant intercompany transactions have been eliminated in consolidation.

Stockholders' equity, share and per share amounts for all periods presented have been adjusted for a three-for-two stock split effected in the form of a stock dividend on December 30, 1999, a two-for-one stock split effected in the form of a stock dividend on July 2, 1998, and a three-for-two stock split effected in the form of a stock dividend on July 3, 1997.

Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are carried at fair market value and consist primarily of commercial paper, money market funds, U.S. government agency securities and tax-exempt notes and bonds.

Merchandise Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method.

Investments

The Company's investments, consisting primarily of high-grade debt securities, are recorded at fair value and are classified as available-for-sale.

Income Taxes

The Company provides for federal, state and foreign income taxes currently payable, as well as for those deferred because of timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal, state and foreign incentive tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Company and its eligible subsidiaries file a consolidated U.S. federal income tax return. Non-U.S. subsidiaries, which are consolidated for financial reporting, are not eligible to be included in consolidated U.S. federal income tax returns, and separate provisions for income taxes have been determined for these entities. The Company intends to reinvest the unremitted earnings of its non-U.S. subsidiaries and postpone their remittance. Accordingly, no provision for U.S. income taxes for non-U.S. subsidiaries was required for any year presented.

Depreciation and Amortization

The Company's buildings, furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The Company's property and equipment is depreciated using the following estimated useful lives:

	Life
Buildings	10–45 years
Furniture, fixtures and equipment	5–20 years
Leasehold improvements	5–30 years
Computer software	3–5 years

Advertising

Television and radio advertising production costs are amortized over the fiscal year in which the advertisements first appear. All media placement costs are expensed in the month the advertisement appears. Included in Current Assets in the Company's Consolidated Balance Sheets were \$24.4 million and \$22.6 million at the end of fiscal 1999 and 1998, respectively, relating to prepayments of production costs for print and broadcast advertising.

Cost in Excess of the Fair Value of Net Assets Acquired

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining useful life can be recovered through undiscounted future operating cash flows of the acquired operation.

The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Store Pre-Opening Costs

Non-capital expenditures associated with opening new stores are expensed as incurred.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. An impairment is recognized to the extent the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Accordingly, when the Company commits to relocate or close a store, the estimated unrecoverable costs are charged to selling and store operating expense. Such costs include the estimated loss on the sale of land and buildings, the book value of abandoned fixtures, equipment and leasehold improvements, and a provision for the present value of future lease obligations, less estimated sub-lease income.

Stock Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," encourages the use of a fair-value-based method of accounting. As allowed by SFAS 123, the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded on the date of grant if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain revenues, expenses, gains and losses that are excluded from net earnings under generally accepted accounting principles. Examples include foreign currency translation adjustments and unrealized gains and losses on investments.

Foreign Currency Translation

The assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period, revenues and expenses are translated at the average monthly exchange rates, and all other equity transactions are translated using the actual rate on the day of the transaction.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Reclassifications

Certain balances in prior fiscal years have been reclassified to conform with the presentation in the current fiscal year.

> Note 2 Long-Term Debt

The Company's long-term debt at the end of fiscal 1999 and 1998 consisted of the following (amounts in millions):

	January 30, 2000	January 31, 1999
3¼% Convertible Subordinated Notes, due October 1, 2001; converted into shares of common stock of the Company at a conversion price of \$15.3611 per share in October 1999	\$ —	\$ 1,103
6½% Senior Notes, due September 15, 2004; interest payable semi-annually on March 15 and September 15 beginning in 2000	500	—
Commercial Paper; weighted average interest rate of 4.8% at January 31, 1999	—	246
Capital Lease Obligations; payable in varying installments through January 31, 2027 (see note 5)	216	180
Installment Notes Payable; interest imputed at rates between 5.2% and 10.0%; payable in varying installments through 2018	45	27
Unsecured Bank Loan; floating interest rate averaging 6.05% in fiscal 1999 and 5.90% in fiscal 1998; payable in August 2002	15	15
Variable Rate Industrial Revenue Bonds; secured by letters of credit or land; interest rates averaging 2.9% during fiscal 1999 and 3.8% during fiscal 1998; payable in varying installments through 2010	3	9
Total long-term debt	779	1,580
Less current installments	29	14
Long-term debt, excluding current installments	\$ 750	\$ 1,566

Notes to Consolidated Financial Statements (continued)

The Home Depot, Inc. and Subsidiaries

On September 27, 1999, the Company issued \$500 million of 6½% Senior Notes ("Senior Notes"). The Company, at its option, may redeem all or any portion of the Senior Notes by notice to the holder. The Senior Notes are redeemable at a redemption price, plus accrued interest, equal to the greater of (1) 100% of the principal amount of the Senior Notes to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes to maturity. The Senior Notes are not subject to sinking fund requirements.

During fiscal 1999, the Company redeemed its 3¼% Convertible Subordinated Notes ("3¼% Notes"). A total principal amount of \$1.1 billion was converted into 72 million shares of the Company's common stock. As a result, the total principal amount converted, net of unamortized expenses of the original debt issue, was credited to common stock at par and to additional paid-in capital in the amount of \$1.1 billion.

The Company has a commercial paper program that allows borrowings up to a maximum of \$800 million. As of January 30, 2000, there were no borrowings outstanding under the program. In connection with the program, the Company has a back-up credit facility with a consortium of banks for up to \$800 million. The credit facility, which expires in September 2004, contains various restrictive covenants, none of which is expected to materially impact the Company's liquidity or capital resources.

The restrictive covenants related to letter of credit agreements securing the industrial revenue bonds are no more restrictive than those referenced above.

Interest expense in the accompanying Consolidated Statements of Earnings is net of interest capitalized of \$45 million in fiscal 1999, \$31 million in fiscal 1998 and \$19 million in fiscal 1997.

Maturities of long-term debt are \$29 million for fiscal 2000, \$4 million for fiscal 2001, \$19 million for fiscal 2002, \$5 million for fiscal 2003 and \$506 million for fiscal 2004.

The estimated fair value of the 6½% Senior Notes, which are publicly traded, was approximately \$485 million based on an imputed market price at January 30, 2000. The estimated fair value of all other long-term borrowings was approximately \$441 million compared to the carrying value of \$279 million. These fair values were estimated using a discounted cash flow analysis based on the Company's incremental borrowing rate for similar liabilities.

> Note 3 Income Taxes

The provision for income taxes consisted of the following (in millions):

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Current:			
U.S.	\$ 1,209	\$ 823	\$ 653
State	228	150	98
Foreign	45	20	15
	1,482	993	766
Deferred:			
U.S.	9	46	(31)
State	(4)	(1)	1
Foreign	(3)	2	2
	2	47	(28)
Total	\$ 1,484	\$ 1,040	\$ 738

The Company's combined federal, state and foreign effective tax rates for fiscal years 1999, 1998 and 1997, net of offsets generated by federal, state and foreign tax incentive credits, were approximately 39.0%, 39.2% and 38.9%, respectively. A reconciliation of income tax expense at the federal statutory rate of 35% to actual tax expense for the applicable fiscal years follows (in millions):

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Income taxes at U.S. statutory rate	\$ 1,331	\$ 929	\$ 664
State income taxes, net of federal income tax benefit	145	96	65
Foreign rate differences	2	—	2
Other, net	6	15	7
Total	\$ 1,484	\$ 1,040	\$ 738

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of January 30, 2000 and January 31, 1999 were as follows (in millions):

	January 30, 2000	January 31, 1999
Deferred Tax Assets:		
Accrued self-insurance liabilities	\$ 154	\$ 110
Other accrued liabilities	142	97
Total gross deferred tax assets	296	207
Deferred Tax Liabilities:		
Accelerated depreciation	(321)	(249)
Other	(62)	(43)
Total gross deferred tax liabilities	(383)	(292)
Net deferred tax liability	\$ (87)	\$ (85)

No valuation allowance was recorded against the deferred tax assets at January 30, 2000 or January 31, 1999. Company management believes the existing net deductible temporary differences comprising the total gross deferred tax assets will reverse during periods in which the Company generates net taxable income.

> Note 4 Employee Stock Plans

The 1997 Omnibus Stock Incentive Plan ("1997 Plan") provides that incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock and deferred shares may be issued to selected associates, officers and directors of the Company. The maximum number of shares of the Company's common stock available for issuance under the 1997 Plan is the lesser of 225 million shares or the number of shares carried over from prior plans plus one-half percent of the total number of outstanding shares as of the first day of each fiscal year. In addition, restricted shares issued under the 1997 Plan may not exceed 22.5 million shares. As of January 30, 2000, there were 128,623,884 shares available for future grants under the 1997 Plan.

Under the 1997 Plan and prior plans, incentive and non-qualified options for 116,647,978 shares, net of cancellations (of which 48,228,638 had been exercised), have been granted at prices ranging from \$6.42 to \$51.46 per share. Incentive stock options vest at the rate of 25% per year commencing on the first anniversary date of the grant and expire on the tenth anniversary date of the grant. The non-qualified options have similar terms; however, vesting does not generally begin until the second anniversary date of the grant.

As of January 30, 2000, 208,337 shares of restricted stock were outstanding. The restricted shares vest over varying terms and are generally based on the attainment of certain performance goals. The expected fair value of the restricted shares on the vesting dates will be charged to expense ratably over the vesting periods unless it is determined that the performance goals will not be met.

The per share weighted average fair value of stock options granted during fiscal years 1999, 1998 and 1997 was \$18.86, \$9.94 and \$4.20, respectively. These amounts were determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The dividend yield was calculated by dividing the current annualized dividend by the option price for each grant. Expected volatility was based on stock prices for the fiscal year the grant occurred and the two previous fiscal years. The risk-free interest rate was the rate available on zero coupon U.S. government issues with a term equal to the remaining term for each grant. The expected life of each option was estimated based on the exercise history from previous grants.

The assumptions used in the Black-Scholes model were as follows:

	Stock Options Granted in Fiscal Year		
	1999	1998	1997
Risk-free interest rate	5.1%	5.6%	6.1%
Expected volatility of common stock	51.6%	45.7%	30.0%
Dividend yield	0.3%	0.4%	0.5%
Expected option term	5 years	5 years	5 years

The Company applies APB No. 25 in accounting for its stock plans and, accordingly, no compensation costs have been recognized in the Company's financial statements for incentive or non-qualified stock options granted. If, under SFAS 123, the Company determined compensation costs based on the fair value at the grant date for its stock options, net earnings and earnings per share would have been reduced to the pro forma amounts below (in millions, except per share data):

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Net Earnings			
As reported	\$ 2,320	\$ 1,614	\$ 1,160
Pro forma	\$ 2,186	\$ 1,527	\$ 1,118
Basic Earnings per Share			
As reported	\$ 1.03	\$ 0.73	\$ 0.53
Pro forma	\$ 0.97	\$ 0.69	\$ 0.51
Diluted Earnings per Share			
As reported	\$ 1.00	\$ 0.71	\$ 0.52
Pro forma	\$ 0.94	\$ 0.67	\$ 0.50

The following table summarizes options outstanding under the various stock option plans at January 30, 2000, January 31, 1999 and February 1, 1998 and changes during the fiscal years ended on these dates (shares in thousands):

	Number of Shares	Average Option Price
Outstanding at February 2, 1997	54,207	\$ 8.77
Granted	25,857	14.58
Exercised	(10,293)	8.82
Cancelled	(4,044)	10.19
Outstanding at February 1, 1998	65,727	10.08
Granted	21,041	21.63
Exercised	(11,640)	9.07
Cancelled	(3,536)	13.89
Outstanding at January 31, 1999	71,592	13.45
Granted	14,006	37.81
Exercised	(13,884)	10.88
Cancelled	(3,295)	18.88
Outstanding at January 30, 2000	68,419	\$ 18.79
Exercisable	22,330	\$ 10.61

Notes to Consolidated Financial Statements (continued)

The Home Depot, Inc. and Subsidiaries

The following table summarizes information regarding stock options outstanding as of January 30, 2000 (option shares in thousands):

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Outstanding Option Price	Options Exercisable	Weighted Average Exercisable Option Price
\$ 4.00 to 8.00	2,670	2.0	\$ 6.90	2,670	\$ 6.90
8.00 to 15.00	32,289	6.2	10.20	17,143	9.60
15.00 to 25.00	19,142	8.0	20.80	2,426	20.90
25.00 to 40.00	13,802	9.0	37.30	91	30.10
40.00 to 60.00	516	9.7	51.20	—	—
	68,419	7.1	\$18.79	22,330	\$10.61

In addition, the Company had 6,252,804 shares available for future grants under the Employee Stock Purchase Plan ("ESPP") at January 30, 2000. The ESPP enables the Company to grant substantially all full-time associates options to purchase up to 99,618,750 shares of common stock, of which 93,365,946 shares have been exercised from inception of the plan, at a price equal to the lower of 85% of the stock's fair market value on the first day or the last day of the purchase period. Shares purchased may not exceed the lesser of 20% of the associate's annual compensation, as defined, or \$25,000 of common stock at its fair market value (determined at the time such option is granted) for any one calendar year. Associates pay for the shares ratably over a period of one year (the purchase period) through payroll deductions, and cannot exercise their option to purchase any of the shares until the conclusion of the purchase period. In the event an associate elects not to exercise such options, the full amount withheld is refundable. During fiscal 1999, options for 5,691,474 shares were exercised at an average price of \$21.91 per share. At January 30, 2000, there were 2,860,618 options outstanding, net of cancellations, at an average price of \$37.64 per share.

> Note 5 Leases

The Company leases certain retail locations, office space, warehouse and distribution space, equipment and vehicles. While the majority of the leases are operating leases, certain retail locations are leased under capital leases. As leases expire, it can be expected that in the normal course of business, leases will be renewed or replaced.

In June 1996, the Company entered into a \$300 million operating lease agreement for the primary purpose of financing construction costs for selected new stores. The Company increased its available funding under the operating lease agreement to \$600 million in May 1997. In October 1998, through a second operating lease agreement, the Company further increased the available funding by \$282 million to \$882 million. Under the agreements, the lessor purchases the properties, pays for the construction costs and subsequently leases the facilities to the Company. The initial lease term for the \$600 million

agreement is five years with five 2-year renewal options. The lease term for the \$282 million agreement is 10 years with no renewal options. Both lease agreements provide for substantial residual value guarantees and include purchase options at original cost on each property. The Company financed a portion of its new stores in fiscal 1997, 1998 and 1999, as well as an office building in fiscal 1999, under the operating lease agreements. The Company anticipates utilizing these facilities to finance selected new stores and an additional office building in fiscal 2000.

During 1995, the Company entered into two operating lease arrangements under which the Company leases an import distribution facility, including its related equipment, and an office building for store support functions. The operating lease agreement for the office building terminated in 1999 when the Company refinanced the property under the \$600 million operating lease agreement. The initial lease term for the import distribution facility is five years with five 5-year renewal options. The lease agreement provides for substantial residual value guarantees and includes purchase options at the higher of the cost or fair market value of the assets.

The maximum amount of the residual value guarantees relative to the assets under the lease agreements described above is projected to be \$799 million. As the leased assets are placed into service, the Company estimates its liability under the residual value guarantees and records additional rent expense on a straight-line basis over the remaining lease terms.

Total rent expense, net of minor sublease income for the fiscal years ended January 30, 2000, January 31, 1999 and February 1, 1998 was \$389 million, \$321 million and \$262 million, respectively. Real estate taxes, insurance, maintenance and operating expenses applicable to the leased property are obligations of the Company under the building leases. Certain of the store leases provide for contingent rentals based on percentages of sales in excess of specified minimums. Contingent rentals for the fiscal years ended January 30, 2000, January 31, 1999 and February 1, 1998 were approximately \$11 million, \$11 million and \$10 million, respectively.

The approximate future minimum lease payments under capital and operating leases at January 30, 2000 were as follows (in millions):

Fiscal Year	Capital Leases	Operating Leases
2000	\$ 35	\$ 466
2001	35	462
2002	35	415
2003	36	384
2004	36	359
Thereafter	505	3,969
	682	\$ 6,055
Less imputed interest	(466)	
Net present value of capital lease obligations	216	
Less current installments	(3)	
Long-term capital lease obligations, excluding current installments	\$ 213	

Short-term and long-term obligations for capital leases are included in the Company's Consolidated Balance Sheets in Current Installments of Long-Term Debt and Long-Term Debt, respectively. The assets under capital leases recorded in Net Property and Equipment, net of amortization, totaled \$208 million and \$180 million, at January 30, 2000 and January 31, 1999, respectively.

> Note 6 Employee Benefit Plans

During fiscal 1996, the Company established a defined contribution plan ("401(k)") pursuant to Section 401(k) of the Internal Revenue Code. The 401(k) covers substantially all associates that meet certain service requirements. The Company makes weekly matching cash contributions to purchase shares of the Company's common stock, up to specified percentages of associates' contributions as approved by the Board of Directors.

During fiscal 1988, the Company established a leveraged Employee Stock Ownership Plan and Trust ("ESOP") covering substantially all full-time associates. At January 30, 2000, the ESOP held a total of 32,208,550 shares of the Company's common stock in trust for plan participants' accounts. The ESOP purchased the shares in the open market with contributions received from the Company in fiscal 1998 and 1997, and from the proceeds of loans obtained from the Company during fiscal 1992, 1990 and 1989 totaling approximately \$81 million. All loans payable to the Company in connection with the purchase of such shares have been paid in full.

During February 1999, the Company made its final contribution to the ESOP plan and amended its 401(k) plan. In the amendment, the Company elected to increase its percentage contribution to the 401(k) in lieu of future ESOP contributions.

The Company adopted a non-qualified ESOP Restoration Plan in fiscal 1994. The Company also made its final contribution to the ESOP Restoration Plan in February 1999 and established a new 401(k) Restoration Plan. The primary purpose of the new plan is to provide certain associates deferred compensation that they would have

received under the 401(k) matching contribution if not for the maximum compensation limits under the Internal Revenue Code of 1986, as amended. The Company has established a "rabbi trust" to fund the benefits under the 401(k) Restoration Plan. Compensation expense related to this plan for fiscal years 1999, 1998 and 1997 was not material. Funds provided to the trust are primarily used to purchase shares of the Company's common stock in the open market.

The Company's combined contributions to the 401(k) and ESOP were \$57 million, \$41 million and \$33 million for fiscal years 1999, 1998 and 1997, respectively.

> Note 7 Basic and Diluted Earnings Per Share

The calculations of basic and diluted earnings per share for fiscal years 1999, 1998 and 1997 were as follows (amounts in millions, except per share data):

	Fiscal Year Ended		
	January 30, 2000	January 31, 1999	February 1, 1998
Calculation of Basic Earnings Per Share:			
Net earnings	\$ 2,320	\$ 1,614	\$ 1,160
Weighted average number of common shares outstanding	2,244	2,206	2,188
Basic Earnings Per Share	\$ 1.03	\$ 0.73	\$ 0.53
Calculation of Diluted Earnings Per Share:			
Net earnings	\$ 2,320	\$ 1,614	\$ 1,160
Tax-effected interest expense attributable to 3¼% Notes	17	23	23
Net earnings assuming dilution	\$ 2,337	\$ 1,637	\$ 1,183
Weighted average number of common shares outstanding	2,244	2,206	2,188
Effect of potentially dilutive securities:			
3¼% Notes	51	72	72
Employee stock plans	47	42	27
Weighted average number of common shares outstanding assuming dilution	2,342	2,320	2,287
Diluted Earnings Per Share	\$ 1.00	\$ 0.71	\$ 0.52

Employee stock plans represent shares granted under the Company's employee stock purchase plan and stock option plans, as well as shares issued for deferred compensation stock plans. For fiscal years 1999, 1998 and 1997, shares issuable upon conversion of the Company's 3¼% Notes, issued in October 1996, were included in weighted average shares assuming dilution for purposes of calculating diluted earnings per share. To calculate diluted earnings per share, net earnings are adjusted for tax-effected net interest and issue costs on the 3¼% Notes (prior to conversion to equity in October 1999) and divided by weighted average shares assuming dilution.

Notes to Consolidated Financial Statements (continued)

The Home Depot, Inc. and Subsidiaries

> Note 8

Lawsuit Settlements

During fiscal 1997, the Company, without admitting any wrongdoing, entered into a settlement agreement with plaintiffs in the class action lawsuit *Butler et. al. v. Home Depot, Inc.*, in which the plaintiffs had asserted claims of gender discrimination. The Company subsequently reached agreements to settle three other lawsuits seeking class action status, each of which involved claims of gender discrimination.

As a result of these agreements, the Company recorded a pre-tax non-recurring charge of \$104 million in fiscal 1997 and, in fiscal 1998, made payments to settle these agreements. The payments made in fiscal 1998 included \$65 million to the plaintiff class members and \$22.5 million to the plaintiff's attorneys in *Butler*, and approximately \$8 million for other related internal costs, including implementation or enhancement of certain human resources programs, as well as the settlement terms of the three other lawsuits. Payments made in fiscal 1999 totaled \$3.4 million primarily related to internal costs for human resources staffing and training for store associates. The Company expects to spend the remaining \$5 million for additional training programs.

> Note 9

Commitments and Contingencies

At January 30, 2000, the Company was contingently liable for approximately \$419 million under outstanding letters of credit issued in connection with purchase commitments.

The Company is involved in litigation arising from the normal course of business. In management's opinion, this litigation is not expected to materially impact the Company's consolidated results of operations or financial condition.

> Note 10

Acquisitions

During the first quarter of fiscal 1998, the Company purchased, for \$261 million, the remaining 25% partnership interest held by The Molson Companies in The Home Depot Canada. The excess purchase price over the estimated fair value of net assets of \$117 million as of the acquisition date was recorded as goodwill and is being amortized over 40 years. As a result of this transaction, the Company now owns all of The Home Depot's Canadian operations. The Home Depot Canada partnership was formed in 1994 when the Company acquired 75% of Aikenhead's Home Improvement Warehouse for approximately \$162 million. The terms of the original partnership agreement provided for a put/call option, which would have resulted in the Company purchasing the remaining 25% of The Home Depot Canada at any time after the sixth anniversary of the original agreement. The companies reached a mutual agreement to complete the purchase transaction at an earlier date.

During fiscal 1999, the Company acquired Apex Supply Company, Inc. and Georgia Lighting, Inc. Both acquisitions were recorded under the purchase method of accounting.

> Note 11

Quarterly Financial Data (unaudited)

The following is a summary of the quarterly results of operations for the fiscal years ended January 30, 2000 and January 31, 1999 (dollars in millions, except per share data):

	Net Sales	Increase In Comparable Store Sales	Gross Profit	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
Fiscal year ended January 30, 2000:						
First quarter	\$ 8,952	9%	\$ 2,566	\$ 489	\$0.22	\$0.21
Second quarter	10,431	11%	3,029	679	0.30	0.29
Third quarter	9,877	10%	2,894	573	0.26	0.25
Fourth quarter	9,174	9%	2,922	579	0.25	0.25
Fiscal year	\$ 38,434	10%	\$ 11,411	\$ 2,320	\$1.03	\$1.00
Fiscal year ended January 31, 1999:						
First quarter	\$ 7,123	7%	\$ 1,968	\$ 337	\$0.15	\$0.15
Second quarter	8,139	7%	2,263	467	0.21	0.21
Third quarter	7,699	7%	2,177	392	0.18	0.17
Fourth quarter	7,258	9%	2,197	418	0.19	0.18
Fiscal year	\$ 30,219	7%	\$ 8,605	\$ 1,614	\$0.73	\$0.71

Management's Responsibility for Financial Statements

The financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of The Home Depot, Inc. These financial statements have been prepared in conformity with generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

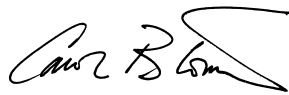
The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the external and internal auditors. In addition, the Company has distributed to associates its policies for conducting business affairs in a lawful and ethical manner.

The financial statements of the Company have been audited by KPMG LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with generally accepted auditing standards, including the related review of internal accounting controls and financial reporting matters.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets quarterly with the independent auditors, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The Audit Committee, acting on behalf of the stockholders, maintains an ongoing appraisal of the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.



Dennis Carey
Executive Vice President and
Chief Financial Officer



Carol B. Tomé
Senior Vice President,
Finance and Accounting

Independent Auditors' Report

The Board of Directors and Stockholders The Home Depot, Inc.:

We have audited the accompanying consolidated balance sheets of The Home Depot, Inc. and subsidiaries as of January 30, 2000 and January 31, 1999 and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended January 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Home Depot, Inc. and subsidiaries as of January 30, 2000 and January 31, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended January 30, 2000 in conformity with generally accepted accounting principles.

KPMG LLP

Atlanta, Georgia
February 25, 2000

Directors Executive and Senior Officers

The Home Depot, Inc. and Subsidiaries

Directors

Bernard Marcus*

Chairman of the Board,
The Home Depot, Inc.

Arthur M. Blank*

President and
Chief Executive Officer,
The Home Depot, Inc.

Kenneth G. Langone*

Lead Director; Chairman of
the Board, Chief Executive
Officer and President,
Invemed Associates, Inc.,
investment banking

Frank Borman***

Retired Chairman of the Board
and Chief Executive Officer,
Eastern Airlines, Inc.;
Chairman of the Board,
DBT Online Inc.,
online data services

Ronald M. Brill

Executive Vice President and
Chief Administrative Officer,
The Home Depot, Inc.

John L. Clendenin***

Retired Chairman, President
and Chief Executive Officer,
BellSouth Corporation

Berry R. Cox***

Chairman,
Berry R. Cox, Inc.,
private investment

William S. Davila***

President Emeritus,
Vons Companies, Inc.,
retailing

Milledge A. Hart, III**

Chairman, DocuCorp
International, Inc.;
Chairman of the Board,
Hart Group, Inc.,
private management services

Bonnie G. Hill

Vice President,
The Times Mirror Company,
newspaper and publishing; and
President and Chief
Executive Officer,
The Times Mirror Foundation

M. Faye Wilson

Senior Vice President –
Value Initiatives,
The Home Depot, Inc.

* Member of the Executive Committee

**Member of the Audit Committee

† Member of the Compensation
Committee

In January 2000, *Business Week* magazine ranked The Home Depot in the top ten of a list of the "25 Best Boards of Directors in America." Members of The Home Depot Board of Directors are required to visit five stores per quarter to stay in touch with the business, meet with customers and associates, and offer insights on store operations.

Executive and Senior Officers

Executive Officers

Bernard Marcus*

Chairman of the Board

Arthur M. Blank*

President and Chief Executive
Officer

Mark R. Baker*

Executive Vice President and
Chief Operating Officer,
Home Depot U.S. Stores

Ronald M. Brill*

Executive Vice President and
Chief Administrative Officer

Dennis J. Carey*

Executive Vice President and
Chief Financial Officer

Patrick Farrah*

Executive Vice President,
Merchandising

Larry M. Mercer*

Executive Vice President,
Operations

Group Presidents

Jeffrey W. Cohen*

Direct Marketing Businesses

Vern Joslyn*

U.S. Divisions

Lynn Martineau*

U.S. Divisions

Anders Moberg*

International Division

Barry L. Silverman*

U.S. Divisions

David Suliteanu*

Diversified Businesses

Division and Subsidiary Presidents

Alan R. Barnaby

Eastern Great Lakes

Anthony C. Brown

Southern

Jerry Edwards

Southwest

Robert D. Gilbreth

Western Great Lakes

Harry Gilham

Georgia Lighting

Lawrence Marmon

Maintenance Warehouse

Michael W. McCabe

Mid-South

Bill Peña

Argentina/Chile

Clyde Rodbell

Apex Supply Company

Bryant W. Scott

EXPO Design Center

Thomas V. Taylor, Jr.

Northwest

Annette M. Verschuren

The Home Depot Canada

John Wicks

Mid-Atlantic

Senior Vice Presidents

Bryan J. Fields

Real Estate

Ronald B. Griffin

Information Services

Richard A. Hammill

Marketing and Communications

Steven L. Mahurin

Merchandising

Stephen R. Messana*

Human Resources

William E. Patterson

International Business Development

Dennis J. Ryan

Internet Business

Lawrence A. Smith*

Legal and Secretary

Steven O. Smith

Merchandising –
EXPO Design Center

Carol B. Tomé*

Finance and Accounting

Michael J. Tracy

Proprietary Brands

Gregory H. Turner

Merchandising

Kenneth W. Ubertino

Imports

M. Faye Wilson*

Value Initiatives

Robert J. Wittman

Business Development

* Executive officer or officer subject
to the reporting requirements of
Section 16 of the Securities Exchange
Act of 1934.

Corporate and Stockholder Information

The Home Depot, Inc. and Subsidiaries

Store Support Center

The Home Depot, Inc.
2455 Paces Ferry Road, NW
Atlanta, GA 30339-4024
Telephone: 770-433-8211

The Home Depot Web Site

www.homedepot.com

Transfer Agent and Registrar

Fleet National Bank
c/o EquiServe Limited Partnership
P.O. Box 8040
Boston, MA 02266-8040
Telephone:
1-800-577-0177 (Voice)
1-800-952-9245 (TTY/TDD)
Internet address: www.equiserve.com

Independent Auditors

KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Stock Exchange Listing

New York Stock Exchange
Trading Symbol – HD

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 a.m., May 31, 2000, at Cobb Galleria Centre, 2 Galleria Parkway, Atlanta, Georgia 30339.

Number of Stockholders

As of April 3, 2000, there were approximately 194,935 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

Dividends per Common Share

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1999	\$0.020	\$0.027	\$0.027	\$0.040
Fiscal 1998	\$0.017	\$0.020	\$0.020	\$0.020

Direct Stock Purchase/Dividend Reinvestment Plan

New investors may make an initial investment and stockholders of record may acquire additional shares of The Home Depot common stock through the Company's direct stock purchase and dividend reinvestment plan. Subject to certain requirements, initial cash investments, quarterly cash dividends and/or additional optional cash purchases may be invested through this plan.

To obtain enrollment materials, including the prospectus, access the Company's Web site, or call 1-800-928-0380. For all other communications regarding these services, contact the Transfer Agent and Registrar.

Financial and Other Company Information

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000, as filed with the Securities and Exchange Commission, will be mailed upon request to:

The Home Depot, Inc.
Investor Relations
2455 Paces Ferry Road, NW
Atlanta, GA 30339-4024
Telephone: 770-384-4388

In addition, financial reports, recent filings with the Securities and Exchange Commission (including Form 10-K), store locations, news releases and other Company information are available on The Home Depot Web site.

For a copy of the 1999 Home Depot Corporate Social Responsibility Report, which also includes guidelines for applying for philanthropic grants, contact the Community Affairs department at the Store Support Center, or access the Company's Web site.

Quarterly Stock Price Range

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1999				
High	\$45.29	\$46.63	\$52.33	\$69.75
Low	\$35.88	\$36.75	\$35.75	\$49.92
Fiscal 1998				
High	\$24.23	\$32.67	\$30.63	\$41.33
Low	\$20.42	\$22.56	\$21.08	\$28.75

10-Year Summary of Financial and Operating Results

The Home Depot, Inc. and Subsidiaries

amounts in millions, except where noted

	5-Year Compound Annual Growth Rate	10-Year Compound Annual Growth Rate	1999
Statement of Earnings Data			
Net sales	25.2%	30.1%	\$ 38,434
Net sales increase (%)	–	–	27.2
Earnings before income taxes ⁽²⁾	31.2	35.5	3,804
Net earnings ⁽²⁾	30.9	35.4	2,320
Net earnings increase (%) ⁽²⁾	–	–	43.7
Diluted earnings per share (\$) ^(2,3,4)	28.1	30.5	1.00
Diluted earnings per share increase (%) ⁽²⁾	–	–	40.8
Weighted average number of common shares outstanding assuming dilution ⁽³⁾	1.8	3.1	2,342
Gross margin – % of sales	–	–	29.7
Store selling and operating expense – % of sales	–	–	17.8
Pre-opening expense – % of sales	–	–	0.3
General and administrative expense – % of sales	–	–	1.7
Net interest income (expense) – % of sales	–	–	–
Earnings before income taxes – % of sales ⁽²⁾	–	–	9.9
Net earnings – % of sales ⁽²⁾	–	–	6.0
Balance Sheet Data and Financial Ratios			
Total assets	24.2%	31.3%	\$ 17,081
Working capital	24.4	25.9	2,734
Merchandise inventories	25.7	30.6	5,489
Net property and equipment	24.7	34.8	10,227
Long-term debt	(5.3)	9.5	750
Stockholders' equity	29.1	37.5	12,341
Book value per share (\$) ⁽³⁾	26.0	32.2	5.36
Long-term debt to equity (%)	–	–	6.1
Current ratio	–	–	1.75:1
Inventory turnover	–	–	5.4x
Return on invested capital (%) ⁽²⁾	–	–	22.5
Statement of Cash Flows Data			
Depreciation and amortization	29.0%	36.2%	\$ 463
Capital expenditures	16.5	29.0	2,618
Cash dividends per share (\$) ⁽³⁾	27.2	35.3	0.11
Store Data ⁽⁵⁾			
Number of stores	22.3%	22.9%	930
Square footage at year-end	23.3	25.4	100
Increase in square footage (%)	–	–	23.5
Average square footage per store (in thousands)	0.9	2.0	108
Store Sales and Other Data ⁽⁵⁾			
Comparable store sales increase (%) ⁽⁶⁾	–	–	10
Weighted average weekly sales per operating store (in thousands)	1.8%	5.5%	\$ 876
Weighted average sales per square foot (\$) ⁽⁶⁾	0.9	3.4	423
Number of customer transactions	21.4	25.2	797
Average sale per transaction (\$)	3.0	3.9	47.87
Number of associates at year-end (actual)	24.5	27.7	201,400

⁽¹⁾Fiscal years 1996 and 1990 consisted of 53 weeks; all other fiscal years reported consisted of 52 weeks.

⁽²⁾Excludes the effect of a \$104 million non-recurring charge in fiscal 1997.

⁽³⁾All share and per share data have been adjusted for a three-for-two stock split on December 30, 1999.

The Home Depot, Inc. and Subsidiaries

1998	1997	1996 ⁽¹⁾	1995	1994	1993	1992	1991	1990 ⁽¹⁾
\$ 30,219	\$ 24,156	\$ 19,535	\$ 15,470	\$ 12,477	\$ 9,239	\$ 7,148	\$ 5,137	\$ 3,815
25.1	23.7	26.3	24.0	35.0	29.2	39.2	34.6	38.3
2,654	2,002	1,535	1,195	980	737	576	396	260
1,614	1,224	938	732	605	457	363	249	163
31.9	30.5	28.2	21.0	32.2	26.1	45.6	52.5	46.0
0.71	0.55	0.43	0.34	0.29	0.22	0.18	0.13	0.10
29.1	27.9	26.5	17.2	31.8	22.2	38.5	30.0	42.9
2,320	2,287	2,195	2,151	2,142	2,132	2,096	1,985	1,824
28.5	28.1	27.8	27.7	27.9	27.7	27.6	28.1	27.9
17.7	17.8	18.0	18.0	17.8	17.6	17.4	18.1	18.2
0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.4
1.7	1.7	1.7	1.7	1.8	2.0	2.1	2.3	2.4
–	–	0.1	0.1	(0.1)	0.3	0.4	0.3	(0.1)
8.8	8.3	7.9	7.7	7.8	8.0	8.1	7.7	6.8
5.3	5.1	4.8	4.7	4.8	5.0	5.1	4.8	4.3
\$ 13,465	\$ 11,229	\$ 9,342	\$ 7,354	\$ 5,778	\$ 4,701	\$ 3,932	\$ 2,510	\$ 1,640
2,076	2,004	1,867	1,255	919	994	807	624	301
4,293	3,602	2,708	2,180	1,749	1,293	940	662	509
8,160	6,509	5,437	4,461	3,397	2,371	1,608	1,255	879
1,566	1,303	1,247	720	983	874	844	271	531
8,740	7,098	5,955	4,988	3,442	2,814	2,304	1,691	683
3.95	3.23	2.75	2.32	1.69	1.39	1.15	0.89	0.43
17.9	18.4	20.9	14.4	28.6	31.1	36.6	16.0	77.7
1.73:1	1.82:1	2.01:1	1.89:1	1.76:1	2.02:1	2.07:1	2.17:1	1.73:1
5.4x	5.4x	5.6x	5.5x	5.7x	5.9x	6.3x	6.1x	6.0x
19.3	17.0	16.3	16.3	16.5	13.9	17.6	19.8	20.6
\$ 373	\$ 283	\$ 232	\$ 181	\$ 130	\$ 90	\$ 70	\$ 52	\$ 34
2,094	1,464	1,248	1,308	1,220	900	437	432	400
0.08	0.06	0.05	0.04	0.03	0.02	0.02	0.01	0.01
761	624	512	423	340	264	214	174	145
81	66	54	44	35	26	21	16	13
22.8	23.1	21.6	26.3	33.2	26.3	26.8	24.1	27.4
107	106	105	105	103	100	98	95	92
7	7	7	3	8	7	15	11	10
\$ 844	\$ 829	\$ 803	\$ 787	\$ 802	\$ 764	\$ 724	\$ 633	\$ 566
410	406	398	390	404	398	387	348	322
665	550	464	370	302	236	189	146	112
45.05	43.63	42.09	41.78	41.29	39.13	37.72	35.13	33.92
156,700	124,400	98,100	80,800	67,300	50,600	38,900	28,000	21,500

⁽⁴⁾ Diluted earnings per share for fiscal 1997, including a \$104 million non-recurring charge, were \$0.52 (see note 8 of the Notes to Consolidated Financial Statements).

⁽⁵⁾ Excludes Apex Supply Company, Georgia Lighting, Maintenance Warehouse, and National Blinds and Wallpaper.

⁽⁶⁾ Adjusted to reflect the first 52 weeks of the 53-week fiscal years in 1996 and 1990.

Consistent with The Home Depot's commitment to preserving the environment, this annual report is printed on paper created in partnership with Lyons Falls Pulp and Paper Company. The paper is certified in accordance with the principles and criteria of the Forest Stewardship Council. This certification ensures that the fiber from which the paper is manufactured comes partially from certified forests that are managed in a way that is socially beneficial, environmentally responsible and economically viable. In addition, the paper consists of 30% post-consumer waste, otherwise known as recycled content. By stepping out to create new solutions, we can all lead the market-place to a better world.



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